

SPINDLETOP OIL & GAS CO
Form 10-K
April 01, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

or

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 000-18774

SPINDLETOP OIL & GAS CO.

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction
of incorporation or organization)

75-2063001
(IRS Employer
Identification No.)

12850 Spurling Rd., Suite 200, Dallas, TX

75230

Edgar Filing: SPINDLETOP OIL & GAS CO - Form 10-K

(Address of principal executive offices) (Zip Code)

(972) 644-2581

(Registrant's telephone number, including area code)

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

Title of each Class	Name of each exchange on which registered
None	N/A

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, \$0.01 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [] No [X]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No []

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§293.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter.

\$4,039,331 based upon a total of 1,035,726 shares held as of June 30, 2018 by persons believed to be non-affiliates of the Registrant; the basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, that such calculation, if made as of a date within 60 days of this filing, would yield a different value.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the issuer's classes of common, as of the latest practicable date.

Common Stock, \$0.01 par value 6,809,602
(Class) (Outstanding at March 29, 2019)

DOCUMENTS INCORPORATED BY REFERENCE

None

2

PART I

Item 1. Description of Business

GENERAL

Spindletop Oil & Gas Co. is an independent oil and gas company engaged in the exploration, development, production and acquisition of oil and natural gas; the rental of oilfield equipment; and through one of its subsidiaries, the gathering and marketing of natural gas. The terms the "Company", "We", "Us" or "Spindletop" are used interchangeably herein to refer to Spindletop Oil & Gas Co. ("Spindletop", "SOG") and its wholly owned subsidiaries, Spindletop Drilling Company ("SDC"), and Prairie Pipeline Co. ("PPC").

The Company has focused its oil and gas operations principally in Texas, although we operate properties in six states including: Texas, Oklahoma, New Mexico, Louisiana, Alabama and Arkansas. We operate a majority of our projects through the drilling and production phases. Our staff has a great deal of experience in the operations arena. We have traditionally leveraged the risks associated with drilling by obtaining industry partners to share in the costs.

In addition, the Company, through PPC, owns several miles of pipelines associated with Company operated oil and natural gas properties in Texas and other states, which are used for the gathering of natural gas. These gathering lines are located primarily in the Fort Worth Basin and are being utilized to transport the Company's natural gas as well as natural gas produced by third parties.

Website Access to Our Reports

We make available free of charge through our website, www.spindletopoil.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. Information on our website is not a part of this report.

Operating Approach

We believe that a major attribute of the Company is its long history with, and extensive knowledge of, the Fort Worth Basin of Texas. Our technical staff has an average of over 25 years oil and gas experience, most of it in the Fort Worth Basin.

One of our strengths has been the ability of the Company to look at cost effective ways to grow our production. We have traditionally increased our reserve base in one of two ways. Initially, in the 1970s and 1980s, the Company obtained its production through an exploration and development drilling program focused principally in the Fort Worth Basin of North Texas. Today, the Company has retained many of these wells as producing properties and holds a large amount of acreage by production in that Basin.

From the 1990s through 2003, the Company took advantage of the lower product prices by cost effectively adding to its reserve base through value-priced acquisitions. We found that through selective purchases we could make producing property acquisitions that were more cost effective than drilling.

During this time period, the Company acquired a large number of operated and non-operated oil and gas properties in various states.

From 2003 through the fourth quarter of 2008, we returned our focus to a strategy of development drilling with an emphasis on our Barnett Shale acreage. Since 2009, our focus has evolved to seek value-priced acquisitions combined with the development of economically feasible drilling prospects. Currently we are continuing our efforts to acquire producing properties and develop our leasehold acreage. We are pursuing controlled growth primarily through acquisitions of good quality producing properties. With current oil and natural gas prices and high costs to produce, we believe that it is prudent to carefully evaluate all our options and make sure that each transaction can be supported in today's price environment.

