

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

Confidential Draft Submission No. 2

Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MorningStar Partners, L.P.*

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1311
(Primary Standard Industrial
Classification Code Number)

32-0368858
(I.R.S. Employer
Identification No.)

**400 West 7th Street
Fort Worth, Texas 76102
(817) 334-7800**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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Approximate date of commencement of proposed sale of the securities to the public:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
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 7(a)(2)(B) of the Securities Act.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

* MorningStar Partners, L.P. is the registrant filing this Registration Statement with the Securities and Exchange Commission. Prior to the closing of the offering, MorningStar Partners, L.P. will be renamed TXO Energy Partners, L.P. in connection with the reorganization transactions described in the Registration Statement.

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The information in this prospectus is not complete and may be changed. We may not sell the securities described herein until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell the securities described herein and it is not soliciting an offer to buy such securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED _____, 2022

PRELIMINARY PROSPECTUS

TXO Energy Partners, L.P.

Common Units

Representing Limited Partner Interests

We are a Delaware limited partnership focused on the acquisition, development, optimization and exploitation of conventional oil, natural gas and natural gas liquid reserves in North America. This is the initial public offering of our common units. No public market currently exists for our common units. We expect the initial public offering price to be between \$ _____ and \$ _____ per common unit. We are an "emerging growth company" as that term is used in the Jumpstart Our Business Startups Act. We have applied to list our common units on the NYSE under the symbol "TXO."

Investing in our common units involves risks. See "[Risk Factors](#)" beginning on page 28.

These risks include the following:

- We may not have sufficient available cash to pay any quarterly distribution on our common units following the establishment of cash reserves and payment of expenses.
- The volatility of oil, natural gas and NGL prices due to factors beyond our control greatly affects our financial condition, results of operations and cash available for distribution.
- Unless we replace the reserves we produce, our revenues and production will decline, which would adversely affect our cash flow from operations and our ability to make distributions to our unitholders.
- We are subject to stringent federal, state and local laws and regulations related to environmental and occupational health and safety issues that could adversely affect the cost or feasibility of conducting our operations or expose us to significant liabilities.
- Our general partner and its affiliates own a controlling interest in us and will have conflicts of interest with, and owe limited duties to, us, which may permit them to favor their own interests to the detriment of us and our unitholders.
- Our unitholders have limited voting rights and are not entitled to elect our general partner or its board of directors, which could reduce the price at which our common units will trade.
- Even if our unitholders are dissatisfied, they cannot remove our general partner without its consent.
- Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the Internal Revenue Service were to treat us as a corporation for federal income tax purposes or if we were otherwise subject to a material amount of entity-level taxation, then cash available for distribution to our unitholders could be reduced.
- Our unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

PRICE \$ PER COMMON UNIT

	<u>Per Common Unit</u>	<u>Total</u>
Public offering price	\$ _____	\$ _____
Underwriting discount	\$ _____	\$ _____
Proceeds, before expenses	\$ _____	\$ _____

We have granted the underwriters a 30-day option to purchase up to an additional _____ common units on the same terms and conditions as set forth above if the underwriters sell more than _____ common units in this offering.

The underwriters expect to deliver the common units on or about _____, 2022.

Book-Running Manager

Raymond James

_____, 2022

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Neither we nor the underwriters have authorized anyone to provide you with any information or to make any representations other than those contained in this registration statement. We and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. You should not assume that the information contained in this registration statement is accurate as of any date other than the date on the front cover of this registration statement. Our business, financial condition, results of operations and prospects may have changed since such dates. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted.

Until _____, 2022 (25 days after the date of this prospectus), all dealers that buy, sell or trade our common units, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

This prospectus contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. Please read "Risk Factors" and "Forward-Looking Statements."

INDUSTRY AND MARKET DATA

The market data and certain other statistical information included in this prospectus are based on a variety of sources, including independent industry publications, government publications and other published independent sources. Some data is also based on our good faith estimates, which have been derived from management's knowledge and experience in the industry in which we operate. Although we have not independently verified the accuracy or completeness of the third-party information included in this prospectus, based on management's knowledge and experience, we believe that these third-party sources are reliable and that the third-party information included in this prospectus or in our estimates is accurate and complete. While we are not aware of any misstatements regarding the market, industry or similar data presented herein, such data involve risks and uncertainties and are subject to change based on various factors, including those discussed under the headings "Forward-Looking Statements" and "Risk Factors" in this prospectus.

TRADEMARKS AND TRADE NAMES

We own or have rights to various trademarks, service marks and trade names that we use in connection with the operation of our business. This prospectus may also contain trademarks, service marks and trade names of third parties, which are the property of their respective owners. Our use or display of third parties' trademarks, service marks, trade names or products in this prospectus is not intended to, and does not imply a relationship with, or endorsement or sponsorship by us. Solely for convenience, the trademarks, service marks and trade names referred to in this prospectus may appear without the ®, TM or SM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks, service marks and trade names.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because this is a summary, it may not contain all of the information that may be important to you and to your investment decision. The following summary is qualified in its entirety by the more detailed information and financial statements and notes thereto included elsewhere in this prospectus. You should read the entire prospectus carefully and should consider, among other things, the matters set forth in “Risk Factors,” “Forward-Looking Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our historical and unaudited pro forma consolidated financial statements, the Vacuum Properties historical statement of revenues and direct operating expenses and the related notes to each of those financial statements included elsewhere in this prospectus before deciding to invest in our common units.

The information presented in this prospectus assumes (i) an initial public offering price of \$ per common unit (the mid-point of the price range set forth on the cover of this prospectus) and (ii) that the underwriters do not exercise their option to purchase up to an additional common units, unless otherwise indicated. As used in this prospectus, the term “our general partner” refers to TXO Energy GP, LLC, a Delaware limited liability company, and the terms “partnership,” “we,” “our,” “us” or similar terms refer to MorningStar Partners, L.P., to be renamed prior to the closing of this offering to TXO Energy Partners, L.P., a Delaware limited partnership (“TXO Energy Partners”) and its subsidiaries. We include a glossary of some of the oil and natural gas terms and other terms used in this prospectus in Appendix B. Our estimated proved reserve information included in this prospectus are based on reports prepared by our reservoir engineering staff and evaluated by Cawley, Gillespie & Associates, Inc., our independent reserve engineers.

TXO Energy Partners

Overview

We are focused on the acquisition, development, optimization and exploitation of conventional oil, natural gas, and natural gas liquid reserves in North America. Our management team has significant industry experience acquiring and exploiting conventional oil and natural gas properties in multiple resource plays and basins. As a result, our operations focus primarily on enhancing the development and operation of producing properties through our concentration on efficiency and optimizing exploitation of current wells. Our current acreage positions are concentrated in the Permian Basin of West Texas and New Mexico and the San Juan Basin of New Mexico and Colorado, each of which we believe is characterized by low geologic risk, low decline rates and high recoveries relative to drilling and completion costs.

Our partnership agreement requires us to distribute all of our cash on hand at the end of each quarter, less reserves established by our general partner which we refer to as “available cash”. We believe the low decline nature of our reserves and the relatively low cost to maintain production combined with our zero to low leverage profile will allow us to distribute a substantial portion of our cash flow from operations each quarter to our unitholders. The amount of cash available for distribution with respect to any quarter, however, will be dependent on the then-prevailing commodity prices. To mitigate the risk associated with volatile commodity prices and to further enhance the stability of our cash flow available for distributions, from time to time we may opportunistically hedge a portion of our production volumes at prices we deem attractive to mitigate our exposure to price fluctuations on crude oil, natural gas liquids and natural gas sales. Nevertheless, our quarterly cash distributions may vary from quarter to quarter as a direct result of

variations in the performance of our business, including those caused by fluctuations in the prices of oil and natural gas. Such variations may be significant and quarterly distributions paid to our unitholders may be zero.

We seek to maintain a flat to low growth production profile through a combination of low-risk development and exploitation of our existing properties, generally funded by cash flow from operating activities, and future acquisitions of producing properties. We believe this will allow us to increase our reserves and production and, over time, to increase distributions to our unitholders.

The members of our management team have an average of 34 years' experience in the oil and gas industry and previously held executive roles at XTO Energy Inc. ("XTO"). Our management team has successfully executed on a strategy of acquiring and exploiting long-lived and low decline assets for more than 30 years, completing hundreds of acquisitions totaling over \$15 billion. Additionally, our Chief Executive Officer, Bob Simpson, has a greater than 45-year history in the oil and gas industry. Mr. Simpson founded Cross Timbers Oil company in 1986 (subsequently named XTO Energy) and served as Chief Executive Officer and Chairman over the life of the company, culminating with a sale to ExxonMobil Corporation ("Exxon") for \$41 billion in 2010. Additionally our management team has collectively invested more than \$500 million in us since our inception. We believe our management team has the experience, expertise and commitment to create significant value for our unitholders in the form of cash distributions combined with growth in revenues and production. Certain members of our existing management team were acting or former officers of Southland Royalty Company LLC ("Southland") when it voluntarily filed for Chapter 11 bankruptcy protection on January 27, 2020. Please see "Management—Southland Bankruptcy" for more information.

Information regarding performance by, or businesses associated with, TXO Energy Partners and its affiliates is presented for informational purposes only. Past performance by TXO Energy Partners and its affiliates, including our management team, is not a guarantee of future performance. You should not rely on the historical record of TXO Energy Partners and its affiliates or our management team's prior performance as indicative of our future performance or the returns we will, or are likely to, generate going forward. Please read "Risk Factors—Risks Related to Our Business and the Oil, Natural Gas and NGL Industry—Past performance by our management team may not be indicative of future performance of an investment in us."

As of December 31, 2021, our assets consisted of approximately 846,000 gross (370,000 net) leasehold and mineral acres located primarily in the Permian Basin and San Juan Basin. As of December 31, 2021, our total estimated proved reserves were approximately 130 MMBoe, of which approximately 37% were oil and approximately 82% were proved developed, both on a Boe basis. In the first six months of 2022, we produced an average of approximately 23,278 Boe per day, approximately 71% of which came from assets operated by us.

The following tables present our historical estimated oil and natural gas reserves and PV-10 as of August 1, 2022. Our reserve data as of August 1, 2022 include the properties acquired as part of the Additional Interest Vacuum Acquisition described elsewhere in this prospectus.

	Estimated Proved Reserves as of August 1, 2022 ⁽¹⁾			
	SEC Pricing Proved Developed Reserves (MBoe) ⁽²⁾	SEC Pricing Proved Reserves (MBoe)	NYMEX Pricing Proved Developed Reserves (MBoe) ⁽³⁾	NYMEX Pricing Proved Reserves (MBoe) ⁽³⁾
Permian Basin	39,244.6	61,643.5	37,444.0	59,722.1
San Juan Basin	72,601.3	72,601.3	68,818.0	68,818.0
Other ⁽⁴⁾	5,423.8	8,803.0	5,128.4	8,507.6
Total	117,269.7	143,047.8	111,390.4	137,047.7

- (1) Presented on an oil-equivalent basis using a conversion of six thousand cubic feet of natural gas to one stock tank barrel of oil. This conversion is based on energy equivalence and not on price or value equivalence.
- (2) SEC pricing, as required by the rules and regulations of the SEC, is the unweighted arithmetic average of the first-day-of-the-month price for each month within such period using published benchmark oil and gas prices, unless prices are defined by contractual arrangements.
- (3) Using NYMEX forward-month contract pricing in effect as of July 31, 2022. We have included this reserve sensitivity because we believe that the use of NYMEX forward-month prices provides investors with additional useful information about our reserves. For more information regarding our use of NYMEX Pricing, please see “—Summary of Reserve, Production and Operating Data—Summary of Reserves.”
- (4) Other includes reserves in various other locations in the United States, primarily in Utah and Mississippi.

(in millions)	Estimated PV-10 as of August 1, 2022 ⁽²⁾			
	SEC Pricing Proved Developed PV-10 ⁽¹⁾	SEC Pricing Proved PV-10 ⁽³⁾	NYMEX Pricing Proved Developed PV-10 ⁽⁴⁾	NYMEX Pricing Proved PV-10 ⁽⁴⁾
Permian Basin	\$ 826.4	\$ 1,272.2	\$ 659.2	\$ 992.9
San Juan Basin	\$ 464.7	\$ 464.7	\$ 400.8	\$ 400.8
Other ⁽⁵⁾	\$ 55.3	\$ 81.3	\$ 48.4	\$ 67.6
Total	\$ 1,346.4	\$ 1,818.2	\$ 1,108.4	\$ 1,461.3

- (1) SEC pricing, as required by the rules and regulations of the SEC, is the unweighted arithmetic average of the first-day-of-the-month price for each month within such period using published benchmark oil and gas prices, unless prices are defined by contractual arrangements.
- (2) PV-10 is a non-GAAP financial measure and represents the present value of estimated future cash inflows from proved oil and gas reserves, less future development and production costs, discounted at 10% per annum to reflect the timing of future cash flows. Calculation of PV-10 does not give effect to derivatives transactions. Please see “Non-GAAP Financial Measures—Reconciliation of PV-10 to Standardized Measure” for a reconciliation to its nearest GAAP financial measure.
- (3) Presented on an oil-equivalent basis using a conversion of six thousand cubic feet of natural gas to one stock tank barrel of oil. This conversion is based on energy equivalence and not on price or value equivalence.
- (4) Using NYMEX forward-month contract pricing in effect as of July 31, 2022. We have included this reserve sensitivity because we believe that the use of NYMEX forward-month prices provides investors with additional useful information about our reserves. For more information regarding our use of NYMEX Pricing, please see “—Summary of Reserve, Production and Operating Data—Summary of Reserves.”
- (5) Other includes reserves in various other locations in the United States, primarily in Utah and Mississippi.

The following table summarizes information regarding our active well count and development locations included in our reserve report as of August 1, 2022.

	As of August 1, 2022									
	Active Oil and Natural Gas Wells		Active CO ₂ Injection Wells		Conventional PUD Locations ⁽¹⁾		Recomplete Locations ⁽²⁾		Workover Locations ⁽³⁾	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Permian Basin	3,912	685.3	55	39.1	233	108.7	51	32.8	23	22.6
San Juan Basin	11,509	1,093.8	—	—	—	—	—	—	—	—
Other ⁽⁴⁾	3,025	88.4	—	—	4	1.8	—	—	—	—
Total	18,446	1,867.5	55	39.1	237	110.5	51	32.8	23	22.6

(1) Approximately 97% of our wells are drilled conventionally. However, from time to time a small number of wells are horizontally completed.

(2) Well locations we believe can be recompleted to another producing zone or zones.

(3) Well locations where we believe a currently completed zone can be improved or restored by performing remedial workovers.

(4) Other includes properties in various other locations in the United States, primarily in Utah and Mississippi.

Our Properties

Permian Basin

We acquired our initial 79,970 gross leasehold and mineral acres in the Permian Basin in 2012 and 2013. We subsequently acquired 11,929 additional gross leasehold acres through leasing and multiple bolt-on acquisitions. In November 2021, we acquired producing properties, including 24,052 gross leasehold acres and a CO₂ processing plant in the Permian Basin within New Mexico and CO₂ assets in Colorado (the “Vacuum Properties”) from Chevron Corporation (“Chevron”). In December 2021, we acquired additional producing properties, including 21,112 gross leasehold acres in the Permian Basin within Texas from Chevron (the “Andrews Parker Acquisition”). We refer to these together as the “2021 Acquisitions.” In August 2022 we acquired additional interests in our producing properties and a gas processing plant in the Permian Basin of New Mexico for approximately \$52.6 million (the “Additional Interest Vacuum Acquisition”). As of June 30, 2022, we had 55 (gross) active CO₂ injection wells. Production from our CO₂ wells was 14.1 MMcf/d during the first six months of 2022.

Our management team believes the development and exploitation of conventional assets in the Permian Basin is among the most economic oil and natural gas plays in the United States. Since completing the 2021 Acquisitions, we have focused our efforts on returning wells to production as well as on other low-risk maintenance projects. As we gain a greater understanding of these recently acquired assets, we expect to increase our drilling and recompletion work. Substantially all of our acreage in the Permian Basin is held by production, which means we do not have to drill any wells to maintain ownership of our leases. Based on current commodity prices, we expect to drill or participate in the drilling of approximately 5 gross wells in the Permian Basin during the remainder of 2022 and approximately 12 gross wells in 2023. We expect to recomplete 13 gross wells in the Permian Basin in 2022 and approximately 14 gross wells in 2023. We expect to return 12 gross wells to production in the Permian Basin in 2022 and 9 gross wells in 2023. Our decline rate for our Permian Basin properties over the next 12 months is currently estimated to be approximately 7%.

San Juan Basin

We acquired our initial 175,376 gross leasehold and mineral acres in the San Juan Basin in 2012 and 2013. We subsequently acquired 273,187 additional gross leasehold and mineral acres in June 2020.

Our San Juan acreage includes substantial, predictable, low-decline natural gas production that provides for relatively stable cash flows. Our decline rate for our San Juan Basin properties over the next 12 months is currently estimated to be approximately 10%. Our existing production comes from primarily coalbed methane wells, in which we own 363,358 gross acres. Substantially all of our acreage in the San Juan Basin is held by production. Additionally, we own 85,205 gross acres in New Mexico in the Mancos Shale. We believe our Mancos Shale properties offer us significant potential upside that is held by production.

Based on current commodity prices, we expect to drill or participate in the drilling of approximately 15 gross wells in the San Juan Basin during the remainder of 2022 and approximately 22 gross wells in 2023. We expect to recomplete 5 gross wells in the San Juan Basin in 2022 and none in 2023. We do not expect to return any gross wells to production in the San Juan Basin in 2022 and 2023.

For the six months ended June 30, 2022, our consolidated revenues were derived 48% from oil revenues, 39% from natural gas revenues and 13% from NGL revenues, in each case excluding the unrealized effects of our commodity derivative contracts. After giving effect to unrealized commodity derivative contracts, our revenues were derived 50% from oil revenues, 31% from natural gas revenues and 19% from NGL over the same period. For the six months ended June 30, 2022, our total average production was 23,278 Boe/d (approximately 25% oil, 60% natural gas, and 15% NGLs). Over the same period, our average production in the Permian Basin was 6,736 Boe/d (approximately 84% oil, 5% natural gas, and 11% NGLs) and our average production in the San Juan Basin was 15,134 Boe/d (approximately 1% oil, 81% natural gas, and 18% NGLs).

Development Plan and Capital Budget

Historically, our business plan has focused on acquiring and then exploiting producing assets. Funding sources for our acquisitions have included proceeds from bank borrowings, cash from our partners and cash flow from operating activities. Our development budget is approximately \$30.0 million for 2022 (of which \$2.2 million has been incurred as of June 30, 2022) and approximately \$30.0 million for 2023. Much of our development time and capital is spent on workovers, recompletions and field optimizations of existing assets. We expect to use the additional information derived from this exploitation to inform our decisions about additional drilling opportunities to pursue, either in recently acquired assets or new acquisitions. However, over the next 24 months we anticipate that approximately half of our development activity will be focused on drilling new wells, virtually all of which we expect to be conventional, vertical wells.

During 2022, we expect to spend approximately \$20 million to drill 21 gross wells (8 net wells) and on related equipment, \$6 million on recompletions of existing wells and \$2 million on remedial workovers and other maintenance projects. We expect to spend approximately \$13 million in the Permian Basin and approximately \$15 million in the San Juan Basin in 2022.

We expect to allocate most of our remaining 2022 budget and the majority of our 2023 budget to projects focused on enhancing existing production. Based on current commodity prices and our

drilling success rate to date, we expect to be able to fund our 2022 and 2023 capital development programs from cash flow from operations and the net proceeds of this offering. We increased our 2021 capital program to \$8.1 million compared to \$5.5 million in 2020, primarily in response to the improved oil price environment and the improving global and national economic environment.

During 2021, we drilled 4 gross wells in the Permian Basin and 6 gross wells in the San Juan Basin. Additionally, during 2021 we recompleted 6 gross wells in the Permian Basin and 6 gross wells in the San Juan Basin.

Our Business Strategies

Our primary business objective is to distribute a substantial portion of our cash flow from operations to our unitholders each quarter and, over time, to increase our quarterly cash distributions. To achieve our objective, we intend to execute the following business strategies:

- **Focus on long-lived, low decline conventional assets.** We believe that by focusing on the exploitation of our existing assets, we can maintain current production using a portion of our operating cash flow, while utilizing the remainder of our operating cash flow to acquire additional assets to exploit and make distributions to our unitholders.
- **Maximize ultimate hydrocarbon recovery from our assets through enhancement and optimization of producing properties.** We continuously seek efficiencies in our drilling, completion and production techniques to optimize ultimate resource recoveries, rates of return and cash flows. We will continue to work to unlock additional value and will allocate capital towards next generation technologies where applicable. In addition, we intend to take advantage of under-development in basins where we operate by expanding our geologic investigation of additional producing horizons on our acreage and adjacent acreage. We seek to expand our development beyond our known productive areas to add reserves to our inventory at attractive all-in costs.
- **Focus on making cash distributions to, and providing long term value for, our unitholders.** Our primary goal is to maximize investor returns through cash distributions and flat to low growth. We intend to grow production and acreage over time, but our primary focus will be distributing a substantial portion of our cash flow from operations to our unitholders each quarter and increasing the long-term value of our common units.
- **Maintain financial flexibility with a conservative capital structure and ample liquidity.** We intend to conduct our operations primarily through cash flow generated from operations with a focus on maintaining a disciplined balance sheet with little to no outstanding debt. Due to our strong operating cash flows and liquidity, we have substantial flexibility to fund our capital budget and to potentially accelerate our drilling program as conditions warrant. Our focus is on the economic extraction of hydrocarbons while maintaining a prudent leverage ratio and strong liquidity profile. Although we may use leverage to make accretive acquisitions, we will do so with the long-term goal of remaining substantially debt free. Further, we expect that our hedging strategy will reduce our exposure to commodity price volatility.
- **Execute attractive acquisitions and optimize assets through effective integration.** Our management team has a history of successfully identifying, acquiring and optimizing assets over the past three decades. We believe our acreage positions in the Permian Basin and

San Juan Basin provide opportunities to increase production and reserves through the implementation of mechanical and operational improvements, workovers, behind-pipe completions, secondary and tertiary recovery operations, new development wells and other development activities. We plan to use the expertise of our management team to strategically acquire properties that complement our operations.

Our Strengths

We believe that the following strengths will allow us to successfully execute our business strategies:

- **Experienced and personally invested management team with an extensive track record of value creation.** We believe our management team's significant industry experience is a distinguishing competitive advantage. The members of our management team have an average of 34 years' experience in the oil and gas industry and have previously held executive roles at XTO. Our management team has successfully executed on a strategy of acquiring and exploiting long-lived and low decline assets for more than 30 years. Members of our management team have collectively personally invested more than \$500 million in us since our inception.
- **Stable, long-lived, conventional asset base with low production decline rates.** The majority of our interests are in properties that have produced oil and natural gas for decades. As a result, the geology and reservoir characteristics are well understood, and new development well results are generally predictable, repeatable and present lower risk than unconventional resource plays. Our assets are characterized by long-lived reserves with low production decline rates, a stable development cost structure and low-geologic risk developmental drilling opportunities with predictable production profiles. For example, our decline rate over the next twelve months is currently estimated to be approximately 9%.
- **Ability to source, integrate and optimize acquisitions.** Our management team has demonstrated the ability to source and integrate acquisitions of various sizes. While at XTO, our management team completed hundreds of acquisitions for over \$15 billion in consideration and successfully integrated such acquisitions, ultimately driving significant returns for shareholders. We have successfully drawn on this experience to identify and complete multiple acquisitions to establish our anchor positions in the Permian Basin and San Juan Basin, including our recent 2021 Acquisitions. We expect that our expertise in sourcing and completing acquisitions will allow us to successfully execute additional bolt-on acquisitions in our existing operating areas and, if and when appropriate, additional opportunistic acquisitions.
- **Conservatively capitalized balance sheet, strong liquidity profile and financial flexibility.** We have a strong and conservative financial position that allows us to effectively allocate capital and grow our reserves and production. Due to the significant existing vertical production and the predictable low-decline profiles associated with our existing production, our business generates significant operating cash flows. After this offering, we expect to have little to no debt and substantial liquidity, which will provide us with further financial flexibility to fund our capital expenditures and grow production and reserves as part of our existing strategic plan. We may also opportunistically hedge to protect our future operating cash flows from volatility in commodity prices.

Risk Factor Summary

An investment in our common units involves risks associated with our business, our partnership structure and the tax characteristics of our common units, among other things. You should carefully consider the risks described in “Risk Factors” and the other information in this prospectus before investing in our common units. Some of the most significant challenges and risks we face include the following:

Risks Related to Cash Distributions

- We may not have sufficient available cash to pay any quarterly distribution on our common units following the establishment of cash reserves and payment of expenses.
- The assumptions underlying the forecast of cash available for distribution we include in “Our Cash Distribution Policy and Restrictions on Distributions” may prove inaccurate and are subject to significant risks and uncertainties that could cause actual results to differ materially from our forecasted results.

Risks Related to Our Business and the Oil, Natural Gas and NGL Industry

- The volatility of oil, natural gas and NGL prices due to factors beyond our control greatly affects our financial condition, results of operations and cash available for distribution.
- Unless we replace the reserves we produce, our revenues and production will decline, which would adversely affect our cash flow from operations and our ability to make distributions to our unitholders.
- If commodity prices decline and remain depressed for a prolonged period, production from a significant portion of our properties may become uneconomic and cause downward adjustments of our reserve estimates and write downs of the value of such properties, which may adversely affect our financial condition and our ability to make distributions to our unitholders.
- Drilling for and producing oil, natural gas and NGLs are high-risk activities with many uncertainties that could adversely affect our business, financial condition, results of operations and cash distributions to unitholders.
- We operate certain of our properties through a joint venture over which we have shared control.
- Declining general economic, business or industry conditions and inflation may have a material adverse effect on our results of operations, liquidity and financial condition.
- Events outside of our control, including an epidemic or outbreak of an infectious disease, such as COVID-19, or the threat thereof, could have a material adverse effect on our business, liquidity, financial condition, results of operations, cash flows and ability to pay distributions on our common units.
- We use derivative instruments to economically hedge exposure to changes in commodity price and, as a result, are exposed to credit risk and market risk.

- Our Credit Facility has restrictions and financial covenants that may restrict our business and financing activities and our ability to pay distributions to our unitholders.
- Reserve estimates depend on many assumptions that may ultimately be inaccurate. Any material inaccuracies in reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

Risks Related to Environmental and Regulatory Matters

- We are subject to stringent federal, state and local laws and regulations related to environmental and occupational health and safety issues that could adversely affect the cost or feasibility of conducting our operations or expose us to significant liabilities.
- Our operations are subject to a series of risks arising out of the threat of climate change that could result in increased operating costs, limit the areas in which we may conduct oil, natural gas and NGL exploration and production activities, and reduce demand for the oil, natural gas and NGLs we produce.

Risks Inherent in an Investment in Us

- Our general partner and its affiliates own a controlling interest in us and will have conflicts of interest with, and owe limited duties to, us, which may permit them to favor their own interests to the detriment of us and our unitholders.
- Our partnership agreement replaces our general partner's fiduciary duties to us and our unitholders with contractual standards governing its duties, and restricts the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.
- Our general partner may amend our partnership agreement, as it determines necessary or advisable, to permit the general partner to redeem the units of certain non-citizen unitholders.
- Our unitholders have limited voting rights and are not entitled to elect our general partner or the Board, which could reduce the price at which our common units will trade.
- Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.
- Even if our unitholders are dissatisfied, they cannot remove our general partner without its consent.
- Control of our general partner may be transferred to a third party without unitholder consent.
- Our general partner may elect to convert or restructure us from a partnership to an entity taxable as a corporation for U.S. federal income tax purposes without unitholder consent.
- We may issue an unlimited number of additional units, including units that are senior to the common units, without unitholder approval.

- The NYSE does not require a publicly traded partnership like us to comply, and we do not intend to comply, with certain of its governance requirements generally applicable to corporations.

Tax Risks to Common Unitholders

- Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the Internal Revenue Service were to treat us as a corporation for federal income tax purposes or if we were otherwise subject to a material amount of entity-level taxation, then cash available for distribution to our unitholders could be reduced.
- Our unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

Reorganization Transactions and Partnership Structure

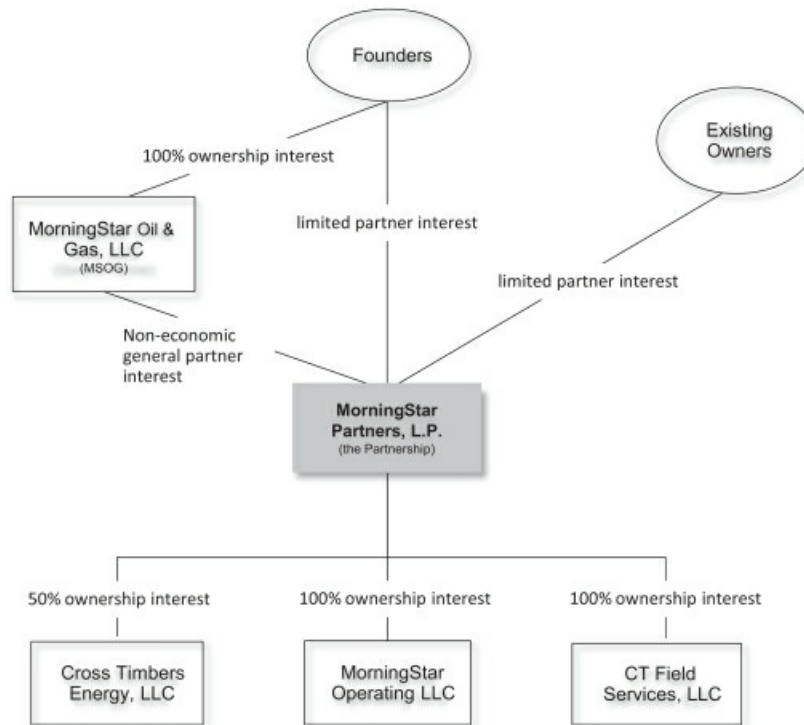
Each of the following transactions have occurred or will occur immediately prior to the closing of this offering:

- on October 1, 2022, all of MorningStar Partners, L.P.'s outstanding Series 3 preferred units will automatically convert into common units;
- we will cause the exchange of all of MorningStar Partners, L.P.'s outstanding Series 5 preferred units and Series 3 warrants for common units, resulting in our capital structure following such transactions to consist of a single class of common units;
- holders of our common units, which include Bob R. Simpson, our Chief Executive Officer and Chairman of the Board, Brent W. Clum, our President of Business Operations and Chief Financial Officer, Keith A. Hutton, our President of Production and Development, Scott T. Agosta, our Chief Accounting Officer, Vaughn O. Vennerberg II, our Executive Vice President, and Timothy L. Petrus, our former Executive Vice President and all other limited partners party to our amended and restated agreement of limited partnership (collectively, the "Existing Owners") will contribute all of the outstanding equity interests in us to a new parent company, MorningStar Partners II, L.P., a Delaware limited partnership ("MSP II"), in exchange for equity interests in MSP II;
- we will amend our governing documents to among other things (i) change our name to "TXO Energy Partners, L.P." and (ii) reflect TXO Energy GP, LLC, a Delaware limited liability company, as our new non-economic general partner; and
- we will effectuate a 1-for-one reverse split of our outstanding common units.

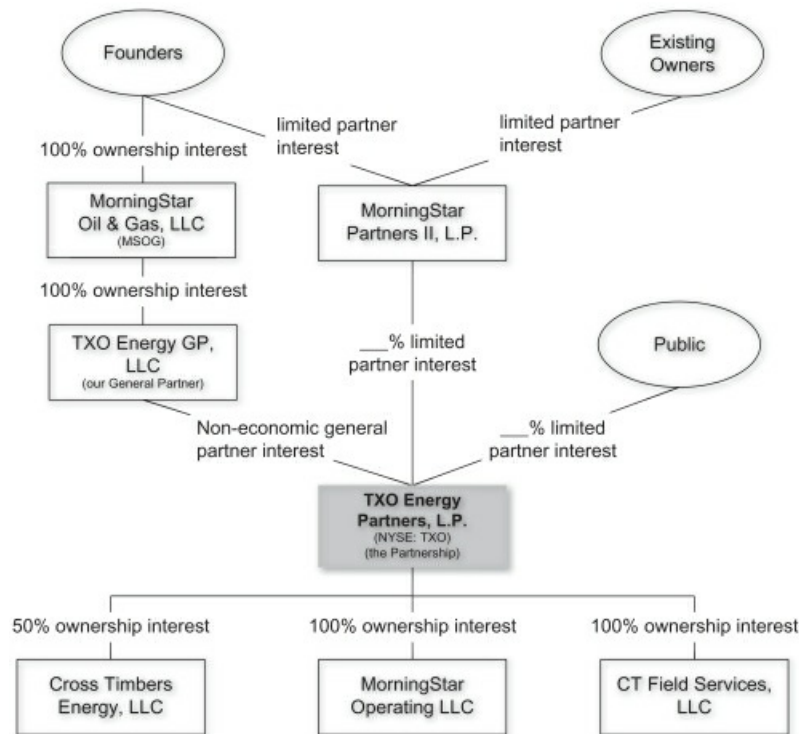
Except where specified otherwise, the disclosure in this prospectus gives effect to the reorganization transactions as set forth above, which we refer to as the Reorganization Transactions.

Ownership and Organizational Structure of TXO Energy Partners

The diagram below depicts our organization and ownership before giving effect to the offering and the Reorganization Transactions.



The diagram below depicts our organization and ownership after giving effect to the offering and the Reorganization Transactions and assumes that the underwriters do not exercise their option to purchase additional common units.



Management of TXO Energy Partners

We are managed and operated by the board of directors (the “Board”) and executive officers of our general partner, TXO Energy GP, LLC. Our unitholders will not be entitled to elect our general partner or its directors or otherwise participate in our management or operations. For information about the executive officers and directors of our general partner, please read “Management.”

The sole member of our general partner is MorningStar Oil & Gas, LLC (“MSOG”), all of the ownership interests of which are owned by Bob R. Simpson, our Chief Executive Officer and Chairman of the Board, Brent W. Clum, our President of Business Operations and Chief Financial Officer, Keith A. Hutton, our President of Production and Development, and Vaughn O. Vennerberg II, our Executive Vice President, which we refer to as our Founders. As a result, the Founders control our general partner and will be entitled to appoint its entire board of directors. Our Existing Owners include the Founders as well as all other parties that currently hold limited partner interests in us.

Our operations are conducted through, and our assets are currently owned by, various subsidiaries. Although all of the employees that conduct our business are either employed by our general partner or its subsidiaries, we sometimes refer to these individuals in this prospectus as our employees.

We conduct a substantial amount of our operations through Cross Timbers Energy, LLC (“Cross Timbers”), a joint venture owned 50% by us and 50% by certain affiliates of Exxon and XTO, which we refer to collectively as the “XTO Entities.” We account for our undivided interest in our investment in Cross Timbers using the proportionate consolidation method, pursuant to which we consolidate our proportionate share of assets (including reserves), liabilities, revenues and expenses of the joint venture. In accordance with the limited liability company agreement governing Cross Timbers (the “JV LLCA”), Cross Timbers is managed by us and governed by a member management committee comprised of six members, three of whom are appointed by us and three of whom are appointed by the XTO Entities.

Implications of Being an Emerging Growth Company

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act (the “JOBS Act”). For as long as we are an emerging growth company, unlike other public companies that are not emerging growth companies under the JOBS Act, we are not required to:

- provide an auditor’s attestation report on management’s assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;
- provide more than two years of audited financial statements and related management’s discussion and analysis of financial condition and results of operations nor more than two years of selected financial data;
- comply with any new requirements adopted by the Public Company Accounting Oversight Board (the “PCAOB”) requiring mandatory audit firm rotation or a supplement to the auditor’s report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer; or
- provide certain disclosure regarding executive compensation required of larger public companies required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”).

We will cease to be an emerging growth company upon the earliest of:

- the last day of the fiscal year in which we have \$1.07 billion or more in annual revenues (as such amount may be adjusted by the SEC for inflation);
- the date on which we become a “large accelerated filer” (the fiscal year-end on which the total market value of our common equity securities held by non-affiliates is \$700 million or more as of June 30);
- the date on which we issue more than \$1.0 billion of non-convertible debt over a three-year period; or
- the last day of the fiscal year following the fifth anniversary of our initial public offering.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the “Securities Act”), for complying with new or revised accounting standards. We have elected to avail ourselves of the provision of the JOBS Act that permits emerging growth companies to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. As a result, we will not be subject to new or revised accounting standards at the same time as other public companies that are not emerging growth companies. We intend to take advantage of the other exemptions discussed above, both in this prospectus and in future filings with the U.S. Securities and Exchange Commission (the “SEC”). Accordingly, the information contained herein and that we provide to our unitholders from time to time may be different than the information you receive from other public companies. For additional information, see the section titled “Risk Factors—Risks Inherent in an Investment in Us—Taking advantage of the longer phase-in periods for the adoption of new or revised financial accounting standards applicable to emerging growth companies may make our common units less attractive to investors.”

Principal Executive Offices and Internet Address

Our principal executive offices are located at 400 W 7th St., Fort Worth, TX 76102 and our telephone number at that address is (817) 334-7800. Our website address is _____ and will be activated in connection with the closing of this offering. We expect to make our periodic reports and other information filed with or furnished to the SEC available free of charge through our website as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. Information on, or otherwise accessible through, our website or any other website is not incorporated by reference into, and does not constitute a part of, this prospectus.

Summary of Conflicts of Interest and Duties

Under our partnership agreement, our general partner has a duty to manage us in a manner it believes is not adverse to our best interests. However, because our general partner is wholly owned by MSOG, in certain cases the officers and directors of our general partner also have a duty to manage the business of our general partner at the direction of MSOG, which is owned by the Founders. As a result of this relationship, conflicts of interest may arise in the future between us and our unitholders, on the one hand, and our general partner and its affiliates, including the Founders, on the other hand. For example, our general partner is entitled to make determinations that affect our ability to generate the cash flow necessary to make cash distributions to our unitholders, including determinations related to:

- purchases and sales of oil and natural gas properties and other acquisitions and dispositions, including whether to pursue acquisitions that may also be suitable for the Founders or any affiliate of the Founders;
- the manner in which our business is operated;
- the level of our borrowings;
- the amount, nature and timing of our capital expenditures; and
- the amount of cash reserves necessary or appropriate to satisfy our general, administrative and other expenses and debt service requirements and to otherwise provide for the proper conduct of our business.

For a more detailed description of the conflicts of interest and duties of our general partner, please read “Risk Factors—Risks Inherent in an Investment in Us” and “Conflicts of Interest and Duties.”

Our partnership agreement can generally be amended with the consent of our general partner and the approval of the holders of a majority of our outstanding common units (including any common units held by our general partner and its affiliates). Upon consummation of this offering, our general partner will continue to be controlled by the Founders, who collectively with the other Existing Owners will own and control the voting of an aggregate of approximately % of our outstanding common units. Assuming that we do not issue any additional common units and the Existing Owners do not transfer their common units, the Existing Owners will have the ability to amend our partnership agreement, including our policy to distribute all of our available cash to our unitholders, without the approval of any other unitholders. Please see “Risk Factors—Risks Inherent in an Investment in Us” and “The Partnership Agreement—Amendment of the Partnership Agreement.”

Delaware law provides that Delaware limited partnerships may, in their partnership agreements, expand, restrict or eliminate the fiduciary duties owed by the general partner to limited partners and the partnership. Our partnership agreement contains various provisions replacing the fiduciary duties that would otherwise be owed by our general partner with contractual standards governing the duties of our general partner and contractual methods of resolving conflicts of interest. The effect of these provisions is to restrict the duties owed and remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of its fiduciary duties. Our partnership agreement also provides that affiliates of our general partner, including the Founders and their affiliates, are not restricted from competing with us, and neither our general partner nor its affiliates have any obligation to present business opportunities to us. By purchasing a common unit, the purchaser agrees to be bound by the terms of our partnership agreement, and pursuant to the terms of our partnership agreement, each holder of common units consents to various actions and potential conflicts of interest contemplated in our partnership agreement that might otherwise be considered a breach of fiduciary or other duties under Delaware law. Please read “Conflicts of Interest and Duties—Duties of Our General Partner” for a description of the duties imposed on our general partner by Delaware law, the replacement of those duties with contractual standards under our partnership agreement and certain legal rights and remedies available to holders of our common units. For a description of our other relationships with our affiliates, please read “Certain Relationships and Related Party Transactions.”

The Offering	
Common units offered by us	common units representing limited partner interests (common units if the underwriters exercise in full their option to purchase additional common units).
Units outstanding after this offering	common units representing % limited partner interests in us (common units if the underwriters exercise their option in full to purchase additional common units).
Use of proceeds	We intend to use the expected net proceeds of approximately \$ million from this offering (\$ million if the underwriters exercise their option to purchase additional units in full), based upon the assumed initial public offering price of \$ per common unit (the mid-point of the price range set forth on the cover of this prospectus), after deducting underwriting discounts and estimated expenses, to repay in full amounts outstanding under our revolving credit facility (our "Credit Facility") and outstanding borrowings under our loan with Cross Timbers, with any remaining amounts to be used for working capital and general partnership purposes.
Cash distributions	<p>Within 60 days after the end of each quarter (other than the fourth quarter) and within 90 days after the end of the fourth quarter, beginning with the quarter ending , 2022, we expect to pay distributions of our available cash to unitholders of record on the applicable record date.</p> <p>The board of directors of our general partner will adopt a policy pursuant to which distributions for each quarter will be paid to the extent we have sufficient cash after establishment of cash reserves and payment of fees and expenses, including payments to our general partner and its affiliates. Our ability to pay such cash distributions is subject to various restrictions and other factors described in more detail under the caption "Our Cash Distribution Policy and Restrictions on Distributions." We will prorate the amount of our distribution payable for the period from the closing of this offering through , 2022, based on the actual length of that period.</p> <p>Our partnership agreement generally provides that we will distribute all available cash each quarter to the holders of common units, pro rata.</p> <p>Pro forma cash available for distribution generated during the year ended December 31, 2021 and the twelve month period ended June 30, 2022 was approximately \$93.6 million and</p>

	<p>\$74.3 million, respectively. As a result, for the year ended December 31, 2021, we would have generated available cash sufficient to pay a cash distribution of \$ per unit per quarter (\$ on an annualized basis) and for the twelve month period ended June 30, 2022, we would have generated cash sufficient to pay a cash distribution of \$ per unit per quarter (\$ on an annualized basis). For a calculation of our ability to pay distributions to our unitholders based on our pro forma results for the year ended December 31, 2021 and twelve month period ended June 30, 2022, please read “Our Cash Distribution Policy and Restrictions on Distributions—Unaudited Pro Forma Available Cash for the Year Ended December 31, 2021 and the Twelve Months Ended June 30, 2022.”</p> <p>We believe, based on our financial forecast and the related assumptions included under “Our Cash Distribution Policy and Restrictions on Distributions—Estimated Cash Available for Distribution for the Twelve Months Ending June 30, 2023,” that we will have sufficient cash available for distribution to make cash distributions of \$ per unit on all common units for the four quarters ending June 30, 2023. We will not have a minimum quarterly distribution nor is there any guarantee that we will make any particular amount of distributions or any distributions to our unitholders in any quarter. Please read “Our Cash Distribution Policy and Restrictions on Distributions.”</p>
Issuance of additional units	<p>We can issue an unlimited number of additional units, including units that are senior to the common units in right of distributions, liquidation and voting, on terms and conditions determined by our general partner, without the approval of our unitholders. Please read “Units Eligible for Future Sale” and “The Partnership Agreement—Issuance of Additional Partnership Interests.”</p>
Limited voting rights	<p>Our general partner will manage us and operate our business. Unlike stockholders of a corporation, our unitholders will have only limited voting rights on matters affecting our business. Our unitholders will have no right to elect our general partner or its board of directors on an annual or other continuing basis. Our general partner may not be removed except by a vote of the holders of at least 66$\frac{2}{3}$% of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class. Upon consummation of this offering, the Existing Owners will own an aggregate of approximately % of our common units and, therefore, will be able to prevent the removal of our general partner. Please read “The Partnership Agreement—Limited Voting Rights.”</p>

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Limited call right	If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a purchase price not less than the then-current market price of the common units, as calculated pursuant to the terms of our partnership agreement. Upon consummation of this offering, the Existing Owners will own an aggregate of approximately % of our common units. Please read “The Partnership Agreement—Limited Call Right.”
Election to be treated as a corporation	If at any time our general partner determines that (i) we should no longer be characterized as a partnership but instead as an entity taxed as a corporation for U.S. federal income tax purposes or (ii) common units held by some or all unitholders should be converted into or exchanged for interests in a newly formed entity taxed as a corporation for U.S. federal income tax purposes whose sole asset is interests in us (“parent corporation”), then our general partner may, without unitholder approval, reorganize us and cause us to be treated as an entity taxable as a corporation for U.S. federal income tax purposes or cause common units held by some or all unitholders to be converted into or exchanged for interests in the parent corporation. The general partner may take any of the foregoing actions if it in good faith determines (meaning it subjectively believes) that such action is not adverse to our best interests. Please read “Risk Factors—Risk Inherent in an Investment in Us—Our general partner may elect to convert or restructure us from a partnership to an entity taxable as a corporation for U.S. federal income tax purposes without unitholder consent” and “The Partnership Agreement—Election to be treated as a Corporation.”
Eligible Holders and redemption	Our general partner may amend our partnership agreement, as it determines necessary or advisable, to permit the general partner to redeem the units of certain non-citizen unitholders. We have the right (which we may assign to any of our affiliates), but not the obligation, to redeem all of the common units of any holder that is not an Eligible Holder or that has failed to certify or has falsely certified that such holder is an Eligible Holder. The purchase price for such redemption would be equal to the then-current market price of the common units. The redemption price will be paid in cash or by delivery of a promissory note, as determined by our general partner. Please read “Description of the Common Units—Transfer Agent and Registrar—Transfer of Common Units” and “The Partnership Agreement—Non-Citizen Unitholders; Redemption.”

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Estimated ratio of taxable income to distributions	We estimate that if our unitholders own the common units purchased in this offering through the record date for distributions for the period ending December 31, 2025, such unitholders will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than % of the cash distributed to such unitholders with respect to that period. Please read “Material U.S. Federal Income Tax Consequences—Tax Consequences of Unit Ownership—Ratio of Taxable Income to Distributions” for the basis of this estimate.
Material tax consequences	For a discussion of other material federal income tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States, please read “Material U.S. Federal Income Tax Consequences.”
Listing and trading symbol	We have applied to list our common units on the NYSE, subject to official notice of issuance, under the symbol “TXO.”

Summary Historical and Pro Forma Financial and Operating Data

The summary historical consolidated financial data set forth below as of and for each of the years ended December 31, 2021 and 2020 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary historical consolidated financial data set forth below as of June 30, 2022 and for the six months ended June 30, 2022 and 2021 are derived from our unaudited financial statements and related notes included elsewhere in this prospectus.

The summary unaudited pro forma financial data as of June 30, 2022 and for the six months ended June 30, 2022 and the year ended December 31, 2021 are derived from the unaudited pro forma condensed financial statements of TXO Energy Partners included elsewhere in this prospectus. Our unaudited pro forma condensed financial statements give pro forma effect to the following:

- the acquisition of producing properties and a gas processing plant in the Permian Basin in New Mexico and CO₂ assets in Colorado from Chevron in November 2021, which we refer to as the Vacuum Properties;
- the Reorganization Transactions as described in “—Reorganization Transactions and Partnership Structure” elsewhere in this prospectus summary; and
- the issuance and sale by us to the public of common units in this offering and the application of the net proceeds as described in “Use of Proceeds.”

The unaudited pro forma financial data were prepared as if the items listed above occurred on January 1, 2021, in the case of statement of operations data, or June 30, 2022, in the case of balance sheet data. We have not given pro forma effect to the Andrews Parker Acquisition, the Additional Interest Vacuum Acquisition or to the incremental general and administrative expenses that we expect to incur annually as a result of being a publicly traded partnership.

The unaudited pro forma historical financial data are presented for illustrative purposes only and are not necessarily indicative of the financial position that would have existed or the financial results that would have occurred if this offering and the acquisition of the Vacuum Properties had been consummated on the dates indicated, nor are they necessarily indicative of the financial position or results of our operations in the future. The pro forma adjustments, as described in the notes to the unaudited pro forma condensed combined financial statements, are preliminary and based upon currently available information and certain assumptions that our management believes are reasonable. The summary historical consolidated financial data are qualified in their entirety by, and should be read in conjunction with, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section included in this prospectus and the consolidated financial statements and related notes and other financial information included in this prospectus. Among other things, those historical financial statements and unaudited pro forma condensed financial statements include more detailed information regarding the basis of presentation for the following information. Historical results are not necessarily indicative of results that may be expected for any future period.

You should read the following table in conjunction with “Use of Proceeds,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our historical combined financial statements and our unaudited pro forma condensed financial statements and the notes thereto included elsewhere in this prospectus. Among other things, those historical financial statements and unaudited pro forma condensed financial statements include more detailed information regarding the basis of presentation for the following information.

The following table presents non-GAAP financial measures, Adjusted EBITDAX and cash available for distribution, which we use in evaluating the financial performance of our business. These measures are not calculated or presented in accordance with generally accepted accounting principles, or GAAP. We explain these measures below and reconcile them to the most directly comparable financial measures calculated and presented in accordance with GAAP.

	TXO Energy Partners Historical				TXO Energy Partners Pro Forma	
	Year Ended December 31,		Six Months Ended June 30,		Year Ended December 31	Six Months Ended June 30,
	2021	2020	2022	2021	2021	2022
(in thousands)				(unaudited)		
Statement of Operations Data:						
Revenues:						
Oil and condensate	\$ 69,971	\$ 59,070	\$ 41,608	\$ 25,577	\$ 118,186	\$ 41,608
Natural gas liquids	\$ 27,875	\$ 8,660	\$ 15,973	\$ 10,496	\$ 29,810	\$ 15,973
Natural gas	\$ 130,498	\$ 41,034	\$ 25,758	\$ 52,189	\$ 130,676	\$ 25,758
Total revenues⁽¹⁾	\$ 228,344	\$ 108,764	\$ 83,339	\$ 88,262	\$ 278,672	\$ 83,339
Expenses:						
Production	\$ 69,256	\$ 49,146	\$ 61,181	\$ 29,812	\$ 99,406	\$ 61,181
Exploration	\$ 124	\$ 55	\$ 200	\$ 68	\$ 124	\$ 200
Taxes, transportation and other	\$ 58,040	\$ 27,509	\$ 48,019	\$ 23,961	\$ 63,102	\$ 48,019
Depreciation, depletion and amortization	\$ 39,889	\$ 42,322	\$ 19,717	\$ 18,831	\$ 47,650	\$ 19,717
Impairment	\$ —	\$ 134,097	\$ —	\$ —	\$ —	\$ —
Accretion of discount on asset retirement obligations	\$ 4,670	\$ 3,940	\$ 2,970	\$ 2,412	\$ 4,962	\$ 2,970
General and administrative	\$ 12,175	\$ 6,995	\$ 488	\$ 2,446	\$ 12,175	\$ 488
Total expenses	\$ 184,154	\$ 264,064	\$ 132,575	\$ 77,530	\$ 227,419	\$ 132,575
Operating income (loss)	\$ 44,190	\$ (155,300)	\$ (49,236)	\$ 10,732	\$ 51,253	\$ (49,236)
Other income (expenses):						
Other income	\$ 14,139	\$ 72	\$ 11,428	\$ 7,201	\$ 17,312	\$ 11,428
Interest income	\$ 16	\$ 194	\$ 23	\$ 7	\$ 16	\$ 23
Interest expense	\$ (5,870)	\$ (8,204)	\$ (3,320)	\$ (2,484)	\$ (2,861)	\$ (855)
Total other income (expenses)	\$ 8,285	\$ (7,938)	\$ 8,131	\$ 4,724	\$ 14,467	\$ 10,596
Net income (loss)	\$ 52,475	\$ (163,238)	\$ (41,105)	\$ 15,456	\$ 65,720	\$ (38,640)
Net income per limited partner unit (basic and diluted)						
Weighted average number of limited partner units outstanding (basic and diluted)						
	=====	=====	=====	=====		

	TXO Energy Partners Historical				TXO Energy Partners Pro Forma	
	Year Ended December 31,		Six Months Ended June 30,		Year Ended	Six Months Ended
	2021	2020	2022	2021	December 31 2021	June 30, 2022
(in thousands)	(unaudited)					
Other Financial Data:						
Adjusted EBITDAX	\$ 85,348	\$ 32,322	\$ 77,240	\$ 33,121	\$ 103,637	\$ 77,240
Cash available for distribution	\$ 72,348	\$ 20,132	\$ 71,882	\$ 24,271	\$ 93,648	\$ 74,348
Cash Flow Data:						
Net cash provided by (used in):						
Operating activities	\$ 73,726	\$ 18,964	\$ 68,488	\$ 31,097		
Investing activities	\$ (227,801)	\$ (16,718)	\$ (7,899)	\$ (5,706)		
Financing activities	\$ 139,689	\$ 14,067	\$ (60,115)	\$ (23,011)		
Balance Sheet Data (at period end):						
Total assets	\$ 832,820	\$ 623,940	\$ 835,686	\$ 613,706		\$ 859,586
Total long-term debt	\$ 152,100	\$ 151,252	\$ 99,100	\$ 121,100		—
Partners' capital	\$ 541,359	\$ 303,268	\$ 493,774	\$ 318,245		\$ 616,774

(1) Includes the effect of unrealized losses on commodity derivatives.

Non-GAAP Financial Measures

Adjusted EBITDAX

We include in this prospectus the non-GAAP financial measure Adjusted EBITDAX and provide our calculation of Adjusted EBITDAX and a reconciliation of Adjusted EBITDAX to net income (loss), our most directly comparable financial measures calculated and presented in accordance with GAAP. We define Adjusted EBITDAX as net income (loss) before (1) interest income, (2) interest expense, (3) depreciation, depletion and amortization, (4) impairment expenses, (5) accretion of discount on asset retirement obligations, (6) exploration expenses, (7) unrealized (gains) losses on commodity derivative contracts, (8) non-cash incentive compensation, (9) non-cash (gain) loss on forgiveness of debt and (10) certain other non-cash expenses.

Adjusted EBITDAX is used as a supplemental financial measure by our management and by external users of our financial statements, such as industry analysts, investors, lenders, rating agencies and others, to more effectively evaluate our operating performance and our results of operation from period to period and against our peers without regard to financing methods, capital structure or historical cost basis. We exclude the items listed above from net income (loss) in arriving at Adjusted EBITDAX because these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures and the method by which the assets were acquired. Adjusted EBITDAX is not a measurement of our financial performance under GAAP and should not be considered as an alternative to, or more meaningful than, net income (loss) as determined in accordance with GAAP or as indicators of our operating performance. Certain items excluded from Adjusted EBITDAX are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax burden, as well as the historic costs of depreciable assets, none of which are reflected in Adjusted EBITDAX. Our presentation of Adjusted EBITDAX should

not be construed as an inference that our results will be unaffected by unusual or non-recurring items. Our computations of Adjusted EBITDAX may not be identical to other similarly titled measures of other companies.

Cash Available for Distribution

Cash available for distribution is not a measure of net income or net cash flow provided by or used in operating activities as determined by GAAP. Cash available for distribution is a supplemental non-GAAP financial measure used by our management and by external users of our financial statements, such as investors, lenders and others (including industry analysts and rating agencies who will be using such measure), to assess our ability to internally fund our exploration and development activities, pay distributions, and to service or incur additional debt. We define cash available for distribution as Adjusted EBITDAX less net cash interest expense, exploration expense, non-recurring (gain) / loss and development costs. Development costs includes all of our capital expenditures made for oil and gas properties, other than acquisitions. Cash available for distribution will not reflect changes in working capital balances. Cash available for distribution is not a measurement of our financial performance or liquidity under GAAP and should not be considered as an alternative to, or more meaningful than, net income (loss) or net cash provided by or used in operating activities as determined in accordance with GAAP or as indicators of our financial performance and liquidity. The GAAP measures most directly comparable to cash available for distribution are net income and net cash provided by operating activities. Cash available for distribution should not be considered as an alternative to, or more meaningful than, net income or net cash provided by operating activities.

Reconciliations of Adjusted EBITDAX and Cash Available for Distribution to GAAP Financial Measures

The following table presents our reconciliation of the non-GAAP financial measures Adjusted EBITDAX and cash available for distribution to the GAAP financial measures of net income (loss) and net cash provided by operating activities, as applicable, for each of the periods indicated.

	TXO Energy Partners Historical				TXO Energy Partners Pro Forma	
	Year Ended December 31,		Six Months Ended June 30,		Year Ended December 31	Six Months Ended June 30,
	2021	2020	2022	2021	2021	2022
(in thousands)	(unaudited)					
Net income (loss)	\$52,475	\$(163,238)	\$(41,105)	\$15,456	\$65,720	\$(38,640)
Interest expense	\$5,870	\$8,204	\$3,320	\$2,484	\$2,861	\$855
Interest income	\$(16)	\$(194)	\$(23)	\$(7)	\$(16)	\$(23)
Depreciation, depletion and amortization	\$39,889	\$42,322	\$19,717	\$18,831	\$47,650	\$19,717
Impairment expenses	—	\$134,097	—	—	—	—
Accretion of discount on asset retirement obligations	\$4,670	\$3,940	\$2,970	\$2,412	\$4,962	\$2,970
Exploration expense	\$124	\$55	\$200	\$68	\$124	\$200
Non-cash derivative (gain) / loss	\$(8,977)	\$2,887	\$92,161	—	\$(8,977)	\$92,161

(in thousands)	TXO Energy Partners Historical				TXO Energy Partners Pro Forma	
	Year Ended December 31,		Six Months Ended June 30,		Year Ended December 31	Six Months Ended June 30,
	2021	2020	2022	2021	2021	2022
	(unaudited)					
Non-cash incentive compensation	\$ 2,400	\$ 4,227	—	—	\$ 2,400	—
Non-cash (gain) on forgiveness of debt	\$ (9,152)	—	—	\$ (7,152)	\$ (9,152)	—
Non-recurring (gain) / loss	\$ (1,935)	\$ 22	\$ —	\$ 1,029	\$ (1,935)	—
Adjusted EBITDAX	\$ 85,348	\$ 32,322	\$ 77,240	\$ 33,121	\$ 103,637	\$ 77,240
Cash interest expense	\$ (4,520)	\$ (7,340)	\$ (2,980)	\$ (2,172)	\$ (1,509)	\$ (514)
Cash interest income	\$ 16	\$ 194	\$ 23	\$ 7	\$ 16	\$ 23
Exploration expense	\$ (124)	\$ (55)	\$ (200)	\$ (68)	\$ (124)	\$ (200)
Non-recurring (gain)/loss	\$ —	\$ —	\$ —	\$ (1,029)	\$ —	\$ —
Development costs ⁽¹⁾	\$ (8,372)	\$ (4,989)	\$ (2,201)	\$ (5,588)	\$ (8,372)	\$ (2,201)
Cash Available for Distribution	\$ 72,348	\$ 20,132	\$ 71,882	\$ 24,271	\$ 93,648	\$ 74,348
Net cash provided by operating activities	\$ 73,726	\$ 18,964	\$ 68,488	\$ 31,097		
Changes in operating assets and liabilities	\$ 6,994	\$ 6,157	\$ 5,595	\$ (1,238)		
Development costs ⁽¹⁾	\$ (8,372)	\$ (4,989)	\$ (2,201)	\$ (5,588)		
Cash Available for Distribution	\$ 72,348	\$ 20,132	\$ 71,882	\$ 24,271		

⁽¹⁾ Development costs includes all of our capital expenditures made for oil and gas properties, other than acquisitions.

Reconciliation of PV-10 to Standardized Measure.

Our PV-10 has historically been computed on the same basis as our standardized measure of discounted future net cash flows (“Standardized Measure”), the most comparable measure under GAAP, but does not include a provision for either future well abandonment costs or the Texas gross margin tax. PV-10 is not a financial measure calculated or presented in accordance with GAAP and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of either well abandonment costs or income taxes on future net revenues. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and natural gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities. See below for a reconciliation of the Proved Reserves PV-10 value to the Standardized Measure, the most directly comparable GAAP measure.

The following table provides a reconciliation of our Proved Reserves PV-10 value to the Standardized Measure at December 31, 2021:

(In millions)	TXO Energy Partners As of December 31, 2021 SEC Pricing
Proved Reserves PV-10 value	\$ 1,022.2
Present value of future asset retirement obligations discounted at 10%	\$ (33.6)
Present value of future income taxes discounted at 10% . .	\$ (2.0)
Standardized Measure	<u>\$ 986.6</u>

Summary of Reserve, Production and Operating Data

The following tables summarize our estimated oil, natural gas and NGL reserves as of August 1, 2022 and December 31, 2021 and our production and historical operating data for the year ended December 31, 2021. The information included in these tables is based on reserve reports prepared by our independent consulting petroleum engineers, Cawley, Gillespie & Associates, Inc. For more information regarding our reserve volumes and values, see “Business and Properties—Oil, Natural Gas and NGL Data—Reserves” and our reserve reports filed as exhibits to the registration statement of which this prospectus forms a part. Historical reserve volumes and values are not necessarily indicative of results that may be expected for any future period.

Summary of Reserves

Our historical SEC reserves, PV-10 and Standardized Measure were calculated using oil and gas price parameters established by current SEC guidelines, including the use of an average effective price, calculated as prices equal to the 12-month unweighted arithmetic average of the first day of the month prices for each of the preceding 12 months as adjusted for location and quality differentials, unless prices are defined by contractual arrangements, excluding escalations based on future conditions (“SEC Pricing”). These prices were adjusted for differentials on a per-property basis, which may include local basis differential, treating cost, transportation, gas shrinkage, gas heating value and/or crude quality and gravity corrections. All prices are held constant throughout the lives of the properties. Our estimated proved NYMEX reserves and PV-10 as of August 1, 2022 were prepared using average annual NYMEX forward-month contract pricing in effect as of July 31, 2022 (“NYMEX Pricing”) but is otherwise presented on the same basis as the reserve information prepared in accordance with SEC regulations. Our reserve data as of August 1, 2022 include the properties acquired as part of the Additional Interest Vacuum Acquisition described elsewhere in this prospectus.

	TXO Energy Partners					
	As of December 31, 2021 SEC Pricing(1)	As of August 1, 2022				
		SEC Pricing(1)	NYMEX Pricing(3)			
Proved Developed:						
Oil (MBbls)	30,207.9	34,336.1	32,737.1			
Natural gas (MMcf)	353,214.9	379,768.1	360,522.5			
Natural gas liquid (MBbls)	17,434.2	19,638.9	18,566.3			
Oil equivalent (MBoe)	106,511.3	117,269.7	111,390.4			
PV-10 (in millions)(2)	\$ 772.2	1,346.4	\$ 1,108.4			
Proved Undeveloped:						
Oil (MBbls)	18,397.7	20,366.8	20,262.1			
Natural gas (MMcf)	26,061.0	24,867.7	24,843.3			
Natural gas liquid (MBbls)	593.4	1,266.7	1,254.6			
Oil equivalent (MBoe)	23,334.6	25,778.1	25,657.3			
PV-10 (in millions)(2)	\$ 250.0	471.8	\$ 352.9			
Total Proved:						
Oil (MBbls)	48,605.6	54,702.9	52,999.2			
Natural gas (MMcf)	379,275.9	404,635.8	385,365.8			
Natural gas liquid (MBbls)	18,027.6	20,905.6	19,820.9			
Oil equivalent (MBoe)	129,845.9	143,047.8	137,047.7			
Standardized Measure (in millions)(2)	\$ 986.6	—	—			
PV-10 (in millions)(2)	\$ 1,022.2	1,818.2	\$ 1,461.3			
<p>(1) Our estimated net proved reserves were determined using average first-day-of-the-month prices for the prior 12 months in accordance with SEC regulations. The unweighted arithmetic average first-day-of-the-month prices for the prior 12 months were \$66.56 per barrel for oil and \$3.60 per MMBtu for natural gas at December 31, 2021 and \$88.54 per barrel for oil and \$5.36 per MMBtu for natural gas at July 31, 2022. The base prices were based upon Henry Hub and WTI-Cushing spot prices, respectively. These base prices were adjusted for differentials on a per-property basis, which may include local basis differentials, transportation, gas shrinkage, gas heating value (BTU content) and/or crude quality and gravity corrections. After these net adjustments, the net realized prices for the SEC price case over the life of the proved properties was estimated to be \$64.76 per barrel for oil, \$19.62 per barrel for NGLs and \$2.31 per Mcf for natural gas for the year ended December 31, 2021 and \$86.89 per barrel for oil, \$24.95 per barrel for NGLs and \$3.76 per Mcf for natural gas for the twelve months ended July 31, 2022.</p> <p>(2) PV-10 is a non-GAAP financial measure and represents the present value of estimated future cash inflows from proved oil and gas reserves, less future development and production costs, discounted at 10% per annum to reflect the timing of future cash flows. Calculation of PV-10 does not give effect to derivatives transactions.</p> <p>(3) The NYMEX futures prices as of July 31, 2022 used to prepare our reserve report are shown in the following table. These base prices were adjusted for differentials on a per-property basis, which may include local basis differentials, transportation, gas shrinkage, gas heating value (BTU content) and/or crude quality and gravity corrections. After these net adjustments, the net realized prices for the NYMEX futures price case over the life of the proved properties was estimated to be \$71.51 per barrel for oil, \$21.99 per barrel for NGLs and \$3.20 per Mcf for natural gas.</p>						
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Thereafter</u>
Natural gas price (per MMBtu)	\$ 8.36	\$ 5.63	\$ 4.66	\$ 4.50	\$ 4.40	\$ 4.40
Oil price (per Bbl)	\$ 94.92	\$ 86.49	\$ 79.38	\$ 74.64	\$ 71.02	\$ 71.02

- (4) PV-10 is a non-GAAP financial measure and represents the present value of estimated future cash inflows from proved oil and gas reserves, less future development and production costs, discounted at 10% per annum to reflect the timing of future cash flows. Calculation of PV-10 does not give effect to derivatives transactions. Our PV-10 has historically been computed on the same basis as our Standardized Measure, the most comparable measure under GAAP, but does not include a provision for either future well abandonment costs or the Texas gross margin tax. PV-10 is not a financial measure calculated or presented in accordance with GAAP and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of either well abandonment costs or income taxes on future net revenues. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and natural gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.

Select Production and Operating Statistics

The following table summarizes our oil, natural gas and NGL production and historical operating data for the periods presented.

	TXO Energy Partners	
	Year Ended December 31, 2021	Six Months Ended June 30, 2022
Net Production Volumes:		
Oil (MBbl)	1,033	1,041
Natural Gas (MMcf)	30,590	15,153
NGLs (MBbl)	1,089	647
Total (MBoe)	7,220	4,213
Average daily production (MBoe per day)	20	23
Average Wellhead Realized Prices (before giving effect to derivatives):		
Oil (\$/Bbl)	\$ 67.41	\$ 101.23
Natural Gas (\$/Mcf)	\$ 4.00	\$ 5.73
NGLs (\$/Bbl)	\$ 25.16	\$ 39.42
Average Wellhead Realized Prices (after giving effect to derivatives):		
Oil (\$/Bbl)	\$ 67.74	\$ 39.96
Natural Gas (\$/Mcf)	\$ 4.27	\$ 1.70
NGLs (\$/Bbl)	\$ 25.60	\$ 24.71
Operating costs and expenses (per Boe):		
Production	\$ 9.59	\$ 14.52
Taxes, transportation, and other	\$ 8.04	\$ 11.40
Depreciation, depletion, amortization and accretion	\$ 5.52	\$ 4.68
General and administrative expenses	\$ 1.69	\$ 0.12

RISK FACTORS

Investing in our common units involves a high degree of risk. You should carefully consider the risks described below with all of the other information included in this prospectus before deciding to invest in our common units. Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. Additionally, new risks may emerge at any time and we cannot predict those risks or estimate the extent to which they may affect financial performance

If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. In that case, we might not be able to pay distributions on our common units, the trading price of our common units could decline and our unitholders could lose all or part of their investment.

Risks Related to Cash Distributions

We may not have sufficient available cash to pay any quarterly distribution on our common units following the establishment of cash reserves and payment of expenses.

We may not have sufficient available cash each quarter to pay distributions on our common units. Under the terms of our partnership agreement, the amount of cash available for distribution will be reduced by our operating expenses and the amount of any cash reserves established by our general partner to provide for future operations, future capital expenditures, including development, optimization and exploitation of our oil and natural gas properties, future debt service requirements and future cash distributions to our unitholders. The amount of available cash that we distribute to our unitholders will depend principally on the cash we generate from operations, which will depend on, among other factors:

- the amount of oil, natural gas and NGLs we produce;
- the prices at which we sell our oil, natural gas and NGL production;
- the amount and timing of settlements on our commodity derivative contracts;
- the level of our capital expenditures, including scheduled and unexpected maintenance expenditures;
- the level of our operating costs, including payments to our general partner and its affiliates for general and administrative expenses; and
- the level of our interest expenses, which will depend on the amount of our outstanding indebtedness and the applicable interest rate.

Furthermore, the amount of cash we have available for distribution depends primarily on our cash flow, including cash from financial reserves and working capital or other borrowings, and not solely on profitability, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record losses for financial accounting purposes and may not make cash distributions during periods when we record net income for financial accounting purposes.

The assumptions underlying the forecast of cash available for distribution we include in “Our Cash Distribution Policy and Restrictions on Distributions” may prove inaccurate and are subject to significant risks and uncertainties that could cause actual results to differ materially from our forecasted results.

Our management’s forecast of cash available for distribution set forth in “Our Cash Distribution Policy and Restrictions on Distributions” includes our forecasted results of operations, Adjusted EBITDA and cash available for distribution for the twelve months ending June 30, 2023. The assumptions underlying the forecast may prove inaccurate and are subject to significant risks and uncertainties that could cause actual results to differ materially from those forecasted. If our actual results are significantly below forecasted results, or if our expenses are greater than forecasted, we may not be able to pay the forecasted annual distribution or any distribution on our common units, which may cause the market price of our common units to decline materially.

The amount of our quarterly cash distributions from our available cash, if any, may vary significantly both quarterly and annually and will be directly dependent on the performance of our business. We will not have a minimum quarterly distribution and could pay no distribution with respect to any particular quarter.

Investors who are looking for an investment that will pay regular and predictable quarterly distributions should not invest in our common units. Our future business performance may be volatile, and our cash flows may be unstable. We will not have a minimum quarterly distribution. Because our quarterly distributions will significantly correlate to the cash we generate each quarter after payment of our fixed and variable expenses, future quarterly distributions paid to our unitholders will vary significantly from quarter to quarter and may be zero. Please read “Cash Distribution Policy and Restrictions on Distributions.”

Risks Related to Our Business and the Oil, Natural Gas and NGL Industry

The volatility of oil, natural gas and NGL prices due to factors beyond our control greatly affects our financial condition, results of operations and cash available for distribution.

Our revenues, operating results, cash available for distribution and the carrying value of our oil and natural gas properties depend significantly upon the prevailing prices for oil, natural gas and NGLs. Prices for oil, natural gas and NGLs are subject to wide fluctuations in response to relatively minor changes in supply and demand, market uncertainty and a variety of additional factors beyond our control. These factors include, but are not limited to:

- worldwide and regional economic conditions impacting the supply and demand for oil, natural gas and NGLs;
- the level of global oil and natural gas exploration and production;
- political and economic conditions and events in foreign oil and natural gas producing countries, including embargoes, continued hostilities in the Middle East and other sustained military campaigns, the armed conflict in Ukraine and associated economic sanctions on Russia, conditions in South America, Central America, China and Russia, and acts of terrorism or sabotage;
- the ability of and actions taken by members of Organization of the Petroleum Exporting Countries (“OPEC”) and other oil-producing nations in connection with their arrangements to maintain oil prices and production controls;

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- the impact on worldwide economic activity of an epidemic, outbreak or other public health events, such as COVID-19;
- the proximity, capacity, cost and availability of gathering and transportation facilities;
- localized and global supply and demand fundamentals;
- weather conditions across the globe;
- technological advances affecting energy consumption and energy supply;
- speculative trading in commodity markets, including expectations about future commodity prices;
- the proximity of our natural gas, NGL and oil production to, and capacity, availability and cost of, natural gas pipelines and other transportation and storage facilities, and other factors that result in differentials to benchmark prices;
- the impact of energy conservation efforts;
- the price and availability of alternative fuels;
- stockholder activism or activities by non-governmental organizations to restrict the exploration, development and production of oil and natural gas to minimize the emission of greenhouse gases;
- domestic, local and foreign governmental regulation and taxes; and
- overall domestic and global economic conditions.

These factors and the volatility of the energy markets make it extremely difficult to predict future oil and natural gas price movements accurately. Changes in oil, natural gas and NGL prices have a significant impact on the amount of oil, natural gas and NGL that we can produce economically, the value of our reserves and on our cash flows. Historically, oil, natural gas and NGL prices and markets have been volatile, and those prices and markets are likely to continue to be volatile in the future. In particular, oil prices fluctuated during 2018 and 2019, and declined dramatically during 2020 due to demand collapse caused by COVID-19 and associated lockdowns, dropping to (\$37.63) per barrel of crude WTI oil on April 20, 2020. During the year ended December 31, 2021, the NYMEX daily oil price reached a high of \$84.65 per Bbl in October 2021 and experienced a low of \$47.62 in January 2021, and the NYMEX daily natural gas price reached a high of \$23.86 per MMBtu in February 2021 and experienced a low of \$2.43 in April 2021, and prices have remained volatile. In response to the conflict in Ukraine, the NYMEX daily oil price reached a high of \$123.70 on March 8, 2022, and the NYMEX daily natural gas price reached a high of \$9.85 on August 22, 2022. Any substantial decline in the price of oil and natural gas will likely have a material adverse effect on our financial condition, results of operations and cash available for distribution.

Unless we replace the reserves we produce, our revenues and production will decline, which would adversely affect our cash flow from operations and our ability to make distributions to our unitholders.

We may be unable to pay quarterly distributions to our unitholders without substantial capital expenditures that maintain our asset base. Producing oil and natural gas reservoirs are characterized by declining production rates that vary depending upon reservoir characteristics and other factors.

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Our future reserves and production and, therefore, our cash flow and ability to make distributions are highly dependent on our success in efficiently developing, optimizing and exploiting our current reserves. Our production decline rates may be significantly higher than currently estimated if our wells do not produce as expected. Further, our decline rate may change when we make acquisitions. We may not be able to develop, find or acquire additional reserves to replace our current and future production on economically acceptable terms, which would adversely affect our business, financial condition and results of operations and reduce cash available for distribution to our unitholders.

If commodity prices decline and remain depressed for a prolonged period, production from a significant portion of our properties may become uneconomic and cause downward adjustments of our reserve estimates and write downs of the value of such properties, which may adversely affect our financial condition and our ability to make distributions to our unitholders.

Significantly lower commodity prices over extended periods of time may render many of our development projects uneconomic and result in a downward adjustment of our reserve estimates, which would negatively impact our borrowing base and ability to borrow to fund our operations or make distributions to our unitholders. As a result, we may reduce the amount of distributions paid to our unitholders or cease paying distributions. In addition, a significant or sustained decline in commodity prices could hinder our ability to effectively execute our hedging strategy. For example, during a period of declining commodity prices, we may enter into commodity derivative contracts at relatively unattractive prices in order to mitigate a potential decrease in our borrowing base upon a redetermination.

Furthermore, as a result of a lower net commodity price environment for some of our oil and natural gas assets, in 2020 we recorded an impairment of \$133.2 million on certain of our long-lived assets in the New Mexico Permian Basin, \$0.2 million on our assets in East Texas and \$0.7 million on our unproved properties primarily in the Texas Permian Basin. Prior to 2020, our historical impairment of proved properties included \$177.4 million of proved property impairments from 2014 through 2018. Due to the improvement in commodity pricing environment and industry conditions, we did not record any impairments in 2021. However, if commodity prices fall below certain levels, our production, proved reserves and cash flows will be adversely impacted and we may be required to record additional impairments, which could be material. Lower oil and natural gas prices may also result in a reduction in the borrowing base under our Credit Facility, which may be determined at the discretion of our lenders. See “—Any significant reduction in the borrowing base under our Credit Facility as a result of periodic borrowing base redeterminations or otherwise may negatively impact our ability to fund our operations.”

Currently, our producing properties are concentrated in the Permian and San Juan Basins, making us vulnerable to risks associated with operating in a limited number of geographic areas.

As a result of our geographic concentration, adverse industry developments in our operating areas could have a greater impact on our financial condition and results of operations than if we were more geographically diverse. We may also be disproportionately exposed to the impact of regional supply and demand factors, governmental regulations or midstream capacity constraints. Delays or interruptions caused by such adverse developments could have a material adverse effect on our financial condition and results of operations.

Similarly, the concentration of our assets within a small number of producing formations exposes us to risks, such as changes in field wide rules, which could adversely affect development activities or production relating to those formations. In addition, in areas where exploration and

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production activities are increasing, as has recently been the case in our operating areas, we are subject to increasing competition for drilling rigs, workover rigs, tubulars and other well equipment, services, supplies as well as increased labor costs and a decrease in qualified personnel, which may lead to periodic shortages or delays. The curtailments arising from these and similar circumstances may last from a few days to several months and, in many cases, we may be provided only limited, if any, notice as to when these circumstances will arise and their duration.

Drilling for and producing oil, natural gas and NGLs are high-risk activities with many uncertainties that could adversely affect our business, financial condition, results of operations and cash distributions to unitholders.

Our future financial condition and results of operations, and therefore our ability to make cash distributions to our unitholders, will depend on the success of our acquisition, development, optimization and exploitation activities, which are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable production.

Our decisions to purchase, develop, optimize or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. For a discussion of the uncertainty involved in these processes, see “—Reserve estimates depend on many assumptions that may ultimately be inaccurate. Any material inaccuracies in reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.” In addition, our cost of drilling, completing and operating wells is often uncertain before drilling commences.

Further, many factors may curtail, delay or cancel our scheduled drilling projects, including the following:

- unexpected or adverse drilling conditions;
- delays imposed by or resulting from compliance with environmental and other governmental or regulatory requirements including permitting requirements, limitations on or resulting from wastewater discharge and the disposal of exploration and production wastes, including subsurface injections;
- elevated pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;
- facility or equipment failures or accidents;
- lack of available gathering facilities or delays in construction of gathering facilities;
- lack of available capacity on interconnecting transmission pipelines;
- adverse weather conditions, such as hurricanes, lightning storms, flooding, tornadoes, snow or ice storms and changes in weather patterns;
- issues related to compliance with, or changes in, environmental and other governmental regulations;

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- environmental hazards, such as oil and natural gas leaks, pipeline and tank ruptures, encountering naturally occurring radioactive materials, and unauthorized discharges of brine, well stimulation and completion fluids, toxic gases or other pollutants into the surface and subsurface environment;
- declines in oil, natural gas and NGL prices;
- the availability and timely issuance of required governmental permits and licenses; and
- title defects or legal disputes regarding leasehold rights.

We may be unable to make accretive acquisitions or successfully integrate acquired businesses or assets, and any inability to do so may disrupt our business and hinder our growth potential.

Our ability to grow and to increase distributions to our unitholders depends in part on our ability to make acquisitions that result in an increase in cash available for distribution. There is intense competition for acquisition opportunities in our industry and we may not be able to identify attractive acquisition opportunities. Even if we do identify attractive acquisition opportunities, we may not be able to complete the acquisition, do so on commercially acceptable terms or obtain sufficient financing to do so. Competition for acquisitions may increase the cost of, or cause us to refrain from, completing acquisitions.

In addition, our Credit Facility imposes certain limitations on our ability to enter into mergers or combination transactions and to make certain investments. Our Credit Facility also limits our ability to incur certain indebtedness, which could indirectly limit our ability to engage in acquisitions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Revolving credit agreement.”

The success of any completed acquisition will depend on our ability to integrate effectively the acquired business into our existing operations. The process of integrating acquired businesses may involve unforeseen difficulties and may require a disproportionate amount of our managerial and financial resources. Our failure to achieve consolidation savings, to successfully integrate the acquired businesses and assets into our existing operations or to minimize any unforeseen operational difficulties could have a material adverse effect on our financial condition and results of operations.

Properties we acquire may not produce as projected, and we may be unable to determine reserve potential, identify liabilities associated with the properties that we acquire or obtain protection from sellers against such liabilities.

Acquiring oil and natural gas properties requires us to assess reservoir and infrastructure characteristics, including recoverable reserves, development and operating costs and potential liabilities, including, but not limited to, environmental liabilities. Such assessments are inexact and inherently uncertain. For these reasons, the properties we have acquired or may acquire in the future may not produce as projected. In connection with the assessments, we perform a review of the subject properties, but such a review will not reveal all existing or potential problems. In the course of our due diligence, we may not review every well, pipeline or associated facility. We cannot necessarily observe structural and environmental problems, such as pipe corrosion or groundwater contamination, when a review is performed. We may be unable to obtain contractual indemnities from any seller for liabilities arising from or attributable to the period prior to our purchase of the property. We may be required to assume the risk of the physical condition of the properties in addition to the risk that the properties may not perform in accordance with our expectations.

Increased costs of capital could adversely affect our business.

Our business could be harmed by factors such as the availability, terms and cost of capital, increases in interest rates or a reduction in our credit rating. For example, since March 2022, the Federal Reserve has raised its target range for the federal funds rate three times, including by 50 basis points in May 2022, by 75 basis points in June 2022 and by 75 basis points in July 2022. Furthermore, additional rate hikes are likely to occur for the foreseeable future, as indicated by the minutes of the Federal Open Markets Committee. Changes in any one or more of these factors could cause our cost of doing business to increase, limit our access to capital, limit our ability to pursue acquisition opportunities, reduce our cash flows available and place us at a competitive disadvantage. Continuing disruptions and volatility in the global financial markets may lead to an increase in interest rates or a contraction in credit availability impacting our ability to finance our activities. A significant reduction in the availability of credit could materially and adversely affect our ability to achieve our business strategy and cash flows.

Drilling locations that we decide to drill may not yield oil, natural gas or NGLs in commercially viable quantities.

We may in the future explore potential drilling locations in areas where we currently own properties and in other areas. These potential drilling locations would be in various stages of evaluation, ranging from a location that is ready to drill to a location that will require substantial additional interpretation. There is no way to predict in advance of drilling and testing whether any particular location will yield oil, natural gas or NGLs in sufficient quantities to recover drilling or completion costs or to be economically viable. The use of technologies and the study of producing fields in the same area will not enable us to know conclusively, prior to drilling, whether oil, natural gas or NGLs will be present or, if present, whether oil, natural gas or NGLs will be present in sufficient quantities to be economically viable. Even if sufficient amounts of oil, natural gas or NGLs exist, we may damage the potentially productive hydrocarbon-bearing formation or experience mechanical difficulties while drilling or completing the well, resulting in a reduction in production from the well or abandonment of the well. We cannot assure you that the analogies we draw from available data from other wells, more fully explored locations or producing fields will be applicable to our other identified drilling locations. Further, initial production rates reported by us or other operators may not be indicative of future or long-term production rates. The cost of drilling, completing and operating any well is often uncertain, and new wells may not be productive.

Because of these uncertain factors, we do not know if the potential well locations we have identified, or will identify, will ever be drilled or if we will be able to produce oil, natural gas and NGLs from these or any other potential locations. As such, our actual drilling activities may materially differ from those presently identified.

Any drilling activities we are able to conduct on these potential locations may not be successful or result in our ability to add additional proved reserves to our overall proved reserves or may result in a downward revision of our estimated proved reserves, which could have a material adverse effect on our future business, financial condition and results of operations.

We may incur losses as a result of title defects in the properties in which we invest.

It is our practice in acquiring oil and natural gas leases or interests not to incur the expense of retaining lawyers to examine the title to the mineral interest at the time of acquisition. Rather, we rely upon the judgment of lease brokers or landmen who perform the fieldwork in examining records in the appropriate governmental office before attempting to acquire a lease or other interest

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in a specific mineral interest. The existence of a material title deficiency can render a lease or other interest worthless and can adversely affect our results of operations and financial condition. The failure of title on a lease, in a unit or any other mineral interest may not be discovered until after a well is drilled, in which case we may lose the lease and the right to produce all or a portion of the minerals under the property.

We operate certain of our properties through a joint venture over which we have shared control.

We conduct certain of our operations through Cross Timbers, a joint venture owned 50% by us and 50% by certain affiliates of Exxon and XTO, which we refer to collectively as the “XTO Entities.” For the year ended December 31, 2021, our interest in Cross Timbers represented approximately 41% of our revenues and approximately 35% of our proved reserves.

In accordance with the limited liability company agreement governing Cross Timbers, or the “JV LLCA”, Cross Timbers is managed by us and governed by a member management committee comprised of six members, three of whom are appointed by us and three of whom are appointed by the XTO Entities. The JV LLCA requires that certain matters, including certain material contracts or acquisitions, mergers, sale of substantially all assets or other change of control transactions, and transfers of our interest to a third party, be approved by unanimous consent of the voting members of the management committee and therefore such actions require the approval of the XTO Entities. Our ability to make distributions to our unitholders depends in part on the performance of this entity and its ability to distribute funds to us. We face certain risks associated with shared control, and the XTO Entities may at any time have economic, business or legal interests or goals that are inconsistent with ours.

We own non-operating interests in properties developed and operated by third parties and some of our leasehold acreage could be pooled by a third-party operator. As a result, we are unable, or may become unable as a result of pooling, to control the operation and profitability of such properties.

We participate in the drilling and completion of wells with third-party operators that exercise exclusive control over such operations. As a participant, we rely on the third-party operators to successfully operate these properties pursuant to joint operating agreements and other contractual arrangements. Similarly, our acreage in Colorado, Texas and New Mexico may be pooled by third-party operators under state law. If our acreage is involuntarily pooled under state forced pooling statutes, it would reduce our control over such acreage and we could lose operatorship over a portion of our acreage that we plan to develop.

We may not be able to maximize the value associated with acreage that we own but do not operate in the manner we believe appropriate, or at all. We cannot control the success of drilling and development activities on properties operated by third parties, which depend on a number of factors under the control of a third-party operator, including such operator’s determinations with respect to, among other things, the nature and timing of drilling and operational activities, the timing and amount of capital expenditures and the selection of suitable technology. In addition, the third-party operator’s operational expertise and financial resources and its ability to gain the approval of other participants in drilling wells will impact the timing and potential success of drilling and development activities in a manner that we are unable to control. A third-party operator’s failure to adequately perform operations, breach of applicable agreements or failure to act in ways that are favorable to us could reduce our production and revenues, negatively impact our liquidity and cause us to spend capital in excess of our current plans, and have a material adverse effect on our business, financial condition and results of operations.

Extreme weather conditions could adversely affect our ability to conduct drilling activities in the areas where we operate.

The majority of the scientific community has concluded that climate change may result in more frequent and/or more extreme weather events, changes in temperature and precipitation patterns, changes to ground and surface water availability, and other related phenomena, which could affect some, or all, of our operations. Our development, optimization and exploitation activities and equipment could be adversely affected by extreme weather conditions, such as hurricanes, thunderstorms, tornadoes and snow or ice storms, or other climate-related events such as wild fires, in each case which may cause a loss of production from temporary cessation of activity or lost or damaged facilities and equipment. Such extreme weather conditions and events could also impact other areas of our operations, including access to our drilling and production facilities for routine operations, maintenance and repairs and the availability of, and our access to, necessary resources, such as water, and third-party services, such as gathering, processing, compression and transportation services. These constraints and the resulting shortages or high costs could delay or temporarily halt our operations and materially increase our operation and capital costs, which could have a material adverse effect on our business, financial condition and results of operations.

Declining general economic, business or industry conditions and inflation may have a material adverse effect on our results of operations, liquidity and financial condition.

Concerns over global economic conditions, energy costs, supply chain disruptions, increased demand, labor shortages associated with a fully employed U.S. labor force, geopolitical issues, inflation, the availability and cost of credit and the United States financial market and other factors have contributed to increased economic uncertainty and diminished expectations for the global economy. Although inflation in the United States had been relatively low for many years, there was a significant increase in inflation beginning in the second half of 2021, which has continued into 2022, due to a substantial increase in money supply, a stimulative fiscal policy, a significant rebound in consumer demand as COVID-19 restrictions were relaxed, the Russia-Ukraine war and worldwide supply chain disruptions resulting from the economic contraction caused by COVID-19 and lockdowns followed by a rapid recovery. Inflation rose from 5.4% in June 2021 to 7.0% in December 2021 to 9.1% in June 2022. Though we incorporated inflationary factors into our 2022 business plan, inflation has outpaced those original assumptions. We continue to undertake actions and implement plans to strengthen our supply chain to address these pressures and protect the requisite access to commodities and services. Nevertheless, we expect for the foreseeable future to experience supply chain constraints and inflationary pressure on our cost structure. Principally, commodity costs for steel and chemicals required for drilling, higher transportation and fuel costs and wage increases have increased our operating costs for the six months ended June 30, 2022 compared to the same period in 2021. We also may face shortages of these commodities and labor, which may prevent us from executing our development plan. These supply chain constraints and inflationary pressures will likely continue to adversely impact our operating costs and, if we are unable to manage our supply chain, it may impact our ability to procure materials and equipment in a timely and cost-effective manner, if at all, which could impact our ability to distribute available cash and result in reduced margins and production delays and, as a result, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

We are taking actions to mitigate supply chain and inflationary pressures. We have pre-purchased pipe necessary to drill the remainder of the planned development for 2022. We are working closely with other suppliers and contractors to ensure availability of supplies on site, especially fuel, steel and chemical suppliers which are critical to many of our operations. However, these mitigation efforts may not succeed or may be insufficient.

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In addition, continued hostilities related to the Russian invasion of Ukraine and the occurrence or threat of terrorist attacks in the United States or other countries could adversely affect the global economy. These factors and other factors, such as another surge in COVID-19 cases or decreased demand from China, combined with volatile commodity prices, and declining business and consumer confidence may contribute to an economic slowdown and a recession. Recent growing concerns about global economic growth have had a significant adverse impact on global financial markets and commodity prices. If the economic climate in the United States or abroad deteriorates, worldwide demand for petroleum products could diminish, which could impact the price at which we can sell our production, affect the ability of our vendors, suppliers and customers to continue operations and ultimately adversely impact our business, financial condition and results of operations.

Events outside of our control, including an epidemic or outbreak of an infectious disease, such as COVID-19, or the threat thereof, could have a material adverse effect on our business, liquidity, financial condition, results of operations, cash flows and ability to pay distributions on our common units.

We face risks related to epidemics, outbreaks or other public health events, or the threat thereof, that are outside of our control, and could significantly disrupt our business and operational plans and adversely affect our liquidity, financial condition, results of operations, cash flows and ability to pay distributions on our common units. The COVID-19 pandemic has adversely affected the global economy and has resulted in unprecedented governmental actions in the United States and countries around the world, including, among other things, social distancing guidelines, travel restrictions and stay-at-home orders, among other actions, which caused a significant decrease in activity in the global economy and the demand for oil, and to a lesser extent, natural gas and NGLs. Additionally, the effects of the COVID-19 pandemic might worsen the likelihood or the impact of other risks already inherent in our business. We believe that the known and potential impacts of the COVID-19 pandemic and related events include, but are not limited to, the following:

- disruption in the demand for oil, natural gas and other petroleum products;
- intentional project delays until commodity prices stabilize;
- potentially higher borrowing costs in the future;
- a need to preserve liquidity, which could result in a reductions, delays or changes in our capital expenditures;
- liabilities resulting from operational delays due to decreased productivity resulting from stay-at-home orders affecting our workforce or facility closures resulting from the COVID-19 pandemic;
- future asset impairments, including impairment of our natural gas properties, oil properties, and other property and equipment; and
- infections and quarantining of our employees and the personnel of vendors, suppliers and other third parties.

New variants of the virus could cause further commodity market volatility and resulting financial market instability, or any other event described above. These are variables beyond our control and may adversely impact our business, financial condition and results of operations.

We use derivative instruments to economically hedge exposure to changes in commodity price and, as a result, are exposed to credit risk and market risk.

We periodically enter into futures contracts, energy swaps, options, collars and basis swaps to hedge our exposure to price fluctuations on crude oil, natural gas and natural gas liquids sales. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Derivatives.” By using derivative instruments to economically hedge exposure to changes in commodity prices, we could limit the benefit we would receive from increases in the prices for oil and natural gas, which could have an adverse effect on our financial condition. Likewise, to the extent our production is not hedged, we are exposed to declines in commodity prices, and our derivative arrangements may be inadequate to protect us from continuing and prolonged declines in commodity prices.

Changes in the fair value of commodity price derivatives are recognized currently in earnings. Realized and unrealized gains and losses on commodity derivatives are recognized in oil, NGL and natural gas revenues. Settlements of derivatives are included in cash flows from operating activities. While our price risk management activities decrease the volatility of cash flows, they may obscure our reported financial condition. As required under GAAP, we record derivative financial instruments at their fair value, representing projected gains and losses to be realized upon settlement of these contracts in subsequent periods when related production occurs. These gains and losses are generally offset by increases and decreases in the market value of our proved reserves, which are not reflected in the financial statements. For example, for the six months ended June 30, 2022, revenues decreased \$4.9 million to \$83.3 million from \$88.3 million for the six months ended June 30, 2021, and the decrease was primarily attributable to losses on our hedging activity of \$134.3 million, of which \$92.2 million were unrealized losses and \$42.2 million were realized losses.

Additionally, our Credit Facility may hinder our ability to effectively execute our hedging strategy. We are allowed to hedge at most 90% of reasonably anticipated projected production, but we are required to hedge at least (a) 75% of reasonably anticipated projected production of proved developed producing reserves for the 12-month period following January 1, 2022 and (b) thereafter 50% of reasonably anticipated projected production of proved developed producing reserves for the 30-month period following the date of any hedging transaction. However, as of any time, if the net leverage ratio (the ratio of total net debt-to-EBITDAX) is less than or equal to 1.0 to 1.0 and the cash and cash equivalents on hand are equal to or greater than 20% of the borrowing base then in effect, the minimum required hedge volume for month one through month 24 will be reduced to 50%. We were in compliance with all financial and other covenants of the Credit Facility as of March 31, 2022 except the covenant regarding hedge volumes required as of March 31, 2022. We received a waiver for this exception in June, 2022. We were in compliance with all covenants in our Credit Facility as of June 30, 2022. See “—Our Credit Facility has restrictions and financial covenants that may restrict our business and financing activities and our ability to pay distributions to our unitholders” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Revolving credit agreement.”

We also expose ourselves to credit risk resulting from the failure of the counterparty to perform under the terms of the applicable derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk. Disruptions in the financial markets could lead to sudden decreases in a counterparty’s liquidity, which could make it unable to perform under the terms of the contract and we may not be able to realize the benefit of the contract. We are unable to predict sudden changes in a counterparty’s creditworthiness or ability to perform. Even if we do accurately predict sudden changes, our ability to negate the risk may be limited depending upon market conditions.

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Reserve estimates depend on many assumptions that may ultimately be inaccurate. Any material inaccuracies in reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

The process of estimating oil, natural gas and NGL reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to current and future economic conditions and commodity prices. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of our reserves.

Furthermore, SEC rules require that, subject to limited exceptions, PUD reserves may only be recorded if they relate to wells scheduled to be drilled within five years after the date of booking. This rule may limit our potential to record additional PUD reserves as we pursue our drilling program. To the extent that natural gas and oil prices become depressed or decline materially from current levels, such condition could render uneconomic a number of our identified drilling locations, and we may be required to write down our PUD reserves if we do not drill those wells within the required five-year time frame. If we choose not to develop PUD reserves, or if we are not otherwise able to successfully develop them, then we will be required to remove the associated volumes from our reported proved reserves.

The preparation of reserve estimates requires the projection of production rates and the timing of development expenditures based on an analysis of available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires economic assumptions about matters such as oil, natural gas and NGL prices, drilling and operating expenses, capital expenditures, taxes and availability of funds.

Actual future production, oil, natural gas and NGL prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil, natural gas and NGL reserves will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of our reserves. In addition, we may revise reserve estimates to reflect production history, results of exploration and development, existing commodity prices and other factors, many of which are beyond our control.

The standardized measure of our estimated proved reserves is not necessarily the same as the current market value of our estimated proved reserves.

The present value of future net cash flow from our proved reserves, or standardized measure, may not represent the current market value of our estimated proved oil and natural gas reserves. In accordance with SEC requirements, we base the estimated discounted future net cash flow from our estimated proved reserves on the 12-month average oil and natural gas index prices, calculated as the unweighted arithmetic average for the first-day-of-the-month price for each month and costs in effect as of the date of the estimate, holding the prices and costs constant throughout the life of the properties.

Actual future prices and costs may differ materially from those used in the net present value estimate, and future net present value estimates using then current prices and costs may be significantly less than current estimates. For example, our estimated proved reserves as of December 31, 2021 were calculated under SEC rules using the unweighted arithmetic average first day of the month prices for the prior 12 months of \$3.60/MMBtu for natural gas and \$66.56/Bbl for oil at December 31, 2021, which, for certain periods during this period, were substantially different from the available spot prices. In addition, the 10% discount factor we use when calculating discounted future net cash flow for reporting requirements in compliance with Accounting Standards Codification 932, “*Extractive Activities—Oil and Gas*,” may not be the most

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appropriate discount factor based on interest rates in effect from time to time and risks associated with us or the oil and natural gas industry in general.

We depend upon several significant purchasers for the sale of most of our oil, natural gas and NGL production. The loss of one or more of these purchasers could, among other factors, limit our access to suitable markets for the oil and natural gas we produce.

For the year ended December 31, 2021, Phillips 66 Company, Tenaska Marketing andEco-Energy, Inc. accounted for more than 40% of our total revenues, excluding the impact of our commodity derivatives. For the year ended December 31, 2020, Phillips 66 Company and Tenaska Marketing accounted for more than 40% of our total revenues, excluding the impact of our commodity derivatives. No other purchaser accounted for more than 10% of our revenue during such periods. We do not have long-term contracts with our customers; rather, we sell the substantial majority of our production under arm's length contracts with terms of 12 months or less, including on a month-to-month basis, to a relatively small number of customers. The loss of any one of these purchasers, the inability or failure of our significant purchasers to meet their obligations to us or their insolvency or liquidation could materially adversely affect our financial condition, results of operations and ability to make distributions to our unitholders. We cannot assure you that any of our customers will continue to do business with us or that we will continue to have ready access to suitable markets for our future production. See "Business and Properties—Operations—Marketing and Customers."

The availability of a ready market for any hydrocarbons we produce depends on numerous factors beyond our control, including, but not limited to, the extent of domestic production and imports of oil, the proximity and capacity of natural gas and NGL pipelines, the availability of skilled labor, materials and equipment, the effect of state and federal regulation of oil, natural gas and NGL production and federal regulation of oil, natural gas and NGLs sold in interstate commerce.

We may be unable to compete effectively with larger companies, which may adversely affect our ability to generate sufficient revenue to allow us to pay distributions to our unitholders.

The oil and natural gas industry is intensely competitive, and we compete with companies that possess and employ financial, technical and personnel resources substantially greater than ours. Our ability to acquire additional properties and to exploit reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. Many of our larger competitors not only drill for and produce oil and natural gas but also carry on refining operations and market petroleum and other products on a regional, national or worldwide basis. These companies may be able to pay more for properties and evaluate, bid for and purchase a greater number of properties than our financial, technical or personnel resources permit. In addition, there is substantial competition for investment capital in the oil and natural gas industry. These larger companies may have a greater ability to continue development activities during periods of low oil prices and to absorb the burden of present and future federal, state, local and other laws and regulations. Any inability to compete effectively with larger companies could have a material adverse impact on our business activities, financial condition and results of operations and our ability to make distributions to our unitholders.

Our Credit Facility has restrictions and financial covenants that may restrict our business and financing activities and our ability to pay distributions to our unitholders.

Our Credit Facility restricts, among other things, our ability to:

- incur certain liens or permit them to exist;

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- merge or consolidate with another company;
- incur or guarantee additional debt;
- make certain investments and acquisitions;
- make or pay distributions on, or redeem or repurchase, common units, if an event of default or borrowing base deficiency exists;
- enter into certain types of transactions with affiliates; and
- transfer, sell or otherwise dispose of assets.

In addition, our Credit Facility will require us to comply with customary financial covenants and specified financial ratios, including that we maintain (i) a current ratio greater than 1.0 to 1.0 and (ii) a ratio of total indebtedness-to-EBITDAX of not greater than 3.00 to 1.00. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. If we violate any provisions of our Credit Facility that are not cured or waived within specific time periods, our lender may declare our indebtedness thereunder to be immediately due and payable, our ability to make distributions to our unitholders will be inhibited and our lenders' commitment to make further loans to us may terminate. Any such acceleration of such debt could also result in a cross-acceleration of other future indebtedness which we may incur. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. In addition, our obligations under our Credit Facility are secured by substantially all of our assets, and if we are unable to repay our indebtedness under our Credit Facility, the lenders could seek to foreclose on our assets or force us to seek bankruptcy protection.

In addition, our Credit Facility may hinder our ability to effectively execute our hedging strategy. Our Credit Facility limits the maximum percentage of our production that we can hedge and the duration of those hedges, so we may be unable to enter into additional commodity derivative contracts during favorable market conditions and, thus, unable to lock in attractive future prices for our product sales. Conversely, our Credit Facility also requires us to hedge a minimum percentage of our production, which may cause us to enter into commodity derivative contracts at inopportune times. For example, during a period of declining commodity prices, we may enter into commodity derivative contracts at relatively unattractive prices in order to mitigate a potential decrease in our borrowing base upon a redetermination.

Any significant reduction in the borrowing base under our Credit Facility as a result of periodic borrowing base redeterminations or otherwise may negatively impact our ability to fund our operations.

Our Credit Facility limits the amount we can borrow up to a borrowing base amount. The administrative agent under our Credit Facility determines our borrowing base based on the value of our oil and natural gas properties. The borrowing base is subject to further adjustments for asset dispositions, material title deficiencies, certain terminations of hedge agreements and issuances of permitted additional indebtedness. As of June 8, 2022, the last date of redetermination, our borrowing base was \$165 million. Such amount will be redetermined semi-annually on or before each March 15 and September 1 and will depend on the volumes of our proved oil and natural gas reserves and estimated cash flows from these reserves and other information deemed relevant by the administrative agent under the Credit Facility, including our business, financial condition and debt obligations, the types of reserves, the value and effect of hedge contracts then in effect and the effect of gas imbalances. In addition, our lenders will have flexibility to reduce our borrowing base due to subjective factors.

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In the future, we may not be able to access adequate funding under our Credit Facility (or a replacement facility) as a result of a decrease in the borrowing base due to the issuance of new indebtedness, the outcome of a subsequent borrowing base redetermination or an unwillingness or inability on the part of our lenders to meet their funding obligations. Declines in commodity prices could result in a determination by the lenders to decrease the borrowing base in the future and, in such a case, we could be required to promptly repay any indebtedness in excess of the redetermined borrowing base. As a result, we may be unable to implement our respective drilling and development plan, make acquisitions or otherwise carry out business plans, which could have a material adverse effect on our financial condition and results of operations and impair our ability to service our indebtedness.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our debt arrangements, which may not be successful.

Our ability to make scheduled payments on or to refinance our indebtedness obligations, including our Credit Facility, depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and certain financial, business and other factors beyond our control. If oil, natural gas and NGL prices decline for an extended period of time, we may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund debt service obligations, we may be forced to reduce or delay investments and capital expenditures, sell assets, seek additional equity or debt capital or restructure or refinance indebtedness or seek bankruptcy protection to facilitate a restructuring. Our ability to restructure or refinance indebtedness will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict business operations. The terms of existing or future debt or preferred equity arrangements may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on outstanding indebtedness on a timely basis could harm our ability to incur additional indebtedness. In the absence of sufficient cash flows and capital resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet debt service and other obligations. Our Credit Facility currently restricts our ability to dispose of assets and our use of the proceeds from such disposition in certain circumstances. We may not be able to consummate these dispositions, and the proceeds of any such disposition may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may prevent us from meeting scheduled debt service obligations.

Our level of indebtedness may increase and reduce our financial flexibility.

Although we do not expect to have any indebtedness at the closing of this offering, we may incur significant indebtedness, whether through future debt issuances or by drawing down on the availability under our Credit Facility, in the future in order to make acquisitions or to develop our properties or for other general corporate purposes. Such indebtedness could affect our operations in several ways:

- a significant portion of our cash flows could be used to service our indebtedness;
- a high level of debt would increase our vulnerability to general adverse economic and industry conditions;

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- the covenants contained in the agreements governing our outstanding indebtedness limit our ability to borrow additional funds, dispose of assets, pay distributions on our common units and make certain investments;
- a high level of debt may place us at a competitive disadvantage compared to our competitors that are less leveraged and therefore may be able to take advantage of opportunities that our indebtedness would prevent us from pursuing;
- our debt covenants may also affect our flexibility in planning for, and reacting to, changes in the economy and our industry;
- a high level of debt may make it more likely that a reduction in our borrowing base following a periodic redetermination could require us to repay a significant portion of our then-outstanding bank borrowings; and
- a high level of debt may impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, or other general corporate purposes.

A high level of indebtedness, if incurred in the future, increases the risk that we may default on our debt obligations. Our ability to meet our debt obligations and to reduce our level of indebtedness in such event depends on our future performance. General economic conditions, commodity prices, and financial, business, and other factors affect our operations and our future performance. Many of these factors are beyond our control. We may not be able to generate sufficient cash flows to pay the interest on our debt and future working capital, borrowings, or equity financing may not be available to pay or refinance such debt. Factors that will affect our ability to raise cash through an offering of our common units or a refinancing of our debt include financial market conditions (including any financial crisis), the value of our assets, and our performance at the time we need capital.

Our drilling and production programs may not be able to obtain access to truck transportation, pipelines and storage facilities, natural gas gathering facilities, and other transportation, processing and refining facilities to market our oil, natural gas and NGL production, and our initiatives to expand our access to midstream and operational infrastructure may be unsuccessful.

The marketing of oil, natural gas and NGL production depends in large part on the capacity and availability of trucks, pipelines and storage facilities, natural gas gathering systems and other transportation, processing and refining facilities. In order to market new or increased production, new facilities or expanded capacity on existing facilities may be required. Access to transportation, processing, and refining facilities, whether new or existing, is, in many respects, beyond our control. If these facilities are unavailable to us because we are unable to obtain services on commercially reasonable terms, the owners and operators of such facilities are unable to obtain permits for new or expanded capacity in compliance with environmental and other governmental or regulatory requirements or are delayed in obtaining such permits, or otherwise, we could be forced to shut in some production or delay or discontinue drilling plans and commercial production following a discovery of hydrocarbons. We rely (and expect to rely in the future) on facilities developed and owned by third parties in order to store, process, transmit and sell our oil, natural gas and NGL production.

Increases in activity in our operating areas could, in the future, contribute to bottlenecks in processing and transportation that could negatively affect our results of operations, and these adverse effects could be disproportionately severe to us compared to our more geographically diverse competitors. As a result, our business, financial condition and results of operations could be adversely affected.

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We could experience periods of higher costs if commodity prices rise. These increases could reduce our profitability, cash flows and ability to complete development activities as planned.

Historically, our capital and operating costs have risen during periods of increasing oil, natural gas and NGL prices. These cost increases result from a variety of factors beyond our control, such as increases in the cost of electricity, steel and other raw materials that we and our vendors rely upon; increased demand for experienced development crews and oil field equipment and services and materials as drilling activity increases; and increased taxes, which could restrict our ability to drill the wells and conduct the operations that we currently have planned. Any delay in the development of new wells or a significant increase in development costs could reduce our revenues and reduce our cash available for distribution to our unitholders. Decreased levels of drilling activity in the oil and natural gas industry in recent periods have led to declining costs of some drilling equipment, materials and supplies. However, such costs may rise faster than increases in our revenue if commodity prices rise, thereby negatively impacting our profitability, cash flows and ability to complete development activities as scheduled and on budget. This impact may be magnified to the extent that our ability to participate in the commodity price increases is limited by our derivative activities.

We are highly dependent on the services of our senior management and the loss of senior management or technical personnel could adversely affect our operations.

We depend on the services of our senior management and technical personnel. Our management team has an average of 34 years' experience in the oil and gas industry. There can be no assurance that we would be able to replace such members of management with comparable replacements or that such replacements would integrate well with our existing team. Further, the loss of the services of our senior management could have a material adverse effect on our business, financial condition and results of operations. In particular, the loss of the services of one or more members of our management team could disrupt our operations. We do not maintain, nor do we plan to obtain, "key person" life insurance policies on any of our employees. As a result, we are not insured against any losses resulting from the death of our key employees.

Our continued success will depend, in part, on our ability to attract and retain experienced technical personnel, including geologists, engineers and other professionals. Large numbers of technical personnel in the oil and gas industry are approaching the normal retirement age of 65 or have otherwise accepted an early retirement during the COVID-19 pandemic. These and other factors may lead to a shortage of qualified, entry-level technical personnel and increased compensation costs. The foregoing factors may lead to additional competition from oil and gas companies attempting to meet their hiring needs. If a shortage of technical personnel materializes, companies in the oil and gas industry may be unable to hire adequate numbers of technical personnel to meet their needs, resulting in disruptions, increased costs of operations, financial difficulties and other adverse effects, and these circumstances may become more severe in the future and thereby cause a material adverse effect on our business.

Past performance by our management team may not be indicative of future performance of an investment in us.

Information regarding performance by, or businesses associated with, TXO Energy Partners and its affiliates is presented for informational purposes only. Past performance by TXO Energy Partners and its affiliates, including our management team, is not a guarantee of future

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performance. You should not rely on the historical record of TXO Energy Partners and its affiliates or our management team's prior performance as indicative of our future performance or the returns we will, or are likely to, generate going forward.

We are responsible for the decommissioning, abandonment, and reclamation costs for our facilities, which could decrease our cash available for distribution.

We are responsible for compliance with all applicable laws and regulations regarding the decommissioning, abandonment and reclamation of our facilities at the end of their economic life, the costs of which may be substantial. It is not possible to predict these costs with certainty since they will be a function of regulatory requirements at the time of decommissioning, abandonment and reclamation. We may, in the future, determine it prudent or be required by applicable laws or regulations to establish and fund one or more decommissioning, abandonment and reclamation reserve funds to provide for payment of future decommissioning, abandonment and reclamation costs, which could decrease our cash available for distribution. In addition, such reserves, if established, may not be sufficient to satisfy such future decommissioning, abandonment and reclamation costs and we will be responsible for the payment of the balance of such costs.

Asset retirement obligations for our oil and gas assets and properties are estimates, and actual costs could vary significantly.

We are required to record a liability for the discounted present value of our estimated asset retirement obligations to plug and abandon inactive wells and related assets and non-producing oil and gas properties in which we have a working interest. Such asset retirement obligations may include complete structural removal and/or restoration of the land. At December 31, 2021, we had accrued asset retirement obligations of \$104.5 million. Although management has used its best efforts to determine future asset retirement obligations, assumptions and estimates can be influenced by many factors beyond management's control, including, but not limited to, changes in regulatory requirements, which may be more restrictive in the future, changes in costs for abandonment related services and technologies, which could increase or decrease based on supply and demand, and/or extreme weather conditions, such as hurricanes and lightning storms, which may cause structural or other damage to oil and natural gas assets and properties. Accordingly, our estimate of future asset retirement obligations could differ materially from actual costs that may be incurred.

Our business could be negatively affected by security threats, including cybersecurity threats, and other disruptions.

As an oil, natural gas and NGL producer, we face various security threats, including cybersecurity threats to gain unauthorized access to sensitive information or to render data or systems unusable; threats to the security of our facilities and infrastructure or third-party facilities and infrastructure, such as processing plants and pipelines; and threats from terrorist acts. The potential for such security threats has subjected our operations to increased risks that could have a material adverse effect on our business. In particular, our implementation of various procedures and controls to monitor and mitigate security threats and to increase security for our information, facilities and infrastructure may result in increased capital and operating costs. Moreover, there can be no assurance that such procedures and controls will be sufficient to prevent security breaches from occurring. If any of these security breaches were to occur, they could lead to losses of sensitive information, critical infrastructure or capabilities essential to our operations and could have a material adverse effect on our reputation, financial position, results of operations or cash flows. Cybersecurity attacks in particular are becoming more sophisticated and include, but are not limited to, malicious software, phishing, ransomware, attempts to gain unauthorized access to data and systems, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected

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information, and corruption of data. These events could lead to financial losses from remedial actions, loss of business or potential liability. Although we maintain insurance to protect against losses resulting from certain data protection breaches and cyber-attacks, our coverage for protecting against such risks may not be sufficient.

In addition, certain cyber incidents, such as surveillance, may remain undetected for an extended period, and our systems and insurance coverage for protecting against such cybersecurity risks may be costly and may not be sufficient. As cyber-attackers become more sophisticated, we may be required to expend significant additional resources to continue to protect our business or remediate the damage from cyber-attacks. Furthermore, the continuing and evolving threat of cyber-attacks has resulted in increased regulatory focus on prevention, and we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. To the extent we face increased regulatory requirements, we may be required to expend significant additional resources to meet such requirements.

We are subject to a number of privacy and data protection laws, rules and directives (collectively, data protection laws) relating to the processing of personal data.

The regulatory environment surrounding data protection laws is uncertain. Varying jurisdictional requirements could increase the costs and complexity of compliance with such laws, and violations of applicable data protection laws can result in significant penalties. A determination that there have been violations of applicable data protection laws could expose us to significant damage awards, fines and other penalties that could materially harm our business and reputation.

Any failure, or perceived failure, by us to comply with applicable data protection laws could result in proceedings or actions against us by governmental entities or others, subject us to significant fines, penalties, judgments and negative publicity, require us to change our business practices, increase the costs and complexity of compliance and adversely affect our business. As noted above, we are also subject to the possibility of security and privacy breaches, which themselves may result in a violation of these laws. Additionally, the acquisition of a company that is not in compliance with applicable data protection laws may result in a violation of these laws.

Loss of our information and computer systems could adversely affect our business.

We are dependent on our information systems and computer-based programs, including our well operations information, seismic data, electronic data processing and accounting data. If any of such programs or systems were to fail or create erroneous information in our hardware or software network infrastructure, possible consequences include our loss of communication links, an inability to find, produce, process and sell oil, natural gas and NGLs and an inability to automatically process commercial transactions or engage in similar automated or computerized business activities. Any such consequence could have a material adverse effect on our business.

Our acquisition, development, optimization and exploitation projects require substantial capital expenditures. We may be unable to obtain required capital or financing on satisfactory terms, which could lead to a decline in our ability to access or grow production and reserves.

The oil, natural gas and NGL industry is capital intensive. We make and expect to continue to make substantial capital expenditures for the acquisition, development, optimization and exploitation of oil and natural gas reserves. Funding sources for our capital expenditures have included proceeds from bank borrowings, cash from our partners and cash flow from operating activities. Our management has collectively invested more than \$500 million in us since our inception. Following the completion of this offering, we expect that we will not be able to rely on

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our management or our partners for capital and will need to utilize the public equity or debt markets and bank financings to fund acquisitions and capital expenditures. We expect to fund the remainder of our 2022 and our 2023 capital expenditures with cash generated by operations and a portion of the proceeds from this offering; however, our cash flows from operations and access to capital are subject to a number of variables, including:

- our proved reserves;
- the volume of hydrocarbons we are able to produce from existing wells;
- the prices at which our production is sold;
- our ability to acquire, locate and produce new reserves;
- the extent and levels of our derivative activities;
- the levels of our operating expenses; and
- our ability to borrow under our Credit Facility.

If our revenues or the borrowing base under our Credit Facility decrease as a result of lower oil, natural gas and NGL prices, operating difficulties, declines in reserves or for any other reason, we may have limited ability to obtain the capital necessary to sustain our operations and growth at current levels. If additional capital is needed, we may not be able to obtain debt or equity financing on terms acceptable to us, if at all. Even if we can obtain debt financing on terms acceptable to us, the issuance of additional indebtedness would require that a portion of our cash flows from operations be used for the payment of interest and principal on our indebtedness, thereby reducing our ability to use cash flows from operations to fund working capital, capital expenditures and acquisitions. Additionally, the market demand for equity issued by master limited partnerships has been significantly lower in recent years than it has been historically, which may make it more challenging for us to finance our capital expenditures with the issuance of additional equity. The issuance of additional equity securities may be dilutive to our unitholders. If cash flows generated by our operations or the proceeds from this offering are not sufficient to meet our capital requirements, the failure to obtain additional financing could result in a curtailment of our operations relating to development of our properties, which in turn could lead to a decline in our reserves and production, and would adversely affect our business, financial condition and results of operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

Continuing political and social concerns about the issues of climate change may result in changes to our business and significant expenditures, including litigation-related expenses.

Increasing attention to global climate change has resulted in increased investor attention and an increased risk of public and private litigation, which could increase our costs or otherwise adversely affect our business. Governmental and other entities in various United States states, such as California and New York, have filed lawsuits against coal, gas oil and petroleum companies. These suits allege damages for contributions to, or failure to disclose the impact of, climate change, and the plaintiffs are seeking unspecified damages and abatement under various tort theories. Similar lawsuits may be filed in other jurisdictions both in the United States and globally. Though we are not currently a party to any such lawsuit, these suits present uncertainty regarding the extent to which companies engaged in oil and gas production face an increased risk of liability stemming from climate change, which risk would also adversely impact the oil and gas industry

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and impact demand for our services. The ultimate outcome and impact to us of any such litigation cannot be predicted with certainty, and we could incur substantial legal costs associated with defending any potential similar lawsuits in the future.

Risks Related to Environmental and Regulatory Matters

We are subject to stringent federal, state and local laws and regulations related to environmental and occupational health and safety issues that could adversely affect the cost or feasibility of conducting our operations or expose us to significant liabilities.

Our operations are subject to numerous stringent federal, state and local laws and regulations governing occupational safety and health aspects of our operations, the discharge of materials into the environment and the protection of the environment and natural resources (including threatened and endangered species). These laws and regulations may impose numerous obligations applicable to our operations including the acquisition of a permit before conducting drilling and other regulated activities; the restriction of types, quantities and concentration of materials that may be released into the environment; the limitation or prohibition of drilling activities on certain lands lying within wilderness, wetlands and other protected areas; the application of specific health and safety criteria addressing worker protection; and the imposition of substantial liabilities for pollution resulting from our operations, and reclamation and restoration costs. Numerous governmental authorities, such as the U.S. Environmental Protection Agency (“EPA”) and analogous state agencies have the power to enforce compliance with these laws and regulations and the permits issued under them. Such enforcement actions often involve taking difficult and costly compliance measures or corrective actions. Failure to comply with these laws and regulations may result in the assessment of sanctions, including administrative, civil or criminal penalties, the imposition of investigatory or remedial obligations, and the issuance of orders limiting or prohibiting some or all of our operations. In addition, we may experience delays in obtaining or be unable to obtain required permits, which may delay or interrupt our operations or specific projects and limit our growth and revenue.

There is inherent risk of incurring significant environmental costs and liabilities in the performance of our operations due to our handling of petroleum hydrocarbons and other hazardous substances and wastes, as a result of air emissions and wastewater discharges related to our operations, and because of historical operations and waste disposal practices at our leased and owned properties. Spills or other releases of regulated substances, including such spills and releases that occur in the future, could expose us to material losses, expenditures and liabilities under applicable environmental laws and regulations. Under certain of such laws and regulations, we could be subject to strict, joint and several liability for the removal or remediation of contamination, regardless of whether we were responsible for the release or contamination and even if our operations met previous standards in the industry at the time they were conducted. We may not be able to recover some or any of these costs from insurance. The trend in environmental regulation has been towards more stringent requirements, and any changes that result in more stringent or costly well drilling, construction, completion or water management activities, air emissions control or waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to attain and maintain compliance and may otherwise have a material adverse effect on our results of operations, competitive position or financial condition. For example, in June 2016, the EPA finalized rules regarding criteria for aggregating multiple sites into a single source for air quality permitting purposes applicable to the oil and natural gas industry. This rule could cause small facilities on an aggregate basis, to be deemed a major source, thereby triggering more stringent air permitting requirements.

In October 2015, the EPA issued a new lower National Ambient Air Quality Standard (“NAAQS”) for ozone of 70 parts per billion. In 2017, the EPA designated certain counties in

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southeastern New Mexico and West Texas located in the Permian Basin attainment/unclassifiable for the 2015 ozone NAAQS. However, in June 2022, EPA announced that it is considering a discretionary redesignation for these counties based on current monitoring data and other air quality factors. If the Permian Basin counties in which we operate were redesignated as nonattainment areas, this could subject us to increased regulatory burdens in the form of more stringent emission controls, emission offset requirements and increased permitting delays and costs.

The EPA has also imposed increasingly stringent performance standards on oil and gas operations. In 2016, the EPA issued regulations under NSPS OOOOa that require operators to reduce methane and volatile organic compound (“VOC”) emissions from new, modified and reconstructed crude oil and natural gas wells and equipment located at natural gas production gathering and booster stations, gas processing plants and natural gas transmission compressor stations. In November 2021, the EPA proposed a rule to further reduce methane and VOC emissions from new and existing sources in the oil and natural gas sector. The proposed rule would establish standards of performance for sources that commence construction, modification or reconstruction after the date the proposed rule is published in the Federal Register and would establish emissions guidelines, which will inform state plans to establish standards for existing sources. State agencies have similarly imposed increasing restrictions on emissions from oil and gas operations. For example, in 2022, the New Mexico Environment Department adopted new regulations establishing emission reduction requirements for storage vessels, compressors, turbines, heaters, engines, dehydrators, pneumatic devices, produced water management units, and other equipment and processes. Compliance with these more stringent standards and other environmental regulations at the federal or state levels could delay or prohibit our ability to obtain permits for operations or require us to install additional pollution control equipment, the costs of which could be significant. See “Business and Properties—Regulation of Environmental and Occupational Safety and Health Matters” for a further description of the laws and regulations that affect us.

Should we fail to comply with all applicable regulatory agency administered statutes, rules, regulations and orders, we could be subject to substantial penalties and fines.

Under the Energy Policy Act of 2005 (“EPAct 2005”), the Federal Energy Regulatory Commission (the “FERC”) has civil penalty authority under the Natural Gas Act of 1938 (“NGA”) to impose penalties for current violations of \$1,388,496 per violation per day. The FERC may also impose administrative and criminal remedies and disgorgement of profits associated with any violation. While our operations have not been regulated by FERC as a natural gas company under the NGA, FERC has adopted regulations that may subject certain of our otherwise non-FERC jurisdictional facilities to FERC annual reporting requirements. We also must comply with the anti-market manipulation rules enforced by FERC. Additional rules and regulations pertaining to those and other matters may be considered or adopted by FERC from time to time. Additionally, the Federal Trade Commission (“FTC”) has regulations intended to prohibit market manipulation in the petroleum industry with authority to fine violators of the regulations civil penalties of up to \$1,323,791 per violation per day, and the Commodity Futures Trading Commission (“CFTC”) prohibits market manipulation in the markets regulated by the CFTC, including similar anti manipulation authority with respect to swaps and futures contracts as that granted to the CFTC with respect to oil purchases and sales. The CFTC rules subject violators to a civil penalty of up to the greater of \$1,303,559 or triple the monetary gain to the person for each violation. Failure to comply with those regulations in the future could subject us to civil penalty liability, as described in “Business—Regulation of the Oil and Natural Gas Industry.”

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Our operations are subject to a series of risks arising out of the threat of climate change that could result in increased operating costs, limit the areas in which we may conduct oil, natural gas and NGL exploration and production activities, and reduce demand for the oil, natural gas and NGLs we produce.

In the United States, no comprehensive climate change legislation has been implemented at the federal level. However, following the U.S. Supreme Court finding that greenhouse gas (“GHG”) emissions constitute a pollutant under the Clean Air Act (the “CAA”), the EPA has adopted regulations that, among other things, establish construction and operating permit reviews for emissions from certain large stationary sources, require the monitoring and annual reporting of GHG emissions from certain petroleum and natural gas system sources in the United States, and together with the Department of Transportation (the “DOT”), implement GHG emissions limits on vehicles manufactured for operation in the United States. The federal government has also increased regulation of methane from oil and gas facilities in recent years. For example, in 2016, the EPA issued regulations under NSPS OOOOa that require operators to reduce methane and VOC emissions from new, modified and reconstructed crude oil and natural gas wells and equipment located at natural gas production gathering and booster stations, gas processing plants and natural gas transmission compressor stations. In November 2021, the EPA proposed a rule to further reduce methane and VOC emissions from new and existing sources in the oil and natural gas sector. The proposed rule would establish standards of performance for sources that commence construction, modification or reconstruction after the date the proposed rule is published in the Federal Register and would establish emissions guidelines, which will inform state plans to establish standards for existing sources. The EPA is currently seeking public comments on its proposal, which the EPA hopes to finalize by the end of 2022. Once finalized, the regulations are likely to be subject to legal challenge. Emissions guidelines will also need to be incorporated into the states’ implementation plans, which will need to be approved by the EPA in individual rulemakings that could also be subject to legal challenge. If finalized, these increasingly stringent methane and VOC requirements on new facilities, or the application of new requirements to existing facilities, could result in additional restrictions on our operations and increased compliance costs, which could be significant. Additionally, the Inflation Reduction Act, recently passed by Congress and signed into law by President Biden, imposes several new requirements on oil and gas operators, including a fee for leaks or venting of methane, starting at \$900 per ton in 2024 and rising to \$1,500 per ton in 2026, from certain facilities. The act also appropriates significant federal funding for renewable energy initiatives. These developments may make it harder for the oil and gas industry to attract capital. Given the long-term trend toward increasing regulation, we expect there will be additional future federal GHG regulations of the oil and gas industry.

Additionally, various states and groups of states have adopted or are considering adopting legislation, regulations or other regulatory initiatives that are focused on such areas as GHG cap and trade programs, carbon taxes, reporting and tracking programs, and restriction of emissions. For example, the New Mexico Oil Conservation Commission has adopted regulations to restrict the venting or flaring of methane from both upstream and midstream operations. Internationally, the United Nations-sponsored “Paris Agreement” requires member states to individually determine and submit non-binding emissions reduction targets every five years after 2020. President Biden has recommitted the United States to the Paris Agreement and, in April 2021, announced a goal of reducing the United States’ emissions by 50-52% below 2005 levels by 2030. In November 2021, the international community gathered again in Glasgow at the 26th Conference of the Parties on the UN Framework Convention on Climate Change (“COP26”), during which multiple announcements were made, including a call for parties to eliminate certain fossil fuel subsidies and pursue further action on non-CO₂ GHGs. Relatedly, the United States and European Union jointly announced the launch of the “Global Methane Pledge,” which aims to cut global methane pollution at least 30% by 2030 relative to 2020 levels, including “all feasible reductions” in the

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energy sector. President Biden also agreed that same month to cooperate with Chinese leader Xi Jinping on accelerating progress toward the adoption of clean energy. The impact of these orders, pledges, agreements and any legislation or regulation promulgated to fulfill the United States' commitments under the Paris Agreement, COP26, or other international conventions cannot be predicted at this time. However, to the extent these developments result in new restrictions on oil and gas operations, increase operational costs, or otherwise reduce the demand for oil and gas, they could have a material adverse effect on our business.

Governmental, scientific, and public concern over the threat of climate change arising from GHG emissions has resulted in increasing political risks in the United States, including climate change related pledges made by certain candidates elected to public office. President Biden has issued several executive orders focused on addressing climate change, including items that may impact our costs to produce, or demand for, oil and gas. Additionally, in November 2021, the Biden Administration released "The Long-Term Strategy of the United States: Pathways to Net-Zero Greenhouse Gas Emissions by 2050," which establishes a roadmap to net zero emissions in the United States by 2050 through, among other things, improving energy efficiency; decarbonizing energy sources via electricity, hydrogen, and sustainable biofuels; and reducing non-CO₂ GHG emissions, such as methane and nitrous oxide. The Biden Administration is also considering revisions to the leasing and permitting programs for oil and gas development on federal lands.

Litigation risks are also increasing, as a number of entities have sought to bring suit against oil and natural gas companies in state or federal court, alleging, among other things, that such companies created public nuisances by producing fuels that contributed to climate change. Suits have also been brought against such companies under shareholder and consumer protection laws, alleging that companies have been aware of the adverse effects of climate change but failed to adequately disclose those impacts.

There are also increasing financial risks for fossil fuel producers as shareholders currently invested in fossil-fuel energy companies may elect in the future to shift some or all of their investments into other sectors. Institutional lenders who provide financing to fossil-fuel energy companies also have become more attentive to sustainable lending practices and some of them may elect not to provide funding for fossil fuel energy companies. For example, at COP26, the Glasgow Financial Alliance for Net Zero ("GFANZ") announced that commitments from over 450 firms across 45 countries had resulted in over \$130 trillion in capital committed to net zero goals. The various sub-alliances of GFANZ generally require participants to set short-term, sector-specific targets to transition their financing, investing, and/or underwriting activities to net zero emissions by 2050. There is also a risk that financial institutions will be required to adopt policies that have the effect of reducing the funding provided to the fossil fuel sector. Various U.S. financial regulators have announced that they are considering climate-related regulations and, separately, the Federal Reserve has joined the Network for Greening the Financial System, a consortium of financial regulators focused on addressing climate-related risks in the financial sector. In November 2021, the Federal Reserve issued a statement in support of the efforts of the NGFS to identify key issues and potential solutions for the climate-related challenges most relevant to central banks and supervisory authorities. Limitation of investments in and financings for fossil fuel energy companies could result in the restriction, delay or cancellation of drilling programs or development or production activities.

Additionally, the SEC recently proposed new rules relating to the disclosure of a range of climate-related risks. The proposed rule contains several new disclosure obligations, including (i) disclosure on an annual basis of a registrant's scope 1 and scope 2 greenhouse gas emissions, (ii) third-party independent attestation of the same for accelerated and large accelerated filers, (iii) for

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some registrants, disclosure on an annual basis of a registrant's scope 3 greenhouse gas emissions for accelerated and large accelerated filers, (iv) disclosure on how the board of directors and management oversee climate-related risks and certain climate-related governance items, (v) disclosure of information related to a registrant's climate-related targets, goals and/or transitions plans and (vi) disclosure on whether and how climate-related events and transition activities impact line items above a threshold amount on a registrant's consolidated financial statements, including the impact of the financial estimates and the assumptions used. While we would likely be subject to the longer proposed phase-in for the reporting requirements as an emerging growth company, we are currently assessing this rule and cannot predict the costs of implementation or any potential adverse impacts resulting from the rule should it be adopted as proposed; however, we expect these costs to be substantial. In addition, enhanced climate disclosure requirements could accelerate the trend of certain stakeholders and lenders restricting or seeking more stringent conditions with respect to their investments in certain carbon intensive sectors.

The adoption and implementation of new or more stringent international, federal, regional or state legislation, regulations or other regulatory initiatives that impose more stringent standards for GHG emissions from the oil and natural gas sector or otherwise restrict the areas in which this sector may produce oil and natural gas or generate GHG emissions could result in increased costs of compliance or costs of consuming, and thereby reduce demand for, oil and natural gas. Additionally, international, federal, regional or state legislation, regulation or other initiatives could make alternative forms of energy more attractive in comparison to oil and natural gas, and thereby reduce demand for oil and natural gas. Moreover, political, litigation and financial risks may result in our restricting or cancelling production activities, incurring liability for infrastructure damages as a result of climatic changes, or having an impaired ability to continue to operate in an economic manner. One or more of these developments could have a material adverse effect on our business, financial condition and results of operations.

Increased attention to ESG matters and conservation measures may adversely impact our business.

Increasing attention to climate change, societal expectations on companies to address climate change, investor and societal expectations regarding voluntary ESG initiatives and disclosures, and consumer demand for alternative forms of energy may result in increased costs, including, but not limited to, increased costs related to compliance, stakeholder engagement, contracting and insurance, reduced demand for our products, reduced profits, increased investigations and litigation, and negative impacts on the price of our common units and access to capital markets. Increasing attention to climate change and environmental conservation, for example, may result in demand shifts for oil and natural gas products and additional governmental investigations and private litigation against us or our operators. To the extent that societal pressures or political or other factors are involved, it is possible that such liability could be imposed without regard to our causation of or contribution to the asserted damage, or to other mitigating factors.

Moreover, while we may create and publish voluntary disclosures regarding ESG matters in the future, many of the statements in those voluntary disclosures may be on hypothetical expectations and assumptions that may or may not be representative of current or actual risks or events or forecasts of expected risks or events, including the costs associated therewith. Such expectations and assumptions are necessarily uncertain and may be prone to error or subject to misinterpretation given the long timelines involved and the lack of an established single approach to identifying and measuring many ESG matters. Such disclosures may also be partially reliant on third-party information that we have not or cannot independently verify. In addition, we expect there will likely be increasing levels of regulation, disclosure-related and otherwise, with respect to ESG matters, and increased regulation will likely to lead to increased compliance costs as well as scrutiny that could heighten all of the risks identified in this risk factor.

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In addition, organizations that voluntarily provide information to investors on corporate governance and related matters have developed ratings processes for evaluating companies on their approach to ESG matters. Such ratings are used by some investors to inform their investment and voting decisions. Unfavorable ESG ratings and recent activism directed at shifting funding away from companies with energy-related assets could lead to increased negative investor sentiment toward us and our industry and to the diversion of investments to other industries, which could have a negative impact on our access to and costs of capital. Also, institutional lenders may decide not to provide funding for fossil fuel energy companies based on climate change related concerns, which could affect our access to capital for potential growth projects. Moreover, to the extent ESG matters negatively impact our reputation, we may not be able to compete as effectively to recruit or retain employees, which may adversely affect our operations. Such ESG matters may also impact our suppliers or customers, which may adversely impact our business, financial condition, or results of operations.

We may face various risks associated with the long-term trend toward increased activism against oil and gas exploration and development activities.

Opposition toward oil and gas drilling and development activity has been growing globally. Companies in the oil and gas industry are often the target of activist efforts from both individuals and non-governmental organizations regarding safety, environmental compliance and business practices. Anti-development activists are working to, among other things, reduce access to federal and state government lands and delay or cancel certain projects such as the development of oil and gas shale plays. For example, environmental activists continue to advocate for increased regulations or bans on shale drilling and hydraulic fracturing in the United States, even in jurisdictions that are among the most stringent in their regulation of the industry. Future activist efforts could result in the following:

- delay or denial of drilling permits;
- shortening of lease terms and reduction in lease size;
- restrictions on installation or operation of production, gathering or processing facilities;
- restrictions on the use of certain operating practices, such as hydraulic fracturing, or disposal of related waste materials, such as hydraulic fracking fluids and production;
- increased severance and/or other taxes;
- cyber-attacks;
- legal challenges or lawsuits;
- negative publicity about our business or the oil and gas industry in general;
- increased costs of doing business;
- reduction in demand for our products; and
- other adverse effects on our ability to develop our properties and expand production.

We may need to incur significant costs associated with responding to these initiatives, and there is no guarantee that our responses will have the intended results. Complying with any resulting additional legal or regulatory requirements that are substantial could have a material adverse effect on our business, financial condition, cash flows, results of operations and ability to pay distributions on our common units.

Prolonged negative investor sentiment toward upstream natural gas and oil focused companies could limit our access to capital funding, which would constrain liquidity.

Certain segments of the investor community have developed negative sentiment towards investing in our industry. Recent equity returns in the sector versus other sectors have led to lower natural gas and oil representation in certain key equity market indices. Some investors, including certain pension funds, private equity funds, university endowments and family foundations, have stated policies to reduce or eliminate their investments in the natural gas and oil sector based on social and environmental considerations. Certain other stakeholders have pressured commercial and investment banks to directly fund or raising capital for hydrocarbon extraction, transportation or refining. If this negative sentiment continues or worsens, it may reduce the availability of capital funding for potential development projects, each of which could have a material adverse effect our financial condition, results of operations, cash flows and ability to pay distributions on our common units.

Conservation measures and technological advances could reduce demand for oil, natural gas and NGLs.

Fuel conservation measures, alternative fuel requirements, increasing availability of, and consumer and industrial/commercial demand for, alternatives to oil, natural gas and NGLs (e.g., alternative energy sources) and products manufactured with, or powered by, non-oil and gas sources (e.g., electric vehicles and renewable residential and commercial power supplies), and technological advances in fuel economy and energy generation, transmission, storage and consumption of energy (e.g., wind, solar and hydrogen power, smart grid technology and battery technology) could reduce demand for oil, natural gas and NGLs. The impact of the changing demand for oil and natural gas services and products may have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, our business could be impacted by governmental initiatives to incentivize the conservation of energy or the use of alternative energy sources. For example, in November 2021, the Biden Administration released “The Long-Term Strategy of the United States: Pathways to Net-Zero Greenhouse Gas Emissions by 2050,” which establishes a roadmap to net zero emissions in the United States by 2050 through, among other things, improving energy efficiency; decarbonizing energy sources via electricity, hydrogen, and sustainable biofuels; and reducing non-CO₂ GHG emissions, such as methane and nitrous oxide. Further, the U.S. Department of Transportation recently issued more stringent fuel economy standards. These initiatives or similar state or federal initiatives to reduce energy consumption or incentivize a shift away from fossil fuels could reduce demand for hydrocarbons and have a material adverse effect on our earnings, cash flows and financial condition.

Federal, state and local legislative and regulatory initiatives relating to hydraulic fracturing as well as governmental reviews of such activities could result in increased costs and additional operating restrictions or delays in the completion of unconventional natural gas wells and adversely affect our production.

Hydraulic fracturing is an important and common practice that is used to stimulate production of natural gas from dense subsurface rock formations. Hydraulic fracturing involves the injection of water, sand or alternative proppant and chemicals under pressure into targeted geological formations to fracture the surrounding rock and stimulate production. Nearly all of our wells are drilled conventionally; however, from time to time, a small percentage of our wells are horizontally completed.

Hydraulic fracturing is typically regulated by state oil and natural gas commissions. However, several federal agencies have asserted regulatory authority over certain aspects of the process. For

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example, the EPA published final CAA regulations in 2012 and, more recently, in June 2016 governing CAA performance standards, including standards for the capture of air emissions released during oil and natural gas hydraulic fracturing, leak detection, and permitting and separately published in June 2016 an effluent limitation guideline final rule prohibiting the discharge of wastewater from onshore unconventional oil and natural gas extraction facilities to publicly owned wastewater treatment plants. In December 2016, the EPA released its final report on the potential impacts of hydraulic fracturing on drinking water resources. The final report concluded that “water cycle” activities associated with hydraulic fracturing may impact drinking water resources under certain limited circumstances. In addition, the BLM finalized rules in March 2015 establishing stringent standards relating to hydraulic fracturing on federal and American Indian lands, including well casing and wastewater storage requirements and an obligation for exploration and production operators to disclose what chemicals they are using in fracturing activities. In December 2017, BLM issued a final rule repealing the 2015 hydraulic fracturing rule. The BLM’s rescission of the rule was challenged by several environmental groups and states in the United States District Court for the Northern District of California. The United States District Court for the Northern District of California upheld the BLM’s rescission in a March 2020 decision. Additionally, from time to time, legislation has been introduced, but not enacted, in Congress to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the fracturing process. Meanwhile, states have continued to regulate hydraulic fracturing.

In the event that new federal, state or local legal restrictions relating to the hydraulic fracturing process are adopted in areas where we operate, we may incur additional costs to comply with such requirements when horizontally completing wells, which may be significant in nature, and also could become subject to additional permitting requirements and experience added delays or curtailment in the pursuit of exploration, development, or production activities, which could in turn have a material adverse effect on our business and results of operations.

See “Business and Properties—Regulation of Environmental and Occupational Safety and Health Matters” for a further description of the laws and regulations that affect us.

Restrictions on drilling activities intended to protect certain species of wildlife may adversely affect our ability to conduct drilling activities in areas where we operate.

Oil and natural gas operations in our operating areas may be adversely affected by seasonal or permanent restrictions on drilling activities designed to protect various wildlife. Seasonal restrictions may limit our ability to operate in protected areas and can intensify competition for drilling rigs, equipment, services, supplies and qualified personnel, which may lead to periodic shortages when drilling is allowed. These constraints and the resulting shortages or high costs could delay our operations or materially increase our operating and capital costs. Permanent restrictions imposed to protect endangered species could prohibit drilling in certain areas or require the implementation of expensive mitigation measures. The designation of previously unprotected species in areas where we operate as threatened or endangered could cause us to incur increased costs arising from species protection measures or could result in limitations on our exploration and production activities that could have a material adverse impact on our ability to develop and produce our reserves. There is also increasing interest in nature-related matters beyond protected species, such as general biodiversity, which may similarly require us to incur costs or take other measures which may materially impact our business or operations.

The third parties on whom we rely for transportation services are subject to complex federal, state, tribal and local laws that could adversely affect the cost, manner or feasibility of conducting our business.

The operations of the third parties on whom we rely for transportation services are subject to complex and stringent laws and regulations that require obtaining and maintaining numerous permits, approvals and certifications from various federal, state, tribal and local government authorities. These third parties may incur substantial costs in order to comply with existing laws and regulations. If existing laws and regulations governing such third-party services are revised or reinterpreted, or if new laws and regulations become applicable to their operations, these changes may affect the costs that we pay for such services. Similarly, a failure to comply with such laws and regulations by the third parties on whom we rely could have a material adverse effect on our business, financial condition, results of operations and ability to make distributions to our unitholders. Please read “Business and Properties—Environmental Matters and Regulation” and “Business and Properties—Regulation of the Oil and Natural Gas Industry” for a description of the laws and regulations that affect the third parties on whom we rely.

Derivatives regulation could have an adverse effect on our ability to use derivative contracts to reduce the effect of commodity price, interest rate and other risks associated with our business.

