ROUND 2: GENERAL FACTS

"Fracking the Flock"

Written by: Michael P. Miller[1]

Acquiring a modest pine tree farm in East Texas soon after they married, Red and Bunny Friedman ("Friedmans") began raising chickens, and what began as only a means to make extra income soon became a passion. Over the course of several years, the Friedmans turned three dozen chickens and a rooster into Magnolia Chicken Farms, a Texas limited liability corporation, ("Magnolia Farms"), consisting of a 2,160 acre poultry farm in Tyler County that exclusively raises, processes and markets organic, steroid and antibiotic-free, pasture raised Buff Orpington[2] broilers and eggs. Magnolia Farms is located near the town Woodville, in Tyler County, Texas. In addition to owning the surface, Magnolia Farms also has an undivided 20% mineral interest in the 2,160 acres ("Magnolia Lease Tract").

With the success of Magnolia Farms, the Friedmans expanded their operations and at the time of their deaths, owned and managed an additional five large poultry operations located in Louisiana, Oklahoma, and Missouri, all operated under the umbrella of Magnolia Production, LLC, a Delaware limited liability company.

The Friedmans were completely devastated when their one and only child, Sam, died when he was eight years old from a rare blood disease that primarily affects children and young adults. The Sam Friedman St. Jude's Hospital for Children Foundation Trust ("Sam Friedman Trust"), was established under the will of Red Friedman, and fully funded under the wills of Red and Bunny Friedman, both deceased, with all of the assets of Magnolia Production, LLC. The purpose of this Trust is to maximize profits from Magnolia Production, LLC, for the sole and exclusive benefit of the St. Jude's Hospital for Children Foundation, ("Foundation"), headquartered in Memphis, Tennessee. Last year, the Sam Friedman Trust generated approximately 14.5 million dollars, and is one of the Foundation's largest single annual donors. The activities of the Trustees of the Sam Friedman Trust ("Trustees") are routinely monitored by the St. Jude's Donor Asset Management

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[1] Michael Miller has worked at the oil & gas law firm of Sadler/Bieber Law Group, PLLC since 2008. Miller is a member of the Oil, Gas and Energy Resources Law Section of the State Bar of Texas, the American Association of Professional Landmen, and the West Houston Association of Professional Landmen. We would also like to thank John Garza for his assistance with this fact pattern.

[2] Magnolia Farms is widely acknowledged within the industry as producing some of the finest broilers in the United States. They exclusively raise award winning Buff Orpington Broilers, a particularly handsome chicken which is larger than most, and famed for their succulent meat and high egg count. Although they are docile by nature, like most chickens they are somewhat skittish and nervous.

Board, ("Donor Asset Management Board"), a key department within the Foundation, responsible for insuring the integrity of donor intent is maintained and honored.

Luxe Petroleum, LLC, a recently organized Nevada limited liability corporation, ("Luxe"), is a wholly owned subsidiary of RooGas, an aggressive Australian energy development corporation with a track record of success in developing oil and gas properties in Australia, New Zealand, and Peru. Luxe represents RooGas' first entry into North American oil and gas fields, and the first time RooGas has dealt with issues involving private mineral ownership. Soon after its creation, the management team at Luxe became interested in a newly leased 2,652 acre oil and gas leasehold in Tyler County, Texas, after being approached by Smith and Associates ("Smith"), a highly respected land and mineral lease acquisition company headquartered in East Texas, who had recently obtained oil and gas leases covering the Magnolia Lease Tract and adjoining 492 acres, all with a favorable 20% royalty. Luxe acquired seismic rights and commissioned extensive 3D surveys[3] covering the offered leasehold, and based on the optimistic opinions of Luxe's geologists and engineers, Luxe acquired the entire 2,652 acre leasehold ("Luxe Leasehold") from Smith, on a closing date of February 1, 2019.

Luxe raised cash to acquire the Luxe Leasehold and fund initial operations from an established energy capital syndicate, Times Partners VI, LLP, a New York limited liability partnership, ("Times"), who has many years of experience in financing energy development. Under terms of an unrecorded collateral agreement, ("Collateral Agreement"), and recorded Deed of Trust and Financing Statement between Luxe, as Mortgagee, and Times, as Mortgagor, Luxe pledged the entire Luxe Leasehold and an additional approximate 2,100 net mineral acres in Oklahoma owned by Luxe, as collateral interests, to support financing of the Luxe Leasehold acquisition and initial operations.