Strategic Business Plans

One of our key strategies is to attempt to maintain shareholder value through implementation of plans for selective drilling and value priced acquisitions to the extent the economics of such projects work in this low energy price environment and development of assets. The Company's long-term focus is to grow its oil and natural gas production through a strategic combination of selected property acquisitions, divestitures, and a development program primarily based on developing its leasehold acreage. Additionally, the Company plans to continue to rework existing wells to increase production and reserves when feasible.

The Company's primary area of operation has been in the State of Texas with an emphasis in the geological province known as the Fort Worth Basin. We plan to continue to focus on operations in Texas, and we want to capitalize on our strengths which include an extensive knowledge of the various reservoirs in Texas, experience in operations in this geographic area, development of lease holdings, and utilization of existing infrastructure to minimize costs.

The Company will continue to generate and evaluate prospects using its own technical staff. The Company intends to fund operations primarily from cash flow generated by its operations.

Project Significant Areas

The Company owns various interests in wells located in 14 states and the Company's operations are currently located in 6 of those states which include Alabama, Arkansas, Louisiana, Oklahoma, New Mexico and Texas.

The Company holds approximately 86,402 gross acres under lease in 14 states. The majority of the leases are held by production. A breakout of the Company's leasehold acreage by geographic area is as follows:

Geographic Area	Operated Properties		Non-Operated Properties		Total		Percent of Total			
	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres		
North Texas (1)	8,313	7,785	6,759	334	15,072	8,119	17.44	%	38.08	%
East Texas	3,591	3,105	9,011	1,050	12,602	4,155	14.59	%	19.49	%
Gulf Coast Texas	40	35	2,250	65	2,290	100	2.65	%	0.47	%
South Texas	—	—	540	52	540	52	0.62	%	0.24	%
West Texas	1,115	988	2,390	163	3,505	1,151	4.06	%	5.40	%

Edgar Filing: SPINDLETOP OIL & GAS CO - Form 10-K

Texas Panhandle	1,760	1,195	1,520	104	3,280	1,299	3.80	%	6.09	%
Alabama	1,160	634	2,498	169	3,658	803	4.23	%	3.77	%
Arkansas	1,286	1,141	2,957	109	4,243	1,250	4.91	%	5.86	%
Louisiana	838	589	3,058	213	3,896	802	4.51	%	3.76	%
New Mexico	2,600	1,835	796	29	3,396	1,864	3.93	%	8.74	%
Oklahoma	317	185	26,711	594	27,028	779	31.28	%	3.65	%
Colorado	—	—	240	—	240	—	0.28	%	0.00	%
Kansas	—	—	640	184	640	184	0.74	%	0.86	%
Michigan	—	—	240	6	240	6	0.28	%	0.03	%
Mississippi	—	—	140	6	140	6	0.16	%	0.03	%
Montana	—	—	170	7	170	7	0.20	%	0.03	%
North Dakota	—	—	1,142	138	1,142	138	1.32	%	0.65	%
Utah	—	—	2,520	473	2,520	473	2.92	%	2.22	%
Wyoming	—	—	1,800	134	1,800	134	2.08	%	0.63	%
Total	21,020	17,492	65,382	3,830	86,402	21,322	100.00%		100.00%	

(1) North Texas includes the Fort Worth Basin & Bend Arch

The majority of the Company's net acres (69.77%) are located in Texas.