The Dodd-Frank Act, enacted on July 21, 2010, established federal oversight and regulation of the over the counter derivatives market and of entities, such as us, that participate in that market. The Dodd-Frank Act requires the CFTC and the SEC to promulgate rules and regulations implementing the Dodd-Frank Act. In its rulemaking under the Dodd-Frank Act, the CFTC has adopted rules that place limits on positions in certain core futures and equivalent swaps contracts for or linked to certain physical commodities, subject to exceptions for certain bona fide hedging transactions. These limitations could increase the costs to us of entering into, or lessen the availability of, derivative contracts to hedge or mitigate our exposure to volatility in oil, gas and NGL prices and other commercial risks affecting our business. The Dodd-Frank Act and CFTC rules will also require us, in connection with certain derivatives activities, to comply with clearing and trade execution requirements (or to qualify for an exemption to such requirements). In addition, the CFTC and certain banking regulators have recently adopted final rules establishing minimum margin requirements for uncleared swaps. Although we expect to qualify for the end user exception to the mandatory clearing, trade execution and margin requirements for swaps entered to hedge our commercial risks, the application of such requirements to other market participants, such as swap dealers, may change the cost and availability of the swaps that we use for hedging. In addition, if any of our swaps do not qualify for the commercial end user exception, posting of collateral could impact liquidity and reduce cash available to us for capital expenditures, therefore reducing our ability to execute hedges to reduce risk and protect cash flow. It is not possible at this time to predict with certainty the full effects of the Dodd-Frank Act and CFTC rules on us or the timing of such effects. The Dodd-Frank Act and any new regulations could significantly increase the cost of derivative contracts, materially alter the terms of derivative contracts, reduce the availability of derivatives to protect against risks we encounter, and reduce our ability to monetize or restructure our existing derivative contracts. If we reduce our use of derivatives as a result of the Dodd-Frank Act and CFTC rules, our results of operations may become more volatile and our cash flows may be less predictable, which could adversely affect our ability to plan for and fund capital expenditures. Finally, the Dodd-Frank Act was intended, in part, to reduce the volatility of natural gas prices, which some legislators attributed to speculative trading in derivatives and commodity instruments related to natural gas. Our revenues could therefore be adversely affected if a consequence of the Dodd-Frank Act and CFTC rules is to lower commodity prices. Any of these consequences could have a material and adverse effect on us, our financial condition or our results of operations. In addition, the European Union and other

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non-U.S. jurisdictions are implementing regulations with respect to the derivatives market. To the extent we transact with counterparties in foreign jurisdictions, we may become subject to such regulations, the impact of which is not clear at this time.

We may be involved in legal proceedings that could result in substantial liabilities.

Like many oil and natural gas companies, we are, from time to time, involved in various legal and other proceedings in the ordinary course of our business, such as title, royalty or contractual disputes, regulatory compliance matters and personal injury or property damage matters. Such legal proceedings are inherently uncertain and their results cannot be predicted. Regardless of the outcome, such proceedings could have an adverse impact on us because of legal costs, diversion of management and other personnel and other factors. In addition, it is possible that a resolution of one or more such proceedings could result in liability, penalties or sanctions, as well as judgments, consent decrees or orders requiring a change in our business practices, which could materially and adversely affect our business, operating results and financial condition. Accruals for such liability, penalties or sanctions may be insufficient. Judgments and estimates to determine accruals or range of losses related to legal and other proceedings could change from one period to the next, and such changes could be material.

We may incur substantial losses and be subject to substantial liability claims as a result of our operations. Additionally, we may not be insured for, or our insurance may be inadequate to protect us against, these risks.

We are not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect our business, financial condition or results of operations.

Our exploration and production activities are subject to all of the operating risks associated with drilling for and producing oil, natural gas and NGLs, including the possibility of:

- environmental hazards, such as uncontrollable releases of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater, air and shoreline contamination;
- abnormally pressured formations;
- well blowouts;
- mechanical difficulties, such as stuck oilfield drilling and service tools and casing collapses;
- fires, explosions and ruptures of pipelines;
- personal injuries and death;
- natural disasters; and
- terrorist attacks targeting oil and natural gas related facilities and infrastructure.

Any of these risks could adversely affect our ability to conduct operations or result in substantial loss to us as a result of claims for:

- injury or loss of life;

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- damage to and destruction of property, natural resources and equipment;
- pollution and other environmental damage;
- regulatory investigations and penalties;
- suspension of our operations; and
- repair and remediation costs.

We may elect not to obtain insurance for any or all of these risks if we believe that the cost of available insurance is excessive relative to the risks presented. Moreover, insurance may not be available in the future at commercially reasonable costs and on commercially reasonable terms. Also, pollution and environmental risks generally are not fully insurable. The occurrence of an event that is not covered or fully covered by insurance and any delay in the payment of insurance proceeds for covered events could have a material adverse effect on our business, financial condition and results of operations.

Limitation or restrictions on our ability to obtain water may have an adverse effect on our operating results.

Water is an essential component of shale oil and natural gas development during both the drilling and hydraulic fracturing processes. Our access to water to be used in these processes may be adversely affected due to reasons such as periods of extended drought, private, third party competition for water in localized areas or the implementation of local or state governmental programs to monitor or restrict the beneficial use of water subject to their jurisdiction for hydraulic fracturing to assure adequate local water supplies. In addition, treatment and disposal of water is becoming more highly regulated and restricted. Thus, our costs for obtaining and disposing of water could increase significantly. In addition, the use, treatment and disposal of water has become a focus of certain investors and other stakeholders who may seek to engage with us on this and other environmental matters, which may result in activism, negative reputational impacts, increased costs or other adverse effects on our business, results of operations and financial condition. Our inability to locate or contractually acquire and sustain the receipt of sufficient amounts of water could adversely impact our exploration and production operations and have a corresponding adverse effect on our business, results of operations and financial condition.

Risks Inherent in an Investment in Us

Our general partner and its affiliates own a controlling interest in us and will have conflicts of interest with, and owe limited duties to, us, which may permit them to favor their own interests to the detriment of us and our unitholders.

Our general partner will have control over all decisions related to our operations. Upon consummation of this offering, Bob R. Simpson, our Chief Executive Officer, Brent W. Clum, our President of Business Operations and Chief Financial Officer, Keith A. Hutton, our President of Production and Development, and Vaughn O. Vennerberg II, our Executive Vice President, (collectively, the “Founders”) will own all of the membership interests in the sole member of our general partner. The Founders will also own an aggregate of approximately % of our outstanding common units. Although our general partner has a duty to manage us in a manner that is not adverse to the best interests of us and our unitholders, the executive officers and directors of our general partner also have a duty, in certain cases, to manage our general partner at the direction of MSOG, which is owned by the Founders. As a result of these relationships, conflicts of interest may arise in the future between the Founders and their respective affiliates, including our general

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partner, on the one hand, and us and our unitholders, on the other hand. In resolving these conflicts of interest, our general partner may favor its own interests and the interests of its affiliates over the interests of us and our common unitholders. These conflicts include, among others, the following:

- Our partnership agreement replaces the fiduciary duties that would otherwise be owed by our general partner with contractual standards governing its duties, limiting our general partner's liabilities and restricting the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty;
- Neither our partnership agreement nor any other agreement requires the Founders or their respective affiliates (other than our general partner) to pursue a business strategy that favors us;
- The Founders and their affiliates are not limited in their ability to compete with us, including with respect to future acquisition opportunities, and are under no obligation to offer or sell assets to us;
- Our general partner determines the amount and timing of our development operations and related capital expenditures, asset purchases and sales, borrowings, issuance of additional partnership interests, other investments, including investment capital expenditures in other partnerships with which our general partner is or may become affiliated, and cash reserves, each of which can affect the amount of cash that is distributed to unitholders;
- Except in limited circumstances, our general partner has the power and authority to conduct our business without unitholder approval;
- Our general partner determines which costs incurred by it and its affiliates are reimbursable by us;
- Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;
- Our general partner intends to limit its liability regarding our contractual and other obligations and, in some circumstances, is entitled to be indemnified by us;
- Our general partner may exercise its limited right to call and purchase common units if it and its affiliates own more than 80% of the common units;
- Our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates; and
- Our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

Please read "Certain Relationships and Related Party Transactions" and "Conflicts of Interest and Duties."

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Our partnership agreement does not restrict our Founders and their respective affiliates from competing with us. Certain of our directors and officers may in the future spend significant time serving, and may have significant duties with, investment partnerships or other private entities that compete with us in seeking out acquisitions and business opportunities and, accordingly, may have conflicts of interest in allocating time or pursuing business opportunities.

Our partnership agreement provides that our general partner is restricted from engaging in any business activities other than acting as our general partner and those activities incidental to its ownership of interests in us. Affiliates of our general partner are not prohibited from owning projects or engaging in businesses that compete directly or indirectly with us. Similarly, our partnership agreement does not limit our Founders' or their respective affiliates' ability to compete with us and our Founders do not have any obligation to present business opportunities to us.

In addition, certain of our officers and directors may in the future hold similar positions with investment partnerships or other private entities that are in the business of identifying and acquiring mineral and royalty interests. In such capacities, these individuals would likely devote significant time to such other businesses and would be compensated by such other businesses for the services rendered to them. The positions of these directors and officers may give rise to duties that are in conflict with duties owed to us. In addition, these individuals may become aware of business opportunities that may be appropriate for presentation to us as well as the other entities with which they are or may be affiliated. Due to these potential future affiliations, they may have duties to present potential business opportunities to those entities prior to presenting them to us, which could cause additional conflicts of interest. Our Founders and their respective affiliates will be under no obligation to make any acquisition opportunities available to us. See "Conflicts of Interest and Duties."

Under the terms of our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, does not apply to our general partner or any of its affiliates, including its executive officers and directors, our Founders and their respective affiliates. Any such person or entity that becomes aware of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us will not have any duty to communicate or offer such opportunity to us. Any such person or entity will not be liable to us or to any limited partner for breach of any fiduciary duty or other duty by reason of the fact that such person or entity pursues or acquires such opportunity for itself, directs such opportunity to another person or entity or does not communicate such opportunity or information to us. This may create actual and potential conflicts of interest between us and affiliates of our general partner and result in less than favorable treatment of us and holders of our common units.

Our partnership agreement requires that we distribute all of our available cash, which could limit our ability to grow our reserves and production and make acquisitions.

Our partnership agreement provides that we distribute each quarter all of our available cash, which we define as cash on hand at the end of the each quarter, less reserves established by our general partner. As a result, we expect to rely primarily upon our cash reserves and external financing sources, including the issuance of additional common units and other partnership securities and borrowings under our Credit Facility, to fund future acquisitions and finance our growth. To the extent we are unable to finance growth with our cash reserves and external sources of capital, the requirement in our partnership agreement to distribute all of our available cash may impair our ability to grow.

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A number of factors will affect our ability to issue securities and borrow money to finance growth, as well as the costs of such financings, including:

- general economic and market conditions, including interest rates, prevailing at the time we desire to issue securities or borrow funds;
- conditions in the oil and gas industry;
- the market price of, and demand for, our common units;
- our results of operations and financial condition; and
- prices for oil, natural gas and NGLs.

In addition, because we distribute all of our available cash, our growth may not be as fast as that of businesses that reinvest their available cash to expand ongoing operations. To the extent we issue additional units in connection with any acquisitions or expansion capital expenditures, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our per unit distribution level. There are no limitations in our partnership agreement or our Credit Facility on our ability to issue additional units, including units ranking senior to the common units. The incurrence of additional commercial borrowings or other debt to finance our growth strategy would result in increased interest expense, which, in turn, may impact the available cash that we have to distribute to our unitholders.

Our partnership agreement replaces our general partner's fiduciary duties to us and our unitholders with contractual standards governing its duties, and restricts the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that eliminate the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty law and replaces those duties with different contractual standards. For example, our partnership agreement provides that:

- whenever our general partner (acting in its capacity as our general partner), the Board or any committee thereof (including the conflicts committee) makes a determination or takes, or declines to take, any other action in their respective capacities, our general partner, the Board and any committee thereof (including the conflicts committee), as applicable, is required to make such determination, or take or decline to take such other action, in good faith, meaning that it subjectively believed that the decision was not adverse to our best interests, and, except as specifically provided by our partnership agreement, will not be subject to any other or different standard imposed by our partnership agreement, Delaware law, or any other law, rule or regulation, or equitable principle;
- our general partner may make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner, free of any duties to us and our unitholders other than the implied contractual covenant of good faith and fair dealing, which means that a court will enforce the reasonable expectations of the partners at the time our partnership agreement was entered into where the language in the partnership agreement does not provide for a clear course of action. This provision entitles our general partner to consider only the interests and factors that it desires and relieves it of any duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or our limited partners. Examples of decisions that our general partner may make in its individual capacity include:

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- how to allocate corporate opportunities among us and its other affiliates;
- whether to exercise its limited call right;
- whether to seek approval of the resolution of a conflict of interest by the conflicts committee of the Board;
- how to exercise its voting rights with respect to the units it owns;
- whether to sell or otherwise dispose of any units or other partnership interests it owns; and
- whether or not to consent to any merger or consolidation of the partnership or amendment to the partnership agreement.

- our general partner will not have any liability to us or our unitholders for breach of any duty in connection with decisions made in its capacity as general partner so long as it acted in good faith (meaning that it subjectively believed that the decision was not adverse to our best interest);

- our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or its officers and directors acted in bad faith or engaged in intentional fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal; and

- our general partner will not be in breach of its obligations under the partnership agreement (including any duties to us or our unitholders) if a transaction with an affiliate or the resolution of a conflict of interest is:
 - approved by the conflicts committee of the Board, although our general partner is not obligated to seek such approval;
 - approved by the vote of a majority of the outstanding common units, excluding any common units owned by our general partner and its affiliates;
 - determined by the Board to be on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or
 - determined by the Board to be fair and reasonable to us, taking into account the totality of the relationships among the parties involved, including other transactions that may be particularly favorable or advantageous to us.

In connection with a situation involving a transaction with an affiliate or a conflict of interest, any determination by our general partner or the conflicts committee must be made in good faith. If an affiliate transaction or the resolution of a conflict of interest is not approved by our common unitholders or the conflicts committee and the Board determines that the resolution or course of action taken with respect to the affiliate transaction or conflict of interest satisfies either of the standards set forth in the third and fourth sub-bullet points above, then it will be presumed that, in making its decision, the Board acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the Partnership challenging such determination, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

Increases in interest rates could adversely impact our unit price and our ability to issue additional equity and incur debt.

Interest rates on future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase. In addition, as with other yield-oriented securities, our unit price is impacted by the level of our cash distributions to our unitholders and implied distribution yield. This implied distribution yield is often used by investors to compare and rank similar yield-oriented securities for investment decision-making purposes. Therefore, changes in interest rates, either positive or negative, may affect the yield requirements of investors who invest in our common units, and a rising interest rate environment could have an adverse impact on our unit price and our ability to issue additional equity or incur debt. See “—Increased costs of capital could adversely affect our business.”

Our general partner may amend our partnership agreement, as it determines necessary or advisable, to permit the general partner to redeem the units of certain non-citizen unitholders.

Our general partner may amend our partnership agreement, as it determines necessary or advisable, to obtain proof of the U.S. federal income tax status and/or the nationality, citizenship or other related status of our limited partners (and their owners, to the extent relevant) and to permit our general partner to redeem the units held by any person (i) whose nationality, citizenship or related status creates substantial risk of cancellation or forfeiture of any of our property and/or (ii) who fails to comply with the procedures established to obtain such proof. The redemption price in the case of such a redemption will be the average of the daily closing prices per unit for the 20 consecutive trading days immediately prior to the date set for redemption. Please read “The Partnership Agreement—Non-Citizen Unitholders; Redemption.”

Our unitholders have limited voting rights and are not entitled to elect our general partner or the Board, which could reduce the price at which our common units will trade.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management’s decisions regarding our business. Our unitholders will have no right on an annual or ongoing basis to elect our general partner or its board of directors. The Board, including the independent directors, is chosen entirely by the Founders, as a result of their ownership of our general partner, and not by our unitholders. Please read “Management—Management of TXO Energy Partners” and “Certain Relationships and Related Party Transactions.” Unlike publicly traded corporations, we will not conduct annual meetings of our unitholders to elect directors or conduct other matters routinely conducted at annual meetings of stockholders of corporations. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Our general partner will have control over all decisions related to our operations. Since, upon consummation of this offering, our general partner will continue to be controlled by the Founders, who collectively with the other Existing Owners, will own and control the voting of an aggregate of approximately % of our outstanding common units, the other unitholders will not have an ability to influence any operating decisions and will not be able to prevent us from entering into any transactions. However, our partnership agreement can be amended with the consent of our general partner and the approval of the holders of a majority of our outstanding common units (including common units held by the Existing Owners and their affiliates). Assuming we do not issue any additional common units and the Existing Owners do not transfer any of their common units, the Existing Owners will have the ability to amend our partnership agreement, including our policy to distribute all of our cash available for distribution to our unitholders, without the approval of any other unitholder. Furthermore, the goals and objectives of the Existing Owners and

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their affiliates that hold our common units relating to us may not be consistent with those of a majority of the other unitholders. Please read “—Our general partner and its affiliates own a controlling interest in us and will have conflicts of interest with, and owe limited duties to, us, which may permit them to favor their own interests to the detriment of us and our unitholders.”

Even if our unitholders are dissatisfied, they cannot remove our general partner without its consent.

The public unitholders will be unable initially to remove our general partner without its consent because affiliates of our general partner will own sufficient units upon completion of this offering to be able to prevent the removal of our general partner. The vote of the holders of at least 66 2/3% of all outstanding units voting together as a single class is required to remove our general partner. Following consummation of this offering, the Founders will own approximately % of our outstanding voting units, which will enable those holders, collectively, to prevent the removal of our general partner.

Control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party without the consent of the unitholders. Furthermore, our partnership agreement does not restrict the ability of the Founders, who own MSOG, which wholly owns our general partner, from transferring all or a portion of their ownership interests in MSOG (or from causing MSOG to transfer all or a portion of its ownership interest in our general partner) to a third party. The new owner of our general partner would then be in a position to replace the Board and officers of our general partner with their own choices and thereby influence the decisions made by the Board and officers.

We may issue an unlimited number of additional units, including units that are senior to the common units, without unitholder approval.

Our partnership agreement does not limit the number of additional common units that we may issue at any time without the approval of our unitholders. In addition, we may issue an unlimited number of units that are senior to the common units in right of distribution, liquidation and voting. The issuance by us of additional common units or other equity interests of equal or senior rank will have the following effects:

- our unitholders' proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- the ratio of taxable income to distributions may increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of our common units may decline.

Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.

Our partnership agreement restricts unitholders' limited voting rights by providing that any common units held by a person, entity or group owning 20% or more of any class of common units then outstanding, other than our general partner, its affiliates, their transferees and persons who acquired such common units with the prior approval of the Board, cannot vote on any matter. Our partnership agreement also contains provisions limiting the ability of common unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the ability of our common unitholders to influence the manner or direction of management.

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Once our common units are publicly traded, the Existing Owners may sell common units in the public markets, which sales could have an adverse impact on the trading price of the common units.

After the sale of the common units offered hereby the Founders will own _____ common units, or approximately _____ % of our limited partner interest, and, the Existing Owners (including the Founders) will own _____ common units, or approximately _____ % of our limited partner interests. Under our partnership agreement, we have agreed to register for resale under the Securities Act and applicable state securities laws any common units or other partnership interests proposed to be sold by our general partner or any of its affiliates, which includes the Founders. Once our common units are publicly traded, the sale of these units in the public markets could have an adverse impact on the price of the common units or on any trading market that may develop.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the then outstanding common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price that is not less than their then-current market price, as calculated pursuant to the terms of our partnership agreement. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your common units. Our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon exercise of the limited call right. There is no restriction in our partnership agreement that prevents our general partner from causing us to issue additional common units and then exercising its call right. If our general partner exercises its limited call right, the effect would be to take us private and, if the units were subsequently deregistered, we would no longer be subject to the reporting requirements of the Exchange Act. At the closing of this offering, affiliates of our general partner will own approximately _____ % of our common units. For additional information about this call right, please read “The Partnership Agreement—Limited Call Right.”

Our partnership agreement will designate the Court of Chancery of the State of Delaware as the exclusive forum for certain types of actions and proceedings that may be initiated by our unitholders, which would limit our unitholders’ ability to choose the judicial forum for disputes with us or our general partner or its directors, officers or other employees.

Our partnership agreement will provide that, with certain limited exceptions, the Court of Chancery of the State of Delaware (or, if such court does not have subject matter jurisdiction thereof, any other court in the State of Delaware with subject matter jurisdiction) will be the exclusive forum for any claims, suits, actions or proceedings (1) arising out of or relating in any way to our partnership agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of our partnership agreement or the duties, obligations or liabilities among limited partners or of limited partners to us, or the rights or powers of, or restrictions on, the limited partners or us), (2) brought in a derivative manner on our behalf, (3) asserting a claim of breach of a duty owed by any director, officer or other employee of us or our general partner, or owed by our general partner, to us or the limited partners, (4) asserting a claim arising pursuant to any provision of the Delaware Revised Uniform Limited Partnership Act (the “Delaware Act”) or (5) asserting a claim against us governed by the internal affairs doctrine. The foregoing provision will not apply to any claims as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of such court, which is rested in the exclusive jurisdiction of a court or forum other than such court (including claims arising under the Exchange Act), or for which such court

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does not have subject matter jurisdiction, or to any claims arising under the Securities Act and, unless we consent in writing to the selection of an alternative forum, the United States federal district courts will be the sole and exclusive forum for resolving any action asserting a claim arising under the Securities Act. Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules or regulations thereunder. Accordingly, both state and federal courts have jurisdiction to entertain such Securities Act claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, the partnership agreement provides that, unless we consent in writing to the selection of an alternative forum, United States federal district courts shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. There is uncertainty as to whether a court would enforce the forum provision with respect to claims under the federal securities laws. If a court were to find these provisions of our amended and restated agreement of limited partnership inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

Our partnership agreement also provides that each limited partner waives the right to trial by jury in any such claim, suit, action or proceeding. If a lawsuit is brought against us under our partnership agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have, including results that could be less favorable to the plaintiffs in any such action. The waiver of the right to a jury trial is not intended to be deemed a waiver by any unitholder with respect to the partnership's compliance with U.S. federal securities laws and the rules and regulations promulgated thereunder. If the partnership or one of the partnership unitholders opposed a jury trial demand based on the waiver, the applicable court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with applicable state and federal laws. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the U.S. federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of Delaware, which govern our partnership agreement. By purchasing a common unit, a limited partner is irrevocably consenting to these limitations, provisions and obligations regarding claims, suits, actions or proceedings and submitting to the exclusive jurisdiction of the Court of Chancery of the State of Delaware (or such other court) in connection with any such claims, suits, actions or proceedings. These provisions may have the effect of discouraging lawsuits against us, our general partner and our general partner's directors and officers. For additional information about the exclusive forum provision of our partnership agreement, please read "The Partnership Agreement—Applicable Law; Forum, Venue and Jurisdiction."

The NYSE does not require a publicly traded partnership like us to comply, and we do not intend to comply, with certain of its governance requirements generally applicable to corporations.

We have applied to list our common units on the NYSE. Because we will be a publicly traded partnership, the NYSE does not require us to have a majority of independent directors on our general partner's board of directors or to establish a compensation committee or a nominating and corporate governance committee. Accordingly, unitholders will not have the same protections afforded to stockholders of certain corporations that are subject to all of the NYSE's corporate governance requirements. Please read "Management—Management of TXO Energy Partners"

Our unitholders' liability may not be limited if a court finds that unitholder action constitutes control of our business.

A general partner of a Delaware limited partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. A unitholder could be liable for our obligations as if it was a general partner if:

- a court or government agency determined that we were conducting business in a state but had not complied with that particular state's partnership statute; or
- a unitholder's right to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitutes "control" of our business.

Please read "The Partnership Agreement—Limited Liability" for a discussion of the implications of the limitations of liability on a unitholder.

Our unitholders may have liability to repay distributions that were wrongfully distributed to them.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make distributions to unitholders if the distribution would cause our liabilities to exceed the fair value of our assets. Liabilities to partners on account of their partnership interests and liabilities that are non-recourse to us are not counted for purposes of determining whether a distribution is permitted. Delaware law provides that for a period of three years from the date of an impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

Our unitholders may have limited liquidity for their common units, a trading market may not develop for the common units and our unitholders may not be able to resell their common units at the initial public offering price.

Prior to this offering, there has been no public market for the common units. After this offering, there will be publicly traded common units. We do not know the extent to which investor interest will lead to the development of a trading market or how liquid that market might be. Our unitholders may not be able to resell their common units at or above the initial public offering price. Additionally, a lack of liquidity would likely result in wide bid-ask spreads, contribute to significant fluctuations in the market price of the common units and limit the number of investors who are able to buy the common units.

If our common unit price declines after the initial public offering, our unitholders could lose a significant part of their investment.

The initial public offering price for the common units will be determined by negotiations between us and the representatives of the underwriters and may not be indicative of the market price of the common units that will prevail in the trading market. The market price of our common

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units could be subject to wide fluctuations in response to a number of factors, most of which we cannot control, including:

- changes in commodity prices;
- changes in securities analysts' recommendations and their estimates of our financial performance;
- public reaction to our press releases, announcements and filings with the SEC;
- fluctuations in broader securities market prices and volumes, particularly among securities of oil and natural gas companies and securities of publicly traded limited partnerships and limited liability companies;
- changes in market valuations of similar companies;
- departures of key personnel;
- commencement of or involvement in litigation;
- variations in our quarterly results of operations or those of other oil and natural gas companies;
- variations in the amount of our quarterly cash distributions to our unitholders;
- changes in tax law;
- an election by our general partner to convert or restructure us as a taxable entity;
- future issuances and sales of our common units; and
- changes in general conditions in the U.S. economy, financial markets or the oil and natural gas industry.

In recent years, the securities market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to the operating performance of these companies. Future market fluctuations may result in a lower price of our common units.

For as long as we are an emerging growth company, we will not be required to comply with certain reporting requirements that apply to other public companies, including those relating to auditing standards and disclosure about our executive compensation.

The JOBS Act contains provisions that, among other things, relax certain reporting requirements for "emerging growth companies," including certain requirements relating to auditing standards and compensation disclosure. We are classified as an emerging growth company. For as long as we are an emerging growth company, which may be up to five full fiscal years, unlike other public companies, we will not be required to, among other things, (1) provide an auditor's attestation report on management's assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002, (2) comply with any new requirements adopted by the Public Company Accounting Oversight Board ("PCAOB") requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer, (3) comply with any new audit rules adopted by the PCAOB after April 5, 2012 unless the SEC determines otherwise or (4) provide certain disclosure regarding executive compensation required of larger public companies.

Taking advantage of the longer phase-in periods for the adoption of new or revised financial accounting standards applicable to emerging growth companies may make our common units less attractive to investors.

We intend to take advantage of all of the reduced reporting requirements and exemptions available to emerging growth companies under the JOBS Act, including the longer phase-in periods for the adoption of new or revised financial accounting standards under Section 107 of the JOBS Act, until we are no longer an emerging growth company. If we were to subsequently elect instead to comply with these public company effective dates, such election would be irrevocable pursuant to Section 107 of the JOBS Act.

Our election to use the phase-in periods permitted by this election may make it difficult to compare our financial statements to those of non-emerging growth companies and other emerging growth companies that have opted out of the longer phase-in periods under Section 107 of the JOBS Act and who will comply with new or revised financial accounting standards. We cannot predict if investors will find our common units less attractive because we will rely on these exemptions. If some investors find our common units less attractive as a result, there may be a less active trading market for our common units and our common unit price may be more volatile. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies.

If we fail to develop or maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential unitholders could lose confidence in our financial reporting, which would harm our business and the trading price of our units.

Effective internal controls are necessary for us to provide reliable financial reports, prevent fraud and operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. We cannot be certain that our efforts to develop and maintain our internal controls will be successful, that we will be able to maintain adequate controls over our financial processes and reporting in the future or that we will be able to comply with our obligations under Section 404 of the Sarbanes-Oxley Act of 2002. Any failure to develop or maintain effective internal controls, or difficulties encountered in implementing or improving our internal controls, could harm our operating results or cause us to fail to meet our reporting obligations. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our units.

Our general partner may elect to convert or restructure us from a partnership to an entity taxable as a corporation for U.S. federal income tax purposes without unitholder consent.

Under our partnership agreement, our general partner may, without unitholder approval, cause us to be treated as an entity taxable as a corporation or subject to entity-level taxation for U.S. federal income tax purposes, whether by election of the partnership or conversion of the partnership or by any other means or methods. In addition and as part of such determination, affiliates of our general partner may choose to retain their partnership interests in us and cause us to enter into a transaction in which our interests held by other persons are converted into or exchanged for interests in a new entity, taxable as a corporation or subject to entity-level taxation for U.S. federal purposes, whose sole assets are interests in us. The general partner may take any of the foregoing actions if it in good faith determines (meaning it subjectively believes) that such action is not adverse to our best interests. Any such event may be taxable or nontaxable to our unitholders, depending on the form of the transaction. The tax liability, if any, of a unitholder as a result of such an event may be material to such unitholder and may vary depending on the unitholder's particular situation and may vary

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from the tax liability of us or of any affiliates of our general partner who choose to retain their partnership interests in us. Our general partner will have no duty or obligation to make any such determination or take any such actions, however, and may decline to do so free of any duty or obligation whatsoever to us or our limited partners, including any duty to act in a manner not adverse to the best interests of us or our limited partners. Please read “The Partnership Agreement—Election to be Treated as a Corporation.”

We will incur increased costs as a result of being a publicly traded partnership.

We have no history operating as a publicly traded partnership. As a publicly traded partnership, we will incur significant legal, accounting and other expenses that we did not incur prior to this offering. In addition, the Sarbanes-Oxley Act of 2002, as well as rules implemented by the SEC and the NYSE, require publicly traded entities to adopt various corporate governance practices that will further increase our costs. The amount of our expenses or reserves for expenses, including the costs of being a publicly traded partnership will reduce the amount of cash we have for distribution to our unitholders. As a result, the amount of cash we have available for distribution to our unitholders will be affected by the costs associated with being a public company.

Prior to this offering, we have not filed reports with the SEC. Following this offering, we will become subject to the public reporting requirements of the Exchange Act. We expect these rules and regulations to increase certain of our legal and financial compliance costs and to make activities more time-consuming and costly. For example, as a result of becoming a publicly traded company, we are required to have at least three independent directors, create an audit committee and adopt policies regarding internal controls and disclosure controls and procedures, including the preparation of reports on internal controls over financial reporting.

We also expect to incur additional expense in order to obtain director and officer liability insurance. Because of the limitations in coverage for directors, it may be more difficult for us to attract and retain qualified persons to serve on the Board or as executive officers than it was prior to this offering.

If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our units or if our operating results do not meet their expectations, our unit price could decline.

The trading market for our common units will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our unit price or trading volume to decline. Moreover, if one or more of the analysts who cover our company downgrades our common units or if our operating results do not meet their expectations, our unit price could decline.

Tax Risks to Common Unitholders

In addition to reading the following risk factors, prospective unitholders should read “Material U.S. Federal Income Tax Consequences” for a more complete discussion of the expected material federal income tax consequences of owning and disposing of our common units.

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the Internal Revenue Service (the “IRS”) were to treat us as a corporation for federal income tax purposes or if we were otherwise subject to a material amount of entity-level taxation, then cash available for distribution to our unitholders could be reduced.

The anticipated after-tax economic benefit of an investment in our common units depends largely on our being treated as a partnership for federal income tax purposes. Despite the fact that we are organized as a limited partnership under Delaware law, we will be treated as a corporation for federal income tax purposes unless we satisfy a “qualifying income” requirement. Based on our current operations, we believe we satisfy the qualifying income requirement. Failing to meet the qualifying income requirement or a change in current law could cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity. We have not requested, and do not plan to request, a ruling from the IRS with respect to our classification as a partnership for federal income tax purposes.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate and we would also likely pay additional state and local income taxes at varying rates. Distributions to our unitholders would generally be taxed again as corporate dividends, and no income, gains, losses or deductions would flow through to our unitholders. Because a tax would be imposed upon us as a corporation, the cash available for distribution to our unitholders could be reduced. Thus, treatment of us as a corporation could result in a reduction in the anticipated cash-flow and after-tax return to our unitholders, which would cause a reduction in the value of our common units.

At the state level, several states have been evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise, capital, and other forms of business taxes, as well as subjecting nonresident partners to taxation through the imposition of withholding obligations and composite, combined, group, block, or similar filing obligations on nonresident partners receiving a distributive share of state “sourced” income. We currently own property or do business in New Mexico, Texas and Colorado, among other states. Imposition on us of any of these taxes in jurisdictions in which we own assets or conduct business or an increase in the existing tax rates could result in a reduction in the anticipated cash-flow and after-tax return to our unitholders, which would cause a reduction in the value of our common units.

The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units, may be modified by administrative, legislative or judicial interpretation. From time to time, members of Congress propose and consider substantive changes to the existing federal income tax laws that affect publicly traded partnerships or an investment in our common units, including elimination of partnership tax treatment for certain publicly traded partnerships.

Any changes to federal income tax laws and interpretations thereof may or may not be applied retroactively and could make it more difficult or impossible for us to be treated as a partnership for federal income tax purposes or otherwise adversely affect our business, financial condition or results of operations. Any such changes or interpretations thereof could adversely impact the value of an investment in our common units.

Certain U.S. federal income tax incentives currently available with respect to oil and natural gas exploration and production may be reduced or eliminated as a result of future legislation.

In recent years, legislation has been proposed that would, if enacted, make significant changes to United States tax laws, including the reduction or elimination of certain key U.S. federal income tax incentives currently available to oil and natural gas exploration and production companies. These changes include, but are not limited to, (i) the repeal of the percentage depletion allowance for oil and natural gas properties, (ii) the elimination of current deductions for intangible drilling and development costs, and (iii) an extension of the amortization period for certain geological and geophysical expenditures. It is unclear whether these or similar changes will be enacted and, if enacted, how soon any such changes could become effective. The passage of any legislation as a result of these proposals or any other similar changes in U.S. federal income tax laws could eliminate or postpone certain tax deductions that are currently available with respect to oil and natural gas exploration and development, and any such change could increase the taxable income allocable to our unitholders and negatively impact the value of an investment in our units. Please Read “Material U.S. Federal Income Tax Consequences—Recent Legislative Developments.”

We will prorate our items of income, gain, loss and deduction between transferors and transferees of our common units each month based upon the ownership of our common units on the first day of each month, instead of on the basis of the date a particular common unit is transferred.

We will generally prorate our items of income, gain, loss and deduction between transferors and transferees of our common units each month based upon the ownership of the units on the first day of each month, instead of on the basis of the date a particular unit is transferred. Treasury Regulations allow a similar monthly simplifying convention, but such regulations do not specifically authorize all aspects of our proration method. If the IRS were to successfully challenge our proration method, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders. Please read “Material U.S. Federal Income Tax Consequences—Disposition of Common Units—Allocations Between Transferors and Transferees.”

A successful IRS contest of the federal income tax positions we take may adversely impact the market for our common units and the cost of any IRS contest will reduce our cash available for distribution to unitholders.

The IRS has made no determination as to our status as a partnership for U.S. federal income tax purposes. The IRS may adopt positions that differ from the positions we take, even positions taken with advice of counsel. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we take and such positions may not ultimately be sustained. A court may not agree with some or all of the positions we take. As a result, any such contest with the IRS may materially and adversely impact the market for our common units and the price at which our common units trade. In addition, our costs of any contest with the IRS, principally legal, accounting and related fees, will be indirectly borne by our unitholders because the costs will reduce our cash available for distribution.

If the IRS makes audit adjustments to our income tax returns, it (and some states) may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustment directly from us, in which case we would pay the taxes directly to the IRS. If we bear such payment, our cash available for distribution to our unitholders might be substantially reduced.

Pursuant to the Bipartisan Budget Act of 2015, if the IRS makes audit adjustments to our income tax returns, it (and some states) may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustment directly from us. Our general partner

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would cause us to pay the taxes (including any applicable penalties and interest) directly to the IRS. As a result, our current unitholders may bear some or all of the tax liability resulting from such audit adjustment, even if such unitholders did not own common units in us during the tax year under audit. If, as a result of any such audit adjustment, we are required to make payments of taxes, penalties and interest, our cash available for distribution to our unitholders might be substantially reduced.

Our unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

Because our unitholders will be treated as partners to whom we will allocate taxable income which could be different in amount from the cash that we distribute, our unitholders may be required to pay federal income taxes and, in some cases, state and local income taxes on their share of our taxable income, whether or not they receive any cash distributions from us. Our common unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability resulting from their share of our taxable income.

Tax gains or losses on the disposition of our common units could be more or less than expected.

If our unitholders sell their common units, they will recognize a gain or loss equal to the difference between the amount realized and their tax basis in those common units. Because distributions in excess of a unitholder's allocable share of our net taxable income decrease the unitholder's tax basis in the unitholder's common units, the amount, if any, of such prior excess distributions with respect to the common units a unitholder sells will, in effect, become taxable income to the unitholder if the unitholder sells such common units at a price greater than the unitholder's tax basis in those common units, even if the price received is less than the unitholder's original cost. A substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture items such as depreciation, depletion, amortization and IDCs. In addition, because the amount realized may include a unitholder's share of our nonrecourse liabilities, a unitholder that sells common units may incur a tax liability in excess of the amount of the cash received from the sale. Please read "Material U.S. Federal Income Tax Consequences—Disposition of Common Units—Recognition of Gain or Loss."

Unitholders may be subject to limitation on their ability to deduct interest expense incurred by us.

Our ability to deduct interest paid or accrued on indebtedness properly allocable to a trade or business ("business interest") may be limited in certain circumstances. Should our ability to deduct business interest be limited, the amount of taxable income allocated to our unitholders in the taxable year in which the limitation is in effect may increase. However, in certain circumstances, a unitholder may be able to utilize a portion of a business interest deduction subject to this limitation in future taxable years. Prospective unitholders should consult their tax advisors regarding the impact of this business interest deduction limitation on an investment in our common units.

Tax-exempt entities face unique tax issues from owning our common units that may result in adverse tax consequences to them.

Investments in our common units by tax-exempt entities, such as individual retirement accounts ("IRAs") or other retirement plans, and non-U.S. persons raise issues unique to them. For example, virtually all of our income allocated to unitholders who are organizations exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. A tax-exempt entity with more than one unrelated trade or

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business (including by attribution from investment in a partnership such as ours) is required to compute the unrelated business taxable income of such tax-exempt entity separately with respect to each such trade or business (including for purposes of determining any net operating loss deduction). As a result, it may not be possible for tax-exempt entities to utilize losses from an investment in our partnership to offset unrelated business taxable income from another unrelated trade or business and vice versa. Tax-exempt entities should consult a tax advisor regarding the impact of these rules on an investment in our common units. Please read “Material U.S. Federal Income Tax Consequences—Tax-Exempt Organizations and other Investors.”

Non-U.S. unitholders will be subject to U.S. taxes and withholding with respect to their income and gain from owning our common units.

Non-U.S. unitholders are generally taxed and subject to income tax filing requirements by the United States on income effectively connected with a U.S. trade or business (“effectively connected income”). Income allocated to our unitholders and any gain from the sale of our common units will generally be considered to be “effectively connected” with a U.S. trade or business. As a result, distributions to a non-U.S. unitholder will be subject to withholding at the highest applicable effective tax rate and a non-U.S. unitholder who sells or otherwise disposes of a common unit will also be subject to U.S. federal income tax on the gain realized from the sale or disposition of that common unit.

Moreover, upon the sale, exchange or other disposition of a common unit by a non-U.S. unitholder, the transferee is generally required to withhold 10% of the amount realized on such sale, exchange or other disposition if any portion of the gain on such sale, exchange or other disposition would be treated as effectively connected with a U.S. trade or business. The U.S. Department of the Treasury and the IRS have issued final regulations providing guidance on the application of these rules for transfers of certain publicly traded partnership interests, including transfers of our common units. Under these regulations, the “amount realized” on a transfer of our common units will generally be the amount of gross proceeds paid to the broker effecting the applicable transfer on behalf of the transferor, and such broker will generally be responsible for the relevant withholding obligations. Distributions to non-U.S. unitholders may also be subject to additional withholding under these rules to the extent a portion of a distribution is attributable to an amount in excess of our cumulative net income that has not previously been distributed. The U.S. Department of the Treasury and the IRS have provided that these rules will generally not apply to transfers of our common units occurring before January 1, 2023. Non-U.S. unitholders should consult their tax advisors regarding the impact of these rules on an investment in our common units. Please read “Material U.S. Federal Income Tax Consequences—Tax-Exempt Organizations and other Investors.”

We will treat each purchaser of our common units as having the same tax benefits without regard to the common units purchased. The IRS may challenge this treatment, which could adversely affect the value of our common units.

Because we cannot match transferors and transferees of common units, we will adopt depreciation, depletion and amortization positions that may not conform to all aspects of existing Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to a common unitholder. It also could affect the timing of these tax benefits or the amount of gain from a sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to the unitholder’s tax returns.

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Our common unitholders will likely be subject to state and local taxes and return filing requirements in states where they do not live as a result of an investment in our common units.

In addition to federal income taxes, our common unitholders will likely be subject to other taxes, such as state and local income taxes, unincorporated business taxes and estate, inheritance or intangible taxes imposed by the various jurisdictions in which we do business or own property now or in the future, even if the unitholder does not live in any of those jurisdictions. Our common unitholders will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, our unitholders may be subject to penalties for failure to comply with those requirements. We currently own property or conduct business in New Mexico, Texas and Colorado, among other states. New Mexico and Colorado each impose a personal income tax. Texas does not currently impose a personal income tax on individuals, but it does impose an entity level tax (to which we will be subject) on corporations and other entities. As we make acquisitions or expand our business, we may control assets or conduct business in additional states that impose a personal or corporate income tax. It is the responsibility of each unitholder to file its own federal, state and local tax returns, as applicable.

A unitholder whose common units are the subject of a securities loan (e.g., a loan to a “short seller” to cover a short sale of common units) may be considered as having disposed of those common units. If so, the unitholder would no longer be treated for tax purposes as a partner with respect to those common units during the period of the loan and may recognize gain or loss from the disposition.

Because there are no specific rules governing the U.S. federal income tax consequence of loaning a partnership interest, a unitholder whose common units are the subject of a securities loan may be considered to have disposed of the loaned units. In that case, the unitholder may no longer be treated for tax purposes as a partner with respect to those common units during the period of the loan and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan, any of our income, gain, loss or deduction with respect to those common units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those common units could be fully taxable as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a securities loan are urged to consult a tax advisor to determine whether it is advisable to modify any applicable brokerage account agreements to prohibit their brokers from lending their common units.

We will adopt certain valuation methodologies in determining a unitholder’s allocations of income, gain, loss and deduction. The IRS may challenge these methods or the resulting allocations and such a challenge could adversely affect the value of our common units.

In determining the items of income, gain, loss and deduction allocable to our unitholders, we must routinely determine the fair market value of our respective assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we will make fair market value estimates using a methodology based on the market value of our common units as a means to measure the fair market value of our respective assets. The IRS may challenge these valuation methods and the resulting allocations of income, gain, loss and deduction.

A successful IRS challenge to these methods or allocations could adversely affect the amount, character and timing of taxable income or loss being allocated to our unitholders. It also could affect the amount of gain from our unitholders’ sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders’ tax returns without the benefit of additional deductions.

USE OF PROCEEDS

We intend to use the expected net proceeds of approximately \$ _____ million from this offering, based upon the assumed initial public offering price of \$ _____ per common unit (the mid-point of the price range set forth on the cover of this prospectus), after deducting underwriting discounts and estimated expenses, to repay in full amounts outstanding under our revolving credit facility (our “Credit Facility”) and under our loan with Cross Timbers, with any remaining amounts to be used for working capital and general partnership purposes.

If and to the extent the underwriters exercise their option to purchase additional common units, the number of common units purchased by the underwriters pursuant to such exercise will be issued to the public. If the underwriters exercise their option to purchase additional common units in full, the additional net proceeds would be approximately \$ _____ million. The net proceeds from any exercise of such option will be used for general partnership purposes. Please read “Underwriting.”

As of June 30, 2022, we had \$92 million of outstanding borrowings under our Credit Facility, which has a maturity date of November 1, 2025. Borrowings outstanding under our Credit Facility bore interest at a weighted average rate of 4.7% per annum as of June 30, 2022. The outstanding borrowings under our Credit Facility were incurred to partially fund the acquisition of the Vacuum Properties.

As of June 30, 2022, we had \$7.1 million of outstanding borrowings under our loan with Cross Timbers, which has a maturity date of January 31, 2026. Our loan with Cross Timbers Energy bears interest at a weighted average rate of 4.4% per annum as of June 30, 2022.

A \$1.00 increase or decrease in the assumed initial public offering price of \$ _____ per common unit would cause the net proceeds from this offering, after deducting underwriting discounts and estimated offering expenses payable by us, to increase or decrease, respectively, by approximately \$ _____ million. In addition, we may also increase or decrease the number of common units we are offering. Each increase of _____ million common units offered by us, together with a concurrent \$1.00 increase in the assumed public offering price of \$ _____ per common unit, would increase net proceeds to us from this offering by approximately \$ _____ million. Similarly, each decrease of _____ million common units offered by us, together with a concurrent \$1.00 decrease in the assumed initial offering price of \$ _____ per common unit, would decrease the net proceeds to us from this offering by approximately \$ _____ million.

The sources and use of our proceeds may differ from those set forth above. The foregoing represents our current intentions with respect to the use and allocation of the net proceeds of this offering based upon our present plans and business condition, but our management will have significant flexibility and discretion in applying the net proceeds. The occurrence of unforeseen events or changed business conditions could result in application of the net proceeds of this offering in a manner other than as described in this prospectus.

CAPITALIZATION

The following table shows:

- historical capitalization as of June 30, 2022; and
- our capitalization as of June 30, 2022 as adjusted to give effect to (i) the Reorganization Transactions and (ii) this offering and the application of the net proceeds from this offering as described under “Use of Proceeds.”

We derived this table from, and it should be read in conjunction with and is qualified in its entirety by reference to, our historical and unaudited pro forma financial statements and the accompanying notes included elsewhere in this prospectus. You should also read this table in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” For a description of the pro forma adjustments, please read our Unaudited Pro Forma Condensed Financial Statements.

	As of June 30, 2022 <u>(Historical)</u>	As of June 30, 2022 <u>(As Adjusted)</u>
	<u>(In thousands)</u>	
Cash and cash equivalents	\$ 8,021	<u> </u>
Long-term debt(1)	\$ 99,100	<u> </u>
Members’/partners’ capital/net equity:		
Common equity held by public	—	<u> </u>
Common equity held by the Existing Owners	\$ 253,405	<u> </u>
Series 3 Preferred Equity(2)(3)	\$ 34,295	<u> </u>
Series 5 Preferred Equity(3)	\$ 206,074	<u> </u>
Total members’/partners’ capital/net equity	\$ 493,774	<u> </u>
Total capitalization	\$ 592,874	<u> </u>

(1) As of _____, 2022, we had \$ _____ million in outstanding borrowings under our Credit Facility.

(2) The Series 3 Preferred Units will automatically convert into common units on October 1, 2022.

(3) Each of the Series 3 warrants and Series 5 Preferred Units will be exchanged into common units in connection with the Reorganization Transactions.

DILUTION

Dilution is the amount by which the offering price paid by the purchasers of common units sold in this offering will exceed the net tangible book value per unit after this offering. Net tangible book value is our total tangible assets less total liabilities. Assuming an initial offering price of \$ per common unit (the midpoint of the price range set forth on the cover of this prospectus), on a pro forma basis as of June 30, 2022, after giving effect to this offering of common units and the application of the related net proceeds, our net tangible book value would have been \$ million, or \$ per unit. Purchasers of common units in this offering will experience substantial and immediate dilution in net tangible book value per common unit for accounting purposes, as illustrated in the following table:

Assumed initial public offering price per common unit	\$	\$
Pro forma net tangible book value per unit before this offering ⁽¹⁾	\$	\$
Decrease in net tangible book value per unit attributable to purchasers in the offering		
Less: Pro forma net tangible book value per unit after this offering ⁽²⁾		
Immediate dilution in tangible net book value per common unit to purchasers in the offering ⁽³⁾⁽⁴⁾	\$	\$

- (1) Determined by dividing the pro forma net tangible book value of our net assets immediately prior to the offering by the number of common units to be issued to the Founders and the general partner.
- (2) Determined by dividing our pro forma as adjusted net tangible book value, after giving effect to the application of the net proceeds of this offering, by the total number of units to be outstanding after this offering (common units and general partner units).
- (3) If the initial public offering price were to increase or decrease by \$1.00 per common unit, then dilution in net tangible book value per common unit would equal \$ and \$, respectively.
- (4) Because the total number of units outstanding following the consummation of this offering will be impacted by any exercise of the underwriters' option to purchase additional common units and any net proceeds from such exercise will be retained by us, there will be a change to the dilution in net tangible book value per common unit to purchasers in the offering due to any such exercise of the underwriters' option to purchase additional common units.

The following table sets forth the number of units that we will issue and the total consideration contributed to us by our general partner and its affiliates, including the Founders, and by the purchasers of common units in this offering upon the closing of the transactions contemplated by this prospectus:

	<u>Units Acquired</u>		<u>Total Consideration</u>	
	<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
			<u>(in thousands)</u>	
General partner and affiliates ⁽¹⁾		%		%
Purchasers in the offering ⁽²⁾		%		%
Total		100.0%		100.0%

- (1) Upon the consummation of the transactions contemplated by this prospectus, and assuming the underwriters do not exercise their option to purchase additional common units, our general partner, its owners and their affiliates will own common units and non-economic general partner units.
- (2) Total consideration is after deducting underwriting discounts and estimated offering expenses.

OUR CASH DISTRIBUTION POLICY AND RESTRICTIONS ON DISTRIBUTIONS

You should read the following discussion of our cash distribution policy in conjunction with the factors and assumptions upon which our cash distribution policy is based, which are included under the heading “—Assumptions and Considerations” below. In addition, you should read “Forward-Looking Statements” and “Risk Factors” for information regarding statements that do not relate strictly to historical or current facts and certain risks inherent in our business.

General

Our Cash Distribution Policy

Our partnership agreement requires us to distribute all of our available cash each quarter. Our cash distribution policy reflects a basic judgment that our unitholders generally will be better served by us distributing our available cash, after expenses and reserves, rather than retaining it. Under our current cash distribution policy, initially we intend to make quarterly distributions on our common units of \$ per unit, or \$ per unit on an annualized basis, to the extent we have sufficient available cash after the establishment of cash reserves and the payment of costs and expenses, including the payment of expenses to our general partner. However, other than the requirement in our partnership agreement to distribute all of our available cash each quarter, we have no legal obligation to make quarterly cash distributions from our available cash in the aforementioned or any other amount, and our general partner has considerable discretion to determine the amount of cash available for distribution each quarter. Generally, we define available cash as the sum of our (i) cash on hand at the end of a quarter after the payment of our expenses and the establishment of cash reserves, (ii) cash on hand on the date on which our general partner determines the amount of cash available for distribution, which we refer to as the date of determination, resulting from dividends or distributions received after the end of the quarter from equity interests in any person other than a subsidiary in respect of operations conducted by such person during the quarter, and (iii) if our general partner so determines, cash on hand at the date of determination resulting from working capital borrowings made after the end of the quarter. We may, but are under no obligation to, borrow funds to make quarterly distributions to unitholders, for example, in circumstances where we believe that the distribution level is sustainable over the long-term, but short-term factors have caused available cash from operations to be insufficient to pay the distribution at the current level. Because we are not subject to an entity-level federal income tax, we expect to have more cash to distribute to our unitholders than would be the case if we were subject to such federal income tax.

Because our policy will be to distribute all available cash we generate each quarter, without reserving cash for future distributions or borrowing to pay distributions during periods of low revenue, our unitholders will have direct exposure to fluctuations in the amount of cash generated by our business. Our quarterly cash distributions from our available cash, if any, will not be stable and will vary from quarter to quarter as a direct result of variations in the performance of our operators and revenue caused by fluctuations in the prices of oil and natural gas. Such variations may be significant.

Available cash generally means, for any quarter, all cash and cash equivalents on hand at the end of that quarter:

less, the amount of cash reserves established by our general partner to:

- provide for the proper conduct of our business, which could include, but is not limited to, amounts reserved for capital expenditures, working capital and operating expenses;
- comply with applicable law, any of our debt instruments or other agreements; or
- provide funds for distributions to our unitholders for any one or more of the next four quarters;

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plus, all cash on hand on the date of determination resulting from dividends or distributions received after the end of the quarter from equity interests in any person other than a subsidiary in respect of operations conducted by such person during the quarter;

plus, if our general partner so determines, all or a portion of cash on hand on the date of determination resulting from working capital borrowings made after the end of the quarter.

The purpose and effect of the last bullet point above is to allow our general partner, if it so decides, to use cash from working capital borrowings made after the end of the quarter but on or before the date of determination of available cash for that quarter to pay distributions to unitholders. Working capital borrowings are generally borrowings that are made under a credit facility, commercial paper facility or similar financing arrangement and in all cases are used solely for working capital purposes or to pay distributions to partners and with the intent of the borrower to repay such borrowings within twelve months from sources other than additional working capital borrowings.

Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy

Although our partnership agreement requires that we distribute all of our available cash quarterly, there is no guarantee that we will make quarterly cash distributions from our available cash to our unitholders at the level currently estimated or at all, and we have no legal obligation to do so. Our current cash distribution policy is subject to certain restrictions, as well as the considerable discretion of our general partner in determining the amount of our available cash each quarter. The following factors will affect our ability to make cash distributions, as well as the amount of any cash distributions we make:

- Our cash distribution policy may be subject to restrictions on distributions under our Credit Facility or other debt agreements that we may enter into in the future. Specifically, our Credit Facility contains financial tests and covenants that we must satisfy. These financial tests and covenants are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Revolving credit agreement.” Should we be unable to satisfy these restrictions, or if a default occurs under our Credit Facility, we would be prohibited from making cash distributions to our unitholders notwithstanding our stated cash distribution policy. Any future indebtedness may contain similar or more stringent restrictions.
- The amount of cash that we distribute and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement. Specifically, our general partner will have the authority to establish cash reserves for the prudent conduct of our business and for future cash distributions to our unitholders, and the establishment of or increase in those reserves could result in a reduction in cash distributions from levels we currently anticipate pursuant to our stated cash distribution policy. Any decision to establish cash reserves made by our general partner in good faith will be binding on our unitholders. If our general partner does not set aside sufficient cash reserves or make sufficient cash expenditures to maintain the current production levels over the long-term of our oil and natural gas properties, we will be unable to pay any cash distributions from cash generated from operations. We are unlikely to be able to sustain our current level of distributions without making accretive acquisitions or capital expenditures that maintain the current production levels of our oil and natural gas properties. Decreases in commodity prices from current levels will adversely affect our ability to pay distributions. If our asset base decreases and we do not reduce our distributions, a portion of the distributions may have the effect of, and may effectively represent, a return of part of our unitholders’ investment in us as opposed to a return on our unitholders’ investment.

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- Prior to making any distribution on our common units, we will reimburse our general partner and its affiliates for all direct and indirect expenses they incur on our behalf. Our partnership agreement does not set a limit on the amount of expenses for which our general partner and its affiliates may be reimbursed. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for us or on our behalf and expenses allocated to our general partner by its affiliates. Our partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us. The reimbursement of expenses and payment of fees, if any, to our general partner and its affiliates will reduce the amount of cash available to pay cash distributions to our unitholders.
- Although our partnership agreement requires us to distribute all of our available cash each quarter, our partnership agreement, including the provisions requiring us to make cash distributions contained therein, may be amended. Our partnership agreement generally may be amended with the consent of our general partner and the approval of the holders of a majority of our outstanding common units (including common units held by affiliates of our general partner). At the closing of this offering, the Founders will control our general partner, and the Existing Owners (including the Founders) will own approximately % of our outstanding common units. For more information, please read “The Partnership Agreement—Amendment of the Partnership Agreement.”
- Even if our cash distribution policy is not modified or revoked, the amount of distributions we pay under our cash distribution policy and the decision to make any distribution is determined by our general partner.
- Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to our unitholders if the distribution would cause our liabilities to exceed the fair value of our assets.
- We may lack sufficient cash to pay distributions to our unitholders due to a number of factors, including decreases in commodity prices, decreases in our oil and natural gas production, or increases in our general and administrative expenses, principal and interest payments on our outstanding debt, tax expenses, working capital requirements or anticipated cash needs.
- We own a 50% interest in Cross Timbers, with the other 50% owned by the XTO entities. Pursuant to the JV LLCA, Cross Timbers is managed by us and governed by a member management committee comprised of six members, three of whom are appointed by us and three of whom are appointed by the XTO Entities. Cross Timbers is required to distribute all net cash flow to the members of Cross Timbers pro rata in accordance with their respective membership interests on a quarterly basis pursuant to the JV LLCA, with such net cash flow being calculated net of reserves for reasonable and prudent operations as determined by the majority of the management committee. Therefore, we do not have sole control of the amount of distributions to be made by Cross Timbers.
- If and to the extent our cash available for distribution materially declines, we may reduce our quarterly distribution in order to service or repay our debt or fund maintenance or growth capital expenditures.
- We will not have a minimum quarterly distribution. Furthermore, none of our limited partner interests, including those held by the Founders or Existing Owners, will be subordinate in right of payment to the common units sold in this offering.

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- Our general partner may reduce our distributions if action is taken by our general partner as described under “Our Partnership Agreement—Election to be treated as a Corporation” that results in our becoming taxable as a corporation or otherwise subject to taxation as an entity for federal income tax purposes. In such an event, the distribution levels may be reduced to account for any current and future estimated tax liabilities we would incur as a corporation. The distributions will also be proportionately adjusted in the event of any distribution, combination or subdivision of common units in accordance with the partnership agreement. Please read “Provisions of Our Partnership Agreement Relating to Cash Distributions.”

Our Partnership Agreement Requires That We Distribute All of Our Available Cash, Which Could Limit Our Ability to Grow

Our partnership agreement requires us to distribute all of our available cash to our unitholders on a quarterly basis. As a result, our growth may not be as fast as the growth of businesses that reinvest all of their available cash to expand ongoing operations. Further, we may rely upon our cash reserves (including the net proceeds that we will retain from this offering) and external financing sources, including borrowings under our Credit Facility (under which no amounts will be outstanding at the closing of this offering) and the issuance of debt and equity securities, to fund future acquisitions and other expansion capital expenditures. Our management has collectively invested more than \$500 million in us since our inception. Following the completion of this offering, we expect that we will not be able to rely on our management or our partners for capital and will need to utilize the public equity or debt markets and bank financings to fund acquisitions and capital expenditures. To the extent we require external sources of capital to fund our growth and are unable to access such sources, the requirement in our partnership agreement to distribute all of our available cash and our current cash distribution policy may impair our ability to grow. Our Credit Facility limits, and any future debt agreements may limit, our ability to incur additional debt, including through the issuance of debt securities. Please read “Risk Factors—Risks Related to Our Business and the Oil, Natural Gas and NGL Industry—Our Credit Facility has restrictions and financial covenants that may restrict our business and financing activities and our ability to pay distributions to our unitholders.” To the extent we issue additional units, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our cash distributions per unit. There are no limitations in our partnership agreement on our ability to issue additional units, including units ranking senior to our common units, and our unitholders will have no preemptive or other rights (solely as a result of their status as unitholders) to purchase any such additional units. If we incur additional debt to finance our growth strategy, we will have increased interest expense, which in turn will reduce the available cash that we have to distribute to our unitholders. Please read “Risk Factors —Risks Related to Our Business and the Oil, Natural Gas and NGL Industry—Increases in interest rate could adversely impact our unit price and our ability to issue additional equity and incur debt.”

Unaudited Pro Forma Cash Available for Distribution for the Year Ended December 31, 2021 and the Twelve Months Ended June 30, 2022

On a pro forma basis, assuming we had completed this offering on January 1, 2021, our cash available for distribution for the year ended December 31, 2021 and the twelve months ended June 30, 2022 would have been approximately \$90.6 million and \$125.0 million, respectively. This amount would have been sufficient to pay a cash distribution of \$ per unit per quarter (\$ on an annualized basis) during the year ended December 31, 2021, and a cash distribution of \$ per unit per quarter (\$ on an annualized basis) during the twelve-month period ended June 30, 2022.

The unaudited pro forma financial data does not give pro forma effect to the incremental general and administrative expenses that we expect to incur annually as a result of being a publicly traded partnership. We estimate that these incremental general and administrative

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expenses initially will be approximately \$3.0 million per year. Such incremental general and administrative expenses are not reflected in our historical or pro forma financial statements. Our unaudited pro forma cash available for distribution does not include the Andrews Parker acquisition for the period prior to the acquisition or the Additional Interest Vacuum Acquisition in August 2022, and only gives effect to the Andrews Parker acquisition for results from and after the date of acquisition, December 30, 2021.

The pro forma financial statements, from which pro forma cash available for distribution is derived, do not purport to present our results of operations had the transactions contemplated in this prospectus actually been completed as of the dates indicated. Furthermore, cash available for distribution is a cash accounting concept, while our unaudited pro forma financial statements have been prepared on an accrual basis. We derived the amounts of pro forma cash available for distribution stated above in the manner described in the table below. As a result, the amount of pro forma cash available for distribution should only be viewed as a general indication of the amount of cash available for distribution that we might have generated had we been formed and completed the transactions contemplated in this prospectus in earlier periods.

The following table illustrates, on an unaudited pro forma basis for the year ended December 31, 2021 and the twelve months ended June 30, 2022, the amount of available cash that would have been available for distribution to our unitholders, assuming in each case that this offering had been consummated on January 1, 2021.

TXO Energy Partners, L.P. Unaudited Pro Forma Cash Available for Distribution

	Pro Forma	
	Year Ended December 31, 2021	Twelve Months Ended June 30, 2022
	(in thousands, except per unit data)	
Net Income(1)	\$ 65,720	\$ 967
Interest Expense, Net	2,844	2,863
DD&A	47,651	43,605
Impairment Expenses	—	—
Accretion of Discount on Asset Retirement	4,962	5,347
Exploration Expense	124	255
Non-Cash Derivative (Gain)/Loss	(8,977)	83,184
Other Non-Cash (Gain)/Loss	(8,686)	(2,564)
Adjusted EBITDAX(2)	\$ 103,637	\$ 133,658
Development Costs	(8,372)	(4,985)
Cash Interest Expense, Net	(1,493)	(1,484)
Exploration Expense	(124)	(255)
Public Company Expense	(3,000)	(3,000)
Non-Recurring (Gain)/Loss	—	1,029
Cash Available for Distribution(3)	\$ 90,648	\$ 124,963

Pro Forma Annualized distributions per unit

Pro Forma	
Year Ended December 31, 2021	Twelve Months Ended June 30, 2022

(in thousands, except per unit data)

Pro Forma Estimated annual cash distributions:

Distributions on common units held by purchasers in this offering

Distributions on common units held by affiliates of our general partner

Total estimated annual cash distributions

- (1) Includes the forecasted effect of cash settlements of commodity derivative instruments. This amount does not include unrealized commodity derivative gains (losses), as such amounts represent non-cash items and cannot be reasonably estimated in the forecast period.
- (2) Adjusted EBITDAX is defined in “Prospectus Summary—Non-GAAP Financial Measures.”
- (3) Cash available for distribution is defined in “Prospectus Summary—Non-GAAP Financial Measures.”

Estimated Cash Available for Distribution for the Twelve Months Ending June 30, 2023

The financial forecast presents, to the best of our knowledge and belief, our expected results of operations, Adjusted EBITDAX and cash available for distribution for the twelve months ending June 30, 2023. Based upon the assumptions and considerations set forth in the table below, we estimate that we will generate \$128.9 million in cash available for distribution for the twelve months ending June 30, 2023, which would be sufficient to pay cash distributions of \$ _____ per common unit. The number of outstanding common units on which we have based such belief does not include any common units that may be issued under the long-term incentive plan that our general partner is expected to adopt prior to the closing of this offering. Furthermore, the financial forecast assumes that we do not make any acquisitions of properties during the twelve months ending June 30, 2023.

Our Statement of Estimated Adjusted EBITDAX reflects our judgment, as of the date of this prospectus, of conditions we expect to exist and the course of action we expect to take in order to be able to generate cash available for distribution in the amount of \$ _____ per common unit, or \$128.9 million in the aggregate for the twelve months ending June 30, 2023. The assumptions discussed below under “—Assumptions and Considerations” are those that we believe are significant to our ability to generate the requisite Adjusted EBITDAX. Based on such assumptions, we believe our actual results of operations and cash flow will be sufficient to generate the Adjusted EBITDAX necessary to pay the forecasted aggregate annualized cash distribution. We can, however, give you no assurance that we will generate this amount. There will likely be differences between our estimated Adjusted EBITDAX and our actual results, and those differences could be material. If we fail to generate the estimated Adjusted EBITDAX contained in our forecast, our annualized cash distribution to all of our unitholders may be less than expected. We can give you no assurance that our assumptions will be realized or that we will generate any available cash, in which event we will not be able to pay quarterly cash distributions from our available cash on our common units.

While we do not, as a matter of course, make public projections as to future sales, earnings or other results, our management has prepared the prospective financial information that is the basis of our estimated Adjusted EBITDAX below to substantiate our belief that we will have sufficient cash to pay the forecasted cash distribution on all of our common units for twelve months ending June 30, 2023. This forecast is a forward-looking statement and should be read together with our historical financial statements and the accompanying notes included elsewhere in this prospectus and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The accompanying

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prospective financial information was not prepared with a view toward complying with the published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of our management, is substantially consistent with those guidelines and was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the assumptions and considerations on which we base our belief that we can generate Adjusted EBITDAX necessary for us to pay cash distribution on all of our outstanding common for the twelve months ending June 30, 2023 equal to \$ _____ per common unit. Readers of this prospectus are cautioned not to place undue reliance on this prospective financial information. Please read "—Assumptions and Considerations," including the sensitivity analysis included therein.

The prospective financial information included in this prospectus has been prepared by, and is the responsibility of, our management. KPMG LLP has not compiled, examined or performed any procedures with respect to the accompanying prospective financial information and, accordingly, KPMG LLP does not express any opinion or any other form of assurance with respect thereto. The KPMG LLP reports included in the registration statement relate to our historical financial information. It does not extend to the prospective financial information and should not be read to do so.

When considering our financial forecast, you should keep in mind the risk factors and other cautionary statements under "Risk Factors." Any of the risks discussed in this prospectus, to the extent they are realized, could cause our actual results of operations to vary significantly from those that would enable us to generate the Adjusted EBITDAX necessary to pay the forecasted aggregate annualized cash distribution on all of our outstanding common units for the twelve months ending June 30, 2023.

We are providing the Statement of Estimated Adjusted EBITDAX to supplement our historical financial statements and in support of our belief that we will have sufficient available cash to pay the forecasted aggregate annualized cash distribution on all of our outstanding common units for the twelve months ending June 30, 2023. Please read below under "—Assumptions and Considerations" for further information about the assumptions we have made for the financial forecast.

We do not undertake any obligation to release publicly the results of any future revisions we may make to this prospective financial information or to update this prospective financial information to reflect events or circumstances after the date of this prospectus. Therefore, you are cautioned not to place undue reliance on this information.

Our Estimated Cash Available for Distribution

The following table shows how we calculate estimated available cash for the twelve months ending June 30, 2023 and for each quarter during that twelve-month period that would be available for distribution to our unitholders. All of the amounts for the twelve months ending June 30, 2023 in the table below are estimates. The assumptions that we believe are relevant to particular line items in the table below are explained in the corresponding footnotes and in "—Assumptions and Considerations."

Neither our independent registered public accounting firm nor any other independent registered public accounting firm has compiled, examined or performed any procedures with respect to the forecasted financial information contained herein, nor has it expressed any opinion or given any other form of assurance on such information or its achievability, and it assumes no responsibility for such forecasted financial information. Our independent registered public accounting firm's reports included elsewhere in this prospectus relate to our audited historical financial statements. These reports do not extend to the table and the related forecasted information contained in this section and should not be read to do so.

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	Three Months Ending September 30, 2022	Three Months Ending December 31, 2022	Three Months Ending March 31, 2023	Three Months Ending June 30, 2023	Twelve Months Ending June 30, 2023
(in thousands, except per unit data) (unaudited)					
Estimated Net Income(1)	\$ 24,296	\$ 26,065	\$ 39,578	\$25,157	\$115,096
Interest Expense, Net	766	597	321	320	2,005
DD&A	10,607	11,212	11,422	11,364	44,606
Impairment Expenses	—	—	—	—	—
Accretion of Discount on Asset Retirement	1,494	1,494	1,494	1,494	5,976
Exploration Expense	30	30	30	30	120
Non-Cash Derivative (Gain)/Loss(2)	—	—	—	—	—
Other Non-Cash (Gain)/Loss(3)	—	—	—	—	—
Estimated Adjusted EBITDAX(4)	<u>\$ 37,193</u>	<u>\$ 39,399</u>	<u>\$ 52,846</u>	<u>\$38,366</u>	<u>\$167,804</u>
Development Costs	(6,828)	(17,815)	(2,998)	(9,844)	(37,485)
Cash Interest Expense, Net	(594)	(425)	(149)	(148)	(1,316)
Exploration Expense	(30)	(30)	(30)	(30)	(120)
Non-Recurring (Gain)/Loss(3)	—	—	—	—	—
Estimated Cash Available for Distribution(5)	<u>\$ 29,741</u>	<u>\$ 21,129</u>	<u>\$ 49,669</u>	<u>\$28,344</u>	<u>\$128,883</u>
Estimated Annualized Cash distribution per unit					
Estimated annual cash distributions(6):					
Distributions on common units held by purchasers in this offering ()					
Distributions on common units held by affiliates of our general partner ()					
Total estimated annual cash distributions					

- (1) Includes the forecasted effect of cash settlements of commodity derivative instruments. This amount does not include unrealized commodity derivative gains (losses), as such amounts represent non-cash items and cannot be reasonably estimated in the forecast period.
- (2) Does not include an estimate of unrealized derivative (gain)/loss because the forecast period assumes the commodity prices set forth below under “—Assumptions and Considerations—Operations and Revenue—Prices” remain constant during the period. For additional information regarding the impact of changes in commodity prices, please see “—Sensitivity Analysis” below.
- (3) Does not include estimated Non-Cash (Gain) / Loss or Non-Recurring (Gain) / Loss, which cannot be accurately forecasted for future periods.
- (4) Adjusted EBITDAX is defined in “Prospectus Summary—Non-GAAP Financial Measures.”
- (5) Cash available for distribution is defined in “Prospectus Summary—Non-GAAP Financial Measures.”
- (6) The number of outstanding common units assumed herein does not include any common units that may be issued under the long-term incentive plan that our general partner is expected to adopt prior to the closing of this offering.

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Assumptions and Considerations

Based upon the specific assumptions outlined below, we expect to generate cash available for distribution for the twelve months ending June 30, 2023 of approximately \$128.9 million.

While we believe that these assumptions are reasonable in light of management's current expectations concerning future events, the forecasted estimates underlying these assumptions are inherently uncertain and are subject to significant business, economic, regulatory, environmental and competitive risks and uncertainties that could cause actual results to differ materially from those we anticipate. If our assumptions are not correct, the amount of actual cash available to pay distributions could be substantially less than the amount we currently estimate, in which event the market price of our common units may decline substantially. When reading this section, you should keep in mind the risk factors and other cautionary statements described under "Risk Factors" and "Forward-Looking Statements." Any of the risks discussed in this prospectus could cause our actual results to vary significantly from our estimates.

Operations and Revenue

Production. Our ability to generate sufficient cash from operations to pay cash distributions to unitholders is a function of two primary variables: (i) production volumes and (ii) commodity prices. Production volumes directly impact our revenue. Any negative effect on production volumes could have a material adverse effect on our business, financial condition, results of operations and cash available for distribution. Our existing production will naturally decline over time as the applicable reservoir is depleted. Our decline rate for our oil and gas properties over the next twelve months in the Permian and San Juan basins, is currently estimated to be approximately 7% and 10%, respectively.

The following table presents historical production volumes for our properties on a pro forma basis for the Vacuum Properties for the year ended December 31, 2021 and the twelve months ended June 30, 2022 and on a forecasted basis for the twelve months ending June 30, 2023:

	Pro Forma Year Ended December 31, 2021	Pro Forma Twelve Months Ended June 30, 2022	Forecasted Twelve Months Ending June 30, 2023
Annual production:			
Oil and condensate (MBbl)	1,779	1,936	2,307
Natural gas liquids (MBbl)	1,137	1,230	1,352
Natural gas (MMcf)	30,674	30,899	31,097
Total (MBoe)	8,029	8,316	8,842
Average net daily production:			
Oil and condensate (MBbl/d)	4.9	5.3	6.3
Natural gas liquids (MBbl/d)	3.1	3.4	3.7
Natural gas (MMcf/d)	84.0	84.7	85.2
Total (MBoe per day)	22.0	22.8	24.2

We estimate that our total oil and natural gas production for twelve months ending June 30, 2023 will be 24.2 MBoe per day as compared to 22.0 MBoe per day on a pro forma basis for the year ended December 31, 2021 and 22.8 MBoe per day on a pro forma basis for the twelve months ended June 30, 2022. For the month ended June 30, 2022, our average net production was approximately 23.0 MBoe per day. We expect to spend \$24.9 million on these activities in the second half of 2022. We intend to

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maintain our forecasted production level of 24.2 MBoe per day for the twelve months ending June 30, 2023 with cash generated from operations. These estimates include production from the Andrews Parker Acquisition and the Additional Interest Vacuum Acquisition.

Prices. Our results of operations depend on many factors, particularly the price of our commodity production and our ability to market our production effectively. Oil and natural gas prices have historically been volatile and currently are at record or near record-high levels. During the period from January 1, 2021 through June 30, 2022, prices for crude oil and natural gas reached a high of \$123.70 per Bbl and \$23.86 per MMBtu, respectively, and a low of \$47.62 per Bbl and \$2.43 per MMBtu, respectively. A future decline in commodity prices may adversely affect our business, financial condition or results of operations. Lower commodity prices may not only decrease our revenues, but also the amount of oil and natural gas that we can produce economically. Lower oil and natural gas prices may also result in a reduction in the borrowing base under our Credit Facility, which is redetermined semi-annually.

The NYMEX WTI, for oil prices, and NYMEX Henry Hub, for gas prices, are widely used benchmarks for the pricing of oil and natural gas in the United States. The price we receive for our oil and natural gas production is generally different than the NYMEX price because of adjustments for delivery location (“basis”), relative quality and other factors. The differentials to published oil and natural gas prices are based upon our analysis of the historic price differentials for production from the mineral interests with consideration given to gravity, quality and transportation and marketing costs that may affect these differentials. There is no assurance that these assumed differentials will occur. The table below illustrates the relationship between average oil, natural gas and natural gas liquids realized sales prices and average NYMEX futures prices as of June 30, 2022 on a pro forma basis for the year ended December 31, 2021 and the twelve months ended June 30, 2022 and our forecast for the twelve months ending June 30, 2023:

	Pro Forma Year Ended December 31, 2021	Pro Forma Twelve Months Ended June 30, 2022	Forecasted Twelve Months Ending June 30, 2023
Average oil sales prices (Bbl):			
Average daily NYMEX-WTI oil price	\$ 67.92	\$ 87.61	\$ 92.16
Differential to NYMEX-WTI oil	\$ (1.69)	\$ (0.10)	\$ (0.79)
Realized oil sales price (excluding derivatives)	\$ 66.23	\$ 87.51	\$ 91.37
Realized oil sales price (including derivatives)	\$ 66.23	\$ 76.83	\$ 79.61
Average natural gas liquids sales prices (Bbl):			
Average daily NYMEX-WTI oil price	\$ 67.92	\$ 87.61	\$ 92.16
Differential to NYMEX-WTI oil price	38.0%	39.6%	37.5%
Realized natural gas liquids sales price (excluding derivatives)	\$ 25.79	\$ 34.70	\$ 34.58
Realized natural gas liquids sales price (including derivatives)	\$ 25.79	\$ 31.94	\$ 30.15
Average natural gas sales prices (Mcf):			
Average daily NYMEX-Henry Hub natural gas price	\$ 3.84	\$ 5.49	\$ 7.16
Differential to NYMEX-Henry Hub natural gas	0.15	(0.41)	(0.40)
Realized natural gas sales price (excluding derivatives)	\$ 3.99	\$ 5.08	\$ 6.76
Realized natural gas sales price (including derivatives)	\$ 3.99	\$ 4.50	\$ 4.97

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Hedging Activities. We plan to continue our practice of entering into hedging arrangements to reduce the impact of commodity price volatility on our cash flow from operations and to satisfy the requirement under our Credit Facility to hedge at least (a) 75% of reasonably anticipated projected production of proved developed producing reserves for the 12-month period following January 1, 2022 and (b) thereafter 50% of reasonably anticipated projected production of proved developed producing reserves for the 30-month period following the date of any hedging transaction. However, as of any time, if the net leverage ratio (the ratio of total net debt-to-EBITDAX) is less than or equal to 1.0 to 1.0 and the cash and cash equivalents on hand are equal to or greater than 20% of the borrowing base then in effect, the minimum required hedge volume for month one through month 24 will be reduced to 50%. Our Credit Facility prohibits us from hedging more than 90% of our reasonably projected production for any fiscal year. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Revolving credit agreement” for more information. Our policy is to consider hedging a portion of our production at commodity prices management deems attractive.

As of the date of this prospectus, our commodity derivative contracts will cover 1,097 MBbl, or approximately 47.5%, of our forecasted total oil production of 2,307 MBbl, 686 MBbl, or approximately 50.7%, of our forecasted total natural gas liquid production of 1,352 MBbl, and 17,825 Mcf, or approximately 57.3%, of our forecasted total natural gas production of 31,097 Mcf, for the twelve months ending June 30, 2023. Our commodity derivative contracts consist of swap and collar agreements based upon NYMEX-WTI prices. The table below shows the volumes and prices covered by the commodity derivative contracts for the twelve months ending June 30, 2023. For purposes of our forecast, we have assumed that we will not enter into additional natural gas or oil derivative contracts during the forecast period, although we may do so on an opportunistic basis if market conditions are favorable. See “Risk Factors—Risks Related to Our Business and the Oil, Natural Gas and NGL Industry—We use derivative instruments to economically hedge exposure to changes in commodity price and, as a result, are exposed to credit risk and market risk.”

	Swaps		Collars	
	Volume per Day	Weighted Avg. Price	Volume per Day	Weighted Avg. Floor Price
Oil:				
July 2022 - June 2023 (Bbl/d)	3,004	\$ 70.29	—	—
<i>% of Forecasted Production</i>	47.5%	—	—	—
Natural Gas Liquids:				
July 2022 - June 2023 (Gal/d)	78,879	0.44	—	—
<i>% of Forecasted Production</i>	50.7%	—	—	—
Natural Gas:				
July 2022 - June 2023 (MMBtu/d)	40,041	3.92	8,795	\$ 3.71
<i>% of Forecasted Production</i>	47.0%	—	10.3%	—

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Operating Revenues and Realized Commodity Derivative Gains. The following table illustrates the primary components of operating revenues and realized commodity derivative gains on a pro forma basis for the year ended December 31, 2021 and the twelve months ended June 30, 2022 and on a forecasted basis for the twelve months ending June 30, 2023:

(in thousands)	Pro Forma Year Ended December 31, 2021	Pro Forma Twelve Months Ended June 30, 2022	Forecasted Twelve Months Ending June 30, 2023
Oil:			
Oil revenues (excluding the effects of derivative instruments)	\$ 117,840	\$ 169,414	\$ 210,798
Realized oil derivative instruments gain (loss)	—	(20,670)	(27,145)
Total	<u>\$ 117,840</u>	<u>\$ 148,744</u>	<u>\$ 183,653</u>
Natural gas liquids:			
Natural gas liquids revenue (excluding the effects of derivative instruments)	\$ 29,330	\$ 42,670	\$ 46,757
Realized natural gas liquids derivative instruments gain (loss)	—	(3,384)	(5,989)
Total	<u>\$ 29,330</u>	<u>\$ 39,286</u>	<u>\$ 40,767</u>
Natural gas:			
Natural gas revenues (excluding the effects of derivative instruments)	\$ 122,526	\$ 157,010	\$ 210,166
Realized natural gas derivative instruments gain (loss)	—	(18,113)	(55,485)
Total	<u>\$ 122,526</u>	<u>\$ 138,897</u>	<u>\$ 154,681</u>
Total:			
Operating revenues	\$ 269,695	\$ 369,093	\$ 467,721
Commodity derivative instruments gain (loss)	—	(42,167)	(88,619)
Operating revenue and realized commodity derivative instruments gains	<u>\$ 269,695</u>	<u>\$ 326,926</u>	<u>\$ 379,101</u>

Expenses

Development Costs. Our estimated development costs for the twelve months ending June 30, 2023 of \$37.5 million represent our estimate of the average annual capital expenditures necessary, together with the forecasted production from the Andrews Parker Acquisition and the Additional Interest Vacuum Acquisition, to achieve our forecasted production level of 24.2 Boe per day for the twelve months ending June 30, 2023.

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Production Expenses. The following table summarizes production expenses on an aggregate basis and on a per Boe basis for the year ended December 31, 2021, pro forma, the twelve months ended June 30, 2022, pro forma, and on a forecasted basis for the twelve months ending June 30, 2023:

	Pro Forma Year Ended December 31, 2021	Pro Forma Twelve Months Ended June 30, 2022	Forecasted Twelve Months Ended June 30, 2023
Production expenses (in thousands)	\$ 99,406	\$ 116,300	\$ 131,305
Production expenses (per Boe)	\$ 12.38	\$ 13.99	\$ 14.85

We estimate that our production expenses for the twelve months ending June 30, 2023 will be approximately \$131.3 million. Production expenses consist of lease operating expenses incurred for the operation and maintenance of wells and related equipment. On a pro forma basis, for the year ended December 31, 2021 and the twelve months ended June 30, 2022, production expenses were \$99.4 million and \$116.3 million, respectively.

Taxes, transportation and other. Taxes, transportation, and other expenses consist primarily of gathering fees and processing fees, transportation costs, severance taxes, and ad valorem taxes. Gathering, processing and transportation costs are recognized when control of the natural gas we sell occurs at the tailgate of the processing plant. Severance taxes are paid on produced oil and natural gas based on a percentage of revenues from production sold at fixed rates established by state or local taxing authorities. In general, the severance taxes we pay correlate to the changes in oil and natural gas revenues. We are also subject to ad valorem taxes in the counties where our production is located. We evaluate taxes, transportation, and other expense on a per Boe basis to monitor costs to ensure that they are at acceptable levels. Taxes, transportation, and other expenses can also be influenced by acquisitions, commodity prices, changes in values of our properties, sales mix and acquisitions.

The following table summarizes taxes, transportation and other on a pro forma basis for the year ended December 31, 2021, the twelve months ended June 30, 2022 and on a forecasted basis for the twelve months ending June 30, 2023:

	Pro Forma Year Ended December 31, 2021	Pro Forma Twelve Months Ended June 30, 2022	Forecasted Twelve Months Ended June 30, 2023
Taxes, transportation and other (in thousands)	\$ 63,103	\$ 83,953	\$ 102,902
Taxes, transportation and other (per Boe)	\$ 7.86	\$ 10.10	\$ 11.64

General and Administrative Expenses. General and administrative expenses consist primarily of personnel related costs and are partially offset by certain reimbursements of overhead expenses, including Texas gross margin taxes. In connection with the consummation of this offering, we expect to incur additional costs related to being a public company. For example, the SEC proposed rules on climate change disclosure requirements for public companies which, if adopted as proposed, could result in substantial compliance costs. However, we do not expect to experience a material change in our cash cost structure, except as may be affected by our recent property acquisitions, the volatility of commodity prices, increased expenses as a publicly traded limited partnership, the effectiveness of our commodity derivative contracts, and the effects of impairment on our producing properties. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting the Comparability of Our Financial Condition and Results of Operations.”

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Interest Expense. Interest expense is primarily a result of interest on our borrowings on our Credit Facility to fund operations and acquisitions of properties as well as the amortization of debt issuance costs associated with these borrowings. Interest expense can fluctuate with our level of indebtedness as well as changes in interest rates and includes commitment fees under our Credit Facility. We do not expect to have any indebtedness at the closing of this offering or during the twelve months ended June 30, 2023.

Our Credit Facility requires us to maintain (i) a current ratio greater than 1.0 to 1.0 and (ii) a ratio of total indebtedness-to-EBITDAX of not greater than 3.00 to 1.00. For purposes of our current ratio covenant, “current assets” is deemed to include availability under the Credit Facility but excludes the unrealized gain (loss) of derivative instruments. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Revolving credit agreement” for additional detail regarding the covenants and restrictive provisions included in our Credit Facility.

Regulatory, Industry and Economic Factors

Our forecast for the twelve months ending June 30, 2023 is based on the following significant assumptions related to regulatory, industry and economic factors:

- There will not be any new federal, state or local regulation of portions of the energy industry in which we operate, or any interpretation of existing regulations, that will be materially adverse to our business;
- There will not be any material nonperformance or credit-related defaults by suppliers, customers or vendors, or shortage of skilled labor;
- All supplies and commodities necessary for production and sufficient transportation will be readily available;
- There will not be any major adverse change in commodity prices or the energy industry in general;
- There will not be any material accidents, releases, weather-related incidents, unscheduled downtime or similar unanticipated events, including any events that could lead to force majeure under any of our marketing agreements;
- There will not be any adverse change in the markets in which we operate resulting from supply or production disruptions, reduced demand for our product or significant changes in the market prices for our product; and
- Market, insurance, regulatory and overall economic conditions will not change substantially.

Sensitivity Analysis

Our ability to generate sufficient cash from operations to pay cash distributions to our unitholders is a function of two primary variables: (i) production volumes; and (ii) commodity prices. In the tables below, we illustrate the effect that changes in either of these variables, while holding all other variables constant, would have on our ability to generate sufficient cash from our operations to pay the forecasted cash distributions on our outstanding common units for the twelve months ending June 30, 2023.

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We believe that a sensitivity analysis regarding the effect of changes in assumptions on estimated impairment is impracticable to provide because of the number of assumptions and variables involved that have interdependent effects on the potential outcome.

Production Volume Changes

Production volumes directly impact our revenue. Any negative effect on production volumes could have a material adverse effect on our business, financial condition, results of operations and cash available for distribution. The following table shows estimated Adjusted EBITDAX under production levels of 80%, 100% and 120% of the production level we have forecasted for the twelve months ending June 30, 2023. The estimated Adjusted EBITDAX amounts shown below are based on the assumptions used in our forecast.

	Percentage of Forecasted Net Production		
	80%	100%	120%
	(in thousands, except per unit amounts)		
Forecasted net production:			
Oil (MBbl)	1,846	2,307	2,768
Natural gas (MMcf)	24,878	31,097	37,317
Natural gas liquids (MBbl)	1,082	1,352	1,623
Total (MBoe)	7,074	8,842	10,611
Oil (Bbl/d)	5,057	6,321	7,585
Natural gas (Mcf/d)	68,158	85,198	102,238
Natural gas liquids (Bbl/d)	2,964	3,705	4,446
Total (Boe per day)	19,380	24,225	29,070
Forecasted prices:			
NYMEX-WTI oil price (per Bbl)	\$ 92.16	\$ 92.16	\$ 92.16
Realized oil price (per Bbl) (excluding derivatives)	91.37	91.37	91.37
Realized oil price (per Bbl) (including derivatives)	79.61	79.61	79.61
NYMEX-WTI natural gas liquids price (per Bbl)	\$ 92.16	\$ 92.16	\$ 92.16
Realized natural gas liquids price (per Bbl) (excluding derivatives)	34.58	34.58	34.58
Realized natural gas liquids price (per Bbl) (including derivatives)	30.15	30.15	30.15
NYMEX-Henry Hub natural gas price (per Mcf)	\$ 7.16	\$ 7.16	\$ 7.16
Realized natural gas price (per Mcf) (including derivatives)	4.97	4.97	4.97
Realized natural gas price (per Mcf) (excluding derivatives)	6.76	6.76	6.76
Estimated Net Income(1)	\$ 40,964	\$ 115,096	\$ 188,336
Interest expense	3,396	2,216	1,930
Interest income	(211)	(211)	(211)
Depreciation, depletion and amortization	36,231	44,606	52,981
Impairment expenses	—	—	—
Accretion of discount on asset retirement obligations	5,976	5,976	5,976

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	Percentage of Forecasted Net Production		
	80%	100%	120%
	(in thousands, except per unit amounts)		
Exploration expense	120	120	120
Non-cash derivative (gain) / loss(2)	—	—	—
Non-cash incentive compensation	—	—	—
Non-cash (gain) on forgiveness of debt	—	—	—
Non-recurring (gain) / loss(3)	—	—	—
Estimated Adjusted EBITDAX(4)	86,476	167,804	249,132
Cash interest expense	(2,707)	(1,527)	(1,241)
Cash interest income	211	211	211
Exploration expense	(120)	(120)	(120)
Non-recurring (gain) / loss(3)	—	—	—
Development costs	(37,485)	(37,485)	(37,485)
Estimated Cash Available for Distribution(5)	\$ 46,375	\$ 128,882	\$ 210,497

- (1) Includes the forecasted effect of cash settlements of commodity derivative instruments. This amount does not include unrealized commodity derivative gains (losses), as such amounts represent non-cash items and cannot be reasonably estimated in the forecast period.
- (2) Does not include an estimate of unrealized derivative (gain)/loss because the forecast period assumes the commodity prices set forth below under “—Assumptions and Considerations—Operations and Revenue—Prices” remain constant during the period. For additional information regarding the impact of changes in commodity prices, please see “—Sensitivity Analysis” below.
- (3) Does not include estimated Non-Cash (Gain) / Loss or Non-Recurring (Gain) / Loss, which cannot be accurately forecasted for future periods.
- (4) Adjusted EBITDAX is defined in “Prospectus Summary—Non-GAAP Financial Measures.”
- (5) Cash available for distribution is defined in “Prospectus Summary—Non-GAAP Financial Measures.”

As reservoir pressures decline, production from a given well or formation decreases. Maintaining or growing our future production and reserves will depend on our ability to continue to replace current production with new reserves. Accordingly, we plan to focus on maintaining reserves through both the drill bit and acquisitions, while maintaining a conservative financial profile. Our ability to add reserves through development projects and acquisitions is dependent on many factors, including our ability to raise capital, obtain regulatory approvals, procure contract drilling rigs and personnel, and successfully identify and consummate acquisitions. See “Risk Factors—Risks Related to Our Business and the Oil, Natural Gas and NGL Industry” for a discussion of these and other risks affecting our proved reserves and production.

Commodity Price Changes

Our major market risk exposure is in the pricing that we receive for our oil, NGL and natural gas production. Pricing for oil, NGLs, and natural gas has been volatile and unpredictable for several years, and this volatility is expected to continue in the future. The prices we receive for our oil, NGL, and natural gas production depend on many factors outside of our control, such as the strength of the global economy and global supply and demand for the commodities we produce.

To reduce the impact of fluctuations in oil, NGL and natural gas prices on our revenues, we periodically enter into commodity derivative contracts with respect to certain of our oil, NGL and natural gas production through various transactions that limit the risks of fluctuations of future prices. We plan to continue our practice of entering into such transactions to reduce the impact of

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commodity price volatility on our cash flow from operations. Future transactions may include price swaps whereby we will receive a fixed price for our production and pay a variable market commodity price volatility on our cash flow from operations. Future transactions may include price swaps whereby we will receive a fixed price for our production and pay a variable market price to the contract counterparty. Additionally, we may enter into collars, whereby we receive the excess, if any, of the fixed floor over the floating rate or pay the excess, if any, of the floating rate over the fixed ceiling. While there is a risk we may not be able to realize the full benefits of rising prices, these hedging activities are intended to limit our exposure to product price volatility and to maintain stable cash flows.

The following table shows estimated Adjusted EBITDAX under various assumed NYMEX-WTI oil and NYMEX-Henry Hub natural gas prices for the twelve months ending June 30, 2023. For the twelve months ending June 30, 2023, we have assumed that commodity derivative contracts will cover (i) 3,004 MBoe, or approximately 47.5% of our estimated total oil production from proved reserves for the twelve months ending June 30, 2023, at a weighted average floor price of \$70.29 per Bbl, (ii) 78,879 gallons, or approximately 50.7% of our estimated total natural gas liquids production from proved reserves for the twelve months ending June 30, 2023, at a weighted average floor price of \$0.44 per gallon and (iii) 48,836 MMBtu, or approximately 57.3% of our estimated total natural gas production from proved reserves for the twelve months ending June 30, 2023, at a weighted average floor price of \$3.38 per MMBtu. In addition, the estimated Adjusted EBITDAX amounts shown below are based on forecasted realized commodity prices that take into account assumptions based on our average historical NYMEX commodity price differentials as set forth in our December 31, 2021 reserve report. We have assumed no changes in our production based on changes in prices. The estimated Adjusted EBITDAX amounts shown below are based on forecasted realized commodity prices that take into account our average NYMEX commodity price differential assumptions.

	Percentage of Forecasted Prices		
	80%	100%	120%
(in thousands, except per unit amounts)			
Forecasted net production:			
Oil and condensate (MBbl)	2,307	2,307	2,307
Natural gas (MMcf)	31,097	31,097	31,097
Natural gas liquids (MBbl)	1,352	1,352	1,352
Total (MBoe)	8,842	8,842	8,842
Oil and condensate (Bbl/d)	6,321	6,321	6,321
Natural gas (Mcf/d)	85,198	85,198	85,198
Natural gas liquids (Bbl/d)	3,705	3,705	3,705
Total (Boe per day)	24,225	24,225	24,225
Forecasted prices:			
NYMEX-WTI oil price (per Bbl)	\$ 73.73	\$ 92.16	\$ 110.59
Realized oil price (per Bbl) (excluding derivatives)	72.96	91.37	109.78
Realized oil price (per Bbl) (including derivatives)	70.02	79.61	89.19
NYMEX-WTI oil price (per Bbl)	73.73	92.16	110.59
Realized natural gas liquids price (per Mcf) (excluding derivatives)	27.14	34.58	42.01
Realized natural gas liquids price (per Mcf) (including derivatives)	25.47	30.15	34.82
NYMEX-Henry Hub natural gas price (per MMBtu)	5.73	7.16	8.59

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	Percentage of Forecasted Prices		
	80%	100%	120%
	(in thousands, except per unit amounts)		
Realized natural gas price (per Mcf) (excluding derivatives)	5.46	6.76	8.06
Realized natural gas price (per Mcf) (including derivatives)	4.49	4.97	5.45
Estimated Net Income(1)	\$ 82,617	\$ 115,096	\$ 147,454
Interest expense	2,303	2,216	2,189
Interest income	(211)	(211)	(211)
Depreciation, depletion and amortization	44,606	44,606	44,606
Impairment expenses	—	—	—
Accretion of discount on asset retirement obligations	5,976	5,976	5,976
Exploration expense	120	120	120
Non-cash derivative (gain) / loss(2)	—	—	—
Non-cash incentive compensation	—	—	—
Non-cash (gain) on forgiveness of debt	—	—	—
Non-recurring (gain) / loss(3)	—	—	—
Estimated Adjusted EBITDAX(4)	135,411	167,804	200,134
Cash interest expense	(1,614)	(1,527)	(1,500)
Cash interest income	211	211	211
Exploration expense	(120)	(120)	(120)
Non-recurring (gain)/loss(3)	—	—	—
Development costs	(37,485)	(37,485)	(37,485)
Estimated Cash Available for Distribution(5)	\$ 96,403	\$ 128,882	\$ 161,240

- (1) Includes the forecasted effect of cash settlements of commodity derivative instruments. This amount does not include unrealized commodity derivative gains (losses), as such amounts represent non-cash items and cannot be reasonably estimated in the forecast period.
- (2) Does not include an estimate of unrealized derivative (gain)/loss because the forecast period assumes the commodity prices set forth below under “—Assumptions and Considerations—Operations and Revenue—Prices” remain constant during the period. For additional information regarding the impact of changes in commodity prices, please see “—Sensitivity Analysis” below.
- (3) Does not include estimated Non-Cash (Gain) / Loss or Non-Recurring (Gain) / Loss, which cannot be accurately forecasted for future periods.
- (4) Adjusted EBITDAX is defined in “Prospectus Summary—Non-GAAP Financial Measures.”
- (5) Cash available for distribution is defined in “Prospectus Summary—Non-GAAP Financial Measures.”

If NYMEX oil, natural gas liquids and natural gas prices decline, our estimated Adjusted EBITDAX would not decline proportionately for two reasons: (1) the effects of our commodity derivative contracts; and (2) production taxes, which are calculated as a percentage of our oil, natural gas liquids and natural gas revenues, excluding the effects of our commodity derivative contracts, and which decrease as commodity prices decline. Furthermore, we have assumed no decline in estimated production or oil, natural gas liquids and natural gas operating costs during the twelve months ending June 30, 2023. However, over the long-term, a sustained decline in prices would likely lead to a decline in production and operating costs, as well as a reduction in our realized oil, natural gas liquids and natural gas prices. Therefore, the foregoing table is not illustrative of all of the potential effects of changes in commodity prices for periods subsequent to June 30, 2023.

PROVISIONS OF OUR PARTNERSHIP AGREEMENT RELATING TO CASH DISTRIBUTIONS

Set forth below is a summary of the significant provisions of our partnership agreement that relate to cash distributions.

Distributions of Available Cash

General

Our partnership agreement requires that, within 60 days after the end of each quarter (other than the fourth quarter) and within 90 days after the end of the fourth quarter, beginning with the quarter ending _____, we distribute all of our available cash to unitholders of record on the applicable record date. We will adjust the amount of our cash distribution for the period from the closing of this offering through _____, based on the actual length of that period.

Definition of Available Cash

Available cash generally means, for any quarter, all cash and cash equivalents on hand at the end of that quarter:

- *less*, the amount of cash reserves established by our general partner to:
 - provide for the proper conduct of our business, which could include, but is not limited to, amounts reserved for capital expenditures, working capital and operating expenses;
 - comply with applicable law, any of our debt instruments or other agreements; or
 - provide funds for distributions to our unitholders for any one or more of the next four quarters;
- *plus*, all cash on hand on the date of determination resulting from dividends or distributions received after the end of the quarter from equity interests in any person other than a subsidiary in respect of operations conducted by such person during the quarter;
- *plus*, if our general partner so determines, all or a portion of cash on hand on the date of determination resulting from working capital borrowings made after the end of the quarter.

The purpose and effect of the last bullet point above is to allow our general partner, if it so decides, to use cash from working capital borrowings made after the end of the quarter but on or before the date of determination of available cash for that quarter to pay distributions to unitholders. Working capital borrowings are generally borrowings that are made under a credit facility, commercial paper facility or similar financing arrangement and in all cases are used solely for working capital purposes or to pay distributions to partners and with the intent of the borrower to repay such borrowings within twelve months from sources other than additional working capital borrowings.

Methods of Distribution

We intend to distribute available cash to our unitholders, pro rata. Our partnership agreement permits, but does not require, us to borrow funds to make distributions to our unitholders. Accordingly, there is no guarantee that we will pay any distribution on the units in any quarter.

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General Partner Interest

Our general partner owns a non-economic general partner interest in us, which does not entitle it to receive cash distributions. However, our general partner may in the future acquire common units or other equity interests in us and will be entitled to receive distributions on any such interests.

Distributions of Cash Upon Liquidation

If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment (or establishing a reserve for payment) of our creditors. We will distribute any remaining proceeds to our unitholders, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA

The selected historical consolidated financial data set forth below as of and for each of the years ended December 31, 2021 and 2020 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected historical consolidated financial data set forth below as of June 30, 2022 and for the six months ended June 30, 2022 and 2021 are derived from our unaudited financial statements and related notes included elsewhere in this prospectus.

The selected unaudited pro forma financial data as of June 30, 2022 and for the six months ended June 30, 2022 and the year ended December 31, 2021 are derived from the unaudited pro forma condensed financial statements of TXO Energy Partners included elsewhere in this prospectus. Our unaudited pro forma condensed financial statements give pro forma effect to the following:

- the acquisition of producing properties and a gas processing plant in the Permian Basin in New Mexico and CO₂ assets in Colorado from Chevron in November 2021, which we refer to as the Vacuum Properties;
- the Reorganization Transactions; and
- the issuance and sale by us to the public of common units in this offering and the application of the net proceeds as described in “Use of Proceeds.”

The unaudited pro forma financial data were prepared as if the items listed above occurred on January 1, 2021, in the case of statement of operations data, or June 30, 2022, in the case of balance sheet data. We have not given pro forma effect to the Andrews Parker Acquisition, the Additional Interest Vacuum Acquisition or to the incremental general and administrative expenses that we expect to incur annually as a result of being a publicly traded partnership.

The unaudited pro forma historical financial data are presented for illustrative purposes only and are not necessarily indicative of the financial position that would have existed or the financial results that would have occurred if this offering and the acquisition of the Vacuum Properties had been consummated on the dates indicated, nor are they necessarily indicative of the financial position or results of our operations in the future. The pro forma adjustments, as described in the notes to the unaudited pro forma condensed combined financial statements, are preliminary and based upon currently available information and certain assumptions that our management believes are reasonable. The selected historical consolidated financial data are qualified in their entirety by, and should be read in conjunction with, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section included in this prospectus and the consolidated financial statements and related notes and other financial information included in this prospectus. Among other things, those historical financial statements and unaudited pro forma condensed financial statements include more detailed information regarding the basis of presentation for the following information. Historical results are not necessarily indicative of results that may be expected for any future period.

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You should read the following table in conjunction with “Use of Proceeds,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our historical combined financial statements and our unaudited pro forma condensed financial statements and the notes thereto included elsewhere in this prospectus. Among other things, those historical financial statements and unaudited pro forma condensed financial statements include more detailed information regarding the basis of presentation for the following information.

	TXO Energy Partners Historical				TXO Energy Partners Pro Forma	
	Year Ended December 31,		Six Months Ended June 30,		Year Ended December 31	Six Months Ended June 30,
	2021	2020	2022	2021	2021	2022
(in thousands)						
Statement of Operations Data:						
Revenues:						
Oil and condensate	\$ 69,971	\$ 59,070	\$ 41,608	\$ 25,577	\$ 118,186	\$ 41,608
Natural gas liquids	\$ 27,875	\$ 8,660	\$ 15,973	\$ 10,496	\$ 29,810	\$ 15,973
Natural gas	\$ 130,498	\$ 41,034	\$ 25,758	\$ 52,189	\$ 130,676	\$ 25,758
Total revenues(1)	\$ 228,344	\$ 108,764	\$ 83,339	\$ 88,262	\$ 278,672	\$ 83,339
Expenses:						
Production	\$ 69,256	\$ 49,146	\$ 61,181	\$ 29,812	\$ 99,406	\$ 61,181
Exploration	\$ 124	\$ 55	\$ 200	\$ 68	\$ 124	\$ 200
Taxes, transportation and other	\$ 58,040	\$ 27,509	\$ 48,019	\$ 23,961	\$ 63,102	\$ 48,019
Depreciation, depletion and amortization	\$ 39,889	\$ 42,322	\$ 19,717	\$ 18,831	\$ 47,650	\$ 19,717
Impairment	\$ —	\$ 134,097	\$ —	\$ —	\$ —	\$ —
Accretion of discount on asset retirement obligations	\$ 4,670	\$ 3,940	\$ 2,970	\$ 2,412	\$ 4,962	\$ 2,970
General and administrative	\$ 12,175	\$ 6,995	\$ 488	\$ 2,446	\$ 12,175	\$ 488
Total expenses	\$ 184,154	\$ 264,064	\$ 132,575	\$ 77,530	\$ 227,419	\$ 132,575
Operating income (loss)	\$ 44,190	\$ (155,300)	\$ (49,236)	\$ 10,732	\$ 51,253	\$ (49,236)
Other income (expenses):						
Other income	\$ 14,139	\$ 72	\$ 11,428	\$ 7,201	\$ 17,312	\$ 11,428
Interest income	\$ 16	\$ 194	\$ 23	\$ 7	\$ 16	\$ 23
Interest expense	\$ (5,870)	\$ (8,204)	\$ (3,320)	\$ (2,484)	\$ (2,861)	\$ (855)
Total other income (expenses)	\$ 8,285	\$ (7,938)	\$ 8,131	\$ 4,724	\$ 14,467	\$ 10,596
Net income (loss)	\$ 52,475	\$ (163,238)	\$ (41,105)	\$ 15,456	\$ 65,720	\$ (38,640)

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	TXO Energy Partners Historical				TXO Energy Partners Pro Forma	
	Year Ended December 31,		Six Months Ended June 30,		Year Ended December 31	Six Months Ended June 30,
	2021	2020	2022	2021	2021	2022
(in thousands)						
Net income per limited partner unit (basic and diluted)						
Weighted average number of limited partner units outstanding (basic and diluted)						
	=====	=====	=====	=====	=====	=====
Other Financial Data:						
Adjusted EBITDAX	\$ 85,348	\$ 32,322	\$ 77,240	\$ 33,121	\$ 103,637	\$ 77,240
Cash Available for Distribution	\$ 72,348	\$ 20,132	\$ 71,882	\$ 24,271	\$ 93,648	\$ 74,348
Cash Flow Data:						
Net cash provided by (used in):						
Operating activities	\$ 73,726	\$ 18,964	\$ 68,488	\$ 31,097		
Investing activities	\$ (227,801)	\$ (16,718)	\$ (7,889)	\$ (5,706)		
Financing activities	\$ 139,689	\$ 14,067	\$ (60,115)	\$ (23,011)		
Balance Sheet Data (at period end):						
Total assets	\$ 832,820	\$ 623,940	\$ 835,686	\$ 613,706		\$ 859,586
Total long-term debt	\$ 152,100	\$ 151,252	\$ 99,100	\$ 121,100		—
Partners' capital	\$ 541,359	\$ 303,268	\$ 493,774	\$ 318,245		\$ 616,774

(1) Includes the effect of unrealized losses on commodity derivatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our audited financial statements as of and for the years ended December 31, 2020 and 2021 and the six months ended June 30, 2022, and related notes thereto, included elsewhere in this prospectus. The following discussion contains forward-looking statements that reflect our future plans, estimates, beliefs and expected performance. These forward-looking statements are dependent upon events, risks and uncertainties that may be outside of our control. Our actual results could differ materially from those disclosed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, market prices for oil and natural gas, production volumes, estimates of proved reserves, capital expenditures, economic and competitive conditions, regulatory changes and other uncertainties, as well as those factors discussed below and elsewhere in this prospectus, particularly in "Risk Factors" and "Forward-Looking Statements," all of which are difficult to predict. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

Unless otherwise indicated, throughout this discussion the term "MBoe" refers to thousands of barrels of oil equivalent quantities produced for the indicated period, with natural gas and NGL quantities converted to Bbl on an energy equivalent ratio of six Mcf to one barrel of oil.

Overview

We are an independent oil and natural gas company focused on the acquisition, development, optimization and exploitation of conventional oil, natural gas and natural gas liquid reserves in North America. Our properties are predominately located in the Permian Basin of New Mexico and Texas and the San Juan Basin of New Mexico and Colorado.

As significant owners of us, our management has sought to build a business that can generate substantial free cash flow and distribute a substantial portion of cash flow from operations to our unitholders each quarter. We have grown the business steadily through thoughtful acquisitions and the disciplined development of our assets. We believe we have a proven track record of responsible capital stewardship and risk mitigation. We strive to make every investment—whether acquiring additional assets or the development of our existing portfolio—with the goal of maintaining and, over time, modestly increasing cash flows to drive increased distributions to our unitholders.

We seek to maintain a flat to low growth production profile through a combination of low-risk development and exploitation of our existing properties, which is generally funded by cash flow from operating activities, and acquisitions of primarily producing properties. To date, we have been successful in offsetting the natural decline in production from reservoir depletion through acquisitions and drilling, adding more reserves than we produce. Funding sources for our acquisitions have included proceeds from bank borrowings, cash from our partners and cash flow from operating activities. Our development budget is approximately \$30.0 million for 2022 (of which \$2.2 million has been incurred as of June 30, 2022) and approximately \$30.0 million for 2023.

Market Outlook

The oil and natural gas industry is cyclical and commodity prices are highly volatile. During the period from January 1, 2021 through July 31, 2022, prices for crude oil and natural gas reached

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a high of \$123.70 per Bbl and \$23.86 per MMBtu, respectively, and a low of \$47.62 per Bbl and \$2.43 per MMBtu, respectively. Oil prices steadily increased through 2021 due to continued recovery in demand before increasing drastically in the first half of 2022 due to further demand, domestic supply reductions, OPEC control measures and market disruptions resulting from the Russia-Ukraine war and sanctions on Russia. Since the Russia-Ukraine conflict first commenced, WTI crude oil prices have trended higher, rising from \$92.81 per Bbl on February 24, 2022 to a high of \$123.70 per Bbl in March 2022 and \$93.74 per Bbl as of August 23, 2022. These prices have been very volatile and experience large swings, sometimes on a day-to-day or week-to-week basis.

We expect the crude oil and natural gas markets will continue to be volatile in the future. Our revenue, profitability and future growth are highly dependent on the prices we receive for our oil and natural gas production. Please see “Risk Factors—Risks Related to Our Business and the Oil, Natural Gas and NGL Industry—The volatility of oil, natural gas and NGL prices due to factors beyond our control greatly affects our financial condition, results of operations and cash available for distribution.”

Although inflation in the United States had been relatively low for many years, there was a significant increase in inflation beginning in the second half of 2021, which has continued into 2022, due to a substantial increase in the money supply, a stimulative fiscal policy, a significant rebound in consumer demand as COVID-19 restrictions were relaxed, the Russia-Ukraine war and worldwide supply chain disruptions resulting from the economic contraction caused by COVID-19 and lockdowns followed by a rapid recovery. Inflation rose from 5.4% in June 2021 to 7.0% in December 2021 to 9.1% in June 2022. Global, industry-wide supply chain disruptions have resulted in widespread shortages of labor, materials and services. Such shortages have resulted in our facing significant cost increases for labor, materials and services. Principally, commodity costs for steel and chemicals required for drilling, higher transportation and fuel costs and annual wage increases have increased our operating costs for the six months ended June 30, 2022 compared to the same period in 2021. We also may face shortages of these commodities and labor, which may prevent us from executing on our development plan. We do not expect these shortages and cost increases to reverse in the short term. Typically, as prices for oil and natural gas increase, so do associated costs. Conversely, in a period of declining prices, associated cost declines are likely to lag and may not adjust downward in proportion to prices. We cannot predict the future inflation rate but to the extent inflation remains elevated, we may experience further cost increases in our operations, including costs for drill rigs, workover rigs, tubulars and other well equipment, as well as increased labor costs. If we are unable to recover higher costs through higher commodity prices, our current revenue stream, estimates of future reserves, borrowing base calculations, impairment assessments of oil and natural gas properties, and values of properties in purchase and sale transactions would all be significantly impacted.

We are taking actions to mitigate supply chain and inflationary pressures. We have pre-purchased pipe necessary to drill the remainder of our planned development for 2022. We are working closely with other suppliers and contractors to ensure availability of supplies on site, especially fuel, steel and chemical supplies which are critical to many of our operations. However, these mitigation efforts may not succeed or may be insufficient.

Sources of Our Revenue

Our revenues are derived from the sale of our oil, NGLs and natural gas production. Our revenues are influenced by production volumes and realized prices on the sale of oil, NGLs, and natural gas including the effect of our commodity derivative contracts. We sell oil, natural gas and NGLs at a specific delivery point, pay transportation to third parties and receive proceeds from the purchaser with no transportation deduction. As a result, we record transportation costs we pay to third parties as taxes, transportation and other deductions. Pricing of commodities is subject to supply and demand as well as to seasonal, political and other conditions that we generally cannot

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control. Our revenues may vary significantly from period to period as a result of changes in volumes of production sold or changes in commodity prices. The following table presents the breakdown of our revenues including both the realized and unrealized effects of our commodity derivative contracts for the periods specified below:

	For the Year Ended December 31,		For the Six Months Ended June 30,	
	2021	2020	2022	2021
Crude oil sales	31%	54%	50%	29%
Natural gas sales	57%	38%	31%	59%
Natural gas liquid sales	12%	8%	19%	12%

The following table presents that breakdown of our revenues for the periods specified below excluding the unrealized effects of our commodity derivative contracts.

	For the Year Ended December 31,		For the Six Months Ended June 30,	
	2021	2020	2022	2021
Crude oil sales	32%	55%	48%	29%
Natural gas sales	56%	37%	39%	59%
Natural gas liquid sales	12%	8%	13%	12%

Revenue excluding the unrealized effects of commodity derivative contracts is a non-GAAP supplemental financial measure that management and external users of our combined financial statements, such as investors, lenders and others (including industry analysts and rating agencies who will be using such measure), may use for the periods presented to more effectively evaluate our operating performance and our results of operation from period to period without giving effect to non-cash gains and losses. The GAAP measure most directly comparable to revenue excluding the unrealized effects of commodity derivative contracts is GAAP revenue. You should not consider revenue excluding the unrealized effects of commodity derivative contracts in isolation or as a substitute for analysis of our results as reported under GAAP.

Production volumes

Our ability to generate sufficient cash from operations to pay cash distributions to unitholders is a function of two primary variables: (i) production volumes and (ii) commodity prices. Production volumes directly impact our revenue. Any negative effect on production volumes could have a material adverse effect on our business, financial condition, results of operations and cash available for distribution. The following table presents historical production volumes for our properties for the periods specified below:

	For the Year Ended December 31,		For the Six Months Ended June 30,	
	2021	2020	2022	2021
Oil and condensate (MBbls)	1,033	940	1,041	421
Natural gas liquids (MBbls)	1,089	860	647	513
Natural gas (MMcf)	30,590	22,132	15,153	14,871
Total (MBoe)	7,220	5,489	4,213	3,413
Average net sales (MBoe per day)	20	15	23	19

Sales volumes directly impact our results of operations. For more information about sales volumes, see “—Historical Results of Operations.”

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As reservoir pressures decline, production from a given well or formation decreases. Maintaining or growing our future production and reserves will depend on our ability to continue to replace current production with new reserves. Accordingly, we plan to focus on maintaining reserves through both the drill bit and acquisitions, while maintaining a conservative financial profile. Our ability to add reserves through development projects and acquisitions is dependent on many factors, including our ability to raise capital, obtain regulatory approvals, procure contract drilling rigs and personnel, and successfully identify and consummate acquisitions. See “Risk Factors—Risks Related to Our Business and the Oil, Natural Gas and NGL Industry” for a discussion of these and other risks affecting our proved reserves and production.

Realized commodity prices

Our results of operations depend on many factors, particularly the price of our commodity production and our ability to market our production effectively. Oil and natural gas prices have historically been volatile and currently are at near record-high levels. During the period from January 1, 2021 through June 30, 2022, prices for crude oil and natural gas reached a high of \$123.70 per Bbl and \$23.86 per MMBtu, respectively, and a low of \$47.62 per Bbl and \$2.43 per MMBtu, respectively. A future decline in commodity prices may adversely affect our business, financial condition or results of operations. Lower commodity prices may not only decrease our revenues, but also the amount of oil and natural gas that we can produce economically. Lower oil and natural gas prices may also result in a reduction in the borrowing base under our Credit Facility, which is redetermined semi-annually. See “—Liquidity and Capital Resources—Revolving credit agreement.”

The NYMEX WTI, for oil prices, and NYMEX Henry Hub, for gas prices, are widely used benchmarks for the pricing of oil and natural gas in the United States. The price we receive for our oil and natural gas production is generally different than the NYMEX price because of adjustments for delivery location (“basis”), relative quality and other factors. As such, our revenues are sensitive to the price of the underlying commodity to which they relate. The following is a comparison of average pricing excluding and including the effects of derivatives:

	For the Year Ended		For the Six Months	
	December 31,		Ended June 30,	
	2021	2020	2022	2021
Average prices:				
<i>Oil (Bbl)</i>				
Average NYMEX Price	\$ 68.11	\$ 39.32	\$ 101.77	\$ 62.22
Average Realized Price (excluding derivatives)	\$ 67.41	\$ 37.11	\$ 101.23	\$ 60.80
Average Realized Price (including derivatives)	\$ 67.74	\$ 62.84	\$ 39.96	\$ 60.80
Differential to NYMEX	\$ (0.70)	\$ (2.21)	\$ (0.54)	\$ (1.42)
<i>Natural Gas (Mcf)</i>				
Average NYMEX Price	\$ 3.89	\$ 2.03	\$ 6.08	\$ 3.22
Average Realized Price (excluding derivatives)	\$ 4.00	\$ 1.89	\$ 5.73	\$ 3.51
Average Realized Price (including derivatives)	\$ 4.27	\$ 1.85	\$ 1.70	\$ 3.51
Differential to NYMEX	\$ 0.11	\$ (0.14)	\$ (0.35)	\$ 0.29
<i>Natural gas liquids (Bbl)</i>				
Average Realized Price (excluding derivatives)	\$ 25.16	\$ 10.07	\$ 39.42	\$ 20.44
Average Realized Price (including derivatives)	\$ 25.60	\$ 10.07	\$ 24.71	\$ 20.44

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	For the Year Ended December 31,		For the Six Months Ended June 30,	
	2021	2020	2022	2021
High and low NYMEX prices:				
<i>Oil (Bbl)</i>				
High	\$ 84.65	\$ 63.27	\$ 123.70	\$ 74.05
Low	\$ 47.62	\$ (37.63)	\$ 76.08	\$ 47.62
<i>Natural gas (Mcf)</i>				
High	\$ 23.86	\$ 3.14	\$ 9.44	\$ 23.86
Low	\$ 2.43	\$ 1.33	\$ 3.73	\$ 2.43

Hedging activities

To achieve more predictable cash flow and to reduce our exposure to adverse fluctuations in commodity prices, from time to time we enter into derivative arrangements for our production. In most of our current positions, our hedging activity may also reduce our ability to benefit from increases in commodity prices. We will sustain losses to the extent our derivatives contract prices are lower than market prices, and conversely, we will recognize gains to the extent our derivatives contract prices are higher than market prices. Our policy is to opportunistically hedge a portion of our production at commodity prices management deems attractive. We are also subject to certain hedging requirements pursuant to our Credit Facility. See “—Liquidity and Capital Resources—Revolving credit agreement.” While there is a risk we may not be able to realize the full benefits of rising prices, management may continue its hedging strategy because of the benefits of predictable, stable cash flows. See “—Quantitative and Qualitative Disclosure About Market Risk—Commodity Price Risk” for information regarding our exposure to market risk, including the effects of changes in commodity prices, and our commodity derivative contracts.

The price we receive for our oil and natural gas production is generally less than the NYMEX prices because of adjustments for basis, relative quality and other factors. We have entered into basis swap agreements that effectively fix the basis adjustment for our delivery locations.

In the year ended December 31, 2021, all of our hedging activities increased oil revenue \$0.3 million, NGL revenue \$0.5 million and gas revenue \$8.2 million. In the year ended December 31, 2020, all of our hedging activities increased oil revenue \$24.2 million and decreased gas revenue \$0.9 million. In the six months ended June 30, 2022, all of our hedging activities decreased oil revenue \$63.8 million, NGL revenue \$9.5 million and gas revenue \$61.0 million. In the six months ended June 30, 2021, all of our hedging activities had no effect on revenue.

The following tables summarize our open oil, NGL and natural gas hedging production as of June 30, 2022. Prices to be realized for hedged production will be less than these NYMEX prices because of location, quality and other adjustments.

<u>Crude Oil—Swaps Production Period</u>	<u>Bbls per Day</u>	<u>Weighted Average NYMEX Price per Bbl</u>
July 2022—December 2022	3,500	\$ 71.28
January 2023—December 2023	2,500	\$ 68.87
January 2024—June 2024	2,000	\$ 63.27

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Crude Oil Basis Swaps—West Texas Midland		Weighted Average
Production Period	Bbls per Day	NYMEX
		Price per Bbl(a)
July 2022—December 2022	3,000	\$ 0.55

(a) Increases to NYMEX oil price for delivery location.

Crude Oil—Roll Component		Weighted Average
Production Period	Bbls per Day	NYMEX
		Price per Bbl(a)
July 2022—December 2022	5,000	\$ 0.50
January 2023—December 2023	1,000	\$ 0.68

(a) Increases to NYMEX oil price for roll component.

Natural Gas Liquids—Swaps		Weighted Average
Production Period	Gallons per Day	NGL OPIS
		Price per Gallon
	Ethane	
July 2022—December 2022	63,000	\$ 0.33
January 2023—December 2023	63,000	\$ 0.27
January 2024—June 2024	63,000	\$ 0.23
	Propane	
July 2022—December 2022	31,500	\$ 1.01

Natural Gas—Swaps		Weighted Average
Production Period	MMBtu per Day	NYMEX
		Price per MMBtu
July 2022—December 2022	45,000	\$ 4.23
January 2023—December 2023	35,000	\$ 3.51
January 2024—June 2024	30,000	\$ 3.26

Natural Gas—Collars		Weighted Average	
Production Period	MMBtu per Day	NYMEX	
		Floor	Ceiling
		Price per MMBtu	
July 2022—December 2022	15,000	\$ 3.50	\$ 5.85
January 2023—March 2023	5,000	\$ 5.00	\$ 9.85
January 2024—June 2024	5,000	\$ 3.75	\$ 7.25

Natural Gas Basis Swaps—San Juan		Weighted Average
Production Period	MMBtu per Day	Sell Basis
		Price per MMBtu(a)
July 2022—December 2022	70,000	\$ 0.22
January 2023—December 2023	20,000	\$ 0.15

(a) Reductions to NYMEX gas price for delivery location.

Principal Components of Our Cost Structure

Production expenses

Production expenses are the costs incurred in the operation of producing properties and include workover costs. Expenses for labor, overhead and repairs and maintenance comprise the most significant components of production expenses. Lease operating expenses do not include general and administrative expenses or severance or ad valorem taxes. We evaluate production expenses on a per Boe basis to monitor changes in production expenses to determine that costs are at an acceptable level. We monitor our operations to ensure that we are incurring lease operating expenses at an acceptable level. Although we strive to reduce our lease operating expenses, these expenses can increase or decrease on a per unit basis as a result of various factors as we operate and develop our properties or make acquisitions of properties.

Taxes, transportation, and other expenses

Taxes, transportation, and other expenses consist primarily of gathering and processing fees, transportation costs, severance taxes, and ad valorem taxes. Gathering, processing and transportation costs are recognized when control of the natural gas we sell occurs at the tailgate of the processing plant. Severance taxes are paid on produced oil and natural gas based on a percentage of revenues from production sold at fixed rates established by state or local taxing authorities. In general, the severance taxes we pay correlate to the changes in oil and natural gas revenues. We are also subject to ad valorem taxes in the counties where our production is located. We evaluate taxes, transportation, and other expense on a per Boe basis to monitor costs to ensure that they are at acceptable levels. Taxes, transportation, and other expenses can also be influenced by acquisitions, commodity prices, changes in values of our properties, sales mix and acquisitions.

Depletion, depreciation, and amortization

Depreciation, depletion, and amortization (“*DD&A*”) is the systematic expensing of the capitalized costs incurred to acquire, explore and develop oil and natural gas. We follow the successful efforts method of accounting, capitalizing costs of successful acquisitions and exploratory wells, which are then allocated to each unit of production using the unit of production method, and expensing costs of unsuccessful exploratory wells. Exploratory geological and geophysical costs are expensed as incurred. All developmental costs are capitalized. We generally pursue acquisition and development of proved reserves as opposed to exploration activities. Changes in *DD&A* are a result of production and changes in the estimated reserves during the period.

General and administrative expenses

General and administrative expenses consist primarily of personnel related costs and are partially offset by certain reimbursements of overhead expenses. In connection with the consummation of this offering, we expect to incur additional costs related to being a public company. However, we do not expect to experience a material change in our cash cost structure, other than as set forth below under “Factors Affecting the Comparability of Our Financial Condition and Results of Operations.”

Interest expense

Interest expense is primarily a result of interest on our borrowings on our Credit Facility to fund operations and acquisitions of properties as well as the amortization of debt issuance costs associated with these borrowings. Interest expense can fluctuate with our level of indebtedness as well as changes in interest rates.

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Income tax

Texas does not currently impose a personal income tax on individuals, but it does impose an entity level tax (to which we will be subject) on corporations and other entities. While we do not pay income tax in Texas, we are subject to Texas franchise taxes.

We also currently conduct business or own property in New Mexico and Colorado, each of which imposes personal income taxes on individuals. These states also impose an income tax on corporations and other entities. Moreover, we may also own property or do business in other states in the future that impose income or similar taxes on nonresident individuals. Some of the states may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the state. Amounts withheld may be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. Please see “Material U.S. Federal Income Tax Consequences—Tax Consequences of Unit Ownership” for more information. Based on current law and our estimate of our future operations, we anticipate that any amounts required to be withheld will not be material.

How We Evaluate Our Operations

We use a variety of financial and operational metrics to assess the performance of our operations, including:

- production volumes;
- realized prices on the sale of oil, NGLs and natural gas;
- production expenses;
- acquisition and development expenditures;
- Adjusted EBITDAX; and
- Cash Available for Distribution.

Adjusted EBITDAX

We define Adjusted EBITDAX as net income (loss) before (1) interest income, (2) interest expense, (3) depreciation, depletion and amortization, (4) impairment expenses, (5) accretion of discount on asset retirement obligations, (6) exploration expenses, (7) unrealized (gain) losses on commodity derivative contracts, (8) non-cash incentive compensation, (9) non-cash (gain) loss on forgiveness of debt and (10) certain other non-cash expenses.

Adjusted EBITDAX is not a measure of net income as determined by U.S. GAAP. Management believes Adjusted EBITDAX is useful because it allows them to more effectively evaluate the financial performance of our assets from period to period and against our peers without regard to financing methods or capital structure.

Cash Available for Distribution

Although we have not quantified cash available for distribution on a historical basis, after the closing of this offering, we intend to use cash available for distribution to assess our ability to internally fund our exploration and development activities, pay distributions, and to service or incur additional debt. We define cash available for distribution as Adjusted EBITDAX less net cash

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interest expense, exploration expense, non-recurring (gain) / loss and development costs. Development costs includes all of our capital expenditures made for oil and gas properties, other than acquisitions. Cash available for distribution will not reflect changes in working capital balances.

You should not infer from our presentation of Adjusted EBITDAX that its results will be unaffected by unusual non-recurring items. You should not consider Adjusted EBITDAX or cash available for distribution in isolation or as a substitute for analysis of our results as reported under GAAP. Additionally, because Adjusted EBITDAX and cash available for distribution may be defined differently by other companies in our industry, our definition of Adjusted EBITDAX and cash available for distribution may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

Factors Affecting the Comparability of Our Financial Condition and Results of Operations

Our historical financial condition and results of operations for the periods presented may not be comparable, either from period to period or going forward, primarily for the following reasons:

Property acquisitions

We have completed four acquisitions in the past two years that affect the comparability of results of operations between 2020, 2021 and 2022 to some extent. We intend to continue to grow our operations through prudent acquisitions. Additionally, it is possible that we will effect divestitures of certain of our assets. We may enter into acquisitions and/or divestitures in the ordinary course of business that may affect our future operations, including our revenues and operating expenses. The following is a summary of acquisition activity that occurred from the beginning of 2020 to the date of this prospectus:

- *San Juan Acquisition.* The acquisition in June 2020 of producing properties in the San Juan Basin of New Mexico and Colorado for approximately \$10.2 million.
- *Vacuum Acquisition.* The acquisition in November 2021 of producing properties and a gas processing plant in the Permian Basin of New Mexico and CO₂ assets in Colorado for approximately \$175.4 million, which we refer to as the Vacuum Properties.
- *Andrews Parker Acquisition.* The acquisition in December 2021 of producing properties in the Permian Basin of Texas for approximately \$43.8 million.
- *Additional Interest Vacuum Acquisition.* The acquisition in August 2022 of additional interest in our producing properties and a gas processing plant in the Permian Basin of New Mexico for approximately \$52.6 million.

Supply, demand, market risk and their impact on oil and natural gas prices.

The oil and natural gas industry is cyclical and commodity prices are highly volatile. During the period from January 1, 2021 through June 30, 2022, prices for crude oil and natural gas reached a high of \$123.70 per Bbl and \$23.86 MMBtu, respectively, and a low of \$47.62 per Bbl and \$2.43 per MMBtu, respectively. Crude oil and natural gas prices were impacted by a variety of factors affecting current and expected supply and demand dynamics, including: strong demand for crude oil, domestic supply reductions, OPEC control measures and market disruptions resulting from the Russia-Ukraine war and sanctions on Russia. Since the Russia-Ukraine conflict first commenced, WTI crude oil prices have trended higher, rising from \$92.81 per Bbl on February 24, 2022 to a high of \$123.70 per Bbl in March 2022 and \$93.74 as of August 23, 2022. These prices experience large swings, sometimes on a day-to-day or week-to-week basis.

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Other factors impacting supply and demand include weather conditions, pipeline capacity constraints, inventory storage levels, basis differentials, export capacity, strength of the U.S. dollar as well as other factors, the majority of which are outside of our control. In addition to these uncontrollable influences, there is an ongoing shift of relaxing COVID-19 containment measures worldwide, which may increase economic activity and energy demand. As a result of these external factors, we expect global commodity price volatility will continue throughout 2022. Our revenue, profitability and future growth are highly dependent on the prices we receive for our oil and natural gas production. Please see “Risk Factors—Risks Related to Our Business and the Oil, Natural Gas and NGL Industry—The volatility of oil, natural gas and NGL prices due to factors beyond our control greatly affects our financial condition, results of operations and cash available for distribution.”

Public company expenses

Upon the completion of this offering, we expect to incur incremental non-recurring costs related to our transition to a publicly traded partnership, including the costs of this initial public offering and the costs associated with the initial implementation of our internal control implementation and testing. We also expect to incur additional significant and recurring expenses as a publicly traded partnership, including costs associated with the employment of additional personnel, compliance under the Exchange Act, annual and quarterly reports to shareholders, tax return preparation, independent auditor fees, incremental legal fees, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and independent director compensation. The direct, incremental general and administrative expenses are not included in our historical or pro forma financial statements.

Derivatives

To reduce the impact of fluctuations in oil, NGL and natural gas prices on our revenues, we periodically enter into commodity derivative contracts with respect to certain of our oil, NGL and natural gas production through various transactions that limit the risks of fluctuations of future prices. We plan to continue our practice of entering into such transactions to reduce the impact of commodity price volatility on our cash flow from operations.

Impairment

We evaluate our producing properties for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When assessing proved properties for impairment, we compare the expected undiscounted future cash flows of the proved properties to the carrying amount of the proved properties to determine recoverability. If the carrying amount of proved properties exceeds the expected undiscounted future cash flows, the carrying amount is written down to the properties' estimated fair value, which is measured as the present value of the expected future cash flows of such properties. The factors used to determine fair value include estimates of proved reserves, future commodity prices, timing of future production, and a risk-adjusted discount rate. The proved property impairment test is primarily impacted by future commodity prices, changes in estimated reserve quantities, estimates of future production, overall proved property balances, and depletion expense. If pricing conditions decline or are depressed, or if there is a negative impact on one or more of the other components of the calculation, we may incur proved property impairments in future periods.

Results of Operations**Six Months Ended June 30, 2022 Compared to the Six Months Ended June 30, 2021**

	Six Months Ended June 30,	
	2022	2021
	(in thousands)	
Revenues:		
Oil and condensate sales	\$ 41,608	\$ 25,577
Natural gas liquids sales	\$ 15,973	\$ 10,496
Natural Gas sales	\$ 25,758	\$ 52,189
Total revenues	\$ 83,339	\$ 88,262
Expenses:		
Production expenses	\$ 61,181	\$ 29,812
Exploration expenses	\$ 200	\$ 68
Taxes, transportation, and other	\$ 48,019	\$ 23,961
Depreciation, depletion, and amortization	\$ 19,717	\$ 18,831
Accretion of discount in asset retirement obligations	\$ 2,970	\$ 2,412
General and administrative	\$ 488	\$ 2,446
Total expenses	\$ 132,575	\$ 77,530
Operating income (loss):	\$ (49,236)	\$ 10,732
Other income (expense):		
Other income	\$ 11,428	\$ 7,201
Interest income	\$ 23	\$ 7
Interest expense	\$ (3,320)	\$ (2,484)
Total other income (expense)	\$ 8,131	\$ 4,724
Net income (loss):	\$ (41,105)	\$ 15,456

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The following table provides a summary of our sales volumes, average prices (both including and excluding the effects of derivatives) and operating expenses on a per Boe basis for the periods indicated:

	Six Months Ended	
	June 30,	
	2022	2021
Sales:		
Oil and condensate sales (MBbls)	1,041	421
Natural gas liquids sales (MBbls)	647	513
Natural gas sales (MMcf)	15,153	14,871
Total (MBoe)	4,213	3,413
Total (MBoe/d)	23	19
Average sales prices:		
Oil and condensate (per Bbl)(1)	\$ 39.96	\$ 60.80
Oil and condensate (excluding the effects of derivatives) (per Bbl)	\$ 101.23	\$ 60.80
Natural gas liquids (per Bbl)(2)	\$ 24.71	\$ 20.44
Natural gas liquids (excluding the effects of derivatives) (per Bbl)	\$ 39.42	\$ 20.44
Natural gas (per Mcf)(3)	\$ 1.70	\$ 3.51
Natural gas (excluding the effects of derivatives) (per Mcf)	\$ 5.73	\$ 3.51
Expense per Boe:		
Production	\$ 14.52	\$ 8.74
Taxes, transportation and other	\$ 11.40	\$ 7.02
Depreciation, depletion and amortization	\$ 4.68	\$ 5.52
General and administrative expenses	\$ 0.12	\$ 0.72

- (1) Oil and condensate prices include both realized and unrealized losses from derivatives. The unrealized losses were \$43.1 million for the six months ended June 30, 2022 and \$0.0 million for the six months ended June 30, 2021. The realized losses were \$20.7 million for the six months ended June 30, 2022 and \$0.0 million for the six months ended June 30, 2021.
- (2) Natural gas liquids prices include both realized and unrealized losses from derivatives. The unrealized losses were \$6.1 million for the six months ended June 30, 2022 and \$0.0 million for the six months ended June 30, 2021. The realized losses were \$3.4 million for the six months ended June 30, 2022 and \$0.0 million for the six months ended June 30, 2021.
- (3) Natural gas prices include both realized and unrealized losses from derivatives. The unrealized losses were \$42.9 million for the six months ended June 30, 2022 and \$0.0 million for the six months ended June 30, 2021. The realized losses were \$18.1 million for the six months ended June 30, 2022 and \$0.0 million for the six months ended June 30, 2021.

Revenues

Revenues decreased \$4.9 million, or 6%, from \$88.2 million for the six months ended June 30, 2021 to \$83.3 million for the six months ended June 30, 2022. The decrease was primarily attributable to losses on our hedging activity of \$134.3 million, of which \$92.1 million were unrealized losses and \$42.2 million were realized losses, partially offset by an increase in production of 800 MBoe primarily as a result of additional production from the acquired Vacuum Properties of 596 MBoe and Andrews Parker properties of 158 MBoe, respectively, resulting in an increase in revenue of \$69.7 million. The decrease was also offset by an increase in the average selling price, excluding the effects of derivatives, on oil of 66% resulting in an increase in revenue of

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\$17.0 million, on NGLs of 93% resulting in an increase in revenue of \$9.7 million, and on natural gas of 63% resulting in an increase in revenue of \$33.0 million.

Production expenses

Production expenses increased \$31.4 million, or 105%, from \$29.8 million for the six months ended June 30, 2021 to \$61.2 million for the six months ended June 30, 2022. The increase is primarily attributable to the increased production associated with the addition of the Vacuum Properties and Andrews Parker properties of \$26.9 million as well as increased maintenance costs and other cost increases.

On a per unit basis, production expenses increased from \$8.74 per Boe sold for the six months ended June 30, 2021 to \$14.52 per Boe sold for the six months ended June 30, 2022. The increase is primarily related to the increased costs per Boe from the acquired Vacuum Properties and Andrews Parker properties due to the acquired properties having a higher percentage of oil production, which is more expensive on a Boe basis than natural gas production. Additionally, increased maintenance costs and other cost increases contributed to the increase per Boe.

Taxes, transportation, and other

Taxes, transportation, and other increased \$24.0 million, or 100%, from \$24.0 million for the six months ended June 30, 2021 to \$48.0 million for the six months ended June 30, 2022. The increase is primarily attributable to the increased production associated with the addition of the Vacuum Properties and Andrews Parker properties of \$11.6 million as well as an increase in oil, NGLs, and natural gas prices.

On a per unit basis, taxes, transportation, and other increased from \$7.02 per Boe sold for the six months ended June 30, 2021 to \$11.40 per Boe sold for the six months ended June 30, 2022. The increase is primarily related to the higher commodity prices and change in production mix.

Depreciation, depletion, and amortization

Depreciation, depletion, and amortization increased \$0.9 million, or 5%, from \$18.8 million for the six months ended June 30, 2021 to \$19.7 million for the six months ended June 30, 2022. The increase is primarily attributable to the increased production associated with the addition of the Vacuum Properties and Andrews Parker properties in the fourth quarter of 2021 of \$5.9 million partially offset by a reduction of \$5.0 million from our other assets as a result of a lower average DD&A rate partially offset by higher production.

On a per unit basis, depreciation, depletion, and amortization decreased from \$5.52 per Boe sold for the six months ended June 30, 2021 to \$4.68 per Boe sold for the six months ended June 30, 2022. The decrease is primarily related to changes in reserves.

General and administrative

General and administrative (“G&A”) expenses decreased \$2.0 million, or 80%, from \$2.5 million for the six months ended June 30, 2021 to \$0.5 million for the six months ended June 30, 2022. The decrease is primarily attributable to a reduction of \$6.1 million from headcount reductions partially offset by \$4.1 million of decreased cost recoveries.

On a per unit basis, G&A expense decreased from \$0.72 per Boe sold for the six months ended June 30, 2021 to \$0.12 per Boe sold for the six months ended June 30, 2022. The decrease is primarily related to decreased costs and increased production partially offset by decreased cost recovery.

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Other income

Other income increased \$4.2 million, or 59%, from \$7.2 million for the six months ended June 30, 2021 to \$11.4 million for the six months ended June 30, 2022. The increase is primarily attributable to the recognition of \$11.3 million of CO₂ and plant income related to the acquired Vacuum Properties partially offset by the absence of the forgiveness of debt of \$7.2 million under the U.S. Government's Paycheck Protection Program from the Small Business Administration. The CO₂ and plant income is ancillary to the operations of the Vacuum Properties.

Interest expense

Interest expense increased \$0.8 million, or 34%, from \$2.5 million for the six months ended June 30, 2021 to \$3.3 million for the six months ended June 30, 2022. The increase is primarily attributable to the additional borrowings to fund the 2021 Acquisitions and a higher interest rate.

Year Ended December 31, 2021 Compared to the Year Ended December 31, 2020

	December 31,	
	2021	2020
	(in thousands)	
Revenues:		
Oil and condensate sales	\$ 69,971	\$ 59,070
Natural gas liquids sales	\$ 27,875	\$ 8,660
Natural Gas sales	\$ 130,498	\$ 41,034
Total revenues	\$ 228,344	\$ 108,764
Expenses:		
Production expenses	\$ 69,256	\$ 49,146
Exploration expenses	\$ 124	\$ 55
Taxes, transportation, and other	\$ 58,040	\$ 27,509
Depreciation, depletion, and amortization	\$ 39,889	\$ 42,322
Impairment	\$ —	\$ 134,097
Accretion of discount in asset retirement obligations	\$ 4,670	\$ 3,940
General and administrative	\$ 12,175	\$ 6,995
Total expenses	\$ 181,754	\$ 264,064
Operating income (loss):	\$ 44,190	\$ (155,300)
Other income (expense):		
Other income	\$ 14,139	\$ 72
Interest income	\$ 16	\$ 194
Interest expense	\$ (5,870)	\$ (8,204)
Total other income (expense)	\$ 8,285	\$ (7,938)
Net income (loss):	\$ 52,475	\$ (163,238)

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The following table provides a summary of our sales volumes, average prices and operating expenses on a per Boe basis for the periods indicated:

	Year Ended December 31,	
	2021	2020
Sales:		
Oil and condensate sales (MBbls)	1,033	940
Natural gas liquids sales (MBbls)	1,089	860
Natural gas sales (MMcf)	30,590	22,132
Total (MBoe)	7,220	5,489
Total (MBoe/d)	20	15
Average sales prices:		
Oil and condensate (per Bbl)(1)	\$ 67.74	\$ 62.84
Oil and condensate (excluding the effects of derivatives) (per Bbl)	\$ 67.41	\$ 37.11
Natural gas liquids (per Bbl)(2)	\$ 25.60	\$ 10.07
Natural gas liquids (excluding the effects of derivatives) (per Bbl)	\$ 25.16	\$ 10.07
Natural gas (per Mcf)(3)	\$ 4.27	\$ 1.85
Natural gas (excluding the effects of derivatives) (per Mcf)	\$ 4.00	\$ 1.89
Expense per Boe:		
Production expenses	\$ 9.59	\$ 8.95
Taxes, transportation and other	\$ 8.04	\$ 5.01
Depreciation, depletion and amortization	\$ 5.52	\$ 7.71
General and administrative expenses	\$ 1.69	\$ 1.27

- (1) Oil and condensate prices include both realized and unrealized gains and losses from derivatives. The unrealized portion were gains of \$0.3 million for the year ended December 31, 2021 and were losses of \$2.9 million for the year ended December 31, 2020. The realized gains were \$0.0 million for the year ended December 31, 2021 and \$27.1 million for the year ended December 31, 2020.
- (2) Natural gas liquids prices include unrealized gains from derivatives. The unrealized gains were \$0.5 million for the year ended December 31, 2021 and \$0.0 million for the year ended December 31, 2020.
- (3) Natural gas prices include both realized and unrealized gains and losses from derivatives. The unrealized gains were \$8.2 million for the year ended December 31, 2021 and \$0.1 million for the year ended December 31, 2020. The realized losses were \$0.0 million for the year ended December 31, 2021 and \$1.0 million for the year ended December 31, 2020.

Revenues

Revenues increased \$119.6 million, or 110%, from \$108.8 million for the year ended December 31, 2020 to \$228.3 million for the year ended December 31, 2021. The increase was primarily attributable to an increase in the average selling price, excluding the effects of derivatives, on oil of 82%, resulting in an increase in revenue of \$28.5 million, on NGLs of 150%, resulting in an increase in revenue of \$13.0 million, and on natural gas of 111%, resulting in an increase in revenue of \$46.6 million. The increase was also attributable to an increase in production of 1,731 MBoe primarily as a result of additional production from the acquired San Juan properties of 1,723 MBoe and Vacuum Properties of 177 MBoe partially offset by decreased production in our other properties, resulting in an increase in revenue of \$45.8 million partially offset by decreased gains on our hedging activity of \$14.3 million. The \$14.3 million decrease from

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our hedging activity includes a decrease in the realized portion of \$26.2 million partially offset by an increase in the unrealized portion of \$11.9 million.