The general rule in Texas is that a mineral estate is generally dominant to its complemental surface estate, and when severed from the surface, the mineral estate maintains a superior right to conduct reasonable surface operations for the purpose of developing the underlying minerals. Relying on this rule, Luxe did no investigation regarding the surface use and ownership above the Leasehold. The Luxe Leasehold is comprised of many individual oil and gas leases including an Oil and Gas Lease granted by the Trustees ("Magnolia Lease"). Above the Luxe Leasehold are three surface parcels: (1) 2,160 acres owned by Magnolia; (2) 450 acres owned by the city of Woodville (consisting of nature trails, a recreational park, fishing lake, regional sports complex and community center); and (3) approximately 42 acres dedicated as New Jerusalem Cemetery and overseen by the elders of Woodville Church of Christ.

Luxe geologists and engineers believe a total of two units, each with three horizontal wells at varying depths, will maximize production from the Luxe Leasehold. They have informed Steve Butler, Vice-President of Land for Luxe, that to reach maximum production, two surface sites of

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[3] Usually, seismic surveys are conducted prior to drilling operations. Generally speaking, they are similar to ultrasound readings. They are conducted by "shooting" vibrations into the ground and analyzing the reverberations using sophisticated equipment. Most seismic surveys are either 2 dimensional ("2D") or three dimensional ("3D"). 3D is far superior, but also much more expensive. Comparing 2D to 3D is akin to comparing an x-ray taken in a doctor's office in 1960, to a full 3 dimensional CT scan conducted in a clinic today. Some (frequently smaller) oil and gas operators continue to rely on 2D science due to financial constraints, particularly in areas with proven production.

eight acres each (six wells total) will be necessary, both preferably located on the surface of Magnolia Farms.

Sue Thomason, ("Thomason"), in-house counsel for Luxe, has drafted and circulated an internal memorandum regarding the responsibilities owed by an operator/mineral owner/Lessee to a surface owner for drilling and production activities in Texas. In summary, her memorandum states the following:

> The mineral estate is dominant over the surface estate, which is burdened under servitude, and the mineral estate has a right to use so much of the surface as may be *reasonably necessary* to develop the mineral estate or lands pooled therewith. Although the mineral estate has a superior right to interfere with a surface owner's use, such right is not unfettered. Surface use by a mineral owner is limited by the following:
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> A. Use must be reasonably necessary to effectuate the purpose of the lease. Road construction, geophysical exploration, and the placement of necessary building structures, pipelines, tanks and treatment facilities are considered necessary;
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> B. Reasonable use must be tempered with due regard of the rights of the surface owner. Generally speaking, where there is an existing use by the surface owner which would otherwise be precluded or impaired, and where under established practices in the industry there are alternatives available to the lessee whereby the minerals can be recovered, the rule of reasonable usage of the surface may require the adoption of an alternative by the lessee;
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> C. All operations must be conducted in a non-negligent manner. If a negligent act causes harm to the surface, the surface owner is usually able to recover damages;
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> D. A mineral estate owner is entitled by law to exercise their developmental rights, typically including the right of ingress and egress upon the surface; and
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> E. Although there is no implied duty to restore the surface to its same condition prior to exploration activities, under the express terms of the Magnolia Lease, Luxe has an obligation to restore the surface to its original condition after exploration activities.

At the suggestion of Thomason, Butler invited the Trustees to meet, to gain a sense of the Trustee's stance on oil and gas production operations occupying tracts within Magnolia Farms' poultry operations. Two of the Trustees were uncertain about such prospect, but acknowledged that a 20% royalty would "probably be a nice addition to the Trust's bottom line." However, the third Trustee, Frank Yates, stated he is "morally opposed to big oil" and would never allow Magnolia Farms to "contribute to the destruction of glaciers in the South Pole." However, everyone involved realizes that the amount of money generated per annum on two eight-acre tracts from raising, processing, and marketing chickens and eggs, is significantly less than collecting 20%[4] of the profits from six producing wells.