A breakout of the Company's most significant oil and gas reserves by geographic area is as follows:

	BOE	% Total	
North Texas including the Fort Worth Basin & Bend Arch	1,009,260	71.93	%
East Texas	200,767	14.31	%
Panhandle Texas	30,418	2.17	%
West Texas	18,940	1.35	%
Gulf Coast Texas	4,877	0.35	%
Total Texas	1,264,262	90.11	%
Alabama	56,013	3.99	%
Oklahoma	18,567	1.32	%
Kansas	1,543	0.11	%
New Mexico	25,802	1.84	%
Louisiana	36,630	2.61	%
Montana	241	0.02	%
Total Other States	138,796	9.89	%
Total	1,403,058	100.00	%

North Texas - Fort Worth Basin & Bend Arch

The Fort Worth Basin-Bend Arch Province has been a focal point of the Company since its inception. Our technical personnel have an average of over 25 years of exploration, drilling, completing, and production experience extracting natural gas and oil from both conventional and unconventional hydrocarbon deposits found across the basin. Furthermore, the Company maintains comprehensive and extensive dossiers of geologic and engineering data gathered from the province.

The Fort Worth Basin-Bend Arch Province is a major United States onshore natural gas-prone expanse containing multiple pay zones that range in depth from one thousand to nine thousand (1,000-9,000) feet. Improved technical advances in fracturing and stimulation technologies have helped unlock natural gas and oil reserves from the hydrocarbon bearing Barnett Shale Formation; and thus, continue to bolster vigorous exploration and development activities that target these conventional and unconventional reservoir reserves throughout the province.

The Barnett Shale is a thick natural gas and oil bearing stratigraphic zone found throughout the Fort Worth Basin-Bend Arch Province. The natural gas reserves in place are significant; however, as a consequence of the extreme low permeability character of the shales, it has been technically challenging to produce these reserves. According to the United States Geological Survey assessment, an estimated 26.7 trillion cubic feet (TCF) of undiscovered natural gas, 98.5 MMBO of undiscovered oil, as well as a mean of 1.1 BBNGL of undiscovered natural gas liquids reserves remain within the 54,000 square mile Fort Worth Basin-Bend Arch Province. More than 98 percent or approximately 26.2 TCF of the undiscovered natural gas is contained in the organic-rich Mississippian Barnett Shale. Combined, recent advances in hydraulic fracturing, completion procedures, and improvements in pump technology, as well as refined horizontal well drilling technologies, continue to enable the economic recovery of natural gas and oil reserves from tight low-permeability reservoirs found throughout the Fort Worth Basin-Bend Arch Province. Undiscovered conventional reservoir natural gas reserves are estimated to be 467 billion cubic feet of gas (BCFG), the majority of which is dissolved in conventional oil accumulations (source: United States Geological Survey Energy Resource Program).

The Company has 15,072 gross acres under lease across the prolific Fort Worth Basin-Bend Arch Province, the majority of which is held by production from the more shallow producing zones. The Company uses recent and emerging technologies, as well as proven industry practices, to develop and produce oil and natural gas from its properties. Additionally, the Company has a dedicated and well-trained team of employees and professional staff that continually seek out low-risk profitable drilling and acquisition opportunities throughout the Fort Worth Basin-Bend Arch Province.

West Texas

Effective January 1, 2018, the Company acquired an additional 50% working interest with a 39.5% net revenue interest in its Miller #1 well located in Jones County, Texas. This additional acquisition brought the Company's interest in the well to a total 100% working interest with a 79% net revenue interest.

During 2018, the Company sold its 18.75% non-operated working interest in 51.78 net leasehold acres located in Martin County, Texas.

North Texas

During 2018, but effective December 31, 2017, the Company acquired a working interest of 2.29% with a net revenue interest of 1.71% in the Company's Lebleu #1 well located in Comanche County, Texas. This acquisition brought the Company's interest in the well to a total working interest of 65.35% with a net revenue interest of 52.55%.

Effective June 1, 2018, the Company acquired additional working interests totaling 3.0% with net revenue interests of 2.25% in the Company's Olex wells located in Denton County, Texas. This acquisition brought the Company's interests in the wells to total working interests of 56.33% to 59.50% with net revenue interests of 42.25% to 44.625%.

East Texas

Effective April 1, 2018, the Company acquired a working interest of 13.51% with a net revenue interest of 10.72% in the Company's Watts Gas Unit #1 well located in Marion County, Texas. This acquisition brought the Company's interest in the well to a total working interest of 65.35% with a net revenue interest of 52.55%.