Production expenses

Production expenses increased \$20.1 million, or 41%, from \$49.1 million for the year ended December 31, 2020 to \$69.3 million for the year ended December 31, 2021. The increase is primarily attributable to the increased production associated with the addition of the San Juan properties of \$12.7 million and the Vacuum Properties of \$5.5 million as well as increased maintenance and well work costs.

On a per unit basis, production expenses increased from \$8.95 per Boe sold for the year ended December 31, 2020 to \$9.59 per Boe sold for the year ended December 31, 2021. The increase is primarily related to the increased costs per Boe from the acquired Vacuum Properties as well as the increased maintenance and well work costs.

Taxes, transportation, and other

Taxes, transportation, and other increased \$30.5 million, or 111%, from \$27.5 million for the year ended December 31, 2020 to \$58.0 million for the year ended December 31, 2021. The increase is primarily attributable to the increased production associated with the addition of the San Juan properties of \$23.6 million and the Vacuum Properties of \$2.7 million as well as an increase in oil, NGLs, and natural gas prices.

On a per unit basis, taxes, transportation, and other increased from \$5.01 per Boe sold for the year ended December 31, 2020 to \$8.04 per Boe sold for the year ended December 31, 2021. The increase is primarily related to the higher commodity prices and change in production mix.

Depreciation, depletion, and amortization

Depreciation, depletion, and amortization decreased \$2.4 million, or 6%, from \$42.3 million for the year ended December 31, 2020 to \$39.9 million for the year ended December 31, 2021. The decrease is primarily attributable to a reduction of \$7.0 million from our other assets as a result of lower production and lower rate, partially offset by increased production associated with the addition of the San Juan properties of \$3.3 million and Vacuum Properties of \$1.3 million.

On a per unit basis, depreciation, depletion, and amortization decreased from \$7.71 per Boe sold for the year ended December 31, 2020 to \$5.52 per Boe sold for the year ended December 31, 2021. The decrease is primarily related to changes in production mix and the effect of the 2020 impairment discussed below.

Impairment of oil and gas properties

For the year ended December 31, 2020, we recognized an impairment of long-lived assets of \$134.1 million for our assets primarily due to a lower net commodity price environment for some of our oil and natural gas assets.

General and administrative

G&A expenses increased \$5.2 million, or 74%, from \$7.0 million for the year ended December 31, 2020 to \$12.2 million for the year ended December 31, 2021. The increase is primarily attributable to the increased costs related to the acquired Vacuum Properties of \$2.7 million as well as decreased COPAS related cost reimbursements.

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On a per unit basis, G&A expense increased from \$1.27 per Boe sold for the year ended December 31, 2020 to \$1.69 per Boe sold for the year ended December 31, 2021. The increase is primarily related to decreased COPAS related cost reimbursements partially offset by increased production.

Other income

Other income increased \$14.1 million from \$0.1 million for the year ended December 31, 2020 to \$14.1 million for the year ended December 31, 2021. The increase is primarily attributable to forgiveness of debt of \$9.2 million under the U.S. Government's Paycheck Protection Program from the Small Business Administration, the \$3.6 million non-cash gain on sale of properties due to the write off of related asset retirement obligations and the recognition of \$2.0 million of CO₂ and plant income related to the acquired Vacuum Properties partially offset by the \$0.6 million write off of certain assets.

Interest expense

Interest expense decreased \$2.3 million, or 28%, from \$8.2 million for the year ended December 31, 2020 to \$5.9 million for the year ended December 31, 2021. The decrease is primarily attributable to decreased borrowings and a lower interest rate.

Liquidity and Capital Resources

Following the consummation of this offering, our primary sources of liquidity and capital will be cash flows generated by operating activities and borrowings under our Credit Facility. Outstanding borrowings under our Credit Facility were \$145.0 million at December 31, 2021 and \$92.0 million at June 30, 2022, and the remaining availability under our Credit Facility was \$20.0 million at December 31, 2021 and \$73.0 million at June 30, 2022. Additionally, we had positive net working capital (including cash and excluding the effects of derivative instruments) of \$17.6 million at December 31, 2021 and \$21.6 million at June 30, 2022. After giving effect to this offering and the use of proceeds as described under "Use of Proceeds" as of June 30, 2022, we would have had \$ outstanding, \$ million available under our Credit Facility (based on the outstanding balance on the Credit Facility subsequent to the offering and the borrowing base as of June 30, 2022) and \$8.0 million of cash (based on our cash balance as of June 30, 2022), for total liquidity of \$ million.

As a publicly traded partnership, our primary sources of liquidity and capital resources will be from cash flow generated by operating activities and borrowings under our Credit Facility. Historically, our primary sources of liquidity have also included capital contributions by our equity holders, but we do not expect to rely on management or our partners for capital following the completion of this offering. We may need to utilize the public equity or debt markets and bank financings to fund future acquisitions or capital expenditures, but the price at which our common units will trade could be diminished as a result of the limited voting rights of unitholders. We expect to be able to issue additional equity and debt securities from time to time as market conditions allow to facilitate future acquisitions. We expect to repay any debt incurred by us to complete such acquisitions in order to meet our long-term goal of remaining substantially debt free. Our ability to finance our operations, including funding capital expenditures and acquisitions, to meet our indebtedness obligations or to refinance our indebtedness will depend on our ability to generate cash in the future. Our ability to generate cash is subject to a number of factors, some of which are beyond our control, including commodity prices, particularly for oil and natural gas, and our ongoing efforts to manage operating costs and maintenance capital expenditures, as well as general economic, financial, competitive, legislative, regulatory, weather and other factors.

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Our partnership agreement requires that we distribute all of our available cash (as defined in the partnership agreement) to our unitholders. In making cash distributions, our general partner will attempt to avoid large variations in the amount we distribute from quarter to quarter. In order to facilitate this, our partnership agreement permits our general partner to establish cash reserves to be used to pay distributions for any one or more of the next four quarters.

In addition, our partnership agreement permits us to borrow funds to make distributions to our unitholders. We may borrow to make distributions to our unitholders, for example, in circumstances where we believe that the distribution level is sustainable over the long-term, but short-term factors have caused available cash from operations to be insufficient to sustain our level of distributions. For example, we generally intend to hedge a portion of our production. We generally will be required to settle our commodity hedge derivatives within twenty-five days of the end of the month. As is typical in the oil and gas industry, we do not generally receive the proceeds from the sale of our hedged production until 20 to 60 days following the end of the month. As a result, when commodity prices increase above the fixed price in the derivative contracts, we will be required to pay the derivative counterparty the difference between the fixed price in the derivative contract and the market price before we receive the proceeds from the sale of the hedged production. If this occurs, we may, but are under no obligation to, borrow to fund our distributions.

Our acquisition and development expenditures consist of acquisitions of proved, unproved and other property and development expenditures. Our capital expenditures including acquisitions were \$7.9 million for the six months ended June 30, 2022 and \$5.7 million for the six months ended June 30, 2021. Our capital expenditures including acquisitions were \$227.8 million for the year ended December 31, 2021 and \$16.7 million for the year ended December 31, 2020.

We plan to continue our practice of entering into hedging arrangements to reduce the impact of commodity price volatility on our cash flow from operations and to satisfy the requirement under our Credit Facility to hedge at least (a) 75% of reasonably anticipated projected production of proved developed producing reserves for the 12-month period following January 1, 2022 and (b) thereafter 50% of reasonably anticipated projected production of proved developed producing reserves for the 30-month period following the date of any hedging transaction. However, as of any time, if the net leverage ratio (the ratio of total net debt-to-EBITDAX) is less than or equal to 1.0 to 1.0 and availability under the Credit Facility is equal to or greater than 20% of the borrowing base then in effect, the minimum required hedge volume for month one through month 24 will be reduced to 50%. Our Credit Facility prohibits us from hedging more than 90% of our reasonably projected production for any fiscal year. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Revolving credit agreement" for more information. Our policy is to consider hedging a portion of our production at commodity prices management deems attractive.

Our budgets for drilling, completion and recompletion activities and facilities costs are approximately \$30 million for 2022 and approximately \$30 million for 2023. We expect to allocate most of our 2022 budget and the majority of our 2023 budget to projects focused on enhancing existing production. For the six months ended June 30, 2022, we have made approximately \$2.2 million of drilling, completion and recompletion expenditures. We expect to fund these capital expenditures from cash flow from operations.

The amount and timing of these capital expenditures is substantially within our control and subject to management's discretion. We retain the flexibility to defer a portion of these planned capital expenditures depending on a variety of factors, including, but not limited to the prevailing and anticipated prices for oil, NGLs and natural gas, the availability of necessary equipment, infrastructure and capital, seasonal conditions and drilling and acquisition costs. Any

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postponement or elimination of our development program could result in a reduction of proved reserve volumes, production and cash flow, including distributions to unitholders.

Based on current commodity prices and our drilling success rate to date, we expect to be able to fund our distributions, meet our debt obligations and fund our 2022 and 2023 capital development programs from cash flow from operations and the net proceeds of this offering.

If cash flow from operations does not meet our expectations, we may reduce our expected level of capital expenditures and/or distributions to unitholders. Alternatively, we may fund these expenditures using borrowings under our Credit Facility, issuances of debt and equity securities or from other sources, such as asset sales. We cannot assure you that necessary capital will be available on acceptable terms or at all. Our ability to raise funds through the incurrence of additional indebtedness could be limited by covenants in our debt arrangements. If we are unable to obtain funds when needed or on acceptable terms, we may not be able to complete acquisitions that may be favorable to us, finance the capital expenditures necessary to maintain our production or proved reserves, or make distributions to unitholders.

Cash flows

The following table summarizes our cash flows for the periods indicated (in thousands):

	For the Year Ended December 31,		For the Six Months Ended June 30,	
	2021	2020	2022	2021
	(in thousands)			
Net cash provided by operating activities	\$ 73,726	\$ 18,964	\$ 68,488	\$ 31,097
Net cash used by investing activities	\$ (227,801)	\$ (16,718)	\$ (7,899)	\$ (5,706)
Net cash provided by (used in) financing activities	\$ 139,689	\$ 14,067	\$ (60,115)	\$ (23,011)

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Net cash provided by operating activities

Net cash provided by operating activities increased \$37.4 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 due to a change in non-cash derivative loss of \$134.3 million, changes in non-cash expenses of \$1.5 million and decrease in forgiveness in debt of \$7.2 million partially offset by decreased net income of \$56.6 million, increased realized derivative losses of \$42.2 million and changes in operating assets and liabilities of \$6.8 million. Excluding the \$134.3 million of non-cash effects of derivative losses, net income would have increased \$77.7 million primarily as a result of improved prices in 2022 compared to 2021 and increased production primarily due to the Vacuum Properties and Andrews Parker Acquisition in late 2021 partially offset by increased costs.

Net cash used by investing activities

Net cash used by investing activities increased \$2.2 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 due to an increase in proved property acquisitions of \$3.7 million and other property of \$1.9 million partially offset by a decrease in development costs of \$3.4 million.

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	For the Six Months Ended June 30,	
	2022	2021
	(in thousands)	
Proceeds from long-term debt	\$ 751,000	\$ 728,000
Payments on long-term debt	\$ (804,000)	\$ (751,000)
Debt issuance costs	\$ (91)	\$ (11)
Capitalized offering costs	\$ (544)	—
Distributions	\$ (6,480)	—
Net cash used in financing activities	\$ (60,115)	\$ (23,011)

Net cash used in financing activities increased \$37.1 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 due to an increase in net repayments under our Credit Facility of \$30.0 million, a \$6.5 million increase in distributions, an increase in capitalized offering costs of \$0.5 million and an increase in debt issuance costs of \$0.1 million.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020***Net cash provided by operating activities***

Net cash provided by operating activities increased \$54.8 million for the year ended December 31, 2021 compared to the year ended December 31, 2020 due to an increase in net income of \$215.7 million partially offset by a decrease in non-cash expenses of \$135.8 million, a change in non-cash derivative gain of \$11.9 million, forgiveness of debt of \$9.2 million, a decrease in non-cash incentive compensation of \$1.8 million, changes in other non-cash items of \$1.4 million and changes in operating assets and liabilities of \$0.8 million. The improvement in net cash provided by operating activities is primarily related to improved prices in 2021 compared to 2020 and increased production as a result of owning the San Juan Basin properties for the entire year and the acquisition of the Vacuum Properties in 2021 partially offset by increased costs.

Net cash used in investing activities

Net cash used in investing activities increased \$211.1 million for the year ended December 31, 2021 compared to the year ended December 31, 2020 due to an increase in proved property acquisitions of \$175.0 million, other property additions of \$33.0 million and development costs of \$3.4 million partially offset by a decrease in unproved property acquisitions of \$0.3 million.

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Net cash provided by (used in) financing activities

	For the Year Ended December 31,	
	2021	2020
	(in thousands)	
Proceeds from long-term debt	\$ 1,437,000	\$ 1,932,152
Payments on long-term debt	\$ (1,427,000)	\$ (1,968,000)
Proceeds from temporary equity investment	\$ —	\$ 50,695
Proceeds from partners' investment	\$ 132,660	\$ —
Debt issuance costs	\$ (2,832)	\$ (709)
Payment on vesting of restricted units	\$ —	\$ (40)
Distributions	\$ (139)	\$ (31)
Net cash provided by financing activities	<u>\$ 139,689</u>	<u>\$ 14,067</u>

Net cash provided by financing activities increased \$125.6 million for the year ended December 31, 2021 compared to the year ended December 31, 2020 due to an increase in proceeds received from partners of \$82.0 million and in net borrowings under our Credit Facility of \$45.8 million partially offset by an increase in debt issuance costs of \$2.1 million and distributions of \$0.1 million.

Revolving credit agreement

On November 1, 2021, we entered into a new four-year, \$165 million senior secured credit facility (the "Credit Facility") with certain commercial banks. Our Credit Facility permits us to use proceeds for general partnership purposes including distributions to our unitholders. Our obligations under the Credit Facility are secured by all of our assets, including (i) our interest in Cross Timbers, (ii) all our deposit accounts, securities accounts, and commodities accounts, (iii) any receivables owed to us by the joint venture and (iv) any oil and gas properties owned directly by us and our wholly-owned subsidiaries. The facility has a maturity date of November 1, 2025. We use the facility for general partnership purposes. In connection with entering into the Credit Facility, as of June 30, 2022, we incurred financing fees and expenses of approximately \$2.8 million before accumulated amortization of \$0.5 million. These costs are being amortized over the life of the Credit Facility. Such amortized expenses are recorded as interest expense on the statements of operations. As of June 30, 2022, we had \$92 million in borrowings outstanding under our Credit Facility and \$73 million in availability. After giving effect to this offering and the use of proceeds as described under "Use of Proceeds" as of June 30, 2022, we would have had \$ outstanding and \$ million available under our Credit Facility, based on the outstanding balance on the Credit Facility subsequent to the offering and the borrowing base as of June 30, 2022.

Under our Credit Facility, the borrowing base is determined based on the value of our oil and natural gas properties and the oil and gas properties of our wholly owned subsidiaries. The borrowing base is subject to further adjustments for asset dispositions, material title deficiencies, certain terminations of hedge agreements and issuances of permitted additional indebtedness. As of June 8, 2022, the last date of redetermination, our borrowing base was \$165 million.

Redetermination of the borrowing base under the Credit Facility is based primarily on reserve reports that reflect commodity prices at such time and occurs semi-annually, in March and September, as well as upon requested interim redeterminations by the lenders at their sole discretion. We also have the right to request additional borrowing base redeterminations each year

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at our discretion. Significant declines in commodity prices may result in a decrease in the borrowing base. These borrowing base declines can be offset by any commodity price hedges we enter. Our next borrowing base redetermination is scheduled for September, 2022.

Our Credit Facility contains certain customary representations, warranties and covenants, including but not limited to, limitations on incurring debt and liens, limitations on merging or consolidating with another company, limitations on making certain restricted payments, limitations on investments, limitations on paying distributions on, redeeming, or repurchasing common units, limitations on entering into transactions with affiliates, and limitations on asset sales. The Credit Facility also contains customary events of default, including non-payment, breach of covenants, materially incorrect representations, cross-default, bankruptcy and change of control. If an event of default occurs and is continuing, the lenders may declare all amounts outstanding under the Credit Facility to be immediately due and payable.

At our election, interest on borrowings under the Credit Facility is determined by reference to either the secured overnight financing rate (“*SOFR*”) plus an applicable margin between 3.00% and 4.00% per annum (depending on the then-current level of borrowings under the Credit Facility) or the alternate base rate (“*ABR*”) plus an applicable margin between 2.00% and 3.00% per annum (depending on the then-current level of borrowings under the Credit Facility). *SOFR* may be replaced with *ABR* under certain circumstances. If the administrative agent under the Credit Facility determines that adequate and reasonable means do not exist for determining the *SOFR* rate for any such interest period or if the majority of lenders determines that the *SOFR* for such interest period will not adequately and fairly reflect the cost to such lenders of making or maintaining their respective loan advances then any new or continued borrowings shall bear interest based on the *ABR* until the administrative agent confirms to us that such circumstances no longer exist. The *ABR* is determined by taking the greatest of (a) the rate of interest last quoted by The Wall Street Journal in effect on such day, (b) the greater of the federal funds effect rate in effect on such day calculated by the Federal Reserve Bank of New York and the overnight bank funding rate comprised of both overnight federal funds and overnight Eurodollar transactions by U.S.-managed banking offices of depository institutions in effect on such date plus 1/2 of 1.00% and (c) the *SOFR* for a one month interest period published two businesses days before such date plus 1.00%. We may convert from electing an interest rate based on *SOFR* or *ABR* by providing the administrative agent notice at least three business days in advance of the proposed conversion. Interest is generally payable quarterly for loans bearing interest based on the *ABR* and at the end of the applicable interest period for loans bearing interest at *SOFR*. We are required to pay a commitment fee to the lenders under the Credit Facility, which accrues at a rate per annum of 0.5% on the average daily unused amount of the lesser of: (i) the maximum commitment amount of the lenders and (ii) the then-effective borrowing base. The weighted average interest rate on Credit Facility borrowings was 4.00% in 2021. The effective borrowing rate under our Credit Facility was 4.7% as of June 30, 2022.

We are required to maintain (i) a current ratio (the ratio of current assets to current liabilities) greater than 1.0, which for purposes of this definition includes availability under the Credit Facility but excludes the fair value of derivative instruments, and (ii) a ratio of total net debt-to-EBITDAX of not greater than 3.00 to 1.00. For purposes of the total net debt-to-EBITDAX ratio, total net debt is total debt for borrowed money (including capital leases and purchase money debt) minus unrestricted cash and cash equivalents on hand at such time (not exceeding \$15.0 million in the aggregate), and EBITDAX includes Cross Timber’s EBITDAX only to the extent of cash distributions received by us. For purposes of our Credit Facility, EBITDAX is defined to mean net income plus interest expense; income taxes paid; depreciation, depletion and amortization; exploration expenses, including workover expenses; non-cash charges including unrealized losses on derivative instruments; and any extraordinary or non-recurring charges, minus any extraordinary or

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non-recurring income and any non-cash income including unrealized gains on derivative instruments. Furthermore, we only include realized hedge gains less realized hedge losses and the consolidated expenses of ours and our subsidiaries. We were in compliance with all financial and other covenants of the Credit Facility as of March 31, 2022 except the covenant regarding hedge volumes required as of March 31, 2022. We received a waiver for this exception in June 2022. We were in compliance with all covenants in our Credit Facility as of June 30, 2022. We believe that we have a sufficient combination of resources and operating flexibility to ensure that we remain in compliance with our debt covenants for at least the next 12 months.

Our Credit Facility permits us to make distributions of 100% of our “Distributable Cash Flow” so long as (i) at the time of any such distribution and immediately after giving effect thereto, no default, event of default or borrowing base deficiency has occurred and is continuing, (ii) the our ratio of total net debt-to-EBITDAX does not exceed 2.00 to 1.00 as of the last day of the fiscal quarter most recently ended for which our financial statements have been delivered (determined on a pro forma basis after giving effect to such distribution) and (iii) after giving effect to such distribution, there is at least 20% of total borrowings then available under our Credit Facility. For purposes of our Credit Facility, “Distributable Cash Flow” is defined, generally, to mean (a) our EBITDAX during each period of four consecutive quarters (a “rolling period”), minus the increase (or plus the decrease) in working capital from the previous rolling period minus (b) the sum of (i) capital expenditures paid in cash, (ii) cash interest expense, (iii) cash taxes paid, (iv) exploration expenses or costs paid in cash, (v) restricted payments made in cash (other than any prior distributions of Distributable Cash Flow) and (vi) to the extent not included in this clause (b) and otherwise added back in the calculation of EBITDAX, any other cash charge that reduces our earnings. The amount of Distributable Cash Flow with respect to any fiscal quarter is further reduced by all prior distributions of Distributable Cash Flow during the applicable rolling period.

Further, our Credit Facility requires us to hedge at most 90% of reasonably anticipated projected production and at least (a) 75% of reasonably anticipated projected production of proved developed producing reserves for the 12-month period following January 1, 2022 and (b) thereafter 50% of reasonably anticipated projected production of proved developed producing reserves for the 30-month period following the date of any hedging transaction. See Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Revolving credit agreement” for more information. However, as of any time, if the net leverage ratio (the ratio of total net debt-to-EBITDAX) is less than or equal to 1.0 to 1.0 and availability under the Credit Facility is equal to or greater than 20% of the borrowing base then in effect, the minimum required hedge volume for month one through month 24 will be reduced to 50%; and the requirement to maintain a minimum required hedge volume for months 25 through month 30 shall be removed.

Contractual obligations and commitments

We have not guaranteed the debt or obligations of any other party, nor do we have any other arrangements or relationships with other entities that could potentially result in consolidated debt or losses.

Derivative contracts

We have entered into derivative instruments to hedge our exposure to commodity price fluctuations. If market prices are higher than the contract prices when the cash settlement amount is calculated, we are required to pay the contract counterparties. As of December 31, 2021, the current liability related to such contracts was \$6.5 million and the non-current liability was \$0.1 million. Such payments will generally be funded by higher prices received from the sale of

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oil, NGLs and natural gas. For further information on derivative contracts, see Note 10 in the financial statements included elsewhere in this prospectus.

Asset retirement obligations

At December 31, 2021, we had asset retirement obligations of \$104.5 million inclusive of a current portion of \$1.1 million. For further information on asset retirement obligations, see Note 8 in the financial statements included elsewhere in this prospectus.

Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risk, including the effects of adverse changes in commodity prices and interest rates as described below. The primary objective of the following information is to provide quantitative and qualitative information about our potential exposure to market risks. The term “market risk” refers to the risk of loss arising from adverse changes in commodity prices and interest rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses. All of our market risk sensitive instruments were entered into for purposes other than speculative trading. Also, gains and losses on these instruments are generally offset by losses and gains on the offsetting expenses.

Commodity price risk

Our major market risk exposure is in the pricing that we receive for our oil, NGL and natural gas production. Pricing for oil, NGLs, and natural gas has been volatile and unpredictable for several years, and this volatility is expected to continue in the future. The prices we receive for our oil, NGL, and natural gas production depend on many factors outside of our control, such as the strength of the global economy and global supply and demand for the commodities we produce.

To reduce the impact of fluctuations in oil, NGL and natural gas prices on our revenues, we periodically enter into commodity derivative contracts with respect to certain of our oil, NGL and natural gas production through various transactions that limit the risks of fluctuations of future prices. We plan to continue our practice of entering into such transactions to reduce the impact of commodity price volatility on our cash flow from operations. Future transactions may include price swaps whereby we will receive a fixed price for our production and pay a variable market price to the contract counterparty. Additionally, we may enter into collars, whereby we receive the excess, if any, of the fixed floor over the floating rate or pay the excess, if any, of the floating rate over the fixed ceiling. These hedging activities are intended to limit our exposure to product price volatility and to maintain stable cash flows.

As of June 30, 2022, the fair market value of our oil, NGL and natural gas derivative contracts was a net liability of \$83.2 million. Based upon our open commodity derivative positions at June 30, 2022, a hypothetical 10% change in the NYMEX WTI and Henry Hub prices, OPIS prices and basis prices would change our net oil, NGL and natural gas derivative liability by approximately \$33.7 million, as follows:

<i>(In millions)</i>	Fair Value at June 30, 2022	Hypothetical Price Increase or Decrease of 10%
Derivative asset (liability) - Crude Oil	\$ (42,786)	\$ 17,558
Derivative asset (liability) - Natural Gas	\$ (34,751)	\$ 13,691
Derivative asset (liability) - Natural Gas Liquid	\$ (5,646)	\$ 2,406
Total	<u>\$ (83,183)</u>	<u>\$ 33,655</u>

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The hypothetical change in fair value could be a gain or loss depending on whether prices increase or decrease. Please see “—Derivative Arrangements.”

Counterparty and customer credit risk

Our cash and cash equivalents are exposed to concentrations of credit risk. We manage and control this risk by investing these funds in major financial institutions. We often have balances in excess of the federally insured limits.

We sell oil, NGL and natural gas production to various types of customers. Credit is extended based on an evaluation of the customer’s financial condition and historical payment record. The future availability of a ready market for our production depends on numerous factors outside of our control, none of which can be predicted with certainty. For the year ended December 31, 2021, we had three customers that each accounted for more than 10% of total revenues. See “Business—Operations—Marketing and Customers.” We do not believe the loss of any single purchaser would materially impact our operating results because oil, NGLs and natural gas are fungible products with well-established markets and numerous purchasers.

At December 31, 2021, we had commodity derivative contracts with counterparties. We are currently not required to provide collateral or other security to counterparties to support derivative instruments; however, to minimize the credit risk in derivative instruments, it is our policy to enter into derivative contracts only with counterparties that are creditworthy financial institutions deemed by management as competent and competitive market makers. Additionally, we use master netting arrangements to minimize credit risk exposure. The creditworthiness of our counterparties is subject to periodic review.

Interest rate risk

At June 30, 2022, we had \$92.0 million of variable rate debt outstanding. Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the average interest rate would be approximately \$0.9 million per year. See “—Liquidity and Capital Resources—Revolving credit agreement.”

Critical accounting policies and estimates

Our financial position and results of operations are significantly affected by accounting policies and estimates related to our oil and gas properties, proved reserves, asset retirement obligation and commodity prices and risk management, as summarized below. See Note 1 of the notes to the audited financial statements included elsewhere in this prospectus for an expanded discussion of our significant accounting policies and estimates made by management.

Property and equipment

A majority of the property costs reflected in the accompanying balance sheet are from the acquisition of proved properties. Successful drill well costs are transferred to proved properties generally within one month of the well completion date.

Depreciation, depletion and amortization (DD&A) of proved producing properties is computed on the unit-of-production method based on estimated proved oil and gas reserves. Repairs and maintenance are expensed, while renewals and betterments are generally capitalized.

If conditions indicate that proved properties may be impaired, the carrying value of property is compared to management’s future estimated pre-tax undiscounted cash flow from properties

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generally aggregated on a field-level basis. If impairment is necessary, the asset carrying value is written down to fair value, typically a discounted present value of estimated future cash flows. Cash flow pricing estimates are based on estimated reserves and production information and pricing assumptions that management believes are reasonable.

The impairment assessment process is primarily dependent upon the estimate of proved reserves. Any overstatement of estimated proved reserve quantities would result in an overstatement of estimated future net cash flows, which could result in an understated assessment of impairment. The subjectivity and risks associated with estimating proved reserves are discussed under “Oil and Natural Gas Reserves” below. Prediction of product prices is subjective since prices are largely dependent upon supply and demand resulting from global and national conditions generally beyond our control. However, management’s assessment of product prices for purposes of impairment is consistent with that used in its business plans and investment decisions. While there is judgment involved in management’s estimate of future product prices, the potential impact on impairment has not been significant recently since product prices have been substantially higher than our net acquisition and development costs per Boe. However, due to the significant decline in product prices as a result of the COVID-19 pandemic, we recognized a \$134.1 million impairment on certain of our proved properties in 2020. Prior to 2020, our historical impairment of proved properties included \$177.4 million of proved property impairments from 2014 through 2018. We believe that a sensitivity analysis regarding the effect of changes in assumptions on estimated impairment is impracticable to provide because of the number of assumptions and variables involved which have interdependent effects on the potential outcome.

Costs of retired, exchanged, sold or abandoned properties that constitute a part of an amortization base are charged or credited, net of proceeds, to accumulated depreciation, depletion and amortization unless doing so significantly affects the unit-of-production amortization rate, in which case a gain or loss is recognized currently. Gains or losses from the disposal of other properties are recognized currently.

Oil and natural gas reserves

Our proved oil and natural gas reserves are estimated by independent petroleum engineers. Reserve engineering is a subjective process that is dependent upon the quality of available data and the interpretation thereof, including evaluation and extrapolations of well flow rates and reservoir pressure. Estimates by different engineers often vary, sometimes significantly. In addition, physical factors such as the results of drilling, testing and production, subsequent to the date of an estimate, as well as economic factors such as changes in product prices, may justify revision of such estimates. Because proved reserves are required to be estimated using the 12-month average prices, estimated reserve quantities can be significantly impacted by changes in product prices.

Proved reserves, as defined by the Financial Accounting Standards Board (“FASB”) and adopted by the SEC, are limited to known reservoirs that indicate economic producibility through actual production or conclusive formation tests, and generally cannot extend beyond the immediate adjoining undrilled portion.

DD&A of producing properties is computed on the unit-of-production method based on estimated proved oil and natural gas reserves. While total DD&A expense for the life of a property is limited to the property’s total cost, proved reserve revisions result in a change in timing of when DD&A expense is recognized. Downward revisions of proved reserves result in an acceleration of DD&A expense, while upward revisions tend to lower the rate of DD&A expense recognition. During 2021, net upward revisions to proved reserves on a Boe basis occurred, which will result in a decrease in DD&A expense of 49% in 2022.

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The standardized measure of discounted future net cash flows and changes in such cash flows, are prepared using assumptions required by FASB and the SEC. Such assumptions include 12-month average oil and natural gas prices, based on the first-day-of-the-month price for each month in the period, and year end costs for estimated future development and production expenditures. Discounted future net cash flows are calculated using a 10% rate. Changes in any of these assumptions could have a significant impact on the standardized measure. Accordingly, the standardized measure does not represent management's estimated current market value of proved reserves.

Derivatives

We use derivatives to hedge against changes in cash flows related to product price, as opposed to their use for trading purposes. We record all derivatives on the balance sheet at fair value. We generally determine the fair value of futures contracts and swap contracts based on the difference between the derivative's fixed contract price and the underlying market price at the determination date.

We do not designate these derivative contracts as cash flow hedges. Changes in the fair value of commodity price derivatives are recognized currently in earnings. Realized and unrealized gains and losses on commodity derivatives are recognized in oil, NGL and natural gas revenues. Settlements of derivatives are included in cash flows from operating activities.

While our price risk management activities decrease the volatility of cash flows, they may obscure our reported financial condition. As required under GAAP, we record derivative financial instruments at their fair value, representing projected gains and losses to be realized upon settlement of these contracts in subsequent periods when related production occurs. These gains and losses are generally offset by increases and decreases in the market value of our proved reserves, which are not reflected in the financial statements.

See also "Quantitative and Qualitative Disclosures about Market Risk—Commodity Price Risk", for the effect of price changes on derivative fair value gains and losses.

Asset retirement obligations

If the fair value for an asset retirement obligation can be reasonably estimated, the liability is recognized in the period when it is incurred. Oil and natural gas producing companies incur this liability upon acquiring or drilling a well. The retirement obligation is recorded as a liability at its estimated present value at the asset's inception, with an offsetting increase to proved properties on the balance sheet. Periodic accretion of the discount of the estimated liability is recorded as an expense in the income statement.

Our liability is determined using significant assumptions, including current estimates of plugging and abandonment costs, annual inflation of these costs, the productive lives of wells and our risk-adjusted interest rate. Changes in any of these assumptions can result in significant revisions to the estimated asset retirement obligation. For example, as we analyze actual plugging and abandonment information, we may revise our estimates of current costs, the assumed annual inflation of these costs and/or the assumed productive lives of our wells. Revisions to the asset retirement obligation are recorded with an offsetting change to producing properties, resulting in prospective changes to DD&A expense and accretion of discount. Because of the subjectivity of assumptions and the relatively long lives of most of our wells, the costs to ultimately retire our wells may vary significantly from prior estimates.

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Revenue recognition

Oil, NGL and natural gas revenues are recognized upon the satisfaction of the performance obligation which occurs at the point in time when control of the product transfers to a customer, in an amount that reflects the consideration to which we expect to be entitled in exchange for the product.

Recent accounting pronouncements

A summary of recent accounting pronouncements and our assessment of any expected impact of these pronouncements if known is included in Note 1 to the audited consolidated financial statements included elsewhere in this prospectus.

Internal controls and procedures

We are not currently required to comply with the SEC's rules implementing Section 404 of the Sarbanes- Oxley Act of 2002, and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. Upon becoming a public company, we will be required to comply with the SEC's rules implementing Section 302 of the Sarbanes-Oxley Act of 2002, which will require our management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting. Though we will be required to disclose material changes made to our internal controls and procedures on a quarterly basis, we will not be required to make our first annual assessment of our internal control over financial reporting pursuant to Section 404 until the year following our first annual report to be filed with the SEC. We have elected to avail ourselves of the provision of the JOBS Act that permits emerging growth companies to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We will not be required to have our independent registered public accounting firm attest to the effectiveness of our internal controls over financial reporting until our first annual report subsequent to our ceasing to be an "emerging growth company" within the meaning of Section 2(a)(19) of the Securities Act.

BUSINESS AND PROPERTIES

Business Overview

We are focused on the acquisition, development, optimization and exploitation of conventional oil, natural gas, and natural gas liquid reserves in North America. Our management team has significant industry experience acquiring and exploiting conventional oil and natural gas properties in multiple resource plays and basins. As a result of such experience, our operations focus primarily on enhancing the development and operation of producing properties through our concentration on efficiency and optimizing exploitation of current wells. Our current acreage positions are concentrated in the Permian Basin of West Texas and New Mexico, and the San Juan Basin of New Mexico and Colorado, each of which we believe is characterized by low geologic risk, low decline rates and high recoveries relative to drilling and completion costs.

Our partnership agreement requires us to distribute each quarter all of our available cash, which we define as cash on hand at the end of each quarter, less reserves established by our general partner. We believe the low decline nature of our reserves and the relatively low cost to maintain production combined with our zero to low leverage profile will allow us to distribute a substantial portion of our cash flow from operations to our unitholders each quarter. The amount of cash available for distribution with respect to any quarter, however, will be dependent on the then-prevailing commodity prices. To mitigate the risk associated with volatile commodity prices and to further enhance the stability of our cash flow available for distributions, from time to time we may opportunistically hedge a portion of our production volumes at prices we deem attractive to mitigate our exposure to price fluctuations on crude oil, natural gas liquids and natural gas sales. Nevertheless, our quarterly cash distributions may vary from quarter to quarter as a direct result of variations in the performance of our business, including those caused by fluctuations in the prices of oil and natural gas. Such variations may be significant and quarterly distributions paid to our unitholders may be zero.

We seek to maintain a flat to low growth production profile through a combination of low-risk development and exploitation of our existing properties, generally funded by cash flow from operating activities, and future acquisitions of producing properties. We believe this will allow us to increase our reserves and production and, over time, to increase distributions to our unitholders. To date we have been successful in offsetting the natural decline in production from reservoir depletion through acquisitions and drilling. Historically, funding sources for our capital expenditures, including acquisitions, have included proceeds from bank borrowings, cash from our partners and cash flow from operating activities. Following this offering, we expect to continue to fund our capital expenditures primarily with cash flow generated by operating activities, but may use borrowings under our Credit Facility in connection with acquisitions in particular. Additionally, we may seek to issue additional equity securities from time to time as market conditions allow to facilitate future acquisitions. Our development budget is approximately \$30.0 million for 2022 (of which \$2.2 million has been incurred as of June 30, 2022) and approximately \$30.0 million for 2023.

The members of our management team have on an average of 34 years' experience in the oil and gas industry and previously held executive roles at XTO. Our management team has successfully executed on a strategy of acquiring and exploiting long-lived and low decline assets for more than 30 years, completing hundreds of acquisitions totaling over \$15 billion. Additionally, our Chief Executive Officer, Bob Simpson, has a greater than 45-year history in the oil and gas industry. Mr. Simpson founded Cross Timbers Oil company in 1986 (subsequently named XTO Energy) and served as Chief Executive Officer and Chairman over the life of the company, culminating with a sale to Exxon Corporation for \$41 billion in 2010. Additionally our management team has collectively invested more than \$500 million in us since our inception. We believe our management team has the experience, expertise and commitment to create significant value for our unitholders in the form of cash distributions combined with growth in revenues and production. Certain members of our existing

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management team were acting or former officers of Southland when it voluntarily filed for Chapter 11 bankruptcy protection on January 27, 2020. Please see “Management—Southland Bankruptcy” for more information.

Information regarding performance by, or businesses associated with, TXO Energy Partners and its affiliates is presented for informational purposes only. Past performance by TXO Energy Partners and its affiliates, including our management team, is not a guarantee of future performance. You should not rely on the historical record of TXO Energy Partners and its affiliates or our management team’s prior performance as indicative of our future performance or the returns we will, or are likely to, generate going forward. “Risk Factors—Past performance by our management team may not be indicative of future performance of an investment in us.”

As of December 31, 2021, our assets consisted of approximately 846,000 gross (370,000 net) leasehold and mineral acres located primarily in the Permian Basin and San Juan Basin. As of December 31, 2021, our total estimated proved reserves were approximately 130 MMBoe, of which approximately 37% were oil and approximately 82% were proved developed, both on a Boe basis. In the first six months of 2022, we produced an average of approximately 23,278 Boe per day, approximately 71% of which came from assets operated by us.

The following tables present our historical estimated oil and natural gas reserves and PV-10 as of August 1, 2022. Our reserve data as of August 1, 2022 include the properties acquired as part of the Additional Interest Vacuum Acquisition described elsewhere in this prospectus.

	Estimated Proved Reserves as of August 1, 2022 ⁽¹⁾			
	SEC Pricing Proved Developed Reserves (MBoe) ⁽²⁾	SEC Pricing Proved Reserves (MBoe)	NYMEX Pricing Proved Developed Reserves (MBoe) ⁽³⁾	NYMEX Pricing Proved Reserves (MBoe) ⁽³⁾
	Permian Basin	39,244.6	61,643.5	37,444.0
San Juan Basin	72,601.3	72,601.3	68,818.0	68,818.0
Other ⁽⁴⁾	5,423.8	8,803.0	5,128.4	8,507.6
Total	117,269.7	143,047.8	111,390.4	137,047.7

(1) Presented on an oil-equivalent basis using a conversion of six thousand cubic feet of natural gas to one stock tank barrel of oil. This conversion is based on energy equivalence and not on price or value equivalence.

(2) SEC pricing, as required by the rules and regulations of the SEC, is the unweighted arithmetic average of the first-day-of-the-month price for each month within such period using published benchmark oil and gas prices, unless prices are defined by contractual arrangements.”

(3) Using NYMEX forward-month contract pricing in effect as of July 31, 2022. We have included this reserve sensitivity because we believe that the use of NYMEX forward-month prices provides investors with additional useful information about our reserves. For more information regarding our use of NYMEX Pricing, please see “—Summary of Reserve, Production and Operating Data—Summary of Reserves.”

(4) Other includes reserves in various other locations in the United States, primarily in Utah and Mississippi.

(in millions)	Estimated PV-10 as of August 1, 2022 ⁽⁴⁾			
	SEC Pricing Proved Developed PV-10 ⁽¹⁾⁽²⁾	SEC Pricing Proved PV-10 ⁽¹⁾	NYMEX Pricing Proved Developed PV-10 ⁽³⁾	NYMEX Pricing Proved PV-10 ⁽³⁾
	Permian Basin	\$ 826.4	\$ 1,272.2	\$ 659.2
San Juan Basin	\$ 464.7	\$ 464.7	\$ 400.8	\$ 400.8
Other ⁽⁵⁾	\$ 55.3	\$ 81.3	\$ 48.4	\$ 67.6
Total	\$ 1,346.4	\$ 1,818.2	\$ 1,108.4	\$ 1,461.3

(1) Presented on an oil-equivalent basis using a conversion of six thousand cubic feet of natural gas to one stock tank barrel of oil. This conversion is based on energy equivalence and not on price or value equivalence.

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- (2) SEC pricing, as required by the rules and regulations of the SEC, is the unweighted arithmetic average of the first-day-of-the-month price for each month within such period using published benchmark oil and gas prices, unless prices are defined by contractual arrangements.”
- (3) Using NYMEX forward-month contract pricing in effect as of July 31, 2022. We have included this reserve sensitivity because we believe that the use of NYMEX forward-month prices provides investors with additional useful information about our reserves. For more information regarding our use of NYMEX Pricing, please see “—Summary of Reserve, Production and Operating Data—Summary of Reserves.”
- (4) PV-10 is a non-GAAP financial measure and represents the present value of estimated future cash inflows from proved oil and gas reserves, less future development and production costs, discounted at 10% per annum to reflect the timing of future cash flows. Calculation of PV-10 does not give effect to derivatives transactions.
- (5) Other includes reserves in various other locations in the United States, primarily in Utah and Mississippi.

The following table summarizes information regarding our active well count and development locations included in our reserve report as of August 1, 2022.

	As of August 1, 2022									
	Active Oil and Natural Gas Wells		Active CO ₂ Injection Wells		Conventional PUD Locations ⁽¹⁾		Recomplete Locations ⁽²⁾		Workover Locations ⁽³⁾	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Permian Basin	3,912	685.3	55	39.1	233	108.7	51	32.8	23	22.6
San Juan Basin	11,509	1,093.8	—	—	—	—	—	—	—	—
Other ⁽⁴⁾	3,025	88.4	—	—	4	1.8	—	—	—	—
Total	18,446	1,867.5	55	39.1	237	110.5	51	32.8	23	22.6

(1) Approximately 97% of our wells are drilled conventionally. However, from time to time a small number of wells are horizontally completed.

(2) Well locations we believe we can recomplete into another producing zone or zones.

(3) Well locations where we believe a currently completed zone can be improved or restored by performing remedial workovers.

(4) Other includes properties in various other locations in the United States, primarily in Utah and Mississippi.

Our Properties

Permian Basin

We acquired our initial 79,970 gross leasehold and mineral acres in the Permian Basin in 2012 and 2013. We subsequently acquired 11,929 additional gross leasehold acres through leasing and multiple bolt-on acquisitions. In November 2021, we acquired producing properties, including 24,052 gross leasehold acres and a CO₂ processing plant in the Permian Basin within New Mexico and CO₂ assets in Colorado (the “Vacuum Properties”) from Chevron Corporation (“Chevron”). In December 2021, we acquired additional producing properties, including 21,112 gross leasehold acres in the Permian Basin within Texas from Chevron (the “Andrews Parker Acquisition”). In August 2022 we acquired additional interests in our producing properties and a gas processing plant in the Permian Basin of New Mexico for approximately \$52.6 million (the “Additional Interest Vacuum Acquisition”). As of June 30, 2022, we had 55 (gross) active CO₂ injection wells. Production from our CO₂ wells was 14.1 MMcf/d during the first six months of 2022.

The Permian Basin is one of the oldest and most prolific producing basins in North America, with proven reserves of over 12.1 billion barrels of oil and 49.9 trillion cubic feet of natural gas as of 2019 according to the U.S. Energy Information Administration (“EIA”). Consisting of approximately 75,000 square miles centered around Midland, Texas, the Permian spans across west Texas and southeast New Mexico. The Permian Basin has been a significant source of oil production in the United States since the 1920s and, according to the EIA, accounted for approximately 41% of all oil production and approximately 15% of all natural gas production in the United States as of December 31, 2021. As of June 30, 2022, 349 rigs were running in the Permian, representing 48% of all land rigs running in the United States according to Baker Hughes

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rig count data. While horizontal development is the primary focus for many operators, there continues to be significant conventional oil and gas drilling throughout the Permian Basin. Through enhanced oil recovery methods such as CO₂ injection, operators like us are able to unlock incremental additional hydrocarbon production in these older, conventional assets at comparatively lower costs as compared to the drilling and completion costs of horizontal wells.

Our management team believes the development and exploitation of conventional assets in the Permian Basin is among the most economic oil and natural gas plays in the United States. Since completing the 2021 Acquisitions, we have focused our efforts on returning wells to production as well as on other low-risk maintenance projects. As we gain a greater understanding of these recently acquired assets, we expect to increase our drilling and recompletion work. Substantially all of our acreage in the Permian Basin is held by production, which means we do not have to drill any wells to maintain ownership of our leases. Based on current commodity prices, we expect to drill or participate in the drilling of approximately 5 gross wells in the Permian Basin during the remainder of 2022 and approximately 12 gross wells in 2023. We expect to recomplete 13 gross wells in the Permian Basin in 2022 and approximately 14 gross wells in 2023. We expect to return 12 gross wells to production in the Permian Basin in 2022 and 9 gross wells in 2023. Our decline rate for our Permian Basin properties over the next 12 months is currently estimated to be approximately 7%.

San Juan Basin

We acquired our initial 175,376 gross leasehold and mineral acres in the San Juan Basin in 2012 and 2013. We subsequently acquired 273,187 additional gross leasehold and mineral acres in June 2020.

The San Juan Basin covers approximately 7,500 square miles in northwestern New Mexico, southwestern Colorado, and parts of Utah and Arizona. Primarily producing natural gas, the San Juan Basin has multiple different formation targets including conventional and unconventional tight sands, coalbed methane and shale. The San Juan is one of the oldest producing basins in the United States, with the first conventional natural gas well drilled in 1921. With the discovery and development of coalbed methane reserves, the San Juan Basin was one of the most prolific natural gas basins in the United States in the 1980s and 1990s. Development activity within the San Juan Basin continued at a significant pace until 2008. With the collapse of commodity prices in 2007, development activity dropped to a very low rate, falling from approximately 40 drilling rigs into 2007 to less than five rigs by 2012. More recently, however, activity within the San Juan Basin has picked up through continued exploration of the unconventional Mancos Shale play. In 2016, the United States Geological Survey (“USGS”) estimated that there were 66.3 trillion cubic feet of recoverable natural gas in the Mancos Shale, which is a forty-fold increase from the 1.6 trillion cubic feet of recoverable natural gas estimated by USGS in 2003.

Our San Juan acreage includes substantial, predictable, low-decline natural gas production that provides for relatively stable cash flows. Our decline rate for our San Juan Basin properties over the next 12 months is currently estimated to be approximately 10%. Our existing production comes from primarily coalbed methane wells, in which we own 363,358 gross acres. Substantially all of our acreage in the San Juan Basin is held by production. Additionally, we own 85,205 gross acres in New Mexico in the Mancos Shale. We believe our Mancos Shale properties offer us significant potential upside that is held by production.

Based on current commodity prices, we expect to drill or participate in the drilling of approximately 15 gross wells in the San Juan Basin during the remainder of 2022 and approximately 22 gross wells in 2023. We expect to recomplete 5 gross wells in the San Juan Basin in 2022 and none in 2023. We do not expect to return any gross wells to production in the San Juan Basin in 2022 and 2023.

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For the six months ended June 30, 2022, our consolidated revenues were derived 48% from oil revenues, 39% from natural gas revenues and 13% from NGL revenues, in each case excluding the unrealized effects of our commodity derivative contracts. After giving effect to unrealized commodity derivative contracts, our revenues were derived 50% from oil revenues, 31% from natural gas revenues and 19% from NGL over the same period. For the six months ended June 30, 2022, our total average production was 23,278 Boe/d (approximately 25% oil, 60% natural gas, and 15% NGLs). Over the same period, our average production in the Permian Basin was 6,736 Boe/d (approximately 84% oil, 5% natural gas, and 11% NGLs) and our average production in the San Juan Basin was 15,134 Boe/d (approximately 1% oil, 81% natural gas, and 18% NGLs).

Development Plan and Capital Budget

Historically, our business plan has focused on acquiring and then exploiting producing assets. Funding sources for our acquisitions have included proceeds from bank borrowings, cash from our partners and cash flow from operating activities. Our development budget is approximately \$30.0 million for 2022 (of which \$2.2 million has been incurred as of June 30, 2022) and approximately \$30.0 million for 2023. Much of our development time and capital is spent on workovers, recompletions and field optimizations of existing assets. We expect to use the additional information derived from this exploitation to inform our decisions about additional drilling opportunities to pursue, either in recently acquired assets or new acquisitions. However, over the next 24 months we anticipate that approximately half of our development activity will be focused on drilling new wells, virtually all of which we expect to be conventional, vertical wells.

During 2022, we expect to spend approximately \$20 million to drill 21 gross wells (8 net wells) and related equipment, \$6 million on recompletions of existing wells and \$2 million on remedial workovers and other maintenance projects. We expect to spend approximately \$13 million in the Permian Basin and approximately \$15 million in the San Juan Basin in 2022.

We expect to allocate most of our remaining 2022 budget and the majority of our 2023 budget to projects focused on enhancing existing production. Based on current commodity prices and our drilling success rate to date, we expect to be able to fund our 2022 and 2023 capital development programs from cash flow from operations and the net proceeds of this offering. We increased our 2021 capital program to \$8.1 million compared to \$5.5 million in 2020, primarily in response to the improved oil price environment and the improving global and national economic environment.

During 2021, we drilled 4 wells in the Permian Basin and 6 wells in the San Juan Basin. Additionally, during 2021 we recompleted 6 wells in the Permian Basin and 6 wells in the San Juan Basin.

Our Business Strategies

Our primary business objective is to distribute a substantial portion of our cash flow from operations to our unitholders each quarter and, over time, to increase our quarterly cash distributions. To achieve our objective, we intend to execute the following business strategies:

- **Focus on long-lived, low decline conventional assets.** We believe that by focusing on the exploitation of our existing assets, we can maintain current production using a portion of our operating cash flow, while utilizing the remainder of our operating cash flow to acquire additional assets to exploit and make distributions to our unitholders.
- **Maximize ultimate hydrocarbon recovery from our assets through enhancement and optimization of producing properties.** We continuously seek efficiencies in our drilling,

completion and production techniques to optimize ultimate resource recoveries, rates of return and cash flows. We will continue to work to unlock additional value and will allocate capital towards next generation technologies where applicable. In addition, we intend to take advantage of under-development in basins where we operate by expanding our geologic investigation of additional producing horizons on our acreage and adjacent acreage. We seek to expand our development beyond our known productive areas to add reserves to our inventory at attractive all-in costs.

- **Focus on making cash distributions to, and providing long term value for, our unitholders.** Our primary goal is to maximize investor returns through cash distributions and flat to low growth. We intend to grow production and acreage over time, but our primary focus will be distributing a substantial portion of our cash flow from operations to our unitholders each quarter distributions from our available cash to our unitholders and increasing the long-term value of our common units.
- **Maintain financial flexibility with a conservative capital structure and ample liquidity.** We intend to conduct our operations primarily through cash flow generated from operations with a focus on maintaining a disciplined balance sheet with little to no outstanding debt. Due to our strong operating cash flows and liquidity, we have substantial flexibility to fund our capital budget and to potentially accelerate our drilling program as conditions warrant. Our focus is on the economic extraction of hydrocarbons while maintaining a prudent leverage ratio and strong liquidity profile. Although we may use leverage to make accretive acquisitions, we will do so with the long-term goal of remaining substantially debt free. Further, we expect that our hedging strategy will reduce our exposure to commodity price volatility.
- **Execute attractive acquisitions and optimize assets through effective integration.** Our management team has a history of successfully identifying, acquiring and optimizing assets over the past three decades. We believe our acreage positions in the Permian Basin and San Juan Basin provide opportunities to increase production and reserves through the implementation of mechanical and operational improvements, workovers, behind-pipe completions, secondary and tertiary recovery operations, new development wells and other development activities. We plan to use the expertise of our management team to strategically acquire properties that complement our operations.

Our Strengths

We believe that the following strengths will allow us to successfully execute our business strategies:

- **Experienced and personally invested management team with an extensive track record of value creation.** We believe our management team's significant industry experience is a distinct competitive advantage. The members of our management team have an average of 34 years' experience in the oil and gas industry and have previously held executive roles at XTO. Our management team has successfully executed on a strategy of acquiring and exploiting long-lived and low decline assets for more than 30 years. Members of our management team have collectively personally invested more than \$500 million in us since our inception.
- **Stable, long-lived, conventional asset base with low production decline rates.** The majority of our interests are in properties that have produced oil and natural gas for decades. As a result, the geology and reservoir characteristics are well understood, and new development well results are generally predictable, repeatable and present lower risk than unconventional

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resource plays. Our assets are characterized by long-lived reserves with low production decline rates, a stable development cost structure and low-geologic risk developmental drilling opportunities with predictable production profiles. For example, our decline rate over the next twelve months is currently estimated to be approximately 9%.

- **Ability to source, integrate and optimize acquisitions.** Our management team has demonstrated the ability to source and integrate acquisitions of various sizes. While at XTO, our management team completed hundreds of acquisitions for over \$15 billion in consideration and successfully integrated such acquisitions, ultimately driving significant returns for shareholders. We have successfully drawn on this experience to identify and complete multiple acquisitions to establish our anchor positions in the Permian Basin and San Juan Basin, including our recent 2021 Acquisitions. We expect that our expertise in sourcing and completing acquisitions will allow us to successfully execute additional bolt-on acquisitions in our existing operating areas and, if and when appropriate, additional opportunistic acquisitions.
- **Conservatively capitalized balance sheet, strong liquidity profile and financial flexibility.** We have a strong and conservative financial position that allows us to effectively allocate capital and grow our reserves and production. Due to the significant existing vertical production and the predictable low-decline profiles associated with our existing production, our business generates significant operating cash flows. After this offering, we expect to have little to no debt and substantial liquidity, which will provide us with further financial flexibility to fund our capital expenditures and grow production and reserves as part of our existing strategic plan. We may also opportunistically hedge to protect our future operating cash flows from volatility in commodity prices.

Oil, Natural Gas and NGL Data

Reserves

Summary of Oil, Natural Gas and NGL Reserves. The following table presents our estimated net proved oil, natural gas and NGL reserves as of August 1, 2022 and December 31, 2021. The reserve estimates presented in the table below are based on reports prepared by Cawley, Gillespie & Associates, our independent petroleum engineers, which reports were prepared in accordance with current SEC rules and regulations regarding oil and natural gas reserve reporting, except that the column which provides our reserves at NYMEX Pricing uses pricing based on NYMEX futures prices. Our reserve data as of August 1, 2022 include the properties acquired as part of the Additional Interest Vacuum Acquisition described elsewhere in this prospectus.

	TXO Energy Partners		
	As of December 31, 2021 SEC Pricing(1)	As of August 1, 2022	
		SEC Pricing(1)	NYMEX Pricing(3)
Proved Reserves:			
Oil (MBbls)	48,605.6	54,702.9	52,999.2
NGLs (MBbls)	18,027.6	20,905.6	19,820.9
Natural gas (MMcf)	379,275.9	404,635.8	385,365.8
Total Proved Reserves (MBoe)	129,845.9	143,047.8	137,047.7
Standardized Measure (in millions)	\$ 986.6	—	—
PV-10 (in millions)(2)	\$ 1,022.2	1,818.2	\$ 1,461.3

	TXO Energy Partners		
	As of December 31, 2021	As of August 1, 2022	
		SEC Pricing(1)	SEC Pricing(1)
Proved Developed Reserves:			
Oil (MBbls)	30,207.9	34,336.1	32,737.1
NGLs (MBbls)	17,434.2	19,638.9	18,566.3
Natural gas (MMcf)	353,214.9	379,768.1	360,522.5
Total Proved Developed Reserves (MBoe)	106,511.3	117,269.7	111,390.4
PV-10 (in millions)(2)	\$ 772.2	1,346.4	\$ 1,108.4
Proved Undeveloped Reserves:			
Oil (MBbls)	18,397.7	20,366.8	20,262.1
NGLs (MBbls)	593.4	1,266.7	1,254.6
Natural gas (MMcf)	26,061.0	24,867.7	24,843.3
Total Proved Undeveloped Reserves (MBoe)	23,334.6	25,778.1	25,657.3
PV-10 (in millions)(2)	\$ 250.0	471.8	\$ 352.9

- (1) Our estimated net proved reserves were determined using average first-day-of-the-month prices for the prior 12 months in accordance with SEC regulations. The unweighted arithmetic average first-day-of-the-month prices for the prior 12 months were \$66.56 per barrel for oil and \$3.60 per MMBtu for natural gas at December 31, 2021 and \$88.54 per barrel for oil and \$5.36 per MMBtu for natural gas at July 31, 2022. The base prices were based upon Henry Hub and WTI-Cushing spot prices, respectively. These base prices were adjusted for differentials on a per-property basis, which may include local basis differentials, transportation, gas shrinkage, gas heating value (BTU content) and/or crude quality and gravity corrections. After these net adjustments, the net realized prices for the SEC price case over the life of the proved properties was estimated to be \$64.76 per barrel for oil, \$19.62 per barrel for NGLs and \$2.31 per Mcf for natural gas for the year ended December 31, 2021 and \$86.89 per barrel for oil, \$24.95 per barrel for NGLs and \$3.76 per Mcf for natural gas for the twelve months ended July 31, 2022.
- (2) PV-10 is a non-GAAP financial measure and represents the present value of estimated future cash inflows from proved oil and gas reserves, less future development and production costs, discounted at 10% per annum to reflect the timing of future cash flows. Calculation of PV-10 does not give effect to derivatives transactions. Our PV-10 has historically been computed on the same basis as our standardized measure of discounted future net cash flows (“Standardized Measure”), the most comparable measure under GAAP, but does not include a provision for either future well abandonment costs or the Texas gross margin tax. PV-10 is not a financial measure calculated or presented in accordance with GAAP and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of either well abandonment costs or income taxes on future net revenues. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and natural gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.
- (3) The NYMEX futures prices as of July 31, 2022 used to prepare our reserve report are shown in the following table. These base prices were adjusted for differentials on a per-property basis, which may include local basis differentials, transportation, gas shrinkage, gas heating value (BTU content) and/or crude quality and gravity corrections. After these net adjustments, the net realized prices for the NYMEX futures price case over the life of the proved properties was estimated to be \$71.51 per barrel for oil, \$21.99 per barrel for NGLs and \$3.20 per Mcf for natural gas.

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Thereafter</u>
Natural gas price (per MMBtu)	\$ 8.36	\$ 5.63	\$ 4.66	\$ 4.50	\$ 4.40	\$ 4.40
Oil price (per Bbl)	\$ 94.92	\$ 86.49	\$ 79.38	\$ 74.64	\$ 71.02	\$ 71.02

- (4) PV-10 is a non-GAAP financial measure and represents the present value of estimated future cash inflows from proved oil and gas reserves, less future development and production costs, discounted at 10% per annum to reflect the timing of future cash flows. Calculation of PV-10 does not give effect to derivatives transactions. Our PV-10 has historically been computed on the same basis as our Standardized Measure, the most comparable measure under GAAP, but does not include a provision for either future well abandonment costs or the Texas gross margin tax. PV-10 is not a financial measure calculated or presented in accordance with GAAP and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of either well abandonment costs or income taxes on future net revenues. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and natural gas properties. We and others in the industry use PV-10 as a measure to compare

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the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.

Reserve engineering is and must be recognized as a subjective process of estimating volumes of economically recoverable oil and natural gas that cannot be measured in an exact manner. Due to the inherent uncertainties and the limited nature of reservoir data, such estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production of these reserves may be substantially different from the original estimate. Revisions result primarily from new information obtained from development drilling and production history and from changes in economic factors.

Additional information regarding our proved reserves and estimated future cash flows therefrom can be found in the notes to our financial statements included elsewhere in this prospectus and in the reserve reports prepared by Cawley, Gillespie & Associates that are filed as exhibits to the registration statement of which this prospectus forms a part.

Preparation of Reserve Estimates

Our reserve estimates as of December 31, 2021 and August 1, 2022 included in this prospectus are based on evaluations prepared by the independent petroleum engineering firm of Cawley, Gillespie & Associates in accordance with Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Evaluation Engineers and definitions and guidelines established by the SEC, except that the columns which provide our reserves at NYMEX Pricing use pricing based on NYMEX futures prices. Our independent reserve engineers were selected for their historical experience and geographic expertise in engineering similar resources.

Under SEC rules, proved reserves are reserves 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 under existing economic conditions, operating methods and government regulations prior to the time at which contracts providing the right to operate expires, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for estimation. If deterministic methods are used, the term “reasonable certainty” implies a high degree of confidence that the quantities of oil or natural gas actually recovered will equal or exceed the estimate. If probabilistic methods are used, there should at least be a 90% probability that the quantities actually recovered will equal or exceed the estimate. The technical and economic data used in the estimation of our proved reserves include, but are not limited to, well logs, geologic maps, well-test data, production data (including flow rates), well data (including lateral lengths), historical price and cost information, and property ownership interests. Our independent reserve engineers use this technical data, together with standard engineering and geoscience methods, or a combination of methods, including performance analysis, volumetric analysis, and analogy. The proved developed reserves and estimated ultimate recoveries (“EURs”) per well are estimated using performance analysis and volumetric analysis. The estimates of the proved developed reserves and EURs for each developed well are used to estimate the proved undeveloped reserves for each proved undeveloped location (utilizing type curves, statistical analysis, and analogy). All of our proved undeveloped reserves as of December 31, 2021 and August 1, 2022, relate to locations that are one offset away from an existing well.

Internal Controls

Our internal staff of petroleum engineers and geoscience professionals work closely with our independent reserve engineers to ensure the integrity, accuracy and timeliness of data furnished to our independent reserve engineers in their preparation of reserve estimates. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation.

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As a result, the estimates of different engineers often vary. In addition, the results of drilling, testing and production may justify revisions of such estimates. Accordingly, reserve estimates often differ from the quantities of oil, natural gas and NGLs that are ultimately recovered. See “Risk Factors—Risks Related to Our Business and the Oil, Natural Gas and NGL Industry—Reserve estimates depend on many assumptions that may ultimately be inaccurate. Any material inaccuracies in reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves” for more information. The reserves engineering group is responsible for the internal review of reserve estimates and includes Brandon Hudson, our Manager—Reservoir Engineering. The Reservoir Engineering Manager is primarily responsible for overseeing the preparation of our reserve estimates and has more than 15 years of experience as a reserve engineer. The reserves engineering group is independent of any of our operating areas. The Reservoir Engineering Manager is directly responsible for overseeing the reserves engineering group. The reserves engineering group reviews the estimates with our third-party petroleum consultants, Cawley, Gillespie & Associates, an independent petroleum engineering firm.

Cawley, Gillespie & Associates is a Texas Registered Engineering Firm (F-693), made up of independent registered professional engineers and geologists that have provided petroleum consulting services to the oil and gas industry for over 60 years. The lead evaluator that prepared the reserve report was W. Todd Brooker, P.E., President at Cawley Gillespie. Mr. Brooker has been a Petroleum Consultant at Cawley, Gillespie & Associates since 1992 and became President in 2017. He graduated with honors from the University of Texas at Austin in 1989 with a Bachelor of Science degree in Petroleum Engineering. Mr. Brooker is a State of Texas Licensed Professional Engineer (License #83462) and a member of the Society of Petroleum Evaluation Engineers (SPEE) and the Society of Petroleum Engineers (SPE). Mr. Brooker meets or exceeds the education, training, and experience requirements set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers; Mr. Brooker is proficient in judiciously applying industry standard practices to engineering and geoscience evaluations as well as applying SEC and other industry reserves definitions and guidelines.

Proved Undeveloped Reserves (PUDs)

As of December 31, 2021, our proved undeveloped reserves were composed of 18,397.7 MBbls of oil, and 593.4 MBbls of NGLs and 26,061.0 MMcf of natural gas for a total of 23,334.6 MBoe. PUDs will be converted from undeveloped to developed as the applicable wells begin production.

The following table summarizes our changes in PUDs, for the year ended December 31, 2021 (in MBoe):

Balance, December 31, 2020	13,946.4
Purchases of reserves	9,089.5
Revisions of previous estimates	309.1
Transfers to proved developed	(10.4)
Balance, December 31, 2021	<u>23,334.6</u>

Revisions of previous estimates of 309.1 MBoe during the year ended December 31, 2021 resulted primarily from higher commodity prices (347 MBoe) partially offset by forecast changes (38 MBoe).

We converted 10.4 MBoe of any proved undeveloped reserves into proved developed reserves in 2021. Costs incurred relating to the development of oil and natural gas reserves were \$8.1 million during the year ended December 31, 2021.

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We drilled or participated in the drilling of 4 gross wells in the Permian Basin during 2021. We expect to drill or participate in the drilling of approximately 20 and 12 gross wells in the Permian Basin during 2022 and 2023, respectively. In addition, we participated in the drilling of 6 gross wells in the San Juan Basin during 2021. We expect to participate in the drilling of approximately 15 and 22 gross wells in the San Juan Basin during 2022 and 2023, respectively.

All of our PUD drilling locations are scheduled to be drilled within five years of December 31, 2021. We anticipate drilling and completing or participating in the drilling and completion of approximately 22 PUD locations during 2022, 51 during 2023, 48 during 2024, 59 during 2025 and 57 during 2026. These PUD locations relate to 16.3 MMBoe of PUD reserves. Our estimated future development costs relating to the development of our PUDs at December 31, 2021 were projected to be approximately \$13.5 million in 2022, \$34.9 million in 2023, \$39.1 million in 2024, \$28.6 million in 2025 and \$23.6 million in 2026 for a total of \$139.7 million of future development costs. All of these PUD drilling locations are part of a development plan adopted by management, but only the 2022 locations have been approved by the Board of Directors. We expect that the substantial cash flow generated by our existing wells, in addition to availability under our Credit Agreement and the proceeds of this offering, will be sufficient to fund our drilling program, maintenance capital expenditures and PUD conversion into proved developed reserves in accordance with our development schedule. Please see “Risk Factors—Risks Related to Our Business and the Oil, Natural Gas and NGL Industry—Reserve estimates depend on many assumptions that may ultimately be inaccurate. Any material inaccuracies in reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.”

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Natural Gas, Oil and NGL Production Prices and Production Costs

Production and Price History

The following table sets forth information regarding our production and operating data for the periods indicated.

Production data:

Sales:

	Year Ended December 31,		Six Months Ended June 30,	
	2020	2021	2021	2022
<i>Permian Basin</i>				
Natural gas sales (MMcf)	635	507	237	346
Natural gas liquids sales (MBbl)	77	81	33	141
Oil and condensate sales (MBbl)	897	985	400	1,021
Total (MBoe)	1,080	1,150	473	1,219
Total (MBoe per day)	3	3	3	7
<i>San Juan</i>				
Natural gas sales (MMcf)	18,415	26,796	12,895	13,330
Natural gas liquids sales (MBbl)	772	995	476	501
Oil and condensate sales (MBbl)	34	35	12	16
Total (MBoe)	3,875	5,496	2,637	2,739
Total (MBoe per day)	11	15	14	15
<i>Other</i>				
Natural gas sales (MMcf)	3,081	3,287	1,739	1,477
Natural gas liquids sales (MBbl)	11	13	4	5
Oil and condensate sales (MBbl)	9	13	9	4
Total (MBoe)	534	574	303	255
Total (MBoe per day)	1	2	2	1
Total (MMBoe)	5,489	7,220	3,413	4,213

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Average realized sales prices:

	Year Ended December 31,		Six Months Ended June 30,	
	2020	2021	2021	2022
<i>Permian Basin</i>				
Natural gas excluding effects of derivatives (per Mcf)	\$ 1.27	\$ 3.94	\$ 2.91	\$ 5.44
Natural gas liquids excluding effects of derivatives (per Bbl)	\$ 12.62	\$ 32.50	\$ 25.22	\$ 56.90
Oil and condensate excluding effects of derivatives (per Bbl)	\$ 37.30	\$ 67.93	\$ 61.21	\$ 101.52
<i>San Juan</i>				
Natural gas excluding effects of derivatives (per Mcf)	\$ 1.90	\$ 4.03	\$ 3.58	\$ 5.73
Natural gas liquids excluding effects of derivatives (per Bbl)	\$ 9.78	\$ 24.59	\$ 20.11	\$ 34.54
Oil and condensate excluding effects of derivatives (per Bbl)	\$ 31.69	\$ 55.73	\$ 49.63	\$ 85.10
<i>Other</i>				
Natural gas excluding effects of derivatives (per Mcf)	\$ 2.01	\$ 3.76	\$ 3.03	\$ 5.78
Natural gas liquids excluding effects of derivatives (per Bbl)	\$ 12.01	\$ 23.26	\$ 19.82	\$ 36.80
Oil and condensate excluding effects of derivatives (per Bbl)	\$ 38.75	\$ 59.30	\$ 57.21	\$ 93.39
(\$ / Boe)	\$ 15.57	\$ 30.38	\$ 25.86	\$ 51.66

Expense per Boe:

	Year Ended December 31,		Six Months Ended June 30,	
	2020	2021	2021	2022
<i>Permian Basin</i>				
Production	\$ 25.23	\$ 30.67	\$ 30.72	\$ 34.79
Taxes, transportation, and other	\$ 3.95	\$ 6.90	\$ 5.17	\$ 12.61
Depreciation, depletion, and amortization	\$ 25.20	\$ 19.77	\$ 21.70	\$ 11.93
<i>San Juan</i>				
Production	\$ 4.82	\$ 5.62	\$ 5.25	\$ 6.18
Taxes, transportation, and other	\$ 5.40	\$ 8.66	\$ 7.69	\$ 11.49
Depreciation, depletion, and amortization	\$ 1.97	\$ 2.03	\$ 2.05	\$ 1.18
<i>Other</i>				
Production	\$ 6.02	\$ 5.39	\$ 4.76	\$ 7.20
Taxes, transportation, and other	\$ 4.31	\$ 4.33	\$ 4.13	\$ 4.62
Depreciation, depletion, and amortization	\$ 14.02	\$ 10.42	\$ 10.48	\$ 7.60

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Productive Wells

As of August 1, 2022, we owned interests in the following number of productive wells:

	Oil Wells	Gas Wells	Total
<i>Permian Basin</i>			
Gross	3,786.0	126.0	3,912.0
Net	672.8	12.5	685.3
<i>San Juan</i>			
Gross	30.0	11,479.0	11,509.0
Net	—	1,093.8	1,093.8
<i>Other</i>			
Gross	735.0	2,290.0	3,025.0
Net	—	88.4	88.4
Total			
Gross	4,551.0	13,895.0	18,446.0
Net	672.8	1,194.7	1,867.5

Developed and Undeveloped Acreage

The following table sets forth information as of August 1, 2022 relating to our developed and undeveloped acreage. Developed acreage is acres spaced or assigned to productive wells and does not include undrilled acreage held by production under the terms of the lease. Undeveloped acreage is acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil or natural gas, regardless of whether such acreage contains proved reserves. A gross acre is an acre in which a working interest is owned. The number of gross acres is the total number of acres in which a working interest is owned. A net acre is deemed to exist when the sum of the fractional ownership working interests in gross acres equals one. The number of net acres is the sum of the fractional working interests owned in gross acres expressed as whole numbers and fractions thereof.

	Developed Acres		Undeveloped Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Permian Basin	140,998	76,755	160	80	141,158	76,835
San Juan Basin	445,271	245,545	3,292	2,496	448,563	248,041
Other	260,288	48,250	—	—	260,288	48,250
Total	846,557	370,550	3,452	2,576	850,009	373,126

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Drilling Results

The following table sets forth the results of our drilling activity for the periods indicated. The information should not be considered indicative of future performance, nor should it be assumed that there is necessarily any correlation among the number of productive wells drilled, quantities of reserves found or economic value. Productive wells are those that produce, or are capable of producing, commercial quantities of hydrocarbons, regardless of whether they produce a reasonable rate of return.

	Years Ended December 31,			
	2020		2021	
	Gross	Net	Gross	Net
Development wells:				
Completed as:				
Gas wells	—	—	4	0.9
Oil wells	4	0.3	6	0.6
Non-productive	—	—	—	—
Total	<u>4</u>	<u>0.3</u>	<u>10</u>	<u>1.5</u>
Exploratory wells:				
Completed as:				
Gas wells	—	—	—	—
Oil wells	—	—	—	—
Non-productive	—	—	—	—
Total	—	—	—	—
Total	<u>4</u>	<u>0.3</u>	<u>10</u>	<u>1.5</u>

- (1) These four wells include two gross (0.0 net) wells drilled by other operators during the year ended December 31, 2020 in which we elected not to participate.
(2) These 10 wells include two gross (0.0 net) wells drilled by other operators during the year ended December 31, 2021 in which we elected not to participate.

The following table sets forth information regarding our drilling activities as of June 30, 2022 and December 31, 2021, including with respect to wells awaiting completion, undergoing completion activities and which we have begun drilling subsequent to June 30, 2022.

June 30, 2022	Permian Basin		San Juan Basin	
	Gross	Net	Gross	Net
Drilling	—	—	3	0.1
Awaiting completion	3	0.5	4	—
Undergoing completion activities	—	—	—	—
Drilling begun subsequent to June 30, 2022	—	—	2	—

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December 31, 2021	Permian Basin		San Juan Basin	
	Gross	Net	Gross	Net
Drilling	—	—	—	—
Awaiting completion	—	—	—	—
Undergoing completion activities	—	—	—	—

We have completed eight gross oil (0.0 net) wells drilled by other operators during the six months ended June 30, 2022.

Operations

General

We operated wells responsible for approximately 66% of our production for the year ended December 31, 2020 and 68% for the year ended December 31, 2021. As operator, we design and manage the development, recompletion or workover for all of the wells we operate and supervise operation and maintenance activities on a day-to-day basis. We do not own the drilling rigs or other oil field services equipment used for drilling or maintenance on the properties we operate.

Independent contractors engaged by us provide a portion of the equipment and personnel associated with these activities. We currently engage independent contractors who are engineers and land professionals who work to improve production rates, increase reserves and lower the cost of operating our oil and natural gas properties.

Virtually all of our non-operated wells are managed by third-party operators who are typically independent oil and natural gas companies. Maverick Natural Resources Corporation, Occidental Petroleum Corporation and Jo Mill Oil Company are the operators on more than 50% of our non-operated acreage in the Permian Basin.

Our assets include a 50% interest in Cross Timbers Energy. The XTO Entities collectively own the remaining 50% interest in Cross Timbers. We account for our undivided interest in our investment in Cross Timbers using the proportionate consolidation method, pursuant to which we consolidate our proportionate share of assets (including reserves), liabilities, revenues and expenses of the joint venture. For the year ended December 31, 2021, Cross Timbers represents approximately 41% of our revenues and approximately 35% of our proved reserves, on a proportional ownership basis, with assets primarily located in the Permian Basin of Texas and New Mexico and the San Juan Basin of New Mexico and Colorado.

In accordance with the JV LLCA, Cross Timbers is managed by us and governed by a member management committee comprised of six members, three of whom are appointed by us and three of whom are appointed by the XTO Entities. The JV LLCA requires that certain matters, including certain material contracts or acquisitions, mergers, sale of substantially all assets or other change of control transactions, and transfers of our interest to a third party, be approved by unanimous consent of the voting members of the management committee and therefore require the approval of the XTO Entities. While Cross Timbers is required to distribute all net cash flow to the members pro rata in accordance with their respective membership interests on a quarterly basis pursuant to the JV LLCA, we do not have sole control of the amount of distributions to be made by Cross Timbers.

Cross Timbers is also a party to an operating and services agreement with us pursuant to which we provide all administrative services and conduct operations that are necessary or proper for the development, operation, protection and maintenance of the assets held by Cross Timbers in

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exchange for a management fee. We earned management fees from Cross Timbers of \$3.0 million for the six months ended June 30, 2022, \$6.1 million for the year ended December 31, 2021, and \$6.4 million for the year ended December 31, 2020.

Marketing and Customers

We market the majority of the natural gas, NGL, crude oil and condensate production from the properties on which we operate. We also market products produced by third party working interest owners who participate in various wells or production units on which we operate. We proportionately pay our royalty owners from the sales attributable to our working interest. Production from our properties is marketed using methods that are consistent with industry practice. Purchasers of our production are selected on the basis of price, credit quality and service reliability. Sales prices are negotiated based on factors normally considered in the industry, such as index or spot price, differentials based on the distance from tailgate of processing plants to end users, commodity quality and prevailing supply and demand conditions. Market volatility due to fluctuating weather conditions, international political developments, overall energy supply and demand, economic growth rates and other factors in the United States and worldwide have had, and will continue to have, a significant effect on energy prices.

We sell the majority of our production under arm's length contracts with terms of 12 months or less, including on a month-to-month basis, to a relatively small number of customers, as is customary in our industry. We generally sell natural gas, NGL, crude oil and condensate production through production sale agreements with customary terms and conditions for the oil and natural gas industry at prevailing market prices, adjusted for quality, transportation fees, fractionation fees, regional price differentials, and, in the case of natural gas, energy content. Typically, our sales contracts are based on pricing provisions that are tied to a market index or postings. None of our contracts have minimum volume commitments. We have no commitments beyond twelve months to deliver a fixed or determinable quantity of our oil or natural gas production under our existing contracts.

For the year ended December 31, 2021, Phillips 66 Company, Tenaska Marketing and Eco-Energy, Inc. accounted for more than 40% of our total revenues, excluding the impact of our commodity derivatives. For the year ended December 31, 2020, Phillips 66 Company and Tenaska Marketing accounted for more than 40% of our total revenues, excluding the impact of our commodity derivatives. No other purchaser accounted for more than 10% of our total revenue during such period. We generally do not have long-term contracts with our customers but rather we sell the substantial majority of our production under arm's length contracts with terms of 12 months or less, including on a combined basis, to a relatively small number of customers. The loss of any such purchaser could materially adversely affect our financial condition, results of operations and ability to make distributions to our unitholders. However, based on the current demand for oil and natural gas and the availability of other purchasers, we believe that the loss of any such purchaser would not have a material adverse effect on our financial condition and results of operations because crude oil and natural gas are fungible products with well-established markets and numerous purchasers. For more details, see "Risk Factors—Risks Related to Our Business and the Oil, Natural Gas and NGL Industry—We depend upon several significant purchasers for the sale of most of our oil, natural gas and NGL production. The loss of one or more of these purchasers could, among other factors, limit our access to suitable markets for the oil and natural gas we produce."

Hedging

Our policy is to hedge opportunistically a portion of our production at commodity prices management deems attractive to mitigate our exposure to lower commodity prices. Under our Credit

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Facility, we are allowed to hedge at most 90% of reasonably anticipated projected production, but we are required to hedge at least (a) 75% of reasonably anticipated projected production of proved developed producing reserves for the 12-month period following January 1, 2022 and (b) thereafter 50% of reasonably anticipated projected production of proved developed producing reserves for the 30-month period following the date of any hedging transaction. However, as of any time, if the net leverage ratio (the ratio of total net debt-to-EBITDAX) is less than or equal to 1.0 to 1.0 and availability under the Credit Facility is equal to or greater than 20% of the borrowing base then in effect, the minimum required hedge volume for month one through month 24 will be reduced to 50%. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Revolving credit agreement" for more information. While there is a risk that we may not be able to realize the benefits of rising prices, we enter into hedging agreements because of the benefits of predictable, stable cash flows.

We enter futures contracts, energy swaps, swaptions and basis swaps to hedge our exposure to price fluctuations on crude oil, natural gas liquids and natural gas sales. When actual commodity prices exceed the fixed price provided by these contracts we pay this excess to the counterparty, and when the commodity prices are below the contractually provided fixed price, we receive this difference from the counterparty. We also enter costless price collars, which set a ceiling and floor price to hedge our exposure to price fluctuations on natural gas sales. When actual commodity prices exceed the ceiling price provided by these contracts we pay this excess to the counterparty, and when the commodity prices are below the floor price, we receive this difference from the counterparty. If the actual commodity price falls in between the ceiling and floor price, there is no cash settlement. For more details, see "Risk Factors—Risks Related to Our Business and the Oil, Natural Gas and NGL Industry—We use derivative instruments to economically hedge exposure to changes in commodity price and, as a result, are exposed to credit risk and market risk."

For a more detailed discussion of our hedging activities, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosure About Market Risk."

Competition

The oil and natural gas industry is intensely competitive, and we compete with other companies that have greater resources. Many of these companies not only explore for and produce oil and natural gas, but also carry on midstream and refining operations and market petroleum and other products on a regional, national or worldwide basis. These companies may be able to pay more for productive oil and natural gas properties and exploratory prospects or to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, because we have fewer financial and human resources than many companies in our industry, we may be at a disadvantage in producing oil and natural gas properties, particularly during periods of low oil and natural gas market prices. Our larger or more integrated competitors may be able to absorb the burden of existing, and any changes to, federal, state and local laws and regulations more easily than we can, which would adversely affect our competitive position. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment.

There is also competition between oil and natural gas producers and other industries producing energy and fuel and alternative technologies to reduce energy and fuel consumption. Furthermore, competitive conditions may be substantially affected by various forms of energy legislation and/or regulation considered from time to time by the governments of the United States

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and the state and local jurisdictions in which we operate. It is not possible to predict the nature of any such legislation or regulation which may ultimately be adopted or its effects upon our future operations. Such laws and regulations may substantially increase the costs of exploring for, developing or producing oil and natural gas and may prevent or delay the commencement or continuation of a given operation.

Oil and Natural Gas Leases

The typical oil lease agreement covering our properties provides for the payment of royalties to the mineral owner for all hydrocarbons produced from any well drilled on the lease premises. The lessor royalties and other leasehold burdens on our properties range from less than 12.5% to 57.5%, resulting in a net revenue interest to us of 87.0% on average, on a 100% working interest basis. Based on the Standardized Measure, our value-weighted average net revenue interest on our properties was approximately 84.0%, on a 100% working interest basis, based on our December 31, 2021 reserve report. Substantially all of our leases are held by production and do not require continuous development.

Title to Properties

As is customary in the oil and natural gas industry, we initially conduct a cursory review of the title to the properties in connection with the acquisition of producing wells and/or additional acreage. Typically, that examination is limited to the seller's interest. At such time as we determine to conduct drilling operations, we administer a thorough title examination and perform curative work with respect to significant defects in title, prior to commencement of drilling operations. To the extent title opinions or other investigations reflect title defects and/or other curative matters relative to those properties, we are typically responsible for curing any title defects at our expense. We generally will not commence drilling operations on a property until we have cured any material title defects on such property. We have obtained title opinions on substantially all of our producing properties and believe that we have satisfactory title to our producing properties in accordance with standards generally accepted in the oil and natural gas industry.

Prior to completing an acquisition of producing oil and natural gas properties, we perform title reviews on the most significant leases and, depending on the materiality of properties, we will review previously obtained title opinions, update title, and in most cases have new title opinions rendered by a licensed oil and gas attorney. Our oil and natural gas properties are subject to customary royalty and perhaps other interests, possible liens for current taxes and potentially other encumbrances which we believe do not materially interfere with the use of or affect our carrying value of the properties.

We believe that we hold satisfactory title to all of our material assets. Although title to these properties is subject to certain encumbrances in some cases, such as customary interests generally retained in connection with the acquisition of real property, customary royalty interests and contract terms and restrictions, liens under operating agreements, liens related to environmental liabilities associated with historical operations, liens for current taxes and other burdens, easements, restrictions and minor encumbrances customary in the oil and natural gas industry, we believe that none of these liens, restrictions, easements, burdens and encumbrances will materially detract from the value of these properties or from our interest in these properties or materially interfere with our use of these properties in the operation of our business. In addition, we believe that we have obtained sufficient rights of way grants and permits from public authorities and private parties for us to operate our business in all material respects as described in this prospectus.

Seasonality

Generally, but not always, the demand for oil and natural gas decreases during the summer months and increases during the winter months. Seasonal anomalies such as mild winters or hot summers also may impact this demand. In addition, pipelines, utilities, local distribution companies and industrial end users utilize oil and natural gas storage facilities and purchase some of their anticipated winter requirements during the summer. This can also impact the seasonality of demand. Due to these seasonal fluctuations, results of operations for individual quarterly periods may not be indicative of the results that may be realized on an annual basis.

In addition, our exploration, exploitation and development activities and equipment could be adversely affected by extreme weather conditions, such as hurricanes or lighting storms, which may cause a loss of production from temporary cessation of activity or lost or damaged facilities and equipment. See “Risk Factors—Risks Related to the Oil, Natural Gas and NGL Industry and Our Business—Extreme weather conditions could adversely affect our ability to conduct drilling activities in the areas where we operate.”

Regulation of the Oil and Natural Gas Industry

Our operations are substantially affected by federal, state and local laws and regulations. Failure to comply with applicable laws and regulations can result in substantial penalties. The regulatory burden on the industry increases the cost of doing business and affects profitability. Historically, our compliance costs have not had a material adverse effect on our results of operations; however, we are unable to predict the future costs or impact considered by Congress, the states, the FERC and the courts. We cannot predict when or whether any such proposals may become effective. We do not believe that we would be affected by any such action materially differently than similarly situated competitors.

Regulation Affecting Production

The production of oil and natural gas is subject to United States federal and state laws and regulations, and orders of regulatory bodies under those laws and regulations, governing a wide variety of matters. All of the jurisdictions in which we own or operate producing properties have statutory provisions regulating the exploration for and production of oil and natural gas, including provisions related to permits for the drilling of wells, bonding requirements to drill or operate wells, the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, sourcing and disposal of water used in the drilling and completion process, and the abandonment of wells. Our operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units, the number of wells which may be drilled in an area, and the unitization or pooling of oil and natural gas wells, as well as regulations that generally prohibit the venting or flaring of natural gas and impose certain requirements regarding the ratability or fair apportionment of production from fields and individual wells. These laws and regulations may limit the amount of oil and natural gas we can drill. Moreover, each state generally imposes a production or severance tax with respect to the production and sale of oil, NGLs and natural gas within its jurisdiction. States do not regulate wellhead prices or engage in other similar direct regulation, but there can be no assurance that they will not do so in the future. The effect of such future regulations may be to limit the amounts of oil and natural gas that may be produced from our wells, negatively affect the economics of production from these wells or limit the number of locations we can drill.

The failure to comply with the rules and regulations of oil and natural gas production and related operations can result in substantial penalties. Our competitors in the oil and natural gas industry are subject to the same regulatory requirements and restrictions that affect our operations.

Regulation Affecting Sales and Transportation of Commodities

Sales prices of oil, natural gas, condensate and NGLs are not currently regulated and are made at market prices. Although prices of these energy commodities are currently unregulated, the United States Congress historically has been active in their regulation. We cannot predict whether new legislation to regulate oil, natural gas, or the prices charged for these commodities might be proposed, what proposals, if any, might actually be enacted by the United States Congress or the various state legislatures and what effect, if any, the proposals might have on our operations. Sales of oil and natural gas may be subject to certain state and federal reporting requirements.

The price and terms of service of transportation of the commodities, including access to pipeline transportation capacity, are subject to extensive federal and state regulation. Such regulation may affect the marketing of natural gas produced by us, as well as the revenues received for sales of such production. Gathering systems may be subject to state ratable take and common purchaser statutes. Ratable take statutes generally require gatherers to take, without undue discrimination, natural gas production that may be tendered to the gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase, or accept for gathering, without undue discrimination as to source of supply or producer. These statutes are designed to prohibit discrimination in favor of one producer over another producer or one source of supply over another source of supply. These statutes may affect whether and to what extent gathering capacity is available for natural gas production, if any, of the drilling program and the cost of such capacity. Further state laws and regulations govern rates and terms of access to intrastate pipeline systems, which may similarly affect market access and cost.

The FERC regulates interstate natural gas pipeline transportation rates and service conditions. The FERC is continually proposing and implementing new rules and regulations affecting interstate transportation. The stated purpose of many of these regulatory changes is to ensure terms and conditions of interstate transportation service are not unduly discriminatory or unduly preferential, to promote competition among the various sectors of the natural gas industry and to promote market transparency. We do not believe that our drilling program will be affected by any such FERC action in a manner materially differently than other similarly situated natural gas producers.

In addition to the regulation of natural gas pipeline transportation, FERC has jurisdiction over the purchase or sale of natural gas or the purchase or sale of transportation services subject to FERC's jurisdiction pursuant to the EPAct 2005. Under the EPAct 2005, it is unlawful for "any entity," including producers such as us, that are otherwise not subject to FERC's jurisdiction under the NGA to use any deceptive or manipulative device or contrivance in connection with the purchase or sale of natural gas or the purchase or sale of transportation services subject to regulation by FERC, in contravention of rules prescribed by FERC. FERC's rules implementing this provision make it unlawful, in connection with the purchase or sale of natural gas subject to the jurisdiction of FERC, or the purchase or sale of transportation services subject to the jurisdiction of FERC, for any entity, directly or indirectly, to use or employ any device, scheme or artifice to defraud; to make any untrue statement of material fact or omit to make any such statement necessary to make the statements made not misleading; or to engage in any act or practice that operates as a fraud or deceit upon any person. EPAct 2005 also gives FERC authority to impose civil penalties for violations of the NGA and the Natural Gas Policy Act of 1978 up to \$1,388,496 per violation per day. The anti-manipulation rule applies to activities of otherwise non jurisdictional entities to the extent the activities are conducted "in connection with" natural gas sales, purchases or transportation subject to FERC jurisdiction, which includes the annual reporting requirements under FERC Order No. 704 (defined below).

In December 2007, FERC issued a final rule on the annual natural gas transaction reporting requirements, as amended by subsequent orders on rehearing ("Order No. 704"). Under Order

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No. 704, any market participant, including a producer that engages in certain wholesale sales or purchases of natural gas that equal or exceed 2.2 million MMBtus of physical natural gas in the previous calendar year, must annually report such sales and purchases to FERC on Form No. 552 on May 1 of each year. Form No. 552 contains aggregate volumes of natural gas purchased or sold at wholesale in the prior calendar year to the extent such transactions utilize, contribute to the formation of price indices. Not all types of natural gas sales are required to be reported on Form No. 552. It is the responsibility of the reporting entity to determine which individual transactions should be reported based on the guidance of Order No. 704. Order No. 704 is intended to increase the transparency of the wholesale natural gas markets and to assist FERC in monitoring those markets and in detecting market manipulation.

Through several issuances, FERC has signaled its intention of undertaking a “rigorous review” of reasonably foreseeable GHG emissions of new or expanded natural gas transportation facilities and their contribution to climate change, along with the enhanced consideration other factors such as project need, landowner impacts and environmental justice, in determining the benefits of a project and the significance of its environmental impacts. FERC considers project benefits and environmental impacts in determining whether to issue a certificate to construct a new project under the Natural Gas Act and in its environmental analysis required under the National Environmental Policy Act. On March 24, 2022, FERC announced that it was seeking comments on these draft proposed policies, which initially had been issued as guidance. If adopted, these policy changes may create delays in, and potentially affect the outcomes of, FERC’s future assessments of the need for and environmental impacts of gas pipeline projects in determining whether a project is required by the present or future public convenience or necessity under the Natural Gas Act, which in turn may reduce the development of interstate natural gas pipeline projects and the future availability of pipeline capacity to transport our natural gas production.

The FERC also regulates rates and terms and conditions of service on interstate transportation of liquids, including NGLs, under the Interstate Commerce Act, as it existed on October 1, 1977 (“ICA”). Prices received from the sale of liquids may be affected by the cost of transporting those products to market. The ICA requires that certain interstate liquids pipelines maintain a tariff on file with FERC. The tariff sets forth the established rates as well as the rules and regulations governing the service. The ICA requires, among other things, that rates and terms and conditions of service on interstate common carrier pipelines be “just and reasonable.” Such pipelines must also provide jurisdictional service in a manner that is not unduly discriminatory or unduly preferential. Shippers have the power to challenge new and existing rates and terms and conditions of service before FERC.

The rates charged by many interstate liquids pipelines are currently adjusted pursuant to an annual indexing methodology established and regulated by FERC, under which pipelines increase or decrease their rates in accordance with an index adjustment specified by FERC. For the five-year period beginning July 1, 2021, FERC established an annual index adjustment equal to the change in the producer price index for finished goods—0.21%. This adjustment is subject to review every five years. Under FERC’s regulations, a liquids pipeline can request a rate increase that exceeds the rate obtained through application of the indexing methodology by obtaining market based rate authority (demonstrating the pipeline lacks market power), establishing rates by settlement with all existing shippers, or through a cost of service approach (if the pipeline establishes that a substantial divergence exists between the actual costs experienced by the pipeline and the rates resulting from application of the indexing methodology). Increases in liquids transportation rates may result in lower revenue and cash flows for us.

In addition, due to common carrier regulatory obligations of liquids pipelines, capacity must be prorated among shippers in an equitable manner in the event there are nominations in excess of

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capacity or for new shippers. Therefore, new shippers or increased volume by existing shippers may reduce the capacity available to us. Any prolonged interruption in the operation or curtailment of available capacity of the pipelines that we rely upon for liquids transportation could have a material adverse effect on our business, financial condition, results of operations and cash flows. However, we believe that access to liquids pipeline transportation services generally will be available to us to the same extent as to our similarly situated competitors.

On February 17, 2022, FERC issued a Notice of Inquiry, seeking to explore oil pipeline capacity allocation issues that arise when anomalous conditions affect the demand for oil pipeline capacity and what actions FERC should consider to address those allocation issues. This proceeding was initiated in part by the impact of the COVID-19 pandemic on jet fuel shippers' ability to access capacity on oil pipelines using historic-based prorating. However, the Notice of Inquiry seeks comments on the broader issue of diminished access to oil pipeline capacity during anomalous conditions. Rates for intrastate pipeline transportation of liquids are subject to regulation by state regulatory commissions. The basis for intrastate liquids pipeline regulation, and the degree of regulatory oversight and scrutiny given to intrastate liquids pipeline rates, varies from state to state. We believe that the regulation of liquids pipeline transportation rates will not affect our operations in any way that is materially different from the effects on our similarly situated competitors.

In addition to FERC's regulations, we are required to observe anti market manipulation laws with regard to our physical sales of energy commodities. In November 2009, the FTC issued regulations pursuant to the Energy Independence and Security Act of 2007, intended to prohibit market manipulation in the petroleum industry. Violators of the regulations face civil penalties of up to approximately \$1,323,791 per violation per day. In July 2010, Congress passed the Dodd-Frank Act, which incorporated an expansion of the authority of the CFTC to prohibit market manipulation in the markets regulated by the CFTC. This authority, with respect to swaps and futures contracts, is similar to the anti-manipulation authority granted to the FTC with respect to purchases and sales. In July 2011, the CFTC issued final rules to implement their new anti-manipulation authority. The rules subject violators to a civil penalty of up to the greater of approximately \$1,303,559 or triple the monetary gain to the person for each violation.

Regulation of Environmental and Occupational Safety and Health Matters

Our operations are subject to stringent federal, state and local laws and regulations governing occupational safety and health aspects of our operations, the discharge of materials into the environment and the protection of the environment and natural resources (including threatened and endangered species and their habitat). Numerous governmental entities, including the EPA and analogous state agencies have the power to enforce compliance with these laws and regulations and the permits issued under them, often requiring difficult and costly actions.

These laws and regulations may, among other things (i) require the acquisition of permits to conduct drilling and other regulated activities; (ii) restrict the types, quantities and concentration of various substances that can be released into the environment or injected into formations in connection with oil and natural gas drilling and production activities; (iii) limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas; (iv) require remedial measures to mitigate pollution from former and on-going operations, such as requirements to close pits and plug abandoned wells; (v) apply specific health and safety criteria addressing worker protection; and (vi) impose substantial liabilities for pollution resulting from drilling and production operations. Any failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of corrective or remedial obligations, the occurrence of delays or restrictions in permitting or performance of projects, and the issuance of orders enjoining performance of some or all of our operations.

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These laws and regulations may also restrict the rate of oil and natural gas production below the rate that would otherwise be possible. The regulatory burden on the oil and natural gas industry increases the cost of doing business in the industry and consequently affects profitability. The trend in environmental regulation has been to place more restrictions and limitations on activities that may affect the environment, and thus any changes in environmental laws and regulations or re-interpretation of enforcement policies that result in more stringent and costly well drilling, construction, completion or water management activities, or waste handling, storage transport, disposal, or remediation requirements could have a material adverse effect on our financial position and results of operations. We may be unable to pass on such increased compliance costs to our customers. Moreover, accidental releases or spills may occur in the course of our operations, and we cannot assure you that we will not incur significant costs and liabilities as a result of such releases or spills, including any third-party claims for damage to property, natural resources or persons. Continued compliance with existing requirements is not expected to materially affect us. However, there is no assurance that we will be able to remain in compliance in the future with such existing or any new laws and regulations or that such future compliance will not have a material adverse effect on our business and operating results.

In addition, governmental, scientific, and public concern over the threat of climate change arising from GHG emissions has resulted in increasing political and regulatory risks in the United States, including climate change related pledges made by certain candidates elected to public office. President Biden has issued several executive orders focused on addressing climate change since taking office, including items that may impact the costs to produce, or demand for, oil and natural gas. Additionally, in November 2021, the Biden Administration released “The Long-Term Strategy of the United States: Pathways to Net-Zero Greenhouse Gas Emissions by 2050,” which establishes a roadmap to net zero emissions in the United States by 2050 through, among other things, improving energy efficiency; decarbonizing energy sources via electricity, hydrogen, and sustainable biofuels; and reducing non-carbon dioxide GHG emissions, such as methane and nitrous oxide. The Biden Administration is also considering revisions to the leasing and permitting programs for oil and natural gas development on federal lands.

The following is a summary of the more significant existing and proposed environmental and occupational safety and health laws, as amended from time to time, to which our business operations are or may be subject and for which compliance may have a material adverse impact on our capital expenditures, results of operations or financial position.

Hazardous Substances and Wastes

The Resource Conservation and Recovery Act (“RCRA”), and comparable state statutes, regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Pursuant to rules issued by the EPA, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. Drilling fluids, produced waters, and most of the other wastes associated with the exploration, development, and production of natural gas, if properly handled, are currently exempt from regulation as hazardous waste under RCRA and, instead, are regulated under RCRA’s less stringent non-hazardous waste provisions, state laws or other federal laws. However, it is possible that certain natural gas drilling and production wastes now classified as non-hazardous could be classified as hazardous wastes in the future. Any such change could result in an increase in our as well as the oil and natural gas exploration and production industry’s costs to manage and dispose of wastes, which could have a material adverse effect on our results of operations and financial position. In the course of our operations, we generate some amounts of ordinary industrial wastes, such as paint wastes, waste solvents and waste oils that may be regulated as hazardous wastes.

The Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), also known as the Superfund law, and comparable state laws impose joint and several liability, without

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regard to fault or legality of conduct, on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include the current and former owners and operators of the site where the release occurred and anyone who disposed or arranged for the disposal of a hazardous substance released at the site. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. We generate materials in the course of our operations that may be regulated as hazardous substances.

We currently own, lease, or operate numerous properties that have been used for oil, natural gas and NGL exploration, production and processing for many years. Although we believe that we have utilized operating and waste disposal practices that were standard in the industry at the time, hazardous substances, wastes, or petroleum hydrocarbons may have been released on, under or from the properties owned or leased by us, or on, under or from other locations, including off site locations, where such substances have been taken for treatment or disposal. In addition, some of our properties have been operated by third parties or by previous owners or operators whose treatment and disposal of hazardous substances, wastes, or petroleum hydrocarbons was not under our control. These properties and the substances disposed or released on, under or from them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to undertake response or corrective measures, which could include removal of previously disposed substances and wastes, cleanup of contaminated property or performance of remedial plugging or pit closure operations to prevent future contamination, the costs of which could be substantial.

Water Discharges

The Federal Water Pollution Control Act, also known as the Clean Water Act (“CWA”), and analogous state laws, impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of hazardous substances, into state waters and waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. Spill prevention, control and countermeasure plan requirements imposed under the CWA require appropriate containment berms and similar structures to help prevent the contamination of navigable waters in the event of a petroleum hydrocarbon tank spill, rupture or leak. In addition, the CWA and analogous state laws require individual permits or coverage under general permits for discharges of storm water runoff from certain types of facilities. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with discharge permits or other requirements of the CWA and analogous state laws and regulations.

The CWA also prohibits the discharge of dredge and fill material in regulated waters, including wetlands, unless authorized by permit. In 2015, the EPA and the U.S. Army Corps of Engineers (“Corps”) issued a final rule attempting to clarify the federal jurisdictional reach over waters of the United States (“WOTUS”). The rule has the potential to expand CWA jurisdiction to ephemeral waters found in generally arid regions of the United States. In January 2020, the EPA and Corps replaced the WOTUS rule with the narrower Navigable Waters Protection Rule, and litigation ensued. In August 2021, a federal judge struck down the Navigable Waters Protection Rule. Soon after, the Biden administration and the Corps announced that they have stopped enforcing the Navigable Waters Protection Rule nationwide and that they are reverting back to the 1986 WOTUS definition. In November 2021, the EPA and Corps issued prepublication notice of a

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proposed rule to revise the definition of “waters of the United States” to put back into place the pre-2015 definition, updated to reflect consideration of Supreme Court decisions, including the Supreme Court’s April 2020 decision holding that, in certain cases, discharges from a point source to groundwater could fall within the scope of the CWA and require a permit. In January 2022, the Supreme Court agreed to hear a case regarding the jurisdictional reach of WOTUS. In addition to the recently reopened litigation over the rule in district courts, multiple states and environmental groups have challenged the suspension of the rule, and future implementation of the WOTUS rule is uncertain at this time. To the extent any final rule expands the federal jurisdictional reach over WOTUS, we could be subject to additional permitting obligations, which could lead to potential project delays and additional compliance costs.

The primary federal law related specifically to oil spill liability is the Oil Pollution Act of 1990 (“OPA”), which amends and augments the oil spill provisions of the CWA and imposes certain duties and liabilities on certain “responsible parties” related to the prevention of oil spills and damages resulting from such spills in or threatening waters of the United States or adjoining shorelines. For example, operators of certain oil and natural gas facilities must develop, implement and maintain facility response plans, conduct annual spill training for certain employees and provide varying degrees of financial assurance. Owners or operators of a facility, vessel or pipeline that is a source of an oil discharge or that poses the substantial threat of discharge is one type of “responsible party” who is liable. The OPA applies joint and several liability, without regard to fault, to each liable party for oil removal costs and a variety of public and private damages. Although defenses exist, they are limited. As such, a violation of the OPA has the potential to adversely affect our operations.

Subsurface Injections

In the course of our operations, we produce water in addition to oil, natural gas and NGLs. Water that is not recycled may be disposed of in disposal wells, which inject the produced water into non-producing subsurface formations. Underground injection operations are regulated pursuant to the Underground Injection Control (“UIC”) program established under the federal Safe Drinking Water Act and analogous state laws. The UIC program requires permits from the EPA or an analogous state agency for the construction and operation of disposal wells, establishes minimum standards for disposal well operations, and restricts the types and quantities of fluids that may be disposed. A change in UIC disposal well regulations or the inability to obtain permits for new disposal wells in the future may affect our ability to dispose of produced water and ultimately increase the cost of our operations. For example, in response to recent seismic events near belowground disposal wells used for the injection of natural gas related wastewaters, federal and some state agencies have begun investigating whether such wells have caused increased seismic activity, and some states have shut down or imposed moratoria on the use of such disposal wells. In response to these concerns, regulators in some states have adopted, and other states are considering adopting, additional requirements related to seismic safety. These seismic events have also led to an increase in tort lawsuits filed against exploration and production companies as well as the owners of underground injection wells. Increased costs associated with the transportation and disposal of produced water, including the cost of complying with regulations concerning produced water disposal, may reduce our profitability; however, these costs are commonly incurred by all oil and natural gas producers and we do not believe that the costs associated with the disposal of produced water will have a material adverse effect on our operations.

Air Emissions

The CAA and comparable state laws restrict the emission of air pollutants from many sources, such as, for example, tank batteries and compressor stations, through air emissions standards, construction and operating permitting programs and the imposition of other compliance standards.

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These laws and regulations may require us to obtain pre-approval for the construction or modification of certain projects or facilities expected to produce or significantly increase air emissions, obtain and strictly comply with stringent air permit requirements or utilize specific equipment or technologies to control emissions of certain pollutants. The need to obtain permits has the potential to delay the development of oil and natural gas projects. Recently, there has been increased regulation with respect to air emissions resulting from the oil and natural gas sector. For example, the EPA promulgated rules in 2012 under the CAA that subject oil and natural gas production, processing, transmission and storage operations to regulation under the New Source Performance Standards (“NSPS”) and a separate set of requirements to address certain hazardous air pollutants frequently associated with oil and natural gas production and processing activities pursuant to the National Standards for Emission of Hazardous Air Pollutants program. With regard to production activities, these final rules require, among other things, the reduction of volatile organic compound (“VOC”) emissions from certain fractured and refractured natural gas wells for which well completion operations are conducted and further requires that a subset of these selected wells use reduced emission completions, also known as “green completions.” These regulations also establish specific new requirements regarding emissions from production related wet seal and reciprocating compressors, and from pneumatic controllers and storage vessels.

The EPA has also imposed increasingly stringent performance standards on oil and gas operations. In 2016, the EPA issued regulations under NSPS OOOOa that require operators to reduce methane and VOC emissions from new, modified and reconstructed crude oil and natural gas wells and equipment located at natural gas production gathering and booster stations, gas processing plants and natural gas transmission compressor stations. In November 2021, the EPA proposed a rule to further reduce methane and VOC emissions from new and existing sources in the oil and natural gas sector. The proposed rule would establish standards of performance for sources that commence construction, modification or reconstruction after the date the proposed rule is published in the Federal Register and would establish emissions guidelines, which will inform state plans to establish standards for existing sources. The EPA is currently seeking public comments on its proposal, which the EPA hopes to finalize by the end of 2022. Once finalized, the regulations are likely to be subject to legal challenge. Emissions guidelines will also need to be incorporated into the states’ implementation plans, which will need to be approved by the EPA in individual rulemakings that could also be subject to legal challenge. State agencies have similarly imposed increasing restrictions on emissions from oil and gas operations. For example, in 2022, the New Mexico Environment Department adopted new regulations establishing emission reduction requirements for storage vessels, compressors, turbines, heaters, engines, dehydrators, pneumatic devices, produced water management units, and other equipment and processes. Increasingly stringent requirements on new oil and gas facilities, or the application of new requirements to existing facilities, could result in additional restrictions on operations and increased compliance costs, which could be significant.

The Bureau of Land Management (the “BLM”) also finalized rules (the “BLM methane rule”) in November 2016 that seek to limit methane emissions from exploration and production activities on federal lands by imposing limitations on venting and flaring of natural gas, as well as requirements for the implementation of leak detection and repair programs for certain processes and equipment. After attempts by the Trump administration to delay implementation of the BLM methane rule, and legal challenges both to the BLM methane rule and the delays, the BLM issued a final rule in September 2018 rescinding many of the provisions of the 2016 BLM methane rule, including the requirement to implement leak detection and repair programs, and imposing certain new requirements in a manner the BLM considered would reduce unnecessary compliance obligations on the industry. In July 2020 a federal district court in California vacated the 2018 rescission rule. BLM filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit; however, the federal district court in California entered a final judgment vacating the September 2018 rescission rule in October 2020. Separately, in October 2020, a federal district court judge in Wyoming vacated the 2016 rule. Environmental groups appealed the Wyoming decision in December 2020, and litigation is ongoing.

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The EPA also finalized separate rules under the CAA in June 2016 regarding criteria for aggregating multiple sites into a single source for air quality permitting purposes applicable to the oil and natural gas industry. This rule could cause small facilities (such as tank batteries and compressor stations), on an aggregate basis, to be deemed a major source, thereby triggering more stringent air permitting requirements, which in turn could result in operational delays or require us to install costly pollution control equipment. In addition, in October 2015, the EPA issued a final rule under the CAA, lowering the NAAQS for ground level ozone from the current standard of 75 ppb for the current 8 hour primary and secondary ozone standards to 70 ppb for both standards, and completed attainment/non-attainment designations in July 2018. EPA reviewed the 2015 standards in 2020, but retained the standard without revision. Impacts associated with the 2015 standard vary by geographic location, but could include additional fees and more stringent permitting requirements, among other things. None of the counties in which we operate have been designated as non-attainment.

Compliance with one or more of these and other air pollution control and permitting requirements has the potential to delay the development of oil and natural gas projects and increase our costs of development and production, which costs could be significant. In addition, our failure to comply with these requirements could subject us to monetary penalties, injunctions, conditions or restrictions on operations and criminal enforcement actions.

Regulation of GHG Emissions (Climate Change)

In response to findings that emissions of carbon dioxide, methane and other GHGs present an endangerment to public health and the environment, the EPA has adopted regulations under existing provisions of the CAA that, among other things, establish PSD construction and Title V operating permit reviews for certain large stationary sources that are already potential major sources of certain principal, or criteria, pollutant emissions. Facilities required to obtain PSD permits for their GHG emissions also will be required to meet “best available control technology” standards that typically will be established by state agencies. In addition, the EPA has adopted rules requiring the monitoring and annual reporting of GHG emissions from specified large, GHG emission sources in the United States, including certain onshore and offshore oil and natural gas production sources, which include certain of our operations. As discussed above, federal regulatory action with respect to GHG emissions from the oil and natural gas sector has focused on methane emissions; however, implementation of the federal methane rules is uncertain at this time.

In the United States, no comprehensive climate change legislation has been implemented at the federal level. However, the Inflation Reduction Act, recently passed by Congress and signed into law by President Biden, imposes several new climate-related requirements on oil and gas operators, including a first-ever fee on GHG emissions from certain facilities. The act also appropriates significant federal funding for renewable energy initiatives. These developments may make it harder for the oil and gas industry to attract capital. Additionally, the current administration has highlighted addressing climate change as a priority and has issued several executive orders addressing climate change, including one that calls for substantial action, such as the increased use of zero-emission vehicles by the federal government, the elimination of subsidies provided to the fossil fuel industry, and increased emphasis on climate-related risks across government agencies and economic sectors. In the absence of comprehensive federal climate legislation, a number of state and regional cap and trade programs have emerged that typically require major sources of GHG emissions to acquire and surrender emission allowances in return for emitting those GHGs. In addition, the United States is one of almost 200 nations that, in December 2015, agreed to the Paris Agreement, an international climate change agreement in Paris, France that calls for countries to set their own GHG emissions targets and be transparent about the measures each country will use to achieve its GHG emissions targets. Although the United States

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had withdrawn from the Paris Agreement, President Biden has recommitted the United States and, in April 2021, announced a goal of reducing the United States' emissions by 50-52% below 2005 levels by 2030. In November 2021, the international community gathered again in Glasgow at the COP26, during which multiple announcements were made, including a call for parties to eliminate certain fossil fuel subsidies and pursue further action on non-carbon dioxide GHGs. Relatedly, the United States and European Union jointly announced the launch of the "Global Methane Pledge," which aims to cut global methane pollution at least 30% by 2030 relative to 2020 levels, including "all feasible reductions" in the energy sector.

Although it is not possible at this time to predict how new laws or regulations in the United States that may be adopted or issued to address GHG emissions would impact our business, any such future laws, regulations or legal requirements imposing reporting or permitting obligations on, or limiting emissions of GHGs from, our equipment and operations could require us to incur costs to reduce emissions of GHGs associated with our operations as well as delays or restrictions in our ability to permit GHG emissions from new or modified sources. New laws or regulations may also negatively impact our competitive advantage; for example, the Inflation Reduction Act of 2022 includes a variety of tax credits to incentivize the development and use of solar, wind, and other alternative energy sources while imposing several new requirements on oil and gas operators. In addition, substantial limitations on GHG emissions could adversely affect demand for the oil and natural gas we produce and lower the value of our reserves. Recently, activists concerned about the potential effects of climate change have directed their attention at sources of funding for energy companies, which has resulted in certain financial institutions, funds and other sources of capital restricting or eliminating their investment in oil and natural gas activities. Ultimately, this could make it more difficult to secure funding for exploration and production activities. Notwithstanding potential risks related to climate change, the International Energy Agency estimates that global energy demand will continue to rise and will not peak until after 2040 and that oil and gas will continue to represent a substantial percentage of global energy use over that time in multiple, though not all, potential scenarios. In addition, increasing social attention to ESG matters and climate change has resulted in demands for action related to climate change and energy transition matters, such as promoting the use of substitutes to fossil fuel products, encouraging the divestment of fossil fuel equities, and pressuring lenders and other financial services companies to limit or curtail activities with fossil fuel companies. For example, the Inflation Reduction Act of 2022 includes a variety of tax credits to incentivize development and use of solar, wind, and other alternative energy sources. Initiatives to incentivize a shift away from fossil fuels could reduce demand for hydrocarbons, thereby reducing demand for our services and causing a material adverse effect on our earnings, cash flows and financial condition.

Litigation risks are also increasing as a number of entities have sought to bring suit against various oil and natural gas companies in state or federal court, alleging among other things, that such companies created public nuisances by producing fuels that contributed to climate change or alleging that the companies have been aware of the adverse effects of climate change for some time but defrauded their investors or customers by failing to adequately disclose those impacts.

Finally, it should be noted that increasing concentrations of GHGs in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, floods, droughts and other extreme climatic events; if any such effects were to occur, they could have an adverse effect on our exploration and production operations.

Hydraulic Fracturing Activities

Hydraulic fracturing is an important and common practice that is used to stimulate production of natural gas from dense subsurface rock formations. Hydraulic fracturing involves the

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injection of water, sand or alternative proppant and chemicals under pressure into targeted geological formations to fracture the surrounding rock and stimulate production. We engage in hydraulic fracturing as part of our operations currently and may continue to do so in the future.

Hydraulic fracturing is typically regulated by state oil and natural gas commissions. However, several federal agencies have asserted regulatory authority over certain aspects of the process. For example, the EPA published final CAA regulations in 2012 and, more recently, in June 2016 governing performance standards, including standards for the capture of air emissions released during oil and natural gas hydraulic fracturing, leak detection, and permitting and separately published in June 2016 an effluent limitation guideline final rule prohibiting the discharge of wastewater from onshore unconventional oil and natural gas extraction facilities to publicly owned wastewater treatment plants. In December 2016, the EPA released its final report on the potential impacts of hydraulic fracturing on drinking water resources. The final report concluded that “water cycle” activities associated with hydraulic fracturing may impact drinking water resources “under certain limited circumstances.” Also, the BLM finalized rules in March 2015, establishing stringent standards relating to hydraulic fracturing on federal and American Indian lands. This rule was struck down by a Wyoming federal district court judge in June 2016 but was subsequently appealed by the BLM to the U.S. Circuit Court of Appeals for the Tenth Circuit. In September 2017, the Tenth Circuit issued a ruling to vacate this decision and dismiss the lawsuit challenging the rule in light of the BLM’s proposed rulemaking. In December 2017, BLM issued a final rule repealing the 2015 hydraulic fracturing rule. The BLM’s rescission of the rule was challenged by several environmental groups and states in the United States District Court for the Northern District of California. The United States District Court for the Northern District of California upheld the BLM’s rescission in a March 2020 decision.

From time to time, legislation has been introduced, but not enacted, in Congress to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the fracturing process. Meanwhile, the regulation of hydraulic fracturing has continued at the state level. In the event that a new, federal level of legal restrictions relating to the hydraulic fracturing process is adopted in areas where we operate, we may incur additional costs to comply with such federal requirements that may be significant in nature, and also could become subject to additional permitting requirements and experience added delays or curtailment in the pursuit of exploration, development, or production activities.

Activities on Federal Lands

Oil and gas exploration, development and production activities on federal lands, including American Indian lands, are administered by the BLM. Operations on federal and tribal lands are frequently subject to permitting delays. Operations on these lands are also subject to NEPA. NEPA requires federal agencies, including the BLM, to evaluate major agency actions having the potential to significantly impact the environment. In the course of such evaluations, an agency will prepare an Environmental Assessment that assesses the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that may be made available for public review and comment. We currently have exploration, development and production activities on federal lands and our proposed exploration, development and production activities are expected to include leasing of federal mineral interests, which will require the acquisition of governmental permits or authorizations that are subject to the requirements of NEPA. This process has the potential to delay or limit, or increase the cost of, the development of oil and natural gas projects. Authorizations under NEPA are also subject to protest, appeal or litigation, any or all of which may delay or halt projects. Moreover, depending on the mitigation strategies recommended in Environmental Assessments or Environmental Impact Statements, we could incur added costs, which may be substantial.

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Moreover, the Biden administration's January 2021 climate change executive order directed the Secretary of the Interior to pause new oil and natural gas leasing on public lands and in offshore waters pending completion of a comprehensive review of the federal permitting and leasing practices. In November 2021, the U.S. Department of the Interior released its "Report On The Federal Oil And Gas Leasing Program," which assessed the current state of oil and gas leasing on federal lands and proposed several reforms, including raising royalty rates and implementing stricter standards for entities seeking to purchase oil and gas leases. In January 2022, a federal district court judge in Washington, D.C. vacated the results of the federal government's Lease Sale 257, effectively canceling the sale, on the grounds that the federal government failed to consider foreign consumption of oil and natural gas from its GHG emissions analysis. In February 2022, a federal district court judge in Louisiana blocked the Biden Administration's method of calculating the social costs associated with GHGs, and specifically blocked federal agencies from considering the findings from the White House Interagency Working Group, which had been tasked with devising new metrics based on the Obama-era calculations. In response, also in February 2022, the Biden administration asked the court to stay the injunction, and announced that it would be suspending or delaying new federal oil and gas leases. The Biden administration resumed its federal leasing program in April 2022. These recent developments and the Biden administration's and certain federal courts' focus on the climate change impacts of federal projects could result in significant changes to the federal oil and gas leasing program in the future. Restrictions surrounding onshore drilling, onshore federal lease availability, and restrictions on the ability to obtain required permits, could have a material adverse impact on our operators and, in turn, our operations.

Endangered Species and Migratory Birds Considerations

The federal Endangered Species Act ("ESA"), and comparable state laws were established to protect endangered and threatened species. Pursuant to the ESA, if a species is listed as threatened or endangered, restrictions may be imposed on activities adversely affecting that species' habitat. Similar protections are offered to migrating birds under the Migratory Bird Treaty Act. We may conduct operations on oil and natural gas leases in areas where certain species that are listed as threatened or endangered are known to exist and where other species, such as the sage grouse, that potentially could be listed as threatened or endangered under the ESA may exist. Moreover, as a result of a 2011 settlement agreement, the U.S. Fish and Wildlife Service ("FWS") was required to make a determination on listing numerous species as endangered or threatened under the ESA by no later than completion of the agency's 2017 fiscal year. The FWS missed the deadline and continues to review species for listing under the ESA. The identification or designation of previously unprotected species as threatened or endangered in areas where underlying property operations are conducted could cause us to incur increased costs arising from species protection measures, time delays or limitations on our exploration and production activities that could have an adverse impact on our ability to develop and produce reserves. If we were to have a portion of our leases designated as critical or suitable habitat, it could adversely impact the value of our leases. In addition, the federal government recently in the past has issued indictments under the Migratory Bird Treaty Act to several oil and natural gas companies after dead migratory birds were found near reserve pits associated with drilling activities. In December 2017, the Department of Interior issued a new opinion revoking its prior enforcement policy and concluded that an incidental take is not a violation of the Migratory Bird Treaty Act. In August 2020, a federal district court struck down the December 2017 opinion, and the Department of the Interior responded by issuing a new rule in January 2021 that reduced the activities that could incur liability under the MBTA. The Biden administration has since revoked the January 2021 rule; published an Advanced Notice of Proposed Rulemaking announcing an intent to solicit comments to help develop proposed regulations establishing a permitting system to authorize, under certain circumstances, the incidental take of

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migratory birds; and issued a Director’s Order “establishing criteria for the types of conduct that will be a priority for enforcement activities with respect to incidental take of migratory birds.”

OSHA

We are subject to the requirements of the OSHA and comparable state statutes whose purpose is to protect the health and safety of workers. In addition, the OSHA hazard communication standard, the Emergency Planning and Community Right to Know Act and comparable state statutes and any implementing regulations require that we organize and/or disclose information about hazardous materials used or produced in our operations and that this information be provided to employees, state and local governmental authorities and citizens.

Related Permits and Authorizations

Many environmental laws require us to obtain permits or other authorizations from state and/or federal agencies before initiating certain drilling, construction, production, operation, or other natural gas activities, and to maintain these permits and compliance with their requirements for on-going operations. These permits are generally subject to protest, appeal, or litigation, which can in certain cases delay or halt projects and cease production or operation of wells, pipelines, and other operations.

Related Insurance

We maintain insurance against some risks associated with above or underground contamination that may occur as a result of our exploration and production activities. There can be no assurance that this insurance will continue to be commercially available or that this insurance will be available at premium levels that justify its purchase by us. The occurrence of a significant event that is not fully insured or indemnified against could have a materially adverse effect on our financial condition and operations.

Human Capital Resources

As of December 31, 2021, we had 168 total employees, 148 of which were full-time employees. From time to time we utilize the services of independent contractors to perform various field and other services. We are not a party to any collective bargaining agreements, and have not experienced any strikes or work stoppages. In general, we believe that employee relations are satisfactory.

We are focused on attracting, engaging, developing, retaining and rewarding top talent. We strive to enhance the economic and social well-being of our employees and the communities in which we operate. We are committed to providing a welcoming, inclusive environment for our workforce, with best-in-class training and career development opportunities to enable employees to thrive and achieve their career goals. The health, safety, and well-being of our employees is of the utmost importance.

In response to COVID-19, we adopted enhanced safety measures and practices to protect employee health and safety and minimize the risk of business disruption.

Legal Proceedings

We are party to lawsuits arising in the ordinary course of our business. We cannot predict the outcome of any such lawsuits with certainty, but management believes it is remote that pending or threatened legal matters will have a material adverse impact on our financial condition. Due to the

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nature of our business, we are, from time to time, involved in other routine litigation or subject to disputes or claims related to our business activities, including workers' compensation claims and employment-related disputes. In the opinion of our management, none of these other pending litigation matters, disputes or claims against us, if decided adversely, will have a material adverse effect on our financial condition, cash flows or results of operations.

MANAGEMENT

Management of TXO Energy Partners

We are managed and operated by our general partner, which is managed by the Board and executive officers of our general partner. The sole member of our general partner is controlled by the Founders. All of our independent directors will be appointed prior to the date our common units are listed for trading on the NYSE. Our unitholders will not be entitled to elect our general partner or its directors or otherwise directly participate in our management or operations. Our general partner owes certain contractual duties to us as well as to its owners.

Upon the closing of this offering, we expect that our general partner will have eight directors, each of whom will be appointed by MSOG, as the sole member of our general partner. At least one of the directors will be independent as defined under the standards established by the NYSE and the Exchange Act. The NYSE does not require a listed publicly traded partnership, such as ours, to have a majority of independent directors on the Board or to establish a compensation committee or a nominating committee. However, our general partner is required to have an audit committee of at least three members, and all its members are required to meet the independence and experience standards established by the NYSE and the Exchange Act, subject to certain transitional relief during the one-year period following consummation of this offering. We will have at least two independent members of the audit committee by the date our common units first trade on the NYSE.

Our operations will be conducted through, and our assets will be owned by, various subsidiaries. However, we will not have any employees. Our general partner has the sole responsibility for providing the personnel necessary to conduct our operations, whether through directly hiring personnel or by obtaining services of personnel employed by third parties, but we sometimes refer to these individuals, for drafting convenience only, in this prospectus as our employees because they provide services directly to us.

Following the consummation of this offering, neither our general partner nor the Founders will receive any management fee or other compensation in connection with our general partner's management of our business, but we will reimburse our general partner and its affiliates for all expenses they incur and payments they make on our behalf. Our partnership agreement does not set a limit on the amount of expenses for which our general partner and its affiliates may be reimbursed. These expenses include salary, benefits, bonus, long term incentives and other amounts paid to persons who perform services for us or on our behalf. Please read "Certain Relationships and Related Transactions."

In evaluating director candidates, our general partner will assess whether a candidate possesses the integrity, judgment, knowledge, experience, skill and expertise that are likely to enhance the board's ability to manage and direct our affairs and business, including, when applicable, to enhance the ability of committees of the Board to fulfill their duties.

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Executive Officers and Directors of Our General Partner

The following table sets forth certain information regarding the current executive officers and directors of our general partner upon consummation of this offering.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Bob R. Simpson	74	Chief Executive Officer, Chairman and Director
Brent W. Clum	59	President of Business Operations and Chief Financial Officer, Director
Keith A. Hutton	63	President of Production and Development, Director
Scott T. Agosta	57	Chief Accounting Officer
Vaughn O. Vennerberg II	68	Executive Vice President, Director
Phillip R. Kevil	71	Director Nominee
Rick J. Settle	32	Director
J. Luther King, Jr.	82	Director
William (“Bill”) H. Adams III	64	Director Nominee

Bob R. Simpson—Chief Executive Officer, Chairman and Director. Bob R. Simpson founded MorningStar in June 2012 and has served as a Director and the Chairman of the Board of MorningStar since its founding and will serve as our Chief Executive Officer and Chairman. Mr. Simpson previously served as the Chairman and a Director of Southland from February 2015 until January 2020. Since August 2010 and until September of 2020, Mr. Simpson served as Co-Chairman of the Rangers Baseball Express and since September of 2020, he has served as Chair of the Executive Committee. He also served as Chief Executive Officer of XTO (a company he founded) until 2008 and as Chairman of XTO until 2010 when XTO merged with Exxon for \$41 billion in one of the largest transactions in history for an independent oil and gas company. Mr. Simpson attended Baylor University, where he earned a B.B.A. in Accounting magna cum laude and then an M.B.A. He served in the Texas Army National Guard after graduation and then earned his certified public accountant (“CPA”) designation.

We believe that Mr. Simpson’s extensive industry background, leadership experience on other boards, and deep knowledge of our business make him well suited to serve as a member of our board of directors.

Brent W. Clum—President of Business Operations and Chief Financial Officer, Director. Brent W. Clum has served as our Chief Financial Officer since the founding of MorningStar in June 2012, and will serve as the President of Business Operations and Chief Financial Officer and a Director. He has also served as Director of MorningStar since October 2012. Mr. Clum served as Chief Financial Officer and Director of Southland from February 2015 until January 2020. Since August 2010, he has served as Chairman of the Finance and Audit Committee of Rangers Baseball Express. He served as Senior Vice President and Treasurer of XTO until the Exxon acquisition. Prior to joining XTO, Mr. Clum worked as a portfolio manager at Luther King Capital Management, served as a Managing Director at Invesco and was an Analyst for T. Rowe Price and Associates. He graduated from Baylor University with a Bachelors in Business Administration in Finance, Accounting and Marketing and from the Harvard Graduate School of Business with a Master’s in Business Administration. He is a CPA and a chartered financial analyst (“CFA”).

We believe that Mr. Clum’s industry experience, his previous leadership positions and finance-related roles, as well as his deep knowledge of our business make him well suited to serve as a member of our board of directors.

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Keith A. Hutton—President of Production and Development, Director. Keith A. Hutton will serve as our President of Production and Development. He previously served as the Chief Executive Officer of MorningStar and has served as Director of MorningStar, in each case, since its founding in June 2012. Mr. Hutton served as Director of Southland from February 2015 until January 2020. Mr. Hutton also served as Chief Executive Officer and Director of XTO until the time of the Exxon acquisition. He remained a consultant with Exxon until January 2012. Mr. Hutton held various management positions for XTO over his 25 year career and was promoted to CEO in December 2008. Prior to joining XTO Energy in 1987, Mr. Hutton was employed with Sun Oil Company in both the international and domestic divisions for five years. He graduated from Texas A&M University with a B.S. in Petroleum Engineering and was named a Harold Vance Department of Petroleum Engineering Distinguished Graduate in 2009.

We believe that Mr. Hutton's background in the energy industry and his experience as an executive make him well suited to serve as a member of our board of directors.

Scott T. Agosta—Chief Accounting Officer. Scott T. Agosta will serve as our Chief Accounting Officer. He has served as Chief Accounting Officer and Controller of MorningStar since its founding in June 2012. He also served as Chief Accounting Officer and Controller of Southland from August 2017 until January 2020. He served as Vice President—Financial Reporting of XTO from February 2005 until the Exxon acquisition in March 2012. Additionally, Mr. Agosta has served as a Board Member of the Junior Achievement of the Chisholm Trail since August 2009. Prior to joining XTO, Mr. Agosta worked as the Manager—Financial Reporting and Analysis at Devon Energy Corporation, served as Manager—Financial Reporting at Albemarle Corporation and was an Audit Manager at KPMG. He graduated from Louisiana State University with a B.B.A in Accounting. He is a CPA.

Vaughn O. Vennerberg, II—Executive Vice President, Director. Vaughn O. Vennerberg, II will serve as our Executive Vice President. He previously served as President of MorningStar since its founding in June, 2012. Mr. Vennerberg also served as President and Director of Southland from February 2015 to January 2020. He served as President and Director of XTO until his retirement at the time of the Exxon acquisition. Prior to becoming President in 2008, he served in various leadership positions over his 25-year career with the company. Prior to joining XTO, Mr. Vennerberg was employed by Cotton Petroleum Corporation and Texaco Inc. Mr. Vennerberg holds a current appointment to the Washington D.C.-based National Petroleum Council and has served in various roles with state petroleum industry boards in Oklahoma, Texas, Wyoming, Alaska, and New Mexico. He currently serves as a Board Trustee for the Dallas Museum of Art. Mr. Vennerberg received a B.S. degree from Oklahoma State University in 1976 and an honorary Doctorate of Humane Letters in 2012. In 2016, he was inducted into the Oklahoma State University "Hall of Fame."

We believe that Mr. Vennerberg's industry experience and deep knowledge of our business, in addition to his tenure in previous leadership roles, make him well suited to serve as a member of our board of directors.

Phillip R. Kevil—Director Nominee. Phillip R. Kevil has been nominated to serve as a Director. He served as Director and as a member of the Audit Committee for XTO from 2004 until 2010. He also served as Vice President – Tax at XTO from 1987 until 1997. Mr. Kevil was responsible for all tax functions for Southland from 1975 until 1986. He graduated from the University of Texas at Arlington with a B.A in Accounting.

We believe that Mr. Kevil's experience in corporate finance and the energy industry, as well as his previous experience as a director and audit committee member of a public company, make him well suited to serve as a member of our board of directors.

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Rick J. Settle—Director. Rick J. Settle has served as a Director of MorningStar since July, 2020. Mr. Settle has served as Director of Kindthread since November 2021 and as Director of Aquila Environmental since November 2017. Additionally, Mr. Settle has served as Director of Heart of Texas Propane since September 2017 and served as Director of MorningStar since July 2020. Further, he has been a Principal of Luther King Management, Headwater Investments since October 2014. Mr. Settle worked as a financial analyst for Citigroup from June 2013 until October 2014. He graduated from the Texas Christian University with a B.B.A. in Finance, Entrepreneurial Management. He is a certified financial analyst.

We believe that Mr. Settle’s leadership experience and his deep knowledge of the energy industry and corporate finance make him well suited to serve as a member of our board of directors.

J. Luther King, Jr.—Director. J. Luther King, Jr. has served as Director of the general partner of MorningStar since 2016. He served as Director of Tyler Technologies, Inc. from May 2004 until May 2021, serving on the Compensation and Audit Committees throughout his tenure at the company. Additionally, he has served as Director of LKCM Funds since February 1994. Mr. King also previously served as Director of Encore Energy Partners LP and as Director of XTO. Over the course of his career, he has served on the boards of several publicly traded companies, three of which were listed on the NYSE. In his position as a director of these companies, Mr. King has served as Chair of both Audit and Compensation committees. Mr. King currently serves as President of Luther King Capital Management, a position he has held since February 1979. He attended Texas Christian University, where he earned a B.S.C. and then an M.B.A. Mr. King is a CFA and was recognized by CFA Magazine as “Most Inspiring” in the Investment Advisory Profession in 2007. Additionally, Mr. King is a founding member of the Strategic Advisory Board of the CFA Society of Dallas/Fort Worth.

We believe that Mr. King’s experience serving on the boards of other public companies, along with his deep knowledge of our business and extensive industry experience, make him well suited to serve as a member of our board of directors.

William (“Bill”) H. Adams III—Director Nominee. Bill H. Adams has been nominated to serve as a Director. Mr. Adams currently serves as Director of Kimbell Royalty GP, LLC, a position he has held since January 2017. In this position, Mr. Adams has served on the Audit, Compensation and Conflicts committees of the company. Mr. Adams served as Director of Double B Holdings, LLC from 2012 until 2021. Additionally, Mr. Adams has served as Director of Graham Savings Bank since 2018, of JBN Investments, LLC since 2010, of Back Holdings, LLC since 2007 and of Jabb Associates, Inc. since 1997. Mr. Adams has also held the position of Chairman and has been a principal owner of Texas Appliance Supply, Inc., a wholesale and retail distribution company, since 2007. Prior to its sale to Exxon Mobil Corporation in 2010, he served on the board of directors of XTO Energy Inc., where he chaired the Compensation, Corporate Governance and Nominating committees. Previously, Mr. Adams had a 25-year career in commercial and energy banking, most recently as Executive Regional President of Texas Bank in Fort Worth, before retiring in 2006. He also served as President of Frost Bank-Arlington. Mr. Adams received a B.B.A. in Finance from Texas Tech University.

We believe that Mr. Adams’ strong track record of leading companies, including his participation on the boards of several companies, and his knowledge of the industry make him well suited to serve as a member of our board of directors.

Southland Bankruptcy

On January 27, 2020, Southland filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”). With the approval of the Bankruptcy Court, in May 2020 Southland sold its assets in the San Juan Basin to MorningStar Partners L.P. for \$10.2 million. At the time of filing for bankruptcy and the Bankruptcy Court’s approval of its plan of reorganization, Bob R. Simpson, Scott T. Agosta, Keith A. Hutton, Vaughn O. Vennerberg II and Brent W. Clum were acting or former officers of Southland and were affiliates of MorningStar Partners L.P. As of the date of this prospectus, none of these individuals are employed by or affiliated with Southland.

Reimbursement of Expenses of Our General Partner

Our partnership agreement requires us to reimburse our general partner for all direct and indirect expenses it incurs or payments it makes on our behalf and all other expenses allocable to us or otherwise incurred by our general partner in connection with operating our business. Our partnership agreement does not set a limit on the amount of expenses for which our general partner and its affiliates may be reimbursed. Our partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us.

Board of Directors

Prior to the date that our common units are first traded on the NYSE, we expect our general partner to have a eight-member board of directors.

In evaluating director candidates, the sole member of our general partner will assess whether a candidate possesses the integrity, judgment, knowledge, experience, skills and expertise that are likely to enhance the board’s ability to manage and direct our affairs and business, including, when applicable, to enhance the ability of the committees of the Board to fulfill their duties.

Our general partner’s directors hold office until the earlier of their death, resignation, retirement, disqualification or removal or until their successors have been duly elected and qualified.

Director Independence

Our independent directors will meet the independence standards established by the NYSE listing rules.

Committees of the Board of Directors

The Board will have an audit committee, a compensation committee, a conflicts committee, and such other committees as the Board shall determine from time to time. The NYSE listing rules do not require a listed limited partnership to establish a compensation committee or a nominating and corporate governance committee. However, we have established a compensation committee that will have the responsibilities set forth below.

Audit Committee

We are required to have an audit committee of at least three members, and all its members are required to meet the independence and experience standards established by the NYSE listing rules and rules of the SEC. The audit committee will assist the Board in its oversight of the integrity of our financial statements and our compliance with legal and regulatory requirements and

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partnership policies and controls. The audit committee will have the sole authority to (1) retain and terminate our independent registered public accounting firm, (2) approve all auditing services and related fees and the terms thereof performed by our independent registered public accounting firm and (3) pre-approve any non-audit services and tax services to be rendered by our independent registered public accounting firm. The audit committee will also be responsible for confirming the independence and objectivity of our independent registered public accounting firm. Our independent registered public accounting firm will be given unrestricted access to the audit committee and our management. Effective upon the consummation of this offering, _____ will serve on the audit committee.

Conflicts Committee

In accordance with the terms of our partnership agreement, at least two members of the Board will serve on our conflicts committee to review specific matters that may involve conflicts of interest. The members of our conflicts committee cannot be officers or employees of our general partner or directors, officers, or employees of its affiliates, and must meet the independence and experience standards established by the NYSE and the Exchange Act to serve on an audit committee of a board of directors. In addition, the members of our conflicts committee cannot own any interest in our general partner or its affiliates or any interest in us or our subsidiaries other than common units or awards, if any, under our incentive compensation plan. We expect that _____ and _____ will serve as members of our conflicts committee. Please read “Conflicts of Interest and Duties.”

Compensation Committee

Effective upon the consummation of this offering, the members of our compensation committee will be _____, and _____ will serve as chair of the compensation committee. Each of the members of our compensation committee will be independent under the applicable rules and regulations of the NYSE, will be a “non-employee director” as defined in Rule 16b-3 promulgated under the Exchange Act and will be an “outside director” as that term is defined in Section 162(m) of the Code (Section 162(m)). The compensation committee will operate under a written charter that satisfies the applicable standards of the SEC and the NYSE.

The compensation committee’s responsibilities include:

- annually reviewing and approving corporate goals and objectives relevant to compensation of our chief executive officer and our other executive officers;
- annually reviewing and making recommendations to our board of directors with respect to the compensation of our chief executive officer and determining the compensation for our other executive officers;
- reviewing and making recommendations to our board of directors with respect to director compensation; and
- overseeing and administering our equity incentive plans.

From time to time, our compensation committee may use outside compensation consultants to assist it in analyzing our compensation programs and in determining appropriate levels of compensation and benefits. The compensation committee will review and evaluate, at least annually, the performance of the compensation committee and its members, including compliance by the compensation committee with its charter.

Board Leadership Structure

Leadership of our general partner's board of directors is vested in a Chairman of the Board. Mr. Bob Simpson currently serves as a Director and the Chairman of the Board, and we have no policy with respect to the separation of the offices of chairman of the Board and chief executive officer. Instead, that relationship is defined and governed by the amended and restated limited liability company agreement of our general partner, which permits the same person to hold both offices. Directors of the Board are designated or elected by the Founders. Accordingly, unlike holders of common stock in a corporation, our unitholders will have only limited voting rights on matters affecting our business or governance, subject in all cases to any specific unitholder rights contained in our partnership agreement.

Board Role in Risk Oversight

Our corporate governance guidelines will provide that the Board is responsible for reviewing the process for assessing the major risks facing us and the options for their mitigation. This responsibility will be largely satisfied by our audit committee, which is responsible for reviewing and discussing with management and our independent registered public accounting firm our major risk exposures and the policies management has implemented to monitor such exposures, including our financial risk exposures and risk management policies.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

General

We do not directly employ any of the persons responsible for managing our business. Our general partner's executive officers will manage our business as part of the services provided by our general partner to us under our partnership agreement. Although all of the employees that conduct our business are either employed by our general partner or its subsidiaries, we sometimes refer to these individuals in this prospectus as our employees.

All of our general partner's executive officers and other employees necessary to operate our business will be employed and compensated by either our general partner or a subsidiary of the general partner, subject to reimbursement by our general partner. The compensation for all of our executive officers will be indirectly paid by us to the extent provided for in the partnership agreement because we will reimburse our general partner for compensation it pays related to management of our business. Please see "Certain Relationships and Related Party Transactions—Agreements with Affiliates in Connection with the Transactions—Reimbursement of Expenses of Our General Partner."

Our compensation committee will have responsibility for reviewing and making recommendations to our board of directors with respect to the compensation of our chief executive officer and determining the compensation of our other executive officers. Our predecessor historically compensated certain of its executive officers primarily with base salary and cash bonuses. However, in connection with this offering, the compensation committee may consider the compensation structures and levels that they believe will be necessary for executive recruitment and retention for us as a public company.

Emerging Growth Company Status

As an emerging growth company we are exempt from certain requirements related to executive compensation, including the requirements to hold a nonbinding advisory vote on executive compensation and to provide information relating to the ratio of total compensation of our chief executive officer to the median of the annual total compensation of all of our employees, each as required by the Investor Protection and Securities Reform Act of 2010, which is part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The rules applicable to emerging growth companies require compensation disclosure for any individuals serving as our principal executive officer during the last completed fiscal year and the two most highly compensated executive officers other than our principal executive officer, as well as up to two additional individuals who would have been one of the two most highly compensated executive officers had they remained employed as of the last day of the year. We refer to these officers as our "Named Executive Officers" or "NEOs".

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Summary Compensation Table

The following table sets forth compensation for our NEOs, for the years ended December 31, 2021 and 2020.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Value of All Other Compensation (\$) ⁽¹⁾	Total Compensation (\$)
Bob R. Simpson	2021	—	—	—	—	—
CEO, Chairman, and Director ⁽²⁾	2020	—	—	—	—	—
Brent W. Clum	2021	250,000	75,000	2,400,000	8,700	2,733,700
President of Business Operations, CFO, and Director	2020	250,000	20,000	—	8,100	278,100
Keith A. Hutton⁽³⁾	2021	—	—	—	—	—
President of Production and Development Director	2020	—	—	—	—	—
Scott T. Agosta	2021	250,000	50,000	—	8,700	308,700
Chief Accounting Officer	2020	250,000	83,333	—	8,550	341,883

(1) The amounts disclosed in this column reflect matching contributions made on behalf of employees under our 401(k) plan.

(2) Mr. Simpson was appointed as Chief Executive Officer in July 2022. Mr. Simpson did not receive any compensation in his capacity as Chief Executive Officer or as Chairman and Director of the Board in 2020 or 2021.

(3) Mr. Hutton was appointed as President of Production and Development in July 2022, prior to which he served as our Chief Executive Officer. Mr. Hutton did not receive any compensation in his capacity as an officer or director in 2020 or 2021.