[4] Although Magnolia owns 100% of the surface estate, it only owns 20% of the mineral estate. Therefore, Magnolia would be entitled to a 20% royalty from its 20% mineral ownership, (being 20% of 20% = 4.0% of production).

The attorneys on behalf of Luxe and Magnolia have decided to meet in Houston on April 6th to finalize the surface use agreement. At this point, the parties have both agreed that Luxe will drill a total of six producing wells and Magnolia is to receive a 1/5 royalty of its 20% Mineral interest. The following issues remain to be negotiated at the meeting:

- Completion date
- Noise abatement measures
- Worker housing
- Flaring of gas
- Additional miscellaneous items

Confidential Information for Luxe Attorneys

Terms in the Collateral Agreement require Luxe to begin operations on the first well within four months of the closing date of the Luxe Leasehold acquisition, and to have no less than three wells completed and producing in marketable quantities within the first twelve months after said closing date. Under these terms, Luxe will face harsh penalties if these commitments are not met. Additional delay will result in either a necessity for Luxe to negotiate less favorable and costlier financing terms with Times, or a forfeiture of the Luxe Leasehold and 2,100 Oklahoma net minerals estate, to Times.

Luxe management and Thomason urge that litigation should be avoided at most any cost. Luxe cannot afford the delays litigation would bring, due to the drilling schedule called for in the Collateral Agreement. Additionally, unless successfully moved to a different venue (more delay), Luxe's position would be a difficult sell to a local jury due to Friedman's fondly remembered legacy in Tyler County, the importance of Magnolia Farms to the local economy, and the fact Magnolia Farms is now a noteworthy charitable trust.

The president of Luxe revealed last week that he has quietly met with the mayor and several town council members about establishing a site for operations next to the city baseball field, on the city owned parcel. The city leaders are excited about the prospect of additional revenues coming into the city coffers, but leery about pushback from their citizens if operations are conducted in their city park. The president has also informed Thomason that after hearing about Butler's unfavorable reception from the Trustees, he picked up the phone and spoke with one of the attorneys for St. Jude's, Zola Maar, in her capacity of representing the beneficiary of the Sam Friedman Trust. He informed Thomason that he and Maar had a lengthy discussion about the positive financial impact which Luxe's plans could have for the Sam Friedman Trust, and that she was receptive and desired more information.

Thomason has brought in a top negotiation team from a results oriented oil and gas law firm located in Houston to represent Luxe in the upcoming negotiation of a surface use agreement with Magnolia. The president of Luxe has asked the negotiation team to use their best efforts to keep all additional costs below $370,000.

Noise Abatement

Luxe anticipates that Magnolia will have concerns regarding the impact that noise from drilling operations will have on their chickens. The six wells will sit in a hexagonal arrangement, just Northwest of numerous of Magnolia's chicken coops. (See Attachment A). The closest well sits in zone 1. The next two nearest wells sit in zone 2. The next nearest wells sit in zone 3. The furthest well sits in zone 4. It is theorized that Zone 1's noise will affect the chicken coop the most. Each succeeding zone will affect the chicken coop proportionally less. Luxe has two different types of noise reducing electric drilling technologies, both of which come with an additional cost in comparison to the standard drills that Luxe normally uses. The two types of technologies are as follows: 80 decibel technology = $25k/well; 60 decibel technology = $45k/well. Sixty decibels is the approximate level of a normal conversation. Luxe has consulted with two different farmers in the area, trying to understand the effect that the drilling noise will have on the chickens. These farmers are small-scale, generalists, who do raise chickens (approximately 50 chickens each) but also cows and goats. Both say that their chickens periodically endure 80 decibels of noise.

Luxe’s most ideal result would be all six wells drilled with the 80-decibel technology. This comes with an overall cost of $150,000. Of course, Luxe anticipates some push back here, particularly for the wells closest to the chicken coop. Luxe has authorized you to reach any agreement on noise abatement as long as the total additional cost for Luxe remains under $210,000 on this issue.

<u>Completion Date</u>

At the very minimum, Luxe needs at least 12 weeks to drill all six wells. More realistically, however, 18 weeks would give Luxe the standard amount of time it likes to take to drill a producing well, e.g. 3 weeks per well. If Luxe fails to drill six producing wells, it will lose the 2,100 acre Oklahoma mineral estate it put up as collateral for funding to get this Magnolia leasehold that is the subject of the negotiations. This simply cannot happen.