Subsequent to year end, effective February 1, 2019, the Company acquired additional working interest of 11.67% with a net revenue interest of 9.51% in the Company's Watts Gas Unit #1 well located in Marion County, Texas. This acquisition brought the Company's interest in the well to a total working interest of 77.02% with a net revenue interest of 62.06%.

Oklahoma

Effective March 1, 2018, the Company acquired an additional 0.13% working interest with a 0.09% net revenue interest in its Sharp 18-1 well located in Oklahoma County, Oklahoma. This additional acquisition brought the Company's interest in the well to a total 89.25% working interest with a 66.94% net revenue interest.

Effective June 1, 2018, the Company sold its 18.75% non-operated working interest in an 80 acre tract of land located in Grady County, Oklahoma.

Effective November, 2018, the Company participated for a 1.36777% non-operated working interest with a 1.094216% net revenue interest in the drilling of the Taylor Trust 14/23 #1HXL well located in Grady County, Oklahoma. The well was spud on November 6, 2018, drilled, and the wellbore was landed in the Lower Hoxbar (Marchand C) formation. Production casing was set to total depth on December 24, 2018. The well was perforated from 11,232 ft. to 18,848 ft. and the perforated interval was fractured in 19 stages. The well was placed into production on February 3, 2019 and is currently producing at an approximate rate of 90 bopd, 65 mcfcpd, and 135 bswpd.

Alabama

During 2018, but effective July 1, 2017, the Company acquired an additional 0.08% working interest with a 0.07% net revenue interest in its Fairview Carter North Oil Unit located in Lamar County, Alabama. This additional acquisition brought the Company's interest in the Unit to a total 52.81% working interest with a 39.62% net revenue interest.

Oil and Natural Gas Reserves

The Company's net proved oil and natural gas reserves have been estimated by Company personnel. (See footnote 17 to the financial statements). No separate independent reserve report analysis has been prepared by an independent third party.

The net proved crude oil and natural gas reserves of the Company as of December 31, 2018 were 261,500 barrels of oil and condensate and 6.849 BCF of natural gas. Based on SEC guidelines, the reserves were classified as follows:

	Barrels of Oil	BCF Gas
Proved Developed Producing	261,500	6.849
Proved Developed Non-Producing	—	—
Proved Undeveloped	—	—
Total Proved Reserves	261,500	6.849

Only reserves that fell within the Proved classification were considered. Other categories such as Probable or Possible Reserves were not considered. No value was given to the potential future development of behind pipe reserves, untested fault blocks, or the potential for deeper reservoirs underlying the Company's properties. Shut-in uneconomic wells and insignificant non-operated interests were excluded.

On a BOE (barrel of oil equivalent) basis (6 MCF/BOE), the net reserves are:

Barrels of
Oil

Edgar Filing: SPINDLETOP OIL & GAS CO - Form 10-K

	Equivalent (BOE)	
Natural Gas Reserves	1,141,558	81 %
Oil Reserves	261,500	19 %
Total Reserves	1,403,058	100 %
Proved Developed Producing	1,403,058	100%
Proved Developed Non-Producing	—	0 %
Proved Undeveloped	—	0 %
Total Proved Reserves	1,403,058	100 %

The Company has operational control over the majority of these reserves and can therefore to a large extent control the timing of development and production.

	Barrels of Oil Equivalent (BOE)	
Operated Wells	1,118,742	80 %
Non-Operated Wells	284,316	20 %
Total	1,403,058	100%

Financial Information Relating to Industry Segments

The Company has three identifiable business segments: (1) exploration, acquisition, development and production of oil and natural gas, (2) natural gas gathering, and (3) commercial real estate investment. Footnote 14 to the Consolidated Financial Statements filed herein sets forth the relevant information regarding revenues, income from operations, and identifiable assets for these segments.