Long-Term Incentive Plan

Our general partner intends to adopt the TXO Energy Partners, L.P. 2022 Long-Term Incentive Plan (the “LTIP”) under which our general partner may issue long-term equity based awards to directors, officers and employees of our general partner or its affiliates, or to any consultants, affiliates of our general partner or other individuals who perform services for us. These awards will be intended to compensate the recipients thereof based on the performance of our common units and their continued service during the vesting period, as well as to align their long-term interests with those of our unitholders. We will be responsible for the cost of awards granted under the LTIP and all determinations with respect to awards to be made under the LTIP will be made by the board of directors of our general partner or any committee thereof that may be established for such purpose or by any delegate of the board of directors or such committee, subject to applicable law, which we refer to as the plan administrator. We currently expect that the board of directors of our general partner or a committee thereof will be designated as the plan administrator. The following description reflects the terms that are currently expected to be included in the LTIP.

General

The LTIP will provide for the grant, from time to time at the discretion of the board of directors of our general partner or any delegate thereof, subject to applicable law, of cash awards, unit awards, restricted units, phantom units, unit options, unit appreciation rights, distribution equivalent rights, profits interest units and other unit-based awards. The purpose of awards under the LTIP is to provide additional incentive compensation to individuals providing services to us, and to align the economic interests of such individuals with the interests of our unitholders. The LTIP will limit the number of units that may be delivered pursuant to vested awards to common

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units, subject to proportionate adjustment in the event of unit splits and similar events. Common units subject to awards that are cancelled, forfeited, withheld to satisfy exercise prices or tax withholding obligations or otherwise terminated without delivery of the common units will be available for delivery pursuant to other awards.

Cash Awards

The plan administrator of the LTIP, in its discretion, may grant cash awards, either as standalone awards or in tandem with other awards. A cash award is an award denominated in cash.

Restricted Units and Phantom Units

A restricted unit is a common unit that is subject to forfeiture. Upon vesting, the forfeiture restrictions lapse and the recipient holds a common unit that is not subject to forfeiture. A phantom unit is a notional unit that entitles the grantee to receive a common unit upon the vesting of the phantom unit or on a deferred basis upon specified future dates or events or, in the discretion of the plan administrator, cash equal to the fair market value of a common unit. The plan administrator of the LTIP may make grants of restricted units and phantom units under the LTIP that contain such terms, consistent with the LTIP, as the plan administrator may determine are appropriate, including the period over which restricted units or phantom units will vest. The plan administrator of the LTIP may, in its discretion, base vesting on the grantee's completion of a period of service or upon the achievement of specified financial objectives or other criteria or upon a change of control (as defined in the LTIP) or as otherwise described in an award agreement.

Distributions made by us with respect to awards of restricted units may be subject to the same vesting requirements as the restricted units.

Distribution Equivalent Rights

The plan administrator of the LTIP, in its discretion, may also grant distribution equivalent rights, either as standalone awards or in tandem with other awards. Distribution equivalent rights are rights to receive an amount in cash, restricted units or phantom units equal to all or a portion of the cash distributions made on units during the period an award remains outstanding.

Unit Options and Unit Appreciation Rights

The LTIP may also permit the grant of options covering common units. Unit options represent the right to purchase a number of common units at a specified exercise price. Unit appreciation rights represent the right to receive the appreciation in the value of a number of common units over a specified exercise price, either in cash or in common units. Unit options and unit appreciation rights may be granted to such eligible individuals and with such terms as the plan administrator of the LTIP may determine, consistent with the LTIP; however, a unit option or unit appreciation right must have an exercise price equal to at least the fair market value of a common unit on the date of grant.

Unit Awards

Awards covering common units may be granted under the LTIP with such terms and conditions, including restrictions on transferability, as the plan administrator of the LTIP may establish.

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Profits Interest Units

Awards granted to grantees who are partners, or granted to grantees in anticipation of the grantee becoming a partner or granted as otherwise determined by the plan administrator, may consist of profits interest units. The plan administrator will determine the applicable vesting dates, conditions to vesting and restrictions on transferability and any other restrictions for profits interest awards.

Other Unit-Based Awards

The LTIP may also permit the grant of “other unit-based awards,” which are awards that, in whole or in part, are valued or based on or related to the value of a common unit. The vesting of another unit-based award may be based on a participant’s continued service, the achievement of performance criteria or other measures. On vesting or on a deferred basis upon specified future dates or events, another unit-based award may be paid in cash and/or in units (including restricted units) or any combination thereof as the plan administrator of the LTIP may determine.

Source of Common Units

Common units to be delivered with respect to awards may be newly-issued units, common units acquired by us or our general partner in the open market, common units already owned by our general partner or us, common units acquired by our general partner directly from us or any other person or any combination of the foregoing.

Anti-Dilution Adjustments and Change in Control

If an “equity restructuring” event occurs that could result in an additional compensation expense under applicable accounting standards if adjustments to awards under the LTIP with respect to such event were discretionary, the plan administrator of the LTIP will equitably adjust the number and type of units covered by each outstanding award and the terms and conditions of such award to equitably reflect the restructuring event, and the plan administrator will adjust the number and type of units with respect to which future awards may be granted under the LTIP. With respect to other similar events, including, for example, a combination or exchange of units, a merger or consolidation or an extraordinary distribution of our assets to unitholders, that would not result in an accounting charge if adjustment to awards were discretionary, the plan administrator of the LTIP shall have discretion to adjust awards in the manner it deems appropriate and to make equitable adjustments, if any, with respect to the number of units available under the LTIP and the kind of units or other securities available for grant under the LTIP. Furthermore, upon any such event, including a change in control of us or our general partner, or a change in any law or regulation affecting the LTIP or outstanding awards or any relevant change in accounting principles, the plan administrator of the LTIP will generally have discretion to (i) accelerate the time of exercisability or vesting or payment of an award, (ii) require awards to be surrendered in exchange for a cash payment or substitute other rights or property for the award, (iii) provide for the award to assumed by a successor or one of its affiliates, with appropriate adjustments thereto, (iv) cancel unvested awards without payment or (v) make other adjustments to awards as the plan administrator deems appropriate to reflect the applicable transaction or event.

Termination of Service

The consequences of the termination of a grantee’s membership on the board of directors of our general partner or other service arrangement will generally be determined by the plan administrator in the terms of the relevant award agreement.

Amendment or Termination of Long-Term Incentive Plan

The plan administrator of the LTIP, at its discretion, may terminate the LTIP at any time with respect to the common units for which a grant has not previously been made. The plan administrator of the LTIP also has the right to alter or amend the LTIP or any part of it from time to time or to amend any outstanding award made under the LTIP, provided that no change in any outstanding award may be made that would materially impair the vested rights of the participant without the consent of the affected participant or result in taxation to the participant under Section 409A of the Internal Revenue Code.

IPO LTIP Awards

In connection with the consummation of this offering, we expect to grant awards of phantom units with distribution equivalent rights under the LTIP to certain key employees who provide services to us, including certain of our executive officers. The phantom unit awards are being made to reward each recipient for their service in connection with this offering and to align the recipient's interests with those of our unitholders. The number of units to be granted to each recipient will be determined based on a targeted value for the award and the initial public offering price per unit in this offering. Based on an initial public offering price of \$ _____ per common unit, which is the midpoint of the pricing range shown on the cover of this prospectus, the total number of phantom units to be granted in connection with this offering (with an aggregate value of approximately \$ _____) will be _____, which includes phantom units to be granted to _____.

Outstanding Equity Awards at 2021 Year-End

No NEO held an outstanding equity award as of December 31, 2021.

Employment Contracts, Termination of Employment, Change-in-Control Arrangements

We currently do not have any employment agreements or other plans or arrangements with our executive officers that would result in payments to be made by us to an NEO upon the resignation, retirement or any other termination of an NEO's employment or upon a change in control.

Compensation of Directors

Officers or employees of our general partner or its affiliates who also serve as directors will not receive additional compensation for their service as a director of our general partner. The non-employee director compensation program will consist of the following:

- an annual retainer of \$ _____ ;
- an additional annual retainer of \$ _____ for service as the chair of a committee of the board of directors;
- an additional equity-based award granted under the LTIP, having a value as of the grant date of approximately \$ _____ .

Non-employee directors will also receive reimbursement for out-of-pocket expenses they incur in connection with attending meetings of the board of directors or its committees. Each director will be indemnified for his or her actions associated with being a director to the fullest extent permitted under Delaware law.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of our common units that, upon the consummation of this offering and the related transactions, will be owned by:

- beneficial owners of more than 5% of our common units;
- each named executive officer of our general partner; and
- all directors, director nominees and executive officers of our general partner as a group.

The table assumes the underwriters' option to purchase additional common units from us is not exercised. The percentage of units beneficially owned is based on common units being outstanding immediately following this offering.

In connection with the Reorganization Transactions prior to this offering each of the Existing Owners will contribute their interests in us to MorningStar Partners II, LP ("MSP II") in exchange for equity interests in MSP II (the "MSP II Units"). The Existing Owners will be entitled to have their MSP II Units exchanged for common units on a one-for-one basis at any time. As a result, the number of common units listed in the table below correlates to the number of MSP II Units the Existing Owners will own immediately prior to and after this offering.

Name of Beneficial Owner(1)	Common Units to be Beneficially Owned	Percentage of Common Units to be Beneficially Owned
5% Unitholders:		
Diamond S. Energy Company		
GEF-DTOE, Inc.		
GEF-PUE, LP		
PDLP MorningStar LLC		
Named Executive Officers, Directors and Director Nominees		
Bob R. Simpson		
Brent W. Clum		
Keith A. Hutton		
Scott T. Agosta		
Vaughn O. Vennerberg II		
Phillip R. Kevil		
Rick J. Settle		
J. Luther King, Jr.		
Bill H. Adams III		
All executive officers, directors and director nominees as a group (9 persons)		

(1) Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. Each of the holders listed has sole voting and investment power with respect to the common units beneficially owned by the holder unless noted otherwise, subject to community property laws where applicable. Unless otherwise noted, the address for each beneficial owner listed below is 400 W 7th St., Fort Worth, TX 76102.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Upon the consummation of this offering, assuming the underwriters do not exercise their option to purchase additional common units, the Existing Owners will own common units representing an approximate % limited partner interest in us, and MSOG, which is owned by the Founders, will own and control our general partner. The Founders, who own MSOG, will indirectly appoint all of the directors of our general partner, which will own a non-economic general partner interest in us. These percentages do not reflect any common units that may be issued under the long-term incentive plan that our general partner expects to adopt prior to the closing of this offering.

Distributions and Payments to Our General Partner and Its Affiliates

The following table summarizes the distributions and payments to be made by us to our general partner and its affiliates in connection with our formation, ongoing operation and liquidation. These distributions and payments were determined by and among affiliated entities and, consequently, were not the result of arm's length negotiations.

Operational Stage

Distributions of available cash to affiliates of our general partner	<p>We make cash distributions to our unitholders, including affiliates of our general partner, pro rata.</p> <p>Upon completion of this offering, the affiliates of our general partner will own common units, representing % of our outstanding common units and would receive a pro rata percentage of the cash distributions that we distribute in respect thereof.</p>
Payments to our general partner and its affiliates	<p>Our general partner will not receive a management fee or other compensation for its management of our partnership, but we will reimburse our general partner and its affiliates for costs and expenses they incur and payments they make on our behalf. Our partnership agreement does not set a limit on the amount of expenses for which our general partner may be reimbursed. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for us or on our behalf and expenses allocated to our general partner by its affiliates. Our partnership agreement provides that our general partner will determine the expenses that are allocable to us.</p>
Withdrawal or removal of our general partner	<p>If our general partner withdraws or is removed, its non-economic general partner interest will either be sold to the new general partner for cash or converted into common units, in each case for an amount equal to the fair market value of those interests. Please read "Our Partnership Agreement—Withdrawal or Removal of Our General Partner."</p>

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Liquidation Stage

Liquidation	Upon our liquidation, the partners, including our general partner with respect to any common units or other units then held by our general partner, will be entitled to receive liquidating distributions according to their respective capital account balances.
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Agreements with Affiliates in Connection with the Reorganization Transactions

In connection with the closing of this offering, we, our general partner and its affiliates will enter into the various documents and agreements that will affect the Reorganization Transactions. These agreements have been negotiated among affiliated parties and, consequently, are not the result of arm's length negotiations. All of the transaction expenses incurred in connection with these transactions will be paid from the proceeds of this offering.

Contribution Agreement

In connection with the closing of this offering, the Existing Owners will contribute all of our outstanding equity interests in the partnership to a newly formed parent company, MorningStar Partners II, L.P., or MSP II, in exchange for equity interests in MSP II that are identical to the equity interests owned in the partnership. Following this contribution and immediately prior to the offering, all of our equity interests will be held by MSP II.

Other Transactions with Related Persons

We occupy a building owned by MorningStar Capital LLC, a limited liability company owned by Mr. Simpson, our Chief Executive Officer and the Chairman of the Board. In lieu of paying rent, we paid property taxes and paid for repairs and maintenance on behalf of MorningStar Capital LLC in the amount of \$0.9 million in 2021 and \$1.5 million in 2020.

Procedures for Review, Approval or Ratification of Transactions with Related Persons

We expect that the Board will adopt policies for the review, approval and ratification of transactions with related persons. We anticipate the Board will adopt a written code of business conduct and ethics, under which a director would be expected to bring to the attention of the chief executive officer or the Board any conflict or potential conflict of interest that may arise between the director in his or her personal capacity or any affiliate of the director in his or her personal capacity, on the one hand, and us or our general partner on the other. The resolution of any such conflict or potential conflict should, at the discretion of the Board in light of the circumstances, be determined by a majority of the disinterested directors.

If a conflict or potential conflict of interest arises between our general partner or its affiliates, on the one hand, and us or our unitholders, on the other hand, the resolution of any such conflict or potential conflict should be addressed by the Board in accordance with the provisions of our partnership agreement. At the discretion of the Board in light of the circumstances, the resolution may be determined by the Board in its entirety, by the conflicts committee of the Board or by approval of our unitholders (other than the general partner and its affiliates).

Upon our adoption of our code of business conduct, we would expect that any executive officer will be required to avoid personal conflicts of interest unless approved by the Board.

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Please read “Conflicts of Interest and Duties—Conflicts of Interest” for additional information regarding the relevant provisions of our partnership agreement.

The code of business conduct and ethics described above will be adopted in connection with the closing of this offering, and as a result, the transactions described above were not reviewed according to such procedures.

CONFLICTS OF INTEREST AND DUTIES

Conflicts of Interest

Conflicts of interest exist and may arise in the future as a result of the relationships between our general partner and its affiliates (including the Founders) on the one hand, and us and our limited partners, on the other hand. In certain cases, directors and officers of our general partner have duties to manage our general partner at the direction of MSOG, which is owned by the Founders. At the same time, our general partner has a duty to manage us in a manner that is not adverse to the best interests of our partnership. The Delaware Revised Uniform Limited Partnership Act (the “Delaware Act”), provides that Delaware limited partnerships may, in their partnership agreements, expand, restrict or eliminate the fiduciary duties otherwise owed by a general partner to limited partners and the partnership. Pursuant to these provisions, our partnership agreement contains various provisions replacing the fiduciary duties that would otherwise be owed by our general partner with contractual standards governing the duties of our general partner and the methods of resolving conflicts of interest. Our partnership agreement also specifically limits the remedies available to limited partners for actions taken that, without these defined liability standards, might constitute breaches of fiduciary duty under applicable Delaware law.

Whenever a conflict arises between our general partner or its affiliates, on the one hand, and us or any other partner, on the other hand, our general partner will resolve that conflict. Our general partner may seek the approval of such resolution from the conflicts committee of the Board or from our unitholders. There is no requirement under our partnership agreement that our general partner seek the approval of the conflicts committee or our unitholders for the resolution of any conflict, and, under our partnership agreement, our general partner may decide to seek such approval or resolve a conflict of interest in any other way permitted by our partnership agreement, as described below, in its sole discretion. Our general partner will decide whether to refer the matter to the conflicts committee or our unitholders on a case-by-case basis. An independent third party is not required to evaluate the fairness of the resolution. In determining whether to refer a matter to the conflicts committee or to our unitholders for approval, our general partner will consider a variety of factors, including the nature of the conflict, the size and dollar amount involved, the identity of the parties involved and any other factors the Board deems relevant in determining whether it will seek approval from the conflicts committee or our unitholders. Whenever our general partner makes a determination to refer or not to refer any potential conflict of interest to the conflicts committee for approval or to seek or not to seek unitholder approval, our general partner is acting in its individual capacity, which means that it may act free of any duty or obligation whatsoever to us or our unitholders and will not be required to act in good faith or pursuant to any other standard or duty imposed by our partnership agreement or under applicable law, other than the implied contractual covenant of good faith and fair dealing. For a more detailed discussion of the duties applicable to our general partner, as well as the implied contractual covenant of good faith and fair dealing, please read “—Duties of Our General Partner.”

Our general partner will not be in breach of its obligations under our partnership agreement or its duties to us or our limited partners if the resolution of the conflict is:

- approved by the conflicts committee, which our partnership agreement defines as “special approval”;
- approved by the vote of a majority of the outstanding common units, excluding any common units owned by our general partner or any of its affiliates;

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- determined by the Board to be on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or
- determined by the Board to be fair and reasonable to us, taking into account the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us.

If our general partner seeks approval from the conflicts committee, then it will be presumed that, in making its decision, the conflicts committee acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership challenging such determination, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. If our general partner does not seek approval from the conflicts committee or our unitholders and our general partner's board of directors determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in the third and fourth bullet points above, then it will be presumed that, in making its decision, the Board acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership challenging such determination, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. Unless the resolution of a conflict is specifically provided for in our partnership agreement, our general partner or the conflicts committee of our general partner's board of directors may consider any factors it determines in good faith to consider when resolving a conflict. When our partnership agreement requires someone to act in good faith, it requires that person to subjectively believe that he or she is acting in a manner that is not adverse to the best interests of the partnership or that the determination to take or not to take action meets the specified standard; for example, the person may determine that a transaction is being entered into on terms no less favorable to us than those generally being provided to or available from unrelated third parties, or is "fair and reasonable" to us. In taking such action, such person may take into account the totality of the circumstances or the totality of the relationships between the parties involved, including other relationships or transactions that may be particularly favorable or advantageous to us. If that person has the required subjective belief, then the decision or action will be conclusively deemed to be in good faith for all purposes under our partnership agreement. Please read "Management—Committees of the Board of Directors—Conflicts Committee" for information about the conflicts committee of our general partner's board of directors.

Conflicts of interest could arise in the situations described below, among others:

Agreements between us, on the one hand, and our general partner and its affiliates, on the other hand, are not and will not be the result of arm's-length negotiations.

Neither our partnership agreement nor any of the other agreements, contracts and arrangements between us and our general partner and its affiliates are or will be the result of arm's-length negotiations. Our partnership agreement generally provides that any affiliated transaction, such as an agreement, contract or arrangement between us and our general partner and its affiliates that does not receive unitholder or conflicts committee approval, must be determined by the Board to be:

- on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or
- "fair and reasonable" to us, taking into account the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us.

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Our general partner's affiliates may compete with us and neither our general partner nor its affiliates have any obligation to present business opportunities to us.

Our partnership agreement provides that our general partner is restricted from engaging in any business activities other than those incidental to its ownership of interests in us. However, affiliates of our general partner are not prohibited from engaging in other businesses or activities, including those that might directly compete with us. In addition, under our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, will not apply to our general partner and its affiliates. As a result, neither our general partner nor any of its affiliates have any obligation to present business opportunities to us.

Our general partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest.

Our partnership agreement contains provisions that permissibly modify and reduce the standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner or otherwise, free of any duty or obligation whatsoever to us and our unitholders, including any duty to act in a manner not adverse to the best interests of us or our unitholders, other than the implied contractual covenant of good faith and fair dealing, which means that a court will enforce the reasonable expectations of the partners at the time our partnership agreement was entered into where the language in our partnership agreement does not provide for a clear course of action. This entitles our general partner to consider only the interests and factors that it desires and relieves it of any duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Examples of decisions that our general partner may make in its individual capacity include the allocation of corporate opportunities among us and our affiliates, the exercise of its limited call right or its voting rights with respect to the units it owns, whether to exercise its registration rights, and whether or not to consent to any merger, consolidation or conversion of the partnership or amendment to our partnership agreement.

We do not have any officers or employees and rely solely on officers and employees of our general partner and its affiliates.

Affiliates of our general partner conduct businesses and activities of their own in which we have no economic interest. There could be material competition for the time and effort of the officers and employees who provide services to our general partner.

Our partnership agreement replaces the fiduciary duties that would otherwise be owed by our general partner with contractual standards governing its duties and limits our general partner's liabilities and the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty under applicable Delaware law.

Our partnership agreement:

- permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. This entitles our general partner to consider only the interests and factors that it desires, and our general partner has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner;
- provides that our general partner shall not have any liability to us or our limited partners for decisions made in its capacity so long as such decisions are made in good faith;

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- generally provides that in a situation involving a transaction with an affiliate or a conflict of interest, any determination by our general partner must be made in good faith. If an affiliate transaction or the resolution of a conflict of interest is not approved by our public common unitholders or the conflicts committee and the Board determines that the resolution or course of action taken with respect to the affiliate transaction or conflict of interest is either on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is “fair and reasonable” to us, considering the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us, then it will be presumed that in making its decision, the Board acted in good faith, and in any proceeding brought by or on behalf of any limited partner or us challenging such decision, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption; and
- provides that our general partner and its officers and directors will not be liable for monetary damages to us or our limited partners resulting from any act or omission unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or its officers or directors, as the cases may be, acted in bad faith or engaged in intentional fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal.

By purchasing a common unit, a common unitholder will be deemed to have agreed to become bound by the provisions in our partnership agreement, including the provisions discussed above.

Except in limited circumstances, our general partner has the power and authority to conduct our business without unitholder approval.

Under our partnership agreement, our general partner has full power and authority to do all things, other than those items that require unitholder approval, on such terms as it determines to be necessary or appropriate to conduct our business including, but not limited to, the following:

- the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness, including indebtedness that is convertible into or exchangeable for equity interests of the partnership, and the incurring of any other obligations;
- the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over our business or assets;
- the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of our assets or the merger or other combination of us with or into another person;
- the negotiation, execution and performance of any contracts, conveyances or other instruments;
- the distribution of cash held by the partnership;
- the selection and dismissal of employees and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring;
- the maintenance of insurance for our benefit and the benefit of our partners and indemnitees;

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- the formation of, or acquisition of an interest in, and the contribution of property and the making of loans to, any further limited or general partnerships, joint ventures, corporations, limited liability companies or other entities;
- the control of any matters affecting our rights and obligations, including the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation, arbitration or mediation and the incurring of legal expense and the settlement of claims and litigation;
- the indemnification of any person against liabilities and contingencies to the extent permitted by law;
- the purchase, sale or other acquisition or disposition of our equity interests, or the issuance of additional options, rights, warrants and appreciation rights relating to our equity interests; and
- the entering into of agreements with any of its affiliates to render services to us or to itself in the discharge of its duties as our general partner.

Please read “The Partnership Agreement” for information regarding the voting rights of unitholders.

We will reimburse our general partner and its affiliates for expenses.

Pursuant to our partnership agreement, we will reimburse our general partner and its affiliates for costs and expenses they incur and payments they make on our behalf. Our partnership agreement provides that our general partner will determine such other expenses that are allocable to us, and our partnership agreement does not limit the amount of expenses for which our general partner and its affiliates may be reimbursed. Such reimbursements will be made prior to making any distributions on our common units. Please read “The Partnership Agreement—Reimbursement of Expenses.”

Our general partner intends to limit its liability regarding our obligations.

Our general partner intends to limit its liability under contractual arrangements so that the other party to such agreements has recourse only against our assets and not against our general partner or its assets or any affiliate of our general partner or its assets. Our partnership agreement permits our general partner to limit its or our liability, even if we could have obtained terms that are more favorable without the limitation on liability.

Common units are subject to our general partner’s limited call right.

Our general partner may exercise its right to call and purchase common units as provided in our partnership agreement or assign this right to one of its affiliates or to us free of any liability or obligation to us or our partners. As a result, a common unitholder may have his common units purchased from him at an undesirable time or price. Please read “The Partnership Agreement—Limited Call Right.”

Limited partners have no right to enforce obligations of our general partner and its affiliates under agreements with us.

Any agreements between us, on the one hand, and our general partner and its affiliates, on the other, will not grant to the limited partners, separate and apart from us, the right to enforce the obligations of our general partner and its affiliates in our favor.

Our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

The attorneys, independent accountants and others who perform services for us have been retained by our general partner. Attorneys, independent accountants and others who perform services for us are selected by our general partner or the conflicts committee and may also perform services for our general partner and its affiliates. We may retain separate counsel for ourselves or the holders of common units in the event of a conflict of interest between our general partner and its affiliates, on the one hand, and us or the holders of common units, on the other, depending on the nature of the conflict. We do not intend to do so in most cases.

Duties of our General Partner

The Delaware Act provides that Delaware limited partnerships may, in their partnership agreements, expand, restrict or eliminate the fiduciary duties otherwise owed by a general partner to limited partners and the partnership, provided that partnership agreements may not eliminate the implied contractual covenant of good faith and fair dealing. This implied contractual covenant is a judicial doctrine utilized by Delaware courts in connection with interpreting ambiguities in partnership agreements and other contracts and does not form the basis of any separate or independent fiduciary duty in addition to the express contractual duties set forth in our partnership agreement. Under the implied contractual covenant of good faith and fair dealing, a court will enforce the reasonable expectations of the partners at the time the partnership agreement was entered into where the language in our partnership agreement does not provide for a clear course of action.

As permitted by the Delaware Act, our partnership agreement contains various provisions replacing the fiduciary duties that would otherwise be owed by our general partner with contractual standards governing the duties of our general partner and the methods of resolving conflicts of interest. We have adopted these provisions to allow our general partner or its affiliates to engage in transactions with us that otherwise might be prohibited or restricted by state-law fiduciary standards and to take into account the interests of other parties in addition to or in lieu of our interests when resolving conflicts of interest. We believe this is appropriate and necessary because, in certain cases, the Board has duties to manage our general partner at the direction of MSOG, which is owned by the Founders. Without these provisions, our general partner's ability to make decisions involving conflicts of interest would be restricted. These provisions enable our general partner to take into consideration the interests of all parties involved in the proposed action. These provisions also strengthen the ability of our general partner to attract and retain experienced and capable directors. These provisions disadvantage the limited partners because they restrict the remedies available to limited partners for actions that, without those provisions, might constitute breaches of fiduciary duty, as described below and permit our general partner to take into account the interests of third parties in addition to our interests when resolving conflicts of interest. The following is a summary of:

- the fiduciary duties imposed on general partners of a limited partnership by Delaware law in the absence of partnership agreement provisions to the contrary;
- the contractual duties of our general partner contained in our partnership agreement that replace the fiduciary duties referenced in the preceding bullet that would otherwise be imposed by Delaware law on our general partner; and
- certain rights and remedies of our limited partners contained in our partnership agreement and the Delaware Act.

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Delaware law fiduciary duty standards

Fiduciary duties are generally considered to include an obligation to act in good faith and with due care and loyalty. The duty of care, in the absence of a provision in a partnership agreement providing otherwise, would generally require a general partner of a Delaware limited partnership to use that amount of care that an ordinarily careful and prudent person would use in similar circumstances and to consider all material information reasonably available in making business decisions. The duty of loyalty, in the absence of a provision in a partnership agreement providing otherwise, would generally prohibit a general partner of a Delaware limited partnership from taking any action or engaging in any transaction where a conflict of interest is present unless such transaction were entirely fair to the partnership. Our partnership agreement modifies these standards as described below.

Partnership agreement modified standards

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues as to compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its capacity as our general partner, as opposed to in its individual capacity, it must act in “good faith,” meaning that it subjectively believed that the decision was not adverse to our best interests, and our general partner will not be subject to any other standard under our partnership agreement or applicable law, other than the implied contractual covenant of good faith and fair dealing. If our general partner has the required subjective belief, then the decision or action will be conclusively deemed to be in good faith for all purposes under our partnership agreement. In taking such action, our general partner may take into account the totality of the circumstances or the totality of the relationships between the parties involved, including other relationships or transactions that may be particularly favorable or advantageous to us. In addition, when our general partner is acting in its individual capacity, as opposed to in its capacity as our general partner, it may act free of any duty or obligation whatsoever to us or our limited partners, other than the implied contractual covenant of good faith and fair dealing. These standards reduce the obligations to which our general partner would otherwise be held under applicable Delaware law.

Our partnership agreement generally provides that affiliated transactions and resolutions of conflicts of interest not

approved by the public common unitholders or the conflicts committee of the Board must be determined by the Board to be:

- on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or
- “fair and reasonable” to us, taking into account the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us.

If our general partner seeks approval from the conflicts committee, then it will be presumed that, in making its decision, the conflicts committee acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership challenging such determination, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. If our general partner does not seek approval from the public common unitholders or the conflicts committee and the Board determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in the bullet points above, then it will be presumed that, in making its decision, the Board acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership challenging such determination, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. These standards reduce the obligations to which our general partner would otherwise be held.

In addition to the other more specific provisions limiting the obligations of our general partner, our partnership agreement further provides that our general partner, its affiliates and their officers and directors will not be liable for monetary damages to us or, our limited partners for losses sustained or liabilities incurred as a result of any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that such person acted in bad faith or engaged in intentional fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal.

Rights and remedies of limited partners

The Delaware Act favors the principles of freedom of contract and enforceability of partnership agreements and allows our partnership agreement to contain terms governing the rights of our unitholders. The rights of our unitholders, including voting and approval rights and the ability of the

partnership to issue additional units, are governed by the terms of our partnership agreement. Please read “The Partnership Agreement.” As to remedies of unitholders, the Delaware Act generally provides that a limited partner may institute legal action on behalf of the partnership to recover damages from a third party where a general partner has wrongfully refused to institute the action or where an effort to cause a general partner to do so is not likely to succeed. These actions include actions against a general partner for breach of its fiduciary duties, if any, or of our partnership agreement. In addition, the statutory or case law of some jurisdictions may permit a limited partner to institute legal action on behalf of himself and all other similarly situated limited partners to recover damages from a general partner for violations of its fiduciary duties to the limited partners.

By purchasing our common units, each common unitholder will be deemed to have agreed to be bound by the provisions in our partnership agreement, including the provisions discussed above. Please read “Description of the Common Units—Transfer Agent and Register—Transfer of Common Units.” This is in accordance with the policy of the Delaware Act favoring the principle of freedom of contract and the enforceability of partnership agreements. The failure of a limited partner to sign our partnership agreement does not render our partnership agreement unenforceable against that person.

Under our partnership agreement, we must indemnify our general partner and its officers, directors and managers, to the fullest extent permitted by law, against liabilities, costs and expenses incurred by our general partner or these other persons. We must provide this indemnification unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that our general partner or these persons acted in bad faith or engaged in intentional fraud or willful misconduct. We also must provide this indemnification for criminal proceedings unless our general partner or these other persons acted with knowledge that their conduct was criminal. Thus, our general partner could be indemnified for its negligent acts if it meets the requirements set forth above. To the extent that these provisions purport to include indemnification for liabilities arising under the U.S. federal securities laws, in the opinion of the SEC such indemnification is contrary to public policy and therefore unenforceable. Please read “The Partnership Agreement—Indemnification.”

DESCRIPTION OF THE COMMON UNITS

The Units

The common units represent limited partner interests in us. The holders of common units are entitled to participate in partnership distributions and exercise the rights or privileges available to limited partners under our partnership agreement. For a description of the relative rights and preferences of holders of common units in and to partnership distributions, please read this section and “Our Cash Distribution Policy and Restrictions on Distributions.” For a description of other rights and privileges of limited partners under our partnership agreement, including voting rights, please read “The Partnership Agreement.”

Transfer Agent and Registrar

Duties

We will retain a third party entity to serve as registrar and transfer agent for the common units. We expect to pay all fees charged by the transfer agent for transfers of common units, except the following, which must be paid by our unitholders:

- surety bond premiums to replace lost or stolen certificates or to cover taxes and other governmental charges;
- special charges for services requested by a common unitholder; and
- other similar fees or charges.

There will be no charge to our unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their respective stockholders, directors, officers and employees against all claims and losses that may arise out of their actions for their activities in that capacity, except for any liability due to any gross negligence or willful misconduct of the indemnitee.

Resignation or Removal

The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor is appointed, our general partner may act as the transfer agent and registrar until a successor is appointed.

Transfer of Common Units

By transfer of common units in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission are reflected in our books and records. Each transferee:

- represents that the transferee has the capacity, power and authority to become bound by our partnership agreement;
- automatically agrees to be bound by the terms and conditions of our partnership agreement; and

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- gives the consents, waivers and approvals contained in our partnership agreement, such as the approval of all transactions and agreements that we are entering into in connection with our formation and this offering.

Our general partner may amend our partnership agreement, as it determines necessary or advisable, to obtain proof of the U.S. federal income tax status and/or the nationality, citizenship or other related status of our limited partners (and their owners, to the extent relevant) and to permit our general partner to redeem the units held by any person (i) whose nationality, citizenship or related status creates substantial risk of cancellation or forfeiture of any of our property and/or (ii) who fails to comply with the procedures established to obtain such proof. The redemption price in the case of such a redemption will be the average of the daily closing prices per unit for the 20 consecutive trading days immediately prior to the date set for redemption. Please read “The Partnership Agreement—Non-Citizen Unitholders; Redemption.”

In addition to other rights acquired upon transfer, the transferor gives the transferee the right to become a substituted limited partner in our partnership for the transferred common units. Our general partner will cause any transfers to be recorded on our books and records from time to time (or shall cause the transfer agent to do so, as applicable).

The transferor of common units will have a duty to provide the transferee with all information that may be necessary to transfer the common units. The transferor will not have a duty to insure the execution of the transfer application and certification by the transferee and will have no liability or responsibility if the transferee neglects or chooses not to execute and forward the transfer application and certification to the transfer agent.

Until a common unit has been transferred on our books, we and the transfer agent may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

We may, at our discretion, treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder’s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and any transfers are subject to the laws governing transfers of securities.

THE PARTNERSHIP AGREEMENT

The following is a summary of the material provisions of our partnership agreement. The form of our partnership agreement is included in this prospectus as Appendix A. We will provide prospective investors with a copy of our partnership agreement upon request at no charge.

We summarize the following provisions of our partnership agreement elsewhere in this prospectus:

- with regard to distributions of available cash, please read “Our Cash Distribution Policy and Restrictions on Distributions” and “Provisions of Our Partnership Agreement Relating to Cash Distributions;”
- with regard to the duties of our general partner, please read “Conflicts of Interest and Duties;”
- with regard to the transfer of common units, please read “Description of the Common Units—Transfer Agent and Registrar—Transfer of Common Units;” and
- with regard to allocations of taxable income, taxable loss and other matters, please read “Material U.S. Federal Income Tax Consequences.”

Organization and Duration

Our partnership was organized under Delaware law and will have a perpetual existence unless dissolved, wound up and terminated pursuant to the terms of our partnership agreement and the Delaware Act.

Purpose

Our purpose under our partnership agreement is to engage in any business activity that is approved by our general partner and that lawfully may be conducted by a limited partnership organized under Delaware law. However, our general partner may not cause us to engage, directly or indirectly, in any business activity that it determines would cause us to be treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes, except as otherwise provided below under “—Election to be Treated as a Corporation.”

Although our general partner has the ability to cause us and our subsidiaries to engage in activities other than the ownership, acquisition, exploitation and development of oil and natural gas properties and the ownership, acquisition and operation of related assets, our general partner has no current plans to do so and may decline to do so free of any fiduciary duty or obligation whatsoever to us or our limited partners, including any duty to act in good faith or in the best interests of us or our limited partners, other than the implied contractual covenant of good faith and fair dealing. Our general partner is generally authorized to perform all acts it determines to be necessary or appropriate to carry out our purposes and to conduct our business.

Capital Contributions

Unitholders are not obligated to make additional capital contributions, except as described under “—Limited Liability.”

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Limited Voting Rights

The following is a summary of the unitholder vote required for each of the matters specified below. Matters that call for the approval of a “unit majority” require the approval of a majority of the common units.

Various matters require the approval of a “unit majority,” which means:

- the approval of a majority of the outstanding common units.

At the closing of this offering, the Founders will have the ability to ensure passage of, as well as the ability to ensure the defeat of, any amendment which requires a unit majority by virtue of their % ownership of our common units.

In voting their common units, our general partner and its affiliates (including the Founders) will have no duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or our limited partners, other than the implied contractual covenant of good faith and fair dealing. The holders of a majority of the common units (including common units deemed owned by our general partner and its affiliates) entitled to vote at the meeting, represented in person or by proxy shall constitute a quorum at a meeting of common unitholders, unless any such action requires approval by holders of a greater percentage of such units in which case the quorum shall be such greater percentage.

Issuance of additional units	No approval right. Please read “—Issuance of Additional Partnership Interests.”
Amendment of the partnership agreement	Certain amendments may be made by our general partner without the approval of the unitholders. Other amendments generally require the approval of a unit majority. Please read “—Amendment of the Partnership Agreement.”
Merger of our partnership or the sale of all or substantially all of our assets	Unit majority, in certain circumstances. Please read “—Merger, Consolidation, Sale or Other Disposition of Assets.”
Dissolution of our partnership	Unit majority. Please read “—Termination and Dissolution.”
Continuation of our business upon certain events of dissolution	Unit majority. Please read “—Termination and Dissolution.”
Withdrawal of our general partner	Under most circumstances, the approval of a majority of the outstanding common units, excluding common units held by our general partner and its affiliates (including the Founders), is required for the withdrawal of our general partner in a manner that would cause a dissolution of our partnership. Please read “—Withdrawal or Removal of Our General Partner.”

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Removal of our general partner	Not less than 66⅔% of the outstanding common units, including units held by our general partner and its affiliates (including the Founders), voting as a single class. Please read “—Withdrawal or Removal of Our General Partner.”
Transfer of our general partner interest	Our general partner may transfer any or all of its general partner interest in us without a vote of our unitholders. Please read “—Transfer of General Partner Interest.”
Transfer of ownership interests in our general partner	No unitholder approval required. Please read “—Transfer of Ownership Interests in Our General Partner.”
Election to be treated as a corporation	No approval right. Please read “—Election to be Treated as a Corporation.”

Applicable Law; Forum, Venue and Jurisdiction

Our partnership agreement is governed by Delaware law. Our partnership agreement requires that any claims, suits, actions or proceedings:

- arising out of or relating in any way to the partnership agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of the partnership agreement or the duties, obligations or liabilities among limited partners or of limited partners to us, or the rights or powers of, or restrictions on, the limited partners or us);
- brought in a derivative manner on our behalf;
- asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of us or our general partner, or owed by our general partner, to us or the limited partners;
- asserting a claim arising pursuant to any provision of the Delaware Act; or
- asserting a claim governed by the internal affairs doctrine,

shall be exclusively brought in the Court of Chancery of the State of Delaware (or, if such court does not have subject matter jurisdiction, any other court located in the State of Delaware with subject matter jurisdiction), regardless of whether such claims, suits, actions or proceedings sound in contract, tort, fraud or otherwise, are based on common law, statutory, equitable, legal or other grounds, or are derivative or direct claims. The foregoing provision will not apply to any claims as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of such court, which is rested in the exclusive jurisdiction of a court or forum other than such court (including claims arising under the Exchange Act), or for which such court does not have subject matter jurisdiction, or to any claims arising under the Securities Act and, unless we consent in writing to the selection of an alternative forum, the United States federal district courts will be the sole and exclusive forum for resolving any action asserting a claim arising under the Securities Act. Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules or regulations thereunder. Accordingly, both state and federal courts have jurisdiction to

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entertain such Securities Act claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, the partnership agreement provides that, unless we consent in writing to the selection of an alternative forum, United States federal district courts shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. There is uncertainty as to whether a court would enforce the forum provision with respect to claims under the federal securities laws.

Our partnership agreement also provides that each limited partner waives the right to trial by jury in any such claim, suit, action or proceeding. The waiver of the right to a jury trial is not intended to be deemed a waiver by any unitholder with respect to the partnership's compliance with U.S. federal securities laws and the rules and regulations promulgated thereunder. If the partnership or one of the partnership unitholders opposed a jury trial demand based on the waiver, the applicable court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with applicable state and federal laws. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the U.S. federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of Delaware, which govern our partnership agreement.

By purchasing a common unit, a limited partner is irrevocably consenting to these limitations and provisions regarding claims, suits, actions or proceedings and submitting to the exclusive jurisdiction of the Court of Chancery of the State of Delaware (or such other courts in Delaware) in connection with any such claims, suits, actions or proceedings.

Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Act and that he or she otherwise acts in conformity with the provisions of our partnership agreement, his or her liability under the Delaware Act will be limited, subject to possible exceptions, to the amount of capital he or she is obligated to contribute to us for his or her common units plus his or her share of any undistributed profits and assets. If it were determined, however, that the right or exercise of the right by our limited partners as a group:

- to remove or replace our general partner;
- to approve some amendments to the partnership agreement; or
- to take other action under the partnership agreement;

constituted "participation in the control" of our business for the purposes of the Delaware Act, then our limited partners could be held personally liable for our obligations under Delaware law, to the same extent as our general partner. This liability would extend to persons who transact business with us and reasonably believe that the limited partner is a general partner. Neither our partnership agreement nor the Delaware Act specifically provides for legal recourse against our general partner if a limited partner were to lose limited liability through any fault of our general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of claim in Delaware case law.

Under the Delaware Act, a limited partnership may not make a distribution to a partner if, after the distribution, all liabilities of the limited partnership, other than liabilities to partners on

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account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of the assets of the limited partnership. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. The Delaware Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Act shall be liable to the limited partnership for the amount of the distribution for three years. Under the Delaware Act, a substituted limited partner of a limited partnership is liable for the obligations of his assignor to make contributions to the partnership, except that such person is not obligated for liabilities unknown to him at the time he became a limited partner and that could not be ascertained from the partnership agreement.

Our operating subsidiary conducts business in New Mexico, Colorado and Texas, and we may have operating subsidiaries that conduct business in other states in the future. Maintenance of our limited liability as an owner of our operating subsidiary may require compliance with legal requirements in the jurisdictions in which our operating subsidiary conducts business, including qualifying our operating subsidiary to do business there.

Limitations on the liability of members or limited partners for the obligations of a limited liability company or limited partnership have not been clearly established in many jurisdictions. If, by virtue of our ownership in our subsidiaries or otherwise, it were determined that we were conducting business in any state without compliance with the applicable limited partnership or limited liability company statute, or that the right or exercise of the right by our limited partners as a group to remove or replace our general partner, to approve some amendments to our partnership agreement, or to take other action under our partnership agreement constituted "participation in the control" of our business for purposes of the statutes of any relevant jurisdiction, then our limited partners could be held personally liable for our obligations under the law of that jurisdiction to the same extent as our general partner under the circumstances. We will operate in a manner that our general partner considers reasonable and necessary or appropriate to preserve the limited liability of our limited partners.

Issuance of Additional Partnership Interests

Our partnership agreement authorizes us to issue an unlimited number of additional partnership interests for the consideration and on the terms and conditions determined by our general partner without the approval of our unitholders.

It is possible that we will fund acquisitions through the issuance of additional common units or other partnership interests. Holders of any additional common units we issue will be entitled to share equally with the then-existing holders of common units in our distributions of available cash. In addition, the issuance of additional common units or other partnership interests may dilute the value of the interests of the then-existing holders of common units in our net assets.

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership interests that, as determined by our general partner, may have special voting or other rights to which the common units are not entitled. In addition, our partnership agreement does not prohibit the issuance by our subsidiaries of equity interests, which may effectively rank senior to our common units.

Our general partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units or other partnership interests whenever, and

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on the same terms that, we issue those interests to persons other than our general partner and its affiliates, to the extent necessary to maintain the aggregate percentage interest in us of our general partner and its affiliates, including such interest represented by common units, that existed immediately prior to each issuance. The holders of common units will not have preemptive rights to acquire additional common units or other partnership interests.

Amendment of the Partnership Agreement

General

Amendments to our partnership agreement may be proposed only by our general partner. However, our general partner will have no duty or obligation to propose any amendment and may decline to do so free of any fiduciary duty or obligation whatsoever to us or our limited partners, including any duty to act in good faith or in the best interests of us or our limited partners, other than the implied contractual covenant of good faith and fair dealing. To adopt a proposed amendment, other than the amendments discussed below under “—No Unitholder Approval,” our general partner is required to seek written approval of the holders of the number of units required to approve the amendment or call a meeting of our limited partners to consider and vote upon the proposed amendment. Except as described below, an amendment must be approved by a unit majority.

Prohibited Amendments

No amendment may be made that would:

- enlarge the obligations of any limited partner without its consent, unless approved by at least a majority of the type or class of limited partner interests so affected; or
- enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to our general partner or any of its affiliates without the consent of our general partner, which consent may be given or withheld in its sole discretion.

The provisions of our partnership agreement preventing the amendments having the effects described in any of the clauses above can be amended upon the approval of the holders of at least 90% of the outstanding units voting together as a single class (including units owned by our general partner and its affiliates (including the Founders)). Upon the consummation of this offering, affiliates of our general partner (including the Founders) will own an aggregate of approximately % of our outstanding common units, representing an aggregate of approximately % of our outstanding limited partnership units.

No Limited Partner Approval

Our general partner may generally make amendments to our partnership agreement without the approval of any limited partner to reflect:

- a change in our name, the location of our principal place of business, our registered agent or our registered office;
- the admission, substitution, withdrawal or removal of partners in accordance with our partnership agreement;

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- a change that our general partner determines to be necessary or appropriate for us to qualify or to continue our qualification as a limited partnership or other entity in which the limited partners have limited liability under the laws of any state or to ensure that neither we, nor our subsidiaries will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes, except as otherwise provided below under “—Election to be Treated as a Corporation”;
- a change in our fiscal year or taxable year and related changes;
- an amendment that is necessary, in the opinion of our counsel, to prevent us or our general partner or the directors, officers, agents or trustees of our general partner from being subjected, in any manner, to the provisions of the Investment Company Act of 1940, the Investment Advisers Act of 1940, or “plan asset” regulations adopted under the Employee Retirement Income Security Act of 1974, or ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed by the U.S. Department of Labor;
- an amendment that sets forth the designations, preferences, rights, powers and duties of any class or series of additional partnership securities or rights to acquire partnership securities, that our general partner determines to be necessary or appropriate or advisable for the authorization or issuance of additional partnership securities or rights to acquire partnership securities;
- any amendment expressly permitted in our partnership agreement to be made by our general partner acting alone;
- an amendment effected, necessitated or contemplated by a merger agreement or plan of conversion that has been approved under the terms of our partnership agreement;
- any amendment that our general partner determines to be necessary or appropriate to reflect and account for the formation by us of, or our investment in, any corporation, partnership, limited liability company, joint venture or other entity, as otherwise permitted by our partnership agreement;
- any amendment necessary to require our limited partners to provide a statement, certification or other evidence to us regarding whether such limited partner is subject to United States federal income taxation on the income generated by us and to provide for the ability of our general partner to redeem the units of any limited partner who fails to provide such statement, certification or other evidence;
- an amendment that our general partner determines to be necessary or appropriate or advisable in connection with conversions into, mergers with or conveyances to another limited liability entity that is newly formed and has no assets, liabilities or operations at the time of the conversion, merger or conveyance other than those it receives by way of the conversion, merger or conveyance; or
- any other amendments substantially similar to any of the matters described in the clauses above.

In addition, our general partner may make amendments to our partnership agreement without the approval of any limited partner if our general partner determines that those amendments:

- do not adversely affect our limited partners (or any particular class of limited partners) in any material respect;

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- are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;
- are necessary or appropriate to facilitate the trading of our units or to comply with any rule, regulation, guideline or requirement of any securities exchange on which our units are or will be listed for trading;
- are necessary or appropriate for any action taken by our general partner relating to splits or combinations of units under the provisions of our partnership agreement; or
- are required to effect the intent expressed in this prospectus or the intent of the provisions of our partnership agreement or are otherwise contemplated by our partnership agreement.

Opinion of Counsel and Unitholder Approval

For amendments of the type not requiring unitholder approval, our general partner will not be required to obtain an opinion of counsel that an amendment will not affect the limited liability of any limited partner under Delaware law. No other amendments to our partnership agreement will become effective without the approval of holders of at least 90% of the outstanding common units unless we first obtain such an opinion.

In addition to the above restrictions, any amendment that would have a material adverse effect on the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the approval of at least a majority of the holders of the type or class of units so affected, but no vote will be required by the holders of any class or classes or type or types of units that our general partner determines are not adversely affected in any material respect. Any amendment that reduces the voting percentage required to take any action other than to remove the general partner or call a meeting of unitholders is required to be approved by the affirmative vote of limited partners whose aggregate outstanding units constitute not less than the voting requirement sought to be reduced. Any amendment that would increase the percentage of units required to remove the general partner or call a meeting of unitholders must be approved by the affirmative vote of limited partners whose aggregate outstanding units constitute not less than the percentage sought to be increased.

Merger, Consolidation, Sale or Other Disposition of Assets

A merger, consolidation, or conversion of us requires the prior consent of our general partner. However, our general partner will have no duty or obligation to consent to any merger, consolidation, or conversion and may decline to do so free of any fiduciary duty or obligation whatsoever to us or our limited partners, including any duty to act in good faith or in the best interest of us or our limited partners, other than the implied contractual covenant of good faith and fair dealing.

In addition, our partnership agreement generally prohibits our general partner, without the prior approval of the holders of a unit majority, from causing us, among other things, to sell, exchange or otherwise dispose of all or substantially all of our and our subsidiaries' assets in a single transaction or a series of related transactions, including by way of merger, consolidation, conversion or other combination or sale of ownership interests of our subsidiaries. Our general partner may, however, mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets without such approval. Our general partner may also sell all or substantially all of our assets under a foreclosure or other realization upon those encumbrances

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without that approval. Finally, our general partner may consummate any merger, consolidation or conversion without the prior approval of our unitholders if we are the surviving entity in the transaction, our general partner has received an opinion of counsel regarding limited liability and tax matters, the transaction will not result in a material amendment to our partnership agreement (other than an amendment that the general partner could adopt without the consent of the other partners), each of our units will be an identical unit of our partnership following the transaction, and the partnership interests to be issued do not exceed 20% of our outstanding partnership interests immediately prior to the transaction.

If the conditions specified in our partnership agreement are satisfied, our general partner may convert us or our subsidiaries into a new limited liability entity or merge us or any of our subsidiaries into, or convey all of our assets to, a newly formed entity, if the sole purpose of that conversion, merger or conveyance is to effect a mere change in our legal form into another limited liability entity, our general partner has received an opinion of counsel regarding limited liability and tax matters, and the governing instruments of the new entity provide our limited partners and our general partner with the same rights and obligations as contained in our partnership agreement. Our unitholders are not entitled to dissenters' rights of appraisal under our partnership agreement or applicable Delaware law in the event of a conversion, merger, consolidation or conversion, a sale of substantially all of our assets or any other similar transaction or event.

Termination and Dissolution

We will continue as a limited partnership until dissolved and terminated under our partnership agreement. We will dissolve upon:

- the withdrawal or removal of our general partner or any other event that results in its ceasing to be our general partner, other than by reason of a transfer of its general partner interest in accordance with our partnership agreement or a withdrawal or removal followed by approval and admission of a successor;
- the election of our general partner to dissolve us, if approved by the holders of a unit majority;
- the entry of a decree of judicial dissolution of our partnership pursuant to the provisions of the Delaware Act; or
- there being no limited partners, unless we are continued without dissolution in accordance with applicable Delaware law.

Upon a dissolution under the first bullet above, the holders of a unit majority may also elect, within specific time limitations, to continue our business on the same terms and conditions described in our partnership agreement by appointing as a successor general partner an entity approved by the holders of a unit majority, subject to our receipt of an opinion of counsel to the effect that:

- the action would not result in the loss of limited liability under Delaware law of any limited partner; and
- neither our partnership nor our subsidiary would be treated as an association taxable as a corporation or otherwise be taxable as an entity for U.S. federal income tax purposes upon the exercise of that right to continue (to the extent not already so treated or taxed).

Liquidation and Distribution of Proceeds

Upon our dissolution, unless our business is continued, the liquidator authorized to wind up our affairs will, acting with all of the powers of our general partner that are necessary or appropriate, liquidate our assets and apply the proceeds of the liquidation as described in “Provisions of Our Partnership Agreement Relating to Cash Distributions—Distributions of Cash Upon Liquidation.” The liquidator may defer liquidation or distribution of our assets for a reasonable period of time or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to our partners.

Withdrawal or Removal of Our General Partner

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to _____, 2032 without obtaining the approval of the holders of at least a majority of our outstanding common units, excluding common units held by our general partner and its affiliates (including the Founders), and furnishing an opinion of counsel regarding limited liability and tax matters. On or after _____, 2032, our general partner may withdraw as our general partner without first obtaining approval of any unitholder by giving at least 90 days’ written notice, and that withdrawal will not constitute a violation of our partnership agreement. Notwithstanding the information above, our general partner may withdraw as our general partner without unitholder approval upon 90 days’ notice to our limited partners if at least 50% of the outstanding common units are held or controlled by one person and its affiliates other than our general partner and its affiliates (including the Founders). In addition, our partnership agreement permits our general partner to sell or otherwise transfer all of its general partner interest in us without the approval of our unitholders. Please read “—Transfer of General Partner Interest.”

Upon voluntary withdrawal of our general partner by giving notice to the other partners, the holders of a unit majority may select a successor to that withdrawing general partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved, wound up and liquidated. Please read “—Termination and Dissolution.”

Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than ~~66~~63% of our outstanding units, voting together as a single class, including units held by our general partner and its affiliates (including the Founders), and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of our general partner is also subject to the approval of a successor general partner by the vote of the holders of a majority of our outstanding common units. The ownership of more than 33¹/₃% of our outstanding units by our general partner and its affiliates (including the Founders) would give them the practical ability to prevent our general partner’s removal. Upon the consummation of this offering, affiliates of our general partner (including the Founders) will own an aggregate of approximately _____ % of our outstanding common units, representing approximately _____ % of our outstanding limited partnership units.

Our partnership agreement also provides that if our general partner is removed as our general partner under circumstances where cause does not exist our general partner will have the right to convert its general partner interest into common units or to receive cash from the successor general partner in exchange for those interests based on the fair market value of the interests at the time.

In the event of removal of our general partner under circumstances where cause exists or withdrawal of our general partner where that withdrawal violates our partnership agreement, a successor general partner will have the option to purchase the departing general partner’s general

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partner interest for a cash payment equal to the fair market value of those interests. Under all other circumstances where our general partner withdraws or is removed by the limited partners, the departing general partner will have the option to require the successor general partner to purchase the general partner interest of the departing general partner for fair market value. In each case, this fair market value will be determined by agreement between the departing general partner and its affiliate and the successor general partner. If no agreement is reached, an independent investment banking firm or other independent expert selected by the departing general partner and its affiliate and the successor general partner will determine the fair market value. If the departing general partner and its affiliate and the successor general partner cannot agree upon an expert, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner's general partner interest will automatically convert into common units equal to the fair market value of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities, including severance liabilities, incurred for the termination of any employees employed by the departing general partner or its affiliates for our benefit.

Transfer of General Partner Interest

Our general partner may transfer all or any of its general partner interest to an affiliate or a third party without the approval of our unitholders. As a condition of this transfer, the transferee must, among other things, assume the rights and duties of our general partner, agree to be bound by the provisions of our partnership agreement and furnish an opinion of counsel regarding limited liability and tax matters.

Our general partner and its affiliates (including the Founders) may at any time transfer common units to one or more persons without unitholder approval.

Transfer of Ownership Interests in Our General Partner

At any time, the members of our general partner may sell or transfer all or part of their membership interests in our general partner to an affiliate or a third party without the approval of our unitholders.

Election to be Treated as a Corporation

If at any time our general partner determines that (i) we should no longer be characterized as a partnership but instead as an entity taxed as a corporation for U.S. federal income tax purposes or (ii) common units held by some or all unitholders should be converted into or exchanged for interests in a newly formed entity taxed as a corporation for U.S. federal income tax purposes whose sole asset is interests in us ("parent corporation"), then our general partner may, without unitholder approval, reorganize us and cause us to be treated as an entity taxable as a corporation for U.S. federal income tax purposes or cause us to engage in a merger or other transaction pursuant to which common units held by some or all unitholders will be converted into or exchanged for interests in the parent corporation. In addition, if our general partner causes partnership interests in us to be held by a parent corporation, our Existing Owners may choose to

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retain their partnership interests in us rather than convert or exchange their partnership interests into parent corporation shares. The general partner may take any of the foregoing actions if it in good faith determines (meaning it subjectively believes) that such action is not adverse to our best interests. Any such event may be taxable or nontaxable to our unitholders, depending on the form of the transaction. The tax liability, if any, of a unitholder as a result of such an event may vary depending on the unitholder's particular situation and may vary from the tax liability of each of our Existing Owners. Our general partner will have no duty or obligation to make any such determination or take any such actions, however, and may decline to do so free of any duty or obligation whatsoever to us or our limited partners, including any duty to act in a manner not adverse to the best interests of us or our limited partners.

Change of Management Provisions

Our partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove our general partner or otherwise change the management of our general partner. If any person or group other than our general partner and its affiliates (including the Founders) acquires beneficial ownership of 20% or more of any class of units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply to any person or group that acquires the units from our general partner or its affiliates and any transferees of that person or group approved by our general partner or to any person or group who acquires the units with the prior approval of the Board.

Limited Call Right

If at any time our general partner and its affiliates (including the Founders) own more than 80% of our then-issued and outstanding limited partner interests of any class, our general partner will have the right, which it may assign in whole or in part to any of its affiliates or to us, to acquire all, but not less than all, of the limited partner interests of the class held by unaffiliated persons as of a record date to be selected by our general partner, on at least 10 but not more than 60 days' notice. The purchase price in the event of this purchase is the greater of:

- the highest cash price paid by either of our general partner or any of its affiliates for any limited partner interests of the class purchased within the 90 days preceding the date on which our general partner first mails notice of its election to purchase those limited partner interests; and
- the current market price calculated in accordance with our partnership agreement as of the date three business days before the date the notice is mailed.

As a result of our general partner's right to purchase outstanding limited partner interests, a holder of limited partner interests may have its limited partner interests purchased at a price that may be lower than market prices at various times prior to such purchase or lower than a unitholder may anticipate the market price to be in the future. The federal income tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of its common units in the market. Please read "Material U.S. Federal Income Tax Consequences—Disposition of Units."

Meetings; Voting

Except as described below regarding a person or group owning 20% or more of any class of units then outstanding, record holders of common units on the record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited.

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Our general partner does not anticipate that any meeting of unitholders will be called in the foreseeable future. Any action that is required or permitted to be taken by the unitholders may be taken either at a meeting of the unitholders or without a meeting if consents in writing describing the action so taken are signed by holders of the number of units necessary to authorize or take such action at a meeting. Meetings of the unitholders may be called by our general partner or by unitholders owning at least 20% of the outstanding units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called, entitled to vote at the meeting represented in person or by proxy, will constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum will be the greater percentage.

Each record holder of a unit has a vote according to his percentage interest in us, although additional limited partner interests having special voting rights could be issued. Please read “—Issuance of Additional Partnership Interests.” However, if at any time any person or group, other than our general partner and its affiliates (including the Founders) or a direct or subsequently approved transferee of our general partner or its affiliates or a transferee of that person or group approved by our general partner or a person or group specifically approved by our general partner or the Board, as applicable, acquires, in the aggregate, beneficial ownership of 20% or more of any class of units then outstanding, that person or group will lose voting rights on all of its units and the units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, determining the presence of a quorum or for other similar purposes. Common units held by a nominee or in a street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise.

Any notice, demand, request, report or proxy material required or permitted to be given or made to record holders of common units under our partnership agreement will be delivered to the record holder by us or by the transfer agent or an exchange agent.

Status as Limited Partner

By transfer of any common units in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission is reflected in our books and records. Except as described under “—Limited Liability,” the common units will be fully paid, and unitholders will not be required to make additional contributions.

Non-Citizen Unitholders; Redemption

We may acquire interests in oil and natural gas leases on United States federal lands in the future. To comply with certain U.S. laws relating to the ownership of interests in oil and natural gas leases on federal lands, our general partner, acting on our behalf, may amend our partnership agreement, as it determines necessary or advisable, to obtain proof of the U.S. federal income tax status and/or the nationality, citizenship or other related status of our limited partners (and their owners, to the extent relevant) and to permit our general partner to redeem the units held by any person (i) whose nationality, citizenship or related status creates substantial risk of cancellation or forfeiture of any of our property and/or (ii) who fails to comply with the procedures established to obtain such proof. The redemption price in the case of such a redemption will be the average of the daily closing prices per unit for the 20 consecutive trading days immediately prior to the date set for redemption. Further, the units held by such unitholder will not be entitled to any voting rights and may not receive distributions in-kind upon our liquidation.

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Furthermore, we have the right to redeem all of the common units of any holder that our general partner concludes is an Ineligible Holder or fails to furnish the information requested by our general partner. The redemption price in the event of such redemption for each unit held by such unitholder will be the current market price of such unit (the date of determination of which shall be the date fixed for redemption). The redemption price will be paid, as determined by our general partner, in cash or by delivery of a promissory note. Any such promissory note will bear interest at the rate of 5% annually and be payable in three equal annual installments of principal and accrued interest, commencing one year after the redemption date.

For the avoidance of doubt, onshore mineral leases or any direct or indirect interest therein may be acquired and held by aliens only through stock ownership, holding or control in a corporation organized under the laws of the United States or of any state thereof.

Indemnification

Under our partnership agreement, unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that such person acted in bad faith or engaged in intentional fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events,:

- our general partner;
- any departing general partner;
- any person who is or was an affiliate of our general partner or any departing general partner;
- any person who is or was a director, officer, manager, managing member, partner, fiduciary or trustee of any entity set forth in the preceding three bullet points;
- any person who is or was serving as a director, officer, manager, managing member, partner, fiduciary or trustee of another person at the request of our general partner or any departing general partner; and
- any person designated by our general partner.

Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees, our general partner will not be personally liable for, or have any obligation to contribute or lend funds or assets to us to enable us to effectuate, indemnification. We may purchase insurance covering liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement.

Reimbursement of Expenses

Our partnership agreement requires us to reimburse our general partner for all direct and indirect expenses it incurs or payments it makes on our behalf and all other expenses allocable to us or otherwise incurred by our general partner in connection with operating our business. These expenses include salary, bonus, incentive compensation, and other amounts paid to persons who perform services for us or on our behalf, and expenses allocated to our general partner by its affiliates. Our general partner is entitled to determine in good faith the expenses that are allocable to us. The expenses for which we are required to reimburse our general partner are not subject to any caps or other limits.

Books and Reports

Our general partner is required to keep appropriate books of our business at our principal offices. The books will be maintained for both tax and financial reporting purposes on an accrual basis. For financial reporting and tax purposes, our fiscal year is the calendar year.

We will mail or make available to record holders of common units, within 105 days after the close of each fiscal year, an annual report containing audited financial statements and a report on those financial statements by our independent registered public accounting firm. Except for our fourth quarter, we will also mail or make available summary financial information within 50 days after the close of each quarter. We will be deemed to have made any such report available if we file such report with the SEC on EDGAR or make the report available on a publicly available website which we maintain.

We will furnish each record holder of a unit with information reasonably required for tax reporting purposes within 90 days after the close of each calendar year. This information is expected to be furnished in summary form so that some complex calculations normally required of partners can be avoided. Our ability to furnish this summary information to our unitholders will depend on the cooperation of our unitholders in supplying us with specific information. Every unitholder will receive information to assist it in determining its federal and state tax liability and filing its federal and state income tax returns, regardless of whether such unitholder supplies us with information.

Right to Inspect Our Books and Records

Our partnership agreement provides that a limited partner can, for a purpose reasonably related to his interest as a limited partner, upon reasonable written demand stating the purpose of such demand and at his own expense, obtain:

- a current list of the name and last known address of each record holder;
- copies of our partnership agreement and our certificate of limited partnership and related amendments thereto; and
- certain information regarding the status of our business and financial condition.

Our general partner may, and intends to, keep confidential from the limited partners, trade secrets or other information the disclosure of which our general partner determines is not in our best interests or that we are required by law or by agreements with third parties to keep confidential. Our partnership agreement limits the right to information that a limited partner would otherwise have under Delaware law.

Registration Rights

Under our partnership agreement, we have agreed to register for resale under the Securities Act and applicable state securities laws any common units or other partnership interests proposed to be sold by our general partner or any of its affiliates or their assignees if an exemption from the registration requirements is not otherwise available. These registration rights continue for two years following any withdrawal or removal of our general partner. Please read "Units Eligible for Future Sale."

UNITS ELIGIBLE FOR FUTURE SALE

After the sale of the common units offered hereby, the Existing Owners will hold an aggregate of _____ common units. The sale of these units could have an adverse impact on the price of the common units or on any trading market that may develop.

The common units sold in this offering will generally be freely transferable without restriction or further registration under the Securities Act, except that any common units owned by an “affiliate” of ours may not be resold publicly except in compliance with the registration requirements of the Securities Act or under an exemption under Rule 144 or otherwise. Rule 144 permits securities acquired by an affiliate of the issuer to be sold into the market in an amount that does not exceed, during any three-month period, the greater of:

- 1.0% of the total number of the securities outstanding; or
- the average weekly reported trading volume of the common units for the four calendar weeks prior to the sale.

Sales under Rule 144 are also subject to specific manner of sale provisions, holding period requirements, notice requirements and the availability of current public information about us. A unitholder who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned his common units for at least six months (provided we are in compliance with the current public information requirement) or one year (regardless of whether we are in compliance with the current public information requirement), would be entitled to sell those common units under Rule 144 without regard to the volume limitations, manner of sale provisions and notice requirements of Rule 144.

Our Partnership Agreement and Registration Rights

Our partnership agreement provides that we may issue an unlimited number of limited partner interests of any type without a vote of the unitholders. Any issuance of additional common units or other equity interests would result in a corresponding decrease in the proportionate ownership interest in us represented by, and could adversely affect the cash distributions to and market price of, our common units then outstanding. Please read “The Partnership Agreement—Issuance of Additional Partnership Interests.”

Under our partnership agreement, our general partner and its affiliates, including the Founders, have the right to cause us to register under the Securities Act and applicable state securities laws the offer and sale of any common units or other partnership interests that they hold, which we refer to as registerable securities. Subject to the terms and conditions of our partnership agreement, these registration rights allow our general partner and its affiliates or their assignees holding any registerable securities to require registration of such registerable securities and to include any such registerable securities in a registration by us of common units or other partnership interests, including common units or other partnership interests offered by us or by any unitholder. Our general partner and its affiliates will continue to have these registration rights for two years following the withdrawal or removal of our general partner. In connection with any registration of units held by our general partner or its affiliates, we will indemnify each unitholder participating in the registration and its officers, directors, and controlling persons from and against any liabilities under the Securities Act or any applicable state securities laws arising from the registration statement or prospectus. We will bear all costs and expenses incidental to any registration, excluding any underwriting discounts. Except as described below, our general partner and its affiliates may sell their common units or other partnership interests in private transactions at any time, subject to compliance with applicable laws.

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Lock-Up Agreements

The directors and executive officers of our general partner, and their respective affiliates, have agreed, subject to certain exceptions, not to sell any common units for a period of 180 days from the date of this prospectus. For a description of these lock-up provisions, please read “Underwriting.”

Registration Statement on Form S-8

Prior to the completion of this offering, we expect to adopt a new long-term incentive plan (the “Long-Term Incentive Plan”). If adopted, we intend to file a registration statement on Form S-8 under the Securities Act to register common units issuable under the Long-Term Incentive Plan. This registration statement on Form S-8 is expected to be filed following the effective date of the registration statement of which this prospectus is a part and will be effective upon filing. Accordingly, common units issued under the Long-Term Incentive Plan will be eligible for resale in the public market without restriction after the effective date of the Form S-8 registration statement, subject to applicable vesting requirements, Rule 144 limitations applicable to affiliates and the lock-up restrictions described above.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

This section is a summary of the material U.S. federal income tax consequences that may be relevant to prospective common unitholders who are individual citizens or residents of the United States and, unless otherwise noted in the following discussion, is the opinion of Latham & Watkins LLP, counsel to our general partner and us, insofar as it relates to legal conclusions with respect to matters of U.S. federal income tax law. This section is based upon current provisions of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), existing and proposed Treasury regulations promulgated under the Internal Revenue Code (the “Treasury Regulations”) and current administrative rulings and court decisions, all of which are subject to change. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to “us” or “we” are references to TXO Energy Partners, and our operating subsidiaries.

The following discussion does not comment on all federal income tax matters affecting us or our unitholders and does not describe the application of the alternative minimum tax that may be applicable to certain unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, entities treated as partnerships for U.S. federal income tax purposes, trusts, nonresident aliens, U.S. expatriates and former citizens or long-term residents of the United States or other unitholders subject to specialized tax treatment, such as banks, insurance companies and other financial institutions, tax-exempt institutions, foreign persons (including, without limitation, controlled foreign corporations, passive foreign investment companies and foreign persons eligible for the benefits of an applicable income tax treaty with the United States), individual retirement accounts (IRAs), real estate investment trusts (REITs) or mutual funds, dealers in securities or currencies, traders in securities, U.S. persons whose “functional currency” is not the U.S. dollar, persons holding their units as part of a “straddle,” “hedge,” “conversion transaction” or other risk reduction transaction, persons subject to special tax accounting rules as a result of any item of gross income with respect to our common units being taken into account in an applicable financial statement and persons deemed to sell their units under the constructive sale provisions of the Internal Revenue Code. In addition, the discussion only comments, to a limited extent, on state, local and foreign tax consequences. Accordingly, we encourage each prospective common unitholder to consult his own tax advisor in analyzing the state, local and foreign tax consequences particular to him of the ownership or disposition of common units and potential changes in applicable laws, including the impact of U.S. tax reform legislation.

No ruling has been requested from the IRS regarding our characterization as a partnership for tax purposes. Instead, we will rely on opinions of Latham & Watkins LLP. Unlike a ruling, an opinion of counsel represents only that counsel’s best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions and statements made herein may not be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for our common units, including the prices at which our common units trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will result in a reduction in cash available for distribution to our unitholders and thus will be borne indirectly by our unitholders. Furthermore, the tax treatment of us, or of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

All statements as to matters of U.S. federal income tax law and legal conclusions with respect thereto, but not as to factual matters, contained in this section, unless otherwise noted, are the opinion of Latham & Watkins LLP and are based on the accuracy of the representations made by us.

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Notwithstanding the above, and for the reasons described below, Latham & Watkins LLP has not rendered an opinion with respect to the following specific federal income tax issues: (i) the treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units (please read “—Tax Consequences of Unit Ownership—Treatment of Short Sales”); (ii) whether all aspects of our method for allocating taxable income and losses is permitted by existing Treasury Regulations (please read “—Disposition of Common Units—Allocations Between Transferors and Transferees”); (iii) whether our method for taking into account Section 743 adjustments is sustainable in certain cases (please read “—Tax Consequences of Unit Ownership—Section 754 Election” and “—Uniformity of Units”); and (iv) whether percentage depletion will be available to a unitholder or the extent of the percentage depletion deduction (please read “—Tax Treatment of Operations—Depletion Deductions”).

Partnership Status

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner of a partnership is required to take into account his share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash distributions are made to him by the partnership. Distributions by a partnership to a partner are generally not taxable to the partnership or the partner unless the amount of cash distributed to him is in excess of the partner’s adjusted basis in his partnership interest.

Section 7704 of the Internal Revenue Code provides that publicly traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the “Qualifying Income Exception,” exists with respect to publicly traded partnerships of which 90% or more of the gross income for every taxable year consists of “qualifying income.” Qualifying income includes income and gains derived from the exploration, development, mining or production, processing, refining, transportation and marketing of certain minerals and natural resources, including crude oil, natural gas and other products of a type that are produced in a petroleum refinery or natural gas processing plant, certain related hedging activities, certain activities that are intrinsic to other qualifying activities, and our allocable share of our subsidiaries’ income from these sources. Other types of qualifying income include interest (other than from a financial business), dividends, real property rents, gains from the sale of real property and gains from the sale or other disposition of capital assets held for the production of income that otherwise constitutes qualifying income. We estimate that less than % of our current gross income is not qualifying income; however, this estimate could change from time to time. Based upon and subject to this estimate, the factual representations made by us and our general partner and a review of the applicable legal authorities, Latham & Watkins LLP is of the opinion that at least 90% of our current gross income constitutes qualifying income. The portion of our income that is qualifying income may change from time to time.

The IRS has made no determination as to our status or the status of our operating subsidiaries for federal income tax purposes or whether our operations generate “qualifying income” under Section 7704 of the Internal Revenue Code. Instead, we will rely on the opinion of Latham & Watkins LLP on such matters. It is the opinion of Latham & Watkins LLP that, based upon the Internal Revenue Code, its regulations, published revenue rulings and court decisions and the representations described below that:

- We will be classified as a partnership for federal income tax purposes; and
- Each of our operating subsidiaries will be treated as a partnership or will be disregarded as an entity separate from us for federal income tax purposes.

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In rendering its opinion, Latham & Watkins LLP has relied on factual representations made by us and our general partner. The representations made by us and our general partner upon which Latham & Watkins LLP has relied include:

- Neither we nor any of the operating subsidiaries has elected or will elect to be treated, or is otherwise treated, as a corporation for federal income tax purposes;
- For each taxable year, more than 90% of our gross income has been and will be income of the type that Latham & Watkins LLP has opined or will opine is “qualifying income” within the meaning of Section 7704(d) of the Internal Revenue Code; and
- Each commodity hedging transaction that we treat as resulting in qualifying income has been and will be appropriately identified as a hedging transaction pursuant to the applicable Treasury Regulations, and has been and will be associated with oil, gas or products thereof that are held or to be held by us in activities of a type that Latham & Watkins LLP has opined or will opine result in qualifying income.

We believe that these representations have been true in the past, are true as of the date hereof and expect that these representations will continue to be true in the future.

If we fail to meet the Qualifying Income Exception, other than a failure that is determined by the IRS to be inadvertent and that is cured within a reasonable time after discovery (in which case the IRS may also require us to make adjustments with respect to our unitholders or pay other amounts), we will be treated as if we had transferred all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to the unitholders in liquidation of their interests in us. This deemed contribution and liquidation should be tax-free to unitholders and us so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

In addition, our general partner may, without unitholder approval, reorganize us and cause us to be treated as an entity taxable as a corporation for U.S. federal income tax purposes or cause us to enter into a transaction in which common units held by some or all unitholders will be converted into or exchanged for interests in a newly formed entity taxed as a corporation for U.S. federal income tax purposes whose sole asset is interests in us. Any such event may be taxable or nontaxable to our unitholders, depending on the form of the transaction. Please read “The Partnership Agreement—Election to be Treated as a Corporation.”

If we were treated as an association taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, our items of income, gain, loss and deduction would be reflected only on our tax return rather than being passed through to our unitholders, and our net income would be taxed to us at corporate rates. In addition, any distribution made to a unitholder would be treated as taxable dividend income, to the extent of our current and accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder’s tax basis in his common units, or taxable capital gain, after the unitholder’s tax basis in his common units is reduced to zero. Accordingly, taxation as a corporation would result in a material reduction in a unitholder’s cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the units.

The discussion below is based on Latham & Watkins LLP's opinion that we will be classified as a partnership for federal income tax purposes.

Limited Partner Status

Unitholders of TXO Energy Partners will be treated as partners of TXO Energy Partners for federal income tax purposes. Also, unitholders whose common units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their common units will be treated as partners of TXO Energy Partners for federal income tax purposes.

A beneficial owner of common units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to those units for federal income tax purposes. Please read “—Tax Consequences of Unit Ownership—Treatment of Short Sales.”

Income, gains, losses or deductions would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore appear to be fully taxable as ordinary income. These holders are urged to consult their tax advisors with respect to the tax consequences to them of holding common units in TXO Energy Partners. The references to “unitholders” in the discussion that follows are to persons who are treated as partners in TXO Energy Partners for federal income tax purposes.

Tax Consequences of Unit Ownership

Flow-Through of Taxable Income

Subject to the discussion below under “—Entity-Level Collections,” we will not pay any federal income tax. Instead, each unitholder will be required to report on his income tax return his share of our income, gains, losses and deductions without regard to whether we make cash distributions to him. Consequently, we may allocate income to a unitholder even if he has not received a cash distribution. Each unitholder will be required to include in income his allocable share of our income, gains, losses and deductions for our taxable year ending with or within his taxable year. Our taxable year ends on December 31.

Treatment of Distributions

Distributions by us to a unitholder generally will not be taxable to the unitholder for federal income tax purposes, except to the extent the amount of any such cash distribution exceeds his tax basis in his common units immediately before the distribution. Our cash distributions in excess of a unitholder's tax basis generally will be considered to be gain from the sale or exchange of the common units, taxable in accordance with the rules described under “—Disposition of Common Units.” Any reduction in a unitholder's share of our liabilities for which no partner, including the general partner, bears the economic risk of loss, known as “nonrecourse liabilities,” will be treated as a distribution by us of cash to that unitholder. To the extent our distributions cause a unitholder's “at-risk” amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. Please read “—Limitations on Deductibility of Losses.”

A decrease in a unitholder's percentage interest in us because of our issuance of additional common units will decrease his share of our nonrecourse liabilities, and thus will result in a corresponding deemed distribution of cash. This deemed distribution may constitute a non-pro

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rata distribution. A non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of his tax basis in his common units, if the distribution reduces the unitholder's share of our "unrealized receivables," including depreciation recapture, depletion recapture, intangible drilling costs and/or substantially appreciated "inventory items," each as defined in the Internal Revenue Code, and collectively, "Section 751 Assets." To that extent, the unitholder will be treated as having been distributed his proportionate share of the Section 751 Assets and then having exchanged those assets with us in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in the unitholder's realization of ordinary income, which will equal the excess of (i) the non-pro rata portion of that distribution over (ii) the unitholder's tax basis (often zero) for the share of Section 751 Assets deemed relinquished in the exchange.

Ratio of taxable income to distributions

We estimate that a purchaser of common units in this offering who owns those common units from the date of closing of this offering through the record date for distributions for the year ending December 31, 2025, will be allocated, on a cumulative basis, an amount of U.S. federal taxable income for that period that will be % or less of the cash distributed with respect to that period. Thereafter, we anticipate that the ratio of allocable taxable income to cash distributions to the unitholders will increase. Our estimate is based upon many assumptions regarding our business operations, including assumptions as to our revenues, capital expenditures, cash flow, net working capital and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, legislative, competitive and political uncertainties beyond our control. Further, the estimates are based on current tax law and tax reporting positions that we will adopt and with which the IRS could disagree. Accordingly, we cannot assure you that these estimates will prove to be correct.

The actual ratio of allocable taxable income to cash distributions could be higher or lower than expected, and any differences could be material and could materially affect the value of the common units. For example, the ratio of allocable taxable income to cash distributions to a purchaser of common units in this offering will be higher, and perhaps substantially higher, than our estimate with respect to the period described above if:

- gross income from operations exceeds the amount required to make quarterly cash distributions from our available cash on all units, yet we only distribute the quarterly cash distributions from our available cash on all units;
- we make a future offering of common units and use the proceeds of the offering in a manner that does not produce substantial additional deductions during the period described above, such as to repay indebtedness outstanding at the time of this offering or to acquire property that is not eligible for depletion, depreciation or amortization for U.S. federal income tax purposes or that is depletable, depreciable or amortizable at a rate significantly slower than the rate applicable to our assets at the time of this offering; or
- legislation is enacted that limits or repeals certain U.S. federal income tax preferences currently available to oil and gas exploration and production companies (please read "—Recent Legislative Developments").

Basis of Common Units.

A unitholder's initial tax basis for his common units will be the amount he paid for the common units plus his share of our nonrecourse liabilities. That basis will be increased by his

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share of our income, by any increases in his share of our nonrecourse liabilities and, on the disposition of a common unit, by his share of certain items related to business interest not yet deductible by him due to applicable limitations. Please read “—Limitations on Interest Deductions.” That basis will be decreased, but not below zero, by distributions from us, by the unitholder’s share of our losses, by depletion deductions taken by him to the extent such deductions do not exceed his proportionate share of the adjusted tax basis of the underlying properties, by any decreases in his share of our nonrecourse liabilities, by his share of our excess business interest (generally, the excess of our business interest over the amount that is deductible) and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A unitholder will have a share, generally based on his share of profits, of our nonrecourse liabilities. Please read “—Disposition of Common Units—Recognition of Gain or Loss.”

Limitations on Deductibility of Losses

The deduction by a unitholder of his share of our losses will be limited to the tax basis in his units and, in the case of an individual unitholder, estate, trust, or corporate unitholder (if more than 50% of the value of the corporate unitholder’s stock is owned directly or indirectly by or for five or fewer individuals or some tax-exempt organizations) to the amount for which the unitholder is considered to be “at risk” with respect to our activities, if that is less than his tax basis. A common unitholder subject to these limitations must recapture losses deducted in previous years to the extent that distributions cause his at-risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable as a deduction to the extent that his at-risk amount is subsequently increased, provided such losses do not exceed such common unitholder’s tax basis in his common units. Upon the taxable disposition of a common unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at-risk limitation but may not be offset by losses suspended by the basis limitation. Any loss previously suspended by the at-risk limitation in excess of that gain would no longer be utilizable.

In general, a unitholder will be at risk to the extent of the tax basis of his units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by (i) any portion of that basis representing amounts otherwise protected against loss because of a guarantee, stop loss agreement or other similar arrangement and (ii) any amount of money he borrows to acquire or hold his units, if the lender of those borrowed funds owns an interest in us, is related to the unitholder or can look only to the units for repayment. A unitholder’s at-risk amount will increase or decrease as the tax basis of the unitholder’s units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities.

The at risk limitation applies on an activity-by-activity basis, and in the case of oil and natural gas properties, each property is treated as a separate activity. Thus, a taxpayer’s interest in each oil or natural gas property is generally required to be treated separately so that a loss from any one property would be limited to the at risk amount for that property and not the at risk amount for all the taxpayer’s oil and natural gas properties. It is uncertain how this rule is implemented in the case of multiple oil and natural gas properties owned by a single entity treated as a partnership for federal income tax purposes. However, for taxable years ending on or before the date on which further guidance is published, the IRS will permit aggregation of oil or natural gas properties we own in computing a unitholder’s at risk limitation with respect to us. If a unitholder were required to compute his at risk amount separately with respect to each oil or natural gas property we own, he might not be allowed to utilize his share of losses or deductions attributable to a particular property even though he has a positive at risk amount with respect to his common units as a whole.

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In addition to the basis and at-risk limitations on the deductibility of losses, the passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally trade or business activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly traded partnership. Consequently, any passive losses we generate will only be available to offset our passive income generated in the future and will not be available to offset income from other passive activities or investments, including our investments or a unitholder's investments in other publicly traded partnerships, or the unitholder's salary, active business or other income. Passive losses that are not deductible because they exceed a unitholder's share of income we generate may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party. The passive loss limitations are applied after other applicable limitations on deductions, including the at-risk rules and the basis limitation.

A unitholder's share of our net income may be offset by any of our suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly traded partnerships.

An additional loss limitation may apply to certain of our unitholders for taxable years ending before January 1, 2026. A non-corporate unitholder will not be allowed to take a deduction for certain excess business losses in such taxable years. An excess business loss is the excess (if any) of a taxpayer's aggregate deductions for the taxable year that are attributable to the trades or businesses of such taxpayer (determined without regard to the excess business loss limitation or any deduction allowable for net operating losses, qualified business income or capital losses) over the aggregate gross income or gain of such taxpayer for the taxable year that is attributable to such trades or businesses (subject to certain limitations in the case of capital gains) plus a threshold amount. The current threshold amount is equal to \$270,000, or \$550,000 for taxpayers filing a joint return. Any losses disallowed in a taxable year due to the excess business loss limitation may be used by the applicable unitholder in the following taxable year if certain conditions are met. Unitholders to which this excess business loss limitation applies will take their allocable share of our items of income, gain, loss and deduction into account in determining this limitation. This excess business loss limitation will be applied to a non-corporate unitholder after the passive loss limitations and may limit such unitholders' ability to utilize any losses we generate allocable to such unitholder that are not otherwise limited by the basis, at-risk and passive loss limitations described above.

Limitations on Interest Deductions

Our ability to deduct interest paid or accrued on indebtedness properly allocable to a trade or business, "business interest", may be limited in certain circumstances. Should our ability to deduct business interest be limited, the amount of taxable income allocated to our unitholders in the taxable year in which the limitation is in effect may increase. However, in certain circumstances, a unitholder may be able to utilize a portion of a business interest deduction subject to this limitation in future taxable years. Prospective unitholders should consult their tax advisors regarding the impact of this business interest deduction limitation on an investment in our common units.

In addition, the deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of that taxpayer's "net investment income." Investment interest expense includes:

- interest on indebtedness properly allocable to property held for investment;

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- our interest expense attributed to portfolio income; and
- the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment or (if applicable) qualified dividend income. The IRS has indicated that the net passive income earned by a publicly traded partnership will be treated as investment income to its unitholders. In addition, the unitholder's share of our portfolio income will be treated as investment income.

Entity-Level Collections

If we are required or elect under applicable law to pay any federal, state, local or foreign income tax on behalf of any unitholder or any former unitholder, we are authorized to pay those taxes from our funds. That payment, if made, will be treated as a distribution of cash to the unitholder on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, we are authorized to treat the payment as a distribution to all current unitholders. We are authorized to amend our partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under our partnership agreement is maintained as nearly as is practicable. Payments by us as described above could give rise to an overpayment of tax on behalf of an individual unitholder in which event the unitholder would be required to file a claim in order to obtain a credit or refund.

Allocation of Income, Gain, Loss and Deduction

In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among the common unitholders in accordance with their percentage interests in us. If we have a net loss, that loss will be allocated to the common unitholders in accordance with their percentage interests in us to the extent of their positive capital accounts, as adjusted for certain items in accordance with applicable Treasury Regulations.

Specified items of our income, gain, loss and deduction will be allocated to account for (i) any difference between the tax basis and fair market value of our assets at the time of this offering and (ii) any difference between the tax basis and fair market value of any property contributed to us that exists at the time of such contribution, together referred to in this discussion as the "Contributed Property." The effect of these allocations, referred to as Section 704(c) Allocations, to a unitholder purchasing common units from us in this offering will be essentially the same as if the tax bases of our assets were equal to their fair market values at the time of this offering. In the event we issue additional common units or engage in certain other transactions in the future, "reverse Section 704(c) Allocations," similar to the Section 704(c) Allocations described above, will be made to all of our common unitholders immediately prior to such issuance or other transactions to account for the difference between the "book" basis for purposes of maintaining capital accounts and the fair market value of all property held by us at the time of such issuance or future transaction. However, it may not be administratively feasible to make the relevant adjustments to "book" basis and the relevant reverse Section 704(c) Allocations each time we issue

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common units, particularly in the case of small or frequent common unit issuances. If that is the case, we may use simplifying conventions to make those adjustments and allocations, which may include the aggregation of certain issuances of common units. Latham & Watkins LLP is unable to opine as to the validity of such conventions. In addition, items of recapture income will be allocated to the extent possible to the unitholder who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts (subject to certain adjustments), if negative capital accounts (subject to certain adjustments) nevertheless result, items of our income and gain will be allocated in an amount and manner sufficient to eliminate such negative balance as quickly as possible.

An allocation of items of our income, gain, loss or deduction, other than an allocation required by the Internal Revenue Code to eliminate the difference between a partner's "book" capital account, credited with the fair market value of Contributed Property, and "tax" capital account, credited with the tax basis of Contributed Property, referred to in this discussion as the "Book-Tax Disparity," will generally be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction only if the allocation has "substantial economic effect." In any other case, a partner's share of an item will be determined on the basis of his interest in us, which will be determined by taking into account all the facts and circumstances, including:

- his relative contributions to us;
- the interests of all the partners in profits and losses;
- the interest of all the partners in cash flow; and
- the rights of all the partners to distributions of capital upon liquidation.

Latham & Watkins LLP is of the opinion that, with the exception of the issues described in "—Section 754 Election" and "—Disposition of Common Units—Allocations Between Transferors and Transferees," allocations under our partnership agreement will be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction.

Treatment of Short Sales

A unitholder whose units are loaned to a "short seller" to cover a short sale of units may be considered as having disposed of those units. If so, he would no longer be treated for tax purposes as a partner with respect to those units during the period of the loan and may recognize gain or loss from the disposition.

As a result, during this period:

- any of our income, gain, loss or deduction with respect to those units would not be reportable by the unitholder;
- any cash distributions received by the unitholder as to those units would be fully taxable; and
- while not entirely free from doubt, all of these distributions would appear to be ordinary income.

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Because there is no direct or indirect controlling authority on the issue relating to partnership interests, Latham & Watkins LLP has not rendered an opinion regarding the tax treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units; therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to consult a tax advisor to discuss whether it is advisable to modify any applicable brokerage account agreements to prohibit their brokers from borrowing and loaning their units. The IRS has previously announced that it is studying issues relating to the tax treatment of short sales of partnership interests. Please also read “—Disposition of Common Units—Recognition of Gain or Loss.”

Tax Rates

Currently, the highest marginal U.S. federal income tax rate applicable to ordinary income of individuals is 37% and the highest marginal U.S. federal income tax rate applicable to long-term capital gains (generally, capital gains on certain assets held for more than twelve months) of individuals is 20%. Such rates are subject to change by new legislation at any time.

In addition, a 3.8% Medicare tax, or NIIT, is imposed on certain net investment income earned by individuals, estates and trusts. For these purposes, net investment income generally includes a unitholder’s allocable share of our income and gain realized by a unitholder from a sale of units. In the case of an individual, the tax will be imposed on the lesser of (i) the unitholder’s net investment income or (ii) the amount by which the unitholder’s modified adjusted gross income exceeds \$250,000 (if the unitholder is married and filing jointly or a surviving spouse), \$125,000 (if the unitholder is married and filing separately) or \$200,000 (in any other case). In the case of an estate or trust, the tax will be imposed on the lesser of (i) undistributed net investment income, or (ii) the excess adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins for such taxable year. The U.S. Department of the Treasury and the IRS have issued Treasury Regulations that provide guidance regarding the NIIT. Prospective common unitholders are urged to consult with their tax advisors as to the impact of the NIIT on an investment in our common units.

For taxable years ending on or before December 31, 2025, a non-corporate unitholder is entitled to a deduction equal to 20% of its “qualified business income” attributable to us, subject to certain limitations. For purposes of this deduction, a unitholder’s “qualified business income” attributable to us is equal to the sum of:

- the net amount of such unitholder’s allocable share of certain of our items of income, gain, deduction and loss (generally excluding certain items related to our investment activities, including capital gains and dividends, which are subject to a federal income tax rate of 20%); and
- any gain recognized by such unitholder on the disposition of its units to the extent such gain is attributable to certain Section 751 assets, including depreciation recapture and “inventory items” we own.

Prospective unitholders should consult their tax advisors regarding the application of this deduction and its interaction with the overall deduction for qualified business income.

Section 754 Election

We have made the election permitted by Section 754 of the Internal Revenue Code. That election is irrevocable without the consent of the IRS. The election generally permits us to adjust a

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common unit purchaser's tax basis in our assets ("inside basis") under Section 743(b) of the Internal Revenue Code to reflect his purchase price. This election does not apply with respect to a person who purchases common units directly from us. The Section 743(b) adjustment belongs to the purchaser and not to other unitholders. For purposes of this discussion, the inside basis in our assets with respect to a unitholder will be considered to have two components: (i) his share of our tax basis in our assets ("common basis") and (ii) his Section 743(b) adjustment to that basis.

We have adopted or will adopt the remedial allocation method as to all our properties. Where the remedial allocation method is adopted, the Treasury Regulations under Section 743 of the Internal Revenue Code require a portion of the Section 743(b) adjustment that is attributable to recovery property that is subject to depreciation under Section 168 of the Internal Revenue Code and whose book basis is in excess of its tax basis to be depreciated over the remaining cost recovery period for the property's unamortized Book-Tax Disparity. Under Treasury Regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Internal Revenue Code, rather than cost recovery deductions under Section 168, is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Under our partnership agreement, our general partner is authorized to take a position to preserve the uniformity of units even if that position is not consistent with these and any other Treasury Regulations. Please read "—Uniformity of Units."

We will depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the property's unamortized Book-Tax Disparity, or treat that portion as non-amortizable to the extent attributable to property that is not amortizable. This method is consistent with the methods employed by other publicly traded partnerships but is arguably inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our assets. To the extent this Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may take a depreciation or amortization position under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. This kind of aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. Please read "—Uniformity of Units." A unitholder's tax basis for his common units is reduced by his share of our deductions (whether or not such deductions were claimed on an individual's income tax return) so that any position we take that understates deductions will overstate such unitholder's basis in his common units, which may cause the unitholder to understate gain or overstate loss on any sale of such units. Please read "—Disposition of Common Units—Recognition of Gain or Loss." Latham & Watkins LLP is unable to opine as to whether our method for taking into account Section 743 adjustments is sustainable for property subject to depreciation under Section 167 of the Internal Revenue Code or if we use an aggregate approach as described above, as there is no direct or indirect controlling authority addressing the validity of these positions. Moreover, the IRS may challenge our position with respect to depreciating or amortizing the Section 743(b) adjustment we take to preserve the uniformity of the units. If such a challenge were sustained, the gain from the sale of units might be increased without the benefit of additional deductions.

Subject to certain limitations, a Section 743(b) adjustment may create additional depreciable basis that is eligible for bonus depreciation under Section 168(k) to the extent the adjustment is attributable to depreciable property and not to goodwill or real property. However, because we

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may not be able to determine whether transfers of our units satisfy all of the eligibility requirements and due to other limitations regarding administrability, we may elect out of the bonus depreciation provisions of Section 168(k) with respect to basis adjustments under Section 743(b).

A Section 754 election is advantageous if the transferee's tax basis in his units is higher than the units' share of the aggregate tax basis of our assets immediately prior to the transfer. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his units is lower than those units' share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or unfavorably by the election. A basis adjustment is required regardless of whether a Section 754 election is made in the case of a transfer of an interest in us if we have a substantial built-in loss immediately after the transfer. Generally, a built-in loss is substantial if (i) it exceeds \$250,000 or (ii) the transferee would be allocated a net loss in excess of \$250,000 on a hypothetical sale of our assets for their fair market value immediately after a transfer of the interests at issue. In addition, a basis adjustment is required regardless of whether a Section 754 election is made if we distribute property and have a substantial basis reduction. A substantial basis reduction exists if, on a liquidating distribution of property to a unitholder, there would be a negative basis adjustment to our assets in excess of \$250,000 if a Section 754 election were in place.

The calculations involved in the Section 754 election are complex and will be made on the basis of assumptions as to the value of our assets and other matters. For example, the allocation of the Section 743(b) adjustment among our assets must be made in accordance with the Internal Revenue Code. The IRS could seek to reallocate some or all of any Section 743(b) adjustment allocated by us to our tangible assets to goodwill instead. Goodwill, as an intangible asset, is generally nonamortizable or amortizable over a longer period of time or under a less accelerated method than our tangible assets. We cannot assure you that the determinations we make will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If permission is granted, a subsequent purchaser of units may be allocated more income than he would have been allocated had the election not been revoked.

Tax Treatment of Operations

Accounting Method and Taxable Year

We will use the year ending December 31 as our taxable year and the accrual method of accounting for federal income tax purposes. Each unitholder will be required to include in income his share of our income, gain, loss and deduction for our taxable year ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his units following the close of our taxable year but before the close of his taxable year must include his share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than twelve months of our income, gain, loss and deduction. Please read “—Disposition of Common Units—Allocations Between Transferors and Transferees.”

Depletion Deductions

Subject to the limitations on deductibility of losses discussed above (please read “—Tax Consequences of Unit Ownership—Limitations on Deductibility of Losses”), unitholders will be

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entitled to deductions for the greater of either cost depletion or (if otherwise allowable) percentage depletion with respect to our oil and natural gas interests. Although the Internal Revenue Code requires each unitholder to compute his own depletion allowance and maintain records of his share of the adjusted tax basis of the underlying property for depletion and other purposes, we intend to furnish each of our unitholders with information relating to this computation for federal income tax purposes. Each unitholder, however, remains responsible for calculating his own depletion allowance and maintaining records of his share of the adjusted tax basis of the underlying property for depletion and other purposes.

Percentage depletion is generally available with respect to unitholders who qualify under the independent producer exemption contained in Section 613A(c) of the Internal Revenue Code. To qualify as an “independent producer” eligible for percentage depletion (and that is not subject to the intangible drilling and development cost deduction limits, please read “—Deductions for Intangible Drilling and Development Costs”), a unitholder, either directly or indirectly through certain related parties, may not be involved in the refining of more than 75,000 barrels of oil (or the equivalent amount of natural gas) on average for any day during the taxable year or in the retail marketing of oil and natural gas products exceeding \$5.0 million per year in the aggregate. Percentage depletion is calculated as an amount generally equal to 15% (and, in the case of marginal production, potentially a higher percentage) of the unitholder’s gross income from the depletable property for the taxable year. The percentage depletion deduction with respect to any property is limited to 100% of the taxable income of the unitholder from the property for each taxable year, computed without the depletion allowance. A unitholder that qualifies as an independent producer may deduct percentage depletion only to the extent the unitholder’s average net daily production of domestic crude oil, or the natural gas equivalent, does not exceed 1,000 barrels. This depletable amount may be allocated between oil and natural gas production, with 6,000 cubic feet of domestic natural gas production regarded as equivalent to one barrel of crude oil. The 1,000-barrel limitation must be allocated among the independent producer and controlled or related persons and family members in proportion to the respective production by such persons during the period in question.

In addition to the foregoing limitations, the percentage depletion deduction otherwise available is limited to 65% of a unitholder’s total taxable income from all sources for the year, computed without the depletion allowance, net operating loss carrybacks, or capital loss carrybacks. Any percentage depletion deduction disallowed because of the 65% limitation may be deducted in the following taxable year if the percentage depletion deduction for such year plus the deduction carryover does not exceed 65% of the unitholder’s total taxable income for that year. The carryover period resulting from the 65% net income limitation is unlimited.

Unitholders that do not qualify under the independent producer exemption are generally restricted to depletion deductions based on cost depletion. Cost depletion deductions are calculated by (i) dividing the unitholder’s share of the adjusted tax basis in the underlying mineral property by the number of mineral common units (barrels of oil and thousand cubic feet, or Mcf, of natural gas) remaining as of the beginning of the taxable year and (ii) multiplying the result by the number of mineral common units sold within the taxable year. The total amount of deductions based on cost depletion cannot exceed the unitholder’s share of the total adjusted tax basis in the property.

All or a portion of any gain recognized by a unitholder as a result of either the disposition by us of some or all of our oil and natural gas interests or the disposition by the unitholder of some or all of his common units may be taxed as ordinary income to the extent of recapture of depletion deductions, except for percentage depletion deductions in excess of the tax basis of the property. The amount of the recapture is generally limited to the amount of gain recognized on the disposition.

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The foregoing discussion of depletion deductions does not purport to be a complete analysis of the complex legislation and Treasury Regulations relating to the availability and calculation of depletion deductions by the unitholders. Further, because depletion is required to be computed separately by each unitholder and not by our partnership, no assurance can be given, and counsel is unable to express any opinion, with respect to the availability or extent of percentage depletion deductions to the unitholders for any taxable year. Moreover, the availability of percentage depletion may be reduced or eliminated if recently proposed (or similar) tax legislation is enacted. For a discussion of such legislative proposals, please read “—Recent Legislative Developments.” We encourage each prospective unitholder to consult his tax advisor to determine whether percentage depletion would be available to him.

Deductions for Intangible Drilling and Development Costs

We will elect to currently deduct intangible drilling and development costs, or IDCs. IDCs generally include our expenses for wages, fuel, repairs, hauling, supplies and other items that are incidental to, and necessary for, the drilling and preparation of wells for the production of oil, natural gas, or geothermal energy. The option to currently deduct IDCs applies only to those items that do not have a salvage value.

Although we will elect to currently deduct IDCs, each unitholder will have the option of either currently deducting IDCs or capitalizing all or part of the IDCs and amortizing them on a straight-line basis over a 60-month period, beginning with the taxable month in which the expenditure is made. If a non-corporate unitholder makes the election to amortize the IDCs over a 60-month period, no IDC preference amount in respect of those IDCs will result for alternative minimum tax purposes.

Integrated oil companies must capitalize 30% of all their IDCs (other than IDCs paid or incurred with respect to oil and natural gas wells located outside of the United States) and amortize these IDCs over 60 months beginning in the month in which those costs are paid or incurred. If the taxpayer ceases to be an integrated oil company, it must continue to amortize those costs as long as it continues to own the property to which the IDCs relate. An “integrated oil company” is a taxpayer that has economic interests in oil or natural gas properties and also carries on substantial retailing or refining operations. An oil or natural gas producer is deemed to be a substantial retailer or refiner if it does not qualify as an independent producer under the rules disqualifying retailers and refiners from taking percentage depletion. Please read “—Depletion Deductions.”

IDCs previously deducted that are allocable to property (directly or through ownership of an interest in a partnership) and that would have been included in the adjusted tax basis of the property had the IDC deduction not been taken are recaptured to the extent of any gain realized upon the disposition of the property or upon the disposition by a unitholder of interests in us. Recapture is generally determined at the unitholder level. Where only a portion of the recapture property is sold, any IDCs related to the entire property are recaptured to the extent of the gain realized on the portion of the property sold. In the case of a disposition of an undivided interest in a property, a proportionate amount of the IDCs with respect to the property is treated as allocable to the transferred undivided interest to the extent of any gain recognized. Please read “—Disposition of Common Units—Recognition of Gain or Loss.”

The election to currently deduct IDCs may be restricted or eliminated if recently proposed (or similar) tax legislation is enacted. For a discussion of such legislative proposals, please read “—Recent Legislative Developments.”

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Lease Acquisition Costs

The cost of acquiring oil and natural gas lease or similar property interests is a capital expenditure that must be recovered through depletion deductions if the lease is productive. If a lease is proved worthless and abandoned, the cost of acquisition less any depletion claimed may be deducted as an ordinary loss in the year the lease becomes worthless. Please read “—Depletion Deductions.”

Geophysical Costs

The cost of geophysical exploration incurred in connection with the exploration and development of oil and natural gas properties in the United States are deducted ratably over a 24-month period beginning on the date that such expense is paid or incurred. The amortization period for certain geological and geophysical expenditures may be extended if recently proposed (or similar) tax legislation is enacted. For a discussion of such legislative proposals, please read “—Recent Legislative Developments.”

Operating and Administrative Costs

Amounts paid for operating a producing well are deductible as ordinary business expenses, as are administrative costs, to the extent they constitute ordinary and necessary business expenses that are reasonable in amount.

Tax Basis, Depreciation and Amortization

The tax basis of our assets will be used for purposes of computing depreciation, depletion and cost recovery deductions and, ultimately, gain or loss on the disposition of these assets. The federal income tax burden associated with the difference between the fair market value of our assets and their tax basis immediately prior to an offering will be borne by our unitholders holding interests in us prior to any such offering. Please read “— Tax Consequences of Unit Ownership—Allocation of Income, Gain, Loss and Deduction.”

To the extent allowable, we may use the depreciation and cost recovery methods, including bonus depreciation to the extent available, that will result in the largest deductions being taken in the early years after assets subject to these allowances are placed in service. Please read “—Uniformity of Units.” Property we subsequently acquire or construct may be depreciated using accelerated methods permitted by the Internal Revenue Code.

If we dispose of depreciable or depletable property by sale, foreclosure or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation and depletion previously deducted and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a unitholder who has taken cost recovery, depletion or depreciation deductions with respect to property we own will likely be required to recapture some or all of those deductions as ordinary income upon a sale of his interest in us. Please read “—Tax Consequences of Unit Ownership—Allocation of Income, Gain, Loss and Deduction” and “—Disposition of Common Units—Recognition of Gain or Loss.”

The costs we incur in selling our units (called “syndication expenses”) must be capitalized and cannot be deducted currently, ratably or upon our termination. There are uncertainties regarding the classification of costs as organization expenses, which may be amortized by us, and as syndication expenses, which may not be amortized by us. The underwriting discounts and commissions we incur will be treated as syndication expenses.

Valuation and Tax Basis of our Properties

The U.S. federal income tax consequences of the ownership and disposition of units will depend in part on our estimates of the relative fair market values, and the initial tax bases, of our assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we will make many of the relative fair market value estimates ourselves. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or determinations of basis are later found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by unitholders might change, and unitholders might be required to adjust their tax liability for prior years and incur interest and penalties with respect to those adjustments.

Disposition of Common Units

Recognition of Gain or Loss

Gain or loss will be recognized on a sale of units equal to the difference between the amount realized and the unitholder's tax basis for the units sold. A unitholder's amount realized will be measured by the sum of the cash or the fair market value of other property received by him plus his share of our nonrecourse liabilities. Because the amount realized includes a unitholder's share of our nonrecourse liabilities, the gain recognized on the sale of units could result in a tax liability in excess of any cash received from the sale.

Prior distributions from us that in the aggregate were in excess of cumulative net taxable income for a common unit and, therefore, decreased a unitholder's tax basis in that common unit will, in effect, become taxable income if the common unit is sold at a price greater than the unitholder's tax basis in that common unit, even if the price received is less than his original cost.

Except as noted below, gain or loss recognized by a unitholder, other than a "dealer" in units, on the sale or exchange of a unit will generally be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of units held for more than twelve months will generally be taxed at the U.S. federal income tax rate applicable to long-term capital gains. However, a portion of this gain or loss, which will likely be substantial, will be separately computed and taxed as ordinary income or loss under Section 751 of the Internal Revenue Code to the extent attributable to assets giving rise to "unrealized receivables," including potential recapture items such as depreciation, depletion, or IDC recapture, or to "inventory items" we own. Ordinary income attributable to unrealized receivables and inventory items may exceed net taxable gain realized upon the sale of a unit and may be recognized even if there is a net taxable loss realized on the sale of a unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a sale of units. Capital losses may offset capital gains and no more than \$3,000 of ordinary income, in the case of individuals, and may only be used to offset capital gains in the case of corporations. Ordinary income recognized by a unitholder on disposition of our units may be reduced by such unitholder's deduction for qualified business income. Both ordinary income and capital gain recognized on a sale of units may be subject to the NIIT in certain circumstances. Please read "—Tax Consequences of Unit Ownership—Tax Rates."

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold using an "equitable apportionment" method, which generally means that the tax basis allocated to the interest sold equals an amount that bears the same relation to the partner's tax basis in his entire interest in the partnership as the value of the

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interest sold bears to the value of the partner's entire interest in the partnership. Treasury Regulations under Section 1223 of the Internal Revenue Code allow a selling unitholder who can identify common units transferred with an ascertainable holding period to elect to use the actual holding period of the common units transferred. Thus, according to the ruling discussed above, a common unitholder will be unable to select high or low basis common units to sell as would be the case with corporate stock, but, according to the Treasury Regulations, he may designate specific common units sold for purposes of determining the holding period of units transferred. A unitholder electing to use the actual holding period of common units transferred must consistently use that identification method for all subsequent sales or exchanges of common units. A unitholder considering the purchase of additional units or a sale of common units purchased in separate transactions is urged to consult his tax advisor as to the possible consequences of this ruling and application of the Treasury Regulations.

Specific provisions of the Internal Revenue Code affect the taxation of some financial products and securities, including partnership interests, by treating a taxpayer as having sold an "appreciated" partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into:

- a short sale;
- an offsetting notional principal contract; or
- a futures or forward contract;

in each case, with respect to the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property. The Secretary of the Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

Allocations between Transferors and Transferees

In general, our taxable income and losses will be determined annually, will be prorated on a monthly basis in proportion to the number of days in each month and will be subsequently apportioned among our unitholders in proportion to the number of units owned by each of them as of the opening of the applicable exchange on the first business day of the month, which we refer to in this prospectus as the "Allocation Date." However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among our unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units may be allocated income, gain, loss and deduction realized after the date of transfer.

The U.S. Department of Treasury and the IRS have issued Treasury Regulations that permit publicly traded partnerships to use a monthly simplifying convention that is similar to ours, but they do not specifically authorize all aspects of the proration method we have adopted. Accordingly, Latham & Watkins LLP is unable to opine on the validity of this method of allocating income and deductions between transferor and transferee unitholders. If this method is not allowed under the Treasury Regulations, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between transferor and transferee unitholders, as well as unitholders whose interests vary during a taxable year.

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A unitholder who owns units at any time during a quarter and who disposes of them prior to the record date set for a cash distribution for that quarter will be allocated items of our income, gain, loss and deductions attributable to that quarter through the month of disposition but will not be entitled to receive that cash distribution.

Notification Requirements

A unitholder who sells any of his units is generally required to notify us in writing of that sale within 30 days after the sale (or, if earlier, January 15 of the year following the sale). A purchaser of units who purchases units from another unitholder is also generally required to notify us in writing of that purchase within 30 days after the purchase. Upon receiving such notifications, we are required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. Failure to notify us of a purchase may, in some cases, lead to the imposition of penalties. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker who will satisfy such requirements.

Uniformity of Units

Because we cannot match transferors and transferees of units, we must maintain uniformity of the economic and tax characteristics of the units to a purchaser of these units. In the absence of uniformity, we may be unable to completely comply with a number of federal income tax requirements, both statutory and regulatory. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6). Any non-uniformity could have a negative impact on the value of the units. Please read “—Tax Consequences of Unit Ownership—Section 754 Election.”

We depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the property’s unamortized Book-Tax Disparity, or treat that portion as nonamortizable, to the extent attributable to property the common basis of which is not amortizable, consistent with the regulations under Section 743 of the Internal Revenue Code, even though that position may be inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our assets. Please read “—Tax Consequences of Unit Ownership—Section 754 Election.” To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation and amortization position under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. If this position is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to some unitholders and risk the loss of depreciation and amortization deductions not taken in the year that these deductions are otherwise allowable. This position will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. In either case, and as stated above under “—Tax Consequences of Unit Ownership—Section 754 Election,” Latham & Watkins LLP has not rendered an opinion with respect to these methods. Moreover, the IRS may challenge any

method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. Please read “—Disposition of Common Units —Recognition of Gain or Loss.”

Tax-Exempt Organizations and Other Investors

Ownership of units by employee benefit plans, other tax-exempt organizations, non-resident aliens, foreign corporations and other foreign persons raises issues unique to those investors and, as described below to a limited extent, may have substantially adverse tax consequences to them. If you are a tax-exempt entity or a foreign person, you should consult your tax advisor before investing in our common units.

Employee benefit plans and most other organizations exempt from federal income tax, including IRAs and other retirement plans, are subject to federal income tax on unrelated business taxable income. Virtually all of our income allocated to a unitholder that is a tax-exempt organization will be unrelated business taxable income and will be taxable to it. Further, a tax-exempt organization with more than one unrelated trade or business (including by attribution from investments in a partnership, such as us, that is engaged in one or more unrelated trades or businesses) must compute its unrelated business taxable income separately for each such trade or business, including for purposes of determining any net operating loss deduction. As a result, it may not be possible for tax-exempt organizations to use losses from an investment in us to offset taxable income from another unrelated trade or business.

Non-resident aliens and foreign corporations, trusts or estates that own units will be considered to be engaged in business in the United States because of the ownership of units. As a consequence, they will be required to file federal tax returns to report their share of our income, gain, loss or deduction and pay U.S. federal income tax at regular rates on their share of our net income or gain. Moreover, under rules applicable to publicly traded partnerships, our quarterly distribution to foreign unitholders will be subject to withholding at the highest applicable effective tax rate. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to our transfer agent on a Form W-8BEN, W-8BEN-E or applicable substitute form in order to obtain credit for these withholding taxes. A change in applicable law may require us to change these procedures.

In addition, because a foreign corporation that owns units will be treated as engaged in a U.S. trade or business, that corporation may be subject to the U.S. branch profits tax at a rate of 30%, in addition to regular U.S. federal income tax, on its share of our earnings and profits, as adjusted for changes in the foreign corporation’s “U.S. net equity,” that is effectively connected with the conduct of a U.S. trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate unitholder is a “qualified resident.” In addition, this type of unitholder is subject to special information reporting requirements under Section 6038C of the Internal Revenue Code.

A foreign unitholder who sells or otherwise disposes of a common unit will be subject to U.S. federal income tax on gain realized from the sale or disposition of that unit to the extent the gain is effectively connected with a U.S. trade or business of the foreign unitholder. Gain on the sale or disposition of a common unit will be treated as effectively connected with a U.S. trade or business to the extent that a foreign unitholder would recognize gain effectively connected with a U.S. trade or business upon the hypothetical sale of our assets at fair market value on the date of the sale or exchange of that unit. Such gain shall be reduced by certain amounts treated as effectively connected with a U.S. trade or business attributable to certain real property interests, as set forth in the following paragraph.

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Under the Foreign Investment in Real Property Tax Act, a foreign common unitholder (other than certain “qualified foreign pension funds” (or an entity all of the interests of which are held by such a qualified foreign pension fund), which generally are entities or arrangements that are established and regulated by foreign law to provide retirement or other pension benefits to employees, do not have a single participant or beneficiary that is entitled to more than 5% of the assets or income of the entity or arrangement and are subject to certain preferential tax treatment under the laws of the applicable foreign country), generally will be subject to U.S. federal income tax upon the sale or disposition of a common unit if (i) he owned (directly or constructively applying certain attribution rules) more than 5% of our common units at any time during the five-year period ending on the date of such disposition and (ii) 50% or more of the fair market value of all of our assets consisted of U.S. real property interests at any time during the shorter of the period during which such unitholder held the common units or the five-year period ending on the date of disposition. Currently, more than 50% of our assets consist of U.S. real property interests and we do not expect that to change in the foreseeable future.

Therefore, foreign unitholders may be subject to U.S. federal income tax on gain from the sale or disposition of their units.

Upon the sale, exchange or other disposition of a common unit by a foreign unitholder, the transferee is generally required to withhold 10% of the amount realized on such sale, exchange or other disposition if any portion of the gain on such sale, exchange or other disposition would be treated as effectively connected with a U.S. trade or business. The U.S. Department of the Treasury and the IRS have issued final regulations providing guidance on the application of these rules for transfers of certain publicly traded partnership interests, including transfers of our common units. Under these regulations, the “amount realized” on a transfer of our common units will generally be the amount of gross proceeds paid to the broker effecting the applicable transfer on behalf of the transferor, and such broker will generally be responsible for the relevant withholding obligations. Quarterly distributions made to our foreign unitholders may also be subject to withholding under these rules to the extent a portion of a distribution is attributable to an amount in excess of our cumulative net income that has not previously been distributed. The U.S. Department of the Treasury and the IRS have provided that these rules will generally not apply to transfers of, or distributions on, our common units occurring before January 1, 2023. Prospective foreign unitholders should consult their tax advisors regarding the impact of these rules on an investment in our common units.

Additional withholding requirements may also affect certain foreign unitholders. Please read “—Administrative Matters—Additional Withholding Requirements.”

Administrative Matters

Information Returns and Audit Procedures

We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes his share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will not be reviewed by counsel, we will take various accounting and reporting positions, some of which have been mentioned earlier, to determine each unitholder’s share of income, gain, loss and deduction. We cannot assure you that those positions will yield a result that conforms to the requirements of the Internal Revenue Code, Treasury Regulations or administrative interpretations of the IRS. Neither we nor Latham & Watkins LLP can assure prospective common unitholders that the IRS will not successfully contend in court that those positions are impermissible. Any challenge by the IRS could negatively affect the value of the units.

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A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of this consistency requirement may subject a unitholder to substantial penalties.

The IRS may audit our federal income tax information returns. Adjustments resulting from an IRS audit may require each unitholder to adjust a prior year's tax liability, and possibly may result in an audit of his return. Any audit of a unitholder's return could result in adjustments not related to our returns as well as those related to our returns.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners.

Pursuant to the Bipartisan Budget Act of 2015, if the IRS makes audit adjustments to our income tax returns, it may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustment directly from us. Similarly, for such taxable years, if the IRS makes audit adjustments to income tax returns filed by an entity in which we are a member or a partner, it may assess and collect any taxes (including penalties and interest) resulting from such audit adjustment directly from such entity. Generally, we expect to elect to have our unitholders and former unitholders take such audit adjustment into account in accordance with their interests in us during the tax year under audit, but there can be no assurance that such election will be effective in all circumstances. If we are unable to have our unitholders and former unitholders take such audit adjustment into account in accordance with their interests in us during the tax year under audit, our current unitholders may bear some or all of the tax liability resulting from such audit adjustment, even if such unitholders did not own our units during the tax year under audit. If, as a result of any such audit adjustment, we are required to make payments of taxes, penalties and interest, our cash available for distribution to our common unitholders might be substantially reduced.

Additionally, pursuant to the Bipartisan Budget Act of 2015, we are required to designate a partner, or other person, with a substantial presence in the United States as the partnership representative ("Partnership Representative"). The Partnership Representative has the sole authority to act on our behalf for purposes of, among other things, U.S. federal income tax audits and judicial review of administrative adjustments by the IRS. If we do not make such a designation, the IRS can select any person as the Partnership Representative. We currently anticipate that we will designate our general partner as our Partnership Representative. Further, any actions taken by us or by the Partnership Representative on our behalf with respect to, among other things, U.S. federal income tax audits and judicial review of administrative adjustments by the IRS, will be binding on us and all of our unitholders.

Additional Withholding Requirements

Withholding taxes may apply to certain types of payments made to "foreign financial institutions" (as specially defined in the Internal Revenue Code) and certain other foreign entities. Specifically, a 30% withholding tax may be imposed on interest, dividends and other fixed or determinable annual or periodical gains, profits and income from sources within the United States ("FDAP Income"), or, subject to the proposed Treasury Regulations discussed below, gross proceeds from the sale or other disposition of any property of a type that can produce interest or dividends from sources within the United States ("Gross Proceeds") paid to a foreign financial institution or to a "non-financial foreign entity" (as specially defined in the Internal Revenue

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Code), unless (i) the foreign financial institution undertakes certain diligence and reporting, (ii) the non-financial foreign entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner or (iii) the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from these rules. If the payee is a foreign financial institution and is subject to the diligence and reporting requirements in clause (i) above, it must enter into an agreement with the U.S. Department of the Treasury requiring, among other things, that it undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to noncompliant foreign financial institutions and certain other account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States governing these requirements may be subject to different rules.

These rules generally apply to payments of FDAP Income currently and, while these rules generally would have applied to payments of relevant Gross Proceeds made on or after January 1, 2019, proposed Treasury Regulations eliminate these withholding taxes on payments of Gross Proceeds entirely. Unitholders generally may rely on these proposed Treasury Regulations until final Treasury Regulations are issued. Thus, to the extent we have FDAP Income that is not treated as effectively connected with a U.S. trade or business (please read “—Tax-Exempt Organizations and Other Investors”), unitholders who are foreign financial institutions or certain other foreign entities, or persons that hold their common units through such foreign entities, may be subject to withholding on distributions they receive from us, or their distributive share of our income, pursuant to the rules described above.

Prospective common unitholders should consult their own tax advisors regarding the potential application of these withholding provisions to their investment in our common units.

Nominee Reporting

Persons who hold an interest in us as a nominee for another person are required to furnish to us:

- the name, address and taxpayer identification number of the beneficial owner and the nominee;
- whether the beneficial owner is:
 - a person that is not a U.S. person;
 - a foreign government, an international organization or any wholly owned agency or instrumentality of either of the foregoing; or
 - a tax-exempt entity;
- the amount and description of units held, acquired or transferred for the beneficial owner; and
- specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from dispositions.

Brokers and financial institutions are required to furnish additional information, including whether they are U.S. persons and specific information on units they acquire, hold or transfer for

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their own account. A penalty of \$290 per failure, up to a maximum of \$3,532,500 per calendar year, is imposed by the Internal Revenue Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

Accuracy-Related Penalties

Certain penalties may be imposed on taxpayers as a result of an underpayment of tax that is attributable to one or more specified causes, including: (i) negligence or disregard of rules or regulations, (ii) substantial understatements of income tax, (iii) substantial valuation misstatements and (iv) the disallowance of claimed tax benefits by reason of a transaction lacking economic substance or failing to meet the requirements of any similar rule of law. Except with respect to the disallowance of claimed tax benefits by reason of a transaction lacking economic substance or failing to meet the requirements of any similar rule of law, however, no penalty will be imposed for any portion of any such underpayment if it is shown that there was a reasonable cause for the underpayment of that portion and that the taxpayer acted in good faith regarding the underpayment of that portion.

With respect to substantial understatements of income tax, the amount of any understatement subject to penalty generally is reduced by that portion of the understatement which is attributable to a position adopted on the return: (A) for which there is, or was, “substantial authority”; or (B) as to which there is a reasonable basis and the relevant facts of that position are adequately disclosed on the return.

If any item of income, gain, loss or deduction included in the distributive shares of unitholders might result in that kind of an “understatement” of income for which no “substantial authority” exists, we must adequately disclose the relevant facts on our return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns and to take other actions as may be appropriate to permit unitholders to avoid liability for this penalty.

Recent Legislative Developments

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. For example, from time to time, members of Congress and the President propose and consider substantive changes to the existing federal income tax laws that affect publicly traded partnerships, including the elimination of partnership tax treatment for publicly traded partnerships.

In recent years, legislation has been proposed that would reduce or eliminate certain key U.S. federal income tax incentives currently available to oil and natural gas exploration and production companies. Changes in such proposals include, but are not limited to, (i) the repeal of the percentage depletion allowance for oil and natural gas properties, (ii) the elimination of current deductions for intangible drilling and development costs, and (iii) an extension of the amortization period for certain geological and geophysical expenditures. It is unclear whether these or similar changes will be enacted and, if enacted, how soon any such changes could become effective. The passage of any legislation as a result of these proposals or any other similar changes in U.S. federal income tax laws could eliminate or postpone certain tax deductions that are currently available with respect to oil and natural gas exploration and development, and any such change could increase the taxable income allocable to our unitholders and negatively impact the value of an investment in our common units.

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Any modification to the federal income tax laws and interpretations thereof may or may not be retroactively applied and could make it more difficult or impossible to meet the exception for us to be treated as a partnership for federal income tax purposes. Please read “—Partnership Status”. We are unable to predict whether any such changes will ultimately be enacted. However, it is possible that a change in law could affect us, and any such changes could negatively impact the value of an investment in our common units.

State, Local, Foreign and Other Tax Considerations

In addition to federal income taxes, you will likely be subject to other taxes, such as state, local and foreign income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we do business or own property or in which you are a resident. Although an analysis of those various taxes is not presented here, each prospective common unitholder should consider their potential impact on his investment in us. We expect initially to own property or do business in New Mexico, Texas and Colorado. New Mexico and Colorado each impose a personal income tax. Texas does not currently impose a personal income tax on individuals, but it does impose an entity level tax (to which we will be subject) on corporations and other entities. As we make acquisitions or expand our business, we may control assets or conduct business in additional states that impose a personal income tax. Although you may not be required to file a return and pay taxes in some jurisdictions because your income from that jurisdiction falls below the filing and payment requirement, you will be required to file income tax returns and to pay income taxes in many of these jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. In some jurisdictions, tax losses may not produce a tax benefit in the year incurred and may not be available to offset income in subsequent taxable years. Some of the jurisdictions may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the jurisdiction. Withholding, the amount of which may be greater or less than a particular unitholder’s income tax liability to the jurisdiction, generally does not relieve a nonresident unitholder from the obligation to file an income tax return. Amounts withheld will be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. Please read “—Tax Consequences of Unit Ownership—Entity-Level Collections.” Based on current law and our estimate of our future operations, our general partner anticipates that any amounts required to be withheld will not be material.

It is the responsibility of each unitholder to investigate the legal and tax consequences, under the laws of pertinent states, localities and foreign jurisdictions, of his investment in us. Accordingly, each prospective common unitholder is urged to consult his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state, local and foreign, as well as U.S. federal tax returns, that may be required of him. Latham & Watkins LLP has not rendered an opinion on the state tax, local tax, alternative minimum tax or foreign tax consequences of an investment in us.

INVESTMENT IN TXO ENERGY PARTNERS BY EMPLOYEE BENEFIT PLANS

An investment in us by an employee benefit plan is subject to additional considerations because the investments of these plans are subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and the restrictions imposed by Section 4975 of the Internal Revenue Code and provisions under any federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of the Internal Revenue Code or ERISA (collectively, “Similar Laws”). For these purposes the term “employee benefit plan” includes, but is not limited to, qualified pension, profit-sharing and stock bonus plans, Keogh plans, simplified employee pension plans and tax deferred annuities or IRAs established or maintained by an employer or employee organization, and entities whose underlying assets are considered to include “plan assets” of such plans, accounts and arrangements (collectively, “Employee Benefit Plans”). Among other things, consideration should be given to:

- whether the investment is prudent under Section 404(a)(1)(B) of ERISA and any other applicable Similar Laws;
- whether in making the investment, the plan will satisfy the diversification requirements of Section 404(a)(1)(C) of ERISA and any other applicable Similar Laws;
- whether the investment will result in recognition of unrelated business taxable income by the plan and, if so, the potential after-tax investment return. Please read “Material U.S. Federal Income Tax Consequences—Tax-Exempt Organizations and Other Investors”; and
- whether making such an investment will comply with the delegation of control and prohibited transaction provisions of ERISA, the Internal Revenue Code and any other applicable Similar Laws.

The person with investment discretion with respect to the assets of an Employee Benefit Plan, often called a fiduciary, should determine whether an investment in us is authorized by the appropriate governing instrument and is a proper investment for the plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code prohibit Employee Benefit Plans, and IRAs that are not considered part of an Employee Benefit Plan, from engaging, either directly or indirectly, in specified transactions involving “plan assets” with parties that, with respect to the plan, are “parties in interest” under ERISA or “disqualified persons” under the Internal Revenue Code unless an exemption is available. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Internal Revenue Code. In addition, the fiduciary of the ERISA plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Internal Revenue Code.

In addition to considering whether the purchase of common units is a prohibited transaction, a fiduciary should consider whether the plan will, by investing in us, be deemed to own an undivided interest in our assets, with the result that our general partner would also be a fiduciary of such plan and our operations would be subject to the regulatory restrictions of ERISA, including its prohibited transaction rules, as well as the prohibited transaction rules of the Internal Revenue Code, ERISA and any other applicable Similar Laws.

The Department of Labor regulations and Section 3(42) of ERISA provide guidance with respect to whether, in certain circumstances, the assets of an entity in which Employee Benefit

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Plans acquire equity interests would be deemed “plan assets.” Under these rules, an entity’s assets would not be considered to be “plan assets” if, among other things:

- the equity interests acquired by the Employee Benefit Plan are publicly offered securities—i.e., the equity interests are widely held by 100 or more investors independent of the issuer and each other, are freely transferable and are registered under certain provisions of the federal securities laws;
- the entity is an “operating company,”—i.e., it is primarily engaged in the production or sale of a product or service, other than the investment of capital, either directly or through a majority-owned subsidiary or subsidiaries; or
- there is no significant investment by “benefit plan investors,” which is generally defined to mean that less than 25% of the value of each class of equity interest, disregarding any such interests held by our general partner, its affiliates and certain persons, is held by the Employee Benefit Plans.

Our assets should not be considered “plan assets” under these regulations because it is expected that the investment will satisfy the requirements in the first two bullet points above.

In light of the serious penalties imposed on persons who engage in prohibited transactions or other violations, plan fiduciaries contemplating a purchase of common units should consult with their own counsel regarding the consequences under ERISA, the Internal Revenue Code and other Similar Laws.

UNDERWRITING

Raymond James & Associates, Inc. is acting as representative of each of the underwriters named below. Subject to the terms and conditions set forth in an underwriting agreement dated the date of this prospectus, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the number of our common units set forth opposite its name below.

<u>Underwriters</u>	<u>Number of Common Units</u>
Raymond James & Associates, Inc.	
<hr/>	
Total	<hr/> <hr/>

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of our common units (other than those covered by the underwriters' option to purchase additional common units described below) sold under the underwriting agreement. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering our common units, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the common units, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officers' certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Underwriting Discounts and Expenses

The representative has advised us that the underwriters propose initially to offer our common units to the public at the public offering price set forth on the cover page of this prospectus and to dealers at that price less a concession not in excess of \$ _____ per common unit. After this offering, the public offering price, concession or any other term of this offering may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of their option to purchase additional common units.

	<u>Per Unit</u>	<u>Without Option</u>	<u>With Option</u>
Public offering price	\$ _____	\$ _____	\$ _____
Underwriting discount	_____	_____	_____
Proceeds, before expenses, to us	\$ _____	\$ _____	\$ _____

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The estimated expenses of this offering payable by us, exclusive of the underwriting discount, are approximately \$. We will reimburse the underwriters for certain reasonable out-of-pocket expenses not to exceed \$ in the aggregate.

Over-Allotment Option

We have granted an option to the underwriters to purchase up to an aggregate of additional common units at the public offering price, less the underwriting discount. The underwriters may exercise this option at any time or from time to time for 30 days from the date of this prospectus solely to cover any over-allotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional common units proportionate to that underwriter's initial amount as reflected in the above table.

No Sales of Similar Securities

The directors and executive officers of our general partner, and their respective affiliates have agreed with the underwriters not to offer, sell, transfer or otherwise dispose of any common units or any securities convertible into or exercisable or, exchangeable for, exercisable for, or repayable with common units, for a period of 180 days after the date of this prospectus without first obtaining the written consent of the representative. Specifically, we and these other persons have agreed, with certain limited exceptions, not to directly or indirectly:

- offer, pledge, sell or contract to sell any common units;
- sell any option or contract to purchase any common units;
- purchase any option or contract to sell any common units;
- grant any option, right or warrant for the sale of any common units;
- lend or otherwise dispose of or transfer any common units;
- file or cause to be filed any registration statement related to the common units; or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common units whether any such swap or other agreement is to be settled by delivery of common units or other securities, in cash or otherwise.

This lock-up provision applies to common units and to securities convertible into or exchangeable or exercisable for or repayable with common units. It also applies to common units owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

Raymond James & Associates, Inc. may release any of the common units and other securities subject to the lock-up agreements described above in whole or in part subject to the below considerations. When determining whether or not to release common units from lock-up agreements, Raymond James & Associates, Inc. will consider, among other factors, the unitholders' reasons for requesting the release, the number of common units for which the release is being requested and market conditions at the time. However, Raymond James & Associates, Inc. has informed us that, as of the date of this prospectus, there are no agreements between them and any party that would allow such party to transfer any common units, nor do they have any intention at this time of releasing any of the common units subject to the lock-up agreements, prior to the expiration of the lock-up period.

Listing

We have applied to list our common units on the NYSE under the symbol “TXO.” In order to meet the requirements for listing on that exchange, the underwriters will undertake to sell a minimum number of our common units to a minimum number of beneficial owners as required by the NYSE.

Determination of Offering Price

Before this offering, there has been no public market for our common units. The public offering price will be determined through negotiations between us and the representative. In addition to prevailing market conditions, the factors to be considered in determining the public offering price are:

- the information set forth in this prospectus and otherwise available to the underwriters;
- the valuation multiples of publicly traded companies that the representative believes to be comparable to us;
- our financial information;
- the history of, and the prospects for, our company and the industry in which we compete;
- the ability of our management;
- an assessment of our general partner, its past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development;
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours; and
- other factors deemed relevant by the underwriters and us.

An active trading market for our common units may not develop or, if developed, be maintained or be liquid. It is also possible that after this offering our common units will not trade in the public market at or above the public offering price.

The underwriters do not expect to sell more than % of the common units in the aggregate to accounts over which they exercise discretionary authority.

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of our common units is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common units. However, the underwriters may engage in transactions that stabilize the price of the common units, such as bids or purchases to peg, fix or maintain that price.

In connection with this offering, the underwriters may purchase and sell our common units in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by

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the underwriters of a greater number of our common units than they are required to purchase in this offering. “Covered” short sales are sales made in an amount not greater than the underwriters’ over-allotment option to purchase additional common units described above. The underwriters may close out any covered short position by either exercising their option or purchasing common units in the open market. In determining the source of our common units to close out the covered short position, the underwriters will consider, among other things, the price of our common units available for purchase in the open market as compared to the price at which they may purchase our common units through the option. “Naked” short sales are sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing our common units in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our common units in the open market after pricing that could adversely affect investors who purchase in this offering. Stabilizing transactions consist of various bids for or purchases of our common units made by the underwriters in the open market prior to the completion of this offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the underwriters have repurchased common units sold by or for the account of such underwriter in stabilizing or short covering transactions.

Similar to other purchase transactions, the underwriters’ purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common units or preventing or retarding a decline in the market price of our common units. As a result, the price of our common units may be higher than the price that might otherwise exist in the open market. The underwriters may conduct these transactions on the NYSE, in the over-the-counter market or otherwise.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common units. In addition, neither we nor any of the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Distribution

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail. In addition, the underwriters may facilitate Internet distribution for this offering to certain of their Internet subscription customers. The underwriters may allocate a limited number of our common units for sale to their online brokerage customers. An electronic prospectus may be available on the websites maintained by the underwriters. Other than the prospectus set forth in electronic format, the information on the underwriters’ websites is not part of this prospectus.

Other Relationships

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Direct Participation Program Requirements

Because FINRA views the common units offered hereby as interests in a direct participation program, the offering is being made in compliance with FINRA Rule 2310. Investor suitability with respect to the common units should be judged similarly to the suitability with respect to other securities that are listed for trading on a national securities exchange.

VALIDITY OF THE COMMON UNITS

The validity of the common units and certain tax matters will be passed upon for us by Latham & Watkins LLP, Austin, Texas. Certain legal matters in connection with the common units offered by us will be passed upon for the underwriters by Baker Botts L.L.P., Houston, Texas.

EXPERTS

The audited consolidated financial statements of MorningStar Partners, L.P. as of and for the years ended December 31, 2020 and 2021 included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the reports of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, upon the authority of said firm as experts in auditing and accounting.

The audited consolidated statement of revenue and direct operating expenses related to the Vacuum Properties for the period from January 1, 2021 through October 31, 2021 included in this prospectus and elsewhere in the registration statement has been so included in reliance upon the reports of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, upon the authority of said firm as experts in auditing and accounting.

Estimated quantities of proved oil and natural gas reserves of MorningStar Partners, L.P. and the net present value of such reserves as of December 31, 2021 and August 1, 2022 set forth in this prospectus are based upon reserve reports prepared by our internal reservoir engineers and evaluated by Cawley, Gillespie & Associates.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 (including the exhibits, schedules and amendments thereto) regarding our common units. This prospectus, which constitutes part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules thereto. For further information regarding us and our common units offered in this prospectus, we refer you to the full registration statement, including its exhibits and schedules, filed under the Securities Act. Statements contained in this prospectus as to the contents of any contract, agreement or any other document are summaries of the material terms of such contract, agreement or other document and are not necessarily complete. With respect to each of these contracts, agreements or other documents filed as an exhibit to the registration statement, reference is made to the exhibits for a more complete description of the matter involved. The SEC maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. Our registration statement, of which this prospectus constitutes a part, can be downloaded from the SEC's website. The address of the SEC's website is www.sec.gov.

As a result of the offering, we will become subject to full information requirements of the Securities Exchange Act of 1934. We intend to furnish or make available to our unitholders annual reports containing our audited financial statements and furnish or make available quarterly reports containing our unaudited interim financial information, including the information required by Form 10-Q, for the first three fiscal quarters of each of our fiscal years. Additionally, we intend to file other periodic reports with the SEC, as required by the Securities Exchange Act of 1934.

FORWARD-LOOKING STATEMENTS

Some of the information in this prospectus may contain “forward-looking statements.” All statements, other than statements of historical fact included in this prospectus regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this prospectus, words such as “may,” “assume,” “forecast,” “could,” “should,” “will,” “plan,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project,” “budget” and similar expressions are used to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on management’s current belief, based on currently available information, as to the outcome and timing of future events at the time such statement was made. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading “Risk Factors” included in this prospectus.

- business strategies;
- the impact of recent acquisitions and our ability to integrate acquired properties and manage related growth;
- our 2022 capital budget;
- ability to replace the reserves we produce through acquisitions and the development of our properties;
- our oil and natural gas reserves;
- general economic conditions, including the effects of a global health crises such as the COVID-19 pandemic;
- realized oil, natural gas and NGL prices, including the impact of actions relating to oil price and production controls by OPEC, its members and other state-controlled companies;
- the timing and amount of future production of oil, natural gas and NGL;
- our hedging strategy and results;
- our future drilling plans and locations;
- costs of developing our properties, including our projected drilling and completion costs;
- costs associated with managing our business, including anticipated production expense and G&A expense;
- future operating results;
- cash flow and liquidity;
- availability of production equipment and oil field labor;
- capital expenditures;
- availability and terms of capital;

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- tax treatment;
- marketing, transportation and storage of oil, natural gas and NGL;
- competition in the oil and natural gas industry;
- effectiveness of risk management activities;
- environmental liabilities;
- governmental regulation and taxation;
- developments in oil producing and natural gas producing countries; and
- plans, objectives, expectations and intentions.

We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for and development and production of oil, natural gas and NGL. We disclose important factors that could cause our actual results to differ materially from our expectations as discussed under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this prospectus. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statement include:

- commodity price volatility;
- the impact of epidemics, outbreaks or other public health events, and the related effects on financial markets, worldwide economic activity and our operations;
- the impact of COVID-19, and governmental measures related thereto, on global demand for oil and natural gas and on the operations of our business;
- uncertainties about our estimated oil, natural gas and NGL reserves, including the impact of commodity price declines on the economic producibility of such reserves, and in projecting future rates of production;
- the concentration of our operations in the Permian Basin and the San Juan Basin;
- difficult and adverse conditions in the domestic and global capital and credit markets;
- lack of transportation and storage capacity as a result of oversupply, government regulations or other factors;
- lack of availability of drilling and production equipment and services;
- potential financial losses or earnings reductions resulting from our commodity price risk management program or any inability to manage our commodity risks;
- failure to realize expected value creation from property acquisitions and trades;
- access to capital and the timing of development expenditures;

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- environmental, weather, drilling and other operating risks;
- regulatory changes, including potential shut-ins or production curtailments mandated by the Railroad Commission of Texas;
- competition in the oil and natural gas industry;
- loss of production and leasehold rights due to mechanical failure or depletion of wells and our inability to re-establish their production;
- our ability to service our indebtedness;
- any downgrades in our credit ratings that could negatively impact our cost of and ability to access capital;
- cost inflation;
- political and economic conditions and events in foreign oil and natural gas producing countries, including embargoes, continued hostilities in the Middle East and other sustained military campaigns, the armed conflict in Ukraine and associated economic sanctions on Russia, conditions in South America, Central America, China and Russia, and acts of terrorism or sabotage;
- evolving cybersecurity risks such as those involving unauthorized access, denial-of-service attacks, malicious software, data privacy breaches by employees, insider or other with authorized access, cyber or phishing-attacks, ransomware, social engineering, physical breaches or other actions; and
- risks related to our ability to expand our business, including through the recruitment and retention of qualified personnel.

Reserve engineering is a process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reservoir engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any further production and development drilling. Accordingly, our reserve and PV-10 estimates may differ significantly from the quantities of oil, natural gas and NGLs that are ultimately recovered.

Should one or more of the risks or uncertainties described in this prospectus occur, or should underlying assumptions prove to be incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this prospectus are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this prospectus.

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TXO ENERGY PARTNERS, L.P.
PRO FORMA FINANCIAL STATEMENTS
(Unaudited)

Introduction

TXO Energy Partners, L.P. (the “Company” or “TXO Energy”) is the new name of MorningStar Partners, L.P. (“MorningStar”). The Company’s business is to engage in oil and natural gas exploration and production. The unaudited pro forma financial statements have been prepared in accordance with Article 11 of Regulation S-X, using assumptions set forth in the notes to the unaudited pro forma financial statements. The following unaudited pro forma financial statements of the Company reflect the historical results of MorningStar, on a pro forma basis to give effect to the following transactions, which are described in further detail below, as if they had occurred on June 30, 2022, for pro forma balance sheet purposes, and on January 1, 2021, for pro forma statement of operations purposes:

- in the case of the unaudited pro forma statements of operations, the acquisition of producing properties and a gas processing plant in the Permian Basin of New Mexico and CO₂ assets in Colorado from Chevron for approximately \$175.4 million (the Vacuum Properties) as described in Note 2 to the historical audited financial statements of MorningStar included elsewhere in this prospectus; and
- the Reorganization Transactions as described in “Prospectus Summary—Reorganization Transactions and Partnership Structure” elsewhere in this prospectus; and
- the initial public offering of common units and the use of the net proceeds therefrom as described in “Use of Proceeds” (the “Offering”). For purposes of the unaudited pro forma financial statements, the Offering is defined as the planned issuance and sale to the public of common units of the Company at the initial public offering price of \$ per common unit as contemplated by this prospectus and the application by the Company of the net proceeds from such issuance as described in “Use of Proceeds.” The net proceeds from the sale of the common units are expected to be \$, net of underwriting discounts of \$ and other offering costs of \$.

The unaudited pro forma balance sheet of the Company is based on the historical balance sheet of MorningStar as of June 30, 2022 and includes pro forma adjustments to give effect to the described transactions as if they had occurred on June 30, 2022. The unaudited pro forma statements of operations of the Company are based on the audited historical statement of operations of MorningStar for the year ended December 31, 2021, and the unaudited historical statement of operations of MorningStar for the six months ended June 30, 2022, both having been adjusted to give effect to the described transactions as if they occurred on January 1, 2021.

The pro forma data presented reflect events directly attributable to the described transactions and certain assumptions the Company believes are reasonable. The pro forma data are not necessarily indicative of financial results that would have been attained had the described transactions occurred on the date indicated or which could be achieved in the future because they necessarily exclude various operating expenses, such as incremental general and administrative expenses associated with being a public company. The adjustments are based on currently available information and certain estimates and assumptions. Therefore, the actual adjustments may differ from the pro forma adjustments. However, management believes that the assumptions provide a reasonable basis for presenting the significant effects of the transactions as contemplated and the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited financial statements.

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The unaudited pro forma financial statements and related notes are presented for illustrative purposes only. If the Offering and other transactions contemplated herein had occurred in the past, the Company's operating results might have been materially different from those presented in the unaudited pro forma financial statements. The unaudited pro forma financial statements should not be relied upon as an indication of operating results that the Company would have achieved if the Offering and other transactions contemplated herein had taken place on the specified date. In addition, future results may vary significantly from the results reflected in the unaudited pro forma financial statements of operations and should not be relied upon as an indication of the future results the Company will have after the contemplation of the offering and the other transactions contemplated by these unaudited pro forma financial statements.

