

QEP RESOURCES, INC. (QEP)

10-Q

Quarterly report pursuant to sections 13 or 15(d)

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2012

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

QEP RESOURCES, INC.

(Exact name of registrant as specified in its charter)

STATE OF DELAWARE
(State or other jurisdiction of
incorporation or organization)

001-34778
(Commission
File Number)

87-0287750
(I.R.S. Employer
Identification No.)

1050 17th Street, Suite 500, Denver, Colorado 80265
(Address of principal executive offices)

Registrant's telephone number, including area code (303) 672-6900

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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 (Do not check if a smaller reporting company) 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

At September 30, 2012, there were 178,116,761 shares of the registrant's common stock, \$0.01 par value, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QEP RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
(in millions, except per share amounts)				
REVENUES				
Natural gas sales	\$ 170.3	\$ 309.8	\$ 470.4	\$ 921.1
Oil sales	117.7	76.9	335.7	220.6
NGL sales	67.5	79.3	247.0	191.0
Gathering, processing and other	46.3	57.1	141.9	162.6
Purchased gas, oil and NGL sales	140.6	356.8	449.9	810.6
Total Revenues	542.4	879.9	1,644.9	2,305.9
OPERATING EXPENSES				
Purchased gas, oil and NGL expense	142.6	352.7	455.9	803.3
Lease operating expense	42.2	37.0	122.8	104.1
Natural gas, oil and NGL transportation and other handling costs	36.3	27.5	111.5	73.2
Gathering, processing and other	22.1	27.0	66.4	79.4
General and administrative	41.7	28.7	114.5	89.1
Production and property taxes	24.3	27.7	68.4	78.5
Depreciation, depletion and amortization	234.1	189.0	647.4	566.4
Exploration expenses	2.2	2.4	6.3	7.5
Abandonment and impairment	9.5	5.7	71.8	16.4
Total Operating Expenses	555.0	697.7	1,665.0	1,817.9
Net gain from asset sales	—	1.2	1.5	1.4
OPERATING (LOSS) INCOME	(12.6)	183.4	(18.6)	489.4
Realized and unrealized gains on derivative contracts (See Note 7)	36.1	—	334.7	—
Interest and other (loss) income	(0.2)	(0.7)	2.4	(0.5)
Income from unconsolidated affiliates	2.3	2.3	5.6	4.5
Loss from early extinguishment of debt	—	(0.7)	(0.6)	(0.7)
Interest expense	(30.0)	(22.8)	(82.9)	(67.0)
(LOSS) INCOME BEFORE INCOME TAXES	(4.4)	161.5	240.6	425.7
Income tax benefit (provision)	2.3	(59.1)	(86.5)	(156.0)
NET (LOSS) INCOME	(2.1)	102.4	154.1	269.7
Net income attributable to noncontrolling interest	(1.0)	(0.9)	(2.7)	(2.2)
NET (LOSS) INCOME ATTRIBUTABLE TO QEP	\$ (3.1)	\$ 101.5	\$ 151.4	\$ 267.5
Earnings Per Common Share Attributable to QEP				
Basic total	\$ (0.02)	\$ 0.58	\$ 0.85	\$ 1.52
Diluted total	\$ (0.02)	\$ 0.57	\$ 0.85	\$ 1.50
Weighted-average common shares outstanding				
Used in basic calculation	177.9	176.6	177.6	176.5
Used in diluted calculation	177.9	178.5	178.6	178.5
Dividends per common share	\$ 0.02	\$ 0.02	\$ 0.06	\$ 0.06

See notes accompanying the condensed consolidated financial statements.

QEP RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(in millions)			
Net (loss) income	\$ (2.1)	\$ 102.4	\$ 154.1	\$ 269.7
Other comprehensive (loss) income, net of tax:				
Reclassification of previously deferred derivative (gains) losses ⁽¹⁾	(42.1)	37.3	(133.8)	(13.0)
Pension and other postretirement plans adjustments:				
Amortization of net actuarial loss ⁽²⁾	0.5	—	0.7	—
Amortization of prior service cost ⁽³⁾	0.9	1.4	2.6	3.1
Total pension and other postretirement plans adjustments	1.4	1.4	3.3	3.1
Other comprehensive (loss) income	(40.7)	38.7	(130.5)	(9.9)
Comprehensive (loss) income	(42.8)	141.1	23.6	259.8
Comprehensive income attributable to noncontrolling interests	(1.0)	(0.9)	(2.7)	(2.2)
Comprehensive (loss) income attributable to QEP	<u>\$ (43.8)</u>	<u>\$ 140.2</u>	<u>\$ 20.9</u>	<u>\$ 257.6</u>

⁽¹⁾ Presented net of income tax benefit of \$24.9 million and \$79.2 million during the three and nine months ended September 30, 2012 , respectively, and net of income tax expense of \$22.1 million during the three months ended September 30, 2011 and income tax benefit of \$7.7 million during the nine months ended September 30, 2011 , respectively.

⁽²⁾ Presented net of income tax expense of \$0.2 million and \$0.4 million during the three and nine months ended September 30, 2012 , respectively.

⁽³⁾ Presented net of income tax expense of \$0.5 million and \$1.6 million during three and nine months ended September 30, 2012 , respectively, and net of income tax expense of \$0.8 million and \$1.9 million during the three and nine months ended September 30, 2011 , respectively.

See notes accompanying the condensed consolidated financial statements.