If necessary, Luxe could accelerate its drilling schedule to target a site preparation, drilling and completion time to 15 weeks, from the normal 18 weeks, for all six wells. However, this will result in additional of $150,000 in drilling expenses. Luxe could also get all six wells done in 12 weeks, which would cost $250,000. If absolutely required by Magnolia, Luxe expects Magnolia to cover the costs associated with doing so. However, Luxe prefers to keep the timetable at 15 weeks because this gives them more of a cushion in case anything goes wrong. The process of drilling and extracting gas is not an exact science. Although it is possible for a well to be drilled at the right location and depth, there is no guarantee the well will produce any gas at all or so little that it is not economically viable. If that happens, it would need to begin the drilling process over again at a new location. That being said, Luxe is open to the 12-week timetable if Magnolia is absolutely insistent. If Magnolia wants to accelerate the drilling, they will need to allow Luxe to drill for a minimum of 14 hours/day to meet the 15-week deadline, and a minimum of 16 hours/day to meet the 12-week deadline.

<u>Worker Housing</u>

Luxe strongly prefers to house its workers on-site. Not only is it common practice in the industry to do so, but in this case, the location of the drill site is remote, so the closest motels are an hour away from the site, which could negatively impact the day-to-day drilling schedule. If Magnolia agrees to the on-site housing, Luxe anticipates that Magnolia will want a guarantee that the land will be restored to its previous state prior to the construction of worker housing. Luxe has no issue agreeing to handle the cost of these repairs. Additionally, Luxe feels confident that they can have the housing deconstructed and removed from the site within 90 days of completing the project. Luxe can deconstruct the housing site within 60 days if absolutely necessary, however, Luxe would prefer as much time as possible, since there are multiple subcontractors involved with the process. If Magnolia is unwilling to agree to on-site housing, Luxe will allow the workers to stay off-site at the nearest motel. Luxe management is actively searching for contingency plans in case this situation arises and has also authorized you to speak with Magnolia about how to accommodate this. Luxe can only accept off-site housing if Magnolia agrees to cover the additional $100,000 it will cost Luxe to house the workers in nearby motels.

Flaring of Gas

Luxe will occasionally need to flare gas, and they anticipate that this will be problematic for Magnolia. The ability to flare gas is a necessity for Luxe in order to maintain efficiency in its operations and reduce operating costs. Without flaring, Luxe estimates an increased cost of production of $0.14 per BTU of gas. If absolutely necessary, Luxe could build a gathering system to conduct all flaring in one location (to be chosen by Magnolia Farms). This type of gathering system costs $100,000 to construct. Luxe is aware that Magnolia has some hesitations with onsite flaring due to the harm it could inflict on the chickens. For this reason, Luxe is amenable to flaring only during daytime hours, and it is also willing to utilize silencing equipment that can ensure that flaring is mostly silent. The cost for such silencing equipment is $20,000.00 per well. While Luxe would prefer that Magnolia absorb the entirety of both of these costs, Luxe is aware that Magnolia is very much opposed to any kind of flaring on the property. If Magnolia would grant Luxe permission to flare, Luxe is willing to cover up to 50% of the costs associated with the noise reduction equipment, and would be willing to cover the entirety of the cost associated with constructing the gathering system. Ultimately, however, Luxe would like you to convince Magnolia to cover as much of the costs as possible, since the flaring is a necessity and industry standard in a deal like this.

Miscellaneous Issues

Magnolia will likely require that Luxe maintain and repair all roadways within Magnolia Farms, which it utilizes, regardless of frequency of use. Additionally, you expect Magnolia to request that Luxe rebuild all surface assets, if any, which are damaged by the operations. Luxe has no issue with agreeing to either of these since they are both standard in the industry.

Another issue that may be addressed is the depth of the pipelines. Industry standard is to bury all gathering pipelines at least 3.5 feet below plow depth. Luxe would be willing to go to a maximum of 4 feet if (strongly) requested. While this would cause an added burden on an already time sensitive drilling operation, Luxe will agree if Magnolia covers the cost which is an additional $2,500 per well for every extra half of a foot depth.