TXO ENERGY PARTNERS, L.P.
PRO FORMA BALANCE SHEET
June 30, 2022

(in thousands)

	MorningStar Partners, L.P. Historical	Offering	Pro Forma
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 8,021	\$ 23,900(a)	\$ 31,921
Accounts receivable, net	58,585	—	58,585
Derivative fair value	15	—	15
Other	6,875	—	6,875
Total Current Assets	<u>73,496</u>	<u>23,900</u>	<u>97,396</u>
Property and Equipment, at cost—successful efforts method:			
Proved properties	1,384,868	—	1,384,868
Unproved properties	18,726	—	18,726
Other	71,149	—	71,149
Total Property and Equipment	1,474,743	—	1,474,743
Accumulated depreciation, depletion and amortization	(723,797)	—	(723,797)
Net Property and Equipment	<u>750,946</u>	<u>—</u>	<u>750,946</u>
Other Assets:			
Note receivable from related party	7,130	—	7,130
Derivative fair value	706	—	706
Other	3,408	—	3,408
Total Other Assets	<u>11,244</u>	<u>—</u>	<u>11,244</u>
TOTAL ASSETS	<u>\$ 835,686</u>	<u>\$ 23,900</u>	<u>\$ 859,586</u>
LIABILITIES AND PARTNERS' CAPITAL			
Current Liabilities:			
Accounts payable	\$ 16,206	\$ —	\$ 16,206
Accrued liabilities	34,582	—	34,582
Derivative fair value	56,107	—	56,107
Asset retirement obligation, current portion	1,100	—	1,100
Total Current Liabilities	<u>107,995</u>	<u>—</u>	<u>107,995</u>
Long-term Debt	<u>99,100</u>	<u>(99,100)(a)</u>	<u>—</u>
Other Liabilities:			
Asset retirement obligation	106,345	—	106,345
Derivative fair value	27,797	—	27,797
Other liabilities	675	—	675
Total Other Liabilities	<u>134,817</u>	<u>—</u>	<u>134,817</u>
Commitments and Contingencies			
Partners' Capital:			
Partners' capital	<u>493,774</u>	<u>123,000(a)</u>	<u>616,774</u>
Total Partners' Capital	<u>493,774</u>	<u>123,000</u>	<u>616,774</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$ 835,686</u>	<u>\$ 23,900</u>	<u>\$ 859,586</u>

The accompanying notes are an integral part of these unaudited pro forma financial statements.

TXO ENERGY PARTNERS, L.P.
Pro Forma Statements of Operations for the Year Ended December 31, 2021
(Unaudited)

(in thousands, except for per unit information)

	<u>MorningStar Partners, L.P. Historical</u>	<u>Vacuum Properties (b)</u>	<u>Offering</u>	<u>Pro Forma</u>
REVENUES				
Oil and condensate	\$ 69,971	\$ 48,215	\$ —	\$ 118,186
Natural gas liquids	27,875	1,935	—	29,810
Gas	<u>130,498</u>	<u>178</u>	<u>—</u>	<u>130,676</u>
Total Revenues	<u>228,344</u>	<u>50,328</u>	<u>—</u>	<u>278,672</u>
EXPENSES				
Production	69,256	30,150	—	99,406
Exploration	124	—	—	124
Taxes, transportation and other	58,040	5,062	—	63,102
Depreciation, depletion, and amortization	39,889	7,761(c)	—	47,650
Accretion of discount in asset retirement obligation	4,670	292(d)	—	4,962
General and administrative	<u>12,175</u>	<u>—</u>	<u>—</u>	<u>12,175</u>
Total Expenses	<u>184,154</u>	<u>43,265</u>	<u>—</u>	<u>227,419</u>
OPERATING INCOME (LOSS)	<u>44,190</u>	<u>7,063</u>	<u>—</u>	<u>51,253</u>
OTHER INCOME (EXPENSE)				
Other income	14,139	3,173	—	17,312
Interest income	16	—	—	16
Interest expense	<u>(5,870)</u>	<u>3,009(e)</u>	<u>—</u>	<u>(2,861)</u>
Other Income	<u>8,285</u>	<u>6,182</u>	<u>—</u>	<u>14,467</u>
NET INCOME (LOSS)	<u>\$ 52,475</u>	<u>\$ 13,245</u>	<u>\$ —</u>	<u>\$ 65,720</u>
NET INCOME PER COMMON UNIT(f)				
Basic	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
Diluted	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
WEIGHTED AVERAGE COMMON UNITS OUTSTANDING(f)				
Basic	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
Diluted	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>

The accompanying notes are an integral part of these unaudited pro forma financial statements.

TXO ENERGY PARTNERS, L.P.
Pro Forma Statements of Operations for the Six Months Ended June 30, 2022
(Unaudited)

(in thousands, except for per unit information)

	MorningStar Partners, L.P. Historical	Offering	Pro Forma
REVENUES			
Oil and condensate	\$ 41,608	\$ —	\$ 41,608
Natural gas liquids	15,973	—	15,973
Gas	<u>25,758</u>	<u>—</u>	<u>25,758</u>
Total Revenues	<u>83,339</u>	<u>—</u>	<u>83,339</u>
EXPENSES			
Production	61,181	—	61,181
Exploration	200	—	200
Taxes, transportation and other	48,019	—	48,019
Depreciation, depletion, and amortization	19,717	—	19,717
Accretion of discount in asset retirement obligation	2,970	—	2,970
General and administrative	<u>488</u>	<u>—</u>	<u>488</u>
Total Expenses	<u>132,575</u>	<u>—</u>	<u>132,575</u>
OPERATING LOSS	<u>(49,236)</u>	<u>—</u>	<u>(49,236)</u>
OTHER INCOME (EXPENSE)			
Other income	11,428	—	11,428
Interest income	23	—	23
Interest expense	<u>(3,320)</u>	<u>2,465(e)</u>	<u>(855)</u>
Other Income	<u>8,131</u>	<u>2,465</u>	<u>10,596</u>
NET LOSS	<u>\$ (41,105)</u>	<u>2,465</u>	<u>(38,640)</u>
NET LOSS PER COMMON UNIT(f)			
Basic	<u>\$ _____</u>	<u>_____</u>	<u>_____</u>
Diluted	<u>\$ _____</u>	<u>_____</u>	<u>_____</u>
WEIGHTED AVERAGE COMMON UNITS OUTSTANDING(f)			
Basic	<u>\$ _____</u>	<u>_____</u>	<u>_____</u>
Diluted	<u>\$ _____</u>	<u>_____</u>	<u>_____</u>

The accompanying notes are an integral part of these unaudited pro forma financial statements.

TXO ENERGY, LLC
Notes to Pro Forma Financial Statements

1. BASIS OF PRESENTATION, CORPORATE REORGANIZATION AND THE OFFERING

The historical financial information is derived from the financial statements of MorningStar included elsewhere in this prospectus. For purposes of the unaudited pro forma balance sheet, it is assumed that the acquisition of the Vacuum Properties had taken place on June 30, 2022. For purposes of the unaudited pro forma statements of operations, it is assumed all transactions had taken place on January 1, 2021.

Upon closing the Offering, the Company expects to incur direct, incremental general and administrative expenses as a result of being publicly traded, including, but not limited to, costs associated with annual and quarterly reports to unitholders, tax return preparation, independent auditor fees, incremental legal fees, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs, and independent director compensation. The Company estimates these direct, incremental general and administrative expenses initially will total approximately \$3.0 million per year. These direct, incremental general and administrative expenditures are not reflected in the historical financial statements or in the unaudited pro forma financial statements.

Prior to the offering MorningStar Partners, L.P. will be renamed TXO Energy Partners, L.P. in connection with the reorganization transactions as described herein. Following this offering and the corporate reorganization described below, TXO Energy will be a holding company, whose sole material assets will consist of equity interests in operating subsidiaries that own, directly or indirectly, all of our operating assets. After the consummation of the corporate reorganization, TXO Energy GP, LLC (the “General Partner”) will be the sole general partner of the Company. The General Partner will also be responsible for all operational, management and administrative decisions relating to the Company’s business and will consolidate the financial results of the Company and its subsidiaries and as well as its proportionate share of the Cross Timbers Energy joint venture.

Prior to the close of this offering, the following transactions, which we refer to as the reorganization transactions, will occur:

- (a) on October 1, 2022, all of MorningStar Partners, L.P.’s outstanding Series 3 preferred units will automatically convert into common units;
- (b) the Company will cause the exchange of all of MorningStar Partners, L.P.’s outstanding Series 5 preferred units and Series 3 warrants for common units;
- (c) holders of existing common units (the “Existing Owners”) in the Company will contribute all of the outstanding equity interests into a new parent company, MorningStar Partners II, L.P., a Delaware limited partnership, in exchange for equity interests in MorningStar Partners II, L.P.;
- (d) the Company will amend its partnership agreement to, among other things, (i) change its name to “TXO Energy Partners, L.P. and (ii) reflect TXO Energy GP, LLC, a Delaware limited liability company, our new general partner; and
- (e) the Company will effectuate a - for-one reverse split of the outstanding common units.

2. PRO FORMA ADJUSTMENTS AND ASSUMPTIONS

The Company made the following adjustments and assumptions in the preparation of the unaudited pro forma financial statements:

(a) Reflects estimated gross proceeds of \$123.0 million from the issuance and sale of common units at an assumed initial public offering price of \$ per unit, net of underwriting discounts and commissions of \$ million, in the aggregate, and additional estimated expenses related to the Offering of approximately \$ million and the use of the net proceeds therefrom as follows:

- Repay all outstanding borrowings under the Credit Facility, which were \$92 million as of June 30, 2022;
- Repay outstanding borrowings under, and subsequently terminate, the MorningStar Partners loan with Cross Timbers Energy, which were \$7.1 million as of June 30, 2022; and
- Working capital and general partnership purposes, including planned capital expenditures.

(b) Unless otherwise noted, adjustments below in items (c) - (e) reflect the historical statements of revenues and direct operating expenses from the assets acquired and liabilities assumed in the acquisition of the Vacuum Properties, as included elsewhere in this prospectus.

(c) Adjustment reflects additional depreciation, depletion, and amortization expense that would have been incurred with respect to the acquisition of the Vacuum Properties, had such acquisitions occurred on January 1, 2021.

(d) Adjustment reflects additional accretion of discount in asset retirement obligation expense that would have been recorded with respect to the asset retirement obligation assumed in the acquisition of the Vacuum Properties, had such acquisition occurred on January 1, 2021.

(e) Adjustment reflects reduction in interest expense from the use of offering proceeds to pay down debt outstanding, partially offset by additional interest expense that would have been incurred in connection with the borrowing to fund the acquisition of the Vacuum Properties, had each transaction occurred on January 1, 2021. The average interest rate was 4.0% for the year ended December 31, 2021 and the six months ended June 30, 2022.

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(f) Reflects basic and diluted earnings (loss) per common unit for the issuance of common units in the Corporate Reorganization and the Offering as shown below:

	<u>Year ended December 31, 2021</u>	<u>Six months ended June 30, 2022</u>
Basic		
Net income (loss)		
Common Units issued in the Reorganization Transactions and the Offering	_____	_____
Basic earnings (loss) per unit	=====	=====
Diluted		
Numerator:		
Net income (loss)		
Effect of dilutive securities	_____	_____ (a)
Diluted net income (loss) attributable to unitholders	=====	=====
Denominator:		
Basic weighted average unit outstanding		
Effect of dilutive securities	_____	_____ (a)
Diluted weighted average units outstanding	_____	_____
Diluted earnings (loss) per unit	=====	=====

(a) – As there was a net loss for the period, any incremental units would be anti-dilutive. As such, the potentially diluted units totaling _____ were excluded from the calculation.

3. SUPPLEMENTARY DISCLOSURE OF OIL AND NATURAL GAS OPERATIONS

The following pro forma standardized measure of the discounted net future cash flows and changes applicable to TXO Energy’s proved reserves reflect the effect of Texas state franchise taxes which partnerships are subject to. The future cash flows are discounted at 10% per year and assume continuation of existing economic conditions.

The standardized measure of discounted future net cash flows, in management’s opinion, should be examined with caution. The basis for this table is the reserve studies prepared by independent petroleum engineering consultants, which contain imprecise estimates of quantities and rates of production of reserves. Revisions of previous year estimates can have a significant impact on these results. Also, exploration costs in one year may lead to significant discoveries in later years and may significantly change previous estimates of proved reserves and their valuation. Therefore, the standardized measure of discounted future net cash flow is not necessarily indicative of the fair value of TXO Energy’s proved oil and natural gas properties.

The data presented should not be viewed as representing the expected cash flow from or current value of, existing proved reserves since the computations are based on a large number of estimates and assumptions. Reserve quantities cannot be measured with precision and their estimation requires many judgmental determinations and frequent revisions. Actual future prices and costs are likely to be substantially different from the prices and costs utilized in the computation of reported amounts.

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The following table provides a pro forma rollforward of the total proved reserves for the year ended December 31, 2021, as well as pro forma proved developed and proved undeveloped reserves at the beginning and end of the year, as if the acquisition reflected occurred on January 1, 2021.

	MorningStar Partners, L.P. Historical	Vacuum Properties	Pro Forma
Oil (MBbls)			
January 1, 2021	19,604.8	19,042.3	38,647.1
Extensions, additions and discoveries	38.3	—	38.3
Revisions	2,758.8	2,548.5	5,307.3
Production	(1,033.0)	(746.4)	(1,779.4)
Purchase in place	27,236.7	(20,844.4)	6,392.3
December 31, 2021	48,605.6	—	48,605.6
Proved Developed Reserves			
January 1, 2021	9,787.7	12,426.6	22,214.3
December 31, 2021	30,207.9	—	30,207.9
Proved Undeveloped Reserves			
January 1, 2021	9,817.1	6,615.7	16,432.8
December 31, 2021	18,397.7	—	18,397.7
Natural Gas Liquids (MBbls)			
January 1, 2021	8,311.2	3,302.4	11,613.6
Extensions, additions and discoveries	14.5	—	14.5
Revisions	7,277.1	193.1	7,470.2
Production	(1,088.8)	(48.5)	(1,137.3)
Purchase in place	3,513.6	(3,447.0)	66.6
December 31, 2021	18,027.6	—	18,027.6
Proved Developed Reserves			
January 1, 2021	8,311.2	2,737.8	11,049.0
December 31, 2021	17,434.2	—	17,434.2
Proved Undeveloped Reserves			
January 1, 2021	—	564.6	564.6
December 31, 2021	593.4	—	593.4

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	MorningStar Partners, L.P. Historical	Vacuum Properties	Pro Forma
<i>Natural Gas (MMcf)</i>			
January 1, 2021	243,172.9	2,316.9	245,489.8
Extensions, additions and discoveries	6,048.3	—	6,048.3
Revisions	152,978.3	294.2	153,272.5
Production	(30,589.7)	(84.2)	(30,673.9)
Purchase in place	<u>7,666.1</u>	<u>(2,526.9)</u>	<u>5,139.2</u>
December 31, 2021	379,275.9	—	379,275.9
Proved Developed Reserves			
January 1, 2021	218,396.9	1,950.2	220,347.1
December 31, 2021	353,214.9	—	353,214.9
Proved Undeveloped Reserves			
January 1, 2021	24,776.0	366.7	25,142.7
December 31, 2021	26,061.0	—	26,061.0

	MorningStar Partners, L.P. Historical	Vacuum Properties	Pro Forma
<i>Total (MBoe)</i>			
January 1, 2021	68,444.8	22,730.9	91,175.7
Extensions, additions and discoveries	1,060.9	—	1,060.9
Revisions	35,532.3	2,790.6	38,322.9
Production	(7,220.1)	(808.9)	(8,029.0)
Purchase in place	<u>32,028.0</u>	<u>(24,712.6)</u>	<u>7,315.4</u>
December 31, 2021	129,845.9	—	129,845.9
Proved Developed Reserves			
January 1, 2021	54,498.4	15,489.5	69,987.9
December 31, 2021	106,511.3	—	106,511.3
Proved Undeveloped Reserves			
January 1, 2021	13,946.4	7,241.4	21,187.8
December 31, 2021	23,334.6	—	23,334.6

The pro forma standardized measure of discounted estimated future net cash flows was as follows as of December 31, 2021 (in thousands):

	MorningStar Partners, L.P. Historical	Pro Forma
<i>(in thousands)</i>		
Future cash inflows	\$ 4,468,597	4,468,597
Future costs:		
Production	(1,988,988)	(1,988,988)
Development	(365,289)	(365,289)
Income taxes	<u>(4,110)</u>	<u>(4,110)</u>
Future net cash flows	2,110,210	2,110,210
10% annual discount	<u>(1,123,593)</u>	<u>(1,123,593)</u>
Standardized measure	<u>\$ 986,617</u>	<u>\$ 986,617</u>

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The change in the pro forma standardized measure of discounted estimated future net cash flows were as follows for 2021 (in thousands):

	MorningStar Partners, L.P. Historical	Vacuum Properties	Pro Forma
<i>(in thousands)</i>			
Standardized measure, beginning of period	\$ 154,438	\$ 109,720	\$ 264,158
Revisions:			
Prices and costs	205,842	136,525	342,367
Quantity estimates	76,737	35,757	112,494
Income tax	(1,933)	—	(1,933)
Future development costs	2,715	—	2,715
Accretion of discount	15,444	10,972	26,416
Production rates and other	<u>42,064</u>	<u>2,754</u>	<u>44,818</u>
Net revisions	340,869	186,008	526,877
Additions and discoveries	20,272	—	20,272
Production	(93,042)	(18,289)	(111,331)
Development costs	13,973	—	13,973
Purchases in place	<u>550,107</u>	<u>(277,439)</u>	<u>272,668</u>
Net change	<u>832,179</u>	<u>(109,720)</u>	<u>722,459</u>
Standardized measure, end of period	<u>\$ 986,617</u>	<u>\$ —</u>	<u>\$ 986,617</u>

MORNINGSTAR PARTNERS, L.P.

Consolidated Financial Statements

December 31, 2021 and 2020

Report of Independent Registered Public Accounting Firm

To the Partners
MorningStar Partners, L.P.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of MorningStar Partners, L.P. and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations, partners' capital, and cash flows for the years then ended, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2012.

Dallas, Texas
August 31, 2022

MORNINGSTAR PARTNERS, L.P.
Consolidated Balance Sheets

(in thousands)

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,547	\$ 21,933
Accounts receivable, net	34,124	16,122
Derivative fair value	10,632	—
Other	4,793	3,223
Total Current Assets	<u>57,096</u>	<u>41,278</u>
Property and Equipment, at cost—successful efforts method:		
Proved properties	1,376,476	1,183,202
Unproved properties	18,677	18,609
Other	69,254	37,983
Total Property and Equipment	1,464,407	1,239,794
Accumulated depreciation, depletion and amortization	(704,080)	(666,005)
Net Property and Equipment	<u>760,327</u>	<u>573,789</u>
Other Assets:		
Note receivable from related party	7,132	7,131
Derivative fair value	4,912	—
Other	3,353	1,742
Total Other Assets	<u>15,397</u>	<u>8,873</u>
TOTAL ASSETS	<u>\$ 832,820</u>	<u>\$ 623,940</u>
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities:		
Accounts payable	\$ 3,965	\$ 3,660
Accrued liabilities	23,758	14,157
Derivative fair value	6,450	—
Asset retirement obligation, current portion	1,100	1,100
Total Current Liabilities	<u>35,273</u>	<u>18,917</u>
Long-term Debt	<u>152,100</u>	<u>151,252</u>
Other Liabilities:		
Asset retirement obligation	103,389	99,570
Derivative fair value	117	—
Other liabilities	582	238
Total Other Liabilities	<u>104,088</u>	<u>99,808</u>
Commitments and Contingencies		
Mandatorily redeemable convertible preferred units	—	50,695
Partners' Capital:		
Partners' capital	<u>541,359</u>	<u>303,268</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$ 832,820</u>	<u>\$ 623,940</u>

See accompanying notes to consolidated financial statements.

MORNINGSTAR PARTNERS, L.P.
Consolidated Statements of Operations

(in thousands)

	<u>Years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
REVENUES		
Oil and condensate	\$ 69,971	\$ 59,070
Natural gas liquids	27,875	8,660
Gas	<u>130,498</u>	<u>41,034</u>
Total Revenues	<u>228,344</u>	<u>108,764</u>
EXPENSES		
Production	69,256	49,146
Exploration	124	55
Taxes, transportation and other	58,040	27,509
Depreciation, depletion, and amortization	39,889	42,322
Impairment	—	134,097
Accretion of discount in asset retirement obligation	4,670	3,940
General and administrative	<u>12,175</u>	<u>6,995</u>
Total Expenses	<u>184,154</u>	<u>264,064</u>
OPERATING INCOME (LOSS)	<u>44,190</u>	<u>(155,300)</u>
OTHER INCOME (EXPENSE)		
Other income	14,139	72
Interest income	16	194
Interest expense	<u>(5,870)</u>	<u>(8,204)</u>
Other Income (Expense)	<u>8,285</u>	<u>(7,938)</u>
NET INCOME (LOSS)	<u>\$ 52,475</u>	<u>\$ (163,238)</u>

See accompanying notes to consolidated financial statements.

MORNINGSTAR PARTNERS, L.P.
Consolidated Statements of Cash Flows

(in thousands)

	Years ended December 31,	
	2021	2020
OPERATING ACTIVITIES		
Net income (loss)	\$ 52,475	\$ (163,238)
Adjustments to reconcile net income (loss) to net cash provided by operating activities, net of effects of assets acquired and liabilities assumed:		
Depreciation, depletion, and amortization	39,889	42,322
Impairment	—	134,097
Accretion of discount in asset retirement obligation	4,670	3,940
Derivative fair value (gain) loss	(8,977)	(23,305)
Net cash received from (paid to) counterparties	—	26,192
Non-cash gain on forgiveness of debt	(9,152)	—
Non-cash incentive compensation	2,400	4,227
Other non-cash items	(585)	886
Changes in operating assets and liabilities ^(a)	(6,994)	(6,157)
Cash Provided by Operating Activities	73,726	18,964
INVESTING ACTIVITIES		
Proved property acquisitions	(185,931)	(10,961)
Development costs	(8,372)	(4,989)
Unproved property acquisitions	(67)	(307)
Other property additions	(33,431)	(461)
Cash Used in Investing Activities	(227,801)	(16,718)
FINANCING ACTIVITIES		
Proceeds from long-term debt	1,437,000	1,932,152
Payments on long-term debt	(1,427,000)	(1,968,000)
Proceeds from temporary equity investment	—	50,695
Proceeds from permanent equity investment	132,660	—
Debt issuance costs	(2,832)	(709)
Payments on vesting of restricted units	—	(40)
Distributions	(139)	(31)
Cash Provided by Financing Activities	139,689	14,067
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,386)	16,313
Cash and Cash Equivalents, beginning of period	21,933	5,620
Cash and Cash Equivalents, end of period	\$ 7,547	\$ 21,933
(a) Changes in Operating Assets and Liabilities		
Accounts receivable	\$ (14,811)	\$ (8,103)
Other assets	(1,571)	(240)
Aid-in-construction asset	—	(238)
Current liabilities	10,028	3,224
Other operating liabilities	(640)	(800)
	\$ (6,994)	\$ (6,157)

See accompanying notes to consolidated financial statements.

MORNINGSTAR PARTNERS, L.P.
Consolidated Statements of Partners' Capital

(in thousands)

	Series 3 Preferred	Series 4 Preferred	Series 5 Preferred	Common	Total
Balances, December 31, 2019	\$ 34,295	\$ —	\$ —	\$ 428,055	\$ 462,350
Net loss	—	—	—	(163,238)	(163,238)
Increase in partners' equity from in-kind distributions	—	—	—	1,585	1,585
In-kind distributions	—	—	—	(1,585)	(1,585)
Expensing of unit awards	—	—	—	4,227	4,227
Withholding tax paid on vesting restricted units	—	—	—	(40)	(40)
Distributions	—	—	—	(31)	(31)
Balances, December 31, 2020	\$ 34,295	\$ —	\$ —	\$ 268,973	\$ 303,268
Net income	—	—	—	52,475	52,475
Increase in partners' equity from in-kind distributions	—	—	—	8,248	8,248
In-kind distributions	—	—	—	(8,248)	(8,248)
Expensing of unit awards	—	—	—	2,400	2,400
Contributions of cash	—	—	132,660	—	132,660
Distributions	—	—	—	(139)	(139)
Accretion of original issue discount on temporary equity	—	(2,668)	—	—	(2,668)
Conversion of temporary equity to permanent equity	—	53,363	—	—	53,363
Gain (loss) from the exchange of Series 4 preferred units	—	22,719	—	(22,719)	—
Exchange of Series 4 preferred units to Series 5 preferred units	—	(73,414)	73,414	—	—
Balances, December 31, 2021	<u>\$ 34,295</u>	<u>\$ —</u>	<u>\$ 206,074</u>	<u>\$ 300,990</u>	<u>\$ 541,359</u>

See accompanying notes to consolidated financial statements.

MORNINGSTAR PARTNERS, L.P.
Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

MorningStar Partners, L.P. (MorningStar or the Company), is an independent oil and gas company that was formed as a Delaware limited partnership in January 2012 (with an effective inception of operations at January 18, 2012). The operations of MorningStar are governed by the provisions of the partnership agreement, as amended, executed by the general partner, MorningStar Oil & Gas, LLC (MSOG) and the limited partners. MSOG is the manager of MorningStar and is paid a quarterly management fee equal to 1% of revenue, less production expense, severance taxes and other deductions, at the discretion of the MorningStar board of directors. Under the amended partnership agreement, this management fee is currently suspended. MorningStar is governed by a board of directors made up of five officers and five outside investors. The agreement includes specific provisions with respect to the maintenance of the capital accounts of each of the Company's partners. Pursuant to applicable provisions of the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act") and the limited partnership agreement, the partners have no liability for the debts, obligations and liabilities of MorningStar, except as expressly required in the limited partnership agreement or the Delaware Act. MorningStar will remain in existence unless and until dissolved in accordance with the terms of the partnership agreement.

MorningStar's assets include its investment in an unincorporated joint venture. MorningStar owns 50% of the joint venture, and MorningStar is the manager of the joint venture. The joint venture is governed by a Member Management Committee (MMC) and is comprised of six representatives, three from each group, with each group having one voting member. All matters that come before the MMC require the unanimous consent of the voting members. On the last day of each calendar quarter, the joint venture distributes all excess cash to the members based on their ownership percentage of 50% each, except for earnings from the note receivable which is owned 5% by MorningStar. The joint venture's properties are located primarily in the San Juan Basin of New Mexico and Colorado and the Permian Basin of West Texas and New Mexico.

MorningStar also has a wholly-owned subsidiary, MorningStar Operating, LLC which owns oil and gas assets primarily in the San Juan Basin of New Mexico and Colorado and the Permian Basin of West Texas and New Mexico.

In accordance with oil and gas accounting guidance, we account for our undivided interest in our investment in the joint venture using the proportionate consolidation method. Under this method, we consolidate our proportionate share of assets, liabilities, revenues and expenses of the joint venture. As discussed above, we own 50% of the oil and gas assets, liabilities, revenues and expenses, but we only own 5% of the note receivable from related party and related interest income.

In February 2015, we entered into a Limited Liability Company Agreement, as amended, (LLC Agreement) with EnCap Energy Capital Fund IX, L.P. and EnCap Energy Capital Fund X, L.P. (EnCap entities) to form Southland Royalty Company LLC (Southland LLC). On January 27, 2020, Southland filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (January 2020 Reorganization Filing). As a result, we deconsolidated our remaining investment in Southland as of December 31, 2019. However, we remained involved with the management and wind down of Southland until Southland exited from bankruptcy in June 2021.

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The accompanying consolidated financial statements include the financial statements of MorningStar, its wholly-owned subsidiaries and our undivided interests in the joint venture. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The accounts of MorningStar are presented in the accompanying financial statements. These financial statements have been prepared in accordance with U.S. GAAP.

Liquidity

Our primary sources of liquidity are cash provided by operating activities, borrowings under our credit facility and equity raised from partners. Short-term liquidity needs are provided by borrowings under our credit facility. We believe that we have a sufficient combination of resources and operating flexibility to ensure that we remain in compliance with our future debt covenants for all of our outstanding debt for at least the next 12 months from the date of issuance of these financial statements. See Note 4.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates, and changes in these estimates are recorded when known. Significant items subject to such estimates and assumptions include the following:

- estimates of proved reserves and related estimates of the present value of future revenues;
- the recoverability of oil and gas properties;
- estimates of revenue earned but not yet received;
- asset retirement obligations; and
- legal and environmental risks and exposure.

Property and Equipment

We follow the successful efforts method of accounting, capitalizing costs of successful exploratory wells and expensing costs of unsuccessful exploratory wells. Exploratory geological and geophysical costs are expensed as incurred. All developmental costs are capitalized. We generally pursue acquisition and development of proved reserves as opposed to exploration activities. All of the proved property costs reflected in the accompanying balance sheet are from MorningStar, our wholly-owned subsidiary, MorningStar Operating, LLC, and our 50% share of the joint venture's proved properties as of December 31, 2021 and 2020. Proved properties balances include costs of \$2.4 million at December 31, 2021 and \$5.9 million at December 31, 2020 related to wells in process of drilling. Successful drill well costs are transferred to proved properties generally within one month of the well completion date.

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Depreciation, depletion, and amortization (DD&A) of proved producing properties is computed on the unit-of-production method based on estimated proved oil and gas reserves. Other property and equipment is generally depreciated using the straight-line method over estimated useful lives which range from three to seven years, except for the gas processing plant which is being depreciated over an estimated useful life of 14 years. Repairs and maintenance are expensed, while renewals and betterments are generally capitalized.

If conditions indicate that proved properties may be impaired, the carrying value of property is compared to management's future estimate of pre-tax undiscounted cash flow from properties generally aggregated on a field-level basis. If impairment is necessary, the asset carrying value is written down to fair value, typically a discounted present value of estimated future cash flows. Cash flow pricing estimates are based on estimated reserves and production information and pricing assumptions that management believes are reasonable. During the year ended December 31, 2021, we did not recognize an impairment of long-lived assets. During the year ended December 31, 2020, we recognized an impairment of long-lived assets of \$133.2 million for our assets in the New Mexico Permian Basin, \$0.2 million for our assets in East Texas and \$0.7 million on our unproved properties primarily in the Texas Permian Basin primarily due to a lower net commodity price environment for some of our oil and natural gas assets.

Costs of retired, sold or abandoned properties that constitute a part of an amortization base are charged or credited, net of proceeds, to accumulated depreciation, depletion, and amortization unless doing so significantly affects the unit-of-production amortization rate, in which case a gain or loss is recognized currently. Gains or losses from the disposal of other properties are recognized in the current period.

Asset Retirement Obligation

If the fair value for asset retirement obligation can be reasonably estimated, the liability is recognized in the period when it is incurred. Oil and gas producing companies incur this liability upon acquiring or drilling a well. The retirement obligation is recorded as a liability at its estimated present value at the asset's inception, with an offsetting increase to proved properties on the balance sheet. Periodic accretion of discount of the estimated liability is recorded as an expense in the statements of operations. See Note 8.

Cash and Cash Equivalents

Cash equivalents are considered to be all highly liquid investments having an original maturity of three months or less.

Fair Value of Financial Instruments

Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, use of unobservable prices or inputs are used to estimate the current fair value, often using an internal valuation model. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the item being valued.

Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

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Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are as follows:

Level I—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II—Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III—Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Income Taxes

MorningStar is a limited partnership treated as a partnership for federal and state income tax purposes, with the exception of the state of Texas, with income tax liabilities and/or benefits of the Company passed through to the partners. As such, with the exception of the state of Texas, we are not a taxable entity, we do not directly pay federal and state income tax and recognition has not been given to federal and state income taxes for our operations, except as described below.

Limited partnerships are subject to state income taxes in Texas. Due to immateriality, income taxes related to the Texas margin tax have been included in general and administrative expenses on the statement of operations and no deferred tax amounts were calculated.

Derivatives

We use derivatives to hedge against changes in cash flows related to product price, as opposed to their use for trading purposes. We record all derivatives on the balance sheet at fair value. We generally determine the fair value of futures contracts and swap contracts based on the difference between the derivative's fixed contract price and the underlying market price at the determination date (Note 10).

We do not designate these derivative contracts as cash flow hedges. Changes in the fair value of commodity price derivatives are recognized currently in earnings. Realized and unrealized gains and losses on commodity derivatives are recognized in oil and gas revenues. Settlements of derivatives are included in cash flows from operating activities.

Revenue Recognition

Oil, gas and natural gas liquids revenues are recognized upon the satisfaction of the performance obligation which occurs at the point in time when control of the product transfers to a customer, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for the product. See Note 13 for further discussion.

Loss Contingencies

When management determines that it is probable that an asset has been impaired or a liability has been incurred, we accrue our best estimate of the loss if it can be reasonably estimated. Any legal costs related to litigation are expensed as incurred.

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Unit-Based Compensation

We recognize compensation related to all unit-based awards in the financial statements based on their estimated grant-date fair value. We estimate expected forfeitures and we recognize compensation expense only for those awards expected to vest. Compensation expense is amortized on a straight-line basis over the estimated service period. All compensation is recognized by the time the award vests. See Note 12.

Significant Purchasers

We evaluated how MorningStar is organized and managed and have identified only one operating segment, which is the exploration and production of oil, natural gas and natural gas liquids. All of our assets are located in the United States, and all revenues are attributable to United States customers.

Our production is sold to various purchasers, based on their credit rating and the location of our production. Sales to three purchasers for the year ended December 31, 2021 and sales to two purchasers for the year ended December 31, 2020, as shown in the table below, were greater than 10% of total revenues. We believe that alternative purchasers are available, if necessary, to purchase production at prices substantially similar to those received from these significant purchasers.

<u>Customer</u>	<u>2021</u>	<u>2020</u>
Customer A	19%	25%
Customer B	12%	17%
Customer C	11%	—%

2. Establishment of Joint Ventures and Acquisitions

Joint Venture

On October 1, 2012, our joint venture partner contributed producing properties with a fair value of \$805.2 million and MorningStar contributed cash of \$425.7 million to the joint venture. In a second transaction, our joint venture partner contributed additional producing properties with a fair value of \$48.0 million and MorningStar contributed additional cash of \$25.3 million. The contributed cash, less \$4.0 million retained for working capital purposes, was loaned to an offshore subsidiary of our joint venture partner. See Note 5.

Since that time, MorningStar has contributed \$467.5 million of cash and \$107.0 million of proved properties, while our joint venture partner has contributed \$663.6 million of proved property.

Acquisitions

In August 2022, MorningStar completed the acquisition of additional interest in our producing properties and gas processing plant in the Permian Basin of New Mexico from Vendera Resources for approximately \$52.6 million. Our purchase price allocation included \$49.6 million to proved properties, \$9.8 million to other properties, \$3.6 million as a reduction to other current assets, \$0.1 million to other current liabilities and \$3.1 million to asset retirement obligation. The acquisition was funded by borrowings from our credit facility.

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In February 2022, MorningStar completed the acquisition of producing properties in the Permian Basin of Texas from Kaiser Francis for approximately \$3.8 million. Our purchase price allocation included \$4.0 million to proved properties and \$0.2 million to asset retirement obligation. The acquisition was funded by cash on hand.

In December 2021, MorningStar completed the acquisition of producing properties in the Permian Basin of Texas from Chevron for approximately \$43.8 million. Our purchase price allocation included \$47.2 million to proved properties and \$3.4 million to asset retirement obligation. The acquisition was funded by cash on hand and borrowings from our credit facility. The acquisition is subject to typical post-closing adjustments.

In November 2021, MorningStar completed the acquisition of producing properties and a gas processing plant in the Permian Basin of New Mexico and CO₂ assets in Colorado from Chevron for approximately \$175.4 million. Our purchase price allocation included \$145.2 million to proved properties, \$33.3 million to other properties, \$4.3 million to other current assets and \$7.4 million to asset retirement obligation. The acquisition was funded by cash on hand from the October 2021 capital raise (see Note 11) and borrowings from our credit facility. The acquisition is subject to typical post-closing adjustments. In the 2021 statement of operations, we recorded \$15.0 million of revenues and income of \$2.8 million from this acquisition.

In June 2020, MorningStar completed the acquisition of producing properties in the San Juan Basin of New Mexico and Colorado from Southland Royalty for approximately \$10.2 million. Our purchase price allocation included \$69.0 million to proved properties, \$54.6 million to asset retirement obligation, \$4.0 million to other current liabilities and \$0.2 million to other liabilities. The acquisition was funded by cash on hand.

During 2020, we completed multiple acquisitions of producing properties in the Permian Basin of Texas and New Mexico for \$0.7 million. We allocated \$ 0.7 million to proved property. These were funded by cash on hand.

Pro forma financial information

The following pro forma financial information represents the results for the Company and the properties acquired in November 2021 in the Permian Basin of New Mexico and CO₂ assets in Colorado from Chevron as if the acquisition and the required financing had occurred on January 1, 2020.

For the pro forma year ended December 31, 2021, pro forma revenues were \$278.7 million and pro forma net income was \$61.4 million. For the purposes of the pro forma, it was assumed that \$40.0 million of the Company's revolving credit facility was used to finance the acquisition resulting in additional interest expense of \$1.3 million. The pro forma financial information includes the effects of adjustments for depreciation, depletion, and amortization of \$7.8 million, and accretion of asset retirement obligations expense of \$0.3 million.

For the pro forma year ended December 31, 2020, pro forma revenues were \$149.2 million and pro forma net loss was \$159.0 million. For the purposes of the pro forma, it was assumed that \$40.0 million of the Company's revolving credit facility was used to finance the acquisition resulting in additional interest expense of \$1.6 million. The pro forma financial information includes the effects of adjustments for depreciation, depletion, and amortization of \$11.0 million, and accretion of asset retirement obligations expense of \$0.4 million.

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The pro forma results do not include any cost savings or other synergies that may result from the acquisition or any estimated costs that have been or will be incurred by the Company to integrate the properties acquired. The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been completed as of the beginning of the period, nor are they necessarily indicative of future results.

3. Related Party Transactions

We earned management fees from the joint venture of \$6.1 million for the year ended December 31, 2021, and \$6.4 million for the year ended December 31, 2020. As of December 31, 2021, we had a note receivable from related party outstanding with a highly-rated, offshore subsidiary of our joint venture partner (Note 5). On September 30, 2016, MorningStar entered in a loan agreement with the joint venture (Note 4).

We earned management fees from Southland Royalty Company of \$5.0 million for the year ended December 31, 2021 and \$15.5 million for the year ended December 31, 2020.

Since the purpose of the management fees is to share costs between the various entities, the management fees from the joint venture and Southland are included as a reduction of general and administrative expenses in our statements of operations.

We occupy a building owned by MorningStar Capital LLC, a limited liability company owned by one of our limited partners. In lieu of paying rent, we paid property taxes and paid for repairs and maintenance on behalf of MorningStar Capital of \$0.9 million in 2021 and \$1.5 million in 2020.

We did not pay management fees to our general partner, MSOG, in 2021 and 2020.

4. Debt

<i>(in thousands)</i>	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
MorningStar Partners Credit Facility, 3.6% at December 31, 2020	\$ —	\$ 137,000
November 2021 MorningStar Partners Credit Facility, at 4.0% at December 31, 2021	\$ 145,000	\$ —
MorningStar Partners Loan, 3.4% at December 31, 2021 and 3.4% at December 31, 2020	\$ 7,100	\$ 7,100
MorningStar Partners Paycheck Protection Program Loan, 1.0% at December 31, 2020	\$ —	\$ 7,152
Total Long-term Debt	<u>\$ 152,100</u>	<u>\$ 151,252</u>

MorningStar Partners Credit Facility

On October 1, 2012, we entered into a five-year, \$350 million senior secured credit facility with certain commercial banks. The facility had a maturity date of October 1, 2022. On July 1, 2013, we entered into an amendment to the senior secured credit facility to increase the commitment to \$750 million. The amended facility was limited to the lesser of: (i) the then effective borrowing base or (ii) the maximum commitment amount. We had the option, with bank approval, to increase the commitment up to \$1 billion. On April 29, 2020, we entered into the thirteenth amendment to the agreement and redetermined the borrowing base to \$115 million. As a

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result of the redetermination, there was a borrowing base deficiency of \$65 million. A payment of at least \$35 million was due no later than June 1, 2020 and all covenants were waived until March 2021. The remainder of the deficiency was not required to be cured. On June 1, 2020, we entered into the fourteenth amendment to the agreement to extend the due date of the borrowing base deficiency payment to July 31, 2020. On July 31, 2020, we entered into the fifteenth amendment to the agreement to not count the new Series 4 Preferred Units (Note 11) as debt and to allow the additional proceeds from the July 2020 capital raise to be retained by MorningStar. On November 1, 2021, we paid off the \$100 million outstanding on this credit facility and replaced it with a new credit facility (See November 2021 MorningStar Partners Credit Facility) Prior to the pay off, we used the MorningStar Partners Credit Facility for general corporate purposes. In connection with entering into the credit facility and amendments, as of December 31, 2020, we had incurred financing fees and expenses of approximately \$10.9 million before accumulated amortization of \$9.8 million. The remaining costs were fully expensed when the facility was paid off in November 2021. Such amortized expenses are recorded as interest expense on the statements of operations. The weighted average interest rate on credit facility borrowings was 3.4% in 2021 and 3.8% in 2020.

November 2021 MorningStar Partners Credit Facility

On November 1, 2021, we entered into a new four-year, \$165 million senior secured credit facility with certain commercial banks. The facility has a maturity date of November 1, 2025. We use the facility for general corporate purposes. In connection with entering into the credit facility, as of December 31, 2021, we incurred financing fees and expenses of approximately \$2.7 million before accumulated amortization of \$0.1 million. These costs are being amortized over the life of the credit facility. Such amortized expenses are recorded as interest expense on the statements of operations.

Redetermination of the borrowing base under the credit facility, is based primarily on reserve reports that reflect commodity prices at such time, occurs semi-annually, in March and September, as well as upon requested interim redeterminations, by the lenders at their sole discretion. We also have the right to request additional borrowing base redeterminations each year at our discretion. Significant declines in commodity prices may result in a decrease in the borrowing base. These borrowing base declines can be offset by any commodity price hedges we enter. Our obligations under the credit facility are secured by all assets of the Company, including without limitation (i) our interest in the joint venture, (ii) all our deposit accounts, securities accounts, and commodities accounts, (iii) any receivables owed to us by the joint venture and (iv) any oil and gas properties owned directly by MorningStar or its wholly-owned subsidiaries. We are required to maintain (i) a current ratio greater than 1.0 and current assets shall include availability under the credit facility but shall exclude the fair value of derivative instruments and any advances under the facility and (ii) a ratio of total indebtedness-to-EBITDAX of not greater than 3.0 to 1.0. The total indebtedness-to-EBITDAX calculation is limited to the joint venture's EBITDAX that has been paid in cash to MorningStar through distributions, MorningStar Operating's EBITDAX results and realized hedge gains less realized hedge losses and the consolidated expenses of MorningStar and its subsidiaries. EBITDAX means net income plus interest expense; income taxes paid; depreciation, depletion and amortization; exploration expenses, including workover expenses; non-cash charges including unrealized losses on derivative instruments; and, any extraordinary or non-recurring charges, minus any extraordinary or non-recurring income and any non-cash income including unrealized gains on derivative instruments.

At our election, interest on borrowings under the credit facility is determined by reference to either the secured overnight financing rate ("SOFR") plus an applicable margin between 3.00% and 4.00% per annum (depending on the then-current level of borrowings under the Credit

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Facility) or the alternate base rate (“ABR”) plus an applicable margin between 2.00% and 3.00% per annum (depending on the then-current level of borrowings under the Credit Facility). Interest is generally payable quarterly for loans bearing interest based on the ABR and at the end of the applicable interest period for loans bearing interest at SOFR. We are required to pay a commitment fee to the lenders under the Credit Facility, which accrues at a rate per annum of 0.5% on the average daily unused amount of the lesser of: (i) the maximum commitment amount of the lenders and (ii) the then-effective borrowing base. The weighted average interest rate on credit facility borrowings was 4.0% in 2021.

MorningStar Partners Loan

On September 30, 2016, MorningStar entered into a \$27.1 million loan agreement with the joint venture. The proceeds for the loan were taken from the cash held by the offshore subsidiary of Exxon Mobil Corporation and the loan was assigned to the offshore subsidiary (Note 5). The loan matures on January 31, 2026, but is automatically extended should our credit facility be extended. In all instances, this loan will mature ninety-one days after the maturity of the current Morningstar credit facility. Interest on the loan is the lesser of (a) London Interbank Offered Rate (“LIBOR”) plus three and one-quarter of one percent (3.25%) per annum, adjusted monthly or (b) the highest rate permitted by applicable law. The note is unsecured, but we are required to stay in compliance with terms of our current credit facility. The weighted average interest rate on loan was 3.4% in 2021 and 4.0% in 2020.

On September 30, 2020, \$20.0 million was distributed to MorningStar Partners from the note receivable. This distribution was used by MorningStar Partners to pay down the outstanding loan with the joint venture.

Paycheck Protection Program Loans

On April 13, 2020, we received a loan of approximately \$7.2 million under the US Government’s Paycheck Protection Program from the Small Business Administration (“SBA”). Under the terms of the loan, it was required to be repaid beginning November 13, 2020 in equal installments until April 13, 2022, unless we qualified for loan forgiveness. The loan bore interest at a rate of 1% per annum. In August 2020, we sent in our loan forgiveness application for the entire loan amount. As a result of filing the application, we did not make any payments on the loan, nor did we accrue any interest on the loan in 2020. On June 14, 2021 we received notice that the loan was forgiven in full. We recorded this loan forgiveness as other income on the statements of operations.

On January 27, 2021, we received a second loan for \$2.0 million under an extension of the US Government’s Paycheck Protection Program from the SBA. On July 2, 2021 we received notice that the loan was forgiven in full. We recorded this loan forgiveness as other income on the statements of operations.

5. Note Receivable from Related Party

As of December 31, 2021, we, through our 5% ownership interest in investment assets at the joint venture, had a note receivable totaling \$7.1 million outstanding with a highly-rated, offshore subsidiary of our joint venture partner. Under the terms of the agreement, there is no stated maturity date and, the joint venture may demand repayment of all or any portion of the outstanding balance on two business days’ notice. Interest is earned based on the one-month LIBOR rate and is paid monthly. Interest income totaled less than \$0.1 million in 2021 and \$0.2 million in 2020.

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On September 30, 2020, \$20.0 million was distributed to MorningStar Partners from the note receivable. This distribution was used by MorningStar Partners to pay down the loan outstanding with the joint venture. See Note 4.

The note receivable is treated as a non-current asset, since the joint venture does not have any intention of demanding repayment of all or any portion of the outstanding balance at this time. Repayment would require the approval of the joint venture MMC.

6. Commitments and Contingencies

From time to time, the Company is subject to various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company.

To date, our expenditures to comply with environmental or safety regulations have not been significant and are not expected to be significant in the future. However, new regulations, enforcement policies, claims for damages or other events could result in significant future costs.

Commodity Commitments

During 2021 and 2020, we entered into futures contracts and swap agreements that effectively fixed natural gas and crude oil prices. See Note 10.

7. Asset Retirement Obligation

Our asset retirement obligation primarily represents the estimated present value of the amount we will incur to plug, abandon and remediate our proved producing properties at the end of their productive lives, in accordance with applicable state and federal laws. We determine our asset retirement obligation by calculating the present value of estimated cash flows related to the liability. The following is a summary of asset retirement obligation activity for the years ended December 31, 2021 and 2020:

	<i>(in thousands)</i>	
	<u>2021</u>	<u>2020</u>
Asset retirement obligation, January 1	\$ 100,670	\$ 49,392
Revisions in the estimated cash flows ⁽¹⁾	(7,157)	(6,727)
Liability incurred upon acquiring and drilling wells	10,741	54,902
Liability settled upon sale of wells	(3,580)	—
Liability settled upon plugging and abandoning wells	(855)	(837)
Accretion of discount expense	<u>4,670</u>	<u>3,940</u>
Asset retirement obligation, December 31	104,489	100,670
Less current portion	<u>(1,100)</u>	<u>(1,100)</u>
Asset retirement obligation, long term	<u>\$ 103,389</u>	<u>\$ 99,570</u>

(1) Revisions in the estimated cash flows for the years ended December 31, 2021 and 2020 are primarily the result of revised cost estimates.

8. Fair Value

We use commodity-based and financial derivative contracts to manage exposures to commodity price. We do not hold or issue derivative financial instruments for speculative or trading purposes. We periodically enter into futures contracts, costless collars, energy swaps, swaptions and basis swaps to hedge our exposure to price fluctuations on crude oil, natural gas liquids and natural gas sales (Note 10).

Fair Value of Financial Instruments

Because of their short-term maturity, the fair value of cash and cash equivalents, accounts receivable and accounts payable approximates their carrying values at December 31, 2021 and 2020. The following are estimated fair values and carrying values of our other financial instruments at each of these dates:

<i>(in thousands)</i>	Asset (Liability)			
	December 31, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Note receivable from related party	\$ 7,132	\$ 7,132	\$ 7,131	\$ 7,131
Long-term debt	\$ (152,100)	\$ (152,100)	\$ (151,252)	\$ (151,252)
Derivative asset	\$ 15,544	\$ 15,544	\$ —	\$ —
Derivative liability	\$ (6,567)	\$ (6,567)	\$ —	\$ —

The fair value of our note receivable from related party approximates the carrying amount because the interest rate is based on current market interest rates and can be called upon two business days' notice (Note 5). The fair value of our long-term debt approximates the carrying amount because the interest rate is reset periodically at then current market rates (Note 4).

The fair value of our note receivable from related party (Note 5), net derivative asset (Note 10) and our long-term debt (Note 4) is measured using Level II inputs, and are determined by either market prices on an active market for similar assets or other market-corroborated prices. Counterparty credit risk is considered when determining the fair value of our notes receivable and net derivative asset. Since our counterparty is highly rated, the fair value of our note receivable from related party does not require an adjustment to account for the risk of nonperformance by the counterparty, however, an adjustment for counterparty credit risk has been applied to the net derivative asset.

The following table summarizes our fair value measurements and the level within the fair value hierarchy in which the fair value measurements fall.

<i>(in thousands)</i>	Fair Value Measurements			
	December 31, 2021		December 31, 2020	
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Note receivable from related party	\$ 7,132	\$ —	\$ 7,131	\$ —
Long-term debt	\$ (152,100)	\$ —	\$ (151,252)	\$ —
Derivative asset	\$ 15,544	\$ —	\$ —	\$ —
Derivative liability	\$ (6,577)	\$ —	\$ —	\$ —

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments whenever events or circumstances indicate that the carrying value of those assets may not be recoverable and are based upon Level 3 inputs. These assets and liabilities can include assets and liabilities acquired in a business combination, proved and unproved natural gas properties, asset retirement obligations and other long-lived assets that are written down to fair value when they are impaired.

We periodically review our long-lived assets to be held and used, including proved oil and natural gas properties, whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. We review our oil and natural gas properties by asset group. The estimated future net cash flows are based upon the underlying reserves and anticipated future pricing. An impairment loss is recognized if the sum of the expected undiscounted future net cash flows is less than the carrying amount of the assets. If the estimated undiscounted future net cash flows are less than the carrying amount of a particular asset, the Company recognizes an impairment loss for the amount by which the carrying amount of the asset exceeds the estimated fair value of such assets. The fair value of the proved properties is measured based on the income approach, which incorporates a number of assumptions involving expectations of future product prices, which the Company bases on the forward-price curves, estimates of oil and gas reserves, estimates of future expected operating and capital costs and a risk adjusted discount rate of 10%. These inputs are categorized as Level 3 in the fair value hierarchy. We recognized an impairment of \$0.0 million in the year ended December 31, 2021 and \$134.1 million in the year ended December 31, 2020.

Commodity Price Hedging Instruments

We periodically enter into futures contracts, energy swaps, swaptions, collars and basis swaps to hedge our exposure to price fluctuations on crude oil, natural gas and natural gas liquids sales. When actual commodity prices exceed the fixed price provided by these contracts we pay this excess to the counterparty, and when the commodity prices are below the contractually provided fixed price, we receive this difference from the counterparty. See Note 10.

The fair value of our derivatives contracts consists of the following:

<i>(in thousands)</i>	<u>Asset Derivatives</u>		<u>Liability Derivatives</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Derivatives not designated as hedging instruments:				
Crude oil futures and differential swaps	\$ 2,342	\$ —	\$ (1,996)	\$ —
Natural gas liquids futures	\$ 685	\$ —	\$ (204)	\$ —
Natural gas futures, collars and basis swaps	\$ 12,517	\$ —	\$ (4,367)	\$ —
Total	\$ 15,544	\$ —	\$ (6,567)	\$ —

Derivative fair value (gain) loss, included as part of the related revenue line on the consolidated statements of operations, comprises the following realized and unrealized components:

<i>(in thousands)</i>	<u>2021</u>	<u>2020</u>
Net cash (received from) paid to counterparties	\$ —	\$ (26,192)
Non-cash change in derivative fair value	\$ (8,977)	\$ 2,887
Derivative fair value (gain) loss	\$ (8,977)	\$ (23,305)

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Concentrations of Credit Risk

Our receivables are from a diverse group of companies including major energy companies, pipeline companies, local distribution companies and end-users in various industries. Letters of credit or other appropriate security are obtained as considered necessary to limit risk of loss from the other companies. Including the bank that issued the letter of credit, we currently have greater concentrations of credit with several investment-grade (BBB- or better) rated companies.

9. Commodity Sales Commitments

Our policy is to consider hedging a portion of our production at commodity prices the general partner deems attractive. While there is a risk we may not be able to realize the benefit of rising prices, the general partner may enter into hedging agreements because of the benefits of predictable, stable cash flows.

We enter futures contracts, energy swaps, swaptions and basis swaps to hedge our exposure to price fluctuations on crude oil, natural gas liquids and natural gas sales. When actual commodity prices exceed the fixed price provided by these contracts we pay this excess to the counterparty, and when the commodity prices are below the contractually provided fixed price, we receive this difference from the counterparty. We also enter costless price collars, which set a ceiling and floor price to hedge our exposure to price fluctuations on natural gas sales. When actual commodity prices exceed the ceiling price provided by these contracts we pay this excess to the counterparty, and when the commodity prices are below the floor price, we receive this difference from the counterparty. If the actual commodity price falls in between the ceiling and floor price, there is no cash settlement.

Crude Oil

We have entered into crude oil futures contracts and swap agreements that effectively fix prices for the production and periods shown below. Prices to be realized for hedged production may be less than these fixed prices because of location, quality and other adjustments. See Note 9.

<u>Production Period</u>	<u>Bbls per Day</u>	<u>Weighted Average NYMEX Price per Bbl</u>
January 2022—December 2022	3,500	\$ 71.28
January 2023—December 2023	2,500	\$ 68.87
January 2024—June 2024	2,000	\$ 63.27

The price we receive for our oil production is generally different than the NYMEX price because of adjustments for delivery location (“basis”), relative quality and other factors. We have entered sell basis swap agreements that effectively fix the basis adjustment for the West Texas Midlands delivery location for the production and periods shown below.

<u>Production Period</u>	<u>Bbls per Day</u>	<u>Weighted Average NYMEX Price per Bbl(a)</u>
January 2022—December 2022	3,000	\$ 0.55

(a) Increases to NYMEX oil price for delivery location

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The price we receive for our oil production is generally different than the NYMEX price because of changes in the roll component of the NYMEX price due to the timing of when the monthly NYMEX price is set. We have entered sell basis swap agreements that effectively fix the roll component of the NYMEX price for the production and periods shown below.

<u>Production Period</u>	<u>Bbls per Day</u>	<u>Weighted Average NYMEX Price per Bbl(a)</u>
January 2022—December 2022	5,000	\$ 0.50
January 2023—December 2023	1,000	\$ 0.68

(a) Increases to NYMEX oil price for roll component

Net settlement gains on oil futures and sell basis swap contracts increased oil revenues by \$27.2 million in 2020. An unrealized gain in 2021 and an unrealized loss in 2020 to record the fair value of derivative contracts increased oil revenues by \$0.3 million in 2021 and decreased oil revenues by \$3.0 million in 2020.

Natural Gas Liquids

We have entered into natural gas liquids futures contracts and swap agreements for certain components—ethane and propane—that effectively fix prices for the production and periods shown below. Prices to be realized for hedged production may be less than these fixed prices because of location, quality and other adjustments. See Note 9.

<u>Production Period</u>	<u>Gallons per Day</u>	<u>Weighted Average NGL OPIS Price per Gallon</u>
	Ethane	
January 2022—December 2022	63,000	\$ 0.33
January 2023—December 2023	63,000	\$ 0.27
January 2024—June 2024	63,000	\$ 0.23
	Propane	
January 2022—December 2022	31,500	\$ 1.01

An unrealized gain in 2021 to record the fair value of derivative contracts increased NGL revenues by \$0.5 million in 2021.

Natural Gas

We have entered into natural gas futures contracts and swap agreements that effectively fix prices for the production and periods shown below. Prices to be realized for hedged production may be less than these fixed prices because of location, quality and other adjustments. See Note 9.

<u>Production Period</u>	<u>MMBtu per Day</u>	<u>Weighted Average NYMEX Price per MMBtu</u>
January 2022—December 2022	45,000	\$ 4.23
January 2023—December 2023	35,000	\$ 3.51
January 2024—June 2024	30,000	\$ 3.26

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We have also entered into gas collars that set a ceiling and floor price for the production and periods shown below.

<u>Production Period</u>	<u>MMBtu per Day</u>	<u>Weighted Average NYMEX Price per MMBtu</u>	
		<u>Floor</u>	<u>Ceiling</u>
January 2022—December 2022	15,000	\$ 3.50	\$ 5.85

The price we receive for our gas production is generally less than the NYMEX price because of adjustments for delivery location (“basis”), relative quality and other factors. We have entered sell basis swap agreements that effectively fix the basis adjustment for the San Juan Basin delivery location for the production and periods shown below.

<u>Production Period</u>	<u>MMBtu per Day</u>	<u>Weighted Average Sell Basis Price per MMBtu(a)</u>	
January 2022—December 2022	70,000	\$	0.22
January 2023—December 2023	20,000	\$	0.15

(a) Reductions to NYMEX gas price for delivery location

Net settlement losses on gas futures and sell basis swap contracts decreased gas revenues by \$1.0 million in 2020. An unrealized gain to record the fair value of derivative contracts increased gas revenues by \$8.2 million in 2021 and \$0.1 million in 2020.

10. Partners' Capital

Partners' Units

Under the terms of the amended partnership agreement, there are two classes of units, Common Units and Preferred Units. The general partner establishes the number of authorized units and as of December 31, 2021, the general partner has not established the authorized number of Common Units.

In conjunction with an offering in August 2019, we created a new class of Preferred Units, Series 3 Preferred Units. Each Series 3 Preferred Unit cost \$25 per unit and also included warrants to purchase an additional 1.5 common units for \$1. The effect of the warrant is to provide 6.5 common units at a total cost of \$26 or \$4 per unit. The Series 3 Preferred Units will receive semi-annual distributions in the amount of \$0.625 per unit. A holder of Series 3 Preferred Units will receive in-kind distributions of Common Units for their Series 3 Preferred Units. The number of in-kind Common Units will accrue at a conversion price of \$1.80 per unit. The semi-annual distributions are guaranteed and are to be paid in April and October. The Series 3 Preferred Units automatically convert to five Common Units no later than October 1, 2022 and the warrant is exercisable until October 1, 2023. The holder of Series 3 Preferred Units is entitled to cast the number of votes that the holder would be entitled to cast if the applicable Series 3 Preferred Unit was fully converted into Common Units.

In conjunction with an offering in July 2020, we created an additional class of Preferred Units, Series 4 Preferred Units. Each Series 4 Preferred Unit was issued at \$95,000 per unit (an original issue discount of \$5,000 per unit) and also included warrants equal to, in the aggregate, 20% non-dilutable common units, at the time of exercise. These warrants had a term of five years from the date of closing and an exercise price of \$0.01 each. If holders of a majority of the warrants

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ected to exercise the warrants, then all warrants were required to be exercised at the same time. There was also a group of backstop investors that provided a minimum amount of capital of a least \$35 million. These backstop investors received an arrangement fee in the form of warrants to purchase common units for \$0.01 per common unit, with warrants equal to, in the aggregate, 10% non-dilutable common units at the time of exercise. These warrants had a term of 15 years. The Series 4 Preferred Units received a semi-annual payment of 12% paid-in-kind units at \$0.20 per unit or 10% cash pay as permitted. The Company could call the Series 4 Preferred Units at any time and at a cost of \$100,000 per unit plus any accrued dividends at such date. However, if we called the Series 4 Preferred Units on or prior to the second anniversary of the offering, we were required to pay \$130,000 per unit. Beginning August 1, 2025, the Series 4 Preferred Units could be put back to us for repayment at a cost of \$100,000 per unit plus any accrued dividends at such date. As a result of this offering, we issued 533.63 units for total proceeds of \$50.4 million net of \$0.3 million of offering costs. The proceeds were used to pay down \$35 million on our Credit Facility (see Note 4) and the remainder was retained for future cash needs.

In conjunction with an offering in October 2021, we created an additional class of Preferred Units, Series 5 Preferred Units. Each Series 5 Preferred Unit was issued at \$100,000 per unit. The Series 5 Preferred Units receive a semi-annual payment of 6.25% paid-in cash. The Series 5 Preferred Units automatically convert to Common Units at a rate of \$0.80 per unit no later than October 15, 2024. In conjunction with this offering, all Series 4 Preferred Units were exchanged into Series 5 Preferred Units at a rate of 1.4 Series 5 Preferred Units for each Series 4 Preferred Unit. Additionally, all Series 4 warrants were converted to Common Units effective October 2021 at no cost to the warrant holder. The impact of the exchange of Series 4 Preferred Units to Series 5 Preferred Units coupled with the non-cash conversion of Series 4 warrants to Common Units accrued to the benefit of the Series 4 Preferred unitholders, who also own approximately 90% of the Common Units. The actual effect of this conversion was to transfer \$22.7 million of value from the Common Unit holders to the Series 4 Preferred Unit holders. As a result of this offering, we issued 2,073.69 units for total proceeds of \$132.6 million net of \$0.1 million of offering costs. Subsequent to this offering, there were no Series 4 Preferred Units or warrants still outstanding.

The proceeds, in conjunction with cash on hand and borrowings under our credit facility, were used to acquire producing properties and a gas processing plant in the Permian Basin of New Mexico and CO₂ assets in Colorado from Chevron (see Note 2).

Prior to April 1st of each year, the general partner shall determine the fair value of a Common Unit as of January 1st of such year. However, the general partner can change the fair value of a Common Unit should circumstances indicate that a material change in value has occurred. The fair value was determined to be \$4.00 per Common Unit as of January 1, 2020. The fair value was determined to be \$0.40 per Common Unit as of January 1, 2021. The fair value was determined to be \$0.87 per Common Unit as of January 1, 2022. The fair value established by the general partner is used for all purposes until the next redetermination.

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The following reflects our partners' Common Unit and Preferred Unit activity for the years ended December 31, 2021 and 2020:

<i>(in thousands)</i>	2020			
	Common Units	Series 3 Preferred Units	Series 4 Preferred Units	Series 5 Preferred Units
Balance, beginning of period	179,198	1,372	—	—
Vesting of restricted units, net of income taxes	1,067	—	—	—
Common units surrendered to pay off share notes	(932)	—	—	—
Common units received in lieu of distribution	953	—	—	—
Preferred units purchased	—	—	1	—
Balance, December 31	<u>180,286</u>	<u>1,372</u>	<u>1</u>	<u>—</u>

	2021			
	Common Units	Series 3 Preferred Units	Series 4 Preferred Units	Series 5 Preferred Units
Balance, beginning of period	180,286	1,372	1	—
Vesting of restricted units, net of income taxes	3,000	—	—	—
Warrants converted to common units	137,438	—	—	—
Common units received in lieu of distribution	32,971	—	—	—
Preferred units purchased	—	—	—	1
Preferred units exchanged for new preferred units	—	—	(1)	1
Balance, December 31	<u>353,695</u>	<u>1,372</u>	<u>—</u>	<u>2</u>

Distributions

During 2021, we paid in-kind distributions of 32.0 million units with a value of \$6.4 million to our Series 4 Preferred holders and 1.0 million units with a value of \$1.8 million to our Series 3 Preferred holders. During 2020, we paid in-kind distributions of 1.0 million units with a value of \$1.6 million to our Series 3 Preferred holders.

The determination of the amount of future distributions on the Common Units, if any, to be declared and paid is at the sole discretion of the general partner and will depend on our financial condition, earnings and cash flow from operations, the level of debt outstanding, the level of our capital expenditures, our future business prospects and other matters the general partner deems relevant.

See Note 12.

11. Employee Benefit Plans

401(k) Plan

We sponsor a 401(k) benefit plan that allows employees to contribute and defer a portion of their wages. Regardless of an employees' decision to participate in the 401(k) plan, we make a non-elective contribution equal to 3% of each employees' wages. Additionally, we have the ability to make a discretionary annual match as determined by the general partner. Employee contributions and non-elective contributions vest immediately while our matching contributions vest 100% upon

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completion of three years of service. All employees over 18 years of age may participate. The plan was put in place January 1, 2013. Company contributions under the plan were \$0.7 million in 2021 and \$0.7 million in 2020.

Unit Incentive Plans

Unit incentive awards under the 2012 Employee Equity Incentive Plan (2012 Plan) include unit awards which are subject to such restrictions as determined by the general partner. Under the terms of the 2012 Plan, 2.5 million units are available for grants of unit awards. On December 31, 2018, the Plan was amended to increase the amount of units available for grant to 4.5 million units.

A restricted unit is a unit that vests over a period of time and during such time is subject to forfeiture, and may contain such terms as the general partner shall determine. We intend the restricted units under the Plan to serve as a means of incentive compensation for performance. Therefore, participants will not pay any consideration for the restricted units they receive. If a grantee's employment or service relationship terminates for any reason other than death, the grantee's unvested restricted units will be automatically forfeited unless the general partner or the terms of the award agreement provide otherwise. Holders of restricted units generally have no voting, dividend or other rights of other unit holders.

	Grant Date Fair Value	Number of Units
Outstanding at December 31, 2019	\$ 5.50	1,830,874
Vesting	(5.50)	(1,466,154)
Grants	—	—
Forfeitures	(5.50)	(364,720)
Outstanding at December 31, 2020	<u>\$ —</u>	<u>—</u>

We recognized non-cash restricted unit compensation expense of \$0.0 million in 2021 and \$4.2 million in 2020 related to these shares. In conjunction with the July 2020, capital raise (Note 11), we vested the remaining unvested shares effective July 30, 2020. There was a fully-vested grant of 3,000,000 units in 2021.

12. Revenue from Contracts with Customers

The Company recognizes sales of oil, natural gas, and NGLs when it satisfies a performance obligation by transferring control of the product to a customer, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for the product.

As discussed in Note 10, the Company recognizes the impact of derivative gains and losses as a component of revenue. See table below for the reconciliation of revenue from contracts with customers and derivative gains and losses.

	Year Ended December 31, 2021			Total Revenues
	Oil and condensate	Natural gas liquids	Natural gas	
	(in thousands)			
Revenue from customers	\$ 69,625	\$ 27,394	\$ 122,348	\$ 219,367
Unrealized gain (loss) on derivatives	346	481	8,150	8,977
Realized gain (loss) on derivatives	—	—	—	—
Total revenues	<u>\$ 69,971</u>	<u>\$ 27,875</u>	<u>\$ 130,498</u>	<u>\$ 228,344</u>

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	Year Ended			Total
	December 31, 2020			
	Oil and condensate	Natural gas liquids	Natural gas	Revenues
	(in thousands)			
Revenue from customers	\$ 34,885	\$ 8,660	\$ 41,914	\$ 85,459
Unrealized gain (loss) on derivatives	(2,957)	—	70	(2,887)
Realized gain (loss) on derivatives	27,142	—	(950)	26,192
Total Revenues	<u>\$ 59,070</u>	<u>\$ 8,660</u>	<u>\$ 41,034</u>	<u>\$ 108,764</u>

Natural Gas and NGL Sales

Under our natural gas processing contracts, we deliver natural gas to a midstream processing entity at the wellhead or at the inlet of a facility. The midstream provider gathers and processes the product and both the residue gas and the resulting natural gas liquids are sold at the tailgate of the plant. The Company's natural gas production is primarily sold under market-sensitive contracts that are typically priced at a differential to the published natural gas index price for the producing area due to the natural gas quality and the proximity to the market. We evaluated these arrangements and determined that control of the products transfers at the tailgate of the plant, meaning that the Company is the principal and the third-party purchaser is its customer. As such, we present the gas and NGL sales on a gross basis and the related gathering and processing costs as a component of taxes, transportation, and other on the statement of operations.

Oil and Condensate Sales

Oil production is sold at the wellhead under market-sensitive contracts at an index price, net of pricing differentials. The Company recognizes revenue when control transfers to the purchaser at the wellhead at the net price received from the customer. This treatment after the adoption of ASC 606 is consistent with the treatment under ASC 605 and has no impact on revenues or expenses on the statement of operations.

Production imbalances

The Company uses the sales method to account for production imbalances. If the Company's sales volumes for a well exceed the Company's proportionate share of production from the well, a liability is recognized to the extent that the Company's share of estimated remaining recoverable reserves from the well is insufficient to satisfy the imbalance. No receivables are recorded for those wells on which the Company has taken less than its proportionate share of production.

Contract Balances

Under the Company's product sales contracts, its customers are invoiced once the Company's performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company's product sales contracts do not give rise to contract assets or contract liabilities.

Performance Obligations

The majority of the Company's sales are short-term in nature with a contract term of one year or less. For those contracts, the Company has utilized the practical expedient in ASC 606-10-50-14

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exempting the Company from disclosures of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original duration of one year or less.

For the Company's product sales that have a contract term greater than one year, the Company has utilized the practical expedient in ASC 606-10-50-14(a), which states the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these contracts, each unit of product generally represents a separate performance obligation; therefore, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligation is not required.

13. Accrued Liabilities

Accrued liabilities consist of the following at December 31, 2021 and 2020:

	December 31,	
	2021	2020
Accrued production expenses	\$ 16,815	\$ 11,083
Accrued severance taxes	3,511	1,182
Accrued ad valorem taxes	2,211	1,057
Accrued capital expenditures	541	663
Other accrued liabilities	680	172
Total accrued liabilities	<u>\$ 23,758</u>	<u>\$ 14,157</u>

14. Supplemental Cash Flow Information

The statement of cash flows excludes the following non-cash transactions:

- The following restricted share activity (Note 12):
 - No forfeitures in 2021 and forfeitures of 364,720 restricted units in 2020
- The payment of in-kind dividends of 32,970,580 units in 2021 and 952,639 units in 2020 (Note 12).
- The exchange of 533.63 Series 4 Preferred Units for 747.09 Series 5 Preferred Units (Note 11).
- Accrued capital expenditures were \$0.5 million at December 31, 2021 and \$0.7 million at December 31, 2020.

Interest payments totaled \$4.1 million for in 2021 and \$7.3 million in 2020. State income tax payments totaled \$0.1 million in 2021 and \$0.1 million in 2020.

15. Subsequent Events

We have evaluated subsequent events through the date the financial statements were available to be issued. See Note 2 for discussion of 2022 acquisition.

16. Supplementary Financial Information for Oil and Gas Producing Activities (Unaudited)

All of our operations are directly related to oil and gas producing activities located in the United States primarily in the San Juan Basin of New Mexico and Colorado and the Permian Basin of West Texas and New Mexico.

Costs Incurred Related to Oil and Gas Producing Activities

The following table summarizes costs incurred whether such costs are capitalized or expensed for financial reporting purposes for each year:

(in thousands)

	<u>2021</u>	<u>2020</u>
Acquisition of proved properties, net	\$ 181,651	\$ 15,138
Acquisition of unproved properties	67	307
Development	8,142	5,520
Asset retirement obligation incurred upon acquisition	<u>10,741</u>	<u>54,902</u>
Total costs incurred	<u>\$ 200,601</u>	<u>\$ 75,867</u>

Proved Reserves

Our proved oil and gas reserves have been estimated by independent petroleum engineers. Proved reserves are those quantities of oil and natural 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 regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain. Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods in which the cost of the required equipment is relatively minor compared with the cost of a new well. Due to the inherent uncertainties and the limited nature of reservoir data, such estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production of these reserves may be substantially different from the original estimate. Revisions result primarily from new information obtained from development drilling and production history and from changes in economic factors. Proved reserves exclude volumes deliverable to others under production payments or retained interests.

Standardized Measure

The standardized measure of discounted future net cash flows and changes in such cash flows are prepared using assumptions required by the Financial Accounting Standards Board. Such assumptions include the use of 12-month average prices for oil and gas, based on the first-day-of-the-month price for each month in the period, and year end costs for estimated future development and production expenditures to produce year-end estimated proved reserves. Discounted future net cash flows are calculated using a 10% rate. No provision is included for federal income taxes since our future net cash flows are not subject to taxation. Limited liability companies are subject to the Texas margin tax.

Estimated well abandonment costs, net of salvage values, are deducted from the standardized measure using year-end costs and discounted at the 10% rate. Such abandonment costs are recorded as a liability on the consolidated balance sheet, using estimated values as of the projected abandonment date and discounted using a risk-adjusted rate at the time the well is drilled or acquired (Note 8).

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The standardized measure does not represent management's estimate of our future cash flows or the value of proved oil and natural gas reserves. Probable and possible reserves, which may become proved in the future, are excluded from the calculations. Furthermore, prices used to determine the standardized measure are influenced by supply and demand as effected by recent economic conditions as well as other factors and may not be the most representative in estimating future revenues or reserve data.

	Oil (Bbls)	Natural Gas Liquids (Bbls)	Gas (Mcf)	Oil Equivalents (Boe)
Proved Reserves (in thousands)				
December 31, 2019	24,002.0	4,586.2	107,103.4	46,438.8
Extensions, additions and discoveries	19.8	1.5	32.3	26.7
Revisions	(4,067.5)	(2,080.4)	(50,269.3)	(14,526.2)
Production	(940.1)	(860.2)	(22,131.6)	(5,488.9)
Purchase in place	590.6	6,664.1	208,438.1	41,994.4
December 31, 2020	19,604.8	8,311.2	243,172.9	68,444.8
Extensions, additions and discoveries	38.3	14.5	6,048.3	1,060.9
Revisions	2,758.8	7,277.1	152,978.3	35,532.3
Production	(1,033.0)	(1,088.8)	(30,589.7)	(7,220.1)
Purchase in place	27,236.7	3,513.6	7,666.1	32,028.0
December 31, 2021	48,605.6	18,027.6	379,275.9	129,845.9
Proved Developed Reserves (in thousands)				
December 31, 2019	13,106.5	4,586.2	80,755.3	31,151.9
December 31, 2020	9,787.7	8,311.2	218,396.9	54,498.4
December 31, 2021	30,207.9	17,434.2	353,214.9	106,511.3
Proved Undeveloped Reserves (in thousands)				
December 31, 2019	10,895.5	—	26,348.1	15,286.9
December 31, 2020	9,817.1	—	24,776.0	13,946.4
December 31, 2021	18,397.7	593.4	26,061.0	23,334.6

In 2020, the 42.0 Mboe of purchases in place represent the reserves acquired from Southland Royalty in June 2020. The 14.5 Mboe of downward revisions in proved of reserves for 2020 were the result of a combination of lower commodity prices (17.4 Mboe) partially offset by changes in the development plan and forecast revisions (2.9 Mboe).

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In 2021, the 32.0 MBoe of purchases in place represent the reserves acquired from Chevron in November 2021 (24.9 MBoe) and in December 2021 (7.1 MBoe). The 1.1 MBoe of extensions, additions and discoveries in proved reserves in 2021 were primarily related to drilling the San Juan Basin. The 35.5 MBoe of upward revisions in proved of reserves for 2021 were the result of a combination of higher commodity prices (34.9 MBoe) and changes in the development plan (0.6 MBoe).

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Reserves

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
<i>(in thousands)</i>		
Future cash inflows	\$ 4,468,597	\$ 1,049,560
Future costs:		
Production	(1,988,988)	(531,684)
Development	(365,289)	(297,570)
Future income tax	(4,110)	48
Future net cash flows	2,110,210	220,354
10% annual discount	(1,123,593)	(65,916)
Standardized measure	<u>\$ 986,617</u>	<u>\$ 154,438</u>

Changes in Standardized Measure of Discounted Future Net Cash Flows

	<u>For the Year Ended</u> <u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Standardized measure, beginning of period	\$ 154,438	\$ 315,023
Revisions:		
Prices and costs	205,842	(261,185)
Quantity estimates	76,737	(29,789)
Income tax	(1,933)	789
Future development costs	2,715	18,370
Accretion of discount	15,444	31,502
Production rates and other	42,064	42,303
Net revisions	340,869	(198,010)
Additions and discoveries	20,272	150
Production	(93,042)	(7,085)
Development costs	13,973	11,639
Purchases in place	550,107	32,721
Net change	832,179	(160,585)
Standardized measure, December 31	<u>\$ 986,617(a)</u>	<u>\$ 154,438(b)</u>

- (a) The December 31, 2021 standardized measure includes a reduction of \$213.1 million (\$213.6 million before income tax) for estimated property abandonment costs. The consolidated balance sheet at December 31, 2021 includes a liability of \$104.5 million for the same asset retirement obligation, which was calculated using different cost and present value assumptions.
- (b) The December 31, 2020 standardized measure includes a reduction of \$201.9 million (\$202.3 million before income tax) for estimated property abandonment costs. The consolidated balance sheet at December 31, 2020 includes a liability of \$100.7 million for the same asset retirement obligation, which was calculated using different cost and present value assumptions.

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Price and cost revisions are primarily the net result of changes in prices, based on beginning of year reserve estimates. Quantity estimate revisions are primarily the result of the extended economic life of proved reserves and proved undeveloped reserve additions attributable to increased development activity.

Average realized oil prices used in the estimation of proved reserves and calculation of the standardized measure were \$64.76 for 2021 and \$37.77 for 2020. Average realized natural gas liquids prices were \$19.62 for 2021 and \$7.38 for 2020. Average realized gas prices were \$2.31 for 2021 and \$1.03 for 2020. We used 12-month average oil and gas prices, based on the first-day-of-the-month price for each month in the period.

MORNINGSTAR PARTNERS, L.P.
Unaudited Condensed Financial Statements
For the six months ended June 30, 2022 and 2021

MORNINGSTAR PARTNERS, L.P.
Condensed Balance Sheets

(in thousands)

	<u>June 30,</u> <u>2022</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2021</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,021	\$ 7,547
Accounts receivable, net	58,585	34,124
Derivative fair value	15	10,632
Other	<u>6,875</u>	<u>4,793</u>
Total Current Assets	<u>73,496</u>	<u>57,096</u>
Property and Equipment, at cost—successful efforts method:		
Proved properties	1,384,868	1,376,476
Unproved properties	18,726	18,677
Other	<u>71,149</u>	<u>69,254</u>
Total Property and Equipment	1,474,743	1,464,407
Accumulated depreciation, depletion and amortization	<u>(723,797)</u>	<u>(704,080)</u>
Net Property and Equipment	<u>750,946</u>	<u>760,327</u>
Other Assets:		
Note receivable from related party	7,130	7,132
Derivative fair value	706	4,912
Other	<u>3,408</u>	<u>3,353</u>
Total Other Assets	<u>11,244</u>	<u>15,397</u>
TOTAL ASSETS	<u>\$ 835,686</u>	<u>\$ 832,820</u>
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities:		
Accounts payable	\$ 16,206	\$ 3,965
Accrued liabilities	34,582	23,758
Derivative fair value	56,107	6,450
Asset retirement obligation, current portion	<u>1,100</u>	<u>1,100</u>
Total Current Liabilities	<u>107,995</u>	<u>35,273</u>
Long-term Debt	<u>99,100</u>	<u>152,100</u>
Other Liabilities:		
Asset retirement obligation	106,345	103,389
Derivative fair value	27,797	117
Other liabilities	<u>675</u>	<u>582</u>
Total Other Liabilities	<u>134,817</u>	<u>104,088</u>
Commitments and Contingencies		
Partners' Capital:		
Partners' capital	<u>493,774</u>	<u>541,359</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$ 835,686</u>	<u>\$ 832,820</u>

See accompanying notes to the Condensed Financial Statements

MORNINGSTAR PARTNERS, L.P.
Condensed Statements of Operations (Unaudited)

(in thousands)

	<u>Six months ended June 30,</u>	
	<u>2022</u>	<u>2021</u>
REVENUES		
Oil and condensate	\$ 41,608	\$ 25,577
Natural gas liquids	15,973	10,496
Gas	<u>25,758</u>	<u>52,189</u>
Total Revenues	<u>83,339</u>	<u>88,262</u>
EXPENSES		
Production	61,181	29,812
Exploration	200	68
Taxes, transportation and other	48,019	23,961
Depreciation, depletion and amortization	19,717	18,831
Accretion of discount in asset retirement obligation	2,970	2,412
General and administrative	<u>488</u>	<u>2,446</u>
Total Expenses	<u>132,575</u>	<u>77,530</u>
OPERATING (LOSS) INCOME	<u>(49,236)</u>	<u>10,732</u>
OTHER INCOME (EXPENSE)		
Other income	11,428	7,201
Interest income	23	7
Interest expense	<u>(3,320)</u>	<u>(2,484)</u>
Total Other Income	<u>8,131</u>	<u>4,724</u>
NET (LOSS) INCOME	<u>\$ (41,105)</u>	<u>\$ 15,456</u>

See accompanying notes to the Condensed Financial Statements

MORNINGSTAR PARTNERS, L.P.
Condensed Statements of Cash Flows (Unaudited)

(in thousands)

	<u>Six months ended June 30,</u>	
	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Net (loss) income	\$ (41,105)	\$ 15,456
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, depletion and amortization	19,717	18,831
Accretion of discount in asset retirement obligation	2,970	2,412
Gain on forgiveness of long-term debt	—	(7,152)
Derivative fair value loss	134,328	—
Net cash paid to counterparties	(42,167)	—
Other non-cash items	340	312
Changes in operating assets and liabilities ^(a)	<u>(5,595)</u>	<u>1,238</u>
Cash Provided by Operating Activities	<u>68,488</u>	<u>31,097</u>
INVESTING ACTIVITIES		
Proved property acquisitions	(3,754)	(16)
Development costs	(2,201)	(5,588)
Unproved property acquisitions	(49)	(48)
Other property and asset additions	<u>(1,895)</u>	<u>(54)</u>
Cash Used by Investing Activities	<u>(7,899)</u>	<u>(5,706)</u>
FINANCING ACTIVITIES		
Proceeds from long-term debt	751,000	728,000
Payments on long-term debt	(804,000)	(751,000)
Debt issuance costs	(91)	(11)
Capitalized offering costs	(544)	—
Distributions	<u>(6,480)</u>	<u>—</u>
Cash Used by Financing Activities	<u>(60,115)</u>	<u>(23,011)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	474	2,380
Cash and Cash Equivalents, beginning of period	<u>7,547</u>	<u>21,933</u>
Cash and Cash Equivalents, end of period	<u>\$ 8,021</u>	<u>\$ 24,313</u>
(a) Changes in Operating Assets and Liabilities		
Accounts receivable	\$ (24,461)	\$ 1,098
Other current assets	(2,081)	(706)
Aid-in-construction	238	—
Current liabilities	20,879	1,168
Other operating liabilities	<u>(170)</u>	<u>(322)</u>
	<u>\$ (5,595)</u>	<u>\$ 1,238</u>

See accompanying notes to the Condensed Financial Statements

MORNINGSTAR PARTNERS, L.P.
Condensed Statements of Members' Equity (Unaudited)

(in thousands)

	<u>Series 3 Preferred</u>	<u>Series 5 Preferred</u>	<u>Common</u>	<u>Total</u>
Balances, December 31, 2021	\$ 34,295	\$ 206,074	\$ 300,990	\$ 541,359
Net loss	—	—	(41,105)	(41,105)
Increase in members' equity from in-kind distributions	—	—	857	857
Distributions	—	—	(6,480)	(6,480)
In-kind distributions	—	—	(857)	(857)
Balances, June 30, 2022	<u>\$ 34,295</u>	<u>\$ 206,074</u>	<u>\$ 253,405</u>	<u>\$ 493,774</u>

See accompanying notes to the Condensed Financial Statements

MORNINGSTAR PARTNERS, L.P.
Notes to Financial Statements

1. Organization and Description of the Business

MorningStar Partners, L.P. (MorningStar or the Company), is an independent oil and gas company that was formed as a Delaware limited partnership in January 2012 (with an effective inception of operations at January 18, 2012). The operations of MorningStar are governed by the provisions of the partnership agreement, as amended, executed by the general partner, MorningStar Oil & Gas, LLC (MSOG) and the limited partners. MSOG is the manager of MorningStar and is paid a quarterly management fee equal to 1% of revenue, less production expense, severance taxes and other deductions, at the discretion of the MorningStar board of directors. Under the amended partnership agreement, this management fee is currently suspended. MorningStar is governed by a board of directors made up of five officers and five outside investors. The agreement includes specific provisions with respect to the maintenance of the capital accounts of each of the Company's partners. Pursuant to applicable provisions of the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act") and the limited partnership agreement, the partners have no liability for the debts, obligations and liabilities of MorningStar, except as expressly required in the limited partnership agreement or the Delaware Act. MorningStar will remain in existence unless and until dissolved in accordance with the terms of the partnership agreement.

MorningStar's assets include its investment in Cross Timbers Energy, LLC (Cross Timbers Energy), an unincorporated joint venture between XTO Energy Inc., HHE Energy Company and XH LLC (the XTO entities) and MorningStar. The XTO entities and MorningStar each own 50% of Cross Timbers Energy, and MorningStar is the manager of the joint venture. The joint venture is governed by a Member Management Committee (MMC) and is comprised of six representatives, three each from the XTO entities and MorningStar, with each group having one voting member. All matters that come before the MMC require the unanimous consent of the voting members. On the last day of each calendar quarter, Cross Timbers Energy distributes all excess cash to the members based on their ownership percentage of 50% each, except for earnings from the note receivable which is owned 95% by the XTO entities and 5% by MorningStar (Note 5). Cross Timbers Energy's properties are located primarily in the San Juan Basin of New Mexico and Colorado and the Permian Basin of West Texas and New Mexico.

MorningStar also has a wholly-owned subsidiary, MorningStar Operating, LLC which owns oil and gas assets located primarily in the San Juan Basin of New Mexico and Colorado and the Permian Basin of West Texas and New Mexico.

2. Basis of Presentation and Significant Accounting Policies

The condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and on the same basis as our audited financial statements as of December 31, 2021. The condensed balance sheet as of June 30, 2022 and the condensed statements of operations and cash flows for the periods presented herein are not audited but reflect all adjustments that are of a normal recurring nature and are necessary for a fair statement of results for the periods shown. Certain information and note disclosures normally included in annual financial statements have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Because the condensed interim financial statements do not include all of the information and notes required by US GAAP for a complete set of financial statements, they should be read in conjunction with the audited financial statements referred to above. The results and trends in these interim financial statements may not be indicative of results for the full year.

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Significant Accounting Policies

For a complete description of MorningStar's significant accounting policies, see our annual audited financial statements.

3. Acquisitions

In August 2022, MorningStar completed the acquisition of additional interest in our producing properties and gas processing plant in the Permian Basin of New Mexico from Vendera Resources for approximately \$52.6 million. Our purchase price allocation included \$49.6 million to proved properties, \$9.8 million to other properties, \$3.6 million as a reduction to other current assets, \$0.1 million to other current liabilities and \$3.1 million to asset retirement obligation. The acquisition was funded by borrowings from our credit facility.

In February 2022, MorningStar completed the acquisition of producing properties in the Permian Basin of Texas from Kaiser Francis for approximately \$3.8 million. Our purchase price allocation included \$4.0 million to proved properties and \$0.2 million to asset retirement obligation. The acquisition was funded by cash on hand.

In December 2021, MorningStar completed the acquisition of producing properties in the Permian Basin of Texas from Chevron for approximately \$43.8 million. Our purchase price allocation included \$47.2 million to proved properties and \$3.4 million to asset retirement obligation. The acquisition was funded by cash on hand and borrowings from our credit facility.

In November 2021, MorningStar completed the acquisition of producing properties and a gas processing plant in the Permian Basin of New Mexico and CO₂ assets in Colorado from Chevron for approximately \$175.4 million. Our purchase price allocation included \$145.2 million to proved properties, \$33.3 million to other properties, \$4.3 million to other current assets and \$7.4 million to asset retirement obligation. The acquisition was funded by cash on hand from the October 2021 capital raise and borrowings from our credit facility.

4. Related Party Transactions

We earned management fees from Cross Timbers Energy of \$3.0 million for the six months ended June 30, 2022 and \$3.3 million for the six months ended June 30, 2021.

5. Debt

<i>(in thousands)</i>	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Credit Facility, 4.7% at June 30, 2022 and 4.0% at December 31, 2021	\$ 92,000	\$ 145,000
MorningStar Partners Loan, 4.4% at June 30, 2022 and 3.4% at December 31, 2021	<u>\$ 7,100</u>	<u>\$ 7,100</u>
Total Long-term Debt	<u>\$99,100</u>	<u>\$ 152,100</u>

November 2021 MorningStar Partners Credit Facility

On November 1, 2021, we entered into a new four-year, \$165 million senior secured credit facility with certain commercial banks. The facility has a maturity date of November 1, 2025. We

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use the facility for general corporate purposes. In connection with entering into the credit facility, as of June 30, 2022, we incurred financing fees and expenses of approximately \$2.8 million before accumulated amortization of \$0.5 million. These costs are being amortized over the life of the credit facility. Such amortized expenses are recorded as interest expense on the statements of operations.

Redetermination of the borrowing base under the credit facility, is based primarily on reserve reports that reflect commodity prices at such time, occurs semi-annually, in March and September, as well as upon requested interim redeterminations, by the lenders at their sole discretion. We also have the right to request additional borrowing base redeterminations each year at our discretion. Significant declines in commodity prices may result in a decrease in the borrowing base. These borrowing base declines can be offset by any commodity price hedges we enter. Our obligations under the credit facility are secured by all assets of the Company, including without limitation (i) our interest in the Cross Timbers Energy, (ii) all our deposit accounts, securities accounts, and commodities accounts, (iii) any receivables owed to us by Cross Timbers Energy and (iv) any oil and gas properties owned directly by MorningStar or its wholly-owned subsidiaries. We are required to maintain (i) a current ratio greater than 1.0 and current assets shall include availability under the credit facility but shall exclude the fair value of derivative instruments and (ii) a ratio of total indebtedness-to-EBITDAX of not greater than 3.0 to 1.0. The total indebtedness-to-EBITDAX calculation is limited to Cross Timbers Energy's EBITDAX that has been paid in cash to MorningStar through distributions, MorningStar Operating's EBITDAX results and realized hedge gains less realized hedge losses and the consolidated expenses of MorningStar and its subsidiaries. EBITDAX means net income plus interest expense; income taxes paid; depreciation, depletion and amortization; exploration expenses, including workover expenses; non-cash charges including unrealized losses on derivative instruments; and, any extraordinary or non-recurring charges, minus any extraordinary or non-recurring income and any non-cash income including unrealized gains on derivative instruments. We were in compliance with all financial and other covenants of the credit facility as of June 30, 2022. We believe that we have a sufficient combination of resources and operating flexibility to ensure that we remain in compliance with our debt covenants for at least the next 12 months.

At our election, interest on borrowings under the credit facility is determined by reference to either the secured overnight financing rate ("SOFR") plus an applicable margin between 3.00% and 4.00% per annum (depending on the then-current level of borrowings under the Credit Facility) or the alternate base rate ("ABR") plus an applicable margin between 2.00% and 3.00% per annum (depending on the then-current level of borrowings under the Credit Facility). Interest is generally payable quarterly for loans bearing interest based on the ABR and at the end of the applicable interest period for loans bearing interest at SOFR. We are required to pay a commitment fee to the lenders under the Credit Facility, which accrues at a rate per annum of 0.5% on the average daily unused amount of the lesser of: (i) the maximum commitment amount of the lenders and (ii) the then-effective borrowing base.

MorningStar Partners Loan

On September 30, 2016, MorningStar entered into a \$27.1 million loan agreement with Cross Timbers. The proceeds for the loan were taken from the cash held by the offshore subsidiary of Exxon Mobil Corporation and the loan was assigned to the offshore subsidiary (Note 6). The loan matures on January 31, 2026, but is automatically extended should our credit facility be extended. In all instances, this loan will mature ninety-one days after the maturity of the current Morningstar credit facility. Interest on the loan is the lesser of (a) London Interbank Offered Rate ("LIBOR") plus three and one-quarter of one percent (3.25%) per annum, adjusted monthly or (b) the highest rate permitted by applicable law. The note is unsecured, but we are required to stay in compliance with terms of our current credit facility.

6. Note Receivable from Related Party

As of June 30, 2022 and December 31, 2021, we, through our 5% ownership interest in investment assets at Cross Timbers Energy, had a note receivable totaling \$7.1 million outstanding with a highly-rated, offshore subsidiary of Exxon Mobil Corporation. Under the terms of the agreement, there is no stated maturity date and, Cross Timbers Energy may demand repayment of all or any portion of the outstanding balance on two business days' notice. Interest is earned based on the one-month LIBOR rate and is paid monthly. Interest income totaled less than \$0.1 million in the first six months of 2022 and 2021.

The note receivable is treated as a non-current asset, since Cross Timbers does not have any intention of demanding repayment of all or any portion of the outstanding balance at this time. Repayment would require the approval of the Cross Timbers Energy MMC.

7. Asset Retirement Obligation

Our asset retirement obligation primarily represents the estimated present value of the amount we will incur to plug, abandon and remediate our proved producing properties at the end of their productive lives, in accordance with applicable state and federal laws. We determine our asset retirement obligation by calculating the present value of estimated cash flows related to the liability. The following is a summary of changes in MorningStar's asset retirement obligation activity for the six months ended June 30, 2022:

	<i>(in thousands)</i>
Asset retirement obligation, January 1	\$ 104,489
Liability incurred upon acquiring and drilling wells	250
Liability settled upon plugging and abandoning wells	(264)
Accretion of discount expense	<u>2,970</u>
Asset retirement obligation, June 30	107,445
Less current portion	<u>(1,100)</u>
Asset retirement obligation, long term	<u>\$ 106,345</u>

8. Commitments and Contingencies

From time to time, the Company is subject to various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company.

To date, our expenditures to comply with environmental or safety regulations have not been significant and are not expected to be significant in the future. However, new regulations, enforcement policies, claims for damages or other events could result in significant future costs.

9. Fair Value

We use commodity-based and financial derivative contracts to manage exposures to commodity price. We do not hold or issue derivative financial instruments for speculative or trading purposes. We periodically enter into futures contracts, costless collars, energy swaps, swaptions and basis swaps to hedge our exposure to price fluctuations on crude oil, natural gas liquids and natural gas sales (Note 10).

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Fair Value of Financial Instruments

Because of their short-term maturity, the fair value of cash and cash equivalents, accounts receivable and accounts payable approximates their carrying values at June 30, 2022 and December 31, 2021. The following are estimated fair values and carrying values of our other financial instruments at each of these dates:

<i>(in thousands)</i>	Asset (Liability)			
	June 30, 2022		December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Note receivable from related party	\$ 7,130	\$ 7,130	\$ 7,132	\$ 7,132
Long-term debt	\$ (99,100)	\$ (99,100)	\$ (152,100)	\$ (152,100)
Derivative asset	\$ 721	\$ 721	\$ 15,544	\$ 15,544
Derivative liability	\$ (83,904)	\$ (83,904)	\$ (6,567)	\$ (6,567)

The fair value of our note receivable from related party approximates the carrying amount because the interest rate is based on current market interest rates and can be called upon two business days' notice (Note 6). The fair value of our long-term debt approximates the carrying amount because the interest rate is reset periodically at then current market rates (Note 5).

The fair value of our note receivable from related party (Note 6), derivative asset/(liability) (Note 10) and our long-term debt (Note 5) is measured using Level II inputs, and are determined by either market prices on an active market for similar assets or other market-corroborated prices. Counterparty credit risk is considered when determining the fair value of our note receivable and net derivative asset. Since our counterparty is highly rated, the fair value of our note receivable from related party does not require an adjustment to account for the risk of nonperformance by the counterparty, however, an adjustment for counterparty credit risk has been applied to the net derivative asset.

The following table summarizes our fair value measurements and the level within the fair value hierarchy in which the fair value measurements fall.

<i>(in thousands)</i>	Fair Value Measurements			
	June 30, 2022		December 31, 2021	
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Note receivable from related party	\$ 7,130	\$ —	\$ 7,132	\$ —
Long-term debt	\$ (99,100)	\$ —	\$ (152,100)	\$ —
Derivative asset	\$ 721	\$ —	\$ 15,544	\$ —
Derivative liability	\$ (83,904)	\$ —	\$ (6,567)	\$ —

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value

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adjustments whenever events or circumstances indicate that the carrying value of those assets may not be recoverable and are based upon Level 3 inputs. These assets and liabilities can include assets and liabilities acquired in a business combination, proved and unproved natural gas properties, asset retirement obligations and other long-lived assets that are written down to fair value when they are impaired.

We periodically review our long-lived assets to be held and used, including proved oil and natural gas properties, whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. We review our oil and natural gas properties by asset group. The estimated future net cash flows are based upon the underlying reserves and anticipated future pricing. An impairment loss is recognized if the sum of the expected undiscounted future net cash flows is less than the carrying amount of the assets. If the estimated undiscounted future net cash flows are less than the carrying amount of a particular asset, the Company recognizes an impairment loss for the amount by which the carrying amount of the asset exceeds the estimated fair value of such assets. The fair value of the proved properties is measured based on the income approach, which incorporates a number of assumptions involving expectations of future product prices, which the Company bases on the forward-price curves, estimates of oil and gas reserves, estimates of future expected operating and capital costs and a risk adjusted discount rate of 10%. These inputs are categorized as Level 3 in the fair value hierarchy.

Commodity Price Hedging Instruments

We periodically enter into futures contracts, energy swaps, swaptions, collars and basis swaps to hedge our exposure to price fluctuations on crude oil, natural gas and natural gas liquids sales. When actual commodity prices exceed the fixed price provided by these contracts we pay this excess to the counterparty, and when the commodity prices are below the contractually provided fixed price, we receive this difference from the counterparty. See Note 10.

The fair value of our derivatives contracts consists of the following:

	Asset Derivatives		Liability Derivatives	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
<i>(in thousands)</i>				
Derivatives not designated as hedging instruments:				
Crude oil futures and differential swaps	\$ —	\$ 2,342	\$(42,786)	\$ (1,996)
Natural gas liquids futures	\$ —	\$ 685	\$ (5,646)	\$ (204)
Natural gas futures, collars and basis swaps	\$ 721	\$ 12,517	\$(35,472)	\$ (4,367)
Total	\$ 721	\$ 15,544	\$(83,904)	\$ (6,567)

Derivative fair value (gain) loss, included as part of the related revenue line on the consolidated income statements, comprises the following realized and unrealized components:

	Six Months Ended June 30,	
	2022	2021
<i>(in thousands)</i>		
Net cash paid to counterparties	\$ 42,167	\$ —
Non-cash change in derivative fair value	\$ 92,161	\$ —
Derivative fair value loss	\$ 134,328	\$ —

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Concentrations of Credit Risk

Our receivables are from a diverse group of companies including major energy companies, pipeline companies, local distribution companies and end-users in various industries. Letters of credit or other appropriate security are obtained as considered necessary to limit risk of loss from the other companies. Including the bank that issued the letter of credit, we currently have greater concentrations of credit with several investment-grade (BBB- or better) rated companies.

10. Commodity Sales Commitments

Our policy is to consider hedging a portion of our production at commodity prices the general partner deems attractive. While there is a risk we may not be able to realize the benefit of rising prices, the general partner may enter into hedging agreements because of the benefits of predictable, stable cash flows.

We enter futures contracts, energy swaps, swaptions and basis swaps to hedge our exposure to price fluctuations on crude oil, natural gas liquids and natural gas sales. When actual commodity prices exceed the fixed price provided by these contracts we pay this excess to the counterparty, and when the commodity prices are below the contractually provided fixed price, we receive this difference from the counterparty. We also enter costless price collars, which set a ceiling and floor price to hedge our exposure to price fluctuations on natural gas sales. When actual commodity prices exceed the ceiling price provided by these contracts we pay this excess to the counterparty, and when the commodity prices are below the floor price, we receive this difference from the counterparty. If the actual commodity price falls in between the ceiling and floor price, there is no cash settlement.

Crude Oil

We have entered into crude oil futures contracts and swap agreements that effectively fix prices for the production and periods shown below. Prices to be realized for hedged production may be less than these fixed prices because of location, quality and other adjustments. See Note 9.

<u>Production Period</u>	<u>Bbls per Day</u>	<u>Weighted Average NYMEX Price per Bbl</u>
July 2022—December 2022	3,500	\$ 71.28
January 2023—December 2023	2,500	\$ 68.87
January 2024—June 2024	2,000	\$ 63.27

The price we receive for our oil production is generally different than the NYMEX price because of adjustments for delivery location (“basis”), relative quality and other factors. We have entered sell basis swap agreements that effectively fix the basis adjustment for the West Texas Midlands delivery location for the production and periods shown below.

<u>Production Period</u>	<u>Bbls per Day</u>	<u>Weighted Average NYMEX Price per Bbl(a)</u>
July 2022—December 2022	3,000	\$ 0.55

(a) Increases to NYMEX oil price for delivery location

The price we receive for our oil production is generally different than the NYMEX price because of changes in the roll component of the NYMEX price due to the timing of when the

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monthly NYMEX price is set. We have entered sell basis swap agreements that effectively fix the roll component of the NYMEX price for the production and periods shown below.

<u>Production Period</u>	<u>Bbls per Day</u>	<u>Weighted Average NYMEX Price per Bbl(a)</u>
July 2022—December 2022	5,000	\$ 0.50
January 2023—December 2023	1,000	\$ 0.68

(a) Increases to NYMEX oil price for roll component

Net settlement losses on oil futures and sell basis swap contracts decreased oil revenues by \$20.7 million in the first six months of 2022 and \$0.0 in the first six months of 2021. An unrealized loss decreased oil revenues by \$43.1 million in the first six months of 2022 and \$0.0 in the first six months of 2021.

Natural Gas Liquids

We have entered into natural gas liquids futures contracts and swap agreements for certain components—ethane and propane—that effectively fix prices for the production and periods shown below. Prices to be realized for hedged production may be less than these fixed prices because of location, quality and other adjustments. See Note 9.

<u>Production Period</u>	<u>Ethane</u>	<u>Gallons per Day</u>	<u>Weighted Average NGL OPIS Price per Gallon</u>
July 2022—December 2022		63,000	\$ 0.33
January 2023—December 2023		63,000	\$ 0.27
January 2024—June 2024		63,000	\$ 0.23
	<u>Propane</u>		
July 2022—December 2022		31,500	\$ 1.01

Net settlement losses on NGL futures contracts decreased NGL revenues by \$3.4 million in the first six months of 2022 and \$0.0 in the first six months of 2021. An unrealized loss decreased NGL revenues by \$6.1 million in the first six months of 2022 and \$0.0 in the first six months of 2021.

Natural Gas

We have entered into natural gas futures contracts and swap agreements that effectively fix prices for the production and periods shown below. Prices to be realized for hedged production may be less than these fixed prices because of location, quality and other adjustments. See Note 9.

<u>Production Period</u>	<u>MMBtu per Day</u>	<u>Weighted Average NYMEX Price per MMBtu</u>
July 2022—December 2022	45,000	\$ 4.23
January 2023—December 2023	35,000	\$ 3.51
January 2024—June 2024	30,000	\$ 3.26

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We have also entered into gas collars that set a ceiling and floor price for the production and periods shown below.

Production Period	MMBtu per Day	Weighted Average NYMEX Price per MMBtu	
		Floor	Ceiling
July 2022—December 2022	15,000	\$ 3.50	\$ 5.85
January 2023—March 2023	5,000	\$ 5.00	\$ 9.85
January 2024—June 2024	5,000	\$ 3.75	\$ 7.25

The price we receive for our gas production is generally less than the NYMEX price because of adjustments for delivery location (“basis”), relative quality and other factors. We have entered sell basis swap agreements that effectively fix the basis adjustment for the San Juan Basin delivery location for the production and periods shown below.

Production Period	MMBtu per Day	Weighted Average Sell Basis Price per MMBtu(a)	
July 2022—December 2022	70,000	\$	0.22
January 2023—December 2023	20,000	\$	0.15

(a) Reductions to NYMEX gas price for delivery location

Net settlement losses on gas futures and sell basis swap contracts decreased gas revenues by \$18.1 million in the first six months of 2022 and \$0.0 in the first six months of 2021. An unrealized loss to record the fair value of derivative contracts decreased gas revenues by \$42.9 million in the first six months of 2022 and \$0.0 in the first six months of 2021.

11. Revenue from Contracts with Customers

The Company recognizes sales of oil, natural gas, and NGLs when it satisfies a performance obligation by transferring control of the product to a customer, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for the product.

As discussed in Note 10, the Company recognizes the impact of derivative gains and losses as a component of revenue. See table below for the reconciliation of revenue from contracts with customers and derivative gains and losses.

	For the Six Months Ended June 30, 2022			Total Revenues
	Oil and condensate	Natural gas liquids	Natural gas	
	(in thousands)			
Revenue from customers	\$ 105,409	\$ 25,485	\$ 86,773	\$ 217,667
Unrealized gain (loss) on derivatives	(43,131)	(6,128)	(42,902)	(92,161)
Realized gain (loss) on derivatives	(20,670)	(3,384)	(18,113)	(42,167)
Total revenues	<u>\$ 41,608</u>	<u>\$ 15,973</u>	<u>\$ 25,758</u>	<u>\$ 83,339</u>

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	For the Six Months Ended			Total
	June 30, 2021			
	Oil and condensate	Natural gas liquids	Natural gas	Revenues
	(in thousands)			
Revenue from customers	\$ 25,577	\$ 10,496	\$ 52,189	\$ 88,262
Unrealized gain (loss) on derivatives	—	—	—	—
Unrealized gain (loss) on derivatives	—	—	—	—
Total Revenues	<u>\$ 25,577</u>	<u>\$ 10,496</u>	<u>\$ 52,189</u>	<u>\$ 88,262</u>

Natural Gas and NGL Sales

Under our natural gas processing contracts, we deliver natural gas to a midstream processing entity at the wellhead or at the inlet of a facility. The midstream provider gathers and processes the product and both the residue gas and the resulting natural gas liquids are sold at the tailgate of the plant. The Company's natural gas production is primarily sold under market-sensitive contracts that are typically priced at a differential to the published natural gas index price for the producing area due to the natural gas quality and the proximity to the market. We evaluated these arrangements and determined that control of the products transfers at the tailgate of the plant, meaning that the Company is the principal and the third-party purchaser is its customer. As such, we present the gas and NGL sales on a gross basis and the related gathering and processing costs as a component of taxes, transportation, and other on the statement of operations.

Oil and Condensate Sales

Oil production is sold at the wellhead under market-sensitive contracts at an index price, net of pricing differentials. The Company recognizes revenue when control transfers to the purchaser at the wellhead at the net price received from the customer. This treatment after the adoption of ASC 606 is consistent with the treatment under ASC 605 and has no impact on revenues or expenses on the statement of operations.

Production imbalances

The Company uses the sales method to account for production imbalances. If the Company's sales volumes for a well exceed the Company's proportionate share of production from the well, a liability is recognized to the extent that the Company's share of estimated remaining recoverable reserves from the well is insufficient to satisfy the imbalance. No receivables are recorded for those wells on which the Company has taken less than its proportionate share of production.

Contract Balances

Under the Company's product sales contracts, its customers are invoiced once the Company's performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company's product sales contracts do not give rise to contract assets or contract liabilities.

Performance Obligations

The majority of the Company's sales are short-term in nature with a contract term of one year or less. For those contracts, the Company has utilized the practical expedient in ASC 606-10-50-14 exempting the Company from disclosures of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original duration of one year or less.

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For the Company's product sales that have a contract term greater than one year, the Company has utilized the practical expedient in ASC 606-10-50-14(a), which states the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these contracts, each unit of product generally represents a separate performance obligation; therefore, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligation is not required.

12. Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2022 and December 31, 2021:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Accrued production expenses	\$ 23,593	\$ 16,815
Accrued severance taxes	4,467	3,511
Accrued capital expenditures	2,728	541
Accrued ad valorem taxes	2,576	2,211
Other accrued liabilities	<u>1,218</u>	<u>680</u>
Total accrued liabilities	<u>\$ 34,582</u>	<u>\$ 23,758</u>

13. Supplemental Cash Flow Information

Interest payments totaled \$3.4 million for the six months ended June 30, 2022 and \$2.2 million for the six months ended June 30, 2021. Income tax payments were \$0.5 million during the six months ended June 30, 2022 and \$0.1 million during the six months ended June 30, 2021.

14. Subsequent Events

We have evaluated subsequent events through the date the financial statements were available to be issued.

VACUUM PROPERTIES

Statement of Revenues and Direct Operating Expenses

Period from January 1, 2021 through October 31, 2021

Auditor Report

Independent Auditors' Report

To the Partners
MorningStar Partners, L.P.:

We have audited the accompanying statement of revenues and direct operating expenses (the Statement) of certain oil and gas properties acquired from Chevron U.S.A. Inc. (the Vacuum Properties) by MorningStar Partners, L.P. (the Company) for the period from January 1, 2021 to October 31, 2021, and the related notes to the Statement.

Management's Responsibility for the Statement

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Statement, 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 Statement 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 Statement.

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

Basis of Accounting

The accompanying Statement referred to above was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission. The Statement is not intended to be a complete presentation of the operations of the Vacuum Properties.

Opinion

In our opinion, the Statement referred to above present fairly, in all material respects, the revenues and direct operating expenses of the Vacuum Properties for the period from January 1, 2021 to October 31, 2021, in accordance with U.S. generally accepted accounting principles.

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Other Matter

U.S. generally accepted accounting principles require that the Supplementary Oil and Gas Disclosures contained herein be presented to supplement the basic Statement. Such information, although not a part of the basic Statement, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic Statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic Statement, and other knowledge we obtained during our audit of the basic Statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

[(signed) KPMG LLP]

Dallas, Texas
August 31, 2022

MorningStar Operating LLC
Statement of Revenues and Direct Operating
Expenses of the Vacuum Properties (as described in Note 1)

(in thousands)

	Period From January 1, 2021 to October 31, 2021
REVENUES	
Oil and condensate	\$ 48,215
Natural gas liquids	1,935
Gas	178
Other	<u>3,173</u>
Total Revenues	<u>53,501</u>
DIRECT OPERATING EXPENSES	
Production	30,150
Taxes, transportation and other	<u>5,062</u>
Total Direct Operating Expenses	<u>35,212</u>
Revenues in Excess of Direct Operating Expenses	<u>\$ 18,289</u>

See accompanying notes to Statements of Revenues and Direct Operating Statements.

**Notes to the Statements of Revenues and Direct Operating Expenses
of the Vacuum Properties**

(1) Basis of Presentation

On November 1, 2021, MorningStar Partners, LP and MorningStar Operating LLC (collectively, the “MorningStar Entities”) completed the acquisition from Chevron U.S.A. Inc., Chevron Midcontinent, L.P. and XBM Production, L.P. (collectively, the “Chevron Entities”) of producing properties and a gas processing plant in the Vacuum field of New Mexico and carbon dioxide (CO₂) assets in Colorado (“Vacuum Properties”) for approximately \$175.4 million. The purchase price was allocated primarily to proved properties and the gas processing and gathering plant. The acquisition was funded by cash contributions from MorningStar Partners’ limited partners and borrowings under the MorningStar Partners credit facility.

The accompanying audited statement includes revenues from oil, natural gas liquids and natural gas production and direct operating expenses associated with the Vacuum Properties and were derived from the Chevron Entities’ consolidated historical accounting records. The accompanying statement varies from a complete income statement in accordance with US GAAP in that they do not reflect certain indirect expenses that were incurred in connection with the ownership and operation of the Vacuum Properties including, but not limited to, general and administrative expenses, interest expense and income tax expense. These costs were not separately allocated to the Vacuum Properties in the accounting records of the Chevron Entities. In addition, these allocations, if made using historical general and administrative structures and tax burdens, would not produce allocations that would be indicative of the historical performance of the Vacuum Properties had it been a MorningStar Entities property due to the differing size, structure, operations and accounting policies of the Chevron Entities and the MorningStar Entities. The accompanying statement also does not include provisions for depreciation, depletion, amortization and accretion, as such amounts would not be indicative of the costs that the MorningStar Entities will incur upon the allocation of the purchase price paid for the Vacuum Properties. Furthermore, no balance sheet has been presented for the Vacuum Properties because the acquired properties were not accounted for as a separate subsidiary or division of the Chevron Entities and complete financial statements are not available, nor has information about the Vacuum Properties’ operating, investing and financing cash flows been provided for similar reasons. Accordingly, the historical Statement of Revenues and Direct Operating Expenses of the Vacuum Properties is presented in lieu of the full financial statements required under Item 3-05 of Securities and Exchange Commission (“SEC”) Regulation S-X.

This Statement of Revenues and Direct Operating Expenses is not indicative of the results of operations for the Vacuum Properties on a go forward basis.

(2) Summary of Significant Accounting Policies

Use of Estimates—The Statement of Revenues and Direct Operating Expenses is derived from the historical operating statements of the Chevron Entities. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of revenues and direct operating expenses during the respective reporting periods. Actual results could be different from those estimates.

Revenue Recognition—Total revenues in the accompanying statements include the sale of crude oil, natural gas liquids and natural gas, net of royalties as well as related income from the

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gas processing plant and sales of CO₂. The Chevron Entities recognize revenues upon the satisfaction of the applicable performance obligation, which occurs at the point in time when control of the product transfers to a customer, in an amount that reflects the consideration to which the Chevron Entities expects to be entitled in exchange for such product.

During the period from January 1, 2021 to October 31, 2021, no customers accounted for more than 10% of the total revenues of the Vacuum Properties.

Direct Operating Expenses—Direct operating expenses are recognized when incurred and consist of direct expenses of operating the Vacuum Properties. The direct operating expenses include lease operating, production taxes, processing and transportation expenses. Lease operating expenses include lifting costs, well repair expenses, facility maintenance expenses, well workover costs, and other field related expenses. Lease operating expenses also include expenses directly associated with support personnel, support services, equipment, and facilities directly related to oil and gas production activities.

(3) Contingencies

The activities of the Vacuum Properties may become subject to potential claims and litigation in the normal course of operations. The MorningStar Entities do not believe that any liability resulting from any pending or threatened litigation will have a material adverse effect on the operations or financial results of the Vacuum Properties.

(4) Subsequent Events

The MorningStar Entities have evaluated events through August 31, 2022, the date the Statements of Revenues and Direct Operating Expenses were available to be issued, and are not aware of any events that have occurred that require adjustments to or disclosure in the financial statements.

Supplementary Oil and Gas Disclosures (Unaudited)

Supplemental reserve information

The following unaudited supplemental reserve information summarizes the net proved reserves of oil, natural gas liquids and natural gas and the standardized measure thereof attributable to the Vacuum Properties as of November 1, 2021 and December 31, 2020 and for the period from January 1, 2021 to November 1, 2021 attributable to the Vacuum Properties. All of the reserves are located in the United States. The reserve disclosures are based on reserve studies prepared in accordance with the guidelines established by the SEC.

There are numerous uncertainties inherent in estimating quantities and values of proved reserves and in projecting future rates of production and the amount and timing of development expenditures, including many factors beyond the property owner's control. Reserve engineering is a subjective process of estimating the recovery from underground accumulations of oil, natural gas liquids and natural gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Because all reserve estimates are to some degree subjective, the quantities of oil, natural gas liquids and natural gas that are ultimately recovered, production and operating costs, the amount and timing of future development expenditures and future oil, natural gas liquids and natural gas sales prices may each differ from those assumed in these estimates. In addition, different reserve engineers may make different estimates of reserve quantities and cash flows based upon the same available data. The standardized measure shown below represents

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estimates only and should not be construed as the current market value of the estimated oil, natural gas liquids and natural gas reserves attributable to the Vacuum Properties. In this regard, the information set forth in the following tables includes revisions of reserve estimates attributable to proved properties included in the preceding year's estimates. Such revisions reflect additional information from subsequent development activities, production history of the Vacuum Properties and any adjustments in the projected economic life of such property resulting from changes in product prices.

Estimated quantities of oil, NGL and gas reserves

The following table sets forth certain data pertaining to the Vacuum Properties proved developed reserves as of November 1, 2021 and December 31, 2020 and for the period from December 31, 2020 to November 1, 2021.

	Oil (MBbl)	NGL (MBbl)	Gas (MMCF)	Total (MBoe)
November 1, 2021				
Proved Reserves				
Beginning balance, December 31, 2020	19,042	3,302	2,317	22,730
Revision of previous estimates	2,549	193	294	2,791
Production	(747)	(48)	(84)	(809)
Ending balance, November 1, 2021	<u>20,844</u>	<u>3,447</u>	<u>2,527</u>	<u>24,712</u>
Proved Developed Reserves December 31	<u>12,426</u>	<u>2,738</u>	<u>1,950</u>	<u>15,489</u>
Proved Undeveloped Reserves December 31	<u>6,616</u>	<u>564</u>	<u>367</u>	<u>7,241</u>
Proved Developed Reserves November 1	<u>14,097</u>	<u>2,861</u>	<u>2,146</u>	<u>17,316</u>
Proved Undeveloped Reserves November 1	<u>6,747</u>	<u>586</u>	<u>381</u>	<u>7,396</u>

Revisions of previous estimates for all periods are primarily attributed to increases in commodity prices. As commodity prices increase, the estimated useful life of the wells extend, thereby increasing the ultimate recoverable reserves.

Standardized Measure of Discounted Future Net Cash Flows

The Standardized Measure of Discounted Future Net Cash Flows (excluding income tax expense) relating to proved crude oil, natural gas liquids and natural gas reserves is presented below:

	November 1, 2021
Future cash inflows	\$ 1,421,961
Future development and abandonment costs(a)	(48,151)
Future production expense	<u>(712,056)</u>
Future net cash flows	661,754
Discounted at 10% per year	<u>(384,315)</u>
Standardized measure of discounted future net cash flows	<u>\$ 277,439</u>

(a) Future development and abandonment costs include \$22.1 million as of November 1, 2021 and as of December 31, 2020, of undiscounted future asset retirement expenditures estimated as of those dates using current estimates of future abandonment costs.

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The Standardized Measure of Discounted Future Net Cash Flows (discounted at 10%) from production of proved reserves was developed as follows:

- An estimate was made of the quantity of proved reserves and the future periods in which they are expected to be produced based on current economic conditions.
- In accordance with SEC guidelines, the engineers' estimates of future net revenues from proved properties and the present value thereof are made using the twelve-month average of the first-day-of-the-month reference prices as adjusted for location and quality differentials. These prices are held constant throughout the life of the properties, except where such guidelines permit alternate treatment. Average realized oil prices used in the estimation of proved reserves and calculation of the standardized measure were \$58.41 for 2021 and \$37.28 for 2020. Average realized natural gas liquids prices were \$27.86 for 2021 and \$18.61 for 2020. Average realized gas prices were \$2.13 for 2021 and \$0.91 for 2020.
- The future gross revenue streams were reduced by estimated future operating costs and future development and abandonment costs, all of which were based on current costs in effect at the date presented and held constant throughout the life of the properties.

As described in Note 1, these Statements of Revenue and Direct Operating Expenses do not include income tax expense or balance sheet information; therefore, income tax and capital expenditure estimates were omitted from the Standardized Measure of Discounted Future Net Cash Flows calculation. The principal sources of changes in the Standardized Measure of Discounted Future Net Cash Flows for each of the periods presented below are as follows:

	Period From December 31, 2020 to October 31, 2021
Balance, beginning of year	\$ 109,720
Oil and gas sales, net of production costs	(18,289)
Net change in sales prices and production costs	136,525
Changes in production rates (timing) and other	2,754
Revision of quantity estimates	35,757
Accretion of discount	10,972
Standardized measure of discounted future net cash flows	<u>\$ 277,439</u>

APPENDIX A

SEVENTH AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF TXO ENERGY PARTNERS

[To be filed by amendment]

APPENDIX B

GLOSSARY OF OIL AND GAS TERMS AND OTHER TERMS

The terms and abbreviations defined in this section are used throughout this prospectus:

“**Basin.**” A large natural depression on the earth’s surface in which sediments generally brought by water accumulate.

“**Bbl.**” One stock tank barrel, of 42 U.S. gallons liquid volume, used herein in reference to crude oil, condensate or NGL.

“**Boe.**” One barrel of oil equivalent, converting natural gas to oil at the ratio of 6 Mcf of natural gas to one Bbl of oil.

“**British Thermal Unit**” or “**Btu.**” The quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

“**Completion.**” The process of treating a drilled well followed by the installation of permanent equipment for the production of natural gas or oil, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

“**Developed acreage.**” The number of acres that are allocated or assignable to productive wells or wells capable of production.

“**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 related 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.

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

“**Dry hole.**” A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

“**Existing Owners.**” The holders of our existing equity interests.

“**Field.**” An area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations. For a complete definition of field, refer to the SEC’s Regulation S-X, Rule 4-10(a)(15).

“**Formation.**” A layer of rock which has distinct characteristics that differs from nearby rock.

“**Founders.**” Bob R. Simpson, our Chief Executive Officer, Brent W. Clum, our President of Business Operations and Chief Financial Officer, Keith A. Hutton, our President of Production and Development and Vaughn O. Vennerberg II, our Executive Vice President.

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“**Fracturing**” or “**fracture stimulation techniques**.” The technique of improving a well’s production or injection rates by pumping a mixture of fluids into the formation and rupturing the rock, creating an artificial channel. As part of this technique, sand or other material may also be injected into the formation to keep the channel open, so that fluids or natural gases may more easily flow through the formation.

“**Gross acres or gross wells**.” The total acres or wells, as the case may be, in which a working interest is owned.

“**Held by Production**.” Acreage covered by a mineral lease that perpetuates a company’s right to operate a property as long as the property produces a minimum paying quantity of oil or gas.

“**Horizontal drilling**.” A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle within a specified interval.

“**Hydraulic fracturing**.” The technique of improving a well’s production or injection rates by pumping a mixture of fluids into the formation and rupturing the rock, creating an artificial channel. As part of this technique, sand or other material may also be injected into the formation to keep the channel open, so that fluids or natural gases may more easily flow through the formation.

“**Injection Wells**.” A well in which fluids are injected rather than produced, the primary objective typically being to maintain reservoir pressure.

“**Lease operating expenses**.” The expenses of lifting oil or natural gas from a producing formation to the surface, constituting part of the current operating expenses of a working interest, and also including labor, superintendence, supplies, repairs, short-lived assets, maintenance, allocated overhead costs, workover, ad valorem taxes, insurance and other expenses incidental to production, but excluding lease acquisition or drilling or completion expenses.

“**MBbl**.” One thousand barrels of crude oil, condensate or NGLs.

“**MBoe**.” One thousand Boe.

“**Mcf**.” One thousand cubic feet of natural gas.

“**MMBoe**.” One million Boe.

“**MMBtu**.” One million Btu.

“**MMcf**.” One million cubic feet of natural gas.

“**Natural gas liquids (“NGLs”)**.” Hydrocarbons found in natural gas which may be extracted as liquefied petroleum gas and natural gasoline.

“**Net acres or net wells**.” The percentage of total acres an owner has out of a particular number of acres, or a specified tract. An owner who has 50% interest in 100 acres owns 50 net acres.

“**Net royalty acres**.” Mineral ownership standardized to a 12.5%, or 1/8th, royalty interest.

“**NYMEX**.” The New York Mercantile Exchange.

“**OPIS**.” The Oil Price Information Service.

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“Possible reserves.” Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. 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. 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. 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. 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. 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. 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.

“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. 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. 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. Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.

“Productive well.” A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes.

“Proved reserves.” Proved oil and natural gas reserves are those quantities of oil and natural 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

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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. For a complete definition of proved crude oil and natural gas reserves, refer to the SEC's Regulation S-X, Rule 4-10(a)(22).

“Proved undeveloped reserves (“PUD”). Proved reserves 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. Undrilled locations can be classified as having proved undeveloped reserves only if a development plan has been adopted indicating that such locations are scheduled to be drilled within five years, unless specific circumstances justify a longer time.

“PV-10.” When used with respect to oil and natural gas reserves, PV-10 represents the present value of estimated future cash inflows from proved oil and gas reserves, less future development and production costs, discounted at 10% per annum to reflect the timing of future cash flows. Calculation of PV-10 does not give effect to derivatives transactions. Our PV-10 has historically been computed on the same basis as our standardized measure of discounted future net cash flows (the “Standardized Measure”), the most comparable measure under GAAP, but does not include a provision for either future well abandonment costs or the Texas gross margin tax. PV-10 is not a financial measure calculated or presented in accordance with GAAP and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of either well abandonment costs or income taxes on future net revenues. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and natural gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.

“Recompletion.” The process of re-entering an existing wellbore that is either producing or not producing and completing new reservoirs in an attempt to establish or increase existing production.

“Reservoir.” A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

“Standardized Measure.” Standardized Measure is our standardized measure of discounted future net cash flows, which is prepared using assumptions required by the Financial Accounting Standards Board. Such assumptions include the use of 12-month average prices for oil and gas, based on the first-day-of-the-month price for each month in the period, and year end costs for estimated future development and production expenditures to produce year-end estimated proved reserves. Discounted future net cash flows are calculated using a 10% rate. No provision is included for federal income taxes since our future net cash flows are not subject to taxation. However, our operations are subject to the Texas franchise tax. Estimated well abandonment costs, net of salvage values, are deducted from the standardized measure using year-end costs and discounted at the 10% rate. The standardized measure does not represent management's estimate of our future cash flows or the value of proved oil and natural gas reserves. Probable and possible reserves, which may become proved in the future, are excluded from the calculations. Furthermore, prices used to determine the standardized measure are influenced by supply and demand as effected by recent economic conditions as well as other factors and may not be the most representative in estimating future revenues or reserve data.

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“**Undeveloped acreage.**” Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas, regardless of whether such acreage contains proved reserves.

“**Wellbore.**” The hole drilled by the bit that is equipped for oil and natural gas production on a completed well. Also called well or borehole.

“**Working interest.**” The right granted to the lessee of a property to explore for and to produce and own oil and natural gas or other minerals. The working interest owners bear the exploration, development, and operating costs on either a cash, penalty, or carried basis.

“**Workover.**” Operations on a producing well to restore or increase production.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other expenses of issuance and distribution

The following table sets forth an itemized statement of the amounts of all expenses (excluding underwriting discounts and commissions) payable by us in connection with the registration of the common units offered hereby. With the exception of the SEC registration fee, FINRA filing fee and NYSE listing fee, the amounts set forth below are estimates.

SEC registration fee	*
FINRA filing fee	*
NYSE listing fee	*
Accountants' fees and expenses	*
Legal fees and expenses	*
Engineering expenses	*
Printing and engraving expenses	*
Transfer agent and registrar fees	*
Miscellaneous	*
Total	*

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers

TXO Energy Partners, L.P.

Subject to any terms, conditions or restrictions set forth in the partnership agreement, Section 17-108 of the Delaware Revised Uniform Limited Partnership Act empowers a Delaware limited partnership to indemnify and hold harmless any partner or other persons from and against any and all claims and demands whatsoever. The section of the prospectus entitled "The Partnership Agreement—Indemnification" discloses that we will indemnify officers, directors and affiliates of the general partner to the fullest extent permitted by law against all losses, claims, damages or similar events, unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the applicable person acted in bad faith or engaged in intentional fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal, and is incorporated herein by this reference.

The underwriting agreement to be entered into in connection with the sale of the securities offered pursuant to this registration statement, the form of which will be filed as an exhibit to this registration statement, provides for the indemnification of TXO Energy Partners, L.P. and our general partner, their officers and directors, and any person who controls our general partner, including indemnification for liabilities under the Securities Act.

TXO Energy GP, LLC

Subject to any terms, conditions or restrictions set forth in the limited liability company agreement, Section 18-108 of the Delaware Limited Liability Company Act empowers a Delaware limited liability company to indemnify and hold harmless any member or manager or other person from and against any and all claims and demands whatsoever.

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Under the amended and restated limited liability agreement of our general partner, in most circumstances, our general partner will indemnify the following persons, to the fullest extent permitted by law, from and against any and all losses, claims, damages, liabilities (joint or several), expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all claims, demands, actions, suits or proceedings (whether civil, criminal, administrative or investigative):

- any person who is or was an affiliate of our general partner (other than us and our subsidiaries);
- any person who is or was a member, partner, officer, director, employee, agent or trustee of our general partner or any affiliate of our general partner;
- any person who is or was serving at the request of our general partner or any affiliate of our general partner as an officer, director, employee, member, partner, agent, fiduciary or trustee of another person; and
- any person designated by our general partner.

Our general partner will purchase insurance covering its officers and directors against liabilities asserted and expenses incurred in connection with their activities as officers and directors of our general partner or any of its direct or indirect subsidiaries.

Item 15. Recent Sales of Unregistered Securities

On October 1, 2022, the Company's outstanding Series 3 Preferred Units will convert into common units.

Prior to closing of the initial public offering, the Company will enter into a series of reorganization transactions pursuant to which each Series 3 warrant and Series 5 Preferred Unit will be exchanged for common units. Following such transactions, the Existing Owners in TXO Energy Partners will contribute all outstanding equity interest in the Company to a new parent company, MorningStar Partners II, L.P., a Delaware limited partnership, in exchange for equity interests in MorningStar Partners II, L.P.

In September 2019, the Company entered into the Series 3 Preferred Unit Purchase Agreement, pursuant to which the Company issued 1,372,000 Series 3 Preferred Units for \$34.3 million, including reductions of \$1.4 million in amounts payable due to the general partner in lieu of payment, to meet certain financing needs, including reducing the Company's then-outstanding debt.

In July 2020, the Company entered into the Series 4 Preferred Unit Purchase Agreement, pursuant to which the Company issued 534 Series 4 Preferred Units for \$50.7 million. The proceeds from the offering were used to pay down debt.

In October 2021, the Company entered into the Series 5 Preferred Unit Purchase Agreement, pursuant to which the Company issued 1,327 Series 5 Preferred Units for \$132.7 million. The proceeds from the offering were used to meet certain financing needs.

The above issuances did not involve any underwriters, underwriting discounts or commissions, or any public offering and we believe such issuances are exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) thereof and/or Regulation D promulgated thereunder.

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Item 16. Exhibits and financial statement schedules

<u>Exhibit Number</u>	<u>Description</u>
*1.1	Form of Underwriting Agreement
*3.1	Certificate of Limited Partnership of MorningStar Partners, L.P.
*3.2	Form of Seventh Amended Agreement of Limited Partnership of TXO Energy Partners, L.P. (included as Appendix A)
*3.3	Certificate of Formation of MorningStar Oil & Gas, LLC
*3.4	Form of Amended and Restated Limited Liability Company Agreement of TXO Energy GP, LLC
*5.1	Opinion of Latham & Watkins LLP as to the legality of the securities being registered
*8.1	Opinion of Latham & Watkins LLP relating to tax matters
10.1	Credit Agreement, among MorningStar Partners, L.P., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent, dated November 1, 2021
10.2	Amendment No. 1 to the Credit Agreement and Borrowing Base Agreement
*10.3	Form of TXO Energy GP, LLC Long-Term Incentive Plan
*10.4	Limited Liability Company Agreement of Cross Timbers Energy, LLC, dated as of June 13, 2013, by and among XTO Energy Inc., XH LLC, HHE Energy Company and MorningStar Partners, L.P.
*10.5	Form of Contribution Agreement
*21.1	List of Subsidiaries of TXO Energy Partners, L.P.
*23.1	Consent of KPMG LLP for Partnership Financials
*23.2	Consent of KPMG LLP for Vacuum Properties Financials
*23.3	Consent of Cawley, Gillespie & Associates
*23.4	Consent of Latham & Watkins LLP (contained in Exhibit 5.1)
*23.5	Consent of Latham & Watkins LLP (contained in Exhibit 8.1)
*24.1	Powers of Attorney (included on signature page)
99.1	Report of Cawley, Gillespie & Associates of reserves of MorningStar Partners, L.P. as of December 31, 2021 (SEC Pricing)
99.2	Report of Cawley, Gillespie & Associates of reserves of MorningStar Partners, L.P. as of August 1, 2022 (SEC Pricing)
99.3	Report of Cawley, Gillespie & Associates of reserves of MorningStar Partners, L.P. as of August 1, 2022 (NYMEX Pricing)
*99.4	Consent of Phillip R. Kevil
*99.5	Consent of J. Luther King, Jr.
*107	Filing Fee Table.

* To be filed by amendment.

Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

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Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Fort Worth, State of Texas, on _____, 2022.

MorningStar Partners, L.P.

By: MorningStar Oil & Gas, LLC, its general partner

By: _____
Name: Bob R. Simpson
Title: Chief Executive Officer

Each person whose signature appears below appoints Brent W. Clum and Scott T. Agosta, and each of them, any of whom may act without the joinder of the other, as his or her true and lawful attorneys in fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post effective amendments) to this Registration Statement and any Registration Statement (including any amendment thereto) for this offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the SEC, granting unto said attorneys in fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or would do in person, hereby ratifying and confirming all that said attorneys in fact and agents or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
/s/ _____ Bob R. Simpson	Chief Executive Officer (principal executive officer)	, 2022
/s/ _____ Brent W. Clum	President of Business Operations and Chief Financial Officer (principal financial officer)	, 2022
/s/ _____ Scott T. Agosta	Chief Accounting Officer (principal accounting officer)	, 2022
/s/ _____ Phillip R. Kevil	Director	, 2022
/s/ _____ Rick J. Settle	Director	, 2022
/s/ _____ J. Luther King, Jr.	Director	, 2022
/s/ _____ William H. Adams III	Director	, 2022

CREDIT AGREEMENT

among

MORNINGSTAR PARTNERS, L.P.,
as Borrower,

THE LENDERS PARTY HERETO FROM TIME TO TIME
as Lenders,

and

JPMORGAN CHASE BANK, N.A.
as Administrative Agent

November 1, 2021

JPMorgan Chase Bank, N.A.
as Lead Arranger

BOKF, NA dba Bank of Texas
Capital One, National Association
and
Royal Bank of Canada
as Arrangers

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Exhibit B	-	Form of Compliance Certificate
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Exhibit D	-	Form of Notice of Borrowing
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Exhibit F	-	Form of Guarantee and Collateral Agreement
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Schedule 4.21	-	Material Agreements

CREDIT AGREEMENT

This Credit Agreement dated as of November 1, 2021 is among **MORNINGSTAR PARTNERS, L.P.**, a Delaware limited partnership (“Borrower”), the lenders party hereto from time to time as Lenders (as defined herein), and **JPMORGAN CHASE BANK, N.A.**, as Administrative Agent (as defined herein).

In consideration of the premises and agreements, provisions and covenants herein contained, the parties hereto do hereby agree as follows:

ARTICLE I DEFINITIONS AND ACCOUNTING TERMS

Section 1.01 Certain Defined Terms. As used in this Agreement, the terms defined in the preamble shall have the meaning set forth therein and the following terms shall have the following meanings:

“Acceptable Security Interest” in any Property means a Lien which (a) exists in favor of the Administrative Agent for the benefit of the Secured Parties, (b) is the only Lien on such Property other than Permitted Liens and which is superior to all Liens or rights of any other Person in the Property encumbered thereby other than Permitted Liens, (c) secures the Obligations, and (d) is perfected and enforceable; provided that, with respect to the Equity Interests in the Joint Venture, the pre-emption rights and other terms set forth in Sections 7.2(c) and 7.3 of the Joint Venture LLC Agreement shall not prevent such Lien from being an Acceptable Security Interest.

“Acquisition” means the purchase, in a single transaction or in a series of related transactions, by the Joint Venture or by the Borrower or any of its Subsidiaries of assets of another Person or any business, including the purchase of associated assets or operations or of Equity Interests (or other ownership interests) of a Person.

“Act” means the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)).

“Adjusted Daily Simple SOFR” means, an interest rate per annum equal to (a) the Daily Simple SOFR, *plus* (b) 0.10%.

“Adjusted Term SOFR Rate” means, with respect to any Term Benchmark Borrowing for any Interest Period, an interest rate per annum equal to (a) the Term SOFR Rate for such Interest Period, *plus* (b) 0.10%; provided that if the Adjusted Term SOFR Rate as so determined would be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Administrative Agent” means JPMorgan Chase Bank, N.A., in its capacity as agent pursuant to Article VIII, and any successor agent pursuant to Section 8.06.

“Administrative Questionnaire” means an administrative questionnaire in a form supplied by the Administrative Agent.

“Advance” means any advance by a Lender to the Borrower as part of a Borrowing and refers to an Alternate Base Rate Advance, RFR Advance or a Term Benchmark Advance.

“Affected Financial Institution” means (a) any EEA Financial Institution or (b) any UK Financial Institution.

“Affiliate” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

“Agent Parties” has the meaning set forth in Section 9.02(c)(i).

“Agreement” means this Credit Agreement, as the same may be amended, supplemented, and otherwise modified from time to time.

“Alternate Base Rate” means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the NYFRB Rate in effect on such day plus 1/2 of 1.00%, and (c) the Adjusted Term SOFR Rate for a one (1) month Interest Period as published two U.S. Government Securities Business Days prior to such day (or if such day is not a Business Day, the immediately preceding Business Day) (the “Publication Date”) plus 1.00%, provided that, for the avoidance of doubt, the Adjusted Term SOFR Rate for any day shall be based on the Term SOFR Reference Rate at approximately 5:00 a.m. Chicago time on the Publication Date (or any amended publication time for the Term SOFR Reference Rate, as specified by the CME Term SOFR Administrator in the Term SOFR Reference Rate methodology), subject to the interest rate floors set forth herein. Any change in the Alternate Base Rate due to a change in the Prime Rate, the NYFRB Rate or the Adjusted Term SOFR Rate shall be effective from and including the effective date of such change in the Prime Rate, the NYFRB Rate or the Adjusted Term SOFR Rate, respectively. If the Alternate Base Rate is being used as an alternate rate of interest pursuant to Section 2.08(d) (for the avoidance of doubt, only until the Benchmark Replacement has been determined pursuant to Section 2.08(d)), then the Alternate Base Rate shall be the greater of clauses (a) and (b) of this definition and shall be determined without reference to clause (c) of this definition. For the avoidance of doubt, if the Alternate Base Rate as determined pursuant to the foregoing would be less than 1.00%, such rate shall be deemed to be 1.00% for purposes of this Agreement.

“Alternate Base Rate Advance” means an Advance which bears interest as provided in Section 2.08(a).

“Ancillary Document” has the meaning assigned to such term in Section 9.10(b).

“Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the Borrower, the Joint Venture, any Subsidiaries of the Borrower or the Joint Venture, any Lender, any Arranger, or the Administrative Agent, in each case from time to time concerning or relating to bribery or corruption, including without limitation the UK Bribery Act and the FCPA.

“Anti-Money Laundering Laws” means any Legal Requirement relating to money laundering or terrorist financing, including, without limitation, the Bank Secrecy Act, 31 U.S.C. sections 5301 et seq.; the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. 107-56 (a/k/a the USA Patriot Act); Laundering of Monetary Instruments, 18 U.S.C. section 1956; Engaging in Monetary Transactions in Property Derived from Specified Unlawful Activity, 18 U.S.C. section 1957; the Financial Recordkeeping and Reporting of Currency and Foreign Transactions Regulations, 31 C.F.R. Part 103; and any similar Legal Requirements currently in force or hereafter enacted.

“Applicable Lending Office” means (a) with respect to any Lender, the office, branch, subsidiary, affiliate or correspondent bank of such Lender specified in its Administrative Questionnaire or such other office, branch, subsidiary, affiliate or correspondent bank as such Lender may from time to time specify to the Borrower and the Administrative Agent from time to time, and (b) with respect to the Administrative Agent, the address specified for such Person on Schedule I or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to the other parties.

“Applicable Margin” means, with respect to any Advance, (a) during such times as any Event of Default exists, 2% per annum plus the rate per annum set forth below for the relevant Type of such Advance, and (b) at all other times, the rate per annum set forth below for the relevant Type of such Advance. The Applicable Margin for any Advance shall automatically change when and as any such Event of Default commences or terminates.

Utilization Percentage	<u>Borrowing Base Utilization Grid</u>				
	≤25%	>25% and ≤ 50%	>50% and ≤75%	>75% and ≤90%	>90%
Term Benchmark Advance and RFR Advance	3.00%	3.25%	3.50%	3.75%	4.00%
Alternate Base Rate Advance	2.00%	2.25%	2.50%	2.75%	3.00%

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender, or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Assignment and Assumption” means an assignment and acceptance entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 9.08), and accepted by the Administrative Agent, in substantially the form of the attached Exhibit A or any other form approved by the Administrative Agent.

“Availability” means, with respect to a Lender at any time, the lesser of (a) such Lender’s Commitment at such time, and (b) such Lender’s Pro Rata Share of the Borrowing Base then in effect at such time minus the aggregate outstanding principal amount of all Advances owed to such Lender at such time.

“Available Tenor” means, as of any date of determination and with respect to the then-current Benchmark, as applicable, any tenor for such Benchmark (or component thereof) or payment period for interest calculated with reference to such Benchmark (or component thereof), as applicable, that is or may be used for determining the length of an Interest Period for any term rate or otherwise, for determining any frequency of making payments of interest calculated pursuant to this Agreement as of such date and not including, for the avoidance of doubt, any tenor for such Benchmark that is then-removed from the definition of “Interest Period” pursuant to Section 2.08(d)(v).

“Bail-In Action” means the exercise of any Write-Down and Conversion Powers by the applicable Resolution Authority in respect of any liability of an Affected Financial Institution.

“Bail-In Legislation” means (a) with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law, regulation, rule or requirement for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule and (b) with respect to the United Kingdom, Part I of the United Kingdom Banking Act 2009 (as amended from time to time) and any other law, regulation or rule applicable in the United Kingdom relating to the resolution of unsound or failing banks, investment firms or other financial institutions or their affiliates (other than through liquidation, administration or other insolvency proceedings).