Narrative Description of Business

The Company is engaged in the exploration, development, acquisition and production of oil and natural gas, and the gathering and marketing of natural gas. The Company is also engaged in commercial real estate leasing through leasing office space to non-related third party tenants in the Company's corporate headquarters office building.

Principal Products, Distribution and Availability

The principal products marketed by the Company are crude oil and natural gas which are sold to major oil and gas companies, brokers, pipelines and distributors, and oil and natural gas properties which are acquired and sold to oil and natural gas development entities. Reserves of oil and natural gas are depleted upon extraction, and the Company is in competition with other entities for the discovery of new prospects.

The Company is also engaged in the gathering and marketing of natural gas through its subsidiary PPC, which owns several miles of pipelines in various states. Natural gas is gathered for a fee. Substantially all of the natural gas gathered by the Company is produced from wells that the Company operates and in which it owns a working interest.

The Company owns land and a two story commercial office building in Dallas, Texas, which it uses as its principal headquarters office. The Company leases the remainder of the building to non-related third party commercial tenants at prevailing market rates.

Patents, Licenses and Franchises

Oil and natural gas leases of the Company are obtained from the owner of the mineral estate. The leases are generally for a primary term of one or more years, and often have extension options for an equivalent period as the original primary term for payment of additional bonus consideration. The leases customarily provide for extension beyond their primary term for as long as oil and natural gas are produced in commercial quantities or other operations are conducted on such leases as provided by the terms of the leases.

The Company currently holds interests in producing and non-producing oil and natural gas leases. The existence of the oil and natural gas leases and the terms of the oil and natural gas leases are important to the business of the Company because future additions to reserves will come from oil and natural gas leases currently owned by the Company, and others that may be acquired, when they are proven to be productive. The Company is continuing to purchase oil and natural gas leases in areas where it currently has production, and also in other areas.

Dependence on Customers

The following is a summary of a partial list of purchasers / operators (listed by percent of total oil and natural gas sales) from oil and natural gas produced by the Company for the three-year period ended December 31, 2018.

Purchaser / Operator	2018	2017	2016
Sunoco Partners Marketing	18%	18%	12%
Enlink Gas Marketing, LTD.	10%	13%	9%
Enervest Operating, LLC	10%	3%	2%
Targa Midstream Services, LLC	9%	13%	14%
ETX Energy, LLC formerly New Gulf Resources	5%	7%	13%
DCP Midstream, LP	4%	3%	3%
Barnett Gathering, LP	4%	1%	0%
ACE Gathering, Inc.	4%	2%	0%
Shell Trading (US) Company	4%	4%	4%
ETC Texas Pipeline, Ltd	4%	2%	1%
Eastex Crude Company	3%	7%	10%
Midcoast Energy Partners LP	3%	4%	4%
Pruet Production Co.	3%	3%	3%
Land and Natural Resources Development	2%	0%	0%
Devon OEI Operating, Inc.	2%	0%	0%
LPC Crude Oil Marketing LLC	2%	3%	3%
Phillips 66	1%	1%	1%
OXY USA, Inc.	1%	2%	4%
Valero Energy Corporation	1%	3%	2%
FDL Operating LLC	1%	0%	0%
Enterprise Crude Oil, LLC	1%	0%	1%
XTO Energy, Inc.	1%	1%	1%
Empire Pipeline Corp.	1%	1%	1%
Sandridge Energy, Inc.	1%	1%	1%
Lucid Energy Group II (Formerly Agave Energy Co.)	1%	2%	0%
Webb Energy Resources, Inc.	1%	1%	1%
Range Resources Corporation	1%	1%	1%
Courson Oil & Gas, Inc.	0%	1%	1%
Corum Production Company	0%	0%	1%
Ward Petroleum	0%	1%	1%
Corporation			
Agave Energy Company	0%	0%	2%
Linear Energy Management LLC	0%	0%	1%

Oil and natural gas is sold to approximately 109 different purchasers under market sensitive, short-term contracts computed on a month to month basis.