Lastly, the industry standard for temporarily storing wastewater fluids is to do so in open pits on the drilling site. In previous operations, Luxe has been asked to instead transport all waste fluids to an offsite location for proper disposal, as necessary. This is certainly something that Luxe has done in the past, however, it would carry with it an additional cost of $20,000 per well, and Luxe would expect Magnolia to pay for those expenses.

Confidential Information for Magnolia Production, LLC ("Magnolia")

Under Trust terms, as compensation for their duties, the three Trustees each receive 1/3 of 4.0% of the annual net revenue earned and paid to the Foundation. In addition, they are flown first class to the Foundation's headquarters six times a year, are accommodated in suites at the Peabody Hotel, and are wined and dined in Memphis' finest restaurants by the Donor Asset Management Board. All of the Trustees enjoy the benefits and perks of their position and all hope to remain a Trustee for as long as possible.

One Trustee in particular, Frank Yates, is a "big environmentalist" who after driving around in his Ford F-250 all day, will oppose any horizontal fracking operation. However, the royalty revenue from production will be much more profitable to the Magnolia Trust than chicken operations on 16 acres of land. Additionally, most large charities, including St. Jude's, have aggressive attorneys who monitor legacy donors and protect their charity's interest.

Two weeks ago, during the most recent regularly scheduled bi-monthly meeting between the Trustees and the Donor Asset Management Board, the primary item on the agenda was development of the Luxe Leasehold to utilize the surface of Magnolia Farms' operations. After a lively exchange, Zola Maar, an attorney for St. Jude's Hospital and the Board's in-house attorney, reminded the Trustees of their responsibility to proceed under the terms of the Trust, which is to maximize profits of Magnolia Production, LLC, for the Trust's beneficiary, the Foundation. It was made clear that if any Trustee was planning to usurp this responsibility, due to personal opinion, beliefs, or political viewpoints, they needed to immediately resign as a Trustee of the Sam Friedman Trust, or face the embarrassment of a forced ouster. The meeting concluded with Maar pointedly asking Yates if royalties from oil production would be significantly greater than chicken and egg production from the same land. Yates responded that he didn't have the numbers with him. From her briefcase, Maar immediately pulled out a report which summarized the profitability of each revenue source, handed them to Yates and said with a smile, "now you do."

The Trustees made it clear to their negotiation team that Luxe operations on their surface are inevitable, but even still, they must obtain the greatest concessions possible. To do so, the Trustees have up to $845,000 to compensate Luxe for any additional measures the Trustees deem necessary, but the optimal budget is $550,000.

Completion Date

Magnolia has a large, upcoming chicken order that it must fill, and Magnolia will lose some production and associated revenue from the negative effect that the drilling noise will have on their chickens. However, this deal will help them recover some of that lost revenue. Still, Magnolia needs to keep its chickens settled and as free from the stress of drilling noise as possible. The amount of time that their chickens are exposed to the drilling noise is important. Magnolia will have enough time to get the chickens settled and back to normal even if Luxe takes up to 15 weeks to drill all six wells. However, this poses the greatest risk to Magnolia and its ability to fill their large order. Having Luxe drill for the minimum amount of time possible is ideal. For Magnolia, the most desirable amount of time to allow Luxe for drilling is a total of 10 weeks.

Noise abatement

Upper management of Magnolia estimates unfettered noise vibration and lights will keep Magnolia's chickens from fully developing and reduce their net profit value at market by approximately $0.29 per chicken, equating to an annual net profit loss of approximately $337,200.00.

The six wells will sit in a hexagonal arrangement, just northwest of Magnolia's chicken coops. (See Attachment A). The closest well sits in zone 1. The next two nearest wells sit in zone 2. The next nearest wells sit in zone 3. The furthest well sits in zone 4. It is theorized that Zone 1's noise will affect the chicken coop the most. Each succeeding zone will affect the chicken coop proportionally less.