“Banking Services” means each and any of the following bank services provided to the Borrower or its Subsidiaries by any Banking Services Provider: (a) commercial credit cards, (b) stored value cards, and (c) treasury management services (including, without limitation, controlled disbursement, automated clearinghouse transactions, return items, overdrafts and interstate depository network services).

“Banking Services Obligations” means any and all obligations of the Borrower or any of its Subsidiaries, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor) in connection with Banking Services.

“Banking Services Provider” means any Lender (other than a Defaulting Lender) or Affiliate of a Lender (other than a Defaulting Lender) that provides Banking Services to the Borrower or its Subsidiaries.

“Benchmark” means, initially, with respect to any (a) RFR Advance, Daily Simple SOFR and (b) Term Benchmark Advance, the Term SOFR Rate; provided that if a Benchmark Transition Event and the related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, then “Benchmark” means the applicable Benchmark Replacement to the extent that such Benchmark Replacement has replaced such prior benchmark rate pursuant to clause (d)(ii) of Section 2.08.

“Benchmark Replacement” means, for any Available Tenor, the first alternative set forth in the order below that can be determined by the Administrative Agent for the applicable Benchmark Replacement Date:

- (a) the Adjusted Daily Simple SOFR;

(b) the sum of: (i) the alternate benchmark rate that has been selected by the Administrative Agent and the Borrower as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to (A) any selection or recommendation of a replacement benchmark rate or the mechanism for determining such a rate by the Relevant Governmental Body or (B) any evolving or then-prevailing market convention for determining a benchmark rate as a replacement for the then-current Benchmark for dollar-denominated syndicated credit facilities at such time in the United States and (ii) the related Benchmark Replacement Adjustment.

If the Benchmark Replacement as determined pursuant to clause (a) or (b) of this definition would be less than the Floor, the Benchmark Replacement will be deemed to be the Floor for the purposes of this Agreement and the other Loan Documents.

“Benchmark Replacement Adjustment” means, with respect to any replacement of the then-current Benchmark with an Unadjusted Benchmark Replacement for any applicable Interest Period and Available Tenor for any setting of such Unadjusted Benchmark Replacement:

(a) for purposes of clause (a) of the definition of “Benchmark Replacement,” the first alternative set forth in the order below that can be determined by the Administrative Agent:

(i) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) as of the Reference Time such Benchmark Replacement is first set for such Interest Period that has been selected or recommended by the Relevant Governmental Body for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement for the applicable Corresponding Tenor;

(ii) the spread adjustment (which may be a positive or negative value or zero) as of the Reference Time such Benchmark Replacement is first set for such Interest Period that would apply to the fallback rate for a derivative transaction referencing the ISDA Definitions to be effective upon an index cessation event with respect to such Benchmark for the applicable Corresponding Tenor; and

(b) for purposes of clause (b) of the definition of “Benchmark Replacement,” the spread adjustment, or method for calculating or determining such spread adjustment (which may be a positive or negative value or zero) that has been selected by the Administrative Agent and the Borrower for the applicable Corresponding Tenor giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body on the applicable Benchmark Replacement Date or (ii) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement for dollar-denominated syndicated credit facilities in the United States;

provided that, in the case of clause (a) of this definition, such adjustment is displayed on a screen or other information service that publishes such Benchmark Replacement Adjustment from time to time as selected by the Administrative Agent in its reasonable discretion.

“Benchmark Replacement Conforming Changes” means, with respect to any Benchmark Replacement and/or any Term Benchmark Advance, any technical, administrative or operational changes (including changes to the definition of “Alternate Base Rate,” the definition of “Business Day,” the definition of “U.S. Government Securities Business Day,” the definition of “Interest Period,” timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or continuation notices, length of lookback periods, the applicability of breakage provisions, and other technical, administrative or operational matters) that the Administrative Agent decides may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by the Administrative Agent in a manner substantially consistent with market practice (or, if the Administrative Agent decides that adoption of any portion of such market practice is not administratively feasible or if the Administrative Agent determines that no market practice for the administration of such Benchmark Replacement exists, in such other manner of administration as the Administrative Agent decides is reasonably necessary in connection with the administration of this Agreement and the other Loan Documents).

“Benchmark Replacement Date” means, with respect to any Benchmark, the earliest to occur of the following events with respect to such then-current Benchmark:

(a) in the case of clause (a) or (b) of the definition of “Benchmark Transition Event,” the later of (i) the date of the public statement or publication of information referenced therein and (ii) the date on which the administrator of such Benchmark (or the published component used in the calculation thereof) permanently or indefinitely ceases to provide all Available Tenors of such Benchmark (or such component thereof); or

(b) in the case of clause (c) of the definition of “Benchmark Transition Event,” the first date on which such Benchmark (or the published component used in the calculation thereof) has been determined and announced by the regulatory supervisor for the administrator of such Benchmark (or such component thereof) to be no longer representative; provided, that such non-representativeness will be determined by reference to the most recent statement or publication referenced in such clause (c) and even if any Available Tenor of such Benchmark (or such component thereof) continues to be provided on such date.

For the avoidance of doubt, (x) if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination and (y) the “Benchmark Replacement Date” will be deemed to have occurred in the case of clause (a) or (b) with respect to any Benchmark upon the occurrence of the applicable event or events set forth therein with respect to all then-current Available Tenors of such Benchmark (or the published component used in the calculation thereof).

“Benchmark Transition Event” means, with respect to any Benchmark, the occurrence of one or more of the following events with respect to such then-current Benchmark:

(a) a public statement or publication of information by or on behalf of the administrator of such Benchmark (or the published component used in the calculation thereof) announcing that such administrator has ceased or will cease to provide all Available Tenors of such Benchmark (or such component thereof), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark (or such component thereof);

(b) a public statement or publication of information by the regulatory supervisor for the administrator of such Benchmark (or the published component used in the calculation thereof), the Board, the NYFRB, the CME Term SOFR Administrator, an insolvency official with jurisdiction over the administrator for such Benchmark (or such component), a resolution authority with jurisdiction over the administrator for such Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for such Benchmark (or such component), in each case, which states that the administrator of such Benchmark (or such component) has ceased or will cease to provide all Available Tenors of such Benchmark (or such component thereof) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark (or such component thereof); or

(c) a public statement or publication of information by the regulatory supervisor for the administrator of such Benchmark (or the published component used in the calculation thereof) announcing that all Available Tenors of such Benchmark (or such component thereof) are no longer, or as of a specified future date will no longer be, representative.

For the avoidance of doubt, a “Benchmark Transition Event” will be deemed to have occurred with respect to any Benchmark if a public statement or publication of information set forth in this definition has occurred with respect to each then-current Available Tenor of such Benchmark (or the published component used in the calculation thereof).

“Benchmark Unavailability Period” means, with respect to any Benchmark, the period (if any) (a) beginning at the time that a Benchmark Replacement Date pursuant to clauses (a) or (b) of that definition has occurred if, at such time, no Benchmark Replacement has replaced such then-current Benchmark for all purposes hereunder and under any Loan Document in accordance with Section 2.08(d) and (b) ending at the time that a Benchmark Replacement has replaced such then-current Benchmark for all purposes hereunder and under any Loan Document in accordance with Section 2.08(d).

“Beneficial Ownership Certification” means a certification regarding beneficial ownership required by the Beneficial Ownership Regulation.

“Beneficial Ownership Regulation” means 31 C.F.R. § 1010.230.

“Benefit Plan” means any of (a) an “employee benefit plan” (as defined in ERISA) that is subject to Title I of ERISA, (b) a “plan” as defined in and subject to Section 4975 of the Code or (c) any Person whose assets include (for purposes of ERISA Section 3(42) or otherwise for purposes of Title I of ERISA or Section 4975 of the Code) the assets of any such “employee benefit plan” or “plan”.

“BHC Act Affiliate” of a party means an “affiliate” (as such term is defined under, and interpreted in accordance with, 12 U.S.C. 1841(k)) of such party.

“Board” means the Board of Governors of the Federal Reserve System of the United States of America or any successor Governmental Authority.

“Borrower” shall have the meaning set forth in the preamble hereof.

“Borrower Hedge EBITDAX” for any measurement period, with respect to the Borrower, means the net realized gains or losses attributable to Hedge Contracts to which the Borrower is a party, including any realized gains or losses resulting from a Hedge Termination.

“Borrowing” means, subject to Section 2.03(c)(ii), a borrowing consisting of simultaneous Advances of the same Type made by each Lender pursuant to Section 2.03(a), continued by each Lender pursuant to Section 2.03(b), or Converted by each Lender to Advances of a different Type pursuant to Section 2.03(b).

“Borrowing Base” means at any particular time, the Dollar amount determined as the “Borrowing Base” in accordance with Section 2.02 (and adjusted from time to time pursuant to Section 2.02, including without limitation pursuant to automatic reductions of the Borrowing Base in accordance with Section 2.02(d)), on account of Proven Reserves attributable to Oil and Gas Properties of the Borrower, its Subsidiaries, and the Joint Venture (provided that any Oil and Gas Properties of the Joint Venture included in the Borrowing Base shall be net to the Equity Interest owned by the Borrower in the Joint Venture) subject to an Acceptable Security Interest, to the extent required by Section 5.11, and described in the most recent Engineering Report delivered to the Administrative Agent and the Lenders pursuant to Section 2.02.

“Borrowing Base Deficiency” means the amount by which the aggregate outstanding amount of the Advances exceeds the lesser of (a) the Borrowing Base, and (b) the aggregate Commitments.

“Borrowing Base Reduction Event” means a Disposition of Oil and Gas Properties or a Hedge Termination which causes the Borrowing Base Reduction Value to exceed 5% of the Borrowing Base in effect as of the most recent redetermination. A Borrowing Base Reduction Event will not occur solely as a result of a Hedge Termination if the Borrowing Base then in effect did not take into account the effect or the value of the Hedge Contract subject to such Hedge Termination.

“Borrowing Base Reduction Value” means, with respect to the period between any two successive redeterminations of the Borrowing Base, an aggregate amount equal to (a) the PV-10, as determined by the Required Lenders in their sole discretion, of such Oil and Gas Properties which have been subject to a Disposition since the most recent redetermination of the Borrowing Base, plus (b) the reduction in the Collateral value, as determined by the Required Lenders in their sole discretion, of the Oil and Gas Properties which are given value in the Borrowing Base in effect as of the most recent redetermination, resulting from all Hedge Terminations occurring since the most recent redetermination of the Borrowing Base.

“Business Day” means, any day (other than a Saturday or a Sunday) on which banks are open for business in New York City or Houston, Texas; and if such day relates to (a) a Borrowing or continuation of, a payment or prepayment of principal of or interest on, or a conversion of or into, or the Interest Period for, a Term Benchmark Advance or a notice by the Borrower with respect to any such Borrowing or continuation, payment, prepayment, conversion or Interest Period or (b) RFR Advances and any interest rate settings, fundings, disbursements, settlements or payments of any such RFR Advance, any day which is a U.S. Government Securities Business Day.

“Capital Leases” means, as applied to any Person, any lease of any Property by such Person as lessee which would, in accordance with GAAP as in effect in December 31, 2018, be required to be classified and accounted for as a capital lease on the balance sheet of such Person.

“CERCLA” means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, state and local analogs, and all rules and regulations and requirements thereunder in each case as now or hereafter in effect.

“Change in Control” means the occurrence of any transaction, the result of which is that:

(a) the Borrower ceases to own, either directly or indirectly, 100% of the Equity Interest in any Subsidiary owning Oil and Gas Properties included in the Borrowing Base (other than as a result of a Disposition under Section 6.04(b)(iv));

(b) except in connection with the liquidation or dissolution of the Joint Venture, the Borrower ceases to either (i) own, either directly or indirectly, 50% of the Equity Interests (including the Equity Interests having voting rights) in the Joint Venture, or (ii) have a “Membership Percentage” (as defined in the Joint Venture LLC Agreement) of at least 50% in the Joint Venture;

(c) except in connection with the liquidation or dissolution of the Joint Venture, the Borrower and the XTO Parties, collectively, cease to own, either directly or indirectly, 100% of the Equity Interests (including the Equity Interests having voting rights) in the Joint Venture; or

(d) Bob R. Simpson, Keith Hutton, Vaughn O. Vennerberg, II, Brent W. Clum, and Timothy L. Petrus, collectively, (i) cease to own greater than 75% of the voting interests in the general partner of the Borrower, or (ii) other than as a result of voting rights granted pursuant to the Fifth Amended and Restated Limited Partnership Agreement of MorningStar Partners, L.P. dated as of July 31, 2020, cease to control the activities of the Borrower via their ownership of the general partner of the Borrower.

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith, and (ii) all requests, rules, guidelines or directives

promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted or issued.

"Closing Date" means November 1, 2021.

"CME Term SOFR Administrator" means CME Group Benchmark Administration Limited as administrator of the forward-looking term Secured Overnight Financing Rate (SOFR) (or a successor administrator).

"Code" means the Internal Revenue Code of 1986, as amended, and any successor statute.

"Collateral" means (a) all "Collateral," "Pledged Collateral" and "Mortgaged Properties" (as defined in each of the Mortgages, the Guarantee and Collateral Agreement, as applicable) or similar terms used in the Security Instruments, and (b) all amounts contained in the Borrower's and its Subsidiaries' bank accounts.

"Commitment" means, for any Lender, the amount set opposite such Lender's name on Schedule I as its Commitment, or if such Lender has entered into any Assignment and Assumption, the amount set forth for such Lender as its Commitment in the Register maintained by the Administrative Agent pursuant to Section 9.08(c), as such amount may be reduced or terminated pursuant to Section 2.04 or Article VII or otherwise under this Agreement. The amount of the aggregate Commitments as of the Closing Date is \$165,000,000.

"Commitment Fee Rate" means 0.500% per annum.

"Commitment Termination Date" means the earlier of (a) the Maturity Date, and (b) the earlier termination in whole of the Commitments pursuant to Section 2.04 or Article VII.

"Commodity Exchange Act" means the Commodity Exchange Act (7 U.S.C. § 1 et seq.), as amended from time to time, and any successor statute.

"Communication" means, collectively, any notice, demand, information, document, amendment, approval, consent, certificate, statement, disclosure, authorization or other material related to any Loan Document or the transactions contemplated therein.

"Compliance Certificate" means a compliance certificate in the form of the attached Exhibit B signed by a Responsible Officer of the Borrower.

"Connection Income Taxes" means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profits Taxes.

"Consolidated Cash Balance" means, at any time, (a) the aggregate amount of cash and cash equivalents, marketable securities, treasury bonds and bills, certificates of deposit, investments in money market funds, and commercial paper, in each case, held or owned by Borrower or its Subsidiaries (either directly or indirectly), as reflected as an asset on the balance sheet of the Borrower and its Subsidiaries, excluding, however, cash and cash equivalents attributable to Borrower's Equity Interest in the Joint Venture as shown on the balance sheet of Borrower and its Subsidiaries.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controls,” “Controlled by,” “Controlling” and “Controlled” have meanings correlative thereto. Without limiting the generality of the foregoing, a Person shall be deemed to be Controlled by another Person if such other Person possesses, directly or indirectly, the power to vote 10% or more of the securities having ordinary voting power for the election of directors, managing general partners or the equivalent.

“Controlled Group” means all members of a controlled group of corporations and all businesses (whether or not incorporated) under common control, which, together with the Borrower, are treated as a single employer under Section 414 of the Code.

“Convert,” “Conversion,” and “Converted” each refers to a conversion of Advances of one Type into Advances of another Type pursuant to [Section 2.03\(b\)](#).

“Corresponding Tenor” with respect to any Available Tenor means, as applicable, either a tenor (including overnight) or an interest payment period having approximately the same length (disregarding business day adjustment) as such Available Tenor.

“Covered Entity” means any of the following:

- (a) a “covered entity” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);
- (b) a “covered bank” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or
- (c) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

“Covered Party” has the meaning assigned to such term in [Section 9.24](#).

“Current Assets” means, as at any date of determination, without duplication, the sum of all amounts that would, in conformity with GAAP, be set forth opposite the caption “total current assets” (or any like caption) on a consolidated balance sheet of the Borrower and its Subsidiaries at such date, *plus* Availability (but only to the extent that the Borrower is then permitted to borrow such amount under the terms of this Agreement, including, without limitation, [Section 3.02](#)), but excluding (a) all non-cash assets under ASC 815 and (b) assets to the extent resulting from non-cash gains required under ASC 410.

“Current Liabilities” means, as at any date of determination, without duplication, the sum of all amounts that would, in conformity with GAAP, be set forth opposite the caption “total current liabilities” (or any like caption) on a consolidated balance sheet of the Borrower and its Subsidiaries on such date, but excluding, without duplication, (a) all non-cash obligations under ASC 815, (b) the current portion of any Advances and other long-term Debt, (c) any non-cash liabilities recorded in connection with stock-based or similar incentive-based compensation awards or arrangements and (d) non-cash liabilities to the extent resulting from non-cash losses or charges required under ASC 410.

“Current Ratio” means, as of any date of determination, the ratio of (a) Current Assets to (b) Current Liabilities.

“Daily Simple SOFR” means, for any day (a “SOFR Rate Day”), a rate per annum equal to the greater of (a) SOFR for the day (such day SOFR Determination Date) that is five (5) U.S. Government Securities Business Days prior to (i) if such SOFR Rate Day is an U.S. Government Securities Business Day, such SOFR Rate Day or (ii) if such SOFR Rate Day is not an U.S. Government Securities Business Day, the U.S. Government Securities Business Day immediately preceding such SOFR Rate Day, in each case, as such SOFR is published by the SOFR Administrator on the SOFR Administrator’s Website. Any change in Daily Simple SOFR due to a change in SOFR shall be effective from and including the effective date of such change in SOFR without notice to the Borrower and (b) zero.

“Debt” for any Person, means without duplication: (a) indebtedness of such Person for borrowed money, (b) obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) obligations of such Person to pay the deferred purchase price of Property or services (including obligations that are non-recourse to the credit of such Person but are secured by the assets of such Person), (d) obligations of such Person as lessee under Capital Leases required to be accounted for as a liability on the balance sheet, (e) the maximum amount of all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guaranties, surety bonds and similar instruments, (f) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any Disqualified Capital Stock in such Person or any other Person or any warrant, right or option to acquire such Disqualified Capital Stock, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends, (g) any obligations of such Person owing in connection with any volumetric or production payments, (h) the Debt of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer, but only to the extent to which there is recourse to such Person for the payment of such Debt, (i) indebtedness under Hedge Contracts, (j) obligations of such Person under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) of such Person to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (a) through (i) in this definition, (k) indebtedness or obligations of others of the kinds referred to in clauses (a) through (j) secured by any Lien on or in respect of any Property of such Person, and (l) all liabilities of such Person in respect of unfunded vested benefits under any Plan.

“Debtor Relief Laws” means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

“Default” means (a) an Event of Default, or (b) any event or condition which with notice or lapse of time or both would become an Event of Default.

“Default Right” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

“Defaulting Lender” means at any time, subject to Section 2.14(b), (a) any Lender that has failed for two or more Business Days to comply with its obligations under this Agreement to make an Advance or make any other payment due hereunder (each, a “funding obligation”), unless such Lender has notified the Administrative Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding has not been satisfied (which conditions precedent, together with the applicable default, if any, will be specifically identified in such writing), (b) any Lender that has notified the Administrative Agent or the Borrower in writing, or has stated publicly, that it does not intend to comply with its funding obligations hereunder, unless such writing or statement states that such position is based on such Lender’s determination that one or more conditions precedent to funding cannot be satisfied (which conditions precedent, together with the applicable default, if any, will be specifically identified in such writing or public statement), (c) any Lender that has defaulted on its funding obligations under any other loan agreement or credit agreement or other similar financing agreement, (d) any Lender that has, for three or more Business Days after written request of the Administrative Agent or the Borrower, failed to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that such Lender will cease to be a Defaulting Lender pursuant to this clause (d) upon the Administrative Agent’s and the Borrower’s receipt of such written confirmation), (e) any Lender with respect to which a Lender Insolvency Event has occurred and is continuing with respect to such Lender or its Parent Company, or (f) any Lender that has, or has a direct or indirect parent company that has, become the subject of a Bail-In Action; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any of clauses (a) through (f) in this definition will be conclusive and binding absent manifest error, and such Lender will be deemed to be a Defaulting Lender (subject to Section 2.14(b)) upon notification of such determination by the Administrative Agent to the Borrower and the Lenders.

“Disposition” means a sale, lease, transfer, assignment, Farmout, conveyance, release, loss, theft, substantial damage or destruction, surrender, or other disposition of Property (including any working interest, overriding royalty interest, production payments, net profits interest, royalty interest, or mineral fee interest), or of a Subsidiary owning Property (including any working interest, overriding royalty interest, production payments, net profits interest, royalty interest, or mineral fee interest), in any transaction or event or series of transactions or events.

“Disqualified Capital Stock” means any Equity Interest which, by its terms (or by the terms of any security into which it is put-able, convertible, or exchangeable), or upon the happening of any event, (a) matures (excluding any maturity as the result of an optional redemption by the issuer thereof) or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the one-hundred-eightieth (180th) day after the Maturity Date (determined at the time of issuance) for any consideration (other than Equity Interests that are otherwise not Disqualified Capital Stock), (b) is put-able, convertible into, or exchangeable (unless at the sole option of the issuer thereof) for (i) debt securities or (ii) any Equity Interests referred to in clause (a) of this definition, in each case, at any time on or prior to the one-hundred-eightieth (180th) day after the Maturity Date, or (c) contains any repurchase obligation for cash purchase which may come into effect prior to the indefeasible payment in full in cash of all Obligations.

“Distributable Free Cash Flow” means, as of any time of determination, an amount equal to (a) Free Cash Flow for the most recently ended Rolling Period minus (b) the aggregate amount of Free Cash Flow Utilizations that have occurred during the period beginning on the first day of such Rolling Period and ending at such time of determination (excluding any Free Cash Flow Utilizations that have occurred during such Rolling Period and which (as reasonably determined by the Borrower) are attributable to Free Cash Flow generated during the four fiscal quarter period ending immediately prior to such Rolling Period).

“Dollars” and “\$” means lawful money of the United States of America.

“EBITDAX” for any measurement period means (a) the sum of, without duplication, (i) JV EBITDAX for such period, to the extent such amount has been paid in cash during such period by the Joint Venture to the Borrower, (ii) MSOP EBITDAX for such period and (iii) Borrower Hedge EBITDAX for such period, minus (b) the consolidated expenses of the Borrower and its Subsidiaries for such period.

“EEA Financial Institution” means (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” means any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“Electronic Record” has the meaning assigned to it by 15 USC §7006, as it may be amended from time to time.

“Electronic Signature” means an electronic sound, symbol, or process attached to, or associated with, a contract or other record and adopted by a Person with the intent to sign, authenticate or accept such contract or record.

“Eligible Assignee” means (a) a Lender, (b) an Affiliate of a Lender, (c) an Approved Fund, (d) a commercial bank organized under the laws of the United States, or any state thereof, and having total assets in excess of \$1,000,000,000 and approved by the Administrative Agent in its sole discretion, (e) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development or a political subdivision of any such country and which has total assets in excess of \$1,000,000,000, provided that such bank is acting through a branch or agency located in the United States and such bank is approved by the Administrative Agent in its sole discretion, (f) a finance company, insurance company, or other financial institution or fund that is engaged in making, purchasing, or otherwise investing in commercial loans or securities in the ordinary course of its business and having (together with its Affiliates) total assets in excess of \$1,000,000,000 and approved by the Administrative Agent in its sole discretion, (g) any other Person (other than a natural person) approved by (i) the Administrative Agent in its sole discretion, and (ii) unless a Default has occurred and is continuing at the time any assignment is effected pursuant to this Agreement, the Borrower; provided that (i) the Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Administrative Agent within five Business Days after having received notice thereof, and (ii) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower, any Affiliate or Subsidiary of any Loan Party, any Affiliate of the Joint Venture, or any Potential Defaulting Lender (or entity which, upon becoming a Lender, would be a Potential Defaulting Lender).

“Engineering Report” means either an Independent Engineering Report or an Internal Engineering Report and includes the Initial Engineering Report where applicable.

“Environment” shall refer to natural resources and the indoor or outdoor environment, including as having the meaning set forth in 42 U.S.C. 9601(8).

“Environmental Claim” means any third party (including governmental agencies and employees) action, lawsuit, claim, demand, regulatory action or proceeding, order, decree, consent agreement or notice of potential or actual responsibility or violation (including claims or proceedings under the OSHA or similar laws or requirements relating to health or safety of employees) which seeks to impose liability under any Environmental Law.

“Environmental Law” means, as to the Borrower or its Subsidiaries, all Legal Requirements or common law theories applicable to the Borrower or its Subsidiaries arising from, relating to, or in connection with the Environment, health, or safety, including CERCLA, relating to (a) pollution, contamination, injury, destruction, loss, protection, cleanup, reclamation or restoration of the air, surface water, groundwater, land surface or subsurface strata, or other natural resources, (b) solid, gaseous or liquid waste generation, treatment, processing, recycling, reclamation, cleanup, storage, disposal or transportation, (c) exposure to pollutants, contaminants, hazardous, medical and infectious, or toxic substances, materials or wastes, (d) the safety or health of employees, or (e) the manufacture, processing, handling, transportation, distribution in commerce, use, storage or disposal of hazardous, medical and infectious, or toxic substances, materials or wastes.

“Environmental Liability” means all liabilities, obligations, damages, losses, claims, actions, suits, judgments, orders, fines, penalties, fees, expenses and costs (including administrative oversight costs, natural resource damages and remediation costs), whether contingent or otherwise, arising out of or relating to (a) compliance or non-compliance with any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Substances, (c) exposure to any Hazardous Substances, (d) the Release of any Hazardous Substances, or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Environmental Permit” means any permit, license, order, approval, registration or other authorization under Environmental Law.

“Equity Interest” means, with respect to any Person, any shares, interests, participation, or other equivalents (however designated) of corporate stock, membership interests or partnership interests (or any other ownership interests) of such Person.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any trade or business (whether or not incorporated) which, together with any Loan Party, is treated as a single employer under Section 414 of the Code.

“Erroneous Payment” has the meaning set forth in Section 8.12(a).

“Erroneous Payment Deficiency Assignment” has the meaning set forth in Section 8.12(d)(i).

“Erroneous Payment Impacted Class” has the meaning set forth in Section 8.12(d)(i).

“Erroneous Payment Return Deficiency” has the meaning set forth in Section 8.12(d)(i).

“Erroneous Payment Subrogation Rights” has the meaning set forth in Section 8.12(e).

“EU Bail-In Legislation Schedule” means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time.

“Event of Default” has the meaning set forth in Section 7.01.

“Excess Cash” means, at any time, the amount by which the Consolidated Cash Balance credited to the account of or would otherwise be required to be reflected as an asset on the balance sheet of the Borrower and its Subsidiaries exceeds \$20,000,000.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Excluded Swap Obligations” means, with respect to any Loan Party other than the Borrower, any Swap Obligation if, and to the extent that, all or a portion of the guarantee of such Loan Party of, or the grant by such Loan Party of a security interest to secure, such Swap Obligation (or any guarantee thereof) is or becomes illegal under the Commodity Exchange Act or any rule, regulation or order of the Commodity Futures Trading Commission (or the application or official interpretation of any thereof) by virtue of such Loan Party’s failure for any reason to

constitute an “eligible contract participant” as defined in the Commodity Exchange Act and the regulations thereunder at the time the guarantee of such Loan Party or the grant of such security interest becomes effective with respect to such Swap Obligation. If a Swap Obligation arises under a master agreement governing more than one swap, such exclusion shall apply only to the portion of such Swap Obligation that is attributable to swaps for which such guarantee or security interest is or becomes illegal.

“Excluded Taxes” means any of the following Taxes imposed on or with respect to a Recipient or required to be withheld or deducted from a payment to a Recipient, (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of such Recipient being organized under the laws of, or having its principal office or, in the case of any Lender, its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof), or (ii) that are Other Connection Taxes, (b) in the case of a Lender, U.S. federal withholding Taxes imposed on amounts payable to or for the account of such Lender with respect to an applicable interest in an Advance or Commitment pursuant to a law in effect on the date on which (i) such Lender acquires such interest in the Advance or Commitment (other than pursuant to an assignment request by the Borrower under Section 2.15), or (ii) such Lender changes its lending office, except in each case to the extent that, pursuant to Section 2.13, amounts with respect to such Taxes were payable either to such Lender’s assignor immediately before such Lender became a party hereto or to such Lender immediately before it changed its lending office, (c) Taxes attributable to such Recipient’s failure to comply with Section 2.13(f), and (d) any U.S. federal withholding Taxes imposed under FATCA.

“FAM” has the meaning set forth in Section 6.1(a) of the Joint Venture LLC Agreement.

“FAM Loan” means a loan made by the Joint Venture to the Borrower pursuant to the FAM Loan Agreement in the principal amount as of the Closing Date of \$7,100,000.

“FAM Loan Agreement” means that certain Loan Agreement among the Borrower and the Joint Venture in form and substance satisfactory to the Administrative Agent.

“FAM Loan Documents” means the FAM Loan Agreement, any promissory note executed in connection therewith, and each other agreement, instrument or document executed in connection therewith.

“Farmout” means an arrangement pursuant to agreement whereby the owner(s) of one or more oil, gas and/or mineral lease or other oil and natural gas working interest with respect to a property from which production of Hydrocarbons is sought agrees to transfer or assign an interest in such property to one or more Persons in exchange for (a) drilling, or participating in the cost of the drilling of (or agreeing to do so) one or more wells, or undertaking other exploration or development activity or participating in the cost of such activity, to attempt to obtain production of Hydrocarbons from such property, or (b) obtaining production of Hydrocarbons from such property, or participating in the costs of such production.

“FASB ASC” means the Accounting Standards Codification of the Financial Accounting Standards Board.

“FATCA” means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, and any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code.

“FCPA” means the United States Foreign Corrupt Practices Act of 1977, as amended.

“Federal Funds Effective Rate” means, for any day, the rate calculated by the NYFRB based on such day’s federal funds transactions by depository institutions, as determined in such manner as shall be set forth on the Federal Reserve Bank of New York’s Website from time to time, and published on the next succeeding Business Day by the NYFRB as the effective federal funds rate; provided that if the Federal Funds Effective Rate as so determined would be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Federal Reserve Bank of New York’s Website” means the website of the NYFRB at <http://www.newyorkfed.org>, or any successor source.

“Federal Reserve Board” means the Board of Governors of the Federal Reserve System or any of its successors.

“Fee Letters” means, collectively, (a) that certain Fee Letter dated October 15, 2021 among the Borrower and JPMorgan Chase Bank, N.A., (b) that certain Arrangers’ Fee Letter dated November 1, 2021 among the Borrower, BOKF, National Association, Capital One, National Association and Royal Bank of Canada, and (c) any other fee letter that may be executed from time to time by the Borrower in connection with this Agreement.

“Financial Accounts” has the meaning set forth in Section 4.7 of the Joint Venture LLC Agreement.

“Financial Accounts Sharing Percentage” has the meaning set forth in Section 1.42 of the Joint Venture LLC Agreement.

“Floor” means the benchmark rate floor, if any, provided in this Agreement initially (or the further modification, amendment or renewal of this Agreement or otherwise) with respect to the Adjusted Term SOFR Rate or Adjusted Daily Simple SOFR. For the avoidance of doubt the initial Floor as of the Closing Date for the Adjusted Term SOFR Rate and Adjusted Daily Simple SOFR shall be zero.

“Foreign Lender” means any Lender that is not a U.S. Person.

“Free Cash Flow” means, for any Rolling Period ending on or after December 31, 2021, (a) EBITDAX for such Rolling Period, minus the increase (or plus the decrease) in Working Capital from the previous Rolling Period (except any increase or decrease in Working Capital resulting from the reclassification of items from short-term to long-term or vice-versa) minus (b) the sum, in each case without duplication, of the following amounts of Borrower and its Subsidiaries for such Rolling Period: (i) capital expenditures paid in cash, (ii) interest expense paid in cash, (iii) taxes paid in cash, (iv) exploration expenses or costs paid in cash, (v) Restricted Payments made in cash (other than any Free Cash Flow Utilization) and (vi) to the extent not included in this clause (b) and otherwise added back in the calculation of EBITDAX of the Borrower and its Subsidiaries, any other cash charge that reduces the earnings of the Borrower and its Subsidiaries.

“Free Cash Flow Utilizations” means any Restricted Payments made in reliance on Section 6.05(a)(iv).

“Fund” means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its activities.

“GAAP” means United States generally accepted accounting principles as in effect from time to time, applied on a basis consistent with the requirements of Section 1.03.

“Gas Imbalance” means (a) a sale or utilization by Borrower or other Loan Parties of volumes of natural gas in excess of its gross working interest, (b) receipt of volumes of natural gas into a gathering system and redelivery by Borrower or other Loan Parties of a larger or smaller volume of natural gas under the terms of the applicable transportation agreement, or (c) delivery to a gathering system of a volume of natural gas produced by Borrower or another Loan Party that is larger or smaller than the volume of natural gas such gathering system redelivers for the account of Borrower or such other Loan Party, as applicable.

“Gas Sales Contracts” means physically settled sales of specified volumes of Hydrocarbons at a price determined on the date of such sale by reference to an industry-accepted index for such Hydrocarbon and pursuant to (a) the Base Contract For Sale and Purchase of Natural Gas in a form promulgated by the North American Energy Standards Board or (b) the North American Gas Annex to the Master Agreement in a form promulgated by the International Swaps and Derivatives Association, Inc.

“Governmental Authority” means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Guarantor” means each entity, which may from time to time, execute the Guarantee and Collateral Agreement or an Assumption Agreement or supplement to the Guarantee and Collateral Agreement, including each material wholly-owned Subsidiary of the Borrower.

“Guarantee and Collateral Agreement” means a Guarantee and Collateral Agreement in substantially the form of the attached Exhibit F, or otherwise in form and substance acceptable to the Administrative Agent, executed by the Borrower or any of its Subsidiaries or any of the Guarantors, if applicable.

“Hazardous Substance” means the substances identified as such pursuant to CERCLA and those regulated under any other Environmental Law, including pollutants, contaminants, petroleum, petroleum products, radionuclides, radioactive materials, and medical and infectious waste.

“Hazardous Waste” means the substances regulated as such pursuant to any Environmental Law.

“Hedge Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate swaps or options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement. Notwithstanding the foregoing, “Hedge Contract” shall not include Gas Sales Contracts.

“Hedge Termination” means with respect to any Hedge Contract, any termination (other than a termination that occurs on the date scheduled for such termination and not as a result of any event of default or other event which permits a party to such Hedge Contract to early terminate such Hedge Contract, in each case however defined or described), cancellation, novation or other disposition of such Hedge Contract or the entry into one or more offsetting Hedge Contracts in respect of such Hedge Contract.

“Hedging Report” means the report described in Section 5.06(f).

“Hydrocarbons” means oil, gas, coal seam gas, casinghead gas, drip gasoline, natural gasoline, condensate, distillate, and all other liquid and gaseous hydrocarbons produced or to be produced in conjunction therewith from a well bore and all products, by-products, and other substances derived therefrom or the processing thereof, and all other minerals and substances produced in conjunction with such substances, including sulfur, geothermal steam, water, carbon dioxide, helium, and any and all minerals, ores, or substances of value and the products and proceeds therefrom.

“Improved Property” means real property on which a “building” or “mobile home” (in each case, as such terms are defined for purposes of the National Flood Insurance Program) owned by a Loan Party is located.

“Indemnified Taxes” means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of the Borrower under any Loan Document and (b) to the extent not otherwise described in (a), Other Taxes.

“Indemnitee” has the meaning set forth in Section 9.05.

“Independent Engineer” means any third party engineering firm acceptable to the Administrative Agent in its sole discretion.

“Independent Engineering Report” means a report, in form and substance satisfactory to the Administrative Agent, prepared by an Independent Engineer, addressed to the Administrative Agent and the Lenders with respect to the Oil and Gas Properties owned by the Borrower or any of its Subsidiaries or the Joint Venture (provided that any Oil and Gas Properties of the Joint Venture evaluated therein shall be net to the Equity Interest owned by the Borrower in the Joint Venture) which are, or are to be, included in the Borrowing Base, which report shall (a) specify the location, quantity, and type of the estimated Proven Reserves attributable to such Oil and Gas Properties, (b) contain a projection of the rate of production of such Oil and Gas Properties, (c) contain an estimate of the net operating revenues to be derived from the production and sale of Hydrocarbons from such Proven Reserves based on product price and cost escalation assumptions specified by the Administrative Agent and the Lenders which are consistent with the Administrative Agent’s and the Lenders’ customary internal standards and practices for valuing and redetermining the value of Oil and Gas Properties in connection with reserve based oil and gas loan transactions, and (d) contain such other information as is customarily obtained from and provided in such reports or is otherwise reasonably requested by the Administrative Agent or any Lender.

“Information” has the meaning set forth in Section 9.09.

“Initial Engineering Report” means an Internal Engineering Report dated effective as of July 1, 2021 and covering the Proven Reserves of the Borrower, its Subsidiaries and the Joint Venture in form acceptable to the Administrative Agent.

“Initial Financial Statements” has the meaning set forth in Section 3.01(c)

“Intercompany Debt” means Debt incurred by one or more Loan Parties and owing to any other Loan Party or Loan Parties.

“Interest Expense” of a Person for any measurement period, means the interest expense of such Person for such period determined in accordance with GAAP.

“Interest Payment Date” means (a) with respect to any Alternate Base Rate Advance, the last day of each March, June, September and December and the Maturity Date, (b) with respect to any RFR Advance, (i) each date that is on the numerically corresponding day in each calendar month that is one month after the Borrowing of such Advance (or, if there is no such numerically corresponding day in such month, then the last day of such month) and (ii) the Maturity Date and (c) with respect to any Term Benchmark Advance, (i) the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Term Benchmark Borrowing with an Interest Period of more than three (3) months’ duration, each day prior to the last day of such Interest Period that occurs at intervals of three (3) months’ duration after the first day of such Interest Period and (ii) the Maturity Date.

“Interest Period” means with respect to any Term Benchmark Advance, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, three, or six months thereafter (in each case, subject to the availability for the Benchmark applicable to the relevant Advance or Commitment), as the Borrower may elect; provided that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Term Benchmark Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, (b) any Interest Period pertaining to a Term Benchmark Advance that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period and (c) no tenor that has been removed from this definition pursuant to Section 2.08(d)(v) shall be available for specification in such Notice of Borrowing or Notice of Conversion or Continuation. For purposes of this definition, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

“Internal Engineering Report” means a report, in form and substance satisfactory to the Administrative Agent, prepared by the Borrower and certified by a Responsible Officer of the Borrower, addressed to the Administrative Agent and the Lenders with respect to the Oil and Gas Properties owned by the Borrower or any of its Subsidiaries or the Joint Venture (provided that any Oil and Gas Properties of the Joint Venture evaluated therein shall be net to the Equity Interest owned by the Borrower in the Joint Venture) which are, or are to be, included in the Borrowing Base, which report shall (a) specify the location, quantity, and type of the estimated Proven Reserves attributable to such Oil and Gas Properties, (b) contain a projection of the rate of production of such Oil and Gas Properties, (c) contain an estimate of the net operating revenues to be derived from the production and sale of Hydrocarbons from such Proven Reserves based on product price and cost escalation assumptions specified by the Administrative Agent and the Lenders which are consistent with the Administrative Agent’s and the Lenders’ customary internal standards and practices for valuing and redetermining the value of Oil and Gas Properties in connection with reserve based oil and gas loan transactions, and (d) contain such other information as is customarily obtained from and provided in such reports or is otherwise reasonably requested by the Administrative Agent or any Lender.

“Investments” has the meaning set forth in Section 6.06.

“IRS” means the United States Internal Revenue Service.

“Joint Venture” means Cross Timbers Energy, LLC, a Delaware limited liability company.

“Joint Venture LLC Agreement” means the Limited Liability Company Agreement of Cross Timbers Energy, LLC, a Delaware limited liability company, dated as of June 8, 2012, as amended or otherwise modified to the extent permitted herein, including by the Joint Venture CP Agreement and any other side letters thereto.

“JV EBITDAX” for any measurement period, with respect to the Joint Venture, means the Net Income of the Joint Venture for such period plus, without duplication and to the extent deducted in calculating Net Income for such period, the sum of:

(a) Interest Expense of the Joint Venture for such period;

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- (b) the sum of federal, state, local and foreign income taxes paid in cash by the Joint Venture during such period;
 - (c) the amount of depreciation, depletion and amortization expense of the Joint Venture;
 - (d) any oil and gas exploration expenses of the Joint Venture during such period, including workover expenses;
 - (e) any other similar non-cash charges of the Joint Venture for such period (including non-cash charges under FASB ASC 815);
 - (f) any extraordinary or non-recurring charges of the Joint Venture for such period; and
 - (g) overhead fees paid by the Joint Venture to the Borrower in cash during such period, pursuant to the Operating and Services Agreement,

minus, without duplication:

- (i) any extraordinary or non-recurring items increasing Net Income of the Joint Venture for such period; and
- (ii) any non-cash items increasing Net Income of the Joint Venture for such period (including non-cash income under FASB ASC 815);

provided that JV EBITDAX for any period of measurement may be calculated on a pro forma basis, giving effect to, without duplication, any Acquisition or Disposition made during such period, as if such Acquisition or Disposition occurred on the first day of such period; provided, however, that such pro forma calculations shall be subject to the Administrative Agent's prior review and approval.

“Leases” means all oil and gas leases, oil, gas and mineral leases, oil, gas and casinghead gas leases, wellbore assignments or any other instruments, agreements, or conveyances under and pursuant to which the owner thereof has or obtains the right to enter upon lands and explore for, drill, and develop such lands for the production of Hydrocarbons.

“Legal Requirement” means, as to any Person, any law, statute, ordinance, decree, requirement, order, judgment, rule, regulation (or official interpretation of any of the foregoing) of, and the terms of any license or permit issued by, any Governmental Authority, including Regulations D, T, U, and X, which is applicable to such Person.

“Lender” means the Persons listed on Schedule I and each Eligible Assignee that shall have become party hereto as a Lender pursuant to an Assignment and Assumption, other than any such Person that ceases to be a party hereto as a Lender pursuant to an Assignment and Assumption.

“Lender Hedging Obligations” means all obligations of the Borrower or any of its Subsidiaries arising from time to time under any Hedge Contract or any Gas Sales Contract that (a) was entered into between the Borrower, any of its Subsidiaries, or the Joint Venture and a Person who was a Lender or Affiliate of a Lender at the time such Hedge Contract or such Gas Sales Contract was entered into, or (b) was entered into between the Borrower, any of its Subsidiaries, or the Joint Venture and any Person that, after such Hedge Contract or such Gas Sales Contract was entered into, became a Lender or an Affiliate of a Lender hereunder, or (c) was outstanding on the Closing Date and between the Borrower, any of its Subsidiaries, or the Joint Venture and a Person that was a Lender or an Affiliate of a Lender hereunder on the Closing Date; provided, however, that the obligations under any such Hedge Contract or such Gas Sales Contract described in clauses (a), (b), or (c) of this definition shall cease to constitute Lender Hedging Obligations if the rights of the Swap Counterparty under such Hedge Contract or such Gas Sales Contract are at any time assigned or otherwise transferred to any Person that is not a Lender or an Affiliate of a Lender hereunder at the time of such assignment or transfer; provided that “Lender Hedging Obligations” shall exclude any Excluded Swap Obligations.

“Lender Insolvency Event” means that (a) a Lender or its Parent Company is insolvent, or is generally unable to pay its debts as they become due, or admits in writing its inability to pay its debts as they become due, or makes a general assignment for the benefit of its creditors, or (b) such Lender or its Parent Company is the subject of a bankruptcy, insolvency, reorganization, liquidation or similar proceeding, or a receiver, trustee, conservator, intervenor or sequestrator or the like has been appointed for such Lender or its Parent Company, or such Lender or its Parent Company has taken any action in furtherance of or indicating its consent to or acquiescence in any such proceeding or appointment; provided that a Lender Insolvency Event shall not occur solely by virtue of the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official by a supervisory authority or regulator with respect to a Lender or its Parent Company under the Dutch Financial Supervision Act 2007 (as amended from time to time and including any successor legislation).

“Lender-Related Person” has the meaning set forth in Section 9.04(b).

“Leverage Ratio” has the meaning set forth in Section 6.18.

“Liabilities” means any losses, claims (including intraparty claims), demands, damages or liabilities of any kind.

“Lien” means any mortgage, lien, pledge, assignment, charge, deed of trust, security interest, hypothecation, preference, deposit arrangement or encumbrance (or other type of arrangement having the practical effect of the foregoing) to secure or provide for the payment of any obligation of any Person, whether arising by contract, operation of law, or otherwise (including the interest of a vendor or lessor under any conditional sale agreement, synthetic lease, Capital Lease, or other title retention agreement).

“Liquid Investments” means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States maturing within 270 days from the date of any acquisition thereof;

(b) (i) negotiable or nonnegotiable certificates of deposit, time deposits, or other similar banking arrangements maturing within 270 days from the date of acquisition thereof or which may be liquidated for the full amount thereof without penalty or premium (“bank debt securities”), issued by (A) any Lender (or any Affiliate of any Lender), or (B) any other bank or trust company so long as either (1) such certificate of deposit is not pledged to secure the Borrower’s or any Subsidiaries’ ordinary course of business bonding requirements, and (2) the amount thereof is less than or equal to \$100,000, or any other bank or trust company, if at the time of deposit or purchase, such bank debt securities are rated A or A2 or better by either S&P or Moody’s, and (ii) commercial paper issued by (A) any Lender (or any Affiliate of any Lender), or (B) any other Person if at the time of purchase such commercial paper is rated at the highest credit rating given by either S&P or Moody’s, or upon the discontinuance of both of such services, such other nationally recognized rating service or services, as the case may be, as shall be selected by the Borrower with the consent of the Required Lenders;

(c) deposits in money market funds investing exclusively in investments described in clauses (a) and (b) of this definition; and

(d) repurchase agreements relating to investments described in clauses (a) and (b) of this definition with a market value at least equal to the consideration paid in connection therewith, with any Person who regularly engages in the business of entering into repurchase agreements and has a combined capital and surplus and undivided profit of not less than \$500,000,000, if at the time of entering into such agreement such Person is a Lender (or an Affiliate of any Lender) or the debt securities of such Person is rated at the highest credit rating given by either S&P or Moody’s.

“Liquidity” means, without duplication, the sum of (a) Availability at such time, (b) readily and immediately available unrestricted cash held in deposit accounts of any Loan Party, and (c) Liquid Investments of the Loan Parties, in the case of clauses (b) and (c), which are subject to an Acceptable Security Interest perfected by an account control agreement reasonably satisfactory to the Administrative Agent and otherwise free and clear of all Liens (other than Liens in favor of the Administrative Agent securing the Obligations).

“Loan Documents” means this Agreement, the Notes, the Guaranties, the Security Instruments, the Fee Letters and each other agreement, instrument, or document executed by the Borrower, any Guarantor, or any of the Borrower’s or a Guarantor’s Subsidiaries or any of their officers at any time in connection with this Agreement.

“Loan Party” means the Borrower or any Guarantor.

“Lost Interest” has the meaning set forth in Section 2.08(c)(i).

“Majority Lenders” means, at any time, Lenders holding more than 50% of the Commitments or, if the Commitments have been terminated or expired, Lenders holding more than 50% of the outstanding Advances.

“Material Adverse Change” means a material adverse change in, or a material adverse effect upon, any of (a) the condition (financial or otherwise), operations, business, properties (including Oil and Gas Properties), or prospects of the Loan Parties, taken as a whole or of the Joint Venture, (b) the rights and remedies of the Administrative Agent or the Secured Parties under any Loan Document, or the ability of the Loan Parties or the Joint Venture, to perform any of their material obligations under the Loan Documents or Transaction Documents to which they are a party, or (c) the legality, validity, enforceability of any Loan Document, or the perfection or priority of any security interest granted therein with respect to any material Collateral.

“Maturity Date” means November 1, 2025.

“Maximum Rate” means the maximum nonusurious interest rate under applicable law (determined under such laws after giving effect to any items which are required by such laws to be construed as interest in making such determination, including if required by such laws, certain fees and other costs).

“Minimum Volume Commitment” means any contract or analogous arrangement containing a “take-or-pay”, “ship-to-pay”, purchase and sale agreement, advance payment, prepayment or similar provision that (a) contains a commitment by the Borrower or any of the Subsidiaries to a minimum capacity in a gathering system, pipeline, compression, treatment, disposal or other midstream, downstream, transportation or similar facility or otherwise guarantees a fixed fee or minimum thru-put volume, minimum revenue or minimum return in respect of a marketing or purchase and sale arrangement or a gathering system, pipeline, processing, compression treatment, disposal or other midstream, downstream, transportation or similar facility or arrangement or the capital utilized to construct or acquire any of the foregoing, (b) includes an agreement by such Person to pay for such commitment regardless of whether such capacity or thru-put is actually utilized or otherwise pay for such fixed fee or guaranteed amount irrespective of the utilization of facilities or volumes provided for sale under a purchase and sale arrangement or similar marketing arrangement and (c) cannot be cancelled or terminated unless more than six (6) months’ advance notice is given; provided that, for the avoidance of doubt, any contract fulfilling the requirements of (a) and (b) but whose term is six (6) months or less shall not be a Minimum Volume Commitment.

“Minimum Required Hedge Volume” means, as of the last day of any fiscal quarter (a “date of determination”), (a) for the period of four (4) fiscal quarters following thereafter, (and for each fiscal quarter during such period) seventy-five percent (75%) and (b) for the period from the thirteen (13) month from the date of determination to the thirtieth (30) month from the date of determination, fifty percent (50%).

“MMC” has the meaning set forth in Section 1.54 of the Joint Venture LLC Agreement.

“Moody’s” means Moody’s Investors Service, Inc. and any successor thereto.

“Mortgage” means a mortgage or deed of trust executed by any one or more of the Loan Parties in favor of the Administrative Agent for the benefit of the Secured Parties in form and substance satisfactory to the Administrative Agent in its sole discretion, in each case together with any assumptions or assignments of the obligations thereunder by the Borrower, any Guarantor or any of their respective Subsidiaries, and as may be amended, amended and restated, or otherwise modified from time to time.

“Multiemployer Plan” means a “multiemployer plan” as defined in Section 4001(a)(3) of ERISA.

“MSOP” means MorningStar Operating LLC, a Delaware limited liability company.

“MSOP EBITDAX” means the Net Income of MSOP and its consolidated Subsidiaries for such period, plus, without duplication and to the extent deducted in calculating Net Income for such period, the sum of:

- (a) Interest Expense of MSOP and its consolidated Subsidiaries for such period;
- (b) the sum of federal, state, local and foreign income taxes paid in cash by MSOP and its consolidated Subsidiaries during such period;
- (c) the amount of depreciation, depletion and amortization expense of MSOP and its consolidated Subsidiaries for such period;
- (d) any oil and gas exploration expenses of MSOP and its consolidated Subsidiaries during such period, including workover expenses;
- (e) any other similar non-cash charges of MSOP and its consolidated Subsidiaries for such period (including non-cash charges under FASB ASC 815);
- (f) any extraordinary or non-recurring charges of MSOP and its consolidated Subsidiaries for such period; and

minus, without duplication:

- (i) any extraordinary or non-recurring items increasing Net Income of MSOP and its consolidated Subsidiaries for such period; and
- (ii) any non-cash items increasing Net Income of MSOP and its consolidated Subsidiaries for such period (including non-cash income under FASB ASC 815);

provided that MSOP EBITDAX for any period of measurement shall be calculated on a pro forma basis, giving effect to, without duplication, any Acquisition or Disposition made by such Person and its consolidated Subsidiaries during such period, as if such Acquisition or Disposition occurred on the first day of such period, provided, however, that such pro forma calculations shall be subject to the Administrative Agent’s prior review and approval.

“Net Income” of a Person for any measurement period means the net income (or loss) of such Person for such period determined in accordance with GAAP.

“Non-Defaulting Lender” means, at any time, a Lender that is not a Defaulting Lender or a Potential Defaulting Lender.

“Note” means a promissory note of the Borrower payable to any Lender or its registered assigns in an amount not to exceed the Commitment of such Lender, in substantially the form of the attached Exhibit C, evidencing indebtedness of the Borrower to such Lender resulting from Advances owing to such Lender.

“Notice of Borrowing” means a notice of borrowing in the form of the attached Exhibit D signed by a Responsible Officer of the Borrower.

“Notice of Conversion or Continuation” means a notice of conversion or continuation in the form of the attached Exhibit E signed by a Responsible Officer of the Borrower.

“NYFRB” means the Federal Reserve Bank of New York.

“NYFRB Rate” means, for any day, the greater of (a) the Federal Funds Effective Rate in effect on such day and (b) the Overnight Bank Funding Rate in effect on such day (or for any day that is not a Business Day, for the immediately preceding Business Day); *provided* that if none of such rates are published for any day that is a Business Day, the term “NYFRB Rate” means the rate for a federal funds transaction quoted at 11:00 a.m. on such day received to the Administrative Agent from a Federal funds broker of recognized standing selected by it; *provided, further*, that if any of the aforesaid rates shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“Obligations” means (a) all principal, interest, fees, reimbursements, indemnifications, and other amounts payable by the Borrower, any Guarantor or any of their respective Subsidiaries to the Administrative Agent or the Lenders under the Loan Documents, (b) all Lender Hedging Obligations owing to any Swap Counterparty, (c) any Banking Services Obligations, and (d) all obligations to pay, discharge and satisfy the Erroneous Payment Subrogation Rights; *provided* that, notwithstanding the foregoing, “Obligations” shall not include any Excluded Swap Obligations.

“OFAC” means the Office of Foreign Assets Control of the United States Department of the Treasury.

“Oil and Gas Properties” means fee mineral interests, term mineral interests, Leases, subleases, Farmouts, royalties, overriding royalties, net profit interests, carried interests, production payments, back-in interests and reversionary interests and similar mineral interests, and all unsevered and unextracted Hydrocarbons in, under, or attributable to such oil and gas Properties and interests.

“Ongoing Minimum Hedge Requirement” has the meaning set forth in Section 5.15.

“Operating and Services Agreement” means the Operating and Services Agreement dated as of June 13, 2012 between the Joint Venture and the Borrower.

“OSHA” means the Occupational Safety and Health Act 29 U.S.C. § 651 et seq. and its implementing regulations.

“Other Connection Taxes” means, with respect to any Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Tax (other than connections arising from such Recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Advance or Loan Document).

“Other Taxes” means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment (other than an assignment made pursuant to Section 2.15(b)).

“Overnight Bank Funding Rate” means, for any day, the rate comprised of both overnight federal funds and overnight eurodollar transactions by U.S.-managed banking offices of depository institutions (as such composite rate shall be determined by the NYFRB as set forth on the Federal Reserve Bank of New York’s Website from time to time) and published on the next succeeding Business Day by the NYFRB as an overnight bank funding rate (from and after such date as the NYFRB shall commence to publish such composite rate).

“Parent Company” means, with respect to a Lender, the bank holding company (as defined in Regulation Y of the Federal Reserve Board), if any, of such Lender, and/or any Person owning, beneficially or of record, directly or indirectly, a majority of the shares of such Lender.

“Participant” has the meaning set forth in Section 9.08(d).

“Participant Register” has the meaning set forth in Section 9.08(d).

“Payment Recipient” has the meaning set forth in Section 8.12(a).

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permit” means any approval, certificate of occupancy, consent, waiver, exemption, variance, franchise, order, permit, authorization, right or license of or from any Governmental Authority, including an Environmental Permit.

“Permitted Liens” has the meaning set forth in Section 6.01.

“Person” (whether or not capitalized) means an individual, partnership, corporation (including a business trust), joint stock company, limited liability company, limited liability partnership, trust, unincorporated association, joint venture or other entity, Governmental Authority or other entity.

“Plan” means any “employee benefit plan,” as defined in Section 3(3) of ERISA (other than a Multiemployer Plan), subject to the provisions of Title IV of ERISA or Sections 412 and 430 of the Code or Section 302 of ERISA and in respect of which any Loan Party or any ERISA Affiliate is (or, if such Plan were terminated, would under Section 4062 or Section 4069 of ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA.

“Platform” has the meaning set forth in Section 9.02(e)(i).

“Potential Defaulting Lender” means, at any time, (a) any Lender with respect to which an event of the kind referred to in the definition of “Lender Insolvency Event” has occurred and is continuing in respect of any Subsidiary of such Lender, (b) any Lender that has notified, or whose Parent Company or a Subsidiary thereof has notified, the Administrative Agent or the Borrower in writing, or has stated publicly, that it does not intend to comply with its funding obligations under any other loan agreement or credit agreement or other similar financing agreement, unless such writing or statement states that such position is based on such Lender’s determination that one or more conditions precedent to funding cannot be satisfied (which conditions precedent, together with the applicable default, if any, will be specifically identified in such writing or public statement), or (c) any Lender that has, or whose Parent Company has, a non-investment grade rating from Moody’s or S&P or another nationally recognized rating agency. Any determination by the Administrative Agent that a Lender is a Potential Defaulting Lender under any of clauses (a) through (c) of this definition will be conclusive and binding absent manifest error, and such Lender will be deemed a Potential Defaulting Lender (subject to Section 2.14(b)) upon notification of such determination by the Administrative Agent to the Borrower and the Lenders.

“Prime Rate” means the rate of interest last quoted by The Wall Street Journal as the “Prime Rate” in the U.S. or, if The Wall Street Journal ceases to quote such rate, the highest per annum interest rate published by the Federal Reserve Board in Federal Reserve Statistical Release H.15 (519) (Selected Interest Rates) as the “bank prime loan” rate or, if such rate is no longer quoted therein, any similar rate quoted therein (as determined by the Administrative Agent) or any similar release by the Federal Reserve Board (as determined by the Administrative Agent). Each change in the Prime Rate shall be effective from and including the date such change is publicly announced or quoted as being effective.

“Pro Rata Share” means, with respect to any Lender, the ratio (expressed as a percentage) of aggregate Commitments of such Lender to the aggregate Commitments of all the Lenders, or if all such Commitments have been terminated, the ratio (expressed as a percentage) of Advances owing to such Lender to the aggregate Advances owing to all such Lenders.

“Property” of any Person means any property or assets (whether real, personal, or mixed, tangible or intangible) of such Person.

“Proven Reserves” means “Proved Reserves” as defined in the Definitions for Oil and Gas Reserves (in this paragraph, the “Definitions”) promulgated by the Society of Petroleum Engineers (or any generally recognized successor) as in effect at the time in question. “Proved Developed Reserves” means Proved Reserves which are categorized as “Developed” in the Definitions, “Proved Developed Producing Reserves” means Proved Reserves which are categorized as both “Developed” and “Producing” in the Definitions, “Proved Developed Nonproducing Reserves” means Proved Reserves which are categorized as both “Developed” and “Nonproducing” in the Definitions, and “Proved Undeveloped Reserves” means Proved Reserves which are categorized as “Undeveloped” in the Definitions.

“PTE” means a prohibited transaction class exemption issued by the U.S. Department of Labor, as any such exemption may be amended from time to time.

“Publication Date” has the meaning assigned to such term in the definition of “Alternate Base Rate”.

“Purchase Money Debt” means Debt, the proceeds of which are used solely to finance the acquisition, construction, or improvement of Property of any Loan Party.

“PV-10” means estimated future net revenue, discounted at a rate of 10% per annum, using the Administrative Agent’s price deck.

“QFC” has the meaning assigned to the term “qualified financial contract” in, and shall be interpreted in accordance with, 12 U.S.C. 5390(c)(8)(D).

“QFC Credit Support” has the meaning assigned to such term in Section 9.24.

“Qualified ECP Guarantor” means, in respect of any Swap Obligation, each Loan Party that has total assets exceeding \$10,000,000 at the time the relevant guarantee or grant of the relevant security interest becomes effective with respect to such Swap Obligation or such other person as constitutes an “eligible contract participant” under the Commodity Exchange Act or any regulations promulgated thereunder and can cause another person to qualify as an “eligible contract participant” at such time by entering into a keepwell under Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

“Recipient” means (a) the Administrative Agent, and (b) any Lender, as applicable.

“Reference Time” with respect to any setting of the then-current Benchmark means (a) if such Benchmark is the Term SOFR Rate, 5:00 a.m. (Chicago time) on the day that is two Business Days preceding the date of such setting, (b) if such Benchmark is Daily Simple SOFR, then four Business Days prior to such setting and (c) if such Benchmark is not the Term SOFR Rate or Daily Simple SOFR, the time determined by the Administrative Agent in its reasonable discretion.

“Register” has the meaning set forth in Section 9.08(c).

“Regulations D, T, U, and X” mean Regulations D, T, U, and X of the Federal Reserve Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees, administrators, managers, advisors and representatives of such Person and of such Person’s Affiliates.

“Release” shall have the meaning set forth in CERCLA or under any other Environmental Law.

“Relevant Governmental Body” means the Board of Governors of the Federal Reserve System or the NYFRB the CME Term SOFR Administrator, as applicable, or a committee officially endorsed or convened by the Board of Governors of the Federal Reserve System or the NYFRB, or, in each case, any successor thereto.

“Relevant Rate” means (a) with respect to any Term Benchmark Borrowing, the Adjusted Term SOFR Rate or (b) with respect to any RFR Borrowing, the Adjusted Daily Simple SOFR, as applicable.

“Removal Effective Date” has the meaning set forth in Section 8.06(b).

“Reportable Event” means a “reportable event” described in Section 4043 of ERISA and the regulations issued thereunder.

“Required Lenders” means, at any time, Lenders holding at least 66 2/3% of the Commitments or, if the Commitments have been terminated or expired, Lenders holding at least 66 2/3% of the outstanding Advances.

“Resignation Effective Date” has the meaning set forth in Section 8.06(a).

“Resolution Authority” means an EEA Resolution Authority or, with respect to any UK Financial Institution, a UK Resolution Authority.

“Response” shall have the meaning set forth in CERCLA or under any other Environmental Law.

“Responsible Officer” means with respect to the Borrower, the Chief Financial Officer of the general partner of the Borrower, which, as of the Closing Date, is Brent W. Clum.

“Restricted Payment” means, with respect to any Person, (a) any direct or indirect dividend or distribution (whether in cash, securities or other Property) with respect to any Equity Interests, including any payment of any kind or character (whether in cash, securities or other Property) in consideration for or otherwise in connection with any retirement, purchase, redemption or other acquisition of any Equity Interest of such Person, or any options, warrants or rights to purchase or acquire any such Equity Interest of such Person, or (b) principal or interest payments (in cash, Property or otherwise) on, or redemptions of, subordinated debt of such Person; provided that the term “Restricted Payment” shall not include any dividend or distribution payable solely in Equity Interests of such Person or warrants, options or other rights to purchase such Equity Interests or to exchange such warrants, options or other rights for such Equity Interests.

“RFR” when used in reference to any Advance or Borrowing, refers to whether such Advance, or the Advances comprising such Borrowing, are bearing interest at a rate determined by reference to Adjusted Daily Simple SOFR.

“Rolling Period” means (a) for the fiscal quarter ending on December 31, 2021, the one fiscal quarter period ending on such day, (b) for the fiscal quarters ending March 31, 2022 and June 30, 2022, the applicable period commencing on October 1, 2021 and ending on the last day of such applicable fiscal quarter and (c) for (i) the fiscal quarter ending September 30, 2022 and (ii) each fiscal quarter thereafter, the period of four (4) consecutive fiscal quarters ending on the last day of such applicable fiscal quarter.

“S&P” means Standard & Poor’s Ratings Services, a division of Standard & Poor’s Financial Services LLC, and any successor thereto.

“Sanctioned Country” means a country, region, or territory, or a country, region, or territory whose government is subject to a sanctions program identified on the list maintained by OFAC and available at <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>, or as otherwise published from time to time, or subject to any other sanctions program of the United States of America, the United Nations, the Norwegian State, the European Union, the United Kingdom or any agency or subdivision thereof.

“Sanctioned Person” means (a) a Person named on the list of “Specially Designated Nationals and Blocked Persons” maintained by OFAC available at <http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx>, or as otherwise published from time to time, (b) a Person named on the lists maintained by the United Nations Security Council available at http://www.un.org/sc/committees/list_compend.shtml, or as otherwise published from time to time, (c) a Person named on the lists maintained by the European Union available at http://eeas.europa.eu/cfsp/sanctions/consol-list_en.htm, or as otherwise published from time to time, (d) a Person named on the lists maintained by Her Majesty’s Treasury available at http://www.hm-treasury.gov.uk/fin_sanctions_index.htm, or as otherwise published from time to time, or (e) (i) an agency of the government of a Sanctioned Country, (ii) an organization controlled by a Sanctioned Country, or (iii) a person resident in a Sanctioned Country, to the extent subject to sanctions program administered by the United States of America, the United Nations, the Norwegian State, the European Union, the United Kingdom or any other agency or subdivision thereof.

“Sanctions” means any sanctions imposed, administered or enforced from time to time by any applicable Governmental Authority, including, without limitation, those administered by OFAC, the U.S. Department of State, Her Majesty’s Treasury, the United Nations, the Norwegian State, the European Union, the Member States of the European Union, any other applicable Governmental Authority or any agency or subdivision of any of the foregoing, and shall include any regulations, rules, and executive orders issued in connection therewith.

“Secured Parties” means the Administrative Agent, the Lenders, and the Persons that are owed Lender Hedging Obligations, and the Banking Services Providers.

“Security Instruments” means, collectively: (a) the Mortgages, (b) the Guarantee and Collateral Agreement, (c) each other agreement, instrument or document executed at any time in connection with the Guarantee and Collateral Agreement, or the Mortgages, and (d) each other agreement, instrument or document executed at any time in connection with securing the Obligations.

“SOFR” means, with respect to any Business Day, a rate per annum equal to the secured overnight financing rate for such Business Day published by the SOFR Administrator on the SOFR Administrator’s Website at approximately 8:00 a.m. (New York City time) on the immediately succeeding Business Day.

“SOFR Administrator” means the NYFRB (or a successor administrator of the secured overnight financing rate).

“SOFR Administrator’s Website” means the Federal Reserve Bank of New York’s Website for the secured overnight financing rate identified as such by the SOFR Administrator from time to time.

“SOFR Determination Date” has the meaning set forth in the definition of “Daily Simple SOFR”.

“SOFR Rate Day” has the meaning set forth in the definition of “Daily Simple SOFR”.

“Solvent” means, with respect to any Person as of the date of any determination, that on such date (a) the fair value of the Property of such Person (both at fair valuation and at present fair saleable value) is greater than the total liabilities, including contingent liabilities, of such Person, (b) the present fair saleable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its assets and pay its debts and other liabilities, contingent obligations, and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person’s ability to pay as such debts and liabilities mature, and (e) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person’s Property would constitute unreasonably small capital after giving due consideration to current and anticipated future capital requirements and current and anticipated future business conduct and the prevailing practice in the industry in which such Person is engaged. In computing the amount of contingent liabilities at any time, such liabilities shall be computed at the amount which, in light of the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

“Subsidiary” means, with respect to any Person (the “parent”) at any date, any other Person the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any Person, a majority of whose outstanding Voting Securities (other than directors’ qualifying shares) shall at any time be owned by such parent or one or more Subsidiaries of such parent; provided that notwithstanding the foregoing, the Joint Venture shall not be deemed a Subsidiary of the Borrower. Unless otherwise specified all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Borrower.

“Supported QFC” has the meaning assigned to such term in Section 9.24.

“Swap Counterparty” means any Person (other than a Defaulting Lender) party to a Hedge Contract or a Gas Sales Contract with the Borrower, any of its Subsidiaries, or the Joint Venture to whom Lender Hedging Obligations are owing.

“Swap Obligation” means, with respect to any Loan Party other than the Borrower, any obligation to pay or perform under any agreement, contract or transaction that constitutes a “swap” within the meaning of section 1a(47) of the Commodity Exchange Act.

“Tax Group” has the meaning set forth in Section 4.11(a).

“Tax Returns” has the meaning set forth in Section 4.11(b).

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Term Benchmark” when used in reference to any Advance or Borrowing, refers to whether such Advance, or the Advances comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted Term SOFR Rate.

“Term SOFR Determination Day” has the meaning assigned to it under the definition of Term SOFR Reference Rate.

“Term SOFR Rate” means, with respect to any Term Benchmark Borrowing and for any tenor comparable to the applicable Interest Period, the Term SOFR Reference Rate at approximately 5:00 a.m., Chicago time, two U.S. Government Securities Business Days prior to the commencement of such tenor comparable to the applicable Interest Period, as such rate is published by the CME Term SOFR Administrator.

“Term SOFR Reference Rate” means, for any day and time (such day, the “Term SOFR Determination Day”), with respect to any Term Benchmark Borrowing and for any tenor comparable to the applicable Interest Period, the rate per annum determined by the Administrative Agent as the forward-looking term rate based on SOFR; *provided that* if the Term SOFR Reference Rate as so determined would be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement. If by 5:00 pm (New York City time) on the fifth (5th) U.S. Government Securities Business Day immediately following any Term SOFR Determination Day, the “Term SOFR Reference Rate” for the applicable tenor has not been published by the CME Term SOFR Administrator and a Benchmark Replacement Date with respect to the Term SOFR Rate has not occurred, then the Term SOFR Reference Rate for such Term SOFR Determination Day will be the Term SOFR Reference Rate as published in respect of the first preceding U.S. Government Securities Business Day for which such Term SOFR Reference Rate was published by the CME Term SOFR Administrator, so long as such first preceding Business Day is not more than five (5) Business Days prior to such Term SOFR Determination Day.

“Termination Event” means (a) a Reportable Event (other than a Reportable Event not subject to the provision for 30-day notice to the PBGC under ERISA regulations), (b) the withdrawal by any Loan Party or any ERISA Affiliate from a Plan during a plan year in which it was a “substantial employer” as defined in Section 4001(a)(2) of ERISA, or a cessation of operations that is treated as a withdrawal under Section 4062(e) of ERISA, (c) the filing of a notice of intent to terminate a Plan or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, (d) the institution of proceedings to terminate a Plan by the PBGC, (e) any event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, (f) any failure by any Plan to satisfy the minimum funding standards (within the meaning of Sections 412 or 430 of the Code or Section 302 of ERISA) applicable to such Plan, whether or not waived, (g) the failure by any Loan Party or any

ERISA Affiliate to make any required contribution to a Multiemployer Plan, (h) a complete or partial withdrawal by any Loan Party or any ERISA Affiliate from any Multiemployer Plan, (i) the determination that any Plan is considered an at-risk plan within the meaning of Section 430 of the Code or Section 303 of ERISA, or the receipt by any Loan Party or any ERISA Affiliate of any notice of a determination that a Multiemployer Plan is, or is expected to be, “insolvent” (within the meaning of Section 4245 of ERISA), in “reorganization” (within the meaning of Section 4241 of ERISA) or in endangered or critical status (within the meaning of Section 432 of the Code or Section 305 of ERISA), or (j) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon any Loan Party or any ERISA Affiliate.

“Total Debt” means, as of any date of determination, the sum of (a) without duplication, the aggregate principal amount of all Debt of the Borrower and its Subsidiaries referred to in clauses (a), (b), (d), and (j) of the definition of “Debt” and the amount of drawn and unreimbursed letters of credit, each on such date and (b) the aggregate principal amount of all Purchase Money Debt of the Borrower and its Subsidiaries on such date, in each case determined on a consolidated basis in accordance with GAAP.

“Total Net Debt” means, as of any date of determination, (a) Total Debt as of such date minus (b) the unpaid balance of the FAM Loan and minus (c) the lesser of (i) the aggregate amount of unrestricted cash and cash equivalents of the Borrower and its Subsidiaries on such date determined in accordance with GAAP (excluding cash and cash equivalents attributable to Borrower’s Equity Interest in the Joint Venture as shown on the balance sheet of Borrower and its Subsidiaries) and (ii) \$15,000,000; provided that Total Debt shall only be reduced as set forth in clause (c) to the extent that such unrestricted cash and cash equivalents are (x) subject to a Lien in favor of the Lenders and (y) in a deposit account subject to an account control agreement reasonably acceptable in form and substance to the Administrative Agent.

“Trade Date” has the meaning set forth in Section 9.08(b)(i)(B).

“Transfer Letters” means, collectively, the letters in lieu of transfer orders in form and substance acceptable to Administrative Agent and executed by the Borrower, any Guarantor or any of their respective Subsidiaries executing a Mortgage.

“Type”, when used in reference to any Advance or Borrowing, refers to whether the rate of interest on such Advance, or on the Advances comprising such Borrowing, is determined by reference to the Alternate Base Rate or the Adjusted Term SOFR Rate.

“UK Bribery Act” means the United Kingdom Bribery Act 2010 as amended.

“UK Financial Institution” means any BRRD Undertaking (as such term is defined under the PRA Rulebook (as amended from time to time) promulgated by the United Kingdom Prudential Regulation Authority) or any person falling within IFPRU 11.6 of the FCA Handbook (as amended from time to time) promulgated by the United Kingdom Financial Conduct Authority, which includes certain credit institutions and investment firms, and certain affiliates of such credit institutions or investment firms.

“UK Resolution Authority” means the Bank of England or any other public administrative authority having responsibility for the resolution of any UK Financial Institution.

“Unadjusted Benchmark Replacement” means the applicable Benchmark Replacement excluding related the Benchmark Replacement Adjustment.

“U.S. Government Securities Business Day” means any day except for (a) a Saturday, (b) a Sunday or (c) a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in United States government securities.

“U.S. Person” means any Person that is a “United States person” as defined in Section 7701(a)(30) of the Code.

“U.S. Special Resolution Regime” has the meaning assigned to such term in Section 9.24.

“U.S. Tax Compliance Certificate” has the meaning set forth in Section 2.13(f)(ii)(B)(3).

“Utilization Percentage” means, as of any day, the fraction expressed as a percentage, the numerator of which is the aggregate outstanding principal amount of all Advances of the Lenders on such day and the denominator of which is the lesser of (a) the Borrowing Base and (b) the aggregate Commitments, each on such day.

“Vacuum PSA” means that certain Asset Sale and Purchase Agreement dated July 1, 2021 among Chevron U.S.A. Inc., Chevron Midcontinent, L.P. and XBM Production, L.P., as Seller, and the Borrower and MorningStar Operating LLC, as Buyer, pursuant to which the Borrower and its Subsidiary, MorningStar Operating LLC, will acquire the Central Vacuum Unit in Lea County, New Mexico and other Oil and Gas Properties located in Lea County, New Mexico and Delores and Montezuma Counties, Colorado.

“Voting Securities” means (a) with respect to any corporation (including any unlimited liability company), capital stock of such corporation having general voting power under ordinary circumstances to elect directors of such corporation (irrespective of whether at the time stock of any other class or classes shall have or might have special voting power or rights by reason of the happening of any contingency), (b) with respect to any partnership, any partnership interest or other ownership interest having general voting power to elect the general partner or other management of the partnership or other Person, and (c) with respect to any limited liability company, membership certificates or interests having general voting power under ordinary circumstances to elect managers of such limited liability company.

“Wells” has the meaning set forth in Section 2.02(b)(iv).

“WI/NRI Schedule” has the meaning set forth in Section 5.06(h)(iv).

“Working Capital” means, as of any date of determination, the difference of consolidated current assets under GAAP of the Borrower and its Subsidiaries as of such date (but excluding assets under ASC 815, cash and taxes receivable) and consolidated current liabilities under GAAP of the Borrower and its Subsidiaries as of such date (but excluding obligations under ASC 815, current liabilities in respect of Debt, interest payable and taxes payable).

“Write-Down and Conversion Powers” means, (a) with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule, and (b) with respect to the United Kingdom, any powers of the applicable Resolution Authority under the Bail-In Legislation to cancel, reduce, modify or change the form of a liability of any UK Financial Institution or any contract or instrument under which the liability arises, to convert all or part of that liability into shares, securities or obligations of that person or any other person, to provide that any such contract or instrument is to have effect as if a right had been exercised under it or to suspend any obligation in respect of that liability or any of the powers under that Bail-In Legislation that are related to or ancillary to any of those powers.

“XTO Parties” means XTO Energy Inc., XH LLC, HHE Energy Company, and any other Person Controlled by the XTO Party Sponsor.

“XTO Party Sponsor” means Exxon Mobil Corporation, a New Jersey incorporated company.

Section 1.02 Computation of Time Periods. In this Agreement, with respect to the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each means “to but excluding”.

Section 1.03 Accounting Terms; Changes in GAAP. Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to the Lenders hereunder shall (unless otherwise disclosed to the Lenders in writing at the time of delivery thereof) be prepared, in accordance with GAAP applied on a basis consistent with those used in the preparation of the latest financial statements furnished to the Lenders hereunder (which prior to the delivery of the first financial statements under Section 5.06, means the Financial Information). All calculations made for the purposes of determining compliance with this Agreement shall (except as otherwise expressly provided herein) be made by application of GAAP applied on a basis consistent with that used in the preparation of the annual or quarterly financial statements furnished to the Lenders pursuant to Section 5.06 most recently delivered prior to or concurrently with such calculations (or, prior to the delivery of the first financial statements under Section 5.06, used in the preparation of the Financial Information). In addition, all calculations and defined accounting terms used herein shall, unless expressly provided otherwise, when referring to any Person, where applicable, refer to such Person on a consolidated basis and mean such Person and its consolidated Subsidiaries.

Section 1.04 Miscellaneous. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.”

Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein," "hereof" and "hereunder," and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, paragraphs, Exhibits and Schedules shall be construed to refer to Articles and Sections and paragraphs of, and Exhibits and Schedules to, this Agreement, (e) any reference to any law or regulation herein shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (f) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

Section 1.05 Divisions. For all purposes under the Loan Documents, in connection with any division or plan of division under Delaware law (or any comparable event under a different jurisdiction's laws): (a) if any asset, right, obligation or liability of any Person becomes the asset, right, obligation or liability of a different Person, then it shall be deemed to have transferred from the original Person to the subsequent Person, and (b) if any new Person comes into existence, such new Person shall be deemed to have been organized on the first date of its existence by the holders of its Equity Interests at such time.

Section 1.06 Interest Rates; Benchmark Notification. The interest rate on Term Benchmark Advances is derived from an interest rate benchmark that may be discontinued or is, or may in the future become, the subject of regulatory reform. Upon the occurrence of a Benchmark Transition Event, Section 2.08(d)(ii) provides the mechanism for determining an alternative rate of interest. The Administrative Agent does not warrant or accept any responsibility for, and shall not have any liability with respect to, the administration, submission, performance or any other matter related to any interest rate used in this Agreement or with respect to any alternative or successor rate thereto, or replacement rate thereof, including without limitation, whether the composition or characteristics of any such alternative, successor or replacement reference rate will be similar to, or produce the same value or economic equivalence of, the existing interest rate being replaced or have the same volume or liquidity as did any existing interest. The Administrative Agent and its affiliates and/or other related entities may engage in transactions that affect the calculation of any interest rate used in this Agreement or any alternative, successor or alternative rate (including any Benchmark Replacement) and/or any relevant adjustments thereto, in each case, in a manner adverse to the Borrower. The Administrative Agent may select information sources or services in its reasonable discretion to ascertain any interest rate used in this Agreement, any component thereof, or rates referenced in the definition thereof, in each case pursuant to the terms of this Agreement, and shall have no liability to the Borrower, any Lender or any other person or entity for damages of any kind, including direct or indirect, special, punitive, incidental or consequential damages, costs, losses or expenses (whether in tort, contract or otherwise and whether at law or in equity), for any error or calculation of any such rate (or component thereof) provided by any such information source or service.

ARTICLE II
CREDIT FACILITIES

Section 2.01 Commitment for Advances.

(a) Advances. Each Lender has made Advances to the Borrower, on the terms and conditions set forth in this Agreement. Each Borrowing shall, in the case of Borrowings consisting of Alternate Base Rate Advances, be in an aggregate amount not less than \$250,000 and in integral multiples of \$100,000 in excess thereof, and in the case of Borrowings consisting of Term Benchmark Advances, be in an aggregate amount not less than \$500,000 and in integral multiples of \$100,000 in excess thereof, and in each case shall consist of Advances of the same Type made on the same day by the Lenders ratably according to their respective Commitments.

(b) Evidence of Debt.

(i) The Advances made by each Lender shall be evidenced by the records maintained by the Administrative Agent in the ordinary course of business. The records maintained by the Administrative Agent shall be conclusive absent manifest error of the amount of the Advances made by the Lenders to the Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error. Upon the request of any Lender to Borrower made through the Administrative Agent, the Borrower shall execute and deliver to such Lender (through the Administrative Agent) a Note, which shall evidence the obligation of the Borrower to repay to such Lender's Advances to such Borrower in addition to such records maintained by the Administrative Agent. Each Lender may attach schedules to a Note and endorse thereon the date, Type (if applicable), amount, currency and maturity of its Advances and payments with respect thereto, but such action or the failure to do so shall not control over the records thereof maintained by the Administrative Agent.

(ii) In the event of any conflict between the accounts and records maintained by the Administrative Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error.

Section 2.02 Borrowing Base.

(a) Borrowing Base. The Administrative Agent and the Lenders have set and the Borrower has acknowledged the Borrowing Base as \$165,000,000, effective as of November 1, 2021. The Borrowing Base determined pursuant to this Section 2.02(a) shall remain in effect until the next redetermination of the Borrowing Base made pursuant to this Section 2.02. The Borrowing Base shall be determined in accordance with the standards set forth in Section 2.02(e) and is subject to reduction or periodic redetermination pursuant to Sections 2.02(b), 2.02(c), and 2.02(d).

(b) Calculation of Borrowing Base.

(i) The Borrower shall deliver to the Administrative Agent and each of the Lenders on or before each March 15 an Independent Engineering Report dated effective as of the immediately preceding January 1, and such other information as may be reasonably requested by any Lender with respect to the Oil and Gas Properties included or to be included in the Borrowing Base; provided that any Oil and Gas Properties of the Joint Venture included in the Borrowing Base shall be net to the Equity Interest owned by the Borrower in the Joint Venture. On or about 15 days after receipt of the Independent Engineering Report and such other information, the Administrative Agent shall make an initial determination of the new Borrowing Base and upon such initial determination shall promptly notify the Lenders in writing of its initial determination of the proposed Borrowing Base. Subject to the last sentence of this Section 2.02(b)(i), the Required Lenders shall approve or reject the Administrative Agent's initial determination of the proposed Borrowing Base by written notice to the Administrative Agent on or about 15 days after the Administrative Agent's notification of its initial determination; provided, however, that the failure by any Lender to confirm or reject in writing the Administrative Agent's determination of the proposed Borrowing Base within such period shall be deemed an approval of such proposed Borrowing Base by such Lender. If the Required Lenders fail to approve any such proposed Borrowing Base determined by the Administrative Agent hereunder in such period, then the Administrative Agent shall poll the Lenders to ascertain the highest proposed Borrowing Base then acceptable to the Required Lenders for purposes of this Section 2.02(b)(i) and, subject to the last sentence of this Section 2.02(b)(i), such amounts shall become the new Borrowing Base, effective on the date specified in this Section 2.02(b)(i). Until such approval or deemed approval, the Borrowing Base in effect before the proposed Borrowing Base shall remain in effect. Upon agreement by the Administrative Agent and the Required Lenders of the new Borrowing Base, the Administrative Agent shall, by written notice to the Borrower and the Lenders, designate the new Borrowing Base available to the Borrower. Such designation shall be effective as of the Business Day specified in such written notice (or, if no effective date is specified in such written notice, the next Business Day following delivery of such written notice) and such new Borrowing Base shall remain in effect until the next determination or redetermination of the Borrowing Base in accordance with this Agreement. Notwithstanding anything contained herein to the contrary, (A) any determination or redetermination of the Borrowing Base resulting in any increase of the Borrowing Base in effect immediately prior to such determination or redetermination shall require the written approval (and not deemed approval) of all the Lenders in their sole discretion but subject to Section 2.02(e), (B) in no event shall the determined or redetermined Borrowing Base exceed the aggregate Commitments of the Lenders, and (C) any determination or redetermination of the Borrowing Base resulting in any decrease or reaffirmation of the Borrowing Base in effect immediately prior to such determination or redetermination shall not require the approval of any Defaulting Lender (and the definition of "Required Lenders" will automatically be deemed modified accordingly with respect to any such determination or redetermination).

(ii) The Borrower shall deliver to the Administrative Agent and each Lender on or before each September 1 an Internal Engineering Report dated as of the immediately preceding July 1 and such other information as may be reasonably requested by the Administrative Agent or any Lender with respect to the Oil and Gas Properties included or to be included in the Borrowing Base; provided that any Oil and Gas Properties of the Joint Venture included in the Borrowing Base shall be net to the Equity Interest owned by the Borrower in the Joint Venture. On or about 15 days after receipt of each Internal Engineering Report and such other information, the Administrative Agent shall make an initial determination of the new Borrowing Base and upon

such initial determination shall promptly notify the Lenders in writing of its initial determination of the proposed Borrowing Base. Subject to the last sentence of this Section 2.02(b)(ii), the Required Lenders shall approve or reject the Administrative Agent's initial determination of the proposed Borrowing Base by written notice to the Administrative Agent on or about 15 days after the Administrative Agent's notification of its initial determination; provided, however, that the failure by any Lender to confirm or reject in writing the Administrative Agent's determination of the proposed Borrowing Base within such period shall be deemed an approval of such proposed Borrowing Base by such Lender. If the Required Lenders fail to approve any such proposed Borrowing Base determined by the Administrative Agent hereunder in such period, then the Administrative Agent shall poll the Lenders to ascertain the highest proposed Borrowing Base then acceptable to the Required Lenders for purposes of this Section 2.02(b)(ii) and, subject to the last sentence of this Section 2.02(b)(ii), such amounts shall become the new Borrowing Base, effective on the date specified in this Section 2.02(b)(ii). Until such approval or deemed approval, the Borrowing Base in effect before the proposed Borrowing Base shall remain in effect. Upon agreement by the Administrative Agent and the Required Lenders of the new Borrowing Base, the Administrative Agent shall, by written notice to the Borrower and the Lenders, designate the new Borrowing Base available to the Borrower. Such designation shall be effective as of the Business Day specified in such written notice (or, if no effective date is specified in such written notice, the next Business Day following delivery of such written notice) and such new Borrowing Base shall remain in effect until the next determination or redetermination of the Borrowing Base in accordance with this Agreement. Notwithstanding anything contained herein to the contrary, (A) any determination or redetermination of the Borrowing Base resulting in any increase of the Borrowing Base in effect immediately prior to such determination or redetermination shall require the written approval (and not deemed approval) of all the Lenders in their sole discretion but subject to Section 2.02(e), (B) in no event shall the sum of the determined or redetermined Borrowing Base exceed the aggregate Commitments of the Lenders, and (C) any determination or redetermination of the Borrowing Base resulting in any decrease of the Borrowing Base in effect immediately prior to such determination or redetermination shall not require the approval of any Defaulting Lender (and the definition of "Required Lenders" will automatically be deemed modified accordingly with respect to any such determination or redetermination).

(iii) In the event that the Borrower does not furnish to the Administrative Agent and the Lenders the Independent Engineering Report, Internal Engineering Report or other information specified in Section 2.02(b)(i) and (ii) by the date specified therein, the Administrative Agent and the Lenders may nonetheless redetermine the Borrowing Base and redesignate the Borrowing Base from time to time thereafter in their sole discretion until the Administrative Agent and the Lenders receive the relevant Independent Engineering Report, Internal Engineering Report, or other information, as applicable, whereupon the Administrative Agent and the Lenders shall redetermine the Borrowing Base as otherwise specified in this Section 2.02.

(iv) Each delivery of an Engineering Report by the Borrower to the Administrative Agent and the Lenders shall constitute a representation and warranty by the Borrower to the Administrative Agent and the Lenders that (A) the Borrower, its Subsidiaries and the Joint Venture, as applicable, own (or, with respect to Oil and Gas Properties to be acquired, will own) the Oil and Gas Properties specified therein subject to an Acceptable Security Interest and free and clear of any Liens (except Permitted Liens), and (B) on and as of the date of such Engineering Report each Oil and Gas Property described as "proved developed" therein was developed for oil and/or gas, and the wells pertaining to such Oil and Gas Properties that are described therein as producing wells ("Wells"), were each producing oil and/or gas in paying quantities, except for Wells that were utilized as water or gas injection wells or as water disposal wells.

(c) Interim Redetermination. In addition to the Borrowing Base redeterminations provided for in Section 2.02(b), the Administrative Agent and the Lenders may with the approvals required by the last sentence of Section 2.02(b)(i) (i) in their sole discretion for any reason make one additional redetermination of the Borrowing Base during any six-month period between scheduled redeterminations, (ii) in their sole discretion make a redetermination of the Borrowing Base in connection with any material loss, theft, substantial damage or destruction of Oil and Gas Properties of any Loan Party or the Joint Venture, and (iii) at the request of the Borrower make one additional redetermination of the Borrowing Base during any six-month period between scheduled redeterminations, and in any case, based on such information as the Administrative Agent and the Lenders deem relevant (but in accordance with Section 2.02(e)). The party requesting the redetermination shall give the other parties at least 10 days' prior written notice that a redetermination of the Borrowing Base pursuant to this paragraph (c) is to be performed. In connection with any redetermination of the Borrowing Base under this Section 2.02(c), the Borrower shall provide the Administrative Agent and the Lenders with such information regarding the Borrower and its Subsidiaries' business (including its Oil and Gas Properties, the Proven Reserves, and production relating thereto) as the Administrative Agent or any Lender may request, including, without limitation, an updated Engineering Report. The Administrative Agent shall promptly notify the Borrower in writing of each redetermination of the Borrowing Base pursuant to this Section 2.02(c) and the amount of the Borrowing Base as so redetermined.

(d) Automatic Reductions of Borrowing Base

(i) Upon the occurrence of a Borrowing Base Reduction Event, the Borrowing Base shall be automatically reduced by the Borrowing Base Reduction Value.

(ii) Notwithstanding anything to the contrary contained herein, each time the Borrower issues any Debt pursuant to Section 6.02(d), then on the date of issuance thereof, the Borrowing Base then in effect shall be reduced automatically by an amount equal to 25% of the stated principal amount of such Debt.

The Borrowing Base as so reduced pursuant to this Section 2.02(d) shall become the new Borrowing Base immediately upon such date of issuance and shall remain in effect until redetermined pursuant to this Agreement. The automatic reductions described in this Section 2.02(d) shall not be deemed to take the place of regularly scheduled or other redeterminations of the Borrowing Base in accordance with this Section 2.02.

(e) Standards for Redetermination. Each redetermination of the Borrowing Base by the Administrative Agent and the Lenders pursuant to this Section 2.02 shall be made (i) in the sole discretion, acting in good faith, of the Administrative Agent and the Lenders (but in accordance with the other provisions of this Section 2.02(e)), (ii) in accordance and consistent with the Administrative Agent's and the Lenders' customary internal standards and practices for valuing and redetermining the value of Oil and Gas Properties in connection with reserve based

oil and gas loan transactions as they exist at such time, (iii) in conjunction with the most recent Independent Engineering Report or Internal Engineering Report, as applicable, or other information received by the Administrative Agent and the Lenders relating to the Proven Reserves of the Borrower and its Subsidiaries, and (iv) based upon the estimated value of the Proven Reserves owned by the Borrower and its Subsidiaries as determined by the Administrative Agent and the Lenders. In valuing and redetermining the Borrowing Base, the Administrative Agent and the Lenders may also consider the business, financial condition, and Debt obligations of the Borrower and its Subsidiaries, the types of Proven Reserves, the value and effect of Hedge Contracts then in effect, the effect of Gas Imbalances and such other factors as the Administrative Agent and the Lenders customarily deem appropriate. In that regard, the Borrower acknowledges that the determination of the Borrowing Base reflects a loan amount to market value percentage differential which is essential for the adequate protection of the Administrative Agent and the Lenders. No Proven Reserves shall be included or considered for inclusion in the Borrowing Base unless the Administrative Agent and the Lenders shall have received, at the Borrower's expense, evidence of title satisfactory in form and substance to the Administrative Agent that the Administrative Agent has an Acceptable Security Interest in the Oil and Gas Properties relating thereto pursuant to the Security Instruments. For the purpose of this Section 2.02(e), an Acceptable Security Interest in the Equity Interest of the Joint Venture pursuant to the Guarantee and Collateral Agreement is deemed to be an Acceptable Security Interest in the Proven Reserves of the Joint Venture. At all times after the Administrative Agent has given the Borrower notification of a redetermination of the Borrowing Base under this Section 2.02, the Borrowing Base shall be equal to the redetermined amount or such lesser amount designated by the Borrower and disclosed in writing to the Administrative Agent and the Lenders until the Borrowing Base is subsequently redetermined in accordance with this Section 2.02.

Section 2.03 Method of Borrowing

(a) Notice. Each Borrowing shall be made pursuant to a Notice of Borrowing (or by telephone notice promptly confirmed in writing by a Notice of Borrowing), (i) given not later than 11:00 a.m. (New York time) on the third Business Day before the date of the proposed Borrowing, in the case of a Borrowing comprised of Term Benchmark Advances or (ii) given not later than 10:00 a.m. (New York time) the Business Day of the proposed Borrowing, in the case of a Borrowing comprised of Alternate Base Rate Advances, by the Borrower to the Administrative Agent, which shall in turn give to each Lender prompt notice of such proposed Borrowing. Each Notice of Borrowing shall be in writing (by facsimile or otherwise) specifying the information required therein. In the case of a proposed Borrowing comprised of Term Benchmark Advances, the Administrative Agent shall promptly notify each Lender of the applicable interest rate under Section 2.08(b). Each Lender shall, before 1:00 p.m. (New York time) on the date of such Borrowing, make available for the account of its Applicable Lending Office to the Administrative Agent at its address referred to in Section 9.02, or such other location as the Administrative Agent may specify by notice to the Lenders, in same day funds, in the case of a Borrowing, such Lender's Pro Rata Share of such Borrowing. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Administrative Agent shall make such funds available to the Borrower at its account with the Administrative Agent.

(b) Conversions and Continuations. The Borrower may elect to Convert or continue any Borrowing under this Section 2.03 by delivering an irrevocable Notice of Conversion or Continuation to the Administrative Agent at the Administrative Agent's office no later than 11:00 a.m. (New York time) (i) on the date which is at least three Business Days in advance of the proposed Conversion or continuation date in the case of a Conversion to or a continuation of a Borrowing comprised of Term Benchmark Advances, and (ii) on the Business Day of the proposed Conversion, in the case of a Conversion to a Borrowing comprised of Alternate Base Rate Advances. Each such Notice of Conversion or Continuation shall be in writing (by facsimile or otherwise) specifying the information required therein. Promptly after receipt of a Notice of Conversion or Continuation under this Section, the Administrative Agent shall provide each Lender with a copy thereof and, in the case of a Conversion to or a continuation of a Borrowing comprised of Term Benchmark Advances, notify each Lender of the applicable interest rate under Section 2.08(b).

(c) Certain Limitations. Notwithstanding anything to the contrary contained in Section 2.03(a) and (b):

(i) at no time shall there be more than six Interest Periods applicable to outstanding Term Benchmark Advances and the Borrower may not select Term Benchmark Advances for any Borrowing at any time that a Default has occurred and is continuing;

(ii) if any Lender shall, at least one Business Day before the date of any requested Borrowing, Conversion, or continuation, notify the Administrative Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or that any central bank or other Governmental Authority asserts that it is unlawful, for such Lender or its Applicable Lending Office to perform its obligations under this Agreement to make Term Benchmark Advances or to fund or maintain Term Benchmark Advances, the right of the Borrower to select Term Benchmark Advances from such Lender shall be suspended until such Lender shall notify the Administrative Agent that the circumstances causing such suspension no longer exist, and the Advance made by such Lender in respect of such Borrowing, Conversion, or continuation shall be an Alternate Base Rate Advance;

(iii) if the Administrative Agent is unable to determine the Adjusted Term SOFR Rate for Term Benchmark Advances comprising any requested Borrowing, the right of the Borrower to select Term Benchmark Advances for such Borrowing or for any subsequent Borrowing shall be suspended until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist, and each Advance comprising such Borrowing shall be an Alternate Base Rate Advance;

(iv) if the Required Lenders shall, at least one Business Day before the date of any requested Borrowing, notify the Administrative Agent that the Adjusted Term SOFR Rate for Term Benchmark Advances comprising such Borrowing will not adequately reflect the cost to such Lenders of making or funding their respective Term Benchmark Advances, as the case may be, for such Borrowing, the right of the Borrower to select Term Benchmark Advances for such Borrowing or for any subsequent Borrowing shall be suspended until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist, and each Advance comprising such Borrowing shall be an Alternate Base Rate Advance; and

(v) if the Borrower shall fail to select the duration or continuation of any Interest Period for any Term Benchmark Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01 and Section 2.03(b), the Administrative Agent shall forthwith so notify the Borrower and the Lenders and such Advances shall be made available to the Borrower on the date of such Borrowing as Alternate Base Rate Advances or, if an existing Advance, Convert into Alternate Base Rate Advances.

(d) Notices Irrevocable. Each Notice of Borrowing and Notice of Conversion or Continuation shall be irrevocable and binding on the Borrower. In the case of any Borrowing for which the related Notice of Borrowing specifies is to be comprised of Term Benchmark Advances, the Borrower shall indemnify each Lender against any loss, out-of-pocket cost, or expense incurred by such Lender as a result of any failure by the Borrower to fulfill on or before the date specified in such Notice of Borrowing for such Borrowing the applicable conditions set forth in Article III including any loss (including any loss of anticipated profits), cost, or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Advance to be made by such Lender as part of such Borrowing when such Advance, as a result of such failure, is not made on such date.

(e) Funding by Lenders; Presumption by Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender (i) in the case of a Term Benchmark Advance, prior to the proposed date of such Borrowing or (ii) in the case of an Alternate Base Rate Advance, prior to one hour before the proposed time of such Borrowing, that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.03(a) and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent (A) with respect to such Lender, forthwith on demand, and (B) with respect to the Borrower, within one Business Day of demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (1) in the case of a payment to be made by such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, and (2) in the case of a payment to be made by the Borrower, the interest rate applicable to Alternate Base Rate Advances. If the Borrower and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender pays its share of the applicable Borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Advance included in such Borrowing. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

(f) Lender Obligations Several. The failure of any Lender to make the Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, to make its Advance on the date of such Borrowing. No Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on the date of any Borrowing.

Section 2.04 Reduction of the Commitments. The Borrower shall have the right, upon at least two Business Days' irrevocable notice to the Administrative Agent, to terminate in whole or reduce ratably in part the unused portion of the Commitments; provided that (i) each partial reduction shall be in the aggregate amount of \$5,000,000 or in integral multiples of \$1,000,000 in excess thereof, and (ii) any reduction and/or termination of Commitments shall not result in the outstanding Advances or the Borrowing Base exceeding the aggregate Commitments. Any reduction and termination of the Commitments pursuant to this Section 2.04 shall be applied ratably to each Lender's Commitment and shall be permanent, with no obligation of the Lenders to reinstate such Commitments.

Section 2.05 Prepayment of Advances.

(a) Optional. The Borrower may prepay the Advances after giving by 11:00 a.m. (New York time): (i) in the case of Term Benchmark Advances, at least two Business Days', (ii) in the case of RFR Advances, at least five Business Days' or (iii) in the case of Alternate Base Rate Advances, same Business Day, irrevocable prior written notice to the Administrative Agent stating the proposed date and aggregate principal amount of such prepayment. If any such notice is given, the Borrower shall prepay the Advances in accordance with Borrower's notice in whole or ratably in part in an aggregate principal amount equal to the amount specified in such notice, together with accrued interest to the date of such prepayment on the principal amount prepaid and amounts, if any, required to be paid pursuant to Section 2.11 as a result of such prepayment being made on such date; provided, however, that each partial prepayment with respect to: (A) any amounts prepaid in respect of Term Benchmark Advances shall be applied to Term Benchmark Advances comprising part of the same Borrowing, (B) any prepayments made in respect of Alternate Base Rate Advances shall be made in minimum amounts of \$2,000,000 and in integral multiples of \$1,000,000 in excess thereof, and (C) any prepayments made in respect of any Borrowing comprised of Term Benchmark Advances shall be made in an aggregate principal amount of at least \$2,000,000 and in integral multiples of \$1,000,000 in excess thereof and in an aggregate principal amount such that after giving effect thereto such Borrowing shall have a remaining principal amount outstanding with respect to such Borrowing of at least \$1,000,000. Full prepayments of any Borrowing are permitted without restriction of amounts.

(b) Mandatory.

(i) Borrowing Base Deficiency. Subject to Sections 2.05(b)(ii), (iii), and (iv), if a Borrowing Base Deficiency exists, then after receipt of written notice from the Administrative Agent regarding such deficiency, the Borrower shall,

(A) (1) within three (3) Business Days after the date such deficiency notice is received by the Borrower, deliver a written notice to the Administrative Agent indicating its intent to prepay Advances, such that the Borrowing Base Deficiency is cured, and (2) make such payments and deposits within ten (10) days after the date such deficiency notice is received by the Borrower;

(B) (1) within three (3) Business Days after the date such deficiency notice is received by the Borrower, deliver a written notice to the Administrative Agent indicating its intent to provide petroleum engineering information with respect to additional Oil and Gas Properties of the Borrower and the other Loan Parties not previously included in the most recently delivered Reserve Report and, if required under Section 5.08, mortgaging such additional Oil and Gas Properties in compliance with the requirements of Section 5.08 that, in each case, are reasonably acceptable to the Administrative Agent and would result in an increase to the Borrowing Base (in an amount proposed by the Administrative Agent and approved by the Required Lenders) sufficient to cure such Borrowing Base Deficiency, (2) deliver such petroleum engineering information within ten (10) Business Days after the date such deficiency notice is received by the Borrower and (3) deliver supplemental Security Instruments, if necessary, within the time period required by Section 5.08;

(C) (1) within three (3) Business Days after the date such deficiency notice is received by the Borrower, deliver a written notice to the Administrative Agent indicating the Borrower's election to repay the Advances, in equal monthly installments in amounts such that within ninety (90) days, 50% of such Borrowing Base Deficiency is cured and within 180 days, the entire Borrowing Base Deficiency is cured, and (2) make such payments and deposits within such time periods; or

(D) (1) within three (3) Business Days after the date such deficiency notice is received by the Borrower, deliver a written notice to the Administrative Agent indicating the Borrower's election to combine the options provided in Section 2.05(b)(i)(A), (B) and (C), and also indicating the amount to be prepaid within ten (10) days, the amount to be prepaid in installments and the amount to be provided as additional Oil and Gas Properties, and (2) make such initial prepayment, make such six equal consecutive monthly installments and deliver such additional Collateral within the time required under Section 2.05(b)(i)(A), (B) and (C).

The failure of the Borrower to deliver any such election notice or to perform the actions chosen to remedy a Borrowing Base Deficiency under this Section 2.05(b)(i) shall constitute an Event of Default.

(ii) Asset Disposition, Hedge Termination or Debt Issuance. Upon any reductions to the Borrowing Base pursuant to Section 2.02(d) in connection with a Disposition, Hedge Termination or issuance of Debt, if a Borrowing Base Deficiency exists, then the Borrower shall prepay Advances, such that the Borrowing Base Deficiency is cured. The Borrower shall be obligated to make such prepayment on the date it or any Subsidiary receives cash proceeds as a result of such Disposition, Hedge Termination, issuance of Debt, or issuance of Equity Interests; provided that all payments required to be made pursuant to this Section 2.05(b)(ii) must be made on or prior to the Commitment Termination Date.

(iii) Reduction of Commitments. On the date of each reduction of the aggregate Commitments pursuant to Section 2.04, the Borrower agrees to make a prepayment in respect of the outstanding amount of the Advances to the extent, if any, that the aggregate unpaid principal amount of all Advances exceeds the lesser of (A) the aggregate Commitments, as so reduced, and (B) the Borrowing Base. Each prepayment pursuant to this Section 2.05(b)(ii) shall be accompanied by accrued interest on the amount prepaid to the date of such prepayment and amounts, if any, required to be paid pursuant to Section 2.11 as a result of such prepayment being made on such date. Each prepayment under this Section 2.05(b)(ii) shall be applied to the Advances as determined by the Administrative Agent and agreed to by the Lenders in their sole discretion, subject to Section 2.14(a)(ii).

(iv) Illegality. If any Lender shall notify the Administrative Agent and the Borrower that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or that any central bank or other Governmental Authority asserts that it is unlawful for such Lender or its Applicable Lending Office to perform its obligations under this Agreement to maintain any Term Benchmark Advances of such Lender then outstanding hereunder, (A) the Borrower shall, no later than 11:00 a.m. (New York time) (1) if not prohibited by law, on the last day of the Interest Period for each outstanding Term Benchmark Advance made by such Lender, or (2) if required by such notice, on the second Business Day following its receipt of such notice, prepay all of the Term Benchmark Advances made by such Lender then outstanding, together with accrued interest on the principal amount prepaid (or deemed prepaid) to the date of such prepayment and amounts, if any, required to be paid pursuant to Section 2.11 as a result of such prepayment being made on such date, (B) such Lender shall simultaneously make an Alternate Base Rate Advance to the Borrower on such date in an amount equal to the aggregate principal amount of the Term Benchmark Advances prepaid (or deemed prepaid) to such Lender, and (C) the right of the Borrower to select Term Benchmark Advances from such Lender for any subsequent Borrowing shall be suspended until such Lender shall notify the Administrative Agent that the circumstances causing such suspension no longer exist.

(v) Excess Cash. If the Borrower and its Subsidiaries have Excess Cash for a period of five (5) consecutive Business Days, the Borrower shall prepay Borrowings on the immediately following Business Day, which prepayment shall be in an amount equal to the lesser of (i) the amount of such Excess Cash as of the end of such immediately preceding Business Day and (ii) the aggregate principal amount of Advances then outstanding. Each prepayment of Borrowings pursuant to this Section 2.05(b)(v) shall be applied to Borrowings, first, ratably to any Alternate Base Rate Advances then outstanding, and, second, ratably to any Term Benchmark and RFR Advances then outstanding, and if more than one Term Benchmark or RFR Advance is then outstanding, to each such Term Benchmark or RFR Advance in order of priority beginning with the Term Benchmark or RFR Advance with the least number of days remaining in the Interest Period applicable thereto and ending with the Term Benchmark or RFR Advance with the most number of days remaining in the Interest Period applicable thereto.

(c) Interests, Costs and Application of Payments. Each prepayment pursuant to any provision of this Section 2.05 shall be accompanied by accrued interest on the amount prepaid to the date of such prepayment and amounts, if any, required to be paid pursuant to Section 2.11 as a result of such prepayment being made on such date. Except for prepayments under Section 2.05(a), which shall be applied in accordance with Borrower's notice of prepayment, each prepayment under this Section 2.05 (other than Section 2.05(b)(iv)) shall be applied to the Advances as determined by the Administrative Agent and agreed to by the Lenders in their sole discretion, subject to Section 2.14(a)(ii).

(d) No Additional Right: Ratable Prepayment. The Borrower shall have no right to prepay any principal amount of any Advance except as provided in this Section 2.05, and all notices given pursuant to this Section 2.05 shall be irrevocable and binding upon the Borrower. Each payment of any Advance pursuant to this Section 2.05 shall be made in a manner such that all Advances comprising part of the same Borrowing are paid in whole or ratably in part, subject to Section 2.14(a)(ii).

Section 2.06 Repayment of Advances. The Borrower shall repay to the Administrative Agent for the ratable benefit of the Lenders the outstanding principal amount of each Advance, together with any accrued interest thereon, on the Maturity Date or such earlier date as is required pursuant to Section 7.02 or Section 7.03.

Section 2.07 Fees.

(a) Commitment Fee. The Borrower agrees to pay to the Administrative Agent for the account of each Lender having a Commitment a commitment fee at a per annum rate equal to the Commitment Fee Rate on the average daily Availability of such Lender, from the date of this Agreement until the Commitment Termination Date. The commitment fees shall be calculated quarterly in arrears on the last day of each March, June, September, and December through and including the Commitment Termination Date and shall be due and payable upon receipt of Administrative Agent's invoice for such fees.

(b) Other Fees. The Borrower agrees to pay the fees described in the Fee Letters to the Administrative Agent for the benefit of the parties specified in the Fee Letters.

(c) Defaulting Lender's Fees. Anything herein to the contrary notwithstanding, during such period as a Lender is a Defaulting Lender, such Defaulting Lender will not be entitled to any fees accruing during such period pursuant to this Section 2.07 (without prejudice to the rights of the other Lenders in respect of such fees).

Section 2.08 Interest. The Borrower shall pay interest on the unpaid principal amount of each Advance made by each Lender from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(a) Alternate Base Rate Advances. If such Advance is an Alternate Base Rate Advance, a rate per annum equal at all times to the Alternate Base Rate in effect from time to time plus the Applicable Margin in effect from time to time, payable quarterly in arrears on the last day of each March, June, September, and December and on the date such Alternate Base Rate Advance shall be paid in full.

(b) Term Benchmark Advances. If such Advance is a Term Benchmark Advance, a rate per annum equal at all times during the Interest Period for such Advance to the Adjusted Term SOFR Rate for such Interest Period plus the Applicable Margin in effect from time to time, payable on the last day of such Interest Period and, in the case of any Interest Period longer than three months in duration, on the third monthly anniversary of the beginning of such Interest Period as well as the last day of such Interest Period.

(c) Usury Recapture.

(i) If, with respect to any Lender, the effective rate of interest contracted for under the Loan Documents, including the stated rates of interest and fees contracted for hereunder and any other amounts contracted for under the Loan Documents which are deemed to be interest, at any time exceeds the Maximum Rate, then the outstanding principal amount of the loans made by such Lender hereunder shall bear interest at a rate which would make the effective rate of interest for such Lender under the Loan Documents equal the Maximum Rate until the difference between the amounts which would have been due at the stated rates and the amounts which were due at the Maximum Rate (the "Lost Interest") has been recaptured by such Lender.

(ii) If, when the loans made hereunder are repaid in full, the Lost Interest has not been fully recaptured by such Lender, pursuant to the preceding paragraph, then, to the extent permitted by law, for the loans and other credit extensions made hereunder by such Lender or the interest rates charged under Section 2.08 hereunder shall be retroactively increased such that the effective rate of interest under the Loan Documents was at the Maximum Rate since the effectiveness of this Agreement to the extent necessary to recapture the Lost Interest not recaptured pursuant to the preceding sentence and, to the extent allowed by law, the Borrower shall pay to such Lender the amount of the Lost Interest remaining to be recaptured by such Lender.

(d) Alternate Rate of Interest. (i) Subject to clauses (ii), (iii), (iv), (v) and (vi) of this Section 2.08(d), if:

(A) the Administrative Agent determines (which determination shall be conclusive absent manifest error) (A) prior to the commencement of any Interest Period for a Term Benchmark Borrowing, that adequate and reasonable means do not exist for ascertaining the Adjusted Term SOFR Rate or the Term SOFR Rate (including because the Term SOFR Reference Rate is not available or published on a current basis), for such Interest Period or (B) at any time, that adequate and reasonable means do not exist for ascertaining the applicable Adjusted Daily Simple SOFR or Daily Simple SOFR; or

(B) the Administrative Agent is advised by the Majority Lenders that (A) prior to the commencement of any Interest Period for a Term Benchmark Borrowing, the Adjusted Term SOFR Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Advances (or its Advances) included in such Borrowing for such Interest Period or (B) at any time, Adjusted Daily Simple SOFR will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Advances (or its Advances) included in such Borrowing;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone, telecopy or electronic mail as promptly as practicable thereafter and, until (x) the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist with respect to the relevant Benchmark and (y) the Borrower delivers a new Notice of Conversion or Continuation in accordance with the terms of Section 2.03(b) or a new Notice of Borrowing in accordance with the terms of Section 2.03(a), any Notice of Conversion or Continuation that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Term Benchmark Borrowing and any Notice of Borrowing that requests a Term Benchmark Borrowing shall instead be deemed to be an Notice of Conversion or Continuation or a Notice of Borrowing, as applicable, for (1) an RFR Borrowing so long as the Adjusted Daily Simple SOFR is not also the subject of Section 2.08(d)(i)(A) or (B) or (2) an Alternate Base Rate Borrowing if the Adjusted Daily Simple SOFR also is the subject of Section 2.08(d)(i)(A) or (B); provided that if the circumstances giving rise to such notice affect only one Type of Borrowings, then all other Types of Borrowings shall be permitted. Furthermore, if any Term Benchmark Advance or RFR Advance is outstanding on the date of the Borrower's receipt of the notice from the Administrative Agent referred to in this Section 2.08(d)(i) with respect to a Relevant Rate applicable to such Term Benchmark Advance or RFR Advance, then until (x) the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist with respect to the relevant Benchmark and (y) the Borrower delivers a new Notice of Conversion or Continuation in accordance with the terms of Section 2.03(b) or a new Notice of Borrowing in accordance with the terms of Section 2.03(a), any Term Benchmark Advance shall on the last day of the Interest Period applicable to such Advance (or the next succeeding Business Day if such day is not a Business Day), be converted by the Administrative Agent to, and shall constitute, (A) an RFR Borrowing so long as the Adjusted Daily Simple SOFR is not also the subject of Section 2.08(d)(i)(A) or (B) or (B) an Alternate Base Rate Advance if the Adjusted Daily Simple SOFR also is the subject of Section 2.08(d)(i)(A) or (B), on such day.

(ii) Notwithstanding anything to the contrary herein or in any other Loan Document (and any Hedge Contract shall be deemed not to be a "Loan Document" for purposes of this Section 2.08(d)), if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred prior to the Reference Time in respect of any setting of the then-current Benchmark, then (x) if a Benchmark Replacement is determined in accordance with clause (a) of the definition of "Benchmark Replacement" for such Benchmark Replacement Date, such Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Loan Document in respect of such Benchmark setting and subsequent Benchmark settings without any amendment to, or further action or consent of any other party to, this Agreement or any other Loan Document and (y) if a Benchmark Replacement is determined in accordance with clause (b) of the definition of "Benchmark Replacement" for such Benchmark Replacement Date, such Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Loan Document in respect of any Benchmark setting at or after 5:00 p.m. (New York City time) on the fifth (5th) Business Day after the date notice of such Benchmark Replacement is provided to the Lenders without any amendment to, or further action or consent of any other party to, this Agreement or any other Loan Document so long as the Administrative Agent has not received, by such time, written notice of objection to such Benchmark Replacement from Lenders comprising the Majority Lenders.

(iii) Notwithstanding anything to the contrary herein or in any other Loan Document, the Administrative Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of any other party to this Agreement or any other Loan Document.

(iv) The Administrative Agent will promptly notify the Borrower and the Lenders of (A) any occurrence of a Benchmark Transition Event, (B) the implementation of any Benchmark Replacement, (C) the effectiveness of any Benchmark Replacement Conforming Changes, (D) the removal or reinstatement of any tenor of a Benchmark pursuant to Section 2.08(d)(vi) and (E) the commencement or conclusion of any Benchmark Unavailability Period. Any determination, decision or election that may be made by the Administrative Agent or, if applicable, any Lender (or group of Lenders) pursuant to this Section 2.08(d), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party to this Agreement or any other Loan Document, except, in each case, as expressly required pursuant to this Section 2.08(d).

(v) Notwithstanding anything to the contrary herein or in any other Loan Document, at any time (including in connection with the implementation of a Benchmark Replacement), (A) if the then-current Benchmark is a term rate (including the Term SOFR Rate) and either (w) any tenor for such Benchmark is not displayed on a screen or other information service that publishes such rate from time to time as selected by the Administrative Agent in its reasonable discretion or (x) the regulatory supervisor for the administrator of such Benchmark has provided a public statement or publication of information announcing that any tenor for such Benchmark is or will be no longer representative, then the Administrative Agent may modify the definition of "Interest Period" for any Benchmark settings at or after such time to remove such unavailable or non-representative tenor and (B) if a tenor that was removed pursuant to Section 2.08(d)(i) either (w) is subsequently displayed on a screen or information service for a Benchmark (including a Benchmark Replacement) or (x) is not, or is no longer, subject to an announcement that it is or will no longer be representative for a Benchmark (including a Benchmark Replacement), then the Administrative Agent may modify the definition of "Interest Period" for all Benchmark settings at or after such time to reinstate such previously removed tenor.

(vi) Upon the Borrower's receipt of notice of the commencement of a Benchmark Unavailability Period, the Borrower may revoke any request for a Term Benchmark Borrowing or RFR Borrowing of, conversion to or continuation of Term Benchmark Advances to be made, converted or continued during any Benchmark Unavailability Period and, failing that, the Borrower will be deemed to have converted any request for a Term Benchmark Borrowing into a request for a Borrowing of or conversion to (A) an RFR Borrowing so long as the Adjusted Daily Simple SOFR is not the subject of a Benchmark Transition Event or (B) an Alternate Base Rate Borrowing if the Adjusted Daily Simple SOFR is the subject of a Benchmark Transition Event. During any Benchmark Unavailability Period or at any time that a tenor for the then-current Benchmark is not an Available Tenor, the component of Alternate Base Rate based upon the then-current Benchmark or such tenor for such Benchmark, as applicable, will not be used in any determination of Alternate Base Rate. Furthermore, if any Term Benchmark Advance or RFR Advance is outstanding on the date of the Borrower's receipt of notice of the commencement of a Benchmark Unavailability Period with respect to a Relevant Rate applicable to such Term Benchmark Advance or RFR Advance, then until such time as a Benchmark Replacement is

implemented pursuant to this Section 2.08(d), (1) any Term Benchmark Advance shall on the last day of the Interest Period applicable to such Advance (or the next succeeding Business Day if such day is not a Business Day), be converted by the Administrative Agent to, and shall constitute, (x) an RFR Borrowing so long as the Adjusted Daily Simple SOFR is not the subject of a Benchmark Transition Event or (y) an Alternate Base Rate Advance if the Adjusted Daily Simple SOFR is the subject of a Benchmark Transition Event, on such day and (2) any RFR Advance shall on and from such day be converted by the Administrative Agent to, and shall constitute an Alternate Base Rate Advance.

Section 2.09 Payments and Computations.

(a) Payment Procedures. The Borrower shall make each payment under this Agreement not later than 11:00 a.m. (New York time) on the day when due in Dollars to the Administrative Agent at 1615 Brett Road, Ops III, New Castle, Delaware 19720 (or such other location as the Administrative Agent shall designate in writing to the Borrower) in same day funds without deduction, setoff, or counterclaim of any kind. The Administrative Agent shall promptly thereafter cause to be distributed like funds relating to the payment of principal, interest or fees ratably (other than amounts payable solely to the Administrative Agent or a specific Lender pursuant to Sections 2.07(a), 2.07(b), 2.11, 2.13, 9.04, 9.05, or 9.06, but after taking into account payments effected pursuant to Section 7.04) in accordance with each Lender's pro rata share to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement.

(b) Computations. All computations of interest based on the Alternate Base Rate and of fees shall be made by the Administrative Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Adjusted Term SOFR Rate and the Federal Funds Effective Rate shall be made by the Administrative Agent, on the basis of a year of 360 days, in each case for the actual number of days (including the first day, but excluding the last day) occurring in the period for which such interest or fees are payable. All interest hereunder on any Advance shall be computed on a daily basis based upon the outstanding principal amount of such Advance as of the applicable date of determination. Each determination by the Administrative Agent of an interest rate or fee shall be conclusive and binding for all purposes, absent manifest error.

(c) Non-Business Day Payments. Whenever any payment shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or fees, as the case may be; provided, however, that if such extension would cause payment of interest on or principal of Term Benchmark Advances to be made in the next following calendar month, such payment shall be made on the immediately preceding Business Day.

(d) Payments by Borrower; Presumptions by Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such

assumption, distribute to the Lenders, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the NYFRB Rate.

Section 2.10 Sharing of Payments by Lenders. If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Advances or other obligations hereunder resulting in such Lender's receiving payment of a proportion of the aggregate amount of its Advances and accrued interest thereon or other such obligations greater than its pro rata share thereof as provided herein, then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase (for cash at face value) participations in the Advances and such other obligations of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Advances and other amounts owing them, provided that: (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this Section shall not be construed to apply to (A) any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement (including the application of funds arising from the existence of a Defaulting Lender), or (B) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Advances to any assignee or participant, other than to the Borrower or any Subsidiary thereof (as to which the provisions of this Section shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable Legal Requirement, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

Section 2.11 Breakage Costs. (a) If with respect to Advances that are not RFR Advances (i) any payment of principal of any Term Benchmark Advance is made other than on the last day of the Interest Period for such Advance, whether as a result of any payment pursuant to Section 2.05, the acceleration of the maturity of the Obligations pursuant to Article VII, assignments of Term Benchmark Advances pursuant to Section 2.15, or otherwise, or (ii) the Borrower fails to make a principal or interest payment with respect to any Term Benchmark Advance on the date such payment is due and payable, the Borrower shall, within 10 days of any written demand sent by any Lender to the Borrower through the Administrative Agent, pay to the Administrative Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, out-of-pocket costs or expenses which it may reasonably incur as a result of such payment or nonpayment, including any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance. The Borrower's obligations under this Section 2.11 shall survive the termination of the Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document. Notwithstanding the foregoing, the Lenders hereby waive any breakage costs resulting from a prepayment of the Advances pursuant to Section 2.05(b)(v).

(b) With respect to RFR Advances, in the event of (i) the payment of any principal of any RFR Advance other than on the Interest Payment Date applicable thereto (including as a result of an Event of Default or an optional or mandatory prepayment of Advances), (ii) the failure to borrow or prepay any RFR Advance on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.05 and is revoked in accordance therewith) or (iii) the assignment of any RFR Advance other than on the Interest Payment Date applicable thereto as a result of a request by the Borrower pursuant to Section 2.15, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section 2.11(b) shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof. Notwithstanding the foregoing, the Lenders hereby waive any breakage costs resulting from a prepayment of the Advances pursuant to Section 2.05(b)(v).

Section 2.12 Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender;

(ii) subject any Recipient to any Taxes (other than (A) Indemnified Taxes, (B) Taxes described in clauses (b) through (d) of the definition of Excluded Taxes, and (C) Connection Income Taxes) on its loans, loan principal, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on any Lender or the London interbank market any other condition, cost or expense (other than Taxes) affecting this Agreement or Term Benchmark Advances made by such Lender or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender or such other Recipient of making, converting to, continuing or maintaining any Term Benchmark Advance (or of maintaining its obligation to make any such Advance), or to reduce the amount of any sum received or receivable by such Lender or other Recipient hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or other Recipient, the Borrower will pay to such Lender or other Recipient, as the case may be, such additional amount or amounts as will compensate such Lender or other Recipient, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender determines that any Change in Law affecting such Lender or any lending office of such Lender or such Lender's holding company, if any, regarding capital or liquidity requirements, has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a

consequence of this Agreement, the Commitments of such Lender or the Advances made by such Lender, to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender, as the case may be, such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section 2.12 and delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests; Survival. Failure or delay on the part of any Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's right to demand such compensation. The Borrower's obligations under this Section 2.12 shall survive the termination of the Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document.

Section 2.13 Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable Legal Requirement. If any applicable Legal Requirement (as determined in the good faith discretion of an applicable withholding agent) requires the deduction or withholding of any Tax from any such payment by a withholding agent, then the applicable withholding agent shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable Legal Requirement and, if such Tax is an Indemnified Tax, then the sum payable by the Borrower shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section 2.13) the applicable Recipient receives an amount equal to the sum it would have received had no such deduction or withholding been made.

(b) Payment of Other Taxes by the Borrower. Without limiting the provisions of Section 2.13(a), the Borrower shall timely pay to the relevant Governmental Authority in accordance with applicable Legal Requirement, or at the option of the Administrative Agent timely reimburse it for the payment of, any Other Taxes.

(c) Indemnification by the Borrower. The Borrower shall indemnify each Recipient, within 10 days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section) payable or paid by such Recipient or required to be withheld or deducted from a payment to such Recipient and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(d) Indemnification by the Lenders. Each Lender shall severally indemnify the Administrative Agent, within 10 days after demand therefor, for (i) any Indemnified Taxes attributable to such Lender (but only to the extent that the Borrower has not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Borrower to do so), (ii) any Taxes attributable to such Lender's failure to comply with the provisions of Section 9.08(d) relating to the maintenance of a Participant Register, and (iii) any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by the Administrative Agent in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by the Administrative Agent shall be conclusive absent manifest error. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under any Loan Document or otherwise payable by the Administrative Agent to the Lender from any other source against any amount due to the Administrative Agent under this paragraph (d).

(e) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority pursuant to this Section 2.13, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(f) Status of Lenders.

(i) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation requested by the Borrower or the Administrative Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable Legal Requirement or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation (other than such documentation set forth in Section 2.13(f)(ii)(A), (ii)(B) and (ii)(D)) shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender.

(ii) Without limiting the generality of the foregoing, in the event that the Borrower is a U.S. Person,

(A) any Lender that is a U.S. Person shall deliver to the Borrower and the Administrative Agent on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), executed originals of IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding Tax;

(B) any Foreign Lender shall deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower or the Administrative Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(1) in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (a) with respect to payments of interest under any Loan Document, executed originals of IRS Form W-8BEN or IRS Form W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the “interest” article of such tax treaty, and (b) with respect to any other applicable payments under any Loan Document, IRS Form W-8BEN or IRS Form W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the “business profits” or “other income” article of such tax treaty;

(2) executed originals of IRS Form W-8ECI,

(3) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code, (a) a certificate substantially in the form of **Exhibit G-1** to the effect that such Foreign Lender is not a “bank” within the meaning of Section 881(c)(3)(A) of the Code, a “10 percent shareholder” of the Borrower within the meaning of Section 881(c)(3)(B) of the Code, or a “controlled foreign corporation” described in Section 881(c)(3)(C) of the Code (a “U.S. Tax Compliance Certificate”), and (b) executed originals of IRS Form W-8BEN or IRS Form W-8BEN-E; or

(4) to the extent a Foreign Lender is not the beneficial owner, executed originals of IRS Form W-8IMY, accompanied by IRS Form W-8ECI, IRS Form W-8BEN or IRS Form W-8BEN-E, a U.S. Tax Compliance Certificate substantially in the form of **Exhibit G-2** or **Exhibit G-3**, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of **Exhibit G-4** on behalf of each such direct and indirect partner;

(C) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), executed originals of any other form prescribed by applicable Legal Requirement as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by applicable Legal Requirement to permit the Borrower or the Administrative Agent to determine the withholding or deduction required to be made; and

(D) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable Legal Requirement (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (D), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

Each Lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Borrower and the Administrative Agent in writing of its legal inability to do so.

(g) Treatment of Certain Refunds If the Administrative Agent or a Lender determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 2.13 with respect to the Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses of the Administrative Agent or such Lender, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided that the Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such

Governmental Authority. Notwithstanding anything to the contrary in this paragraph (g), in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this paragraph (g) the payment of which would place the indemnified party in a less favorable netafter-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts giving rise to such refund had never been paid. This paragraph (g) shall not be construed to require the Administrative Agent or any Lender to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the Borrower or any other Person.

(h) Survival. Each party's obligations under this Section 2.13 shall survive the resignation or replacement of the Administrative Agent or any assignment of rights by, or the replacement of, a Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document.

Section 2.14 Defaulting Lenders.

(a) Defaulting Lender Adjustments. Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as such Lender is no longer a Defaulting Lender, to the extent permitted by applicable law:

(i) Waivers and Amendments. Such Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in Section 9.01.

(ii) Defaulting Lender Waterfall. Any payment of principal, interest, fees or other amounts received by the Administrative Agent for the account of such Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article VII or otherwise) or received by the Administrative Agent from a Defaulting Lender pursuant to Section 7.04 shall be applied at such time or times as may be determined by the Administrative Agent as follows: *first*, to the payment of any amounts owing by such Defaulting Lender to the Administrative Agent hereunder; *second*, as the Borrower may request (so long as no Default or Event of Default exists), to the funding of any Advance in respect of which such Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent; *third*, if so determined by the Administrative Agent and the Borrower, to be held in a deposit account and released pro rata in order to satisfy such Defaulting Lender's potential future funding obligations with respect to Advances under this Agreement; *fourth*, to the payment of any amounts owing to the Lenders as a result of any judgment of a court of competent jurisdiction obtained by any Lender against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; *fifth*, so long as no Default or Event of Default exists, to the payment of any amounts owing to the Borrower as a result of any judgment of a court of competent jurisdiction obtained by the Borrower against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; and *sixth*, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided that if (A) such payment is a payment of the principal amount of any Advances in respect of which such Defaulting Lender has not fully funded its appropriate share, and (B) such Advances were made at a time when the conditions set forth in Section 3.02 were satisfied or waived, such payment shall be applied solely to pay the

Advances of all Non-Defaulting Lenders on a pro rata basis prior to being applied to the payment of any Advances of such Defaulting Lender until such time as all Advances are held by the Lenders pro rata in accordance with the Commitments. Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender pursuant to this Section 2.14(a)(ii) shall be deemed paid to and redirected by such Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) Certain Fees. No Defaulting Lender shall be entitled to receive any fee under Section 2.07(a) for any period during which that Lender is a Defaulting Lender (and the Borrower shall not be required to pay any such fee that otherwise would have been required to have been paid to that Defaulting Lender).

(b) Defaulting Lender Cure. If the Borrower and the Administrative Agent agree in writing that a Lender is no longer a Defaulting Lender or a Potential Defaulting Lender, as the case may be, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein, that Lender will, to the extent applicable, purchase at par that portion of outstanding Advances of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Advances to be held pro rata by the Lenders in accordance with the Commitments, whereupon such Lender will cease to be a Defaulting Lender or Potential Defaulting Lender and will be a Non-Defaulting Lender (and such Advances of each Lender held pro rata will automatically be adjusted on a prospective basis to reflect the foregoing); provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrower while that Lender was a Defaulting Lender; and provided further that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender or Potential Defaulting Lender to Non-Defaulting Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender or Potential Defaulting Lender.

Section 2.15 Mitigation Obligations: Replacement of Lenders.

(a) Designation of a Different Lending Office. If any Lender requests compensation under Section 2.12, or requires the Borrower to pay any Indemnified Taxes or additional amounts to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.13, then such Lender shall (at the request of the Borrower) use reasonable efforts to designate a different lending office for funding or booking its Advances hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.12 or Section 2.13, as the case may be, in the future, and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If (i) any Lender requests compensation under Section 2.12, (ii) the Borrower is required to pay any Indemnified Taxes or additional amounts to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.13 and, in each case, such Lender has declined or is unable to designate a different lending office in

accordance with Section 2.15(a), (iii) any Lender is a Defaulting Lender, (iv) any Lender refuses to consent to a proposed increase to the Borrowing Base, in a case where the Required Lenders have approved the proposed Borrowing Base, and after giving effect to such replacement or other replacements under this Section 2.15, each other Lender has approved such proposed Borrowing Base, (v) any Lender fails to approve an amendment, waiver, consent or other modification to this Agreement requiring the consent of all Lenders (or each affected Lender) and at least the Required Lenders have approved such amendment, waiver, consent, or other modification, or (vi) any Lender advises the Administrative Agent that ICE or any successor rate designated pursuant to the definition of "Adjusted Term SOFR Rate" will not adequately and fairly reflect the cost to such Lender of making or maintaining its Advances, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 9.08), all of its interests, rights (other than its existing rights to payments pursuant to Section 2.12 or Section 2.13) and obligations under this Agreement and the related Loan Documents to an Eligible Assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that:

- (A) the Borrower shall have received the prior written consent of the Administrative Agent;
- (B) the Borrower shall have paid to the Administrative Agent the assignment fee (if any) specified in Section 9.08(b)(iv);
- (C) such Lender shall have received payment of an amount equal to the outstanding principal of its Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 2.11) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);
- (D) in the case of any such assignment resulting from a claim for compensation under Section 2.12 or payments required to be made pursuant to Section 2.13, such assignment will result in a reduction in such compensation or payments thereafter;
- (E) such assignment does not conflict with applicable law;
- (F) in the case of any such assignment resulting from a refusal to consent to an increase in the Borrowing Base or from a refusal to consent to an amendment, waiver, consent or other modification to this agreement, after giving effect to such assignment, the applicable assignee shall have approved such increase, amendment, waiver, consent, or other modification; and
- (G) a Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

**ARTICLE III
CONDITIONS OF LENDING**

Section 3.01 Conditions Precedent to Initial Borrowings. The obligations of each Lender to make its initial Advance shall be subject to the conditions precedent that:

(a) Documentation. The Administrative Agent shall have received the following duly executed by all the parties thereto, in form and substance satisfactory to the Administrative Agent and the Lenders, and, where applicable, in sufficient copies for each Lender:

(i) this Agreement, a Note payable to each requesting Lender or its registered assigns in the amount of its Commitment, the Guarantee and Collateral Agreement, account control agreements required pursuant to Section 5.12, and each of the other Loan Documents, and all attached exhibits and schedules;

(ii) copies, certified as of the date of this Agreement by a Responsible Officer or the secretary or an assistant secretary of the general partner of the Borrower of (A) the resolutions of the members of the general partner of the Borrower approving the Loan Documents to which the Borrower is a party, (B) the certificate of formation and the limited partnership agreement of the Borrower, (C) the certificate of formation and the limited liability company agreement of the general partner of the Borrower, and (D) all other documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement, the Notes, and the other Loan Documents;

(iii) certificates of the secretary or assistant secretary of the general partner of the Borrower certifying the names and true signatures of the officers of the Borrower or general partner of the Borrower authorized to sign this Agreement, the Notes, Notices of Borrowing, Notices of Conversion or Continuation, and the other Loan Documents to which the Borrower is a party;

(iv) a certificate dated as of the Closing Date from a Responsible Officer of the general partner of the Borrower stating that (A) all representations and warranties set forth in this Agreement and the other Loan Documents are true and correct in all material respects, (B) no Default has occurred and is continuing, and (C) the conditions in this Section 3.01 have been met;

(v) appropriate UCC-1 Financing Statements covering the Collateral for filing with the appropriate authorities and any other documents, agreements or instruments necessary to create an Acceptable Security Interest in such Collateral;

(vi) [reserved];

(vii) the Initial Engineering Report;

(viii) stock, membership or partnership certificates required in connection with the Guarantee and Collateral Agreement and stock powers executed in blank for each such stock certificate;

(ix) certificates of good standing and existence for each Loan Party in (A) the state, province or territory in which each such Person is organized, and (B) each state, province or territory in which such good standing is necessary, which certificates shall be dated a date not earlier than thirty (30) days prior to the Closing Date;

(x) a favorable opinion of the Borrower's counsel dated as of the date of this Agreement in form and covering such matters as the Administrative Agent may reasonably request; and

(xi) such other documents, governmental certificates, agreements and lien searches as the Administrative Agent or any Lender may reasonably request.

(b) Payment of Fees. On the date of this Agreement, the Borrower shall have paid the fees required by Section 2.07(b) and the Fee Letters and all costs and expenses that have been invoiced and are payable pursuant to Section 9.04.

(c) Delivery of Financial Information. The Administrative Agent and the Lenders shall have received (i) the audited balance sheets and related statements of income or operations, partners' equity and cash flows of the Borrower and its consolidated Subsidiaries for fiscal year ending December 31, 2020 and (ii) unaudited balance sheets and related statements of income or operations, partners' equity and cash flows of the Borrower and its consolidated Subsidiaries for the fiscal quarter ending September 30, 2021 (the "Initial Financial Statements").

(d) Security Instruments. Subject to Section 5.08 and 5.12, the Administrative Agent shall have received all appropriate evidence required by the Administrative Agent and the Lenders in their sole discretion necessary to determine that the Administrative Agent (for its benefit and the benefit of the Lenders) shall have an Acceptable Security Interest in the Collateral and that all actions or filings necessary to protect, preserve and validly perfect such Liens have been made, taken or obtained, as the case may be, and are in full force and effect.

(e) Title. The Administrative Agent shall be satisfied in its sole discretion with the title to the Oil and Gas Properties included in the Borrowing Base and that such Oil and Gas Properties constitute at least (a) 90% of the PV-10 of the Proven Reserves of the Borrower and its wholly-owned Subsidiaries (as set forth in the Initial Engineering Report) and (b) 80% of the PV- 10 of the Proven Reserves of the Joint Venture (as set forth in the Initial Engineering Report).

(f) No Default. No Default shall have occurred and be continuing.

(g) Representations and Warranties. The representations and warranties contained in Article IV and in each other Loan Document shall be true and correct in all material respects (except to the extent such representation or warranty is already subject to a materiality qualifier).

(h) Material Adverse Change. No event or circumstance that could cause a Material Adverse Change shall have occurred since December 31, 2020.

(i) No Proceeding or Litigation; No Injunctive Relief. No action, suit, investigation or other proceeding (including the enactment or promulgation of a statute or rule) by or before any arbitrator or any Governmental Authority shall be threatened or pending and no preliminary or permanent injunction or order by a state or federal court shall have been entered (i) in connection with this Agreement or any transaction contemplated hereby, or (ii) which, in any case, in the judgment of the Administrative Agent, could reasonably be expected to result in a Material Adverse Change.

(j) Consents, Licenses, Approvals, Etc. The Administrative Agent shall have received true copies (certified to be such by the Borrower or other appropriate party) of all consents, licenses and approvals required in accordance with applicable Legal Requirements, or in accordance with any document, agreement, instrument or arrangement to which the Borrower, any Guarantor or any of their respective Subsidiaries is a party, in connection with the execution, delivery, performance, validity and enforceability of this Agreement or any of the other Loan Documents. In addition, the Borrower, the Guarantors and their respective Subsidiaries shall have all such material consents, licenses and approvals required in connection with the continued operation of the Borrower, such Guarantors and such Subsidiaries and such approvals shall be in full force and effect, and all applicable waiting periods shall have expired without any action being taken or threatened by any competent authority which would restrain, prevent or otherwise impose adverse conditions on this Agreement and the actions contemplated hereby.

(k) Material Contracts. The Borrower shall have delivered to the Administrative Agent copies of all material contracts, agreements or instruments listed on the attached Schedule 4.21.

(l) Notice of Borrowing. The Administrative Agent shall have received a Notice of Borrowing from the Borrower in the form of Exhibit D, with appropriate insertions and executed by a duly authorized Responsible Officer of the Borrower.

(m) USA Patriot Act. The Borrower shall have delivered to each Lender that is subject to the Act such documentation and other information requested by such Lender in order to comply with applicable "know your customer" and anti-money laundering rules and regulations, including the Act, and each such Lender shall have completed its diligence in respect thereof.

(n) Availability. The Borrower shall have Availability in amount not less than \$25,000,000 as of the Closing Date, and the Advances made on the Closing Date.

(o) Vacuum Acquisition. The Administrative Agent shall have received evidence reasonably satisfactory to the Administrative Agent that the acquisition of the Oil and Gas Properties from Chevron U.S.A. Inc., Chevron Midcontinent, L.P. and XBM Production, L.P. shall have been, or substantially concurrently with the Closing Date shall be, consummated substantially in accordance with the terms of the Vacuum PSA.

Section 3.02 Conditions Precedent to All Borrowings. The obligation of each Lender to make an Advance on the occasion of each Borrowing shall be subject to the further conditions precedent that on the date of such Borrowing the following statements shall be true (and each of the giving of the applicable Notice of Borrowing, or Notice of Conversion or Continuation and the acceptance by the Borrower of the proceeds of such Borrowing shall constitute a representation and warranty by the Borrower that on the date of such Borrowing, such statements are true):

(a) the representations and warranties contained in Article IV of this Agreement and the representations and warranties contained in the Security Instruments and each of the other Loan Documents are true and correct in all material respects (except to the extent such representation or warranty is already subject to a materiality qualifier, in which case such representation or warranty is true and correct in all respects) on and as of the date of such Borrowing, before and after giving effect to such Borrowing and to the application of the proceeds from such Borrowing, as though made on and as of such date;

(b) no Default has occurred and is continuing or would result from such Borrowing or from the application of the proceeds therefrom; and

(c) the Excess Cash on and as of the date of such Borrowing does not exceed \$0.00, before and after giving effect to such Borrowing and to the application of the proceeds therefrom on or around such date, but in any event, not to exceed two (2) Business Days after such date.

ARTICLE IV REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants as follows:

Section 4.01 Existence; Subsidiaries. Each Loan Party and the Joint Venture is duly organized, validly existing, and in good standing under the laws of its jurisdiction of formation. Each of the Borrower, the Joint Venture, and, subject to Section 5.13, each other Loan Party is in good standing and qualified to do business in each jurisdiction where its ownership or lease of Property or conduct of its business requires such qualification. As of the Closing Date, Schedule 4.01 sets forth the capital structure of the Joint Venture, the Borrower and any Subsidiaries of the Borrower.

Section 4.02 Power. The execution, delivery, and performance by each Loan Party of this Agreement, the Notes, and the other Loan Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby (a) are within the Loan Parties' governing powers, (b) have been duly authorized by all necessary governing action, (c) do not contravene (i) the Loan Parties' certificate or articles of incorporation, bylaws, limited liability company agreement, or other similar governance documents, or (ii) any law or any contractual restriction binding on or affecting the Loan Parties, and (d) will not result in or require the creation or imposition of any Lien prohibited by this Agreement. At the time of each Advance, such Advance, and the use of the proceeds of such Advance, will be within the Borrower's governing powers, will have been duly authorized by all necessary governing action, will not contravene (i) the Borrower's articles or certificate of incorporation or other organizational documents, or (ii) any law or any contractual restriction binding on or affecting the Borrower and will not result in or require the creation or imposition of any Lien prohibited by this Agreement.

Section 4.03 Authorization and Approvals. No consent, order, authorization, or approval or other action by, and no notice to or filing with, any Governmental Authority or any other Person is required for the due execution, delivery, and performance by each Loan Parties of this Agreement, the Notes, or the other Loan Documents to which such Loan Party is a party or the consummation of the transactions contemplated hereby and thereby. At the time of each Borrowing, no authorization or approval or other action by, and no notice to or filing with, any Governmental Authority will be required for such Borrowing or the use of the proceeds of such Borrowing.

Section 4.04 Enforceable Obligations. This Agreement, the Notes, and the other Loan Documents to which each Loan Party is a party have been duly executed and delivered by such Loan Party. Each Loan Document is the legal, valid, and binding obligation of the Loan Party which is a party to it enforceable against each such Loan Party in accordance with its terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium, or similar law affecting the enforcement of creditors' rights generally and by general principles of equity.