Except as set forth above, there are no other customers of the Company that individually accounted for more than one percent (1%) of the Company's oil and natural gas revenues during the three years ended

December 31, 2018.

The Company currently has no hedged contracts.

Prospective Drilling Activities

The Company's primary oil and natural gas prospect generation and acquisition efforts have been in known producing areas in the United States with emphasis devoted to Texas.

The Company intends to use a portion of its available funds to participate in drilling activities. The Company does not own any drilling rigs. Independent drilling contractors perform all drilling activity. The Company does not refine or otherwise process its oil and natural gas production.

Exploration for oil and natural gas is normally conducted with the Company acquiring undeveloped oil and natural gas leases under prospects, and carrying out exploratory drilling on the prospective leasehold with the Company retaining a majority interest in the prospect. Interests in the property are sometimes sold to key employees and associated companies at cost. Also, interests may be sold to third parties with the Company retaining an overriding royalty interest, carried working interest, or a reversionary interest.

A prospect is a geographical area designated by the Company for the purpose of searching for oil and natural gas reserves and reasonably expected by it to contain at least one oil, or natural gas reservoir. The Company utilizes its own funds along with the issuance of common stock and options to purchase common stock in some limited cases, to acquire oil and gas leases covering the lands comprising the prospects. These leases are selected by the Company and are obtained directly from the landowners, as well as from land men, geologists, other oil companies, some of whom may be affiliated with the Company, and by direct purchase, farm-in, or option agreements. After an initial test well is drilled on a property, any subsequent development drilling of such prospect will normally require the Company to fund the development activities.

Employees

As of December 31, 2018, the Company employed or contracted for the services of a total of approximately 56 people. Of this total, 20 are full-time employees, and the remainder are part-time employees or independent contractors. We believe that our relationships with our employees are good.

In order to effectively utilize our resources, we employ the services of independent consultants and contractors to perform a variety of professional, technical, and field services, including in the areas of lease acquisition, land related documentation and contracts, drilling and completion work, pumping, inspection, testing, maintenance and specialized services. We believe that it can be more cost effective to utilize the services of consultants and independent contractors for some of these services.

We depend to a large extent on the services of certain key management personnel and officers, and the loss of any these individuals could have a material adverse effect on our operations. The Company does not maintain key-man life insurance policies on its employees.

Financial information about foreign and domestic operations and export sales

All of the Company's business is conducted domestically, with no export sales.

Compliance with Environmental Regulations

Our oil and natural gas operations are subject to numerous United States federal, state, and local laws and regulations relating to the protection of the environment, including those governing the discharge of materials into the water and air, the generation, management and disposal of hazardous substances and wastes, and clean-up of contaminated sites. We could incur material costs, including clean-up costs, fines, civil and criminal sanctions, and third party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. Such laws and regulations not only expose us to liability for our own activities, but may also expose us to liability for the conduct of others or for actions by us that were in compliance with all applicable laws at the time those actions were taken. In addition, we could incur substantial expenditures complying with environmental laws and regulations, including future environmental laws and regulations which may be more stringent.

Glossary of Oil and Gas Terms

The following are abbreviations and definitions of terms commonly used in the oil and gas industry that are used in this Report. The terms defined herein may be found in this report in both upper and lower case or a combination of both.

"BBL" means a barrel of 42 U.S. gallons.

"BBNGL" means billion barrels of natural gas liquids.

"BCF" or "BCFG" means billion cubic feet.

"BOE" means barrels of oil equivalent; converting volumes of natural gas to oil equivalent volumes using a ratio of six Mcf of natural gas to one Bbl of oil.

"BOPD" means barrels of oil per day.

"BTU" means British Thermal Units. British Thermal Unit means the quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.