Magnolia has hired a retired petroleum operations engineer as a consultant, Johan Liebert, who recommends Luxe utilize new electric motor driven drilling equipment to reduce average drilling operation noise to 60 decibels, about the level of a normal conversation. Magnolia prefers that all six wells be drilled utilizing the 60 decibel drilling technology. However, Magnolia understands that employing this technology increases the cost of drilling operations for Luxe by approximately $45,000 per well. There is also less expensive drilling technology that can reduce the noise to 80 decibels. This would cost Luxe $25,000 per well. While the trustees prefer that all wells be drilled utilizing the 60 decibel technology, they understand that Luxe has allocated a certain amount of funds to the drilling portion of the project. For that reason, the trustees are aware that using the 60-decibel technology on all six wells may not be feasible. At a minimum, however, the trustees require that at least the first three wells be drilled with the 60-decibel technology, due to their proximity to the chickens. The three furthest wells can be drilled with either type of equipment. Either way, you should request that Luxe pays for these expenses.

The Trustees also desire that no operations or activities (other than the collection of gas which is virtually silent by itself) are conducted between the hours of 7:00pm and 6:00am. If chickens are not well rested, their egg production decreases and they have a tendency to start pecking at each other which can lead to disease and other maladies. For the best rest, chickens need complete darkness. Therefore, the Trustees desire that all lights are off by 7:00 p.m. However, Magnolia also wants the drilling to be done as quickly as possible, and while a 7pm lights off policy is preferred, Magnolia is willing to extend the hours of drilling if it comes with a guarantee from Luxe that the drilling will be done in 12 weeks. If they can guarantee the 12-week time line, Magnolia is willing to let them drill as late as 10pm. If Luxe can guarantee the 15-week timeline, then Magnolia would be willing to let them drill as late as 8pm. The 6am start time is non-negotiable. Magnolia has been informed that extended drilling time alone will not speed up the process to the extent that Magnolia wants. In order for that to happen, Luxe will also have to implement an accelerated drilling procedure, which requires more man-power and more equipment. The increased number of workers and equipment comes at a price. For the 15-week timetable, Magnolia would need to pay an additional $150,000. The 12-week timetable would require Magnolia to pay $250,000. Magnolia is open to both options, but very much prefers to have the drilling completed in 12-weeks, since the drilling will be the most intrusive part of the process.

Worker Housing

Magnolia does not want Luxe to house any of its workers on-site. Magnolia is concerned that if the workers stay on site, it will result in additional noise, trash, and liability in general. However, Magnolia knows that oil and gas production companies often want this as a condition of their deals. Magnolia is willing to agree to house the workers on site, but only if Luxe agrees to repair any and all damage done to the surface as a result of constructing the on-site housing. In addition, Magnolia would prefer that Luxe have the on-site housing deconstructed and removed within 30 days of completing the project. If Luxe cannot agree to 30 days, Magnolia would be willing to agree to as much as 60 days. In the alternative, Magnolia is aware that surface estate owners sometimes pay the production company a sum of money in exchange for not housing the workers on-site. If necessary, Magnolia has allotted a maximum of $150,000 in their budget for this purpose.

Flaring of Gas

All Trustees are opposed to the flaring of gas, out of fear that it will agitate the chickens. Flaring is a very intrusive process. It is incredibly loud and emits a foul odor in the surrounding area. However, Liebert has informed the Trustees that in his opinion, the flaring of gas is a standard practice and Luxe will probably insist upon the ability to flare all gas waste. If that is the case, then you should attempt to impose restrictions to limit the noise level, time of day, and/or location. For example, companies can build a gathering system to conduct all flaring in one location. However, this type of gathered flaring is very expensive and could cost an additional $100,000. Additionally, Liebert is aware of equipment that ensures the flaring is mostly silent. The cost for this silencing equipment is $20,000 per well. You must ensure that Luxe agrees to both of these measures in order to reduce the impact on the chickens. Although Magnolia would prefer for Luxe to share in the cost of the silencing equipment equally, if necessary, Magnolia is willing to handle the entirety of the silencing cost, if Luxe guarantees to handle all costs associated with the gathering system. Lastly, you should require that no flaring be done during the nighttime hours so the chickens are not disturbed.