Section 4.05 Financial Information; Projections.

(a) The Borrower has heretofore furnished to the Administrative Agent the Initial Financial Statements. The Initial Financial Statements present fairly, in all material respects, the financial position of the Borrower and its consolidated Subsidiaries as of such dates in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes in the case of interim financial statements.

(b) All projections (and estimates furnished by the Borrower were prepared in good faith on the basis of assumptions, data, information, tests, or conditions believed to be reasonable at the time such projections and estimates were furnished. The Borrower is not obligated to supplement any projections at any time after the Closing Date.

(c) Since December 31, 2020, no event or circumstance that could reasonably be expected to cause a Material Adverse Change has occurred.

Section 4.06 True and Complete Disclosure. All factual information (excluding projections and estimates and any factual information set forth in the Financial Information as to which Section 4.05 shall apply) heretofore or contemporaneously furnished by or on behalf of any Loan Party in writing to any Lender or the Administrative Agent for purposes of or in connection with this Agreement, any other Loan Document or any transaction contemplated hereby or thereby is, and all other such factual information hereafter furnished by or on behalf of any Loan Party in writing to the Administrative Agent or any of the Lenders shall be, true and accurate in all material respects on the date as of which such information is dated or certified and does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements contained therein not misleading at such time. All projections and estimates furnished by the Borrower were prepared in good faith on the basis of assumptions, data, information, tests, or conditions believed to be reasonable at the time such projections and estimates were furnished (it being recognized that (a) such projections and other forward-looking information are not to be viewed as facts and that actual results during the period or periods covered by any such projections or forward-looking information may differ from the projected results and such differences may be material, (b) there are industry-wide risks normally associated with the types of business conducted by the Borrower, its Subsidiaries and the Joint Venture, and (c) projections concerning volumes attributable to the Oil and Gas Properties and production and cost estimates contained in each Engineering Report are necessarily based upon professional opinions, estimates and projections and that the Borrower, its Subsidiaries, and the Joint Venture do not warrant that such opinions, estimates or projections will ultimately prove to have been accurate).

Section 4.07 Litigation: Compliance with Laws.

(a) There is no pending or, to the best knowledge of the Borrower, threatened litigation, action, suit, proceeding or investigation affecting any Loan Party or the Joint Venture before any court, Governmental Authority or arbitrator which could reasonably be expected to cause a Material Adverse Change or which purports to affect the legality, validity, binding effect or enforceability of this Agreement, any Note, or any other Loan Document. Additionally, there is no pending or, to the best knowledge of the Borrower, threatened litigation, action, suit, proceeding or investigation instituted against any Loan Party or the Joint Venture which seeks to adjudicate the Loan Party or Joint Venture as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its Property.

(b) The Loan Parties and the Joint Venture have complied in all material respects with all material statutes, rules, regulations, orders and restrictions of any Governmental Authority having jurisdiction over the conduct of their respective businesses or the ownership of their respective Property.

Section 4.08 Use of Proceeds. The proceeds of the Advances will be used by the Borrower for the purposes described in Section 5.09. Neither the Borrower or any of its Subsidiaries are engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U). No proceeds of any Advance will be used to purchase or carry any margin stock in violation of Regulation T, U or X.

Section 4.09 Investment Company Act. Neither the Borrower nor any of the Guarantors is an “investment company” or a company “controlled” by an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

Section 4.10 Federal Power Act. Neither any Loan Party nor the Joint Venture is subject to regulation under the Federal Power Act, as amended or any other Legal Requirement which regulates the incurring by such Person of Debt, including Legal Requirements relating to common contract carriers or the sale of electricity, gas, steam, water or other public utility services.

Section 4.11 Taxes.

(a) Reports and Payments. All Tax Returns required to be filed by or on behalf of the Borrower, the Guarantors, or any member of the Controlled Group (hereafter collectively called the “Tax Group”) have been timely filed or appropriate extensions have been obtained and such Tax Returns are and will be true, complete and correct in all material respects and all Taxes due (whether or not shown on such Tax Returns) have been paid, and no other Taxes will be payable by the Tax Group with respect to items or periods covered by such Tax Returns, except for Taxes that are being contested in good faith by appropriate proceedings and with respect to which the Borrower, such Guarantor, or such member of the Tax Group, has set aside on its books adequate

reserves in accordance with GAAP. Except as set forth in Schedule 4.11, the reserves for accrued Taxes reflected in the financial statements delivered to the Lenders pursuant to this Agreement are adequate in the aggregate for the payment of all unpaid Taxes, whether or not disputed, for the period ended as of the date thereof and for any period prior thereto, and for which the Tax Group may be liable in its own right, as withholding agent or as a transferee of the assets of, or successor to, any Person, except for such Taxes or reserves therefor, the failure to pay or provide for which does not and would not reasonably be expected to cause a Material Adverse Change.

(b) Returns Definition. “Tax Returns” in this Section 4.11 means any federal, state, local, or foreign report, estimate, declaration of estimated Tax, information statement or return relating to, or required to be filed in connection with, any Taxes, including any information return or report with respect to backup withholding or other payments of third parties.

Section 4.12 Pension Plans.

(a) No Termination Event has occurred or is reasonably expected to occur, and each Plan has complied with and been administered in all material respects in accordance with applicable provisions of ERISA, the Code, and other Federal or state laws. The present value of all benefits vested under each Plan (based on the assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed the value of the assets of such Plan allocable to such vested benefits by more than \$1,000,000. No application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto, or such Plan is maintained on a prototype document for which a favorable opinion letter has been issued by the IRS, and, to the knowledge of the Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. There are no pending or, to the knowledge of Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could reasonably be expected to result in material liability of the Borrower. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to result in material liability of the Borrower.

(b) As of the Closing Date, the Borrower is not and will not be (i) an employee benefit plan subject to Title I of ERISA, (ii) a plan or account subject to Section 4975 of the Code, (iii) an entity deemed to hold “plan assets” of any such plans or accounts for purposes of ERISA or the Code, or (iv) a “governmental plan” within the meaning of ERISA.

Section 4.13 Title; Condition of Property; Casualties; Net Revenue and Working Interests

(a) Each Loan Party and the Joint Venture has good and defensible title to all of the Oil and Gas Properties evaluated in the most recently delivered Engineering Report free and clear of all Liens except for Permitted Liens. The material Properties used or to be used in the continuing operations of the Borrower and each of the Guarantors are, in all material respects, in good repair, working order and condition, ordinary wear and tear excepted. Since the Closing Date, neither the business nor the material Properties of the Borrower and each of the Guarantors, taken as a whole,

has been materially and adversely affected as a result of any fire, explosion, earthquake, flood, drought, windstorm, accident, strike or other labor disturbance, embargo, requisition or taking of Property or cancellation of contracts, Permits, or concessions by a Governmental Authority, riot, activities of armed forces, or acts of God or of any public enemy.

(b) The Loan Parties' and Joint Venture's ownership of the Hydrocarbons and the undivided interests therein as evaluated in the most recent Engineering Report and, if required, as specified in the most recent WI/NRI Schedule attached to the certificate delivered in connection with the most recent Engineering Report delivered under Section 5.06(c)(iv) will, after giving full effect to all Liens permitted hereby and after giving full effect to any instruments or agreements affecting the Loan Parties' and Joint Venture's ownership of such Hydrocarbons, afford the Loan Parties and Joint Venture not less than those net interests (expressed as a fraction, percentage or decimal) in the production from or which is allocated to such Hydrocarbons specified as net revenue interest in such Engineering Report, or if required, on the WI/NRI Schedule (and in the case of the Joint Venture, such interests shall be net to the Borrower's ownership of Equity Interests in the Joint Venture) and will cause the Loan Party or Joint Venture to bear not more than that portion (expressed as a fraction, percentage or decimal), specified as working interest (without a corresponding increase to the net revenue interest) in such Engineering Report, or, if required, on the WI/NRI Schedule, of the costs of drilling, developing and operating the wells identified in such Engineering Report, or, if required, on the WI/NRI Schedule, of the costs of drilling, developing and operating the wells identified in such Engineering Report, or, if required, on the WI/NRI Schedule (and in the case of the Joint Venture, such interests shall be net to the Borrower's ownership of Equity Interests in the Joint Venture); provided that the Loan Parties and the Joint Venture shall have the right to bear costs disproportionate to the Loan Parties' and the Joint Venture's working interest with respect to any Oil and Gas Property for a period of time in order to earn an interest in such Oil and Gas Property from a third party as evidenced by written agreement.

Section 4.14 No Burdensome Restrictions; No Defaults.

(a) Neither any Loan Party, nor the Joint Venture is a party to any indenture, loan, or credit agreement or any lease or other agreement or instrument or subject to any charter or corporate restriction or provision of applicable Legal Requirement (i) limits the ability (A) of any Subsidiary to make Restricted Payments to the Borrower or any Guarantor or to otherwise transfer property to the Borrower or any Guarantor or (B) of any Subsidiary to guarantee the Debt of the Borrower, or (ii) could reasonably be expected to cause a Material Adverse Change. Neither any Loan Party nor the Joint Venture is in default (A) under or with respect to any contract, agreement, lease, or other instrument to which the Loan Party or Joint Venture is a party and which default could reasonably be expected to cause a Material Adverse Change, or (B) under any agreement in connection with any Debt. Neither any Loan Party nor the Joint Venture has received any notice of default under any material contract, agreement, lease, or other instrument to which the Loan Party or Joint Venture is a party.

(b) No Default has occurred and is continuing.

Section 4.15 Environmental Condition.

(a) Environmental Permits, Etc. Each Loan Party and the Joint Venture, or to the extent that the right of operation is vested in others (other than with respect to royalty interests), such operators on behalf of such Loan Party and the Joint Venture, (i) have obtained all Environmental Permits necessary for the ownership and operation of their respective Properties and the conduct of their respective businesses except where the failure to obtain such Environmental Permit could not reasonably be expected to cause a Material Adverse Change, (ii) have at all times been and are in compliance with all terms and conditions of such Permits and with all other requirements of applicable Environmental Laws except where the failure to be in compliance could not reasonably be expected to cause a Material Adverse Change, (iii) have not received notice of any violation or alleged violation of any Environmental Law or Permit that could reasonably be expected to cause a Material Adverse Change, and (iv) are not subject to any actual or contingent Environmental Claim, which could reasonably be expected to cause a Material Adverse Change.

(b) Certain Liabilities. To the Borrower's actual knowledge, none of the present or previously owned or operated Property of any Loan Party, the Joint Venture, or of any of their former Subsidiaries, wherever located: (i) has been placed on or proposed to be placed on the National Priorities List, the Superfund Enterprise Management System, the Comprehensive Environmental Response Compensation Liability Information System list, or their state or local analogs, or have been otherwise investigated, designated, listed, or identified as a potential site for removal, remediation, cleanup, closure, restoration, reclamation, or other response activity under any Environmental Laws, (ii) is subject to a Lien, arising under or in connection with any Environmental Laws, that attaches to any revenues or to any Property owned or operated by any Loan Party or the Joint Venture, wherever located, which could reasonably be expected to cause a Material Adverse Change, or (iii) has been the site of any Release of Hazardous Substances or Hazardous Wastes from present or past operations which has caused at the site or at any third-party site any condition that has resulted in or could reasonably be expected to result in the need for Response that would cause a Material Adverse Change.

(c) Certain Actions. Without limiting the foregoing: (i) all necessary notices have been properly filed, and no further action is required under current Environmental Law as to each Response or other restoration or remedial project undertaken by the Loan Parties or the Joint Venture (or, to the actual knowledge of the Borrower, to the extent that the right of operation is vested in others, undertaken by such operators on behalf of the Loan Parties or the Joint Venture), or any of their former Subsidiaries on any of their presently or formerly owned or operated Property, and (ii) the present and, to the Borrower's knowledge, future liability, if any, of the Loan Parties and the Joint Venture which could reasonably be expected to arise in connection with requirements under Environmental Laws will not result in a Material Adverse Change.

Section 4.16 Permits, Licenses, Etc. The Loan Parties and the Joint Venture possess all authorizations, Permits, licenses, patents, patent rights or licenses, trademarks, trademark rights, trade name rights and copyrights which are material to the conduct of their business. The Loan Parties and the Joint Venture manage and operate their business in all material respects in accordance with all applicable Legal Requirements and good industry practices.

Section 4.17 Gas Contracts. Neither the Loan Parties nor the Joint Venture, as of the Closing Date and as of each redetermination of the Borrowing Base: (a) is obligated in any material respect by virtue of any prepayment made under any contract containing a "take-or-pay" or "prepayment" provision or under any similar agreement to deliver hydrocarbons produced from or allocated to any of the Loan Parties' and the Joint Venture's Oil and Gas Properties at some future

date without receiving full payment therefor at or after the time of delivery, or (b) has produced gas, in any material amount, subject to, and none of the Loan Parties' and the Joint Venture's Oil and Gas Properties is subject to, balancing rights of third parties or subject to balancing duties under governmental requirements, in each case other than in the ordinary course of business and which prepayments and balancing rights, in the aggregate, do not result in the Loan Parties and the Joint Venture having net aggregate liability at any time in excess of an amount equal to 4% of the Proven Reserves categorized as "proved, developed and producing" on the most recently delivered Engineering Report.

Section 4.18 Liens, Titles, Leases, Etc. None of the Property of the Borrower or any of the Guarantors is subject to any Lien other than Permitted Liens. On the date of this Agreement, all governmental actions and all other filings, recordings, registrations, third party consents and other actions which are necessary to create and perfect the Liens provided for in the Security Instruments will have been made, obtained and taken in all relevant jurisdictions. All Leases and agreements for the conduct of business of the Loan Parties and the Joint Venture are valid and subsisting, in full force and effect and there exists no default or event of default or circumstance which with the giving of notice or lapse of time or both would give rise to a default under any such Leases or agreements which could reasonably be expected to cause a Material Adverse Change. Neither the Loan Parties nor the Joint Venture is a party to any agreement or arrangement (other than this Agreement and the Security Instruments), or subject to any order, judgment, writ or decree, which either restricts or purports to restrict its ability to grant Liens to secure the Obligations against their respective assets or Properties.

Section 4.19 Solvency and Insurance. Before and after giving effect to the making of the initial Advances, each of the Loan Parties and the Joint Venture is Solvent. Additionally, each of the Loan Parties and the Joint Venture carry insurance required under Section 5.02.

Section 4.20 Hedging Agreements. Schedule 4.20 sets forth, as of the Closing Date and each report delivered under Section 5.06(f) sets forth as of the date of such report, a true and complete list of all Hedge Contracts of the Loan Parties and the Joint Venture, the material terms thereof (including the type, term, effective date, termination date and notional amounts or volumes), the net mark to market value thereof, and the counterparty to each such agreement.

Section 4.21 Material Agreements. As of the Closing Date, Schedule 4.21 sets forth a complete and correct list of all (a) material agreements and other instruments in effect or to be in effect, except to the extent that a default, breach, termination or other impairment of such agreement or instrument could not reasonably be expected to cause a Material Adverse Change, and (b) Minimum Volume Commitments of any Loan Party.

Section 4.22 Flood Insurance. Except as disclosed in writing to the Administrative Agent, no Loan Party owns any Improved Property with a fair market value or book value exceeding \$250,000. The Borrower and its Subsidiaries have obtained and provided evidence to the Administrative Agent of all flood insurance required to be obtained under Section 5.02(c), if any.

For the purposes of the foregoing representations and warranties, any facts, circumstances, events or other matters attributable to any particular representation or warranty that are known solely by an XTO Party but not known by the Borrower or any Loan Party or the Joint Venture shall not be imputed to the Borrower or any Loan Party or to the Joint Venture.

Section 4.23 Sanctions, Anti-Corruption Laws, Etc.

(a) No part of the proceeds of the Advances nor any part of the proceeds of the Advances will be used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person, or in any other manner that would result in any violation by any Person (including any Lender, any Arranger, or the Administrative Agent) of the Trading with the Enemy Act of 1917 (50 U.S.C. §§ 1-44), as amended, any other Sanctions, Anti-Corruption Laws, Anti-Money Laundering Laws, or any other similar applicable Legal Requirement.

(b) None of the Borrower, the Joint Venture, or any of their respective Subsidiaries, nor to the knowledge of the Borrower or any Subsidiary, any of their Related Parties (i) is, or will become, or is owned or controlled by, a Sanctioned Person, (ii) is located, organized or resident in a country, region, or territory that is, or whose government is, the subject or target of any Sanctions, or (iii) engages or will engage in any dealings or transactions, or is or will be otherwise associated, with any such Sanctioned Person that would result in any violation of any Sanctions or any other similar applicable Legal Requirement.

(c) Each of Borrower, the Joint Venture, and their respective Subsidiaries is, and has conducted its business in compliance with, and has instituted and maintained policies and procedures designed to comply with, all applicable Anti-Corruption Laws and Anti-Money Laundering Laws. No part of the proceeds of the Advances has been or will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the any Anti-Corruption Law and Anti-Money Laundering Laws.

(d) To the knowledge of the Borrower or any of its Subsidiaries, neither the Borrower, the Joint Venture, nor any of their Subsidiaries is the subject of any investigation, inquiry or enforcement proceedings by any governmental, administrative or regulatory body regarding any offense or alleged offense under any Anti-Corruption Laws, anti-terrorism laws, Anti-Money Laundering Laws, or Sanctions, and no such investigation, inquiry or proceeding is pending or, to the knowledge of the Borrower or any of its Subsidiaries, has been threatened.

Section 4.24 Beneficial Ownership Certification. As of the Closing Date, to Borrower's knowledge, the information included in any Beneficial Ownership Certification delivered by or on behalf of Borrower to a Lender is true and correct in all respects.

ARTICLE V
AFFIRMATIVE COVENANTS

So long as any Obligation shall remain outstanding, or any Lender shall have any Commitment hereunder, the Borrower agrees, to comply with the following covenants:

Section 5.01 Compliance with Laws, Etc. The Borrower shall comply, and cause each of its Subsidiaries and the Joint Venture to comply, in all material respects with all Legal Requirements. Without limiting the generality and coverage of the foregoing, the Borrower shall comply, and shall cause each of its Subsidiaries and the Joint Venture to comply, in all material respects, with all Environmental Laws and all laws, regulations, or directives with respect to equal employment opportunity and employee safety in all jurisdictions in which the Borrower, or any of its Subsidiaries or the Joint Venture do business; provided, however, that this Section 5.01 shall not prevent the Borrower or any of its Subsidiaries or the Joint Venture from, in good faith and with reasonable diligence, contesting the validity or application of any such laws or regulations by appropriate legal proceedings. Without limitation of the foregoing, the Borrower shall, and shall cause each of its Subsidiaries and the Joint Venture to, (a) maintain and possess all authorizations, Permits, licenses, trademarks, trade names, rights and copyrights which are material to the conduct of its business, and (b) obtain, as soon as practicable, all consents or approvals required from the United States or any states of the United States (or other Governmental Authorities) necessary to grant the Administrative Agent an Acceptable Security Interest in the Borrower's and its Subsidiaries' Oil and Gas Properties.

Section 5.02 Maintenance of Insurance.

(a) On or prior to the date that is thirty (30) days following the Closing Date (or such later date as the Administrative Agent may agree in its sole discretion), the Borrower shall, (i) provide the Administrative Agent with property insurance certificates naming the Administrative Agent loss payee and liability insurance certificates and endorsements naming the Administrative Agent as additional insured, as applicable, and evidencing insurance which meets the requirements of this Agreement and the Security Instruments and (ii) cause each of its Subsidiaries and the Joint Venture to, procure and maintain or shall cause to be procured and maintained continuously in effect policies of insurance in form and amounts and issued by companies, associations or organizations reasonably satisfactory to the Administrative Agent covering such casualties, risks, perils, liabilities and other hazards reasonably required by the Administrative Agent. In addition, the Borrower shall, and shall cause each of its Subsidiaries to, comply with all requirements regarding insurance contained in the Security Instruments.

(b) All certified copies of policies or certificates thereof, and endorsements and renewals thereof shall be delivered to and retained by the Administrative Agent. All policies of insurance providing coverage to the Borrower shall either have attached thereto a Lender's loss payable endorsement for the benefit of the Administrative Agent, as loss payee in form reasonably satisfactory to the Administrative Agent or shall name the Administrative Agent as an additional insured, as applicable. The Borrower shall furnish the Administrative Agent with a certificate of insurance and, if applicable, an endorsement, or a certified copy of all policies of insurance required at closing, and simultaneously with the effectiveness of any new or replacement policy. All policies or certificates of insurance shall set forth the coverage, the limits of liability, the name of the carrier, the policy number, and the period of coverage. In addition, all policies of insurance required under the terms hereof which provide coverage to the Borrower shall contain an endorsement or agreement by the insurer that any loss shall be payable in accordance with the terms of such policy notwithstanding any act of negligence of the Borrower, or a Subsidiary or the Joint Venture or any party holding under the Borrower or a Subsidiary or the Joint Venture which might otherwise result in a forfeiture of the insurance and the further agreement of the insurer

waiving all rights of setoff, counterclaim or deductions against the Borrower, its Subsidiaries and the Joint Venture. Without limiting the generality of the foregoing provisions, Administrative Agent will be named as an additional insured and will be provided a waiver of subrogation on the Borrower's general liability and umbrella policies. All such policies shall contain a provision that notwithstanding any contrary agreements between the Borrower, its Subsidiaries, and the applicable insurance company, such policies will not be canceled, allowed to lapse without renewal, surrendered or amended (which provision shall include any reduction in the scope or limits of coverage) without at least 30 days' prior written notice to the Administrative Agent and the Borrower unless such is cancelled for non-payment of premium and then the Administrative Agent and the Borrower will be given 10 days' notice of cancellation. In the event that, notwithstanding the "lender's loss payable endorsement" requirement of this Section 5.02, the proceeds of any insurance policy described in this Section 5.02(b) are paid to the Borrower or a Subsidiary and any Obligations are outstanding, the Borrower shall deliver such proceeds to the Administrative Agent immediately upon receipt.

(c) If at any time any real property covered by a Security Instrument includes Improved Property located in an area designated as a "flood hazard area" in any Flood Insurance Rate Map published by the Federal Emergency Management Agency (or any successor agency), the Borrower shall, and shall cause each of its Subsidiaries to, (i) provide the Administrative Agent and each Lender with a description of such Improved Property, including the address and legal description of such Improved Property and such other information as may be requested by the Administrative Agent or any Lender to obtain a flood determination or otherwise satisfy its obligations under applicable Legal Requirements, (ii) obtain flood insurance in such total amount as required by Regulation H of the Federal Reserve Board, as from time to time in effect and all official rulings and interpretations thereunder or thereof, and otherwise comply with the National Flood Insurance Program as set forth in the Flood Disaster Protection Act of 1973, as it may be amended from time to time, and (iii) provide evidence in form and substance satisfactory to the Administrative Agent and each Lender of such flood insurance to the Administrative Agent and each Lender.

Section 5.03 Preservation of Existence, Etc. The Borrower shall preserve and maintain, and cause each of its Subsidiaries and the Joint Venture to preserve and maintain, its partnership, corporate or limited liability company, as applicable, existence, rights, franchises, and privileges in the jurisdiction of its formation. The Borrower shall preserve and maintain, and cause the Joint Venture, and, subject to Section 5.13, each of its Subsidiaries to qualify and remain qualified as a foreign entity in each jurisdiction in which qualification is necessary or desirable in view of its business and operations or the ownership of its Properties, and, in each case, where failure to qualify or preserve and maintain its rights and franchises could reasonably be expected to cause a Material Adverse Change.

Section 5.04 Payment of Taxes, Etc. The Borrower shall pay and discharge, and cause each of its Subsidiaries and the Joint Venture to pay and discharge, before the same shall become delinquent, (a) all Taxes, assessments, and governmental charges or levies imposed upon it or upon its income or profits or Property that are material in amount, prior to the date on which penalties attach thereto, and (b) all lawful claims that are material in amount which, if unpaid, might by law become a Lien upon its Property; provided, however, that neither the Borrower nor any such Subsidiary nor the Joint Venture shall be required to pay or discharge any such Tax, assessment, charge, levy, or claim which is being contested in good faith and by appropriate proceedings, and with respect to which reserves in conformity with GAAP have been established.

Section 5.05 Visitation Rights. At any reasonable time and from time to time, upon reasonable notice, the Borrower shall, and shall cause its Subsidiaries and the Joint Venture to, permit the Administrative Agent and any Lender or any of their respective agents or representatives thereof, to (a) examine and make copies of and abstracts from the records and books of account of, and visit and inspect at their reasonable discretion the Properties of, the Borrower and any such Subsidiary and the Joint Venture, and (b) discuss the affairs, finances and accounts of the Borrower and any such Subsidiary and the Joint Venture with any of their respective officers or directors; provided that, so long as no Event of Default has occurred and is continuing, the Lenders shall use commercially reasonable efforts to coordinate their exercise of rights under this Section 5.05 with the other Lenders in order to minimize the expense to the Borrower.

Section 5.06 Reporting Requirements. The Borrower shall furnish to the Administrative Agent and each Lender (unless otherwise provided in this Section 5.06):

(a) Annual Financials.

(i) Borrower's Financials. As soon as available and in any event not later than 120 days after the end of each fiscal year (commencing with fiscal year ending December 31, 2021) of the Borrower and its Subsidiaries, on a consolidated basis, the audited consolidated balance sheets of the Borrower and the Borrower's Subsidiaries as at the end of such fiscal year, together with the related audited consolidated statements of income or operations, partners' equity and cash flows for such fiscal year, and the notes thereto, all in reasonable detail and setting forth in each case in comparative form (commencing with the fiscal year ending December 31, 2022) the figures as of the end of and for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP and such consolidated statements to be accompanied by a report and opinion of an independent certified public accountant of recognized standing reasonably acceptable to the Administrative Agent, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit and shall state that such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Borrower and its Subsidiaries as at the end of such fiscal year and their consolidated results of operations and cash flows for such fiscal year in conformity with GAAP, or words substantially similar to the foregoing and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards; and

(ii) Joint Venture's Financials. As soon as available and in any event not later than 120 days after the end of each fiscal year (commencing with fiscal year ending December 31, 2021) of the Joint Venture, the audited consolidated balance sheets of the Joint Venture as at the end of such fiscal year, together with the related audited consolidated statements of income or operations, partners' equity and cash flows for such fiscal year, and the notes thereto, all in reasonable detail and setting forth in each case in comparative form (commencing with the fiscal year ending December 31, 2022) the figures as of the end of and for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP and such consolidated statements to be

accompanied by a report and opinion of an independent certified public accountant of recognized standing reasonably acceptable to the Administrative Agent, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any “going concern” or like qualification or exception or any qualification or exception as to the scope of such audit and shall state that such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Borrower and its Subsidiaries as at the end of such fiscal year and their consolidated results of operations and cash flows for such fiscal year in conformity with GAAP, or words substantially similar to the foregoing and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards.

(b) Quarterly Financials.

(i) Borrower’s Financials. As soon as available and in any event not later than 60 days after the end of each of the first three fiscal quarters of each fiscal year (commencing with fiscal quarter ending December 31, 2021) of the Borrower and its Subsidiaries, a consolidated balance sheet for the Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income or operations, and cash flows for such fiscal quarter and for the portion of the Borrower’s and its respective Subsidiaries’ fiscal year then ended, and setting forth in comparative form (commencing with the fiscal year ending December 31, 2022) the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail certified by a Responsible Officer of the Borrower, as fairly presenting the financial condition, results of operations, partners’ equity and cash flows of the Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes; and

(ii) Joint Venture’s Financials. As soon as available and in any event not later than 60 days after the end of each of the first three fiscal quarters of each fiscal year (commencing with fiscal quarter ending December 31, 2021) of the Joint Venture, a consolidated balance sheet for the Joint Venture as at the end of such fiscal quarter, and the related consolidated statements of income or operations, and cash flows for such fiscal quarter and for the portion of the Joint Venture’s fiscal year then ended, and setting forth in comparative form (commencing with the fiscal quarter ending December 31, 2022) the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail and certified by a Responsible Officer of the Borrower, as fairly presenting the financial condition, results of operations, partners’ equity and cash flows of the Joint Venture in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes.

(c) Compliance Certificate. In connection with Section 5.06(a) and (b), the Borrower shall deliver a Compliance Certificate executed by a Responsible Officer of the Borrower.

(d) Budget. Concurrently with any delivery of financial statements under Section 5.06(a), consolidated and consolidating quarterly financial projections and budgets (including a cash flow forecast) for the Borrower and the Subsidiaries for the then current fiscal year.

(e) Production Report and Lease Operating Expense Statements In connection with each Engineering Report, the Borrower shall deliver a report in form and substance satisfactory to the Administrative Agent prepared by the Borrower covering each of the Oil and Gas Properties of the Borrower and its Subsidiaries and the Joint Venture and detailing for each calendar month during the then current fiscal year to date, the volume of production and sales attributable to production (and the prices at which such sales were made and the revenues derived from such sales) for each calendar month from the Oil and Gas Properties, setting forth the related ad valorem, severance, and production taxes and lease operating expenses attributable thereto and incurred for each such calendar month.

(f) Hedging Report. In connection with Section 5.06(a) and (b), the Borrower shall deliver a report in form and substance satisfactory to the Administrative Agent (the "Hedging Report") prepared by the Borrower (i) setting forth in reasonable detail all Hedge Contracts of the Borrower, its Subsidiaries and the Joint Venture, together with a statement of the position with respect to each such Hedge Contract, (ii) setting forth, to the extent not already described in clause (i), all Hedge Contracts of the Borrower and its Subsidiaries and the Joint Venture and detailing the material terms thereof (including the type, term, effective date, termination date and notional amounts or volumes), the net mark to market value thereof, all credit support agreements relating thereto (including any margin required or supplied), and the counterparty to each such agreement, and (iii) demonstrating the Borrower's compliance with Sections 5.15 and 6.14(b). If any such Hedge Contract is terminated, modified, amended or altered prior to the end of its contractual term, or if there is an amendment, adjustment or modification of the price of any of the oil, gas or other Hydrocarbons produced from such Oil and Gas Properties that is subject to or established by a Hedge Contract, the Borrower shall promptly notify the Administrative Agent and the Lenders.

(g) Oil and Gas Reserve Reports.

(i) As soon as available but in any event on or before March 15 of each year, an Independent Engineering Report dated effective as of January 1 for the immediately preceding year;

(ii) As soon as available but in any event on or before September 15 of each year, an Internal Engineering Report, dated effective as of the immediately preceding July 1;

(iii) Such other information as may be reasonably requested by the Administrative Agent or any Lender with respect to the Oil and Gas Properties included or to be included in the Borrowing Base or in any Engineering Report, and the Borrower shall host an in-person or telephonic meeting for the Lenders concurrently with the delivery of each Engineering Report, regardless of whether a Borrowing Base will be determined based on such Engineering Report;

(iv) With the delivery of each Engineering Report, a certificate from a Responsible Officer of the Borrower certifying that, to the best of his knowledge and in all material respects: (A) the information contained in the Engineering Report and any other information delivered in connection therewith is true and correct in all material respects, (B) if the net revenue interest and working interest of the wells evaluated in such Engineering Report are identified in such Engineering Report, that the representation in Section 4.13(b) shall be true and correct as to the net revenue interests and working interests evaluated in such Engineering Report, and if the net revenue interest and working interest of the wells evaluated in such Engineering Report are not

identified in such Engineering Report, attached thereto is a schedule (the “WI/NRI Schedule”) of all wells evaluated in such Engineering Report, including the net revenue interest and working interest for such well, as to which the representation in Section 4.13(b) shall be true and correct, (C) the Borrower or its Subsidiary or the Joint Venture, as applicable, owns good and defensible title to the Oil and Gas Properties evaluated in such Engineering Report, and such Properties are subject to an Acceptable Security Interest (except to the extent any such Oil and Gas Properties are not required by the terms of this Agreement or any other Loan Documents to be subject to an Acceptable Security Interest) and are free of all Liens except for Permitted Liens, (D) except as set forth on an exhibit to the certificate, on a net basis there are no Gas Imbalances, take or pay or other prepayments with respect to its Oil and Gas Properties evaluated in such Engineering Report which would require the Borrower or any of its Subsidiaries to deliver Hydrocarbons produced from such Oil and Gas Properties at some future time without then or thereafter receiving full payment therefor that in the aggregate are in excess of an amount equal to 3% of the Proven Reserves categorized as “proved, developed and producing” on such Engineering Report, (E) (1) no Oil and Gas Properties owned by the Joint Venture in an amount greater than 4% of the Proven Reserves categorized as “proved, developed and producing” on the most recently delivered Engineering Report, and (2) none of the Oil and Gas Properties owned by the Borrower or its Subsidiaries have been sold or otherwise disposed of since the date of the last Borrowing Base determination, except as set forth on an exhibit to the certificate, which certificate shall list all of its Oil and Gas Properties sold and in such detail as reasonably required by the Required Lenders, (F) attached to the certificate is a list of (1) any Oil and Gas Properties owned by the Joint Venture in an amount greater than 4% of the Proven Reserves categorized as “proved, developed and producing” on the most recently delivered Engineering Report, and (2) any Oil and Gas Properties owned by the Borrower and its Subsidiaries added to and deleted from the immediately prior Engineering Report and a list showing any change in working interest or net revenue interest in its Oil and Gas Properties occurring and the reason for such change, (G) attached to the certificate is a list of all Persons disbursing proceeds to the Borrower or to its Subsidiaries, as applicable, from its Oil and Gas Properties, (H) except as set forth on a schedule attached to the certificate, 90% of the PV-10 of the Proven Reserves of the Borrower and its Subsidiaries evaluated by such Engineering Report are pledged as Collateral for the Obligations and attached to the certificate is a schedule detailing compliance with Section 5.08, and (I) attached to the certificate is a list of any real property other than Oil and Gas Properties acquired since the delivery of the previous Engineering Report which is either (1) material to the operations of the Borrower or any of its Subsidiaries, or (2) has a fair market value in excess of \$250,000;

(v) [reserved]; and

(vi) With each Engineering Report, a copy of the consolidated twelve month budget (including a quarterly projected consolidated balance sheet, income statement and cash flow statement) of the Borrower and its Subsidiaries in form reasonably satisfactory to the Administrative Agent.

(h) Defaults. As soon as practicable and in any event within five days after (i) the occurrence of any Default, or (ii) the occurrence of any default under any instrument or document evidencing Debt of the Borrower or any Subsidiary or the Joint Venture with a principal amount in excess of \$1,000,000, in each case known to any officer of the Borrower or any of its Subsidiaries which is continuing on the date of such statement, a statement of a Responsible Officer of the Borrower setting forth the details of such Default or default, as applicable, and the actions which the Borrower or such Subsidiary or the Joint Venture has taken and proposes to take with respect thereto.

(i) Termination Events. As soon as practicable and in any event (i) within thirty (30) days after (A) the Borrower knows or has reason to know that any Termination Event described in clause (a) of the definition of “Termination Event” with respect to any Plan has occurred, or (B) the Borrower acquires knowledge that any ERISA Affiliate knows that any Termination Event described in clause (a) of the definition of “Termination Event” with respect to any Plan has occurred, and (ii) within 10 days after (A) the Borrower knows or has reason to know that any other Termination Event with respect to any Plan has occurred, or (B) the Borrower acquires knowledge that any ERISA Affiliate knows that any other Termination Event with respect to any Plan has occurred, a statement of a Responsible Officer of the Borrower describing such Termination Event and the action, if any, which the Borrower or such ERISA Affiliate proposes to take with respect thereto.

(j) Termination of Plans. Promptly and in any event within two Business Days after (i) receipt thereof by the Borrower from the PBGC, or (ii) the Borrower acquires knowledge of any ERISA Affiliate’s receipt thereof from the PBGC, copies of each notice received by the Borrower or any such ERISA Affiliate of the PBGC’s intention to terminate any Plan or to have a trustee appointed to administer any Plan.

(k) Other ERISA Notices. Promptly and in any event within five Business Days after (i) receipt thereof by the Borrower from a Multiemployer Plan sponsor, or (ii) the Borrower acquires knowledge of any ERISA Affiliate’s receipt thereof from a Multiemployer Plan sponsor, a copy of each notice received by the Borrower or any ERISA Affiliate concerning the imposition or amount of withdrawal liability pursuant to Section 4202 of ERISA.

(l) Environmental Notices. Promptly upon the receipt thereof by the Borrower or any of its Subsidiaries or the Joint Venture, a copy of any form of request, notice, summons or citation received from the Environmental Protection Agency, or any other Governmental Authority, concerning (i) violations or alleged violations of Environmental Laws, which seeks to impose liability therefor and could reasonably be expected to cause a Material Adverse Change, (ii) any action or omission on the part of the Borrower or any Subsidiary or the Joint Venture or any of their former Subsidiaries in connection with Hazardous Waste or Hazardous Substances which could result in the imposition of liability therefor that could reasonably be expected to cause a Material Adverse Change, including any information request related to, or notice of, potential responsibility under CERCLA, or (iii) concerning the filing of a Lien upon, against or in connection with the Borrower or any Subsidiary or the Joint Venture or their former Subsidiaries, or any of their leased or owned Property, wherever located.

(m) Other Governmental Notices. Promptly and in any event within five Business Days after receipt thereof by the Borrower or any Subsidiary or the Joint Venture, a copy of any notice, summons, citation, or proceeding seeking to modify in any material respect, revoke, or suspend any material contract, license, permit or agreement with any Governmental Authority.

(n) Material Changes. Prompt written notice of any condition or event of which the Borrower has knowledge, which condition or event has resulted or may reasonably be expected to result in (i) a Material Adverse Change, or (ii) a breach of or noncompliance with any material term, condition, or covenant of any material contract to which the Borrower or any of its Subsidiaries or the Joint Venture is a party or by which they or their Properties may be bound.

(o) Disputes, Etc. Prompt written notice of (i) any claims, legal or arbitration proceedings, proceedings before any Governmental Authority, or disputes, or to the knowledge of the Borrower threatened, or affecting the Borrower, or any of its Subsidiaries or the Joint Venture

(p) which, if adversely determined, could reasonably be expected to cause a Material Adverse Change, or any material labor controversy of which the Borrower or any of its Subsidiaries has knowledge resulting in or reasonably considered to be likely to result in a strike against the Borrower or any of its Subsidiaries or the Joint Venture, and (ii) any claim, judgment, Lien or other encumbrance (other than a Permitted Lien) affecting any Property of the Borrower or any Subsidiary or the Joint Venture if the value of the claim, judgment, Lien, or other encumbrance affecting such Property shall exceed \$5,000,000.

(q) Other Accounting Reports. Promptly upon receipt thereof, a copy of each other report or letter submitted to the Borrower or any Subsidiary or the Joint Venture by independent accountants in connection with any annual, interim or special audit made by them of the books of the Borrower and its Subsidiaries and the Joint Venture, and a copy of any response by the Borrower or any Subsidiary of the Borrower or the Joint Venture, or the Board of Directors (or other applicable governing body) of the Borrower or any Subsidiary of the Borrower or the Joint Venture, to such letter or report.

(r) Notices Under Other Loan Agreements. Promptly after the furnishing thereof, copies of any statement, report or notice furnished to any Loan Party or the Joint Venture pursuant to the terms of any indenture, loan or credit or other similar agreement, other than this Agreement and not otherwise required to be furnished to the Lenders pursuant to any other provision of this Section 5.06.

(s) Casualties and Takings. Any actual or constructive loss by reason of fire, explosion, theft or other casualty, of any Property of any Loan Party or the Joint Venture or any taking of title to, or the use of, any Property of any Loan Party or the Joint Venture pursuant to eminent domain or condemnation proceedings or any settlement or compromise thereof, in each case, with a value equal to or greater than \$5,000,000, and a certificate of a Responsible Officer of the Borrower, describing the nature and status of such occurrence.

(t) Partners. Upon request of the Administrative Agent from time to time, the Borrower shall deliver to the Administrative Agent (i) an updated schedule of Partners (as defined in the limited partnership agreement of the Borrower) owning greater than 10% of Equity Interests in the Borrower, and (ii) an updated list of the members of the general partner of the Borrower.

(u) Minimum Volume Contracts. Prior to any Loan Party or the Joint Venture entering into a binding Minimum Volume Commitment, the Borrower shall deliver to the Administrative Agent notice of such Loan Party's intention of entering into such Minimum Volume Commitment, along with drafts of the proposed agreement evidencing such Minimum Volume Commitment and such other documents and agreements as the Administrative Agent or any Lender may reasonably request in connection therewith.

(v) Excess Cash. Commencing on the Closing Date, on the fifteenth day of each calendar month (or if such day is not a Business Day, the next following Business Day) and the last Business Day of each calendar month, the Borrower shall provide, or shall permit its designee to provide, (A) a statement detailing the Borrower and its Subsidiaries' Consolidated Cash Balances of each of its deposit accounts, securities accounts, and other bank accounts, as of the last Business Day of the immediately preceding calendar week, and (2) a calculation of the Excess Cash of the Borrower and its Subsidiaries as of the last Business Day of the immediately preceding calendar week, in each case, in form and substance satisfactory to the Administrative Agent.

(w) Free Cash Flow Utilizations. In the event the Borrower intends to effect a Free Cash Flow Utilization, at least five (5) Business Days' (or such later date as the Administrative Agent may agree in its sole discretion) prior written notice of such intended Free Cash Flow Utilization, including the details thereof and a certificate of a Financial Officer in form acceptable to the Administrative Agent setting forth reasonably detailed calculations of Distributable Free Cash Flow (both before and after giving effect to such Free Cash Flow Utilization) for the Rolling Period most recently ended.

(x) Other Information. Such other information respecting the business or Properties, or the condition or operations, financial or otherwise, of the Borrower or any of its Subsidiaries or the Joint Venture, as any Lender through the Administrative Agent may from time to time reasonably request.

The Administrative Agent agrees to provide the Lenders with copies of any material notices and information delivered solely to the Administrative Agent pursuant to the terms of this Agreement.

Section 5.07 Maintenance of Property. Subject to Section 6.04, the Borrower shall, and shall cause each of its Subsidiaries and the Joint Venture to, maintain their owned, leased, or operated Property in good condition and repair, ordinary wear and tear excepted; provided that the Borrower shall not be required to, or to cause its Subsidiaries or the Joint Venture to, rework, recomplete, redrill or otherwise maintain any well or production facility when, in the reasonable judgment of a prudent operator, it would be imprudent or uneconomic to do so, and shall abstain, and cause each of its Subsidiaries to abstain from, knowingly or willfully permitting the commission of waste or other injury, destruction, or loss of natural resources (other than by depletion through producing such reserves), or the occurrence of pollution, contamination, or any other condition in, on or about the owned or operated Property involving the Environment that could reasonably be expected to result in Response activities and that could reasonably be expected to cause a Material Adverse Change. To the extent the Borrower, any Subsidiary or the Joint Venture is not the operator of an Oil and Gas Property, the Borrower, such Subsidiary or the Joint Venture shall not be obligated to directly perform any undertaking contemplated by the covenants and agreements contained in this Section 5.07 which are performable only by such operator and are beyond the control of the Borrower, such Subsidiary or the Joint Venture, but shall be obligated to seek to enforce such operator's contractual obligations to maintain, develop and operate the Oil and Gas Properties subject to such operating agreements and use commercially reasonable efforts to cause the operator to comply with the obligations under this Section 5.07.

Section 5.08 Agreement to Pledge. The Borrower shall, and shall cause each material Subsidiary to, (a) grant to the Administrative Agent an Acceptable Security Interest in all personal Property of the Borrower or any Subsidiary now owned or hereafter acquired, including without limitation (x) 100% of the Equity Interests owned in each direct or indirect Subsidiary of the Borrower and (y) 100% of the Equity Interests directly owned by the Borrower or any Subsidiary in the Joint Venture or any Subsidiary of the Joint Venture, or any other Person that directly or indirectly owns any Equity Interest in the Joint Venture or any Subsidiary of the Joint Venture, in each case, together with any necessary or desirable consents to such pledge and reasonably requested opinions of counsel with respect thereto, (b) (i) on or prior to the date that is thirty (30) days following the Closing Date (or such later date as the Administrative Agent may agree in its sole discretion) and (ii) with the delivery of each Engineering Report under Section 5.06(g), grant to the Administrative Agent an Acceptable Security Interest in at least 90% of the PV-10 of the Proven Reserves of the Borrower and its Subsidiaries based on its most recently delivered Engineering Report, and if requested by the Administrative Agent, provide an opinion of local counsel covering the Security Instrument pursuant to which such Acceptable Security Interest is granted and (c) on or prior to the date that is thirty (30) days following the Closing Date (or such later date as the Administrative Agent may agree in its sole discretion), grant to the Administrative Agent an Acceptable Security Interest in the Buckeye CO2 Plant and if requested by the Administrative Agent, provide an opinion of local counsel covering the Security Instrument pursuant to which such Acceptable Security Interest is granted. In the event that the Administrative Agent does not have an Acceptable Security Interest in at least 90% of the PV-10 of the Proven Reserves of the Borrower and its Subsidiaries based on its most recently delivered Engineering Report, then the Borrower shall, and shall cause the Subsidiaries to, grant, within thirty (30) days of delivery of the Engineering Report under Section 5.06(g) (or such later date as the Administrative Agent may agree in its sole discretion), to the Administrative Agent an Acceptable Security Interest in additional Proven Reserves of the Borrower and its Subsidiaries not already subject to an Acceptable Security Interest such that after giving effect thereto the Administrative Agent will have an Acceptable Security Interest in at least 90% of the PV-10 of the Proven Reserves of the Borrower and its Subsidiaries.

Section 5.09 Use of Proceeds. The Borrower shall use the proceeds of the Advances to (a) refinance and pay in full all loans and obligations of the Borrower outstanding as of the Closing Date under that certain Credit Agreement dated as of October 1, 2012 among the Borrower, its Subsidiaries, Citibank N.A., as Administrative Agent and the lenders party thereto, (b) fund, in part, the acquisition of the Oil and Gas Properties pursuant to the Vacuum PSA, (c) provide for the acquisition, exploration and development, maintenance and production of Oil and Gas Properties, (d) make Restricted Payments permitted under Section 6.05, (f) fund investments permitted under Section 6.06, and (g) other working capital and general corporate purposes.

Section 5.10 Title Evidence. On or prior to the date that is thirty (30) days following the Closing Date (or such later date as the Administrative Agent may agree in its sole discretion), and in connection with the delivery of each Reserve Report under Section 5.06(g) thereafter, the Borrower shall from time to time upon the reasonable request of the Administrative Agent, take such actions and execute and deliver such documents and instruments as the Administrative Agent

shall require to ensure that the Administrative Agent shall, at all times, have received satisfactory title and ownership evidence (including, title reports, pay decks and, if requested, supplemental or new title materials) covering at least 90% of the PV-10 of the Proven Reserves of the Borrower and its wholly-owned Subsidiaries and at least 80% of the PV-10 of the Proven Reserves of the Joint Venture as reasonably determined by the Administrative Agent, which title evidence shall be in form and substance acceptable to the Administrative Agent in its sole discretion and shall include title materials regarding the before payout and after payout ownership interests held by the Borrower and the Borrower's Subsidiaries and the Joint Venture, for all wells located on the Oil and Gas Properties covered thereby as to the ownership of Oil and Gas Properties of the Borrower and its Subsidiaries and the Joint Venture.

Section 5.11 Further Assurances; Cure of Title Defects. The Borrower shall, and shall cause each Subsidiary to, cure promptly any defects in the creation and issuance of the Notes and the execution and delivery of the Security Instruments and this Agreement. The Borrower hereby authorizes the Lenders or the Administrative Agent to file any financing statements without the signature of the Borrower to the extent permitted by applicable Legal Requirements in order to perfect or maintain the perfection of any security interest granted under any of the Loan Documents. Borrower shall ensure that the Administrative Agent at all times has an Acceptable Security Interest in Oil and Gas Properties of the Borrower and its Subsidiaries in an amount not less than 90% of the PV-10 of the Proven Reserves of the Borrower and its Subsidiaries as reasonably determined by the Administrative Agent. For the purpose of this Section 5.11, an Acceptable Security Interest in the Equity Interest of the Joint Venture pursuant to the Guarantee and Collateral Agreement is deemed to be an Acceptable Security Interest in the Proven Reserves of the Joint Venture. If any certificate delivered pursuant to Section 5.06(h) demonstrates that the Oil and Gas Properties of the Borrower and its Subsidiaries in which the Administrative Agent has an Acceptable Security Interest is less than 90% of the PV-10 of the Proven Reserves of the Borrower and its Subsidiaries, the Borrower shall, or shall cause its Subsidiaries to promptly, but in any event within (30) days of the delivery of such certificate, grant to the Administrative Agent an Acceptable Security Interest in additional Oil and Gas Properties of the Borrower or the Subsidiaries as necessary to cause the PV-10 of the Proven Reserves of the Borrower and its Subsidiaries in which Administrative Agent has an Acceptable Security Interest to equal or exceed 90% of the PV-10 of the Proven Reserves of the Borrower and its Subsidiaries. The Borrower at its expense will, and will cause each Subsidiary to, promptly execute and deliver to the Administrative Agent upon request all such other documents, agreements and instruments to comply with or accomplish the covenants and agreements of the Borrower or any Subsidiary or the Joint Venture, as the case may be, in the Security Instruments and this Agreement, or to further evidence and more fully describe the collateral intended as security for the Obligations, or to correct any omissions in the Security Instruments, or to state more fully the security obligations set out herein or in any of the Security Instruments, or to perfect, protect or preserve any Liens created pursuant to any of the Security Instruments, or to make any recordings, to file any notices or obtain any consents, all as may be necessary or appropriate in connection therewith or to enable the Administrative Agent to exercise and enforce its rights and remedies with respect to any Collateral. Within 60 days after (a) a request by the Administrative Agent or the Lenders to cure any title defects or exceptions which are not Permitted Liens raised by such information within such 90% requirement for the Borrower and its wholly-owned subsidiaries and such 80% requirement for the Joint Venture, or (b) a notice by the Administrative Agent that the Borrower has failed to comply with Section 5.10, the Borrower shall (i) cure such title defects or exceptions

which are not Permitted Liens or substitute acceptable Oil and Gas Properties with no title defects or exceptions except for Permitted Liens covering Collateral of an equivalent value, and (ii) deliver to the Administrative Agent satisfactory title evidence (including supplemental or new title opinions meeting the foregoing requirements) in form and substance acceptable to the Administrative Agent in its reasonable business judgment as to the Borrower's and its Subsidiaries' and the Joint Venture's ownership of such Oil and Gas Properties and the Administrative Agent's Liens and security interests therein as are required to maintain compliance with Section 5.10.

Section 5.12 Deposit and Securities Accounts. The Borrower shall, and shall cause each of its Subsidiaries to, (a) maintain all of its cash and Liquid Investments in operating accounts, other deposit accounts, and other bank accounts held at the Administrative Agent or any Lender or any Affiliate of a Lender, and (b) on or prior to the date that is thirty (30) days following the Closing Date (or such later date as the Administrative Agent may agree in its sole discretion), cause each such account and each other securities account to be subject to an account control agreement reasonably acceptable in form and substance to the Administrative Agent.

Section 5.13 Compliance with Anti-Corruption Laws, Anti-Money Laundering Laws, and Sanctions. Borrower will maintain in effect and enforce policies and procedures designed to ensure compliance by Borrower, the Joint Venture, their respective Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws, Anti-Money Laundering Laws, and applicable Sanctions.

Section 5.14 Beneficial Ownership Regulation Documentation. Promptly following any request therefor, the Borrower shall provide information and documentation reasonably requested by the Administrative Agent or any Lender for purposes of compliance with the Beneficial Ownership Regulation.

Section 5.15 Hedge Contracts. On or prior to the date that is thirty (30) days following the Closing Date, and as of the end of each fiscal quarter thereafter, the Borrower and the Guarantors shall determine whether there are Hedge Contracts with an Approved Counterparty covering at least the Minimum Required Hedge Volume of the reasonably anticipated projected production from Proved Developed Producing Reserves of the Borrower, the applicable Subsidiaries, and the Borrower's share of the Joint Venture for oil and natural gas (including natural gas liquids) based on the most recently delivered Reserve Report (the "Ongoing Minimum Hedge Requirement"). If the Borrower determines that the Ongoing Minimum Hedge Requirement has not been satisfied as of the end of such fiscal quarter, then the Borrower, the Guarantors and the Joint Venture shall within five (5) Business Days of the end of such fiscal quarter enter into Hedge Contracts with an Approved Counterparty such that the Ongoing Minimum Hedge Requirement shall be satisfied.

ARTICLE VI NEGATIVE COVENANTS

So long as any Obligation shall remain outstanding, or any Lender shall have any Commitment hereunder, the Borrower agrees to comply with the following covenants:

Section 6.01 Liens, Etc. The Borrower shall not create, assume, incur, or suffer to exist, or permit any of its Subsidiaries or the Joint Venture to create, assume, incur, or suffer to exist, any Lien on or in respect of any of its Property whether now owned or hereafter acquired, or assign any right to receive income, except that the Borrower and its Subsidiaries and the Joint Venture may create, incur, assume, or suffer to exist (all of which shall be referred to as “Permitted Liens”):

(a) Liens securing the Obligations;

(b) contractual Liens for the benefit of operators of the Oil and Gas Properties or thenon-operating interest owners of Oil and Gas Properties, but only to the extent that such operators or non-operating interest owners are not asserting a claim or right to exercise their rights under such contractual liens, except for such claims and rights of operators which such company contests in good faith and for which adequate reserves are maintained according to GAAP;

(c) inchoate Liens imposed by mandatory provisions of law such as for materialmen’s, mechanic’s, warehousemen’s and other like liens arising in the ordinary course of business if the obligations secured by such liens are not yet due and payable or if the same are being contested in good faith and for which adequate reserves are maintained in accordance with GAAP;

(d) Liens for taxes, assessments and governmental charges or levies imposed upon a Person or upon such Person’s income or profits or property, if the same are not yet due and payable or if the same are being contested in good faith and for which adequate reserves are maintained in accordance with GAAP;

(e) encumbrances consisting of zoning restrictions, easements, or other restrictions on the use of real property, provided that such do not materially detract from the value or impair the use of real property for the uses intended, and none of which is violated in any material respect by existing or proposed structures or land use;

(f) Liens represented by purchase money security interests in favor of vendors of specified personal property, so long as (i) such Lien secures only obligations under a contract to acquire such specified personal property, (ii) such Lien will be in effect only until the purchase price for such property is paid, and (iii) the Debt secured thereby is permitted;

(g) minor defects and irregularities in title to any Property which does not secure any monetary obligations and which in the aggregate do not materially impair use of such Property for the purposes for which such Property is held by the Borrower and any Subsidiary or materially impair the value of such Property subject thereto;

(h) Liens arising from Uniform Commercial Code financing statement filings regarding operating leases or consignments entered into by the Borrower, any Subsidiary, or the Joint Venture in the ordinary course of business covering only the Property under lease or consignment, as applicable;

(i) rights of first refusal and preferential rights to purchase entered into in the ordinary course of business; and

(j) Liens in an aggregate principal amount at any time outstanding not to exceed \$10,000,000.

Section 6.02 Debts, Guaranties, Leases and Other Obligations. The Borrower shall not, and shall not permit any of its Subsidiaries or the Joint Venture to, create, assume, suffer to exist, or in any manner become or be liable in respect of, any Debt or leases except:

(a) Debt of the Borrower and its Subsidiaries under the Loan Documents;

(b) Debt under Hedge Contracts which are not prohibited by the terms of Section 6.14;

(c) Intercompany Debt (other than the FAM Loan) that is unsecured and subordinated on terms satisfactory to the Administrative Agent in its discretion to the prior payment in full in cash of the Obligations;

(d) Debt of the Borrower in an aggregate amount not to exceed \$25,000,000 that is unsecured, on terms acceptable to the Administrative Agent, and that is not mandatorily redeemable (except in Equity Interests) and does not mature or require any payments of principal, interest, dividends, or otherwise until 90 days after the Maturity Date, provided that on the date such Debt is issued, the Borrower shall be in compliance with the covenants set forth in this Agreement, including without limitation those set forth in Sections 6.18 and 6.19 on a pro forma basis after giving effect to the issuance of such Debt, as though such Debt had been issued as of the last day of the immediately preceding fiscal quarter;

(e) Debt and payment obligations under operating leases (over their remaining duration) not otherwise permitted under this Agreement in an aggregate amount at any time outstanding not to exceed \$10,000,000; and

(f) the unsecured FAM Loan in a principal amount on or after the Closing Date not to exceed \$7,100,000 made pursuant to the FAM Loan Documents so long as at all times (i) it does not mature until 91 days after the Maturity Date (as extended or otherwise modified), and (ii) the FAM Loan Documents are on terms and conditions satisfactory to the Administrative Agent.

Section 6.03 Agreements Restricting Liens and Distributions. The Borrower shall not, nor shall it permit any of its Subsidiaries to, create, incur, assume or permit to exist any contract, agreement or understanding (other than this Agreement and the Security Instruments) which in any way prohibits or restricts the granting, conveying, creation or imposition of any Lien on any of its Property (including Equity Interests of the Joint Venture), or restricts the subsequent transfer of such Property to a third person upon exercise of its remedies (including foreclosure) with respect to such Property, whether now owned or hereafter acquired, to secure the Obligations or restricts any Subsidiary or the Joint Venture from paying dividends to the Borrower, or which requires the consent of or notice to other Persons in connection therewith, excluding, in the case of Oil and Gas Properties, customary prior consents to assignment or transfer, preferential purchase rights, rights of first refusal, areas of mutual interest and other customary conditions or restrictions to transfer contained in oil and gas leases or other instruments in the chain of title to the affected Property and, in the case of the Borrower's Equity Interest in the Joint Venture, the restrictions on the transfer of such Equity Interest as set forth in the Joint Venture LLC Agreement.

Section 6.04 Merger or Consolidation; Asset Sales

(a) The Borrower shall not, nor shall it permit any of its Subsidiaries, to merge or consolidate with or into any other Person other than the merger of a Loan Party with and into the Borrower, provided that the Borrower shall be the continuing or surviving Person, or another Loan Party. The Borrower shall not permit the Joint Venture to merge or consolidate with or into any other Person.

(b) The Borrower shall not, nor shall it permit any of its Subsidiaries or the Joint Venture to enter into or effect a Disposition of any of its Property or to effect a Hedge Termination other than:

(i) the sale of Hydrocarbons in the ordinary course of business;

(ii) the Disposition of equipment that is (A) obsolete, worn out, depleted or uneconomic and disposed of in the ordinary course of business, (B) no longer necessary for the business of such Person, or (C) contemporaneously replaced by equipment of at least comparable use;

(iii) Farmouts of undeveloped acreage and assignments in connection with such Farmouts,

(iv) Dispositions of Oil and Gas Properties or any interest therein or Subsidiaries owning Oil and Gas Properties provided that (A) the consideration received in respect of such Disposition shall be equal to or greater than the fair market value of the Oil and Gas Property, or any interest therein or Subsidiary subject of such Disposition (as reasonably determined by the governing body of the Borrower (or the general partner of the Borrower) and, if requested by the Administrative Agent, the Borrower shall deliver a certificate of a Responsible Officer of the Borrower certifying to that effect), (B) if such Disposition triggers a mandatory prepayment requirement, then the Borrower shall make any mandatory prepayments required by Section 2.05(b)(i), and (C) if any such Disposition is of a Subsidiary owning Oil and Gas Properties, such Disposition shall include all the Equity Interests of such Subsidiary (or such Subsidiary shall be dissolved substantially simultaneously with such Disposition);

(v) Hedge Terminations, provided that (A) the Borrower shall give Administrative Agent 5 days' prior written notice of any such Hedge Termination (other than a "Termination Event" or "Event of Default" under a Hedge Contract as to which the Borrower cannot give advance notice, in which case the Borrower shall give prompt written notice of such Hedge Termination), and (B) if such Hedge Termination triggers a mandatory prepayment requirement, then the Borrower shall make any mandatory prepayments required by Section 2.05(b)(i);

(vi) Dispositions of capital stock of any Subsidiary to Borrower or another Loan Party, provided that the Borrower has delivered to the Administrative Agent at least five days' prior written notice of such Disposition;

(vii) any Disposition of Properties not otherwise permitted by Section 6.04(b) and having a fair market value not to exceed \$10,000,000 during any 12-month period; and

(viii) Dispositions caused by loss, theft, substantial damage or destruction of Properties.

Section 6.05 Restricted Payments. The Borrower shall not, nor shall it permit any of its Subsidiaries or the Joint Venture to, make any Restricted Payments, except that:

(i) any Subsidiary may declare and make Restricted Payments to the Borrower or any other Loan Party;

(ii) the Joint Venture may make dividends and distributions to the owners of its Equity Interests in accordance with Section 5.1 of the Joint Venture LLC Agreement;

(iii) the Joint Venture may pay overhead fees to the Borrower pursuant to the Operating and Services Agreement; and

(iv) the Borrower may make Restricted Payments in an aggregate amount not to exceed 100% of the Borrower's Distributable Free Cash Flow at such time so long as (A) at the time of any such Restricted Payment and immediately after giving effect thereto, no Default, Event of Default or Borrowing Base Deficiency shall have occurred and be continuing, (B) the Leverage Ratio shall not exceed 2.00 to 1.00, determined as of the last day of the fiscal quarter most recently ended for which financial statements of the Borrower have been delivered pursuant to Section 5.06(a) or 5.06(b) on a pro forma basis after giving effect to such Restricted Payment, (C) after giving effect to such Restricted Payment, Availability shall be greater than or equal to twenty percent (20%) and (D) the Borrower has delivered prior written notice of such Restricted Payment pursuant to Section 5.06(x).

Section 6.06 Investments. The Borrower shall not, nor shall it permit any of its Subsidiaries or the Joint Venture to, make or permit to exist any loans, advances, or capital contributions to, or make any investment in (including the making of any Acquisition), or purchase or commit to purchase any stock or other securities or evidences of indebtedness of or interests in any Person (such loans, advances, capital contributions to, making investments in (including the making of any Acquisition), or purchasing or committing to purchase any stock or other securities or evidences of indebtedness of or interests in any Person, collectively, "Investments"), except:

(a) Liquid Investments;

(b) Investments by the Borrower in the Joint Venture, so long as no Default or Event of Default exists or would result therefrom;

(c) creation of any additional Subsidiaries in compliance with Section 6.15;

(d) Investments made in the ordinary course of business as a means of actively exploiting, exploring for, acquiring, developing, processing, gathering, marketing or transporting oil and gas through agreements, transactions, interests or arrangements which provide for the sharing of risks or costs, jointly with third parties, including entering into operating agreements, working interests, royalty interests, mineral leases, processing agreements, Farmouts, farm-in agreements, division orders, contracts for the sale, transportation or exchange of oil and natural gas, unitization and pooling declarations and agreements and area of mutual interest agreements,

production sharing agreements or other similar or customary agreement, transactions, properties, interest and investments and expenditures in connection therewith; provided that (i) no such investment includes an investment in any Equity Interest in a Person, (ii) any Debt incurred or Lien granted or permitted to exist in connection with any such Investments is otherwise permitted under Section 6.01 or Section 6.02, respectively, and (iii) each such Investment is taken into account in computing the net revenue interests and working interests of the Borrower or any of its Subsidiaries or the Joint Venture set forth in the most recent WI/NRI Schedule;

(e) Investments in Oil and Gas Properties; provided that (i) any Debt incurred or Lien granted or permitted to exist in connection with any such Investments is otherwise permitted under Section 6.01 or Section 6.02, respectively, (ii) the Borrower shall be in compliance with the covenants set forth in (A) Sections 5.08 and 5.10 with respect to such Oil and Gas Properties, and (B) Sections 6.18 and 6.19 on a pro forma basis after giving effect to such Investment, as though such Investment had been made as of the last day of the immediately preceding fiscal quarter, and (iii) no Default or Event of Default exists or would be caused thereby;

(f) Investments in Intercompany Debt;

(g) Investments consisting of Hedge Contracts permitted under Section 6.14;

(h) Investments of Financial Accounts Assets (as defined in the Joint Venture LLC Agreement) by the Joint Venture in Permitted Investments (as defined in the Joint Venture LLC Agreement); and

(i) Investments by the Borrower and its Subsidiaries not otherwise permitted under this Section 6.06 in an aggregate amount not to exceed \$10,000,000.

Section 6.07 Affiliate Transactions. The Borrower shall not, nor shall it permit any of its Subsidiaries, any other Loan Party, or the Joint Venture to, directly or indirectly, enter into or permit to exist any transaction or series of transactions (including the purchase, sale, lease or exchange of Property, the making of any investment, the giving of any guaranty, the assumption of any obligation or the rendering of any service) with any of their Affiliates (other than transactions solely among Loan Parties) unless such transaction or series of transactions is on terms no less favorable to the Borrower, the Subsidiary, the Loan Party, or the Joint Venture, as applicable, than those that could be obtained in a comparable arm's length transaction with a Person that is not such an Affiliate. The overhead fees paid to the Borrower by the Joint Venture pursuant to the Operating and Services Agreement is deemed a permitted transaction under Section 6.07 and those Transaction Documents, as amended or modified to the extent permitted by this Agreement, between Borrower and the Joint Venture are deemed permitted transactions under this Section 6.07.

Section 6.08 Compliance with ERISA. The Borrower shall not, nor shall it permit any of its Subsidiaries or the Joint Venture to, directly or indirectly, (a) engage in, or permit any Subsidiary, the Joint Venture or any ERISA Affiliate to engage in, any transaction in connection with which the Borrower, any Subsidiary, the Joint Venture or any ERISA Affiliate could be subjected to either a civil penalty assessed pursuant to section 502(c), (i) or (l) of ERISA or a tax imposed by Chapter 43 of Subtitle D of the Code, in either case, in excess of \$5,000,000, (b)

terminate, or permit any Subsidiary, the Joint Venture or ERISA Affiliate to terminate, any Plan in a manner, or take any other action with respect to any Plan, which could result in any liability to the Borrower, any Subsidiary, the Joint Venture or any ERISA Affiliate to the PBGC in excess of \$5,000,000, (c) fail to make, or permit any Subsidiary, the Joint Venture or ERISA Affiliate to fail to make, full payment when due of all amounts which, under the provisions of any Plan, agreement relating thereto or applicable Legal Requirement, the Borrower, a Subsidiary, the Joint Venture or any ERISA Affiliate is required to pay as contributions thereto, (d) permit to exist, or allow any Subsidiary, the Joint Venture or ERISA Affiliate to permit to exist, any unpaid minimum required contribution within the meaning of Section 302 of ERISA or Section 412 of the Code, whether or not waived, with respect to any Plan, (e) permit, or allow any Subsidiary, the Joint Venture or any ERISA Affiliate to permit, the actuarial present value of the benefit liabilities (as "actuarial present value of the benefit liabilities" shall have the meaning specified in section 4041 of ERISA) under any Plan to exceed the current value of the assets (computed on a plan termination basis in accordance with Title IV of ERISA) of such Plan allocable to such benefit liabilities by more than \$5,000,000, (f) contribute to or assume an obligation to contribute to, or permit any Subsidiary, the Joint Venture or any ERISA Affiliate to contribute to or assume an obligation to contribute to, any Multiemployer Plan in excess of \$5,000,000, (g) acquire, or permit any Subsidiary, the Joint Venture or any ERISA Affiliate to acquire, an interest in any Person that causes such Person to become an ERISA Affiliate if such Person sponsors, maintains or contributes to, or at any time in the six-year period preceding such acquisition has sponsored, maintained, or contributed to, (i) any Multiemployer Plan under which any Subsidiary or ERISA Affiliate would have an obligation to contribute more than \$5,000,000, or (ii) any Plan under which the actuarial present value of the benefit liabilities under such Plan exceeds the current value of the assets (computed on a plan termination basis in accordance with Title IV of ERISA) of such Plan allocable to such benefit liabilities by more than \$5,000,000, (h) incur, or permit any Subsidiary or ERISA Affiliate to incur, a liability to or on account of a Plan under section 515, 4062, 4063, 4064, 4201 or 4204 of ERISA, (i) contribute to or assume an obligation to contribute to, or permit any Subsidiary, the Joint Venture or any ERISA Affiliate to contribute to or assume an obligation to contribute to, any employee welfare benefit plan, as defined in section 3(1) of ERISA, including any such plan maintained to provide benefits to former employees of such entities, that may not be terminated by such entities in their sole discretion at any time without any material liability, or (j) permit to exist any occurrence of any Reportable Event, or any other event or condition, which presents a material (in the opinion of the Required Lenders) risk of a termination by the PBGC of any Plan.

Section 6.09 Sale-and-Leaseback. The Borrower shall not, nor shall it permit any of its Subsidiaries or the Joint Venture to, sell or transfer to a Person any Property, whether now owned or hereafter acquired, if at the time or thereafter the Borrower or a Subsidiary shall lease as lessee such Property or any part thereof or other Property which the Borrower or a Subsidiary intends to use for substantially the same purpose as the Property sold or transferred.

Section 6.10 Change of Business. The Borrower shall not, nor shall it permit any of its Subsidiaries or the Joint Venture to operate or carry on business in any jurisdiction other than the United States, nor will the Borrower or any Subsidiary or the Joint Venture make any material change in the character of its business as (a) an independent oil and gas exploration and production company, and (b) in the case of the Borrower, as an owner of Equity Interests in the Joint Venture.

Section 6.11 Organizational Documents, Name Change. The Borrower shall not, nor shall it permit any of its Subsidiaries to, amend, supplement, modify or restate their articles or certificate of formation, limited liability company agreement, limited partnership agreements, or other equivalent organizational documents or amend its name or change its jurisdiction of incorporation, organization or formation, in any case, without prior written notice to, and prior written consent of, the Administrative Agent, except that the Borrower or any of its Subsidiaries may: (a) make changes to the exhibits to the Joint Venture LLC Agreement if the corresponding change is permitted under Section 6.16(i), and (b) make immaterial or clerical corrections that are not adverse to the Administrative Agent or the Lenders if the Administrative Agent is given five Business Days' advance written notice and the Administrative Agent fails to object to such change; provided that no change to the name, jurisdiction of formation, or type of entity may be made without the Administrative Agent's prior consent.

Section 6.12 Use of Proceeds. The Borrower will not permit the proceeds of any Advance to be used for any purpose other than those permitted by Section 5.09. The Borrower will not engage in the business of extending credit for the purpose of purchasing or carrying margin stock (as defined in Regulation U). Neither the Borrower nor any Person acting on behalf of the Borrower has taken or shall take, nor permit any of the Borrower's Subsidiaries to take any action which might cause any of the Loan Documents to violate Regulations T, U or X or any other regulation of the Federal Reserve Board or to violate Section 7 of the Exchange Act or any rule or regulation thereunder, in each case as now in effect or as the same may hereinafter be in effect, including the use of the proceeds of any Advance to purchase or carry any margin stock in violation of Regulations T, U or X. The Borrower shall not, directly or indirectly, use the proceeds of the Advances, or lend, contribute or otherwise make available such proceeds to Borrower, any Subsidiary or any other Person for any purpose which would result in a violation of any Sanctions, Anti-Corruption Laws, or Anti-Money Laundering Laws by any Person (including any Person participating in the Advances whether as an underwriter, advisor, investor or otherwise).

Section 6.13 Gas Imbalances, Take-or-Pay or Other Prepayments. Borrower shall not, nor shall it permit any of its Subsidiaries or the Joint Venture to, allow Gas Imbalances, take-or-pay or other prepayments with respect to the Oil and Gas Properties of the Borrower or any Subsidiary or the Joint Venture which would require the Borrower or any Subsidiary or the Joint Venture to deliver their respective Hydrocarbons produced on a monthly basis from such Oil and Gas Properties at some future time without then or thereafter receiving full payment therefor other than Gas Imbalances, take-or-pay or other prepayments incurred in the ordinary course of business and which Gas Imbalances, take-or-pay, or other prepayments and balancing rights, in the aggregate, do not result in the Borrower or any Guarantor or the Joint Venture having net aggregate liability at any time in excess of an amount equal to 4% of the Proven Reserves that are categorized as "proved, developed and producing" on the most recently delivered Engineering Report.

Section 6.14 Limitation on Hedging.

(a) The Borrower shall not permit the Joint Venture to enter into any Hedge Contract.

(b) The Borrower shall not, nor shall it permit any of its Subsidiaries to enter into any Hedge Contract other than:

(i) Hedge Contracts in respect of interest rates entered into in the ordinary course of business and not for purposes of speculation that (A) result in any Debt of the Borrower or any of its Subsidiaries that is subject to a floating interest rate to be effectively subject to a fixed interest rate or that otherwise mitigate or minimize the Borrower's or its Subsidiary's exposure to fluctuations in the applicable floating interest rate, (B) at the time such each such Hedge Contract is entered into, do not cause the aggregate notional amount of all outstanding Hedge Contracts in respect of interest rates to exceed 100% of the then outstanding principal balance of such floating rate Debt, (C) do not have a scheduled term that extends beyond the scheduled maturity date of the floating rate Debt related to such Hedge Contract, (D) do not require the Borrower or any of its Subsidiaries to post money, assets or any other property (other than the Collateral under the Security Instruments) as security against the event of its non-performance, and (E) are entered into with a Person that is a Lender or an Affiliate of a Lender; and

(ii) Hedge Contracts in respect of Hydrocarbons entered into in the ordinary course of business and not for purposes of speculation that (A) fix or otherwise hedge Borrower's or any of its Subsidiary's exposure to fluctuations in the prices of oil and natural gas (including natural gas liquids), (B) have a term not to exceed five years, (C) do not cause the aggregate notional volume of all outstanding Hedge Contracts in respect of each of oil and natural gas (including natural gas liquids), calculated separately, and (other than basis differential swaps in respect of volumes of oil and natural gas (including natural gas liquids) already hedged pursuant to other Hedge Contracts) to exceed 90% of the Borrower's, the applicable Subsidiary's, or Borrower's share of the Joint Venture's anticipated aggregate monthly production of each of oil and natural gas (including natural gas liquids) constituting Proved Developing Producing Reserves, calculated separately, (D) do not require the Borrower or any of its Subsidiaries to post money, assets or any other property (other than the Collateral under the Security Instruments) as security against the event of its non-performance, and (E) are entered into with a Person that is a Lender or an Affiliate of a Lender. For the purpose of calculations to be made under this Section 6.14(b), the Borrower may, in its discretion, include natural gas liquids production in natural gas or crude oil so long as the Borrower is in compliance with the preceding restrictions

(c) In no event shall any Hedge Contract or series of related Hedge Contracts, at the time such Hedge Contracts are entered into (i) be in the form of protective puts or floors unless such puts and floors are independent and are not matched with a corresponding ceiling or call for the same tenor, underlying commodity that is being hedged and notional volume (i.e. costless collars or three-way collars); provided, that the foregoing clause (i) shall not prohibit Hedge Contracts in the form of costless collars if the absolute floor or put price thereof is no less than 95% of the Administrative Agent's then current internal bank price deck for each month during the tenor of such Hedge Contract or (ii) have the effect of the foregoing clause (i).

(d) The Borrower shall not, nor shall it permit any of its Subsidiaries or the Joint Venture to enter into any Gas Sales Contract, in each case, other than:

(i) Gas Sales Contracts entered into in the ordinary course of business, and not for purposes of speculation that (A) have a term not to exceed five years, (B) do not cause the aggregate notional volume of all outstanding Gas Sales Contracts permitted under this Section 6.14(d)(i) in respect of each of oil and natural gas (including natural gas liquids), calculated separately, to exceed 90% of the Borrower's, the applicable Subsidiary's, or the Joint Venture's

anticipated aggregate monthly production of each of oil and natural gas (including natural gas liquids), calculated separately, and (C) do not require the Borrower, any Subsidiary of the Borrower, or the Joint Venture to post money, assets or any other property as security against the event of its non-performance and are otherwise unsecured; and

(ii) Gas Sales Contracts entered into in the ordinary course of business, and not for purposes of speculation that (A) have a term not to exceed five years, (B) do not require the Borrower, any of the Subsidiaries of the Borrower, or the Joint Venture to post money, assets or any other property (other than the Collateral under the Security Instruments) as security against the event of its non-performance, and (C) are entered into with a Person that is a Lender or an Affiliate of a Lender.

Section 6.15 Additional Subsidiaries. The Borrower shall not, nor shall it permit any of its Subsidiaries to, create or acquire any additional Subsidiaries without (a) prior written notice to the Administrative Agent and the Required Lenders, (b) such new Subsidiary executing and delivering to the Administrative Agent, at its request, an Assumption Agreement, Acknowledgment and Consent to the Guarantee and Collateral Agreement and a Mortgage (if applicable), or joinders to the existing Loan Documents, as applicable, and such other Security Instruments as the Administrative Agent or the Required Lenders may reasonably request, (c) the equity holder of such Subsidiary executing and delivering to the Administrative Agent a Assumption Agreement pledging 100% of the Equity Interest owned by such equity holder of such Subsidiary along with the certificates pledged thereby, if any, and appropriately executed stock powers in blank, if applicable, and (d) the delivery by the Borrower and such Subsidiary of any certificates, opinions of counsel, title opinions or other documents as the Administrative Agent may reasonably request relating to such Subsidiary. The Borrower shall not permit the Joint Venture to create or acquire any Subsidiaries.

Section 6.16 Additional Restrictions Regarding Joint Venture. In addition to the restrictions set forth elsewhere in this Agreement, the Borrower shall not, nor shall it permit the Joint Venture to, or take any action causing or permitting the Joint Venture to:

(a) amend the Joint Venture LLC Agreement, the First Amended and Restated Limited Partnership Agreement of the Borrower, the certificate of formation or the other organizational documents of the Joint Venture or the Borrower, or change the name or jurisdiction of organization of the Joint Venture or the Borrower, in each case, without prior written notice to, and prior written consent of, the Administrative Agent, unless such amendment, change or modification could not reasonably be expected to (i) impair (A) the Borrower's ability to pay the Obligations, (B) the Collateral (including without limitation the Borrower's, the Administrative Agent's or the Secured Parties' rights under the Joint Venture LLC Agreement and the Operating and Services Agreement) or the Secured Parties' recourse thereto, or (C) the ability of the Secured Parties to enforce any of the Obligations, or (ii) be materially adverse to the Secured Parties in any other respect;

(b) petition, request or take any other legal or administrative action that seeks, or may be expected to result in, the rescission, termination or suspension of the Joint Venture LLC Agreement;

(c) breach any provision of the Joint Venture LLC Agreement or the Operating and Services Agreement without:

(i) prompt written notice to the Administrative Agent of any such breach other than a technical and administrative breach that (A) is immaterial, (B) has not been asserted by any XTO Party, or the Joint Venture or any other party, (C) has not been submitted to arbitration and is not the subject of litigation, (D) could not reasonably be expected to result in damages against, or other liability of the Borrower in excess of \$5,000,000, and (E) in any event could not reasonably be expected to (1) be adverse to the Lenders, (2) result in the Borrower becoming a "Defaulting Member" (as defined in the Joint Venture LLC Agreement) under the Joint Venture LLC Agreement, (3) result in the XTO Parties or the Joint Venture having the right to remove the Borrower as a member under the Joint Venture LLC Agreement or to terminate the Operating and Services Agreement, or (4) result in the Borrower losing any of its Membership Percentage or Membership Interests in the Joint Venture, or any seat on the MMC (as defined in the Joint Venture LLC Agreement); and

(ii) prior written consent of the Administrative Agent if such breach could reasonably be expected to (A) be adverse to the Lenders, (B) result in the Borrower becoming a "Defaulting Member" (as defined in the Joint Venture LLC Agreement) under the Joint Venture LLC Agreement, (C) result in the XTO Parties or the Joint Venture having the right to remove the Borrower as a member under the Joint Venture LLC Agreement or to terminate the Operating and Services Agreement, or (D) result in the Borrower losing any of its Membership Percentage or Membership Interests in the Joint Venture, or any seat on the MMC (as defined in the Joint Venture LLC Agreement); and

(iii) written consent of the Administrative Agent, if any XTO Party or the Joint Venture has asserted that such breach would (A) result in the Borrower becoming a "Defaulting Member" (as defined in the Joint Venture LLC Agreement) under the Joint Venture LLC Agreement, (B) result in the XTO Parties or the Joint Venture having the right to remove the Borrower as a member under the Joint Venture LLC Agreement or to terminate the Operating and Services Agreement, or (C) result in the Borrower losing any of its Membership Percentage or Membership Interests in the Joint Venture, or any seat on the MMC (as defined in the Joint Venture LLC Agreement);

(d) waive any default under or breach of, any provision of, the Joint Venture LLC Agreement or the Operating and Services Agreement, or waive, fail to enforce, forgive or release any right, interest or entitlement of any kind, howsoever arising, under or in respect of any provisions of the Joint Venture LLC Agreement or the Operating and Services Agreement, or vary or agree to the variation in any way of any of the provisions of the Joint Venture LLC Agreement or of the performance of any other Person under the Joint Venture LLC Agreement, in each case without prior written notice to and prior written consent of the Administrative Agent, unless such waiver, failure to enforce or release could not reasonably be expected to (i) impair (A) the Borrower's ability to pay the Obligations, (B) the Collateral (including without limitation the Borrower's, the Administrative Agent's or the Secured Parties' rights under the Joint Venture LLC Agreement and the Operating and Services Agreement) or the Secured Parties' recourse thereto, or (C) the ability of the Secured Parties to enforce any of the Obligations, or (ii) be materially adverse to the Secured Parties in any other respect;

(e) consent to the transfer of any XTO Party's Equity Interests in the Joint Venture to a Person that is not an XTO Party, or consent to the issuance of Equity Interests of the Joint Venture to a Person that is not an XTO Party, or take any action that would consent to the issuance of any Equity Interests in the Joint Venture, except (i) to the Borrower, on one hand, and (ii) collectively to the XTO Parties, on the other hand, in proportion to their respective ownership of Equity Interests in the Joint Venture at the Closing Date;

(f) approve the Annual Work Program & Budget or any material modifications thereto, unless (i) the proposed Annual Work Program & Budget, if fully implemented, would not result in a Default or Event of Default, and (ii) the Loan Parties and the Joint Venture would be in compliance with Sections 6.18 and 6.19 for each fiscal quarter, on a pro forma basis giving effect to the implementation of the Annual Work Program & Budget;

(g) [Reserved]

(h) declare bankruptcy, file a petition under Debtor Relief Laws, seek protection under any federal or state Debtor Relief Law or commence any similar proceeding in respect of the Joint Venture, or apply for or consent to any of the foregoing;

(i) amend or otherwise modify the Transaction Documents (other than those described in clause (a)) without prior written notice to, and prior written consent of, the Administrative Agent, except that without prior written notice to, and prior written consent of, the Administrative Agent, the Joint Venture may amend and modify the Initial Joint Venture Stage I Acquisition Assignments and the Initial Joint Venture Stage II Acquisition Assignments to correct the description of or more adequately describe the Oil and Gas Properties conveyed by such assignments (but not to remove Oil and Gas Properties unless such Oil and Gas Properties (i) were not intended to be contributed to the Joint Venture pursuant to the Joint Venture LLC Agreement, and (ii) were not evaluated in the Initial Engineering Report), unless such amendment or modification (A) does not impair (1) the Borrower's ability to pay the Obligations, (2) the Collateral or the Secured Parties' recourse thereto, or (3) the ability of the Secured Parties to enforce the Obligations, and (B) is not materially adverse to the Secured Parties in any other respect;

(j) owning Equity Interests in or making investments in or loans or advances to any other Person, other than to the extent constituting a "Permitted Investment" under the Joint Venture LLC Agreement;

(k) remove or terminate the Borrower as the operator under the Operating Services Agreement;

(l) change tax classification of Joint Venture for United States Federal income tax purposes to other than a partnership; or

(m) prevent the Joint Venture from, or allow the Joint Venture not to, make the distributions required by Section 5.1 of the Joint Venture LLC Agreement, except as provided in Section 10.4 of the Joint Venture LLC Agreement.

Section 6.17 Minimum Volume Commitments. The Borrower shall not, nor shall it permit any of its Subsidiaries or the Joint Venture to, enter into any Minimum Volume Commitment without prior written consent of the Administrative Agent.

Section 6.18 Maximum Debt to EBITDAX Ratio. The Borrower shall not permit, as of the end of any fiscal quarter ending on or after March 31, 2022, the ratio of Total Net Debt of the Borrower and its Subsidiaries to EBITDAX (the "Leverage Ratio") for the four fiscal quarter period then ended to be greater than 3.00 to 1.00.

Section 6.19 Current Ratio. The Borrower will not permit the Current Ratio as of the last day of any fiscal quarter (commencing with first full fiscal quarter after the Closing Date) to be less than 1.0 to 1.0.

Section 6.20 FAM Loan Documents.

(a) The Borrower shall not make any payments in respect of the FAM Loan prior to the date that is 91 days after the Maturity Date without the prior written consent of the Required Lenders; provided that the Borrower may make (i) interest payments pursuant to the terms of the FAM Loan Documents so long as no Event of Default exists or would result therefrom, and (ii) payment of principal solely with the proceeds of the Financial Accounts so long as (A) no Event of Default exists or would result therefrom, (B) no Borrowing Base Deficiency exists or would result therefrom, and (C) the Borrower would be in compliance with Sections 6.18 and 6.19 on a pro forma basis giving effect to such payment.

(b) The Borrower shall promptly give the Administrative Agent notice of any matured or unmatured default under the FAM Loan Documents.

**ARTICLE VII
EVENTS OF DEFAULT; REMEDIES**

Section 7.01 Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" under any Loan Document:

(a) Payment. Any Loan Party (i) fails to pay any principal when due under this Agreement, or (ii) fails to pay, within three Business Days of the date when due, any other amount due under this Agreement or any other Loan Document, including payments of interest, fees, reimbursements, and indemnifications;

(b) Representation and Warranties. Any representation or warranty made or deemed to be made (i) by or on behalf of the Borrower, any Guarantor, the Joint Venture or any of their respective Subsidiaries (or any of their respective officers) in this Agreement or in any other Loan Document, or (ii) by or on behalf of the Borrower, any Guarantor, the Joint Venture or any of their respective Subsidiaries (or any of their respective officers) in connection with this Agreement or any other Loan Document, shall prove to have been incorrect in any material respect when made or deemed to be made;

(c) Covenant Breaches. The Borrower, any Guarantor or any of their respective Subsidiaries shall:

(i) fail to perform or observe any covenant, condition or agreement contained in Section 2.05, Section 5.03, Section 5.02(a) or (c), Section 5.05, Section 5.06, Section 5.09, Section 5.11, Section 5.12, Section 5.13, or Article VI;

(ii) fail to perform or observe any other term or covenant, condition or agreement set forth in this Agreement or in any other Loan Document which is not covered by Section 7.01(e)(i) or any other provision of this Section 7.01, if such failure shall remain unremedied for thirty (30) days after the occurrence of such breach or failure;

(d) Cross-Defaults. (i) The Borrower, any Guarantor, or any Subsidiary of a Loan Party or the Joint Venture shall fail to pay any principal of or premium or interest on its Debt which is outstanding in a principal amount of at least \$7,500,000 individually or when aggregated with all such Debt of the Borrower, any Guarantor, or any such Subsidiary or the Joint Venture so in default (but excluding the Obligations) when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace or cure period, if any, specified in the agreement or instrument relating to such Debt, (ii) any other event shall occur or condition shall exist under any agreement or instrument relating to Debt which is outstanding in a principal amount of at least \$7,500,000 individually or when aggregated with all such Debt of the Borrower, any Guarantor, or any such Subsidiary or the Joint Venture so in default, and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt, or (iii) any such Debt which is outstanding in a principal amount of at least \$7,500,000 individually or when aggregated with all such Debt of the Borrower, any Guarantor, or any such Subsidiary or the Joint Venture so in default, shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; provided that, for purposes of this paragraph (d), the "principal amount" of the obligations in respect of Hedge Contracts at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that would be required to be paid if such Hedge Contracts were terminated at such time;

(e) Insolvency. The Borrower, any Guarantor, or any Subsidiary of a Loan Party or the Joint Venture shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrower, any Guarantor, or any Subsidiary of a Loan Party or the Joint Venture seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its Property and, in the case of any such proceeding instituted against the Borrower, any such Subsidiary, or any such Guarantor or the Joint Venture either such proceeding shall remain undismissed for a period of 60 days or any of the actions sought in such proceeding shall occur, or the Borrower, any Subsidiary of a Loan Party, or any Guarantor or the Joint Venture shall take any company action to authorize any of the actions set forth in this Section 7.01(e);

(f) Judgments. Any judgment or order for the payment of money in excess of \$7,500,000 shall be rendered against the Borrower, any Guarantor, or any Subsidiary of a Loan Party or the Joint Venture and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order, or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect;

(g) Termination Events. (i) A Termination Event occurs which has resulted or could reasonably be expected to result in liability of any Loan Party or ERISA Affiliate to a Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$2,000,000, or (ii) any Loan Party or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$2,000,000;

(h) Change in Control. A Change in Control shall have occurred;

(i) Loan Documents. Any material provision of any Loan Document shall for any reason cease to be valid and binding on the Borrower or a Guarantor or any of their respective Subsidiaries or any such Person shall so state in writing; or

(j) Security Instruments. (i) The Administrative Agent shall fail to have an Acceptable Security Interest in any portion of the Collateral, or (ii) any Security Instrument shall at any time and for any reason cease to create the Lien on the Property purported to be subject to such agreement in accordance with the terms of such agreement, or cease to be in full force and effect, or shall be contested by the Borrower, any Guarantor, the Joint Venture or any of their respective Subsidiaries.

Section 7.02 Optional Acceleration of Maturity. If any Event of Default (other than an Event of Default pursuant to paragraph (e) of Section 7.01) shall have occurred and be continuing, then, and in any such event,

(a) the Administrative Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the obligation of each Lender to make extensions of credit hereunder, including making Advances, to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare all principal, interest, fees, reimbursements, indemnifications, and all other amounts payable under this Agreement, the Notes, and the other Loan Documents to be forthwith due and payable, whereupon all such amounts shall become and be forthwith due and payable in full, without notice of intent to demand, demand, presentment for payment, notice of nonpayment, protest, notice of protest, grace, notice of dishonor, notice of intent to accelerate, notice of acceleration, and all other notices, all of which are hereby expressly waived by the Borrower; and

(b) the Administrative Agent shall at the request of, or may with the consent of, the Required Lenders proceed to enforce its rights and remedies under the Security Instruments, the Guaranties, and any other Loan Document for the ratable benefit of Secured Parties by appropriate proceedings.

Section 7.03 Automatic Acceleration of Maturity. If any Event of Default pursuant to paragraph (e) of Section 7.01 shall occur,

(a) (i) the obligation of each Lender to make extensions of credit hereunder, including making Advances, shall automatically terminate, and (ii) all principal, interest, fees, reimbursements, indemnifications, and all other amounts payable under this Agreement, the Notes, and the other Loan Documents shall become and be forthwith due and payable in full, without notice of intent to demand, demand, presentment for payment, notice of nonpayment, protest, notice of protest, grace, notice of dishonor, notice of intent to accelerate, notice of acceleration, and all other notices, all of which are hereby expressly waived by the Borrower; and

(b) Subject to applicable law, the Administrative Agent shall at the request of, or may with the consent of, the Required Lenders proceed to enforce its rights and remedies under the Security Instruments, the Guaranties, and any other Loan Document for the ratable benefit of Secured Parties by appropriate proceedings.

Section 7.04 Right of Setoff. If an Event of Default shall have occurred and be continuing, the Administrative Agent, each Lender, and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by the Administrative Agent, such Lender, or any such Affiliate to or for the credit or the account of the Borrower or any other Loan Party against any and all of the obligations of the Borrower or such Loan Party now or hereafter existing under this Agreement or any other Loan Document to the Administrative Agent or such Lender or their respective Affiliates, irrespective of whether or not the Administrative Agent or such Lender or Affiliate shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrower or such Loan Party may be contingent or unmatured or are owed to a branch, office or Affiliate of the Administrative Agent or such Lender different from the branch or office holding such deposit or obligated on such indebtedness; provided that in the event that any Defaulting Lender shall exercise any such right of setoff, (a) all amounts so set off shall be paid over immediately to the Administrative Agent for further application in accordance with the provisions of Section 2.14 and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of the Administrative Agent and the Lenders, and (b) the Defaulting Lender shall provide promptly to the Administrative Agent a statement describing in reasonable detail the Obligations owing to such Defaulting Lender as to which it exercised such right of setoff. The rights of the Administrative Agent, each Lender and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that the Administrative Agent, such Lender, or their respective Affiliates may have. The Administrative Agent and each Lender agree to notify the Borrower and the Administrative Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

Section 7.05 Non-exclusivity of Remedies. No remedy conferred upon the Administrative Agent and the Lenders is intended to be exclusive of any other remedy, and each remedy shall be cumulative of all other remedies existing by contract, at law, in equity, by statute or otherwise.

Section 7.06 Application of Proceeds. From and during the continuance of any Event of Default, any monies or Property actually received by the Administrative Agent pursuant to this Agreement or any other Loan Document, the exercise of any rights or remedies under any Security Instrument or any other agreement with the Borrower, any Guarantor or any of their respective Subsidiaries which secures any of the Obligations, shall be applied in the following order:

(a) *First*, to the payment of all amounts, including costs and expenses incurred in connection with the collection of such proceeds and the payment of any part of the Obligations, due to the Administrative Agent under any of the expense reimbursement or indemnity provisions of this Agreement or any other Loan Document, any Security Instrument or other collateral documents, and any applicable Legal Requirement;

(b) *Second*, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Advances, ratably among the Lenders in proportion to the respective amounts described in this clause Second payable to them;

(c) *Third*, to payment of that portion of the Obligations constituting unpaid principal of the Advances, any Banking Services Obligations owing to Banking Services Providers, any Lender Hedging Obligations of any Loan Party owing to a Swap Counterparty and any other Obligations, in each case subject to Section 2.14(a)(ii), ratably among the Lenders, the Banking Services Providers and Swap Counterparties in proportion to the respective amounts described in this clause Third payable to them; and

(d) *Fourth*, the remainder, if any, to the Borrower or its Subsidiaries, or its respective successors or assigns, or such other Person as may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

Administrative Agent shall have no responsibility to determine the existence or amount of Lender Hedging Obligations and may reserve from the application of amounts under this Section 7.06 amounts distributable in respect of Lender Hedging Obligations until it has received evidence satisfactory to it of the existence and amount of such Lender Hedging Obligations. Subject to paragraph (a) of the first sentence of this Section 7.06, Administrative Agent and Lenders hereby acknowledge and confirm that the Liens in the Collateral secure the Obligations (including the Lender Hedging Obligations) on a ratable basis. Excluded Swap Obligations with respect to any Guarantor shall not be paid with amounts received from such Guarantor or its assets, but appropriate adjustments shall be made with respect to payments from other Loan Parties to preserve the allocation to Obligations otherwise set forth in this Section 7.06.

Section 7.07 Equity Interests in the Joint Venture. The Administrative Agent's and Lenders' remedies with respect to the Equity Interests in the Joint Venture shall be subject to certain pre-emption rights and other requirements set forth in Sections 7.2(c) and 7.3 of the Joint Venture LLC Agreement.

ARTICLE VIII
THE ADMINISTRATIVE AGENT

Section 8.01 Appointment and Authority. Each of the Lenders hereby irrevocably appoints JPMorgan Chase Bank, N.A. to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Article are solely for the benefit of the Administrative Agent and the Lenders, and neither the Borrower nor any other Loan Party shall have rights as a third party beneficiary of any of such provisions. It is understood and agreed that the use of the term "agent" herein or in any other Loan Documents (or any other similar term) with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead such term is used as a matter of market custom, and is intended to create or reflect only an administrative relationship between contracting parties.

Section 8.02 Rights as a Lender. The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, own securities of, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with, the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

Section 8.03 Exculpatory Provisions. The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents and its duties hereunder shall be administrative in nature. Without limiting the generality of the foregoing, the Administrative Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents); provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable Legal Requirement, including for the avoidance of doubt any action that may be in violation of the automatic stay under any Debtor Relief Law or that may effect a forfeiture, modification or termination of property of a Defaulting Lender in violation of any Debtor Relief Law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 9.01, 7.02, and 7.03, or (ii) in the absence of its own gross negligence or willful misconduct as determined by a court of competent jurisdiction by final and nonappealable judgment. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Administrative Agent in writing by the Borrower or a Lender. The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (A) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (B) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (C) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (D) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document, or (E) the satisfaction of any condition set forth in Article III or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

Section 8.04 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any Communication executed using an Electronic Signature or in the form of an Electronic Record that the Administrative Agent reasonably believes is made by a Loan Party. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of an Advance that by its terms must be fulfilled to the satisfaction of a Lender, the Administrative Agent may presume that such condition is satisfactory to such Lender unless the Administrative Agent shall have received notice to the contrary from such Lender prior to the making of such Advance. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

Section 8.05 Delegation of Duties. The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent. The Administrative Agent shall not be responsible for the negligence or misconduct of any sub-agents except to the extent that a court of competent jurisdiction determines in a final and nonappealable judgment that the Administrative Agent acted with gross negligence or willful misconduct in the selection of such sub agents.

Section 8.06 Successor Administrative Agent.

(a) The Administrative Agent may at any time give notice of its resignation to the Lenders and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor, which shall be a bank with an office in New York City or Houston, Texas, or an Affiliate of any such bank with an office in New York City or Houston, Texas. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation (or such earlier day as shall be agreed by the Required Lenders) (the "Resignation Effective Date"), then the retiring Administrative Agent may (but shall not be obligated to), on behalf of the Lenders, appoint a successor Administrative Agent meeting the qualifications set forth in this Section 8.06(a). Whether or not a successor has been appointed, such resignation shall become effective in accordance with such notice on the Resignation Effective Date.

(b) Anything herein to the contrary notwithstanding, if at any time the Required Lenders determine that the Person serving as Administrative Agent is (without taking into account any provision in the definition of "Defaulting Lender" requiring notice from the Administrative Agent or any other party) a Defaulting Lender pursuant to clause (d) of the definition thereof, the Required Lenders (determined after giving effect to Section 9.01) may by notice to the Borrower and such Person remove such Person as Administrative Agent and, in consultation with the Borrower, appoint a replacement Administrative Agent hereunder. Such removal will, to the fullest extent permitted by applicable law, be effective on the earlier of (i) the date a replacement Administrative Agent is appointed, and (ii) the date thirty (30) days after the giving of such notice by the Required Lenders (regardless of whether a replacement Administrative Agent has been appointed) (such date, the "Removal Effective Date").

(c) With effect from the Resignation Effective Date or the Removal Effective Date (as applicable) (i) the retiring or removed Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by the Administrative Agent on behalf of the Lenders under any of the Loan Documents, the retiring or removed Administrative Agent shall continue to hold such collateral security until such time as a successor Administrative Agent is appointed), and (ii) except for any indemnity payments owed to the retiring or removed Administrative Agent, all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender directly, until such time, if any, as the Required Lenders appoint a successor Administrative Agent as provided for in this Section 8.06(c). Upon the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring or removed Administrative Agent (other than any rights to indemnity payments owed to the retiring or removed Administrative Agent), and the retiring or removed Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the retiring or removed Administrative Agent's resignation or removal hereunder and under the other Loan Documents, the provisions of this Article VIII and Sections 9.04 and 9.05 shall continue in effect for the benefit of such retiring or removed Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring or removed Administrative Agent was acting as Administrative Agent.

Section 8.07 Non-Reliance on Administrative Agent and Other Lenders. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

Section 8.08 No Other Duties, Etc. Anything herein to the contrary notwithstanding, none of the Arrangers, Syndication Agents or Documentation Agents listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent or a Lender hereunder.

Section 8.09 Administrative Agent May File Proofs of Claim. In case of the pendency of any proceeding under any Debtor Relief Law or any other judicial proceeding relative to any Loan Party, the Administrative Agent (irrespective of whether the principal of any Advance shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered (but not obligated) by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Advances and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under Sections 9.04 and 9.05) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 9.04 and 9.05.

Section 8.10 Collateral and Guaranty Matters.

(a) The Secured Parties irrevocably authorize the Administrative Agent, at its option and in its discretion,

(i) to release any Lien on any property granted to or held by the Administrative Agent under any Loan Document (A) upon termination of all Commitments and payment in full of all Obligations (other than contingent indemnification obligations), (B) that is sold or otherwise disposed of or to be sold or otherwise disposed of as part of or in connection with any sale or other disposition permitted under the Loan Documents, or (C) subject to Section 9.01, if approved, authorized or ratified in writing by the Required Lenders;

(ii) to subordinate any Lien on any property granted to or held by the Administrative Agent under any Loan Document to the holder of any Lien on such property that is permitted by Section 6.01(b); and

(iii) to release any Guarantor from its obligations under the Guarantee and Collateral Agreement if such Person ceases to be a Subsidiary as a result of a transaction permitted under the Loan Documents.

Upon request by the Administrative Agent at any time, the Required Lenders will confirm in writing the Administrative Agent's authority to release or subordinate its interest in particular types or items of property, or to release any Guarantor from its obligations under the Guarantee and Collateral Agreement pursuant to this Section 8.10;

(b) The Administrative Agent shall not be responsible for or have a duty to ascertain or inquire into any representation or warranty regarding the existence, value or collectability of the Collateral, the existence, priority or perfection of the Administrative Agent's Lien thereon, or any certificate prepared by any Loan Party in connection therewith, nor shall the Administrative Agent be responsible or liable to the Lenders for any failure to monitor or maintain any portion of the Collateral.

(c) The Administrative Agent is authorized on behalf of the Secured Parties, without the necessity of any notice to or further consent from such Secured Parties, from time to time, to take any actions with respect to any Collateral or Security Instruments which may be necessary to perfect and maintain the Liens upon the Collateral granted pursuant to the Security Instruments. The Administrative Agent is further authorized (but not obligated) on behalf of the Secured Parties, without the necessity of any notice to or further consent from the Secured Parties, from time to time, to take any action in exigent circumstances as may be reasonably necessary to preserve any rights or privileges of the Secured Parties under the Loan Documents or applicable Legal Requirements. By accepting the benefit of the Liens granted pursuant to the Security Instruments, each Person that is owed any Lender Hedging Obligations hereby agrees to the terms of this Section 8.10.

(d) Upon the request of the Administrative Agent at any time, the Secured Parties will confirm in writing the Administrative Agent's authority to release particular types or items of Collateral pursuant to this Section 8.10.

Section 8.11 Credit Bidding.

(a) The Administrative Agent, on behalf of itself and the Secured Parties, shall have the right, at the direction of the Majority Lenders, to credit bid and purchase for the benefit of the Administrative Agent and the Secured Parties all or any portion of Collateral at any sale thereof conducted by the Administrative Agent under the provisions of the UCC, including pursuant to Sections 9-610 or 9-620 of the UCC, at any sale thereof conducted under the provisions of the United States Bankruptcy Code, including Section 363 thereof, or a sale under a plan of reorganization, or at any other sale or foreclosure conducted by the Administrative Agent (whether by judicial action or otherwise) in accordance with Legal Requirements.

(b) Each Secured Party hereby agrees that, except as otherwise provided in any Loan Documents or with the written consent of the Administrative Agent and the Majority Lenders, it will not take any enforcement action, accelerate obligations under any Loan Documents, or exercise any right that it might otherwise have under Legal Requirements to credit bid at foreclosure sales, UCC sales or other similar Dispositions of Collateral; provided that, for the avoidance of doubt, this subsection (b) shall not limit the rights of (i) any Swap Counterparty to terminate any Hedge Contract or net out any resulting termination values, or (ii) any Banking Services Provider to terminate any Banking Services or set off against any deposit accounts of the Borrower or any other Loan Party.

Section 8.12 Erroneous Payments.

(a) If the Administrative Agent (x) notifies a Lender, Secured Party or any Person who has received funds on behalf of a Lender or Secured Party (any such Lender, Secured Party or other recipient (and each of their respective successors and assigns), a "Payment Recipient") that the Administrative Agent has determined in its sole discretion (whether or not after receipt of any notice under immediately succeeding clause (b)) that any funds (as set forth in such notice from the Administrative Agent) received by such Payment Recipient from the Administrative Agent or any of its Affiliates were erroneously or mistakenly transmitted to, or otherwise erroneously or mistakenly received by, such Payment Recipient (whether or not known to such Lender, Secured Party or other Payment Recipient on its behalf) (any such funds, whether transmitted or received as a payment, prepayment or repayment of principal, interest, fees, distribution or otherwise, individually and collectively, an "Erroneous Payment") and (y) demands in writing the return of such Erroneous Payment (or a portion thereof), such Erroneous Payment shall at all times remain the property of the Administrative Agent pending its return or repayment as contemplated in this Section 8.12 and held in trust for the benefit of the Administrative Agent, and such Lender or Secured Party shall (or, with respect to any Payment Recipient who received such funds on its behalf, shall cause such Payment Recipient to) promptly, but in no event later than two (2) Business Days thereafter (or such later date as the Administrative Agent may, in its sole discretion, specify in writing), return to the Administrative Agent the amount of any such Erroneous Payment (or portion thereof) as to which such a demand was made, in same day funds (in the currency so received), together with interest thereon (except to the extent waived in writing by the Administrative Agent) in respect of each day from and including the date such Erroneous Payment (or portion thereof) was received by such Payment Recipient to the date such amount is repaid to the Administrative Agent in same day funds at the greater of the NYFRB Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation from time to time in effect. A notice of the Administrative Agent to any Payment Recipient under this clause (a) shall be conclusive, absent manifest error.

(b) Without limiting the immediately preceding clause (a), each Payment Recipient agrees that if it receives a payment, prepayment or repayment (whether received as a payment, prepayment or repayment of principal, interest, fees, distribution or otherwise) from the Administrative Agent (or any of its Affiliates) (x) that is in a different amount than, or on a different date from, that specified in this Agreement or in a notice of payment, prepayment or repayment sent by the Administrative Agent (or any of its Affiliates) with respect to such payment, prepayment or repayment, (y) that was not preceded or accompanied by a notice of payment, prepayment or repayment sent by the Administrative Agent (or any of its Affiliates), or (z) that such Lender, Secured Party or other such recipient, otherwise becomes aware was transmitted, or received, in error or by mistake (in whole or in part), then in each such case:

(i) it acknowledges and agrees that (A) in the case of immediately preceding clauses (x) or (y), an error and mistake shall be presumed to have been made (absent written confirmation from the Administrative Agent to the contrary) or (B) an error and mistake has been made (in the case of immediately preceding clause (z)), in each case, with respect to such payment, prepayment or repayment; and

(ii) such Lender or Secured Party shall (and shall cause any other recipient that receives funds on its respective behalf to) promptly (and, in all events, within one (1) Business Day of its knowledge of the occurrence of any of the circumstances described in immediately preceding clauses (x), (y) and (z)) notify the Administrative Agent of its receipt of such payment, prepayment or repayment, the details thereof (in reasonable detail) and that it is so notifying the Administrative Agent pursuant to this Section 8.12(b).

For the avoidance of doubt, the failure to deliver a notice to the Administrative Agent pursuant to this Section 8.12(b) shall not have any effect on a Payment Recipient's obligations pursuant to Section 8.12(a) or on whether or not an Erroneous Payment has been made.

(c) Each Lender or Secured Party hereby authorizes the Administrative Agent to set off, net and apply any and all amounts at any time owing to such Lender or Secured Party under any Loan Document, or otherwise payable or distributable by the Administrative Agent to such Lender or Secured Party under any Loan Document with respect to any payment of principal, interest, fees or other amounts, against any amount that the Administrative Agent has demanded to be returned under immediately preceding clause (a).

(d) (i) In the event that an Erroneous Payment (or portion thereof) is not recovered by the Administrative Agent for any reason, after demand therefor in accordance with immediately preceding clause (a), from any Lender that has received such Erroneous Payment (or portion thereof) (and/or from any Payment Recipient who received such Erroneous Payment (or portion thereof) on its respective behalf) (such unrecovered amount, an "Erroneous Payment Return Deficiency"), upon the Administrative Agent's notice to such Lender at any time, then effective immediately (with the consideration therefor being acknowledged by the parties hereto), (A) such Lender shall be deemed to have assigned its Advances (but not its Commitments) with respect to which such Erroneous Payment was made (the "Erroneous Payment Impacted Class") in an amount equal to the Erroneous Payment Return Deficiency (or such lesser amount as the Administrative Agent may specify) (such assignment of the Advances (but not Commitments) of the Erroneous Payment Impacted Class, the "Erroneous Payment Deficiency Assignment") (on a

cashless basis and such amount calculated at par plus any accrued and unpaid interest (with the assignment fee to be waived by the Administrative Agent in such instance)), and is hereby (together with the Borrower) deemed to execute and deliver an Assignment and Assumption (or, to the extent applicable, an agreement incorporating an Assignment and Assumption by reference pursuant to a Platform as to which the Administrative Agent and such parties are participants) with respect to such Erroneous Payment Deficiency Assignment, and such Lender shall deliver any Notes evidencing such Advances to the Borrower or the Administrative Agent (but the failure of such Person to deliver any such Notes shall not affect the effectiveness of the foregoing assignment), (B) the Administrative Agent as the assignee Lender shall be deemed to have acquired the Erroneous Payment Deficiency Assignment, (C) upon such deemed acquisition, the Administrative Agent as the assignee Lender shall become a Lender, as applicable, hereunder with respect to such Erroneous Payment Deficiency Assignment and the assigning Lender shall cease to be a Lender, as applicable, hereunder with respect to such Erroneous Payment Deficiency Assignment, excluding, for the avoidance of doubt, its obligations under the indemnification provisions of this Agreement and its applicable Commitments which shall survive as to such assigning Lender, (D) the Administrative Agent and the Borrower shall each be deemed to have waived any consents required under this Agreement to any such Erroneous Payment Deficiency Assignment and (E) the Administrative Agent will reflect in the Register its ownership interest in the Advances subject to the Erroneous Payment Deficiency Assignment. For the avoidance of doubt, no Erroneous Payment Deficiency Assignment will reduce the Commitments of any Lender and such Commitments shall remain available in accordance with the terms of this Agreement.

(ii) Subject to Section 9.08 (but excluding, in all events, any assignment consent or approval requirements (whether from the Borrower or otherwise)), the Administrative Agent may, in its discretion, sell any Advances acquired pursuant to an Erroneous Payment Deficiency Assignment and upon receipt of the proceeds of such sale, the Erroneous Payment Return Deficiency owing by the applicable Lender shall be reduced by the net proceeds of the sale of such Advance (or portion thereof), and the Administrative Agent shall retain all other rights, remedies and claims against such Lender (and/or against any recipient that receives funds on its respective behalf). In addition, an Erroneous Payment Return Deficiency owing by the applicable Lender (x) shall be reduced by the proceeds of prepayments or repayments of principal and interest, or other distribution in respect of principal and interest, received by the Administrative Agent on or with respect to any such Advances acquired from such Lender pursuant to an Erroneous Payment Deficiency Assignment (to the extent that any such Advances are then owned by the Administrative Agent) and (y) may, in the sole discretion of the Administrative Agent, be reduced by any amount specified by the Administrative Agent in writing to the applicable Lender from time to time.

(e) The parties hereto agree that (x) irrespective of whether the Administrative Agent may be equitably subrogated, in the event that an Erroneous Payment (or portion thereof) is not recovered from any Payment Recipient that has received such Erroneous Payment (or portion thereof) for any reason, the Administrative Agent shall be subrogated to all the rights and interests of such Payment Recipient (and, in the case of any Payment Recipient who has received funds on behalf of a Lender or Secured Party, to the rights and interests of such Lender or Secured Party, as the case may be) under the Loan Documents with respect to such amount (the "Erroneous Payment Subrogation Rights") (provided that the Loan Parties' Obligations under the Loan Documents in respect of the Erroneous Payment Subrogation Rights shall not be duplicative of such Obligations

in respect of Advances that have been assigned to the Administrative Agent under an Erroneous Payment Deficiency Assignment) and (y) an Erroneous Payment shall not pay, prepay, repay, discharge or otherwise satisfy any Obligations owed by the Borrower or any other Loan Party; provided that this Section 8.12 shall not be interpreted to increase (or accelerate the due date for), or have the effect of increasing (or accelerating the due date for), the Obligations of the Borrower relative to the amount (and/or timing for payment) of the Obligations that would have been payable had such Erroneous Payment not been made by the Administrative Agent; provided, further, that for the avoidance of doubt, immediately preceding clauses (x) and (y) shall not apply to the extent any such Erroneous Payment is, and solely with respect to the amount of such Erroneous Payment that is, comprised of funds received by the Administrative Agent from the Borrower for the purpose of making such Erroneous Payment.

(f) To the extent permitted by applicable Legal Requirement, no Payment Recipient shall assert any right or claim to an Erroneous Payment, and hereby waives, and is deemed to waive, any claim, counterclaim, defense or right of set-off or recoupment with respect to any demand, claim or counterclaim by the Administrative Agent for the return of any Erroneous Payment received, including, without limitation, any defense based on “discharge for value” or any similar doctrine.

(g) Each party’s obligations, agreements and waivers under this Section 8.12 shall survive the resignation or replacement of the Administrative Agent, any transfer of rights or obligations by, or the replacement of, a Lender, the termination of the Commitments and/or the repayment, satisfaction or discharge of all Obligations (or any portion thereof) under any Loan Document.

ARTICLE IX MISCELLANEOUS

Section 9.01 Amendments, Etc. No amendment or waiver of any provision of this Agreement, the Notes, or any other Loan Document, nor consent to any departure by the Borrower or any Subsidiary therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Lenders and the Borrower, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver, or consent shall:

(a) without the consent of each Lender: (i) increase the Borrowing Base, (ii) waive any of the conditions specified in Article III, (iii) change any provision of this Section or the definition of “Majority Lenders” or “Required Lenders” or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder, (iv) amend Section 2.10 or any other provision of this Agreement in a manner that would alter the pro rata sharing of payments or the pro rata allocation of disbursements required thereby, or would allow for the termination or reduction of the Commitments on a non-pro rata basis, (v) release any Guarantor from its obligations or limit any Guarantor’s obligations under any Guarantee and Collateral Agreement unless such Guarantor ceases to be a Subsidiary of the Borrower under a transaction permitted by the terms hereof, (vi) release any Collateral securing the Obligations, except as provided in Section 8.10 or (vii) change the definition of “Pro Rata Share”, Section 7.06, or any other provision of this Agreement or any other Loan Document in a manner that would alter the order of application of proceeds set forth in Section 7.06;

(b) without the written consent of each Lender directly affected thereby, (i) extend or increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to Section 7.02), (ii) reduce the principal of, or interest on, the Obligations or any fees or other amounts payable hereunder or under any other Loan Document, or (iii) postpone any date fixed for any payment of principal of, or interest on, the Obligations or any fees or other amounts payable hereunder; or

(c) without the written consent of each Lender which either (i) is directly and adversely affected thereby, or (ii) has an Affiliate that is owed Lender Hedging Obligations or Banking Services Obligations and such Affiliate is directly and adversely affected thereby, amend the definitions of "Obligations", "Lender Hedging Obligations", "Banking Services Obligations", "Banking Services Provider", "Swap Counterparty".

and; provided further that (x) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required in this Section 9.01, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document, and (y) each of the Fee Letters may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto.

Anything herein to the contrary notwithstanding, during such period as a Lender is a Defaulting Lender, to the fullest extent permitted by applicable law, such Lender will not be entitled to vote in respect of amendments and waivers hereunder, and the Commitment and the outstanding Advances of such Lender hereunder will not be taken into account in determining whether the Required Lenders or all of the Lenders, as required, have approved any such amendment or waiver (and the definition of "Required Lenders" will automatically be deemed modified accordingly for the duration of such period); provided that any such amendment or waiver that would increase the Commitment of such Defaulting Lender, increase the Borrowing Base, or extend the term of the Commitment of such Defaulting Lender, extend the date fixed for the payment of principal or interest owing to such Defaulting Lender hereunder, reduce the principal amount of any obligation owing to such Defaulting Lender, reduce the amount of or the rate or amount of interest on any amount owing to such Defaulting Lender or of any fee payable to such Defaulting Lender hereunder, or alter the terms of this proviso, will require the consent of such Defaulting Lender. If a Defaulting Lender's consent to an amendment or waiver is required pursuant to this Section 9.01, and such Defaulting Lender has failed to respond to a written request from the Administrative Agent to approve such waiver or amendment for thirty (30) days after such Defaulting Lender's receipt of such request, such Defaulting Lender will be deemed to have approved such amendment or waiver.

Notwithstanding anything to the contrary herein, the Administrative Agent may enter into amendments or modifications to this Agreement or any of the other Loan Documents or enter into additional Loan Documents as the Administrative Agent reasonably deems appropriate in order to implement any Benchmark Replacement or otherwise effectuate the terms of Section 2.08(d) in accordance with its terms.

Section 9.02 Notices, Etc.

(a) General. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in Section 9.02(c)), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail, sent by facsimile or (subject to Section 9.02(c)) electronic mail address as follows:

(i) if to any Borrower or any other Loan Party or the Administrative Agent to the address, facsimile number, electronic mail address or telephone number specified for such Person on Schedule I or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to the other parties; and

(ii) if to any other Lender, to the address, facsimile number, electronic mail address or telephone number specified in its Administrative Questionnaire or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to the Administrative Agent.

(b) Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received, notices sent by facsimile shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). Notices delivered through electronic communications to the extent provided in Section 9.08(g), shall be effective as provided in Section 9.08(g). In no event shall a voicemail message be effective as a notice, communication or confirmation hereunder.

(c) Limited Use of Electronic Mail. Unless expressly provided otherwise herein, notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices to any Lender pursuant to Article II, except that, until the Administrative Agent gives notice to the Borrower to the contrary, Notices of Borrowing and Notices of Conversion or Continuation may be delivered to the Administrative Agent by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications. Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "read receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(d) Reliance by Administrative Agent and Lenders. The Administrative Agent and the Lenders shall be entitled to rely and act upon any notices (including telephonic Notices of Borrowing) purportedly given by or on behalf of the Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. **The BORROWER SHALL INDEMNIFY THE ADMINISTRATIVE AGENT, EACH LENDER AND THEIR RELATED PARTIES FROM ALL LOSSES, COSTS, EXPENSES AND LIABILITIES RESULTING FROM THE RELIANCE BY SUCH PERSON ON EACH NOTICE PURPORTEDLY GIVEN BY OR ON BEHALF OF THE BORROWER. THE BORROWER'S OBLIGATIONS UNDER THIS PARAGRAPH SHALL SURVIVE THE TERMINATION OF THE AGGREGATE COMMITMENTS AND THE REPAYMENT OF ALL OTHER OBLIGATIONS HEREUNDER.** All telephonic notices to and other communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

(e) Platform.

(i) Each Loan Party agrees that the Administrative Agent may, but shall not be obligated to, make the Communications available to the Lenders by posting the Communications on Debt Domain, Intralinks, Syndtrak or a substantially similar electronic transmission system (the "Platform").

(ii) The Platform is provided "as is" and "as available". The Agent Parties (as defined herein) do not warrant the adequacy of the Platform and expressly disclaim liability for errors or omissions in the Communications. No warranty of any kind, express, implied or statutory, including, without limitation, any warranty of merchantability, fitness for a particular purpose, non-infringement of third-party rights or freedom from viruses or other code defects, is made by any Agent Party in connection with the Communications or the Platform. In no event shall the Administrative Agent or any of its Related Parties (collectively, the "Agent Parties") have any liability to the Borrower, the other Loan Parties, the Joint Venture, any Lender or any other Person or entity for damages of any kind, including, without limitation, direct or indirect, special, incidental or consequential damages, losses or expenses (whether in tort, contract or otherwise) arising out of the Borrower's, any Loan Party's, the Joint Venture's or the Administrative Agent's transmission of communications through the Platform.

Section 9.03 No Waiver; Cumulative Remedies. No failure on the part of any Lender or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided in this Agreement are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

Section 9.04 Costs and Expenses and Limitation of Liability. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent), in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other

Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), and (ii) all out-of-pocket expenses incurred by the Administrative Agent or any Lender (including the fees, charges and disbursements of any counsel for the Administrative Agent or any Lender), in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Advances made hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Advances. The foregoing costs and expenses shall include all search, filing, recording, appraisal charges and fees and taxes related thereto, and other out-of-pocket expenses incurred by the Administrative Agent or any Lender and the cost of independent public accountants and other outside experts retained by the Administrative Agent or any Lender. All amounts due under this Section 9.04 shall be payable within thirty (30) days after demand. **The agreements in this Section shall survive the termination of the Commitments and repayment of all other Obligations.**

(b) To the extent permitted by applicable law (i) the Borrower and any Loan Party shall not assert, and the Borrower and each Loan Party hereby waives, any claim against the Administrative Agent (and any sub-agent thereof) and any Lender, and any Related Party of any of the foregoing Persons (each such Person being called a "Lender-Related Person") for any Liabilities arising from the use by others of information or other materials (including, without limitation, any personal data) obtained through telecommunications, electronic or other information transmission systems (including the Internet), and (ii) no party hereto shall assert, and each such party hereby waives, any Liabilities against any other party hereto, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document, or any agreement or instrument contemplated hereby or thereby, the transactions contemplated by the Loan Documents, any Advance or the use of the proceeds thereof; provided that, nothing in this Section 9.04(b) shall relieve the Borrower and each Loan Party of any obligation it may have to indemnify an Indemnitee, as provided in Section 9.05, against any special, indirect, consequential or punitive damages asserted against such Indemnitee by a third party.

Section 9.05 Indemnification. The Borrower shall indemnify the Administrative Agent (and any sub-agent thereof), each Lender, each Arranger, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), and shall indemnify and hold harmless each Indemnitee from all fees and time charges and disbursements for attorneys who may be employees of any Indemnitee, incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrower or any other Loan Party arising out of, in connection with, or as a result of (a) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, (b) any Advance or the use or proposed use of the proceeds therefrom, (c) any actual or alleged presence or Release of Hazardous Substances on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (d) any

actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower or any other Loan Party, and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee. All amounts due under this Section 9.05 shall be payable within 10 Business Days after demand therefor. The agreements in this Section shall survive the resignation of the Administrative Agent, the replacement of any Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all the other Obligations.

Section 9.06 Reimbursement by Lenders. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Section 9.04 or Section 9.05 to be paid by it to the Administrative Agent (or any sub-agent thereof) or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), or such Related Party, as the case may be, such Lender's Pro Rata Share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent) in connection with such capacity. The failure of any Lender to pay its Pro Rata Share of such unpaid amounts shall not relieve any other Lender of its obligation, if any, to pay its respective share of such unpaid amounts. No Lender shall be responsible for the failure of any other Lender to comply with this Section. All amounts due under this Section 9.06 shall be payable within 10 Business Days after demand therefor. **THE AGREEMENTS IN THIS SECTION SHALL SURVIVE THE RESIGNATION OF THE ADMINISTRATIVE AGENT, THE REPLACEMENT OF ANY LENDER, THE TERMINATION OF THE COMMITMENTS AND THE REPAYMENT, SATISFACTION OR DISCHARGE OF ALL THE OTHER OBLIGATIONS.**

Section 9.07 Waiver of Damages. To the fullest extent permitted by applicable Legal Requirement, each Party TO THIS AGREEMENT shall not assert, and hereby waives, any claim against any OTHER PARTY TO THIS AGREEMENT OR ANY INDEMNITEE, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Advance or the use of the proceeds thereof. No Indemnitee shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby. Nothing in THIS Section 9.07 is intended to limit any Indemnitee's rights under Section 9.05 in any respect.

Section 9.08 Successors and Assigns.

(a) Generally. The terms and provisions of this Agreement and the other Loan Documents shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of Section 9.08(b), (ii) by way of participation in accordance with the provisions of Section 9.08(d), or (iii) by way of pledge or assignment of a security interest subject to the restrictions of Sections 9.08(e) or 9.08(f) and any other attempted assignment or transfer by any party hereto shall be null and void. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in Section 9.08(d) and, to the extent expressly contemplated hereby, the Indemnitees) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may assign to one or more Eligible Assignees all or any portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitments and the Advances owing to it); provided, however, any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and/or the Advances being assigned at the time owing to it (in each case with respect to any credit facility) or contemporaneous assignments to related Approved Funds that equal at least the amount specified in paragraph (b)(i)(B) of this Section in the aggregate or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) in any case not described in paragraph (b)(i)(A) of this Section, the aggregate amount of the Commitment (which for this purpose includes Advances outstanding thereunder) or, if the applicable Commitment is not then in effect, the principal outstanding balance of the Advances of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date) shall not be less than \$5,000,000, in the case of any assignment in respect of the credit facility, or \$1,000,000, in the case of any assignment in respect of the credit facility, unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed).

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Advances or the Commitment assigned.

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by paragraph (b)(i)(B) of this Section and, in addition:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (1) an Event of Default has occurred and is continuing at the time of such assignment, or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund; and

(B) the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed) shall be required for assignments in respect of (1) the credit facility or any unfunded Commitments with respect to the credit facility if such assignment is to a Person that is not a Lender with a Commitment in respect of such credit facility, an Affiliate of such Lender or an Approved Fund with respect to such Lender, or (2) any Advances to a Person who is not a Lender, an Affiliate of a Lender or an Approved Fund.

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such processing and recordation fee in the case of any assignment. The assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(v) No Assignment to Certain Persons. No such assignment shall be made to (A) the Borrower or any of its Affiliates, (B) any Defaulting Lender or Potential Defaulting Lender or any of their respective Affiliates, or (C) any Person who, upon becoming a Lender hereunder, would constitute any of the foregoing Persons described in this clause (v).

(vi) No Assignment to Natural Persons. No such assignment shall be made to a natural Person.

(vii) Certain Additional Payments. In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the Administrative Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other compensating actions, including funding, with the consent of the Borrower and the Administrative Agent, the applicable pro rata share of Advances previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (A) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Administrative Agent and each other Lender hereunder (and interest accrued thereon), and (B) acquire (and fund as appropriate) its full pro rata share of all Advances in accordance with its Pro Rata Share. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder becomes effective under applicable Legal Requirements without compliance with the provisions of this paragraph, then the assignee of such interest will be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

Upon such execution, delivery, acceptance and recording thereof by the Administrative Agent pursuant to paragraph (c) of this Section, from and after the effective date specified in each Assignment and Assumption, (A) the Eligible Assignee thereunder shall be a party hereto for all purposes and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Assumption, have the rights and obligations of a Lender hereunder, and (B) such assigning Lender thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Assumption, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all or the remaining portion of such Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 2.12, 2.13, 9.04 and 9.05 with respect to facts and circumstances occurring prior to the effective date of such assignment; provided that, except to the extent otherwise expressly agreed by the affected parties, no assignment by a Defaulting Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (d) of this Section.

(c) Register. The Administrative Agent shall maintain at its Applicable Lending Office a copy of each Assignment and Assumption delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitments of, and principal amount of the Advances owing to (and stated interest thereon), each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and each of the Loan Parties, the Administrative Agent, and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. In addition, the Administrative Agent shall maintain on the Register information regarding the designation, and revocation of designation, of any Lender as a Defaulting Lender. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural Person (or a holding company, investment vehicle or trust for, or owned and operated for the primary benefit of, a natural Person) or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Advances owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged and such Participant shall have no direct voting rights under this Agreement as a Lender, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, and (iii) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. For the avoidance of doubt, each Lender shall be responsible for the indemnity under Section 9.05(d) with respect to any payments made by such Lender to its Participant(s).

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 9.01 that directly affects such Participant. Subject to the last two sentences of this paragraph (d), Borrower agrees that each Participant shall be entitled to the benefits of, Sections 2.11, 2.12, 2.13, 9.04, 9.05 and 9.06 (subject to the requirements and limitations therein, including the requirements under Section 2.13(f) (it being understood that the documentation required under Section 2.13(f) shall be delivered to the participating Lender)) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section; provided that such Participant (i) agrees to be subject to the provisions of Section 2.15 as if it were an assignee under paragraph (b) of this Section; and (ii) shall not be entitled to receive any greater payment under Section 2.12 or Section 2.13, with respect to any participation, than its participating Lender would have been entitled to receive, except to the extent such entitlement to receive a greater payment results from a Change in Law that occurs after the Participant acquired the applicable participation. Each Lender that sells a participation agrees, at the Borrower's request and expense, to use reasonable efforts to cooperate with the Borrower to effectuate the provisions of Section 2.15(b) with respect to any Participant. To the extent permitted by Legal Requirement, each Participant also shall be entitled to the benefits of Section 7.04 as though it were a Lender, provided such Participant agrees to be subject to Section 2.10 as though it were a Lender. Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Advances or other obligations under the Loan Documents (the "Participant Register"); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any Participant or any information relating to a Participant's interest in any commitments, loans or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Administrative Agent (in its capacity as Administrative Agent) shall have no responsibility for maintaining a Participant Register.

(e) Pledge to Federal Reserve Bank. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or any other central bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(f) Approved Funds. Notwithstanding anything to the contrary contained herein, any Lender that is an Approved Fund may create a security interest in all or any portion of the Advances owing to it and the Note, if any, held by it to the trustee for holders of obligations owed, or securities issued, by such Fund as security for such obligations or securities; provided that unless and until such trustee actually becomes a Lender in compliance with the other provisions of this Section 9.08, (i) no such pledge shall release the pledging Lender from any of its obligations under the Loan Documents, and (ii) such trustee shall not be entitled to exercise any of the rights of a Lender under the Loan Documents even though such trustee may have acquired ownership rights with respect to the pledged interest through foreclosure or otherwise.

(g) Electronic Execution of Assignments. The words “execution,” “signed,” “signature,” and words of like import in any Assignment and Assumption shall be deemed to include Electronic Signatures or the Electronic Records, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

Section 9.09 Confidentiality. Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined herein), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates’ respective managers, administrators, trustees, partners, directors, officers, employees, agents, advisors and other representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including (i) any self-regulatory authority, such as the National Association of Insurance Commissioners, and (ii) in connection with any pledge or assignment under Section 9.08(e), any Federal Reserve Bank or other central bank), (c) to the extent required by applicable Legal Requirements or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any actual or prospective counterparty (or its managers, administrators, trustees, partners, directors, officers, employees, agents, advisors and other representatives) to any swap, derivative or other transaction under which payments are to be made by reference to the Borrower and its obligations this Agreement or payments hereunder, (ii) any rating agency, or (iii) the CUSIP Service Bureau or any similar organization, (g) with the consent of the Borrower, or (h) to the extent such Information (A) becomes publicly available other than as a result of a breach of this Section, (B) becomes available to the Administrative Agent or any Lender or any of their respective Affiliates on a nonconfidential basis from a source other than the Borrower, or (C) was or is independently developed, discovered or arrived at by the Administrative Agent or any Lender without use or reference to the Information. For purposes of this Section 9.09, “Information” means all information received from any Loan party relating to any Loan Party or any of their respective businesses including, without limitation, any information obtained from Borrower or any of the Subsidiaries in connection with Borrower’s compliance with Section 5.05 or Section 5.06 of this Agreement, other than any such information that is available to the Administrative Agent or any Lender or any of its Affiliates on a nonconfidential basis prior to disclosure by any Loan Party; provided that, in the case of information received from a Loan Party after the Closing Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section 9.09 shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 9.10 Counterparts; Effectiveness. (a) This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Except as provided in Section 3.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto.

(b) Delivery of an executed counterpart of a signature page of (x) this Agreement, (y) any other Loan Document and/or (z) any document, amendment, approval, consent, information, notice (including, for the avoidance of doubt, any notice delivered pursuant to Section 9.02), certificate, request, statement, disclosure or authorization related to this Agreement, any other Loan Document and/or the transactions contemplated hereby and/or thereby (each an "Ancillary Document") that is an Electronic Signature transmitted by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page shall be effective as delivery of a manually executed counterpart of this Agreement, such other Loan Document or such Ancillary Document, as applicable. The words "execution," "signed," "signature," "delivery," and words of like import in or relating to this Agreement, any other Loan Document and/or any Ancillary Document shall be deemed to include Electronic Signatures, deliveries or the keeping of records in any electronic form (including deliveries by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page), each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be; provided that nothing herein shall require the Administrative Agent to accept Electronic Signatures in any form or format without its prior written consent and pursuant to procedures approved by it; provided, further, without limiting the foregoing, (i) to the extent the Administrative Agent has agreed to accept any Electronic Signature, the Administrative Agent and each of the Lenders shall be entitled to rely on such Electronic Signature purportedly given by or on behalf of the Borrower or any other Loan Party without further verification thereof and without any obligation to review the appearance or form of any such Electronic signature and (ii) upon the request of the Administrative Agent or any Lender, any Electronic Signature shall be promptly followed by a manually executed counterpart. Without limiting the generality of the foregoing, the Borrower and each Loan Party hereby (A) agrees that, for all purposes, including without limitation, in connection with any workout, restructuring, enforcement of remedies, bankruptcy proceedings or litigation among the Administrative Agent, the Lenders and the Borrower and the Loan Parties, Electronic Signatures transmitted by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page and/or any electronic images of this Agreement, any other Loan Document and/or any Ancillary Document shall have the same legal effect, validity and enforceability as any paper original, (B) the Administrative Agent and each of the Lenders may, at its option, create one or more copies of this Agreement, any other Loan Document and/or any Ancillary Document in the form of an imaged electronic record in any format, which shall be deemed created in the ordinary course of such Person's business, and destroy the original paper document (and all such electronic records shall be considered an original for all purposes and shall have the same legal effect, validity and enforceability as a paper record), (C) waives any argument, defense or right to contest the legal effect, validity or enforceability of this Agreement, any other Loan Document and/or any Ancillary Document based solely on the lack of paper original copies of this Agreement, such other Loan Document and/or such Ancillary

Document, respectively, including with respect to any signature pages thereto and (D) waives any claim against any Lender-Related Person for any Liabilities arising solely from the Administrative Agent's and/or any Lender's reliance on or use of Electronic Signatures and/or transmissions by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page, including any Liabilities arising as a result of the failure of the Borrower and/or any Loan Party to use any available security measures in connection with the execution, delivery or transmission of any Electronic Signature.

Section 9.11 Survival of Representations, etc. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any Advance, and shall continue in full force and effect as long as any Advance or any other Obligation hereunder shall remain unpaid or unsatisfied.

Section 9.12 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby, and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 9.13 Interest Rate Limitation. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the Maximum Rate. If the Administrative Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Advances or, if it exceeds such unpaid principal, refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable Legal Requirement, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

Section 9.14 Governing Law. This Agreement and the other Loan Documents and any claims, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Agreement or any other Loan Document (except, as to any other Loan Document, as expressly set forth therein) and the transactions contemplated hereby and thereby shall be governed by, and construed in accordance with, the law of the State of New York, except to the extent of any mandatory application of the laws of a particular jurisdiction in which Collateral that is real property is located with respect to the creation, perfection, priority and enforceability and the exercise of remedies with respect to the foreclosure of the Lien on any such real property.

Section 9.15 Submission to Jurisdiction; Waiver of Venue; Service of Process.

(a) Submission to Jurisdiction. Each of the Borrower, the Lenders, and the other parties hereto irrevocably and unconditionally agrees that it will not commence any action, litigation or proceeding of any kind or description, whether in law or equity, whether in contract or in tort or otherwise, against the Administrative Agent, any Lender, or any of their respective Related Parties of the foregoing in any way relating to this Agreement or any other Loan Document or the transactions relating hereto or thereto, in any forum other than the courts of the State of New York sitting in New York County, and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, and each of the parties hereto irrevocably and unconditionally submits to the jurisdiction of such courts and agrees that all claims in respect of any such action, litigation or proceeding may be heard and determined in such New York State court or, to the fullest extent permitted by applicable law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action, litigation or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or in any other Loan Document shall affect any right that the Administrative Agent or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against the Borrower or any other Loan Party or its properties in the courts of any jurisdiction.

(b) Waiver of Venue. Each of the Borrower, the Lenders and the other parties hereto irrevocably and unconditionally waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (a) of this Section 9.15. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Service of Process. Each party hereto irrevocably consents to service of process in the manner provided for notices in Section 9.02 other than by electronic mail. Nothing in this Agreement will affect the right of any party hereto to serve process in any other manner permitted by applicable law.

Section 9.16 Waiver of Jury Trial. Each party to this Agreement hereby expressly and irrevocably waives, to the fullest extent permitted by applicable Legal Requirements, any right it may have to trial by jury IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). each party hereto (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION. Each party hereby agrees and consents that any party hereto may file an original counterpart or a copy of this section with any court as written evidence of the consent of the signatories hereto to the waiver of their right to trial by jury.

Section 9.17 Service by Mail. Each Loan Party also irrevocably consents to the service of any and all process in any such action or proceeding by the mailing by certified mail of copies of such process to it at its address specified herein. Each Loan Party agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Section shall affect the right of any Lender or the Administrative Agent to serve legal process in any other manner permitted by applicable law or affect the right of any Lender or the Administrative Agent to bring any suit, action or proceeding against each Loan Party or its property in the courts of other jurisdictions.

Section 9.18 USA Patriot Act; OFAC. Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies each Loan Party and each shareholder of any Loan Party holding 10% or more of the outstanding common shares, which information includes the name and address of such Loan Party or equity holder of such Loan Party and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Loan Party or equity holder of such Loan Party in accordance with the Act. In addition, Borrower agrees to ensure that no Person who owns a controlling interest in or otherwise controls any Loan Party is or shall be listed on the Specially Designated Nationals and Blocked Person List or other similar lists maintained by the OFAC, the Department of the Treasury or included in any Executive Order. Promptly following a request from the Administrative Agent, or a Lender, each Loan Party hereby agrees to deliver all documentation and other information that the Administrative Agent or a Lender, as applicable, may reasonably request in order to comply with its ongoing obligations under applicable "know your customer" and anti-money laundering rules and regulations, including the Act.

Section 9.19 Keepwell. Each Qualified ECP Guarantor hereby jointly and severally absolutely, unconditionally and irrevocably undertakes to provide such funds or other support as may be needed from time to time by each other Loan Party to honor all of its obligations under this Agreement in respect of Swap Obligations (provided, however, that each Qualified ECP Guarantor shall only be liable under this Section 9.19 for the maximum amount of such liability that can be hereby incurred without rendering its obligations under this Section 9.19, or otherwise under this Agreement, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer, and not for any greater amount). The obligations of each Qualified ECP Guarantor under this Section shall remain in full force and effect until the termination of all Commitments and payment in full of all Obligations (other than contingent indemnification obligations). Each Qualified ECP Guarantor intends that this Section 9.19 constitute, and this Section 9.19 shall be deemed to constitute, a "keepwell, support, or other agreement" for the benefit of each other Loan Party for all purposes of Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

Section 9.20 Certain ERISA Matters.

(a) Each Lender (x) represents and warrants, as of the date such Person became a Lender party hereto, to, and (y) covenants, from the date such Person became a Lender party hereto to the date such Person ceases being a Lender party hereto, for the benefit of, the Administrative Agent, and its Affiliates, and not, for the avoidance of doubt, to or for the benefit of the Borrower or any other Loan Party, that at least one of the following is and will continue to be true:

(i) such Lender is not using “plan assets” (within the meaning of Section 3(42) of ERISA or otherwise for purposes of Title I of ERISA or Section 4975 of the Code) of one or more Benefit Plans with respect to such Lender’s entrance into, participation in, administration of and performance of the Advances, the Commitments, or this Agreement;

(ii) the transaction exemption set forth in one or more PTEs, such as PTE84- 14 (a class exemption for certain transactions determined by independent qualified professional asset managers), PTE 95-60 (a class exemption for certain transactions involving insurance company general accounts), PTE 90-1 (a class exemption for certain transactions involving insurance company pooled separate accounts), PTE91-38 (a class exemption for certain transactions involving bank collective investment funds) or PTE 96-23 (a class exemption for certain transactions determined by in-house asset managers), is applicable with respect to, and all of the conditions of which are satisfied in connection with, such Lender’s entrance into, participation in, administration of, and performance of the Advances, the Commitments, and this Agreement;

(iii) (A) such Lender is an investment fund managed by a “Qualified Professional Asset Manager” (within the meaning of Part VI of PTE 84-14), (B) such Qualified Professional Asset Manager made the investment decision on behalf of such Lender to enter into, participate in, administer, and perform the Advances, the Commitments, and this Agreement, (C) the entrance into, participation in, administration of, and performance of the Advances, the Commitments, and this Agreement satisfies the requirements of sub-sections (b) through (g) of Part I of PTE 84-14, and (D) to the best knowledge of such Lender, the requirements of subsection (a) of Part I of PTE 84-14 are satisfied with respect to such Lender’s entrance into, participation in, administration of, and performance of the Advances, the Commitments, and this Agreement, or

(iv) such other representation, warranty, and covenant as may be agreed in writing between the Administrative Agent, in its sole discretion, and such Lender.

(b) In addition, unless either (1) sub-clause (i) in the immediately preceding clause (a) is true with respect to a Lender or (2) a Lender has provided another representation, warranty, and covenant in accordance with sub-clause (iv) in the immediately preceding clause (a), such Lender further (x) represents and warrants, as of the date such Person became a Lender party hereto, to, and (y) covenants, from the date such Person became a Lender party hereto to the date such Person ceases being a Lender party hereto, for the benefit of, the Administrative Agent and not, for the avoidance of doubt, to or for the benefit of the Borrower or any other Loan Party, that the Administrative Agent is not a fiduciary with respect to the assets of such Lender involved in such Lender’s entrance into, participation in, administration of, and performance of the Advances, the Commitments, and this Agreement (including in connection with the reservation or exercise of any rights by the Administrative Agent under this Agreement, any Loan Document, or any documents related hereto or thereto).

Section 9.21 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Borrower acknowledges and agrees that: (a) (i) the arranging and other services regarding this Agreement provided by the Administrative Agent and the Lenders are arm's-length commercial transactions between the Borrower and its Affiliates, on the one hand, and the Administrative Agent and the Lenders, on the other hand, (ii) the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (iii) the Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents, (b) (i) the Administrative Agent and the Lenders each is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Borrower or any of its Affiliates, or any other Person, and (ii) neither the Administrative Agent nor any Lender has any obligation to the Borrower or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents, and (c) the Administrative Agent, the Lenders, and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and neither the Administrative Agent nor any Lender has any obligation to disclose any of such interests to the Borrower or its Affiliates. To the fullest extent permitted by law, the Borrower hereby waives and releases any claims that it may have against the Administrative Agent and the Lenders with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

Section 9.22 Integration. This Agreement and the other Loan Documents represent the final agreement among the parties and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. There are no unwritten oral agreements among the parties.