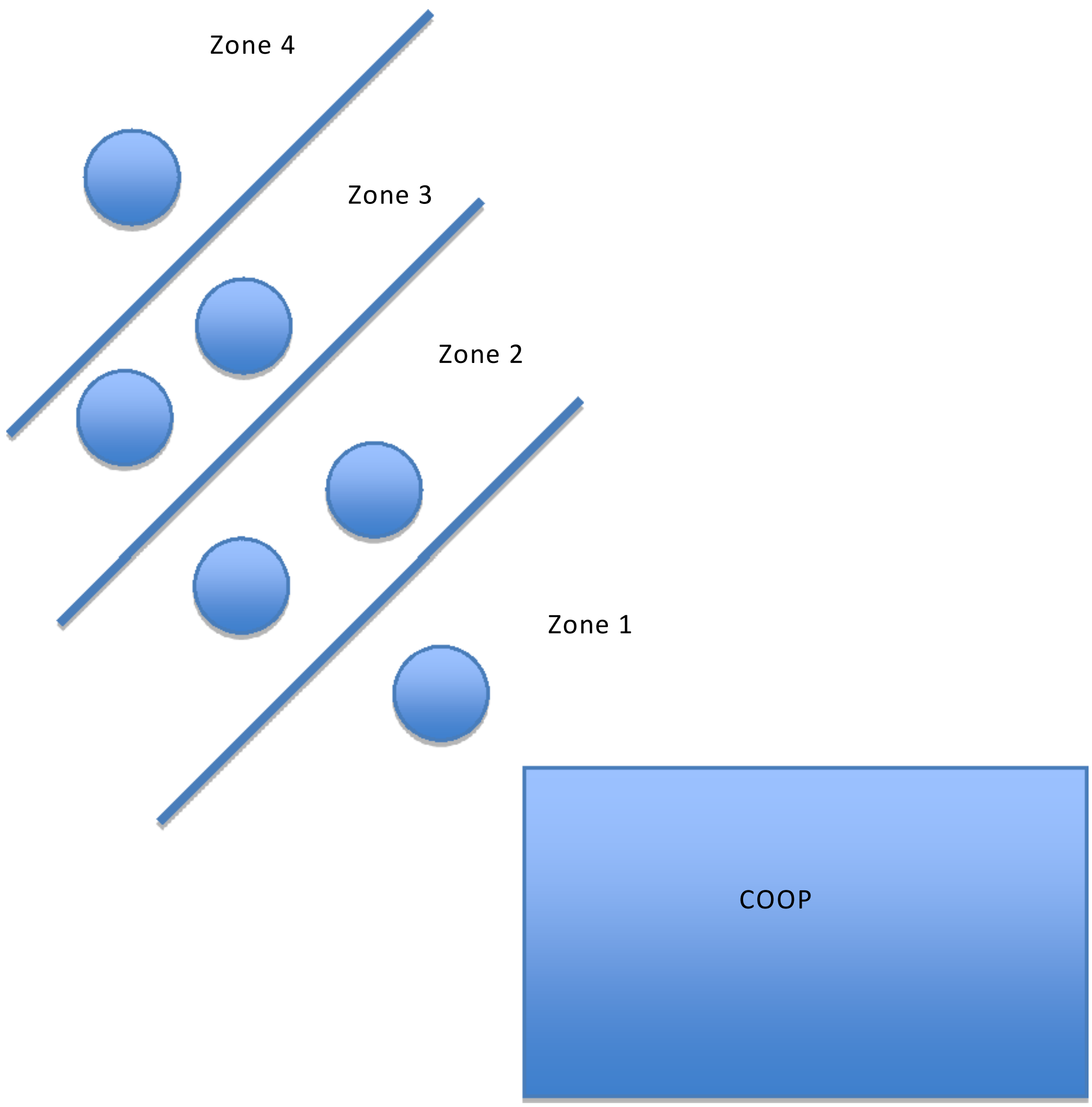
Miscellaneous

Luxe must agree to maintain and repair all roadways within Magnolia Farms, which it utilizes, regardless of frequency of use. It also requests that Luxe rebuild all surface assets, if any, which are damaged by the operations. These are both fairly standard requirements in the industry. Additionally, the Trustees would prefer that Luxe bury all gathering pipelines 4.5 feet below plow depth, even though the industry standard is 3.5 feet. Magnolia would like the pipeline to be buried deeper to allow for flexibility with the land's future usage. The deeper the pipeline is buried, the less impacted the surface will be, leaving them with the ability to utilize the land as they see fit in the future (possibly for agricultural endeavors). If burying the pipes at 4.5 feet is too costly or time intensive, Magnolia would be willing to pay for four feet.

Lastly, the Trustees request that Luxe NOT employ industry standard open pits for wastewater fluids in temporary storage, and instead transport all waste fluids to an offsite location for proper disposal, as necessary. Magnolia is not sure how they will use this land in the future, and they do not want any present decisions to impact or limit their future usage of the land. Of course, this will come with additional costs for Luxe. Therefore, Magnolia is willing to discuss contributing to the cost of storing the wastewater off-site, but they would need to make sure it fits within Magnolia's overall budget before committing to handle the expenses for it. Their lowest priority is the wastewater storage, so if agreeing to handle those costs would result in Magnolia exceeding their budget, they would rather not implement it.

ATTACHMENT A

Diagram of Chicken Coop/Proposed Well Locations



SUMMARY OF MAIN ISSUES & AUTHORITY

LUXE	MAGNOLIA
NOISE ABATEMENT:	
• 6 wells drilled with 80 decibels of noise preferred ($25K/drill) Willing to agree to: • Willing to use to different drills based on well proximity to chickens • Drilling 3 wells with 60 decibels at a cost of $45K/well, and drilling 3 wells with 80 decibels at a cost of $25k/well	• 6 wells drilled with 60 decibels of noise preferred ($45K/drill) Willing to agree to: • Drilling 3 closest wells with 60 decibels technology at $45K/well, and drilling furthest wells with 80 decibel technology at $25K/well
COMPLETION DATE:	
• 18 weeks preferred • Need at least 12 weeks to complete project via accelerated drilling process • Willing to agree to a 15-week timetable for 14hrs drilling/day for an additional $150k • Willing to agree to a 12-week timetable for 16hrs drilling/day for an additional $250k	• 10 weeks preferred • Willing to go as high as 15 weeks if absolutely necessary • Willing to contribute up to $250K and allow drilling to occur as late as 10PM if Luxe **guarantees** the drilling will be completed within 12-weeks.
FLARING OF GAS:	
• Luxe needs to flare gas and prefers that Magnolia handle the costs associated with reducing the impact on livestock. • Budgeted to pay for the cost of gathering ($100K). • Open to paying for half of the costs associated with reducing the impact on the livestock. (Costs $20K/well, so they'd be open to paying $10K/well). • Open to Magnolia enforcing hours of the day in which flaring is permitted.	• Prefers for Luxe not to flare gas on the property. • Magnolia is open to paying for the silencing ($20K/well) if Luxe pays for the gathering ($100K). • If Magnolia is going to permit flaring and help with the costs to reduce impact, Magnolia insists that flaring only occur during daylight hours.
MISCELLANEOUS:	
• Luxe prefers workers be permitted to live on site. If agreed to, Luxe is willing to repair any extra damage to surface land as a result of on-site housing being constructed. Luxe can also agree to have on-site housing deconstructed and removed from site within 60 days of completing the project. • If workers cannot live on site, Luxe needs a minimum of $100K to pay for off-site lodging • Luxe is open to repairing all roads they use to access site • Luxe prefers to lay pipeline at 3.5ft below the surface.	• Magnolia would prefer to have workers live off-site, and is willing to pay as much as $150K to make this happen • Willing to allow workers to live on site, but Magnolia would need Luxe to agree to repair any damage done to surface land as result of on-site housing. Magnolia also wants on-site house deconstructed and removed no more than 60 days after completion of the project. • Magnolia prefers all pipes be buried 4.5ft beneath the surface ($5K/well) • Magnolia is willing to agree to pipes being buried 4ft below the surface and will pay the necessary fee to do so. ($2.5K/well)

• Luxe is open to laying pipeline as deep as 4.5ft, but for every additional 0.5ft, the cost to bury the pipes increases by $2,500/well • Luxe is willing to construct an off-site waste storage system, but only if Magnolia is willing to pay for the entirety of the cost associated with the off-site waste water storage.	• Magnolia is willing to pay for off-site waste water storage ($150k) if Magnolia has enough room in their budget.
FINAL BUDGET:	
• Maximum budget:$370,000 • Optimal budget: $250,000	• Maximum budget: $550,000 • Optimal budget: $475,000