Section 9.23 Acknowledgement and Consent to Bail-In of Affected Financial Institutions. Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any Affected Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of the applicable Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by the applicable Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an Affected Financial Institution; and

(b) the effects of any Bail-In Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such Affected Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of the applicable Resolution Authority.

Section 9.24 Acknowledgment Regarding Any Supported QFCs To the extent that the Loan Documents provide support, through a guarantee or otherwise, for Swap Obligations or any other agreement or instrument that is a QFC (such support “QFC Credit Support” and each such QFC a “Supported QFC”), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the “U.S. Special Resolution Regimes”) in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of New York and/or of the United States or any other state of the United States):

In the event a Covered Entity that is party to a Supported QFC (each, a “Covered Party”) becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

[Remainder of this page intentionally left blank. Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective authorized officers as of the day and year first above written.

BORROWER:

MorningStar Partners, L.P.

By: MorningStar Oil & Gas, LLC, its general

By: /s/ Brent W. Clum

Name: Brent W. Clum

Title: Chief Financial Officer

[Signature Page to Credit Agreement]

ADMINISTRATIVE AGENT/LENDER:

JPMorgan Chase Bank, N.A., as Administrative Agent and Lender

By: /s/ Anson Williams

Name: Anson Williams

Title: Authorized Officer

[Signature Page to Credit Agreement]

LENDER:

BOKF, NA dba Bank of Texas, as a Lender

By: _____

Name:

Title: Senior Vice President

[Signature Page to Credit Agreement]

LENDER:

Capital One, National Association, as a Lender

By: /s/ Christopher Kuia

Name: Christopher Kuia

Title: Senior Director

[Signature Page to Credit Agreement]

LENDER:

ROYAL BANK OF CANADA, as a Lender

By: /s/ Grace Garcia

Name: Grace Garcia

Title: Authorized Signatory

[Signature Page to Credit Agreement]

LENDER:

Independent Bank, as a Lender

By: /s/ Alex Zemkoski

Name: Alex Zemkoski

Title: Senior Vice President

[Signature Page to Credit Agreement]

**EXHIBIT A
FORM OF ASSIGNMENT AND ASSUMPTION**

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the][each]¹ Assignor identified in item 1 below ([the][each, an] “Assignor”) and [the][each]² Assignee identified in item 2 below ([the][each, an] “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors][the Assignees] hereunder are several and not joint.]³ Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, supplemented, restated or otherwise modified from time to time, the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by [the][each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the][each] Assignor hereby irrevocably sells and assigns to [the Assignee][the respective Assignees], and [the][each] Assignee hereby irrevocably purchases and assumes from [the Assignor][the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (i) all of [the Assignor’s] [the respective Assignors’] rights and obligations in [its capacity as a Lender][their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor][the respective Assignors] under the respective facilities identified below (including without limitation any letters of credit and guarantees included in such facilities) and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)][the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned by [the][any] Assignor to [the][any] Assignee pursuant to clauses (i) and (ii) above being referred to herein collectively as [the][an] “Assigned Interest”). Each such sale and assignment is without recourse to [the][any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the][any] Assignor.

- ¹ For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.
- ² For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.
- ³ Select as appropriate.
- ⁴ Include bracketed language if there are either multiple Assignors or multiple Assignees.

1. Assignor[s]: _____
2. Assignee[s]: _____
 [Assignee is an *[Affiliate]*[Approved Fund] of *[Identify Lender]*
3. Borrower: MORNINGSTAR PARTNERS, L.P.
4. Administrative Agent: JPMORGAN CHASE BANK, N.A., as the administrative agent under the Credit Agreement
5. Credit Agreement: Credit Agreement dated as of November 1, 2021 among MorningStar Partners, L.P., the Lenders party thereto from time to time, and JPMORGAN CHASE BANK, N.A., as Administrative Agent.
6. Assigned Interest[s]:

Assignor[s]	Assignee[s]	Aggregate Amount of Commitments / Advances for all Lenders	Amount of Commitment / Advances Assigned ⁵	Percentage Assigned of Commitment / Advances ⁶	CUSIP Number
		\$	\$	%	
		\$	\$	%	
		\$	\$	%	

7. Trade Date:⁷

- ⁵ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.
- ⁶ Set forth, to at least 9 decimals, as a percentage of the Commitment/Advances of all Assignors thereunder.
- ⁷ To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assigned amount is to be determined as of the Trade Date.

Effective Date: _____, 20__ [TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR[S]⁸

[NAME OF ASSIGNOR]

By: _____
Name: _____
Title: _____

[NAME OF ASSIGNOR]

By: _____
Name: _____
Title: _____

ASSIGNEE[S]

[NAME OF ASSIGNEE]

By: _____
Name: _____
Title: _____

[NAME OF ASSIGNEE]

By: _____
Name: _____
Title: _____

⁸ Add additional signature blocks as needed.

[Consented to and]⁹ Accepted:

JPMORGAN CHASE BANK, N.A., as
Administrative Agent

By: _____
Name: _____
Title: _____

[Consented to:]¹⁰

MORNINGSTAR PARTNERS, L.P., a Delaware limited
partnership

By: MorningStar Oil & Gas, LLC, its general partner

By: _____
Name: _____
Title: _____

⁹ To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

¹⁰ To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

**STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION**

1. Representations and Warranties.

1.1 Assignor[s]. [The][Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the][the relevant] Assigned Interest, (ii) [the][such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and (iv) it is not a Defaulting Lender or Potential Defaulting Lender or any of their respective Affiliates; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee[s]. [The][Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all the requirements to be an assignee under Section 9.08 of the Credit Agreement (subject to such consents, if any, as may be required under Section 9.08 of the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of [the][the relevant] Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by the Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire the Assigned Interest, is experienced in acquiring assets of such type, (v) it has received a copy of the Credit Agreement, and has received or has been accorded the opportunity to receive copies of the most recent financial statements delivered pursuant to Section 3.01(c) or Section 5.06 thereof, as applicable, and such other documents and information as it deems appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the][such] Assigned Interest, (vi) it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the][such] Assigned Interest, and (vii) if it is not incorporated under the laws of the United States of America or a state thereof, attached to the Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by [the][such] Assignee; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the][any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of [the][each] Assigned Interest (including payments of principal, interest, fees and other amounts) to [the][the relevant] Assignor for amounts which have accrued to but excluding the Effective Date and to [the][the relevant] Assignee for amounts which have accrued from and after the Effective Date. Notwithstanding the foregoing, the Administrative Agent shall make all payments of interest, fees or other amounts paid or payable in kind from and after the Effective Date to [the][the relevant] Assignee.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of New York.

Exhibit A – Form of Assignment and Assumption

Page 6 of 6

EXHIBIT B
FORM OF COMPLIANCE CERTIFICATE

FOR THE PERIOD FROM _____, 20__ TO _____, 20__

This certificate dated as of _____, _____ is prepared pursuant to the Credit Agreement dated as of November 1, 2021 (as amended, supplemented, restated or otherwise modified from time to time, the "Credit Agreement") among MorningStar Partners, L.P., a Delaware limited partnership ("Borrower"), the lenders party thereto from time to time (the "Lenders"), and JPMorgan Chase Bank, N.A., as administrative agent for such Lenders. Unless otherwise defined in this certificate, capitalized terms that are defined in the Credit Agreement shall have the meanings assigned to them by the Credit Agreement.

The undersigned, in his capacity as a Responsible Officer of the Borrower, hereby certifies that (a) no Default or Event of Default has occurred or is continuing, (b) all of the representations and warranties made by the Borrower in the Credit Agreement and the other Loan Documents are true and correct in all material respects as if made on this date, except with respect to those representations and warranties that speak as of a certain date, which representations and warranties were true and correct as of such date, and (c) as of the last day of the previous fiscal quarter, the statements, amounts, and calculations on Annex A and Annex B hereto were true and correct.

IN WITNESS THEREOF, I have hereto signed my name to this Compliance Certificate, in my capacity as a Responsible Officer of the Borrower, as of _____, 20__.

MORNINGSTAR PARTNERS, L.P.,
a Delaware limited partnership

By: Morning Star Oil & Gas, LLC, its general partner

By: _____
Name: _____
Title: _____

I. Maximum Debt to EBITDAX Ratio—Section 6.18.

- (a) Total Debt of the Borrower and its Subsidiaries = \$ _____
- (b) the unpaid balance of the FAM Loan = \$ _____
- (c) the lesser of I.c.i and I.c.ii \$ _____
- (i) The aggregate amount of unrestricted cash and cash equivalents of the Borrower and its Subsidiaries on such date determined in accordance with GAAP (excluding cash and cash equivalents attributable to Borrower’s Equity Interest in the Joint Venture as shown on the balance sheet of Borrower and its Subsidiaries) = \$ _____
- (ii) \$15,000,000
- (c) Total Net Debt of the Borrower and its Subsidiaries =
- (a) - (b) - (c) = \$ _____
- (d) EBITDAX of the Borrower and its Subsidiaries¹¹ (see Annex B for calculation) \$ _____

Debt to EBITDAX Ratio: (d) to (e)

Total Net Debt to EBITDAX: _____ to 1.00

Maximum Debt to EBITDAX: 3.00 to 1.00

COMPLIANCE? YES NO

II. Current Ratio – Section 6.19

Current Ratio: _____ to 1.00

Minimum Current Ratio: 1.0 to 1.0

COMPLIANCE? YES NO

¹¹ For the four fiscal quarter period then ended.

Calculation of EBITDAX

(a)	JV EBITDAX (sum of (i), (ii), (iii), (iv), (v), (vi), (vii) and (viii) – (ix) and (x)[, and (xi)]), to the extent such amount has been paid in cash by the Joint Venture to the Borrower =	\$ _____
(i)	Net Income of the Joint Venture	\$ _____
(ii)	Interest Expense of the Joint Venture	\$ _____
(iii)	sum of federal, state, local and foreign income taxes paid in cash by the Joint Venture	\$ _____
(iv)	amount of depreciation, depletion and amortization expense of the Joint Venture	\$ _____
(v)	any oil and gas exploration expenses of the Joint Venture, including workover expenses	\$ _____
(vi)	any other similar non-cash charges of the Joint Venture for such period (including non-cash charges under FASB ASC 815)	\$ _____
(vii)	any extraordinary or non-recurring charges of the Joint Venture	\$ _____
(viii)	overhead fees paid by the Joint Venture to the Borrower in cash	\$ _____
(ix)	any extraordinary or non-recurring items increasing Net Income of the Joint Venture	\$ _____
(x)	any non-cash items increasing Net Income of the Joint Venture (including non-cash income under FASB ASC 815)[; _____	\$ _____
(xi)	adjustment for JV EBITDAX attributable to Acquisitions and Dispositions] ²	\$ _____

¹² JV EBITDAX or any period of measurement shall be calculated on *apro forma* basis, giving effect to, without duplication, any Acquisition or Disposition by such Person and its consolidated Subsidiaries during such period, as if such Acquisition or Disposition occurred on the first day of such period, provided, however, that such *pro forma* calculations shall be subject to the Administrative Agent’s prior review and approval.

(b)	MSOP EBITDAX (sum of (i), (ii), (iii), (iv), (v), (vi) and (vii) - (viii) and (ix)[, and (x)]) =	\$ _____
	(i) Net Income of MSOP and its consolidated Subsidiaries	\$ _____
	(ii) Interest Expense of MSOP and its consolidated Subsidiaries	\$ _____
	(iii) sum of federal, state, local and foreign income taxes paid in cash by MSOP and its consolidated Subsidiaries	\$ _____
	(iv) amount of depreciation, depletion and amortization expense of MSOP and its consolidated Subsidiaries	\$ _____
	(v) any oil and gas exploration expenses of MSOP and its consolidated Subsidiaries, including workover expenses	\$ _____
	(vi) any other similar non-cash charges of MSOP and its consolidated Subsidiaries (including non-cash charges under FASB ASC 815)	\$ _____
	(vii) any extraordinary or non-recurring charges of MSOP and its consolidated Subsidiaries	\$ _____
	(viii) any extraordinary or non-recurring items increasing Net Income of MSOP and its consolidated Subsidiaries	\$ _____
	(ix) any non-cash items increasing Net Income of MSOP and its consolidated Subsidiaries (including non-cash income under FASB ASC 815)[; _____	\$ _____
	(x) adjustment for MSOP EBITDAX attributable to Acquisitions and Dispositions] ¹³	\$ _____
(c)	Borrower Hedge EBITDAX =	\$ _____
(d)	consolidated expenses of the Borrower and its Subsidiaries =	\$ _____
(e)	EBITDAX ((sum of (a) + (b) + (c)) - (d)) =	\$ _____

¹³ MSOP EBITDAX for any period of measurement shall be calculated on *pro forma* basis, giving effect to, without duplication, any Acquisition or Disposition by such Person and its consolidated Subsidiaries during such period, as if such Acquisition or Disposition occurred on the first day of such period, provided, however, that such *pro forma* calculations shall be subject to the Administrative Agent's prior review and approval.

**EXHIBIT C
FORM OF NOTE**

\$ _____

For value received, the undersigned MORNINGSTAR PARTNERS, L.P., a Delaware limited partnership ("Borrower"), hereby promises to pay to [_____] or its registered assigns ("Payee") the principal amount of _____ No/100 Dollars (\$) _____ or, if less, the aggregate outstanding principal amount of the Advances (as defined in the Credit Agreement referred to below) made by the Payee to the Borrower, together with interest on the unpaid principal amount of the Advances from the date of such Advances until such principal amount is paid in full, at such interest rates, and at such times, as are specified in the Credit Agreement (as defined below).

This Note is one of the Notes referred to in, and is entitled to the benefits of, and is subject to the terms of, the Credit Agreement dated as of November 1, 2021 (as the same may be amended, supplemented, restated or otherwise modified from time to time, the "Credit Agreement"), among the Borrower, the lenders party thereto (the "Lenders"), and JPMorgan Chase Bank, N.A., as administrative agent (the "Administrative Agent"). Capitalized terms used in this Note that are defined in the Credit Agreement and not otherwise defined in this Note have the meanings assigned to such terms in the Credit Agreement. The Credit Agreement, among other things, (a) provides for the making of the Advances by the Payee to the Borrower in an aggregate amount not to exceed at any time outstanding the Dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, which amount may be advanced, repaid and reborrowed as provided in the Credit Agreement, and (b) contains provisions for acceleration of the maturity of this Note upon the happening of certain events of default stated in the Credit Agreement and for prepayments of principal prior to the maturity of this Note upon the terms and conditions specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Administrative Agent at the location or address specified in writing by the Administrative Agent to the Borrower in same day funds. The Payee shall record payments of principal made under this Note, but no failure of the Payee to make such recordings shall affect the Borrower's repayment obligations under this Note.

This Note is secured by the Security Instruments and guaranteed pursuant to the terms of the Guaranties.

The Borrower hereby waives presentment, demand, protest, notice of intent to accelerate, notice of acceleration, and any other notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder of this Note shall operate as a waiver of such rights. In the event of any explicit or implicit conflict between any provision of this Note and any provision of the Credit Agreement, the terms of the Credit Agreement shall be controlling.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

This Note and the other Loan Documents represent the final agreement among the parties and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. There are no unwritten oral agreements among the parties.

MORNINGSTAR PARTNERS, L.P.

By: Morningstar Oil & Gas, LLC, its general partner

By: _____
Name: _____
Title: _____

EXHIBIT D
FORM OF NOTICE OF BORROWING

[Date]

JPMorgan Chase Bank, N.A., as Administrative Agent
10 South Dearborn, Floor 2
Chicago, IL 60603-2300
E-Mail: anson.d.williams@jpmorgan.com
Attention: Anson Williams

Ladies and Gentlemen:

The undersigned, Morningstar Partners, L.P., a Delaware limited partnership ("Borrower"), (a) refers to the Credit Agreement dated as of November 1, 2021 (as amended, restated or otherwise modified from time-to-time, the "Credit Agreement"; the defined terms of which are used in this Notice of Borrowing unless otherwise defined in this Notice of Borrowing) among the Borrower, the lenders party thereto from time to time (the "Lenders"), and JPMorgan Chase Bank, N.A., as administrative agent for the Lenders, and (b) certifies that it is authorized to execute and deliver this Notice of Borrowing.

The Borrower hereby gives you irrevocable notice pursuant to Section 2.03(a) of the Credit Agreement that the undersigned hereby requests a Borrowing, and in connection with that request sets forth below the information relating to such Borrowing (the "Proposed Borrowing") as required by Section 2.03(a) of the Credit Agreement:

- (a) The Business Day of the Proposed Borrowing is _____, 20__.
- (b) The Proposed Borrowing will be composed of [Term Benchmark Advances] [Alternate Base Rate Advances].
- (c) The aggregate amount of the Proposed Borrowing is \$_____.
- (d) [The Interest Period for each [Term Benchmark Advance][Alternative Base Rate Advance] made as part of the Proposed Borrowing is [_____month[s]].]

Exhibit D – Form of Notice of Borrowing
Page 1 of 2

The Borrower hereby further certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Borrowing:

- (1) the representations and warranties contained in Article IV of the Credit Agreement and the representations and warranties contained in the Security Instruments, the Guaranties, and each of the other Loan Documents are true and correct in all material respects on and as of the date of such Proposed Borrowing, before and after giving effect to such Proposed Borrowing and to the application of the proceeds from such Proposed Borrowing, as though made on and as of such date (except in the case of representations and warranties which are made solely as of an earlier date or time, which representations and warranties shall be true and correct in all material respects as of such earlier date or time);
- (2) no Default has occurred and is continuing or would result from such Proposed Borrowing or from the application of the proceeds therefrom; and
- (3) the Excess Cash on and as of the date of such Proposed Borrowing does not exceed \$0.00, before and after giving effect to such Borrowing and to the application of the proceeds therefrom on or around such date, but in any event, not to exceed two (2) Business Days after such date.

Very truly yours,

MORNINGSTAR PARTNERS, L.P.

By: Morningstar Oil & Gas, LLC, its general partner

By: _____
Name: _____
Title: _____

EXHIBIT E
FORM OF NOTICE OF CONVERSION OR CONTINUATION

[Date]

JPMorgan Chase Bank, N.A., as Administrative Agent
10 South Dearborn, Floor 2
Chicago, IL 60603-2300
E-Mail: anson.d.williams@jpmorgan.com
Attention: Anson Williams

Ladies and Gentlemen:

The undersigned, Morningstar Partners, L.P., a Delaware limited partnership ("Borrower"), (a) refers to the Credit Agreement dated as of November 1, 2021 (as amended, restated or otherwise modified from time-to-time, the "Credit Agreement"; the defined terms of which are used in this Notice of Conversion or Continuation unless otherwise defined in this Notice of Conversion or Continuation) among Borrower, the lenders party thereto from time to time (the "Lenders"), and JPMorgan Chase Bank, N.A., as administrative agent for the Lenders, and (b) certifies that it is authorized to execute and deliver this Notice of Conversion or Continuation.

The Borrower hereby gives you irrevocable notice pursuant to Section 2.03(b) of the Credit Agreement that the undersigned hereby requests a Conversion or continuation of a an outstanding Borrowing, and in connection with that request sets forth below the information relating to such Conversion or continuation (the "Proposed Borrowing") as required by Section 2.03(b) of the Credit Agreement:

- (a) The Business Day of the Proposed Borrowing is: _____, 20__.
- (b) The Proposed Borrowing consists of [a Conversion to [Term Benchmark Advances][Alternate Base Rate Advances]][a continuation of [Term Benchmark Advances][Alternate Base Rate Advances]].
- (c) The aggregate amount of the Borrowing to be [Converted][continued] is \$_____ and consists of [Term Benchmark Advances][Alternate Base Rate Advances].
- (d) [The Interest Period for each [Term Benchmark Advance][Alternate Base Rate Advances] made as part of the Proposed Borrowing is [_____month[s]].]

Exhibit E – Form of Notice of Conversion or Continuation

Page 1 of 2

Very truly yours,

MORNINGSTAR PARTNERS, L.P.

By: Morningstar Oil & Gas, LLC, its general partner

By: _____
Name: _____
Title: _____

EXHIBIT F
FORM OF GUARANTEE AND COLLATERAL AGREEMENT

[see attached]

Exhibit F – Form of Guarantee and Collateral Agreement
Page 1 of 1

GUARANTEE AND COLLATERAL AGREEMENT

made by

MORNINGSTAR PARTNERS, L.P.

and each of the other Grantors (as defined herein)

in favor of

JPMORGAN CHASE BANK, N.A.,

as Administrative Agent

Dated as of November 1, 2021

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SCHEDULES:

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5. Prior Names and Prior Chief Executive Office

ANNEX:

1. Form of Assumption Agreement
2. Acknowledgment and Consent

This GUARANTEE AND COLLATERAL AGREEMENT, dated as of November 1, 2021 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, this "Agreement"), is made by **MORNINGSTAR PARTNERS, L.P.**, a Delaware limited partnership (the "Borrower"), and each of the other signatories hereto other than the Administrative Agent (the Borrower and each of the other signatories hereto other than the Administrative Agent, together with any other Subsidiary of the Borrower that becomes a party hereto from time to time after the date hereof, the "Grantors"), in favor of **JPMORGAN CHASE BANK, N.A.**, as administrative agent (in such capacity, together with its successors in such capacity, the "Administrative Agent"), for the banks and other financial institutions and entities (the "Lenders") and Secured Parties.

WITNESSETH:

WHEREAS, pursuant to that certain Credit Agreement, dated as of the date hereof (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), by and among the Borrower, the banks and other financial institutions from time to time party thereto as lenders (the "Lenders") and the Administrative Agent;

WHEREAS, pursuant to the Credit Agreement, the Lenders have severally agreed to make extensions of credit to the Borrower upon the terms and subject to the conditions set forth therein;

WHEREAS, the Borrower or any of its Subsidiaries and Swap Counterparty may enter into Hedge Contracts;

WHEREAS, the Borrower or any of its Subsidiaries and Banking Service Providers have entered, or may enter into agreements regarding Bank Services (the "Bank Services Agreements");

WHEREAS, the Borrower and the other Grantors are engaged in related businesses, and each Grantor will derive substantial direct and indirect benefit from the making of the extensions of credit under the Credit Agreement and from the Bank Services Agreements and Hedge Contracts; and

WHEREAS, it is a condition precedent to the obligation of the Lenders to make their respective extensions of credit to the Borrower under the Credit Agreement that the Grantors shall have executed and delivered this Agreement to the Administrative Agent for the ratable benefit of the Secured Parties;

NOW, THEREFORE, in consideration of the premises and to induce the Administrative Agent and the Lenders to enter into the Credit Agreement and to induce the Lenders and other Secured Parties to make their respective extensions of credit to the Borrower thereunder and to enter into, or provide Bank Services Agreements and Hedge Contracts, each Grantor hereby agrees with the Administrative Agent, for the ratable benefit of the Secured Parties, as follows:

**ARTICLE I
DEFINITIONS**

Section 1.01 Definitions.

(a) As used in this Agreement, each term defined above shall have the meaning indicated above. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement, and the following terms as well as all uncapitalized terms which are defined in the UCC (whether or not capitalized or uncapitalized in the same manner therein) on the date hereof are used herein as so defined: Account Debtor, Accounts, Certificated Security, Instrument, Chattel Paper, Commercial Tort Claims, Commodity Accounts, Deposit Accounts, Documents, Electronic Chattel Paper, Equipment, Vehicles, Fixtures, General Intangibles, Goods, Instruments, Inventory, Letter-of-Credit Rights, Payment Intangibles, Proceeds, Securities Accounts, Supporting Obligations, and Tangible Chattel Paper.

(b) The following terms shall have the following meanings:

“Administrative Agent” has the meaning assigned to such term in the preamble hereto.

“Agreement” has the meaning assigned to such term in the preamble hereto.

“Bank Services Agreements” has the meaning assigned to such term in the recitals hereto.

“Borrower” has the meaning assigned to such term in the preamble hereto.

“Collateral” has the meaning assigned to such term in Section 3.01.

“Credit Agreement” has the meaning assigned to such term in the recitals hereto.

“Excluded Asset” has the meaning assigned to such term in Section 3.01.

“Grantor Claims” has the meaning assigned to such term in Section 9.01.

“Grantors” has the meaning assigned to such term in the preamble hereto.

“Guarantor Obligations” means, with respect to any Guarantor, all obligations and liabilities of such Guarantor which may arise under or in connection with this Agreement (including Article II), whether on account of guarantee obligations, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including all fees and disbursements of counsel to the Administrative Agent or to the Lenders that are required to be paid by such Guarantor pursuant to the terms of this Agreement); provided that “Guarantor Obligations” of any Guarantor shall not include any Excluded Swap Obligations of such Guarantor.

“Grantors” means the collective reference to each Grantor (other than the Borrower); provided that each Grantor (other than the Borrower) shall be considered a Guarantor only with respect to guaranteeing the Primary Obligations of each other Loan Party.

“Intercompany Notes” means any promissory note evidencing loans made by any Grantor to any other Grantor.

“Investment Property” means, collectively: (a) all “investment property” as such term is defined in Section 9-102(a)(49) of the UCC (other than any Foreign Subsidiary Voting Stock excluded from the definition of “Pledged Securities”, (b) all “financial assets” as such term is defined Section 8-102(a)(9) of the UCC, and (c) whether or not constituting “investment property” as so defined, all Pledged Notes and all Pledged Securities.

“Issuers” means, collectively, each issuer of a Pledged Security.

“Lenders” has the meaning assigned to such term in the preamble hereto.

“Payment in Full” means such time as (a) the Commitments shall have expired or been terminated, (b) the principal of and interest on each Loan and all fees payable hereunder and all other amounts payable under the Loan Documents shall have been indefeasibly paid in full (other than contingent indemnification obligations), (c) all letters of credit shall have expired or terminated (or shall have been cash collateralized or otherwise secured to the satisfaction of the relevant lender) and all unreimbursed letters of credit shall have been reimbursed and (d) all amounts due under Hedge Contracts to a Swap Counterparty shall have been indefeasibly paid in full in cash (or such Hedge Contracts are cash collateralized or otherwise secured to the satisfaction of the Swap Counterparty) (it is understood that the Administrative Agent shall be (i) permitted to rely on a certificate of a Responsible Officer of the Borrower to establish the foregoing in clause (d) and (ii) entitled to deem that the foregoing clause (d) has occurred with respect to any Swap Counterparty if it does not respond to a written request from the Administrative Agent or the Borrower to confirm that the foregoing clause (d) has occurred within two (2) Business Days of such request).

“Pledged Notes” means all promissory notes listed on Schedule 2, together with all Intercompany Notes at any time issued to any Grantor and all other promissory notes issued to or held by any Grantor; provided that Pledged Notes shall not include any Excluded Asset.

“Pledged Securities” means: (a) the Equity Interests described or referred to in Schedule 2, together with any other Equity Interests of any Person that may be issued or granted to, or held by, any Grantor while this Agreement is in effect, (b) the certificates or instruments, if any, representing such Equity Interests, (c) all dividends (cash, stock or otherwise), cash, instruments, rights to subscribe, purchase or sell and all other rights and property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such Equity Interests, (d) all replacements, additions to and substitutions for any of the property referred to in this definition, including claims against third parties, (e) the proceeds, interest, profits and other income of or on any of the property referred to in this definition and (f) all books and records relating to any of the property referred to in this definition; provided that Pledged Securities shall not include any Excluded Asset.

“Post-Default Rate” means the per annum rate of interest provided for in the definition of Applicable Margin in Section 1.01 of the Credit Agreement, but in no event to exceed the Maximum Rate.

“Primary Obligations” means, with respect to any Loan Party, the collective reference to any and all amounts owing or to be owing by such Loan Party (a) to the Administrative Agent, any Lender or any other Person under any Loan Document or (b) to any Swap Counterparty under a Hedge Contract or to any Banking Services Provider under Bank Services Agreements and all renewals, extensions and/or rearrangements of any of the foregoing, in each case, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising (including interest accruing after the maturity of the Loans, unreimbursed letters of credit and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to such Loan Party, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding).

“Secured Agreement” means the Credit Agreement, this Agreement, any other Security Instrument, any Hedge Contract with a Swap Counterparty, any Bank Services Agreement with a Banking Services Provider and any other Loan Document.

“Secured Obligations” means, with respect to any Grantor, the collective reference to its Primary Obligations and Guarantor Obligations; provided that “Secured Obligations” of any Grantor shall not include any Excluded Swap Obligations of such Grantor.

“UCC” means the Uniform Commercial Code as from time to time in effect in the State of New York.

Section 1.02 Other Definitional Provisions; References. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented, restated or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth in the Loan Documents), (b) any reference herein to any law shall be construed as referring to such law as amended, modified, codified or reenacted, in whole or in part, and in effect from time to time, (c) any reference herein to any Person shall be construed to include such Person’s successors and assigns (subject to the restrictions contained in the Loan Documents), (d) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (e) with respect to the determination of any time period, the word “from” means “from and including” and the word “to” and the word “through” means “to and including” and (f) any reference herein to Articles, Sections, Annexes, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Annexes, Exhibits and Schedules to, this Agreement. The permitted existence of any Liens permitted by Section 6.01 of the Credit Agreement or any other Liens shall not be interpreted to expressly or impliedly subordinate any Liens granted in favor of the Administrative Agent and the other Secured Parties as there is no intention to subordinate the Liens granted in favor of the Administrative Agent and the other Secured Parties. No provision of this Agreement or any other Loan Document shall be interpreted or construed against any Person solely because such Person or its legal representative drafted such provision.

ARTICLE II GUARANTEE

Section 2.01 Guarantee.

(a) Each of the Guarantors hereby, jointly and severally, unconditionally and irrevocably, guarantees to the Administrative Agent, for the ratable benefit of the Secured Parties and each of their respective successors, indorsees, transferees and assigns, the prompt and complete payment and performance by the Loan Parties when due (whether at the stated maturity, by acceleration or otherwise) of the Primary Obligations of the Loan Parties (other than, with respect to any Guarantor, any Excluded Swap Obligations of such Guarantor). This is a guarantee of payment and performance when due and not of collection, and the liability of each Guarantor is primary and not secondary.

(b) Anything herein or in any other Loan Document to the contrary notwithstanding, the maximum liability of each Guarantor (other than the Borrower) hereunder and under the other Loan Documents shall in no event exceed the amount which can be guaranteed by such Guarantor under applicable federal and state laws relating to the insolvency of debtors (after giving effect to the right of contribution established in Section 2.02).

(c) Each Guarantor agrees that the Primary Obligations may at any time and from time to time exceed the amount of the liability of such Guarantor hereunder without impairing the guarantee contained in this Article II or affecting the rights and remedies of the Administrative Agent or any Secured Party hereunder.

(d) Each Guarantor agrees that if the maturity of any of the Primary Obligations is accelerated by bankruptcy or otherwise, such maturity shall also be deemed accelerated for the purpose of this guarantee without demand or notice to such Guarantor. The guarantee contained in this Article II shall remain in full force and effect until Payment in Full, notwithstanding that from time to time during the term of the Credit Agreement no Primary Obligations may be outstanding.

(e) No payment made by the Borrower, any other Loan Party with Primary Obligations, any of the Guarantors, any other guarantor or any other Person or received or collected by the Administrative Agent or any other Secured Party from the Borrower, any other Loan Party with Primary Obligations, any of the Guarantors any other guarantor or any other Person by virtue of any action or proceeding or any set-off or appropriation or application at any time or from time to time in reduction of or in payment of any Primary Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of any Guarantor hereunder which shall, notwithstanding any such payment (other than any payment made by such Guarantor in respect of any Primary Obligations or any payment received or collected from such Guarantor in respect of any Primary Obligations), remain liable for the Primary Obligations up to the maximum liability of such Guarantor hereunder until Payment in Full.

Section 2.02 Right of Contribution. Each Guarantor hereby agrees that to the extent that a Guarantor shall have paid more than its proportionate share of any payment made hereunder, such Guarantor shall be entitled to seek and receive contribution from and against any other Guarantor hereunder which has not paid its proportionate share of such payment. Each Guarantor's right of contribution shall be subject to the terms and conditions of Section 4.02. The provisions of this Section 2.02 shall in no respect limit the obligations and liabilities of any Guarantor to the Administrative Agent and the Lenders, and each Guarantor shall remain liable to the Administrative Agent and the Lenders for the full amount guaranteed by such Guarantor hereunder.

Section 2.03 Payments. Each Guarantor hereby agrees and guarantees that payments hereunder will be paid to the Administrative Agent without set-off or counterclaim in dollars that constitute immediately available funds at the principal office of the Administrative Agent specified pursuant to the Credit Agreement.

Section 2.04 Guarantee Absolute and Unconditional. Each Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Primary Obligations and notice of or proof of reliance by the Administrative Agent or any Secured Party upon the guarantee contained in this Article II or acceptance of the guarantee contained in this Article II; the Primary Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon the guarantee contained in this Article II; and all dealings between the Loan Parties, on the one hand, and the Administrative Agent and the Secured Parties, on the other hand, likewise shall be conclusively presumed to have been had or consummated in reliance upon the guarantee contained in this Article II. Each Guarantor waives diligence, presentment, protest, demand for payment and notice of default or nonpayment to or upon the Borrower, any other Loan Party with Primary Obligations or any of the Guarantors with respect to the Primary Obligations. Each Guarantor understands and agrees that the guarantee contained in this Article II shall be construed as a continuing, absolute and unconditional guarantee of payment without regard to (a) the validity or enforceability of any Secured Agreement, any of the Primary Obligations or any other collateral security therefor or guarantee or right of offset with respect thereto at any time or from time to time held by the Administrative Agent or any Secured Party, (b) any defense, set-off or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by the Borrower, any other Loan Party or any other Person against the Administrative Agent or any Secured Party, or (c) any other circumstance whatsoever (with or without notice to or knowledge of the Borrower, any other Loan Party with Primary Obligations or such Guarantor) which constitutes, or might be construed to constitute, an equitable or legal discharge of the Loan Parties for the Primary Obligations, or of such Guarantor under the guarantee contained in this Article II, in bankruptcy or in any other instance. When making any demand hereunder or otherwise pursuing its rights and remedies hereunder against any Guarantor, the

Administrative Agent or any Secured Party may, but shall be under no obligation to, make a similar demand on or otherwise pursue such rights and remedies as it may have against the Borrower, any other Loan Party with Primary Obligations, any other Guarantor or any other Person or against any collateral security or guarantee for the Primary Obligations or any right of offset with respect thereto, and any failure by the Administrative Agent or any Secured Party to make any such demand, to pursue such other rights or remedies or to collect any payments from the Borrower, any other Loan Party with Primary Obligations, any other Guarantor or any other Person or to realize upon any such collateral security or guarantee or to exercise any such right of offset, or any release of the Borrower, any other Loan Party with Primary Obligations, any other Guarantor or any other Person or any such collateral security, guarantee or right of offset, shall not relieve any Guarantor of any obligation or liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Administrative Agent or any Secured Party against any Guarantor. For the purposes hereof "demand" shall include the commencement and continuance of any legal proceedings.

Section 2.05 Reinstatement. The obligations of each Grantor under this Agreement (including, with respect to the guarantee contained in Article II and the provision of collateral herein) shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Primary Obligations is rescinded or must otherwise be restored or returned by the Administrative Agent or any other Secured Party upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of any Grantor, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, either of the Borrower or any Grantor or any substantial part of its property, or otherwise, all as though such payments had not been made.

Section 2.06 Keepwell. Each Qualified Keepwell Provider hereby jointly and severally absolutely, unconditionally, and irrevocably undertakes to provide such funds or other support as may be needed from time to time by each other Grantor to honor all of its obligations under this Agreement in respect of any Hedge Contracts (provided, however, that each Qualified Keepwell Provider shall only be liable under this Section 2.06 for the maximum amount of such liability that can be hereby incurred without rendering its obligations under this Section 2.06, or otherwise under this Agreement, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer, and not for any greater amount). The obligations of each Qualified Keepwell Provider under this Section 2.06 shall remain in full force and effect until Payment in Full. Each Qualified Keepwell Provider intends that this Section 2.06 constitute, and this Section 2.06 shall be deemed to constitute, a "keepwell, support, or other agreement" for the benefit of each other Grantor for all purposes of Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

ARTICLE III GRANT OF SECURITY INTEREST

Section 3.01 Grant of Security Interest. Each Grantor hereby pledges, assigns and transfers to the Administrative Agent and grants to the Administrative Agent, for the ratable benefit of the Secured Parties, a security interest in all of the following property now owned or at any time hereafter acquired by such Grantor or in which such Grantor now has or at any time in the future may acquire any right, title or interest and whether now existing or hereafter coming into existence (collectively, the "Collateral"), as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of such Grantor's Secured Obligations:

- (1) all Accounts;
- (2) all Chattel Paper (whether Tangible Chattel Paper or Electronic Chattel Paper);

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- (3) all Commercial Tort Claims;
 - (4) all Deposit Accounts, all Commodity Accounts and all Securities Accounts;
 - (5) all Documents (other than title documents with respect to Vehicles);
 - (6) all General Intangibles (including rights in and under any Hedge Contracts);
 - (7) all Goods (including all Inventory and all Equipment);
 - (8) all Instruments;
 - (9) all Investment Property;
 - (10) all Letter-of-Credit Rights (whether or not the letter of credit is evidenced by a writing);
 - (11) all Pledged Securities and all Pledged Notes;
 - (12) all Supporting Obligations;
 - (13) all books and records pertaining to the Collateral;
 - (14) to the extent not otherwise included, any other property insofar as it consists of personal property of any kind or character defined in and subject to the UCC and

(15) to the extent not otherwise included, all Proceeds and products of any and all of the foregoing and all collateral security, income, royalties and other payments now or hereafter due and payable with respect to, and guarantees and supporting obligations relating to, any and all of the Collateral and, to the extent not otherwise included, all payments of insurance (whether or not the Administrative Agent is the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral, all other claims, including all cash, guarantees and other Supporting Obligations given with respect to any of the foregoing.

Notwithstanding anything herein to the contrary, in no event shall the Collateral include, and no Grantor shall be deemed to have granted a security interest in (a) any of such Grantor's rights or interests in or under any Property to the extent that, and only for so long as, such grant of a security interest (i) is prohibited by any Legal Requirement of a Governmental Authority with jurisdiction over such Property, (ii) requires a consent not obtained of a Governmental Authority with jurisdiction over such Property that is required pursuant to any Legal Requirement, or (iii) is prohibited by, or constitutes a breach or default under or results in the termination of or requires any consent not obtained under, any contract, license, agreement, instrument or other document, in each case, that directly evidences or gives rise to such Property; provided that any of the foregoing exclusions shall not apply if (A) such prohibition has been waived or such Governmental Authority or other party has otherwise consented to the creation hereunder of a security interest in such asset or (B) such prohibition, consent or the term in such contract, license, agreement, instrument or other document or providing for such prohibition breach, default or termination or requiring such consent is ineffective or would be rendered ineffective under any Legal Requirement, including pursuant to Section 9-406, 9-407 or 9-408 of Article 9 of the UCC; provided further that it is understood for avoidance of doubt that immediately upon any of the foregoing becoming or being rendered ineffective or any such prohibition, requirement for consent or term lapsing or termination or such consent being obtained, the applicable Grantor shall be deemed to have granted a Lien in all its rights, title and interests in and to such Property, (b) motor vehicles or other assets subject to certificates

of title (except to the extent a Lien thereon can be perfected by filing a customary financing statement), (c) any Letter-of-Credit Rights (except to the extent a Lien thereon can be perfected by filing a customary financing statement), (d) any equipment or other asset owned by any Grantor that is subject to a purchase money lien or a Capitalized Lease Obligation, in each case, as permitted under the Credit Agreement, if the contract or other agreement in which such Lien is granted (or the documentation providing for such Capitalized Lease Obligation) prohibits or requires the consent of any person other than the Grantors as a condition to the creation of any other security interest on such equipment or asset and, in each case, such prohibition or requirement is permitted by the Credit Agreement or (e) those assets of a Grantor with respect to which, in the sole discretion of the Administrative Agent, the burdens, costs or consequences of obtaining a Lien on such assets are excessive in view of the benefits to be obtained by the Secured Parties (collectively, "Excluded Assets").

Section 3.02 Transfer of Pledged Securities. All certificates and instruments representing or evidencing the Pledged Securities shall be delivered to and held pursuant hereto by the Administrative Agent or a Person designated by the Administrative Agent and, in the case of an instrument or certificate in registered form, shall be duly indorsed to the Administrative Agent or in blank by an effective indorsement (whether on the certificate or instrument or on a separate writing), and accompanied by any required transfer tax stamps to effect the pledge of the Pledged Securities to the Administrative Agent. Each Grantor shall take all such further action as necessary or as may be reasonably requested by the Administrative Agent, to permit the Administrative Agent to be a "protected purchaser" to the extent of its security interest as provided in Section 8-303 of the UCC (if the Administrative Agent otherwise qualifies as a protected purchaser).

Section 3.03 Grantors Remain Liable under Accounts, Chattel Paper and Payment Intangibles Notwithstanding anything herein to the contrary, each Grantor shall remain liable under each of the Accounts, Chattel Paper and Payment Intangibles to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any agreement giving rise to each such Account, Chattel Paper or Payment Intangible. Neither the Administrative Agent nor any other Secured Party shall have any obligation or liability under any Account, Chattel Paper or Payment Intangible (or any agreement giving rise thereto) by reason of or arising out of this Agreement or the receipt by the Administrative Agent or any such other Secured Party of any payment relating to such Account, Chattel Paper or Payment Intangible, pursuant hereto, nor shall the Administrative Agent or any other Secured Party be obligated in any manner to perform any of the obligations of any Grantor under or pursuant to any Account, Chattel Paper or Payment Intangible (or any agreement giving rise thereto), to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party under any Account, Chattel Paper or Payment Intangible (or any agreement giving rise thereto), to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

Section 3.04 Pledged Securities. The granting of the foregoing security interest does not make the Administrative Agent or any Secured Party a successor to Grantor as a partner or member in any Issuer that is a partnership, limited partnership or limited liability company, as applicable, and neither the Administrative Agent, any Secured Party, nor any of their respective successors or assigns hereunder shall be deemed to have become a partner or member in any Issuer, as applicable, by accepting this Agreement or exercising any right granted herein unless and until such time, if any, when any such Person expressly becomes a partner or member in any Issuer, as applicable, and complies with any applicable transfer provisions set forth in the charter or organizational documents relating to an applicable Pledged Security after a foreclosure thereon.

ARTICLE IV
ACKNOWLEDGMENTS, WAIVERS AND CONSENTS

Section 4.01 Acknowledgments, Waivers and Consents.

(a) The Borrower is a member of an affiliated group of Persons that includes each Guarantor. Each Guarantor acknowledges and agrees that the Borrower and the Guarantors are engaged in related business, and each Guarantor will derive substantial direct and indirect benefit from the making of the extensions of credit under the Credit Agreement and from the Borrower and the other Loan Parties entering into the other Secured Agreements.

(b) Each Grantor acknowledges and agrees that the obligations undertaken by it under this Agreement involve the guarantee of the Primary Obligations and the provision of collateral security for the Secured Obligations, which obligations consist, in part, of the obligations of Persons other than such Grantor and that such Grantor's guarantee and provision of collateral security for the Secured Obligations are absolute, irrevocable and unconditional under any and all circumstances. In full recognition and furtherance of the foregoing, each Grantor understands and agrees, to the fullest extent permitted under applicable law and except as may otherwise be expressly and specifically provided in the Loan Documents, that each Grantor shall remain obligated hereunder (including, with respect to the guarantee made by such Grantor hereby and the collateral security provided by such Grantor herein) and the enforceability and effectiveness of this Agreement and the liability of such Grantor, and the rights, remedies, powers and privileges of the Administrative Agent and the other Secured Parties under this Agreement and the other Loan Documents shall not be affected, limited, reduced, discharged or terminated in any way:

(i) notwithstanding that, without any reservation of rights against any Grantor and without notice to or further assent by any Grantor, (A) any demand for payment of any of the Secured Obligations made by the Administrative Agent or any other Secured Party may be rescinded by the Administrative Agent or such other Secured Party and any of the Secured Obligations continued; (B) the Secured Obligations, the liability of any other Person upon or for any part thereof or any collateral security or guarantee therefor or right of offset with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by, or any indulgence or forbearance in respect thereof granted by, the Administrative Agent or any other Secured Party; (C) the Secured Agreements and any other documents executed and delivered in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Administrative Agent (or the Required Lenders, the Majority Lenders, all Lenders or other requisite Secured Parties, as the case may be) may deem advisable from time to time; (D) any Grantor or any other Person may from time to time accept or enter into new or additional agreements, security documents, guarantees or other instruments in addition to, in exchange for or relative to, any Secured Agreement, all or any part of the Secured Obligations or any Collateral now or in the future serving as security for the Secured Obligations; (E) any collateral security, guarantee or right of offset at any time held by the Administrative Agent or any other Secured Party for the payment of the Secured Obligations may be sold, exchanged, waived, surrendered or released in accordance with the Loan Documents; and (F) any other event shall occur which constitutes a defense or release of sureties generally; and

(ii) without regard to, and each Grantor hereby expressly waives to the fullest extent permitted by law any defense now or in the future arising by reason of, (A) the illegality, invalidity or unenforceability of the Credit Agreement, any other Secured Agreement, any of the Secured Obligations or any other collateral security therefor or guarantee or right of offset with respect thereto at any time or from time to time held by the Administrative Agent or any other Secured Party; (B) any defense, set-off or counterclaim (other than a defense of payment or performance) which may at any time

be available to or be asserted by any Grantor or any other Person against the Administrative Agent or any other Secured Party; (C) the insolvency, bankruptcy arrangement, reorganization, adjustment, composition, liquidation, disability, dissolution or lack of power of any Grantor or any other Person at any time liable for the payment of all or part of the Secured Obligations or the failure of the Administrative Agent or any other Secured Party to file or enforce a claim in bankruptcy or other proceeding with respect to any Person; or any sale, lease or transfer of any or all of the assets of the any Grantor, or any changes in the shareholders of any Grantor; (D) the fact that any Collateral or Lien contemplated or intended to be given, created or granted as security for the repayment of the Secured Obligations shall not be properly perfected or created, or shall prove to be unenforceable or subordinate to any other Lien, it being recognized and agreed by each of the Grantors that it is not entering into this Agreement in reliance on, or in contemplation of the benefits of, the validity, enforceability, collectability or value of any of the Collateral for the Secured Obligations; (E) any failure of the Administrative Agent or any other Secured Party to marshal assets in favor of any Grantor or any other Person, to exhaust any collateral for all or any part of the Secured Obligations, to pursue or exhaust any right, remedy, power or privilege it may have against any Grantor or any other Person or to take any action whatsoever to mitigate or reduce any Grantor's liability under this Agreement or any other Secured Agreement; (F) any law which provides that the obligation of a surety or guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal or which reduces a surety's or guarantor's obligation in proportion to the principal obligation; (G) the possibility that the Secured Obligations may at any time and from time to time exceed the aggregate liability of such Grantor under this Agreement; or (H) any other circumstance or act whatsoever, including any act or omission of the type described in this [Section 4.01\(b\)\(ii\)](#) (with or without notice to or knowledge of any Grantor), which constitutes, or might be construed to constitute, an equitable or legal discharge or defense of the Borrower for the Secured Obligations, or of such Grantor under the guarantee contained in [Article II](#) or with respect to the collateral security provided by such Grantor herein, or which might be available to a surety or guarantor, in bankruptcy or in any other instance.

(c) Each Grantor hereby waives to the extent permitted by law: (i) except as expressly provided otherwise in any Loan Document, all notices to such Grantor, or to any other Person, including but not limited to, notices of the acceptance of this Agreement, the guarantee contained in [Article II](#) or the provision of collateral security provided herein, or the creation, renewal, extension, modification, accrual of any Secured Obligations, or notice of or proof of reliance by the Administrative Agent or any other Secured Party upon the guarantee contained in [Article II](#) or upon the collateral security provided herein, or of default in the payment or performance of any of the Secured Obligations owed to the Administrative Agent or any other Secured Party and enforcement of any right or remedy with respect thereto; or notice of any other matters relating thereto; the Secured Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon the guarantee contained in [Article II](#) and the collateral security provided herein and no notice of creation of the Secured Obligations or any extension of credit already or hereafter contracted by or extended to the Borrower need be given to any Grantor; and all dealings between the Borrower and any of the Grantors, on the one hand, and the Administrative Agent and the other Secured Parties, on the other hand, likewise shall be conclusively presumed to have been had or consummated in reliance upon the guarantee contained in [Article II](#) and on the collateral security provided in this Agreement; (ii) diligence and demand of payment, presentment, protest, dishonor and notice of dishonor; (iii) any statute of limitations affecting any Grantor's liability hereunder or the enforcement thereof; (iv) all rights of revocation with respect to the Secured Obligations, the guarantee contained in [Article II](#) and the provision of collateral security herein; and (v) all principles or provisions of law which conflict with the terms of this Agreement and which can, as a matter of law, be waived.

(d) When making any demand hereunder or otherwise pursuing its rights and remedies hereunder against any Grantor, the Administrative Agent or any other Secured Party may, but shall be under no obligation to, join or make a similar demand on or otherwise pursue or exhaust such rights and remedies as it may have against the Borrower, any other Grantor or any other Person or against any collateral security or guarantee for the Secured Obligations or any right of offset with respect thereto, and any failure by the Administrative Agent or any other Secured Party to make any such demand, to pursue such other rights or remedies or to collect any payments from the Borrower, any other Grantor or any other Person or to realize upon any such collateral security or guarantee or to exercise any such right of offset, or any release of the Borrower, any Grantor or any other Person or any such collateral security, guarantee or right of offset, shall not relieve any Grantor of any obligation or liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Administrative Agent or any other Secured Party against any Grantor. For the purposes hereof "demand" shall include the commencement and continuance of any legal proceedings. Neither the Administrative Agent nor any other Secured Party shall have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Secured Obligations or for the guarantee contained in Article II or any property subject thereto.

Section 4.02 No Subrogation, Contribution or Reimbursement. Notwithstanding any payment made by any Guarantor hereunder or any set-off or application of funds of any Guarantor by the Administrative Agent or any other Secured Party, no Guarantor shall be entitled to be subrogated to any of the rights of the Administrative Agent or any other Secured Party against the Borrower or any other Guarantor or any collateral security or guarantee or right of offset held by the Administrative Agent or any other Secured Party for the payment of the Secured Obligations, nor shall any Guarantor seek or be entitled to seek any indemnity, exoneration, participation, contribution or reimbursement from the Borrower or any other Guarantor in respect of payments made by such Guarantor hereunder, and each Guarantor hereby expressly waives, releases, and agrees not to exercise all such rights of subrogation, reimbursement, indemnity and contribution, in each case, until Payment in Full. Each Guarantor further agrees that to the extent that such waiver and release set forth herein is found by a court of competent jurisdiction to be void or voidable for any reason, any rights of subrogation, reimbursement, indemnity and contribution such Guarantor may have against the Borrower, any other Guarantor or against any collateral or security or guarantee or right of offset held by the Administrative Agent or any other Secured Party shall be junior and subordinate to any rights the Administrative Agent and the other Secured Parties may have against the Borrower and such Guarantor and to all right, title and interest the Administrative Agent and the other Secured Parties may have in any collateral or security or guarantee or right of offset. The Administrative Agent, for the benefit of the Secured Parties, may, to the extent it has the right to do so in accordance with the terms and conditions of the Credit Agreement and the other Loan Documents, use, sell or dispose of any item of Collateral or security as it sees fit without regard to any subrogation rights any Guarantor may have, and upon any disposition or sale, any rights of subrogation any Guarantor may have shall terminate.

ARTICLE V REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent and the Lenders to enter into the Credit Agreement and to induce the Lenders to make their respective extensions of credit to the Borrower thereunder and to induce the other Secured Parties to enter into other Secured Agreements, each Grantor hereby represents and warrants to the Administrative Agent and each other Secured Party that:

Section 5.01 Representations in Credit Agreement. In the case of each Guarantor, the representations and warranties set forth in Article IV of the Credit Agreement as they relate to such Guarantor or to the Loan Documents to which such Guarantor is a party are true and correct in all material respects (unless already qualified by materiality in which case such applicable representation and warranty is true and correct), except to the extent any such representations and warranties are expressly

limited to an earlier date, in which case, such representations and warranties continues to be true and correct in all material respects (unless already qualified by materiality in which case such applicable representation and warranty is true and correct) as of such specified earlier date; provided that each reference in each such representation and warranty to the Borrower's knowledge shall, for the purposes of this Section 5.01, be deemed to be a reference to such Guarantor's knowledge.

Section 5.02 Title; No Other Liens. Except for the security interest granted to the Administrative Agent for the ratable benefit of the Secured Parties pursuant to this Agreement and Liens permitted by Section 6.01 of the Credit Agreement, such Grantor is the legal and beneficial owner of its respective items of the Collateral free and clear of any and all Liens. No financing statement or other public notice with respect to all or any part of the Collateral is on file or of record in any public office, except for (a) terminated or released financing statements or other notices in connection with any such terminated or released financing statement, (b) cautionary financing statements filed in connection with personal property leases not intended to be Debt, (c) financing statements filed to perfect transactions constituting or stated to be sales of receivables or chattel paper permitted to be secured by, and in accordance with, the Credit Agreement and (d) such as have been filed in favor of the Administrative Agent, for the ratable benefit of the Secured Parties, pursuant to this Agreement, the Security Instruments or as are filed to secure or perfect Liens permitted by Section 6.01 of the Credit Agreement.

Section 5.03 Perfected First Priority Liens. The security interests granted pursuant to this Agreement (a) upon completion of the filings and other actions specified on Schedule 3 (which, in the case of all filings and other documents referred to on said Schedule, have been delivered to the Administrative Agent in completed and, if required, duly executed form) will constitute valid perfected security interests in all of the Collateral in which a security interest may be perfected by the filings or actions specified on Schedule 3, in favor of the Administrative Agent for the ratable benefit of the Secured Parties, as collateral security for such Grantor's obligations, enforceable in accordance with the terms hereof against all creditors of such Grantor and any Persons purporting to purchase any Collateral from such Grantor (except as limited by bankruptcy, insolvency or similar laws of general application relating to the enforcement of creditors' rights and except to the extent specific remedies may be limited by equitable principles) and (b) are prior to all other Liens on the Collateral (except for Permitted Liens that have priority by operation of law over the Liens created hereby). The Deposit Accounts, Commodity Accounts and Securities Accounts shown in Schedule 3 (or which are the subject of the control agreements shown in Schedule 3) are all of the those types of accounts maintained by the Grantors as of the date hereof.

Section 5.04 Legal Name, Organizational Status, Chief Executive Office. On the date hereof, the correct legal name of such Grantor as it appears in its respective certificate of incorporation or any other organizational document, such Grantor's jurisdiction of organization, identification number from the jurisdiction of organization (if any) and the location of such Grantor's chief executive office or sole place of business are, in each case, specified on Schedule 4. Except as set forth in Schedule 4, no Grantor has changed its jurisdiction of organization (or had another jurisdiction of organization, including by way of merger, consolidation or otherwise) at any time during the past four months.

Section 5.05 Prior Names and Addresses. Schedule 5 correctly sets forth, as of the date hereof, (a) a list of all other names used by each Grantor, or by any other business or organization to which each Grantor became the successor by merger, consolidation, acquisition, change in form, nature or jurisdiction of organization or otherwise, and on any filings with the Internal Revenue Service at any time within the five (5) years preceding the date hereof and (b) the chief executive office of such Grantor over the last five (5) years (if different from that which is set forth in Section 5.04 above).

Section 5.06 Investment Property.

(a) The shares (or such other interests) of Pledged Securities pledged by such Grantor hereunder constitute all the issued and outstanding shares (or such other interests) of all classes of the capital stock or other Equity Interests of each Issuer owned by such Grantor as of the date hereof. All the shares (or such other interests) of the Pledged Securities have been duly and validly issued and are fully paid and nonassessable.

(b) To the knowledge of the applicable Grantor, each Intercompany Note and Pledged Note constitutes the legal, valid and binding obligation of the obligor with respect thereto, in each case, enforceable in accordance with its terms (subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing).

(c) Such Grantor is the record and beneficial owner of, and has good and marketable title to, the Investment Property pledged by it hereunder, free of any and all Liens except Liens permitted by Section 6.01 of the Credit Agreement or options in favor of, or claims of, any other Person, except the security interest created by this Agreement. Except as set forth on Schedule 2, no Investment Property is certificated or is a security under Section 8.103 of the UCC as of the date hereof.

Section 5.07 Goods. No portion of the Collateral constituting Goods with an aggregate value in excess of \$3,500,000 is in the possession of a bailee that has issued a negotiable or non-negotiable document covering such Collateral.

Section 5.08 Instruments and Chattel Paper. As of the date hereof, such Grantor has delivered to the Administrative Agent all Collateral constituting Instruments and Chattel Paper existing on such date; provided that no such Instrument or Chattel Paper shall be required to be delivered to the Administrative Agent so long as the aggregate amount payable evidenced by all such undelivered Instruments or Chattel Paper does not exceed \$500,000. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any Instrument or Chattel Paper, such Instrument or Chattel Paper shall be promptly delivered to the Administrative Agent, duly indorsed in a manner satisfactory to the Administrative Agent, to be held as Collateral pursuant to this Agreement; provided that no such Instrument or Chattel Paper shall be required to be delivered to the Administrative Agent so long as the aggregate amount payable evidenced by all such undelivered Instruments or Chattel Papers (including Instruments and Chattel Paper not delivered by the date hereof pursuant to the previous sentence) does not exceed \$500,000.

Section 5.09 Truth of Information: Accounts. All information with respect to the Collateral set forth in any schedule, certificate or other writing at any time heretofore or hereafter furnished by such Grantor to the Administrative Agent or any other Secured Party, and all other written information heretofore or hereafter furnished by such Grantor to the Administrative Agent or any other Secured Party is and will be true and correct in all material respects as of the date furnished. The place where each Grantor keeps its records concerning the Accounts, Chattel Paper and Payment Intangibles is at the location specified on Schedule 4.

Section 5.10 Governmental Obligors. None of the Account Debtors on such Grantor's Accounts, Chattel Paper or Payment Intangibles is a Governmental Authority.

Section 5.11 Commercial Tort Claims. As of the date hereof, no Grantor has rights in any Commercial Tort Claim with potential value in excess of \$3,500,000.

**ARTICLE VI
COVENANTS**

Each Grantor covenants and agrees with the Administrative Agent and the other Secured Parties that, from and after the date of this Agreement until Payment in Full:

Section 6.01 Covenants in Credit Agreement. In the case of each Guarantor, such Guarantor shall perform and observe all covenants applicable to it in the Credit Agreement or the other Loan Documents.

Section 6.02 Maintenance of Perfected Security Interest; Further Documentation

(a) Such Grantor shall maintain the security interest created by this Agreement as a Lien upon the Collateral having at least the priority described in Section 5.03. Such Grantor will not create or suffer to be created or permit to exist any Lien, security interest or charge prior or junior to or on a parity with the Lien created by this Agreement upon the Collateral or any part thereof other than Liens permitted by Section 6.01 of the Credit Agreement. Such Grantor will warrant and defend the title to the Collateral against the claims and demands of all other Persons whomsoever (other than Liens permitted by Section 6.01 of the Credit Agreement) and will maintain and preserve the Lien created hereby (and the priority specified herein) until Payment in Full, but subject to the rights of such Grantor under the Loan Documents to dispose of the Collateral. If (i) an adverse claim be made against any part of the Collateral other than Liens permitted by Section 6.01 of the Credit Agreement or (ii) any Person, including the holder of a Liens permitted by Section 6.01 of the Credit Agreement (other than permitted Liens that have priority by operation of law over the Liens created hereby), shall challenge the priority or validity of the Liens created by this Agreement, then such Grantor agrees to promptly defend against such adverse claim, take appropriate action to remove such cloud or subordinate such Liens permitted by Section 6.01 of the Credit Agreement (other than permitted Liens that have priority by operation of law over the Liens created hereby), in each case, at such Grantor's sole cost and expense. Such Grantor further agrees that the Administrative Agent may, upon prior written notice to such Grantor, take such other action as they deem advisable to protect and preserve their interests in the Collateral, and in such event such Grantor will indemnify the Administrative Agent against any and all reasonable out of pocket costs, attorneys' fees and other expenses which it may incur in defending against any such adverse claim.

(b) Such Grantor will furnish to the Administrative Agent from time to time statements and schedules further identifying and describing the assets and property of such Grantor and such other reports in connection therewith as the Administrative Agent may reasonably request in compliance with the Credit Agreement.

(c) At any time and from time to time, upon the reasonable written request of the Administrative Agent, and at the sole expense of such Grantor, such Grantor will promptly and duly give, execute, deliver, indorse, file or record any and all financing statements, continuation statements, amendments, notices (including notifications to financial institutions and any other Person), contracts, agreements, assignments, certificates, stock powers or other instruments, obtain any and all governmental approvals and consents and take or cause to be taken any and all steps or acts that may be necessary or as the Administrative Agent may reasonably request to create, perfect, establish at least the priority described in Section 5.03 of, or to preserve the validity, perfection or priority of, the Liens granted by this Agreement or to enable the Administrative Agent or any other Secured Party to enforce its rights, remedies, powers and privileges under this Agreement with respect to such Liens or to otherwise obtain or preserve the full benefits of this Agreement and of the rights, powers and privileges herein granted, including filing any financing or continuation statements under the Uniform Commercial Code (or other similar laws) in effect in any jurisdiction with respect to the security interests created hereby. It is understood that, with respect to motor vehicles and other similar assets subject to certificates of title, the Administrative Agent shall not request its security interest therein to be perfected by means other than filing a financing statement.

(d) Without limiting the obligations of the Grantors under Section 6.02(c), at any time and from time to time upon the written request of the Administrative Agent such Grantor shall take or cause to be taken all actions (other than any actions required to be taken by the Administrative Agent or any Lender) reasonably requested by the Administrative Agent to cause the Administrative Agent to (i) have “control” (within the meaning of Sections §8-106, 9-104, 9-105, 9-106, and 9-107 of the UCC) over any Collateral constituting Deposit Accounts, Commodity Accounts, Securities Accounts, Electronic Chattel Paper, Investment Property (including certificated Pledged Securities), or Letter-of-Credit Rights, including executing and delivering any agreements (including indorsements), in form and substance reasonably satisfactory to the Administrative Agent, with securities intermediaries, issuers or other Persons in order to establish “control”, and each Grantor shall promptly notify the Administrative Agent of such Grantor’s acquisition of any such Collateral (other than Excluded Accounts), and (ii) be a “protected purchaser” under Section 8-303 of the UCC.

(e) This Section 6.02 and the obligations imposed on each Grantor hereof shall be interpreted as broadly as possible in favor of the Administrative Agent and the other Secured Parties in order to effectuate the purpose and intent of this Agreement.

Section 6.03 Maintenance of Records. Such Grantor will keep and maintain at its own cost and expense complete records of the Collateral, including a record of all payments received and all credits granted with respect to the Accounts. Such Grantor shall provide access to any such books and records to the Administrative Agent or to its representatives during normal business hours at the written request of the Administrative Agent (made upon prior notice) and shall provide such clerical and other assistance as may be reasonably requested with regard thereto, in each case as provided in Section 5.05 of the Credit Agreement.

Section 6.04 Further Identification of Collateral. Such Grantor will furnish to the Administrative Agent from time to time, at such Grantor’s sole cost and expense, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Administrative Agent may reasonably request, all in reasonable detail, including requests pursuant to Section 5.11 of the Credit Agreement.

Section 6.05 Investment Property.

(a) If such Grantor shall become entitled to receive or shall receive any stock certificate or other instrument (including any certificate or instrument representing a dividend or a distribution in connection with any reclassification, increase or reduction of capital or any certificate or instrument issued in connection with any reorganization), option or rights in respect of the capital stock or other Equity Interests of any Issuer, whether in addition to, in substitution of, as a conversion of, or in exchange for, any shares (or such other interests) of the Pledged Securities, or otherwise in respect thereof, such Grantor shall accept the same as the agent of the Administrative Agent, hold the same in trust for the Administrative Agent and deliver the same forthwith to the Administrative Agent in the exact form received, duly indorsed by such Grantor to the Administrative Agent, if required, together with an undated stock power or other equivalent instrument of transfer acceptable to the Administrative Agent covering such certificate or instrument duly executed in blank by such Grantor and with, if the Administrative Agent so requests, signatures guaranteed, to be held by the Administrative Agent, subject to the terms hereof, as additional collateral security for the Secured Obligations. Upon the occurrence and during the continuance of an Event of Default, without limiting the rights of the Administrative Agent and

the Secured Parties under Section 7.01, (i) any sums paid upon or in respect of any Investment Property upon the liquidation or dissolution of any Issuer shall be paid over to the Administrative Agent to be held, at the Administrative Agent's option, either by it hereunder as additional Collateral for the Secured Obligations or applied to the Secured Obligations as provided in Section 7.04, and (ii) in case any distribution of capital shall be made on or in respect of any Investment Property or any property shall be distributed upon or with respect to any Investment Property pursuant to the recapitalization or reclassification of the capital of any Issuer or pursuant to the reorganization thereof, the property so distributed shall, unless otherwise subject to a perfected security interest in favor of the Administrative Agent for the ratable benefit of the Secured Parties, be delivered to the Administrative Agent to be held, at the Administrative Agent's option, either by it hereunder as additional Collateral for the Secured Obligations or applied to the Secured Obligations as provided in Section 7.04. Upon the occurrence and during the continuance of an Event of Default, if any sums of money or property so paid or distributed in respect of any Investment Property shall be received by such Grantor, such Grantor shall, until such money or property is paid or delivered to the Administrative Agent, hold such money or property in trust for the Secured Parties, segregated from other funds of such Grantor, as additional Collateral for the Secured Obligations.

(b) Without the prior written consent of the Administrative Agent, such Grantor will not (i) vote to enable, or take any other action to permit, any Issuer to issue any stock or other Equity Interests of any nature or to issue any other securities or interests convertible into or granting the right to purchase or exchange for any stock or other Equity Interests of any nature of any Issuer (except to the Borrower or its Subsidiaries (and, if the holder of any Equity Interests is a Loan Party, who is a Loan Party) pursuant to a transaction expressly permitted by the Credit Agreement), (ii) sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Investment Property or Proceeds thereof (except pursuant to a transaction expressly permitted by the Credit Agreement), (iii) create, incur or permit to exist any Lien except for Liens permitted by Section 6.01 of the Credit Agreement or option in favor of, or any claim of any Person with respect to, any of the Investment Property or Proceeds thereof, or any interest therein, except for the security interests created by this Agreement or (iv) enter into any agreement or undertaking restricting the right or ability of such Grantor or the Administrative Agent to sell, assign or transfer any of the Investment Property or Proceeds thereof.

(c) In the case of each Grantor which is also an Issuer, such Issuer agrees that (i) it will be bound by the terms of this Agreement relating to the Investment Property issued by it and will comply with such terms insofar as such terms are applicable to it, (ii) it will notify the Administrative Agent promptly in writing of the occurrence of any of the events described in Section 6.05(a) with respect to the Investment Property issued by it and (iii) the terms of Section 7.01(c) and Section 7.05 shall apply to it, *mutatis mutandis*, with respect to all actions that may be required of it pursuant to Section 7.01(c) or Section 7.05 with respect to the Investment Property issued by it. Each Grantor will use commercially reasonable efforts to have each non-Grantor Issuer execute and deliver an Acknowledgment and Consent substantially in the form of Annex II. In addition, each Grantor which is also either an Issuer or an owner of any Investment Property consents to the grant by each other Grantor of the security interest hereunder in favor of the Administrative Agent and to the transfer of any Investment Property to the Administrative Agent or its nominee upon the occurrence or during the continuation of an Event of Default and to the substitution of the Administrative Agent or its nominee as a partner, member or shareholder of the Issuer of the related Investment Property.

(d) Without the prior written consent of the Administrative Agent or as otherwise expressly permitted by the Credit Agreement, such Grantor shall not vote to enable, consent to or take any other action to: (i) amend, terminate or waive any default under or breach of any terms of any governing document in any way that adversely affects the validity, perfection or priority of the Administrative Agent's security interest hereunder or (ii) cause or, to the fullest extent possible, permit any Issuer of any

Pledged Securities that are not securities (for purposes of Article 8 of the UCC) on the date hereof (or, if such Pledged Securities are owned or acquired by such Grantor after the date hereof, then on such date of acquisition) to elect or otherwise take any action that would cause such Pledged Securities to be treated as securities for purposes of Article 8 of the UCC except to the extent such Grantor complies with Section 6.05(a) with respect to such Pledged Securities and ensures the Administrative Agent has a perfected security interest with at least the priority described in Section 5.03(b) in such Pledged Securities substantially concurrently with such election or taking of any such action. With respect to any securities for purposes of Article 8 of the UCC owned by any Grantor which are securities on the date hereof or, if such Pledged Securities are owned or acquired by such Grantor after the date hereof, the Grantor shall ensure the Administrative Agent has a perfected security interest with at least the priority described in Section 5.03(b) in such security on the date hereof or substantially concurrently with the date of acquisition, as the case may be.

(e) Such Grantor shall furnish to the Administrative Agent such stock powers and other equivalent instruments of transfer as may be required by the Administrative Agent to assure the transferability of and the perfection of the security interest in the Pledged Securities as may be reasonably requested by the Administrative Agent. No Grantor shall permit any Issuer to certificate any Pledged Security unless such Grantor substantially concurrently delivers such Pledged Securities to the Administrative Agent in the exact form received, duly indorsed by such Grantor to the Administrative Agent, if required, together with an undated stock power or other equivalent instrument of transfer acceptable to the Administrative Agent covering such certificate or instrument duly executed in blank by such Grantor.

(f) The Pledged Securities will at all times constitute (i) not less than 100% of the capital stock or other Equity Interests of the Issuer (other than the Borrower's Equity Interest in the Joint Venture) thereof owned by any Grantor and (ii) all of the capital stock or other Equity Interests of the Joint Venture then owned by the Borrower. Upon the issuance of any new shares (or other interests) of any class of capital stock or other Equity Interests of an Issuer to a Grantor, such Equity Interests shall be pledged to the Administrative Agent pursuant to the terms hereof and the Grantor shall substantially concurrently with such issuance, deliver any such Equity Interests that are required to be pledged hereunder in the exact form received, duly indorsed by such Grantor to the Administrative Agent, if required, together with an undated stock power or other equivalent instrument of transfer acceptable to the Administrative Agent covering such certificate or instrument duly executed in blank by such Grantor.

Section 6.06 Limitations on Modifications, Waivers, Extensions of Agreements Giving Rise to Accounts. Such Grantor will not (a) amend, modify, terminate or waive any provision of any Chattel Paper, Instrument or any agreement giving rise to an Account or Payment Intangible in any manner which could reasonably be expected to materially adversely affect the collective value of the Collateral as a whole or (b) fail to exercise promptly and diligently each and every material right which it may have under any Chattel Paper, Instrument and each agreement giving rise to an Account or Payment Intangible with a value in excess of \$500,000 in the aggregate (other than any right of termination); provided, that, a Grantor may make such adjustments, settlements or compromises and release wholly or partly any account debtor or obligor thereof and allow any credit or discounts thereon so long as (i) no Event of Default has occurred and is continuing, (ii) such action is taken in the ordinary course of business and consistent with past practices, and (iii) such action is, in such Grantor's good-faith business judgment, commercially reasonable.

Section 6.07 Instruments and Tangible Chattel Paper. If amounts payable in excess of an aggregate amount of \$500,000 under or in connection with any of the Collateral shall be or become evidenced by any Instrument or Tangible Chattel Paper, such Instrument or Tangible Chattel Paper shall be delivered to the Administrative Agent within ten (10) Business Days, duly indorsed in a manner satisfactory to the Administrative Agent, to be held as Collateral pursuant to this Agreement.

Section 6.08 Commercial Tort Claims. If such Grantor shall obtain an interest in any Commercial Tort Claim with a potential value in excess of \$3,500,000, such Grantor shall within twenty (20) days of obtaining such interest sign and deliver documentation acceptable to the Administrative Agent granting a security interest under the terms and provisions of this Agreement in and to such Commercial Tort Claim.

ARTICLE VII REMEDIAL PROVISIONS

Section 7.01 Pledged Securities.

(a) Unless an Event of Default shall have occurred and be continuing and the Administrative Agent shall have given notice to the relevant Grantor of the Administrative Agent's intent to exercise its corresponding rights pursuant to Section 7.01(b), each Grantor shall be permitted to receive (i) all cash dividends paid in respect of the Pledged Securities and (ii) all payments made in respect of the Pledged Notes, to the extent permitted in the Credit Agreement, and to exercise all voting, corporate and other organizational rights with respect to the Investment Property; provided, however, that no vote shall be cast or corporate or other organizational right exercised or other action taken which would materially impair the Collateral or which would be inconsistent with or result in any violation of any provision of the Credit Agreement, this Agreement or any other Loan Document.

(b) If an Event of Default shall occur and be continuing and the Administrative Agent shall give written notice of its intent to exercise such rights to the relevant Grantor or Grantors, (i) the Administrative Agent shall have the right to receive any and all cash dividends, payments or other Proceeds paid in respect of the Investment Property and make application thereof to the Secured Obligations in accordance with Section 7.02 or 7.03 of the Credit Agreement, and (ii) any or all of the Investment Property shall be registered in the name of the Administrative Agent or its nominee, and the Administrative Agent or its nominee may thereafter exercise (A) all voting and corporate or other organizational rights pertaining to such Investment Property at any meeting of shareholders (or other equivalent body) of the relevant Issuer or Issuers or otherwise and (B) any and all rights of conversion, exchange and subscription and any other rights, privileges or options pertaining to such Investment Property as if it were the absolute owner thereof (including the right to exchange at its discretion any and all of the Investment Property upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate or other organizational structure of any Issuer, or upon the exercise by any Grantor or the Administrative Agent of any right, privilege or option pertaining to such Investment Property, and in connection therewith, the right to deposit and deliver any and all of the Investment Property with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as the Administrative Agent may determine), all without liability except to account for property actually received by it, but the Administrative Agent shall have no duty to any Grantor to exercise any such right, privilege or option and shall not be responsible for any failure to do so or delay in so doing.

(c) Each Grantor hereby authorizes and instructs each Issuer of any Investment Property pledged by such Grantor hereunder (and each Issuer party hereto hereby agrees) to (i) comply with any instruction received by it from the Administrative Agent in writing that (A) states that an Event of Default has occurred and is continuing and (B) is otherwise in accordance with the terms of this Agreement, without any other or further instructions from such Grantor, and each Grantor agrees that each Issuer shall be fully protected in so complying, and (ii) unless otherwise expressly permitted hereby, at any time that an Event of Default exists, comply with any instruction received by it from the Administrative Agent in writing to pay any dividends or other payments with respect to the Investment Property directly to the Administrative Agent.

(d) After the occurrence and during the continuation of an Event of Default, if the Issuer of any Pledged Securities is the subject of bankruptcy, insolvency, receivership, custodianship or other proceedings under the supervision of any Governmental Authority, then all rights of the Grantor in respect thereof to exercise the voting and other consensual rights which such Grantor would otherwise be entitled to exercise with respect to the Pledged Securities issued by such Issuer shall cease, and all such rights shall thereupon become vested in the Administrative Agent who shall thereupon have the sole right to exercise such voting and other consensual rights, but the Administrative Agent shall have no duty to exercise any such voting or other consensual rights and shall not be responsible for any failure to do so or delay in so doing.

Section 7.02 Collections on Accounts, Etc. The Administrative Agent hereby authorizes each Grantor to collect upon the Accounts, Instruments, Chattel Paper and Payment Intangibles subject to the Administrative Agent's direction and control, and the Administrative Agent may curtail or terminate said authority at any time after the occurrence and during the continuance of an Event of Default. Upon the written request of the Administrative Agent at any time after the occurrence and during the continuance of an Event of Default, each Grantor shall notify the Account Debtors that the applicable Accounts, Chattel Paper and Payment Intangibles have been assigned to the Administrative Agent for the ratable benefit of the Secured Parties and that payments in respect thereof shall be made directly to the Administrative Agent. Upon the occurrence and during the continuance of an Event of Default, the Administrative Agent may in its own name or in the name of others communicate with the Account Debtors to verify with them to its satisfaction the existence, amount and terms of any Accounts, Chattel Paper or Payment Intangibles.

Section 7.03 Proceeds. If required by the Administrative Agent at any time after the occurrence and during the continuance of an Event of Default, any payments of Accounts, Instruments, Chattel Paper and Payment Intangibles, when collected or received by each Grantor, and any other cash or non-cash Proceeds received by each Grantor upon the sale or other disposition of any Collateral, shall be forthwith (and, in any event, within five (5) Business Days) deposited by such Grantor in the exact form received, duly indorsed by such Grantor to the Administrative Agent if required, in a special collateral account maintained by the Administrative Agent, subject to withdrawal by the Administrative Agent for the ratable benefit of the Secured Parties only, as hereinafter provided, and, until so turned over, shall be held by such Grantor in trust for the Administrative Agent for the ratable benefit of the Secured Parties, segregated from other funds of any such Grantor. Any such Proceeds so deposited shall be accompanied by a report identifying in reasonable detail the nature and source of the payments included in the deposit. All Proceeds (including Proceeds constituting collections of Accounts, Chattel Paper, Instruments) while held by the Administrative Agent (or by any Grantor in trust for the Administrative Agent for the ratable benefit of the Secured Parties) shall continue to be collateral security for all of the Secured Obligations and shall not constitute payment thereof until applied as hereinafter provided. At such intervals as may be agreed upon by each Grantor and the Administrative Agent, or, if an Event of Default shall have occurred and be continuing, at any time at the Administrative Agent's election, the Administrative Agent shall apply all or any part of the funds on deposit in said special collateral account on account of the Secured Obligations in accordance with Section 7.06 of the Credit Agreement. Notwithstanding the foregoing, no amounts received from any Guarantor shall be applied to any Excluded Swap Obligations of such Guarantor.

Section 7.04 Uniform Commercial Code and Other Remedies

(a) If an Event of Default shall occur and be continuing, the Administrative Agent, on behalf of the Secured Parties, may exercise in its discretion, in addition to all other rights, remedies, powers and privileges granted to them in this Agreement, any other Secured Agreement, all rights, remedies, powers and privileges of a secured party under the UCC (whether the UCC is in effect in the jurisdiction where such rights, remedies, powers or privileges are asserted) or any other applicable law or otherwise available at law or equity. Without limiting the generality of the foregoing, if an Event of Default has occurred and is continuing, the Administrative Agent (or its agent), without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon any Grantor or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of the Administrative Agent or any other Secured Party or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem appropriate, for cash or on credit or for future delivery without assumption of any credit risk. The Administrative Agent or any other Secured Party shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in any Grantor, which right or equity is hereby waived and released. If an Event of Default shall occur and be continuing, each Grantor further agrees, at the Administrative Agent's request, to assemble the Collateral and make it available to the Administrative Agent at places which the Administrative Agent shall reasonably select, whether at such Grantor's premises or elsewhere. Any such sale or transfer by the Administrative Agent either to itself or to any other Person shall be absolutely free from any claim of right by Grantor, including any equity or right of redemption, stay or appraisal which Grantor has or may have under any rule of law, regulation or statute now existing or hereafter adopted. Upon any such sale or transfer, the Administrative Agent shall have the right to deliver, assign and transfer to the purchaser or transferee thereof the Collateral so sold or transferred. The Administrative Agent shall apply the net proceeds of any action taken by it pursuant to this Section 7.04, after deducting all reasonable costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of the Administrative Agent and the other Secured Parties hereunder, including reasonable out-of-pocket attorneys' fees and disbursements, to the payment in whole or in part of the Secured Obligations, in accordance with Section 7.06 of the Credit Agreement, and only after such application and after the payment by the Administrative Agent of any other amount required by any provision of law, including Section 9-615 of the UCC, need the Administrative Agent account for the surplus, if any, to any Grantor. To the extent permitted by applicable law, each Grantor waives all claims, damages and demands it may acquire against the Administrative Agent or any other Secured Party arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least ten (10) days before such sale or other disposition.

(b) In the event that the Administrative Agent elects not to sell the Collateral, the Administrative Agent retains its rights to dispose of or utilize the Collateral or any part or parts thereof in any manner authorized or permitted by law or in equity, and to apply the proceeds of the same towards payment of the Secured Obligations. The Administrative Agent may appoint any Person as agent to perform any act or acts necessary or incident to any sale or transfer of the Collateral.

Section 7.05 Private Sales of Pledged Securities. Each Grantor recognizes that the Administrative Agent may be unable to effect a public sale of any or all the Pledged Securities, by reason of certain prohibitions contained in the Securities Act of 1933 (as amended, the "Securities Act") and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Each Grantor acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. The Administrative Agent shall be under no obligation to delay a sale of any of the Pledged Securities for the period of time necessary to permit the Issuer thereof to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if such Issuer would agree to do so. Each Grantor agrees to use its commercially reasonable efforts to do or cause to be done all such other acts as may reasonably be necessary to make such sale or sales of all or any portion of the Pledged Securities pursuant to this Section 7.05 valid and binding and in compliance with any and all other applicable Legal Requirements. Each Grantor further agrees that a breach of any of the covenants contained in this Section 7.05 will cause irreparable injury to the Administrative Agent and the other Secured Parties, that the Administrative Agent and the other Secured Parties have no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this Section 7.05 shall be specifically enforceable against such Grantor, and such Grantor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants.

Section 7.06 Waiver: Deficiency. To the extent permitted by applicable law, each Grantor waives and agrees not to assert any rights or privileges which it may acquire under the UCC or any other applicable law. Each Grantor shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay its Secured Obligations and the fees and disbursements of any attorneys employed by the Administrative Agent or any other Secured Party to collect such deficiency.

Section 7.07 Non-Judicial Enforcement. The Administrative Agent may enforce its rights hereunder without prior judicial process or judicial hearing, and to the extent permitted by law, each Grantor expressly waives any and all legal rights which might otherwise require the Administrative Agent to enforce its rights by judicial process.

ARTICLE VIII THE ADMINISTRATIVE AGENT

Section 8.01 Administrative Agent's Appointment as Attorney-in-Fact. Etc.

(a) Each Grantor hereby irrevocably constitutes and appoints the Administrative Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in- fact with full irrevocable power and authority in the place and stead of such Grantor and in the name of such Grantor or in its own name, for the purpose of carrying out the terms of this Agreement, to take any and all reasonably appropriate action and to execute any and all documents and instruments which may be reasonably necessary or desirable to accomplish the purposes of this Agreement, and, without limiting the generality of the foregoing, each Grantor hereby gives the Administrative Agent the power and right, on behalf of such Grantor, without notice to or assent by such Grantor, to do any or all of the following:

(i) pay or discharge taxes and Liens levied or placed on or threatened against the Collateral, effect any repairs or any insurance called for by the terms of this Agreement and pay all or any part of the premiums therefor and the costs thereof;

(ii) execute, in connection with any sale provided for in Section 7.04 or Section 7.05, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral; and

(iii) (A) direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to the Administrative Agent or as the Administrative Agent shall direct; (B) take possession of and indorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any Account, Instrument, General Intangible, Chattel Paper or Payment Intangible or with respect to any other Collateral, and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Administrative Agent for the purpose of collecting any and all such moneys due under any Account, Instrument or General Intangible or with respect to any other Collateral whenever payable; (C) ask or demand for, collect, and receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral; (D) sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices and other documents in connection with any of the Collateral; (E) receive, change the address for delivery, and open and dispose of mail addressed to any Grantor, and to execute, assign and indorse negotiable and other instruments for the payment of money, documents of title or other evidences of payment, shipment or storage for any form of Collateral on behalf of and in the name of any Grantor; (F) commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any portion thereof and to enforce any other right in respect of any Collateral; (G) defend any suit, action or proceeding brought against such Grantor with respect to any Collateral; (H) settle, compromise or adjust any such suit, action or proceeding and, in connection therewith, give such discharges or releases as the Administrative Agent may deem appropriate; and (I) generally, sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Administrative Agent were the absolute owner thereof for all purposes, and do, at the Administrative Agent's option and such Grantor's expense, at any time, or from time to time, all acts and things which the Administrative Agent deems necessary to protect, preserve or realize upon the Collateral and the Administrative Agent's and the other Secured Parties' security interests therein and to effect the intent of this Agreement, all as fully and effectively as such Grantor might do.

Anything in this Section 8.01(a) to the contrary notwithstanding, the Administrative Agent agrees that it will not exercise any rights under the power of attorney provided for in this Section 8.01(a) unless an Event of Default shall have occurred and be continuing.

(b) If any Grantor fails to perform or comply with any of its agreements contained herein within the applicable grace periods, the Administrative Agent, at its option, but without any obligation so to do, may perform or comply, or otherwise cause performance or compliance, with such agreement.

(c) The expenses of the Administrative Agent incurred in connection with actions undertaken as provided in this Section 8.01, together with interest thereon at the rate applicable to ABR Loans, or during the continuance of an Event of Default, the Post-Default Rate from the date of payment by the Administrative Agent to the date reimbursed by the relevant Grantor, shall be payable jointly and severally by such Grantor to the Administrative Agent on demand.

(d) Each Grantor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue and in compliance hereof. All powers, authorizations and agencies contained in this Agreement are coupled with an interest and are irrevocable until this Agreement is terminated and the security interests created hereby are released.

Section 8.02 Duty of Administrative Agent. The Administrative Agent's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the UCC or otherwise, shall be to deal with it in the same manner as the Administrative Agent deals with similar property for its own account and shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which comparable secured parties accord comparable collateral. Neither the Administrative Agent, any other Secured Party nor any of their respective officers, directors, employees or agents shall be liable for failure to demand, collect or realize upon any of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of any Grantor or any other Person or to take any other action whatsoever with regard to the Collateral or any part thereof. The powers conferred on the Administrative Agent and the other Secured Parties hereunder are solely to protect the Administrative Agent's and the other Secured Parties' interests in the Collateral and shall not impose any duty upon the Administrative Agent or any other Secured Party to exercise any such powers. The Administrative Agent and the other Secured Parties shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and neither they nor their officers, directors, employees or agents shall be responsible to any Grantor for any act or failure to act hereunder, except for their own gross negligence, willful misconduct or bad faith, in each case, as determined by a final and non-appealable judgment in a court of competent jurisdiction. To the fullest extent permitted by applicable law, the Administrative Agent shall be under no duty whatsoever to make or give any presentment, notice of dishonor, protest, demand for performance, notice of non-performance, notice of intent to accelerate, notice of acceleration, or other notice or demand in connection with any Collateral or the Secured Obligations, or to take any steps necessary to preserve any rights against any Grantor or other Person or ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not it has or is deemed to have knowledge of such matters. Each Grantor, to the extent permitted by applicable law, waives any right of marshaling in respect of any and all Collateral, and waives any right to require the Administrative Agent or any other Secured Party to proceed against any Grantor or other Person, exhaust any Collateral or enforce any other remedy which the Administrative Agent or any other Secured Party now has or may hereafter have against each Grantor, any Grantor or other Person.

Section 8.03 Filing of Financing Statements. Pursuant to the UCC and any other applicable law, each Grantor authorizes the Administrative Agent, its counsel or its representative, at any time and from time to time, to file or record financing statements, continuation statements, amendments thereto and other filing or recording documents or instruments with respect to the Collateral without the signature of such Grantor in such form and in such offices as the Administrative Agent reasonably determines appropriate to perfect or maintain the perfection of the security interests of the Administrative Agent under this Agreement. Additionally, each Grantor authorizes the Administrative Agent, its counsel or its representative, at any time and from time to time, to file or record such financing statements that describe the collateral covered thereby as "all assets of the Grantor", "all personal property of the Grantor" or words of similar effect. In no event shall the above authorizations be deemed to be obligations.

Section 8.04 Authority of Administrative Agent. Each Grantor acknowledges that the rights and responsibilities of the Administrative Agent under this Agreement with respect to any action taken by the Administrative Agent or the exercise or non-exercise by the Administrative Agent of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall, as between the Administrative Agent and the other Secured Parties, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Administrative Agent and the Grantors, the Administrative Agent shall be conclusively presumed to be acting as agent for the Secured Parties with full and valid authority so to act or refrain from acting, and no Grantor shall be under any obligation, or entitlement, to make any inquiry respecting such authority.

ARTICLE IX
SUBORDINATION OF INDEBTEDNESS

Section 9.01 Subordination of All Grantor Claims. As used herein, the term “Grantor Claims” shall mean all debts and obligations of any Grantor to any other Grantor, whether such debts and obligations now exist or are hereafter incurred or arise, or whether the obligation of the debtor thereon be direct, contingent, primary, secondary, several, joint and several, or otherwise, and irrespective of whether such debts or obligations be evidenced by note, contract, open account, or otherwise, and irrespective of the Person or Persons in whose favor such debts or obligations may, at their inception, have been, or may hereafter be created, or the manner in which they have been or may hereafter be acquired by. After the occurrence and during the continuation of an Event of Default, no Grantor shall receive or collect, directly or indirectly, from any obligor in respect thereof any amount upon the Grantor Claims.

Section 9.02 Claims in Bankruptcy. In the event of receivership, bankruptcy, reorganization, arrangement, debtor’s relief or other insolvency proceedings involving any Grantor, the Administrative Agent on behalf of the Secured Parties shall have the right to prove their claim in any proceeding, so as to establish their rights hereunder and receive directly from the receiver, trustee or other court custodian, dividends and payments which would otherwise be payable upon Grantor Claims. Each Grantor hereby assigns such dividends and payments to the Administrative Agent for the benefit of the Secured Parties for application against the Secured Obligations as provided under Section 7.06 of the Credit Agreement. Should any Agent or Secured Party receive, for application upon the Secured Obligations, any such dividend or payment which is otherwise payable to any Grantor, and which, as between such Grantor, shall constitute a credit upon the Grantor Claims, then upon Payment in Full, the intended recipient shall become subrogated to the rights of the Administrative Agent and the other Secured Parties to the extent that such payments to the Administrative Agent and the other Secured Parties on the Grantor Claims have contributed toward the liquidation of the Secured Obligations, and such subrogation shall be with respect to that proportion of the Secured Obligations which would have been unpaid if the Administrative Agent and the other Secured Parties had not received dividends or payments upon the Grantor Claims.

Section 9.03 Payments Held in Trust. In the event that notwithstanding Section 9.01 and Section 9.02, any Grantor should receive any funds, payments, claims or distributions which is prohibited by such Sections, then it agrees: (a) to hold in trust for the Administrative Agent and the other Secured Parties an amount equal to the amount of all funds, payments, claims or distributions so received segregated from the other funds of such Grantor and (b) that it shall upon receipt, pay them promptly to the Administrative Agent in the exact form agreed (duly endorsed by such Grantor to the Administrative Agent, if required), for the benefit of the Secured Parties; and each Grantor covenants promptly to pay the same to the Administrative Agent.

Section 9.04 Liens Subordinate. Each Grantor agrees that, until Payment in Full, any Liens securing payment of the Grantor Claims shall be and remain inferior and subordinate to any Liens securing payment of the Secured Obligations, regardless of whether such encumbrances in favor of such Grantor, the Administrative Agent or any other Secured Party presently exist or are hereafter created or attach. Prior to Payment in Full, without the prior written consent of the Administrative Agent, no Grantor shall (a) exercise or enforce any creditor’s right it may have against any debtor in respect of the Grantor Claims, or (b) foreclose, repossess, sequester or otherwise take steps or institute any action or proceeding (judicial or otherwise, including the commencement of or joinder in any liquidation, bankruptcy, rearrangement, debtor’s relief or insolvency proceeding) to enforce any Lien held by it.

Section 9.05 Notation of Records. Upon the request of the Administrative Agent, all promissory notes and all accounts receivable ledgers or other evidence of the Grantor Claims accepted by or held by any Grantor shall contain a specific written notice thereon that the indebtedness evidenced thereby is subordinated under the terms of this Agreement.

ARTICLE X MISCELLANEOUS

Section 10.01 Waiver. No failure on the part of the Administrative Agent or any other Secured Party to exercise and no delay in exercising, and no course of dealing with respect to, any right, remedy, power or privilege under any of the Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under any of the Loan Documents preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges provided herein are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law. The exercise by the Administrative Agent of any one or more of the rights, powers and remedies herein shall not be construed as a waiver of any other rights, powers and remedies, including, any rights of set-off.

Section 10.02 Notices. All notices and other communications provided for herein shall be given in the manner and subject to the terms of Section 9.02 of the Credit Agreement; provided that any such notice, request or demand to or upon any Guarantor shall be addressed to such Guarantor at its notice address set forth on Schedule L.

Section 10.03 Payment of Expenses, Indemnities, Etc.

(a) Each Grantor, jointly and severally, agrees to pay or promptly reimburse the Administrative Agent and each other Secured Party for all out-of-pocket advances, charges, costs and expenses (including all out-of-pocket costs and expenses of holding, preparing for sale and selling, collecting or otherwise realizing upon the Collateral and all reasonable out-of-pocket attorneys' fees, legal expenses and court costs incurred by any Secured Party in connection with the exercise of its respective rights and remedies hereunder, including any out-of-pocket advances, charges, costs and expenses that may be incurred in any effort to enforce any of the provisions of this Agreement or any obligation of any Grantor in respect of the Collateral or in connection with (i) the preservation of the Lien of, or the rights of the Administrative Agent or any other Secured Party under this Agreement, (ii) any actual or attempted sale, lease, disposition, exchange, collection, compromise, settlement or other realization in respect of, or care of, the Collateral, including all such costs and expenses incurred in any bankruptcy, reorganization, workout or other similar proceeding, or (iii) collecting against such Grantor under the guarantee contained in Article II or otherwise enforcing or preserving any rights under this Agreement and the other Loan Documents to which such Grantor is a party.

(b) The parties hereto agree that the Indemnitees shall be entitled to indemnification as provided in Section 9.05 of the Credit Agreement.

(c) Any such amounts payable as provided hereunder shall be additional Secured Obligations secured hereby and by the other Security Instruments. All amounts for which any Grantor is liable pursuant to this Section 10.03 shall be due and payable by such Grantor to the Secured Parties not later than ten (10) days after written demand therefor.

Section 10.04 Amendments in Writing. None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except in accordance with Section 9.01 of the Credit Agreement.

Section 10.05 Successors and Assigns. This Agreement shall be binding upon the successors and assigns of each Grantor and shall inure to the benefit of the Administrative Agent and the other Secured Parties and their successors and assigns; provided that no Grantor may assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Administrative Agent.

Section 10.06 Invalidity. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof or thereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

Section 10.07 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Agreement by email or facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. The terms of Section 9.10 of the Credit Agreement are incorporated herein by reference, *mutatis mutandis*, and the parties hereto agree to such terms.

Section 10.08 Survival. The obligations of the parties under Section 10.03 shall survive notwithstanding Payment in Full. To the extent that any payments on the Secured Obligations or proceeds of any Collateral are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver or other Person under any bankruptcy law, common law or equitable cause, then to such extent, the Secured Obligations so satisfied shall be revived and continue as if such payment or proceeds had not been received and the Administrative Agent's and the other Secured Parties' Liens, security interests, rights, powers and remedies under this Agreement and each Security Instrument shall continue in full force and effect. In such event, each Security Instrument shall be automatically reinstated and each Grantor shall take such action as may be reasonably requested by the Administrative Agent and the other Secured Parties to effect such reinstatement.

Section 10.09 Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 10.10 No Oral Agreements. The Loan Documents (other than any letters of credit) embody the entire agreement and understanding between the parties and supersede all other agreements and understandings between such parties relating to the subject matter hereof and thereof. **THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES HERETO AND THERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.** In the event of a conflict between the terms and conditions of this Agreement and the terms and conditions of the Credit Agreement, the terms and conditions of the Credit Agreement shall control.

Section 10.11 Governing Law; Submission to Jurisdiction.

(A) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

(B) SECTION 9.15 OF THE CREDIT AGREEMENT (SUBMISSION TO JURISDICTION; WAIVER OF VENUE; SERVICE OF PROCESS) ARE HEREBY INCORPORATED HEREIN BY REFERENCE AND SHALL APPLY TO THIS AGREEMENT *MUTATIS MUTANDIS*.

Section 10.12 Acknowledgments. Each Grantor hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents to which it is a party;

(b) neither the Administrative Agent nor any other Secured Party has any fiduciary relationship with or duty to any Grantor arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between the Grantors, on the one hand, and the Administrative Agent and the other Secured Parties, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Secured Parties or among the Grantors and the Lenders.

(d) each of the parties hereto specifically agrees that it has a duty to read this Agreement and the Security Instruments and agrees that it is charged with notice and knowledge of the terms of this Agreement and the Security Instruments; that it has in fact read this Agreement and is fully informed and has full notice and knowledge of the terms, conditions and effects of this Agreement; that it has been represented by independent legal counsel of its choice throughout the negotiations preceding its execution of this Agreement and the Security Instruments; and has received the advice of its attorney in entering into this Agreement and the Security Instruments; and that it recognizes that certain of the terms of this Agreement and the Security Instruments result in one party assuming the liability inherent in some aspects of the transaction and relieving the other party of its responsibility for such liability. **EACH PARTY HERETO AGREES AND COVENANTS THAT IT WILL NOT CONTEST THE VALIDITY OR ENFORCEABILITY OF ANY EXCULPATORY PROVISION OF THIS AGREEMENT AND THE SECURITY INSTRUMENTS ON THE BASIS THAT THE PARTY HAD NO NOTICE OR KNOWLEDGE OF SUCH PROVISION OR THAT THE PROVISION IS NOT "CONSPICUOUS."**

(e) Each Grantor warrants and agrees that each of the waivers and consents set forth in this Agreement are made voluntarily and unconditionally after consultation with outside legal counsel and with full knowledge of their significance and consequences, with the understanding that events giving rise to any defense or right waived may diminish, destroy or otherwise adversely affect rights which such Grantor otherwise may have against the Borrower, any other Grantor, the Secured Parties or any other Person or against any collateral. If, notwithstanding the intent of the parties that the terms of this Agreement shall control in any and all circumstances, any such waivers or consents are determined to be unenforceable under applicable law, such waivers and consents shall be effective to the maximum extent permitted by law.

Section 10.13 Additional Grantors. Each Person that is required to become a party to this Agreement pursuant to Section 6.15 of the Credit Agreement and is not a signatory hereto shall become a Grantor and Guarantor for all purposes of this Agreement upon execution and delivery by such Person of an Assumption Agreement in the form of Annex I hereto.

Section 10.14 Set-Off. In addition to any rights and remedies of the Lenders provided by law, each Lender shall have the right, without notice to any Grantor, any such notice being expressly waived by each Grantor to the extent permitted by applicable law, upon any Secured Obligations becoming due and payable by any Grantor (whether at the stated maturity, by acceleration or otherwise), to apply to the payment of such Secured Obligations, by setoff or otherwise, any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender, any Affiliate thereof or any of their respective branches or agencies to or for the credit or the account of such Grantor. Each Lender agrees promptly to notify the relevant Grantor and the Administrative Agent after any such application made by such Lender, provided that the failure to give such notice shall not affect the validity of such application; provided further, that to the extent prohibited by applicable law as described in the definition of “Excluded Swap Obligation,” no amounts received from, or set off with respect to, any Guarantor shall be applied to any Excluded Swap Obligations of such Guarantor.

Section 10.15 Releases.

(a) Release Upon Payment in Full. If Payment in Full has occurred, the Administrative Agent, at the written request and sole expense of the Borrower, will (i) promptly release, reassign and transfer the Collateral to the Loan Parties and (ii) deliver any documents necessary, or reasonably requested by a Loan Party, to evidence the release, reassignment and transfer of the Collateral to the Loan Parties. Other than as set forth in the immediately preceding sentence and the paragraph below with respect to Collateral that is sold, transferred or otherwise disposed of in a transaction permitted by the Credit Agreement, this Agreement and the guarantees provided and security interests granted hereunder shall remain and continue in full force and effect.

(b) Further Assurances. If any of the Collateral shall be sold, transferred or otherwise disposed of by any Grantor in a transaction permitted by the Loan Documents, or in the event that all the Equity Interests of such Grantor shall be sold, and such Collateral or Equity Interests shall no longer constitute or be required to be Collateral hereunder, then the Administrative Agent, at the request and sole expense of the applicable Grantor, shall promptly execute and deliver to such Grantor all releases or other documents reasonably necessary or desirable for the release of the Liens created hereunder on such Collateral; provided that the Borrower shall have delivered to the Administrative Agent, no later than concurrently with execution and delivery of such releases and other documents, a written request for release identifying the relevant Grantor, together with a certification by the Borrower stating (i) that such transaction is in compliance with this Agreement and the other Loan Documents, (ii) the Borrower has complied with its obligations under Section 8.01(k), if applicable and (iii) no Collateral other than the Collateral required to be released is being released.

Section 10.16 Acceptance. Each Grantor hereby expressly waives notice of acceptance of this Agreement, acceptance on the part of the Administrative Agent and the other Secured Parties being conclusively presumed by their request for this Agreement and delivery of the same to the Administrative Agent.

[Signature pages follow.]

IN WITNESS WHEREOF, each of the undersigned has caused this Guarantee and Collateral Agreement to be duly executed and delivered as of the date first above written.

BORROWER:

MORNINGSTAR PARTNERS, L.P.,

By: MorningStar Oil & Gas, LLC, its general partner

By: /s/ Brent W. Clum

Name: Brent W. Clum

Title: Chief Financial Officer

GUARANTOR:

MORNINGSTAR OPERATING LLC

By: /s/ Brent W. Clum

Name: Brent W. Clum

Title: Chief Financial Officer

CT FIELD SERVICES, LLC

By: /s/ Brent W. Clum

Name: Brent W. Clum

Title: Chief Financial Officer

[Signature Page to Guarantee and Collateral Agreement]

Acknowledged and Agreed to as
of the date hereof by:

ADMINISTRATIVE AGENT:

JPMORGAN CHASE BANK, N.A.

By: /s/ Anson Williams

Name: Anson Williams

Title: Authorized Officer

[Signature Page to Guarantee and Collateral Agreement]

EXHIBIT G-1
[FORM OF]

U.S. TAX COMPLIANCE CERTIFICATE
(For Foreign Lenders That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of November 1, 2021 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among MorningStar Partners, L.P., a Delaware limited partnership (the "Borrower"), JPMorgan Chase Bank, N.A., as Administrative Agent (the "Administrative Agent"), and each lender from time to time party thereto.

Pursuant to the provisions of Section 2.13 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the Advance(s) (as well as any Note(s) evidencing such Advance(s)) in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code, (iii) it is not a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the Code and (iv) it is not a controlled foreign corporation related to the Borrower as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished the Administrative Agent and the Borrower with a certificate of its non-U.S. Person status on IRS Form W-8BEN or IRS Form W-8BEN-E. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Borrower and the Administrative Agent, and (2) the undersigned shall have at all times furnished the Borrower and the Administrative Agent with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF LENDER]

By: _____
Name:
Title:

Date: _____, 20__

EXHIBIT G-2
[FORM OF]

U.S. TAX COMPLIANCE CERTIFICATE
(For Foreign Participants That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of November 1, 2021 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among MorningStar Partners, L.P., a Delaware limited partnership (the "Borrower"), JPMorgan Chase Bank, N.A., as Administrative Agent (the "Administrative Agent"), and each lender from time to time party thereto.

Pursuant to the provisions of Section 2.13 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the participation in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code, (iii) it is not a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the Code, and (iv) it is not a controlled foreign corporation related to the Borrower as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished its participating Lender with a certificate of its non-U.S. Person status on IRS Form W-8BEN or IRS Form W-8BEN-E. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Lender in writing, and (2) the undersigned shall have at all times furnished such Lender with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF PARTICIPANT]

By: _____
Name:
Title:

Date: _____, 20__

EXHIBIT G-3
[FORM OF]

U.S. TAX COMPLIANCE CERTIFICATE
(For Foreign Participants That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of November 1, 2021 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among MorningStar Partners, L.P., a Delaware limited partnership (the "Borrower"), JPMorgan Chase Bank, N.A., as Administrative Agent (the "Administrative Agent"), and each lender from time to time party thereto.

Pursuant to the provisions of Section 2.13 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the participation in respect of which it is providing this certificate, (ii) its direct or indirect partners/members are the sole beneficial owners of such participation, (iii) with respect such participation, neither the undersigned nor any of its direct or indirect partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881(c)(3)(A) of the Code, (iv) none of its direct or indirect partners/members is a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the Code and (v) none of its direct or indirect partners/members is a controlled foreign corporation related to the Borrower as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished its participating Lender with IRS Form W-8IMY accompanied by one of the following forms from each of its partners/members that is claiming the portfolio interest exemption: (i) an IRS Form W-8BEN or IRS Form W-8BEN-E or (ii) an IRS Form W-8IMY accompanied by an IRS Form W-8BEN or IRS Form W-8BEN-E from each of such partner's/member's beneficial owners that is claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Lender and (2) the undersigned shall have at all times furnished such Lender with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF PARTICIPANT]

By: _____
Name:
Title:

Date: _____, 20__

EXHIBIT G-4
[FORM OF]

U.S. TAX COMPLIANCE CERTIFICATE
(For Foreign Lenders That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of November 1, 2021 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among MorningStar Partners, L.P., a Delaware limited partnership (the "Borrower"), JPMorgan Chase Bank, N.A., as Administrative Agent (the "Administrative Agent"), and each lender from time to time party thereto.

Pursuant to the provisions of Section 2.13 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the Advance(s) (as well as any Note(s) evidencing such Advance(s)) in respect of which it is providing this certificate, (ii) its direct or indirect partners/members are the sole beneficial owners of such advance(s) (as well as any Note(s) evidencing such Advance(s)), (iii) with respect to the extension of credit pursuant to this Credit Agreement or any other Loan Document, neither the undersigned nor any of its direct or indirect partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881(c)(3)(A) of the Code, (iv) none of its direct or indirect partners/members is a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the Code and (v) none of its direct or indirect partners/members is a controlled foreign corporation related to the Borrower as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished the Administrative Agent and the Borrower with IRS Form W-8IMY accompanied by one of the following forms from each of its partners/members that is claiming the portfolio interest exemption: (i) an IRS Form W-8BEN or IRS Form W-8BEN-E or (ii) an IRS Form W-8IMY accompanied by an IRS Form W-8BEN or IRS Form W-8BEN-E from each of such partner's/member's beneficial owners that is claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Borrower and the Administrative Agent, and (2) the undersigned shall have at all times furnished the Borrower and the Administrative Agent with a properly completed and currently effective certificate with either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF LENDER]

By: _____
Name:
Title:

Date: _____, 20__

AMENDMENT NO. 1 AND BORROWING BASE AGREEMENT

This AMENDMENT NO. 1 AND BORROWING BASE AGREEMENT (this "Agreement") dated as of June 8, 2022, is among MORNINGSTAR PARTNERS, L.P., a Delaware limited partnership, each of the Guarantors party hereto, each of the Lenders party hereto, and JPMORGAN CHASE BANK, N.A., as Administrative Agent.

Recitals

A. WHEREAS, MorningStar Partners, L.P, a Delaware limited partnership (the "Borrower"), each of the lenders from time to time party thereto (each, a "Lender" and, collectively, the "Lenders") and JPMorgan Chase Bank, N.A., as administrative agent for the Lenders (in such capacity, the "Administrative Agent") and as a Lender, are parties to that certain Credit Agreement dated as of November 1, 2021, as amended, restated, amended and restated, supplemented or otherwise modified from time to time, including, without limitation, as amended by this Agreement, the "Existing Credit Agreement"), pursuant to which the Lenders have made certain credit available to and on behalf of the Borrower.

B. WHEREAS, the Borrower, the Administrative Agent, the Guarantors party hereto and the Lenders have agreed to (i) reaffirm the Borrowing Base and (ii) make certain amendments, waivers and modifications to the Existing Credit Agreement, in each case as set forth herein.

C. NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Defined Terms. Each capitalized term which is defined in the Credit Agreement, but which is not defined in this Agreement, shall have the meaning ascribed such term in the Credit Agreement.

Section 2. Borrowing Base. Each of the parties hereto agrees that, for the period from and including the Redetermination Date until the next redetermination of the Borrowing Base or other adjustment pursuant to the Credit Agreement, the Borrowing Base shall be \$165,000,000. The reaffirmation of the Borrowing Base contained in this Section 2 is the scheduled redetermination to occur on or in the spring of 2022 and this Agreement is the new Borrowing Base notice with respect to such scheduled redetermination. The Borrower hereby confirms receipt of the new Borrowing Base notice pursuant to Section 2.02(b)(i) of the Credit Agreement.

Section 3. Amendments and Waiver to the Credit Agreement

3.1 Amendments to Section 1.01. Section 1.01 is hereby amended to add the following definitions where alphabetically appropriate:

"Applicable Leverage Ratio Test Date" means: (a) with respect to each Specified Swap Test Date that occurs on March 31 of each year, December 31 of the immediately preceding year, (b) with respect to each Specified Swap Test Date that occurs on June 30 of each year, March 31 of such year, (c) with respect to each Specified Swap Test Date that occurs on September 30 of each year, June 30 of such year, and (d) with respect to each Specified Swap Test Date that occurs on December 31 of each year, September 30 of such year.

“Minimum Required Hedge Volume” means, as of the last day of any fiscal quarter (a “date of determination”), (a) for the period of month one (1) through month twelve (12) following the closing date, seventy-five percent (75%) and (b) for the period from the thirteenth (13) month from the date of determination to the thirtieth (30) month from the date of determination, fifty percent (50%); provided, if the Leverage Ratio, as of the most recent Applicable Leverage Ratio Test Date, is less than or equal to 1.0 to 1.0 and the Liquidity, as of such Specified Swap Test Date, is greater than or equal to twenty percent (20%) of the Borrowing Base then in effect, the Minimum Required Hedge Volume for month one (1) through month twenty four (24) will reduce to fifty percent (50%) and the requirement to maintain the Minimum Required Hedge Volume for months twenty five through month thirty (30) shall be removed.

“Specified Swap Test Date” has the meaning assigned to such term in Section 5.15.

3.2 Amendment to Section 5.06(f). Section 5.06(f) is hereby amended to read:

(f) Hedging Report. In connection with Section 5.06(a) and (b), the Borrower shall deliver a report in form and substance satisfactory to the Administrative Agent (the “Hedging Report”) prepared by the Borrower (i) setting forth in reasonable detail all Hedge Contracts of the Borrower, its Subsidiaries and the Joint Venture, together with a statement of the position with respect to each such Hedge Contract, (ii) setting forth, to the extent not already described in clause (i), all Hedge Contracts of the Borrower and its Subsidiaries and the Joint Venture and detailing the material terms thereof (including the type, term, effective date, termination date and notional amounts or volumes), the net mark to market value thereof, all credit support agreements relating thereto (including any margin required or supplied), and the counterparty to each such agreement, and (iii) demonstrating the Borrower’s compliance with Sections 5.15 and 6.14(b).

To demonstrate compliance with Section 5.15, the Hedging Report shall (1) set forth the Leverage Ratio as of the Applicable Leverage Ratio Test Date with respect to such Specified Swap Test Date (which calculation of such Leverage Ratio shall be based on the financial statements for such year-end or quarter ending on such Applicable Leverage Ratio Test Date delivered pursuant to Section 5.06(a) or Section 5.06(b), as applicable), (2) set forth Liquidity as of such Specified Swap Test Date and (3) provide other supporting information related to the Hedge Contracts reasonably satisfactory to the Administrative Agent demonstrating compliance with Section 5.15. If any such Hedge Contract is terminated, modified, amended or altered prior to the end of its contractual term, or if there is an amendment, adjustment or modification of the price of any of the oil, gas or other Hydrocarbons produced from such Oil and Gas Properties that is subject to or established by a Hedge Contract, the Borrower shall promptly notify the Administrative Agent and the Lenders.

3.3 Amendment to Section 5.15. Section 5.15 is hereby amended to read as follows:

Section 5.15 Hedge Contracts. Commencing with the fiscal quarter ending June 30, 2022, as of the last day of each fiscal quarter (each such date, a “Specified Swap Test Date”), the Borrower and the Guarantors shall determine whether there are Hedge Contracts with an Approved Counterparty covering at least the Minimum Required Hedge Volume of the reasonably anticipated projected production from Proved Developed Producing Reserves of the Borrower, the applicable Subsidiaries, and the Borrower’s share of the Joint Venture for oil and gas (including natural gas liquids) based on the most recently delivered Reserve Report (the “Ongoing Minimum Hedge Requirement”). If the Borrower determines that the Ongoing Minimum Hedge Requirement has not been satisfied as of such Specified Swap Test Date, then the Borrower, the Guarantors and the Joint Venture shall within five (5) Business Days of the end of such fiscal quarter enter into Hedge Contracts with an Approved Counterparty such that the Ongoing Minimum Hedge Requirement shall be satisfied. The Borrower shall not unwind, terminate or enter into any off-setting positions to the hedges required under this Section 5.15 except (i) to the extent necessary to comply with Section 6.14, (ii) in connection with a transaction permitted by Section 6.04(b) or (iii) at the time of such unwinding, termination or off-setting trade, it was not required to comply with this Section 5.15.

3.4 Partial Waiver of Section 5.15. Section 5.15 provides that the Borrower and the Guarantors will enter into Hedge Contracts with an Approved Counterparty such that, on each Specified Swap Test Date, there are Hedge Contracts with an Approved Counterparty satisfying the Ongoing Minimum Hedge Requirement. The Borrower has informed the Administrative Agent that as of latest Specified Swap Test Date, the Borrower and the Guarantors have failed to meet the Ongoing Minimum Hedge Requirement. The Lenders party hereto do hereby waive the Ongoing Minimum Hedge Requirement as set forth in Section 5.15 as applied to the latest Specified Swap Test Date.

Section 4. Conditions Precedent. This Agreement shall become effective on the date (such date, the “Redetermination Date”) when each of the following conditions is satisfied (or waived in accordance with Section 9.01 of the Credit Agreement):

4.1 The Administrative Agent shall have received from the Borrower, each Guarantor, and each Lender counterparts of this Agreement signed on behalf of such persons.

4.2 At the time of and immediately after giving effect to this Agreement, the conditions contained in Section 3.02(a) and (b) shall be true and correct.

4.3 The Administrative Agent shall have received all fees due and payable on or prior to the Redetermination Date and, to the extent the Borrower has received an invoice therefor no later than one (1) Business Day prior to the Redetermination Date, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder, including all reasonable and documented fees, expenses and disbursements of counsel for the Administrative Agent.

Each party hereto hereby authorizes and directs the Administrative Agent to declare this Agreement to be effective when it has received documents confirming or certifying, to the reasonable satisfaction of the Administrative Agent, compliance with the conditions set forth in this Section 4. Such declaration shall be final, conclusive and binding upon all parties to the Credit Agreement for all purposes.

Section 5. Miscellaneous.

5.1 Confirmation. The provisions of the Credit Agreement, as amended by this Agreement, shall remain in full force and effect following the Redetermination Date.

5.2 Ratification and Affirmation; Representations and Warranties. The Borrower and each Guarantor hereby (a) acknowledges and agrees to the terms of this Agreement and the Credit Agreement, (b) represents and warrants to the Administrative Agent and the Lenders that (i) the representations and warranties of the Borrower and the Guarantors set forth in the Credit Agreement, this Agreement and in the other Loan Documents are true and correct in all material respects on and as of the date hereof, except to the extent any such representations and warranties (A) are expressly limited to an earlier date, in which case, on and as of the date hereof, such representations and warranties continue to be true and correct in all material respects as of such specified earlier date or (B) are already qualified by materiality, Material Adverse Effect or a similar qualification, in which case, such representations and warranties are true and correct in all respects and (ii) no Borrowing Base Deficiency, Default or Event of Default has occurred and is continuing as of the date hereof and (c) ratifies and affirms the covenants, guarantees, pledges, grants of Liens and agreements or other commitments applicable to such Loan Party contained in each Loan Document to which it is a party.

5.3 Counterparts.

(a) This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract.

(b) Delivery of an executed counterpart of a signature page of this Agreement, and/or any document, amendment, approval, consent, information, notice, certificate, request, statement, disclosure or authorization related to this Agreement and/or the transactions contemplated hereby and/or thereby (each an "Ancillary Document") that is an electronic sound, symbol, or process attached to, or associated with, a contract or other record and adopted by a Person with the intent to sign, authenticate or accept such contract or record (an "Electronic Signature") transmitted by telecopy, emailed pdf or any other electronic means that reproduces an image of an actual executed signature page shall be effective as delivery of a manually executed counterpart of this Agreement or such Ancillary Document, as applicable. The words "execution," "signed," "signature," "delivery," and words of like import in or relating to this Agreement and/or any Ancillary Document shall be deemed to include Electronic Signatures, deliveries or the keeping of records in any electronic form (including deliveries by telecopy, emailed pdf or any other electronic means that reproduces an image of an actual executed signature page), each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be.

5.4 Integration. This Agreement, the Credit Agreement, the Senior Secured Credit Facility Fee Letter, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and thereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof and thereof. **THIS AGREEMENT, THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT WITH RESPECT TO THE SUBJECT MATTER CONTAINED HEREIN AND THEREIN AMONG THE PARTIES HERETO AND THERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

5.5 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

5.6 Jurisdiction; Consent to Service of Process; Waiver of Jury Trial The express terms of Sections 9.15 and 9.16 of the Credit Agreement are hereby incorporated by reference, *mutatis mutandis*.

5.7 Payment of Expenses. Pursuant to Section 9.04 of the Credit Agreement, the Borrower agrees to pay all reasonable and documented out-of-pocket expenses incurred by the Administrative Agent and its Affiliates in connection with the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents.

5.8 Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof or thereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

5.9 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted by the Credit Agreement.

5.10 Loan Documents. This Agreement is a Loan Document.

5.11 No Waiver. The execution, delivery and effectiveness of this Agreement shall not operate as a waiver, other than as expressly set forth herein, of any right, power or remedy of the Administrative Agent or any Lender under the Credit Agreement or any Loan Document, or constitute a waiver or amendment of any provision of the Credit Agreement or any Loan Document, other than as expressly set forth herein. Section 9.03 of the Credit Agreement remains in full force and effect and is hereby ratified and confirmed by the Borrower and each Guarantor.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed effective as of the Redetermination Date.

BORROWER:

MORNINGSTAR PARTNERS, L.P.

By: MorningStar Oil & Gas, LLC, its general partner

By: /s/ Brent W. Clum

Name: Brent W. Clum

Title: Chief Financial Officer

GUARANTORS:

MORNINGSTAR OPERATING LLC

By: /s/ Brent W. Clum

Name: Brent W. Clum

Title: Chief Financial Officer

CT FIELD SERVICES, LLC

By: /s/ Brent W. Clum

Name: Brent W. Clum

Title: Chief Financial Officer

[MorningStar - Borrowing Base Agreement Signature Page]

ADMINISTRATIVE AGENT AND LENDER:

JPMORGAN CHASE BANK, N.A.

By: /s/ Jason R. Williams

Name: Jason R. Williams

Title: Authorized Officer

LENDER:

BOKF, NA dba BANK OF TAXES

By: /s/ Carl Stutzman

Name: Carl Stutzman

Title: Senior Vic President

LENDER:

CAPITAL ONE, NATIONAL ASSOCIATION

By: /s/ Christopher Kuna

Name: Christopher Kuna

Title: Senior Director

[MomingStar -Borrowing Base Agreement Signature Page]

LENDER:

ROYAL BANK OF CANADA

By: /s/ MichaelSharp

Name: MichaelSharp

Title: Authorized Signatory

[MorningStar - Borrowing Base Agreement Signature Page]

LENDER:

INDEPENDENT BANK

By: /s/ Philip Mortimer

Name: Philip Mortimer

Title: Senior Vice President

[MorningStar – Borrowing Base Agreement Signature Page]

CAWLEY, GILLESPIE & ASSOCIATES SUMMARY RESERVE REPORT
(MORNINGSTAR PARTNERS, L.P.)

CAWLEY, GILLESPIE & ASSOCIATES, INC.

PETROLEUM CONSULTANTS

13640 BRIARWICK DR., SUITE 100
AUSTIN, TEXAS 78729-1106
512-249-7000

306 WEST SEVENTH STREET, SUITE 302
FORT WORTH, TEXAS 76102-4987
817-336-2461
www.cgaus.com

1000 LOUISIANA STREET, SUITE 1900
HOUSTON, TEXAS 77002-5008
713-651-9944

August 24, 2022

Mr. Brent Clum
Chief Financial Officer
MorningStar Partners LP
400 West Seventh Street
Fort Worth, TX 76102

Re: Reserve Evaluation – SEC Pricing
MorningStar Partners, L.P. Interests
Total Proved Reserves
As of December 31, 2021

*Pursuant to the Guidelines of the
Securities and Exchange Commission for
Reporting Corporate Reserves and
Future Net Revenue*

C-1

Dear Mr. Clum:

As requested, this report was prepared August 24, 2022 for MorningStar Partners, L.P. (“MorningStar”) for the purpose of submitting our estimates of proved reserves and forecasts of economics attributable to the subject interests and for public disclosure by MorningStar or its affiliates in filings made with the Securities and Exchange Commission (the “SEC”) in accordance with the disclosure requirements set forth in the SEC regulations. We evaluated 100% of MorningStar reserves, which are made up of oil and gas properties in various states. This report utilized an effective date of December 31, 2021, was prepared using constant prices and costs, and conforms to Item 1202(a)(8) of Regulation S-K and other rules of the SEC. The results of this evaluation are presented in the accompanying tabulation, with a composite summary of the values presented below:

		Proved Developed Producing	Proved Developed Non- Producing	Proved Developed	Proved Undeveloped	Total Proved
Net Reserves						
Oil	– Mbbl	26,408.8	3,799.2	30,207.9	18,397.7	48,605.6
Gas	– MMcf	351,786.7	1,428.1	353,214.9	26,061.0	379,275.8
NGL	– Mbbl	17,350.5	83.7	17,434.2	593.4	18,027.6
Revenue						
Oil	– M\$	1,709,140.8	245,758.3	1,954,899.0	1,192,932.7	3,147,831.7
Gas	– M\$	774,520.7	5,168.9	779,689.6	95,128.5	874,818.1
NGL	– M\$	333,860.5	2,188.7	336,049.1	17,650.5	353,699.6
Other	– M\$	107,594.0	0.0	107,594.0	0.0	107,594.0
Net Profits Paid	– M\$	12,985.3	0.0	12,985.3	0.0	12,985.3
Severance Taxes	– M\$	192,052.5	13,802.6	205,855.1	78,065.0	283,920.0
Ad Valorem Taxes	– M\$	55,435.3	6,055.1	61,490.4	25,858.0	87,348.4
Operating Expenses	– M\$	1,301,861.0	66,777.9	1,368,639.0	249,515.0	1,618,154.2
Investments	– M\$	0.0	11,969.2	11,969.2	139,700.6	151,669.8
Net Operating Income (BFIT)	– M\$	1,362,782.0	154,511.1	1,517,293.2	812,573.2	2,329,866.5
Discounted at 10%	– M\$	697,063.5	75,187.3	772,250.5	249,929.6	1,022,180.1

Future revenue is prior to deducting state production taxes and ad valorem taxes. Future net cash flow is after deducting these taxes, future capital costs and operating expenses, but before consideration of federal income taxes. In accordance with SEC guidelines, the future net cash flow has been discounted at an annual rate of ten percent to determine its “present worth”. The present worth is shown to indicate the effect of time on the value of money and should not be construed as being the fair market value of the properties by Cawley, Gillespie & Associates, Inc. (“CG&A”).

The oil reserves include oil and condensate. Oil and natural gas liquid (“NGL”) volumes are expressed in barrels (42 U.S. gallons). Gas volumes are expressed in thousands of standard cubic feet (Mcf) at contract temperature and pressure base. Gross reserves may be overstated due to multiple ownership in certain properties.

Hydrocarbon Pricing

The base SEC oil and gas prices calculated for December 31, 2021 were \$66.56/bbl and \$3.60/MMBTU, respectively. As specified by the SEC, a company must use a 12-month average price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period. The base oil price is based upon WTI-Cushing spot prices (EIA) during 2021 and the base gas price is based upon Henry Hub spot prices (Platts Gas Daily) during 2021. Furthermore, NGL prices were adjusted on a per-property basis and averaged 29.5% of the net oil price on a composite basis.

The base prices shown above were adjusted for differentials on a per-property basis, which may include local basis differentials, transportation, gas shrinkage, gas heating value (BTU content) and/or crude quality and gravity corrections. After these adjustments, the net realized prices for the SEC price case over the life of the proved properties was estimated to be \$64.76 per barrel for oil, \$2.31 per MCF for gas and \$19.62 per barrel for NGLs. All economic factors were held constant in accordance with SEC guidelines.

Economic Parameters

Ownership was accepted as furnished and has not been independently confirmed. Lease operating expenses (“LOE”) and investments were forecast by field or by property using the latest historical data available. LOE includes fixed and variable components. The fixed LOE costs represent all costs not tied to produced volumes and the variable costs consist of fees for water disposal, gas compression, processing and transportation, and other variable expenses. All expenses can be found as Operating Expense (column 22) in the attached tables. Capital costs for all upside properties were applied as provided and have not been independently verified. However, all commercial parameters appear to be reasonable and appropriate based on our review and were held constant (not escalated) throughout the life of the properties in accordance with SEC guidelines.

SEC Conformance and Regulations

The reserve classifications and the economic considerations used herein conform to the criteria of the SEC as defined in pages 3 and 4 of the Appendix. The reserves and economics are predicated on regulatory agency classifications, rules, policies, laws, taxes and royalties currently in effect except as noted herein. Government policies and market conditions different from those employed in this report may cause (1) the total quantity of oil or gas to be recovered, (2) actual production rates, (3) prices received, or (4) operating and capital costs to vary from those presented in this report. However, we do not anticipate nor are we aware of any legislative changes or restrictive regulatory actions that may impact the recovery of reserves.

CG&A evaluated 35 PDNP and 160 PUD locations, targeting various reservoirs in Texas and New Mexico. Non-producing and undeveloped reserves were assigned based on regional type curves and analogy to recent, modern completions. Furthermore, the development schedule and capital costs for drilling and completion were provided by MorningStar and accepted as provided. However, our review showed the development plan and related capital to be reasonable and appropriate for this evaluation.

Reserve Estimation Methods

The methods employed in estimating reserves are described on page 2 of the Appendix. Reserves for proved developed producing wells were estimated using production performance methods for the vast majority of properties. Certain new producing properties with very little production history were forecast using a combination of production performance and analogy to similar production, both of which are considered to provide a relatively high degree of accuracy. All reserve estimates involve an assessment of the uncertainty relating to the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends mainly on the amount of the reliable geologic and engineering data available at the time of the estimate and the interpretation of such data, as well as the inherent uncertainties attributable to variations in reservoir and rock quality, offset drainage, mechanical wellbore integrity among others. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves, and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. This report addresses only the proved reserves attributable to the properties evaluated herein.

Non-producing reserve estimates, for both developed and undeveloped properties, were forecast using either volumetric or analogy methods, or a combination of both. These methods provide a relatively high degree of accuracy for predicting proved developed non-producing and proved undeveloped reserves. The assumptions, data, methods and procedures used herein are appropriate for the purpose served by this report.

General Discussion

An on-site field inspection of the properties has not been performed. The mechanical operation or condition of the wells and their related facilities have *not* been examined nor have the wells been tested by CG&A. Possible environmental liability related to the properties has not been investigated nor considered. The cost of plugging and the salvage value of equipment at abandonment have not been included.

The estimates and forecasts were based upon interpretations of data furnished by your office and available from our files. To some extent information from public records has been used to check and/or supplement these data. The basic engineering and geological data were subject to third party reservations and qualifications. Nothing has come to our attention, however, that would cause us to believe that we are not justified in relying on such data. All estimates represent our best judgment based on the data available at the time of preparation. Due to inherent uncertainties in future production rates, commodity prices and geologic conditions, it should be realized that the reserve estimates, the reserves actually recovered, the revenue derived therefrom and the actual cost incurred could be more or less than the estimated amounts.

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used all methods and procedures that we consider necessary under the circumstances to prepare this report. Our work-papers and related data utilized in the preparation of these estimates are available in our office.

The professional qualifications of the undersigned, the technical person primarily responsible for the preparation of this report, are included as an attachment to this letter. This letter is for the use of MorningStar Partners LP. This letter should not be used, circulated, or quoted for any other purpose without the express written consent of Cawley, Gillespie & Associates, Inc. or except as required by law.

Sincerely,

CAWLEY, GILLESPIE & ASSOCIATES, INC.
Texas Registered Engineering Firm F-693



W. TODD BROOKER, P.E.
PRESIDENT



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August 30, 2022

Mr. Brent Clum
 Chief Financial Officer
 MorningStar Partners LP
 400 West Seventh Street
 Fort Worth, TX 76102

Re: Reserve Evaluation – SEC Pricing
MorningStar Partners, L.P. Interests
 Total Proved Reserves
 As of July 31, 2022

*Pursuant to the Guidelines of the
 Securities and Exchange Commission for
 Reporting Corporate Reserves and
 Future Net Revenue*

Dear Mr. Clum:

As requested, this report was prepared August 30, 2022 for MorningStar Partners, L.P. (“MorningStar”) for the purpose of submitting our estimates of proved reserves and forecasts of economics attributable to the subject interests and for public disclosure by MorningStar or its affiliates in filings made with the Securities and Exchange Commission (the “SEC”) in accordance with the disclosure requirements set forth in the SEC regulations. We evaluated 100% of MorningStar reserves, which are made up of oil and gas properties in various states. This report utilized an effective date of July 31, 2022, was prepared using constant prices and costs, and conforms to Item 1202(a)(8) of Regulation S-K and other rules of the SEC. The results of this evaluation are presented in the accompanying tabulation, with a composite summary of the values presented below:

		Proved Developed Producing	Proved Developed Non- Producing	Proved Developed	Proved Undeveloped	Total Proved
Net Reserves						
Oil	– Mbbl	30,420.9	3,915.1	34,336.0	20,366.8	54,702.9
Gas	– MMcf	378,804.2	963.8	379,768.0	24,867.7	404,635.8
NGL	– Mbbl	19,391.3	247.7	19,638.9	1,266.7	20,905.6
Revenue						
Oil	– M\$	2,644,149.9	340,538.8	2,984,688.1	1,768,335.4	4,753,023.9
Gas	– M\$	1,395,085.3	2,639.7	1,397,724.9	125,245.6	1,522,970.6
NGL	– M\$	467,400.9	7,106.2	474,507.0	47,062.2	521,569.2
Other	– M\$	229,385.6	0.0	229,384.9	0.0	229,385.6
Net Profits Paid	– M\$	19,501.1	0.0	19,501.1	0.0	19,501.1
Severance Taxes	– M\$	311,465.1	18,766.1	330,231.2	116,593.1	446,824.3
Ad Valorem Taxes	– M\$	89,904.4	8,393.8	98,298.2	37,281.1	135,579.3
Operating Expenses	– M\$	1,834,597.2	75,973.6	1,910,570.7	274,775.7	2,185,345.7
Investments	– M\$	0.0	9,786.8	9,786.8	143,268.7	153,055.5
Net Operating Income (BFIT)	– M\$	2,480,553.7	237,364.4	2,717,918.5	1,368,724.8	4,086,642.6
Discounted at 10%	– M\$	1,226,669.0	119,679.7	1,346,348.7	471,841.0	1,818,189.6

Future revenue is prior to deducting state production taxes and ad valorem taxes. Future net cash flow is after deducting these taxes, future capital costs and operating expenses, but before consideration of federal income taxes. In accordance with SEC guidelines, the future net cash flow has been discounted at an annual rate of ten percent to determine its “present worth”. The present worth is shown to indicate the effect of time on the value of money and should not be construed as being the fair market value of the properties by Cawley, Gillespie & Associates, Inc. (“CG&A”).

The oil reserves include oil and condensate. Oil and natural gas liquid (“NGL”) volumes are expressed in barrels (42 U.S. gallons). Gas volumes are expressed in thousands of standard cubic feet (Mcf) at contract temperature and pressure base. Gross reserves may be overstated due to multiple ownership in certain properties.

Hydrocarbon Pricing

The base SEC oil and gas prices calculated for July 31, 2022 were \$88.54/bbl and \$5.363/MMBTU, respectively. As specified by the SEC, a company must use a 12-month average price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period. The base oil price is based upon WTI-Cushing spot prices (EIA) during 2021 and the base gas price is based upon Henry Hub spot prices (Platts Gas Daily) during 2021. Furthermore, NGL prices were adjusted on a per-property basis and averaged 28.7% of the net oil price on a composite basis.

The base prices shown above were adjusted for differentials on a per-property basis, which may include local basis differentials, transportation, gas shrinkage, gas heating value (BTU content) and/or crude quality and gravity corrections. After these adjustments, the net realized prices for the SEC price case over the life of the proved properties was estimated to be \$86.89 per barrel for oil, \$3.76 per MCF for gas and \$24.95 per barrel for NGLs. All economic factors were held constant in accordance with SEC guidelines.

Economic Parameters

Ownership was accepted as furnished and has not been independently confirmed. Lease operating expenses (“LOE”) and investments were forecast by field or by property using the latest historical data available. LOE includes fixed and variable components. The fixed LOE costs represent all costs not tied to produced volumes and the variable costs consist of fees for water disposal, gas compression, processing and transportation, and other variable expenses. All expenses can be found as Operating Expense (column 22) in the attached tables. Capital costs for all upside properties were applied as provided and have not been independently verified. However, all commercial parameters appear to be reasonable and appropriate based on our review and were held constant (not escalated) throughout the life of the properties in accordance with SEC guidelines.

SEC Conformance and Regulations

The reserve classifications and the economic considerations used herein conform to the criteria of the SEC as defined in pages 3 and 4 of the Appendix. The reserves and economics are predicated on regulatory agency classifications, rules, policies, laws, taxes and royalties currently in effect except as noted herein. Government policies and market conditions different from those employed in this report may cause (1) the total quantity of oil or gas to be recovered, (2) actual production rates, (3) prices received, or (4) operating and capital costs to vary from those presented in this report. However, we do not anticipate nor are we aware of any legislative changes or restrictive regulatory actions that may impact the recovery of reserves.

CG&A evaluated 75 PDNP and 196 PUD locations, targeting various reservoirs in Texas and New Mexico. Non-producing and undeveloped reserves were assigned based on regional type curves and analogy to recent, modern completions. Furthermore, the development schedule and capital costs for drilling and completion were provided by MorningStar and accepted as provided. However, our review showed the development plan and related capital to be reasonable and appropriate for this evaluation.

Reserve Estimation Methods

The methods employed in estimating reserves are described on page 2 of the Appendix. Reserves for proved developed producing wells were estimated using production performance methods for the vast majority of properties. Certain new producing properties with very little production history were forecast using a combination of production performance and analogy to similar production, both of which are considered to provide a relatively high degree of accuracy. All reserve estimates involve an assessment of the uncertainty relating to the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends mainly on the amount of the reliable geologic and engineering data available at the time of the estimate and the interpretation of such data, as well as the inherent uncertainties attributable to variations in reservoir and rock quality, offset drainage, mechanical wellbore integrity among others. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. This report addresses only the proved reserves attributable to the properties evaluated herein.

Non-producing reserve estimates, for both developed and undeveloped properties, were forecast using either volumetric or analogy methods, or a combination of both. These methods provide a relatively high degree of accuracy for predicting proved developed non-producing and proved undeveloped reserves. The assumptions, data, methods and procedures used herein are appropriate for the purpose served by this report.

General Discussion

An on-site field inspection of the properties has not been performed. The mechanical operation or condition of the wells and their related facilities have not been examined nor have the wells been tested by CG&A. Possible environmental liability related to the properties has not been investigated nor considered. The cost of plugging and the salvage value of equipment at abandonment have not been included.

The estimates and forecasts were based upon interpretations of data furnished by your office and available from our files. To some extent information from public records has been used to check and/or supplement these data. The basic engineering and geological data were subject to third party reservations and qualifications. Nothing has come to our attention, however, that would cause us to believe that we are not justified in relying on such data. All estimates represent our best judgment based on the data available at the time of preparation. Due to inherent uncertainties in future production rates, commodity prices and geologic conditions, it should be realized that the reserve estimates, the reserves actually recovered, the revenue derived therefrom and the actual cost incurred could be more or less than the estimated amounts.

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Sincerely,

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August 30, 2022

Mr. Brent Clum
Chief Financial Officer
MorningStar Partners LP
400 West Seventh Street
Fort Worth, TX 76102

Re: Reserve Evaluation – Strip Pricing
MorningStar Partners, L.P. Interests
Total Proved Reserves
As of August 1, 2022

Dear Mr. Clum:

As requested, this report was prepared August 30, 2022 for MorningStar Partners, L.P. (“Morningstar”) for the purpose of submitting our estimates of proved reserves and forecasts of economics attributable to the subject interests. We evaluated 100% of Morningstar reserves, which are made up of oil and gas properties in various states. This report utilized an effective date of August 1, 2022, was prepared using strip pricing. The results of this evaluation are presented in the accompanying tabulation, with a composite summary of the values presented below:

		Proved Developed Producing	Proved Developed Non- Producing	Proved Developed	Proved Undeveloped	Total Proved
Net Reserves						
Oil	– Mbbl	28,910.8	3,826.3	32,737.1	20,262.1	52,999.2
Gas	– MMcf	359,584.7	937.9	360,522.6	24,843.3	385,365.9
NGL	– Mbbl	18,324.8	241.5	18,566.3	1,254.6	19,820.9
Revenue						
Oil	– M\$	2,085,305.5	277,195.5	2,362,500.8	1,427,634.4	3,790,135.0
Gas	– M\$	1,129,017.1	1,855.5	1,130,872.6	100,622.1	1,231,494.8
NGL	– M\$	388,567.7	6,448.0	395,015.7	40,831.5	435,847.2
Other	– M\$	229,735.9	0.0	229,735.6	0.0	229,736.3
Net Profits Paid	– M\$	15,028.6	0.0	15,028.6	0.0	15,028.6
Severance Taxes	– M\$	249,588.3	15,301.7	264,889.9	94,239.0	359,129.0
Ad Valorem Taxes	– M\$	71,926.3	6,837.8	78,764.1	30,156.4	108,920.5
Operating Expenses	– M\$	1,642,255.6	69,436.4	1,711,691.7	266,962.2	1,978,653.7
Investments	– M\$	0.0	9,786.8	9,786.8	143,268.7	153,055.5
Net Operating Income (BFIT)	– M\$	1,853,827.3	184,136.3	2,037,963.2	1,034,461.7	3,072,425.3
Discounted at 10%	– M\$	1,009,850.6	98,548.4	1,108,398.8	352,880.5	1,461,279.0

Future revenue is prior to deducting state production taxes and ad valorem taxes. Future net cash flow is after deducting these taxes, future capital costs and operating expenses, but before consideration of federal income taxes. In accordance with SEC guidelines, the future net cash flow has been discounted at an annual rate of ten percent to determine its “present worth”. The present worth is shown to indicate the effect of time on the value of money and should not be construed as being the fair market value of the properties by Cawley, Gillespie & Associates, Inc. (“CG&A”).

The oil reserves include oil and condensate. Oil and natural gas liquid (“NGL”) volumes are expressed in barrels (42 U.S. gallons). Gas volumes are expressed in thousands of standard cubic feet (Mcf) at contract temperature and pressure base.

Presentation

This report is divided into five major reserve category sections: Total Proved (“TP”), Proved Developed (“PD”), Proved Developed Producing (“PDP”), Proved Developed Non-Producing (“PDNP”), and Proved Undeveloped (“PUD”). Within each section are grand total Table I and Table II (except for TP) summaries. Table I presents composite reserve estimates and economic forecasts for the particular reserve category.

For a more detailed explanation of the report layout, please refer to the Table of Contents following this letter. The data presented in each Table I is explained in page one (1) of the Appendix.

Hydrocarbon Pricing

As requested for the July 31, 2022 Strip Price scenario, oil and gas prices were adjusted to the following index prices:

Year	WTI-Cushing Oil Price \$/BBL	Henry Hub Gas Price \$/MMBTU
2022	94.923	8.356
2023	86.489	5.633
2024	79.375	4.656
2025	74.464	4.501
2026	71.017	4.399
Thereafter	Flat	Flat
Cap	71.017	4.399

Beginning January 1, 2026, oil and gas prices were held constant at \$71.017 per BBL and \$4.399 per MMBTU, respectively. NGL prices were applied on average at 30.7% of WTI Cushing oil prices as provided. Adjustments to oil and gas prices were made based upon data provided by your office. These adjustments include treating cost, transportation charges and/or crude quality and gravity corrections.

Economic Parameters

Ownership was accepted as furnished and has not been independently confirmed. Lease operating expenses (“LOE”) and investments were forecast by field or by property using the latest historical data available. LOE includes fixed and variable components. The fixed LOE costs represent all costs not tied to produced volumes and the variable costs consist of fees for water disposal, gas compression, processing and transportation, and other variable expenses. All expenses can be found as Operating Expense (column 22) in the attached tables. Capital costs for all upside properties were applied as provided and have not been independently verified. However, all commercial parameters appear to be reasonable and appropriate based on our review and were held constant (not escalated) throughout the life of the properties.

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General Discussion

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The reserve classifications and the economic considerations applied herein conform to the criteria set forth in the June 2018 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers (SPE). The SPE-PRMS guidelines are presented in brief form in pages 3 through 7 of the Appendix. The reserves and economics are predicated on regulatory agency classifications, rules, policies, laws, taxes and royalties in effect on the effective date, except as noted herein. The possible effects of changes in legislation or other Federal or State restrictive actions have not been considered. All reserve estimates represent our best judgment based on data available at the time of preparation, and assumptions as to future economic and regulatory conditions. It should be realized that the reserves actually recovered, the revenue derived therefrom and the actual cost incurred could be more or less than the estimated amounts.

The estimates and forecasts were based upon interpretations of data furnished by your office and available from our files. To some extent information from public records has been used to check and/or supplement these data. The basic engineering and geological data were subject to third party reservations and qualifications. Nothing has come to our attention, however, that would cause us to believe that we are not justified in relying on such data. All estimates represent our best judgment based on the data available at the time of preparation. Due to inherent uncertainties in future production rates, commodity prices and geologic conditions, it should be realized that the reserve estimates, the reserves actually recovered, the revenue derived therefrom and the actual cost incurred could be more or less than the estimated amounts.

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Sincerely,

CAWLEY, GILLESPIE & ASSOCIATES, INC.
Texas Registered Engineering Firm F-693



W. TODD BROOKER, P.E.
PRESIDENT