QEP RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2012	December 31, 2011
(in millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable, net	274.3	397.4
Fair value of derivative contracts	187.2	273.7
Inventories, at lower of average cost or market		
Gas, oil and NGL	14.0	16.2
Materials and supplies	94.9	87.6
Prepaid expenses and other	49.4	43.7
Total Current Assets	619.8	818.6
Property, Plant and Equipment (successful efforts method for gas and oil properties)		
Proved properties	9,882.4	8,172.4
Unproved properties	983.4	326.8
Midstream field services	1,605.2	1,463.6
Marketing and other	56.3	49.8
Total Property, Plant and Equipment	12,527.3	10,012.6
Less Accumulated Depreciation, Depletion and Amortization		
Exploration and production	3,977.6	3,339.2
Midstream field services	342.9	297.5
Marketing and other	16.9	14.6
Total Accumulated Depreciation, Depletion and Amortization	4,337.4	3,651.3
Net Property, Plant and Equipment	8,189.9	6,361.3
Investment in unconsolidated affiliates	41.7	42.2
Goodwill	59.5	59.5
Fair value of derivative contracts	35.2	123.5
Other noncurrent assets	50.0	37.6
TOTAL ASSETS	\$ 8,996.1	\$ 7,442.7
LIABILITIES AND EQUITY		
Current Liabilities		
Checks outstanding in excess of cash balances	\$ 27.5	\$ 29.4
Accounts payable and accrued expenses	464.6	457.3
Production and property taxes	56.3	40.0
Interest payable	23.7	24.4
Fair value of derivative contracts	2.7	1.3
Deferred income taxes	41.9	85.4
Total Current Liabilities	616.7	637.8
Long-term debt	3,180.7	1,679.4
Deferred income taxes	1,505.8	1,484.7
Asset retirement obligations	176.6	163.9
Fair value of derivative contracts	4.1	—
Other long-term liabilities	135.2	124.8
Commitments and contingencies		
EQUITY		
Common stock - par value \$0.01 per share; 500.0 million shares authorized; 178.5 million and 177.2 million shares issued, respectively	1.8	1.8
Treasury stock - 0.4 million and 0.4 million shares, respectively	(11.6)	(13.1)
Additional paid-in capital	455.8	431.4
Retained earnings	2,805.6	2,673.5
Accumulated other comprehensive income	77.4	207.9
Total Common Shareholders' Equity	3,329.0	3,301.5

Noncontrolling interest	<u>48.0</u>	<u>50.6</u>
Total Equity	<u>3,377.0</u>	<u>3,352.1</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 8,996.1</u>	<u>\$ 7,442.7</u>

See notes accompanying the condensed consolidated financial statements.

QEP RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	September 30,	
	2012	2011
	(in millions)	
OPERATING ACTIVITIES		
Net income	\$ 154.1	\$ 269.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	647.4	566.4
Deferred income taxes	54.7	155.9
Abandonment and impairment	71.8	16.4
Share-based compensation	19.5	16.5
Amortization of debt issuance costs and discounts	3.7	2.4
Dry exploratory well expense	0.1	0.5
Net gain from asset sales	(1.5)	(1.4)
Income from unconsolidated affiliates	(5.6)	(4.5)
Distributions from unconsolidated affiliates and other	6.1	7.6
Non-cash loss on early extinguishment of debt	—	0.7
Unrealized gain on derivative contracts	(32.8)	(86.7)
Changes in operating assets and liabilities	54.5	12.2
Net Cash Provided by Operating Activities	972.0	955.7
INVESTING ACTIVITIES		
Property acquisitions	(1,400.3)	(40.7)
Property, plant and equipment, including dry exploratory well expense	(1,040.7)	(957.7)
Proceeds from disposition of assets	5.3	7.4
Net Cash Used in Investing Activities	(2,435.7)	(991.0)
FINANCING ACTIVITIES		
Checks outstanding in excess of cash balances	(1.9)	7.2
Long-term debt issued	1,450.0	—
Long-term debt issuance costs paid	(17.0)	(10.5)
Long-term debt repaid	(6.7)	(58.5)
Proceeds from credit facility	933.5	280.0
Repayments of credit facility	(876.0)	(170.0)
Other capital contributions	(4.2)	0.1
Dividends paid	(10.7)	(10.6)
Excess tax benefit on share-based compensation	2.0	1.5
Distribution from Questar	—	0.2
Distribution to noncontrolling interest	(5.3)	(4.1)
Net Cash Provided by Financing Activities	1,463.7	35.3
Change in cash and cash equivalents	—	—
Beginning cash and cash equivalents	—	—
Ending cash and cash equivalents	\$ —	\$ —
Supplemental Disclosures:		
Cash paid for interest	\$ 81.9	\$ 89.8
Cash paid (received) for income taxes	28.0	(7.2)
Non-cash investing activities		
Change in capital expenditure accrual balance	\$ 97.5	\$ 12.5

See notes accompanying the condensed consolidated financial statements.

QEP RESOURCES, INC.
NOTES ACCOMPANYING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Nature of Business

QEP Resources, Inc. (QEP or the Company) is a holding company with three major lines of business: natural gas and crude oil exploration and production; midstream field services; and energy marketing. These businesses are conducted through the Company's three principal subsidiaries:

- QEP Energy Company (QEP Energy) acquires, explores for, develops, and produces natural gas, oil, and natural gas liquids (NGL);
- QEP Field Services Company (QEP Field Services) provides midstream field services, including natural gas gathering, processing, compression, and treating services, for affiliates and third parties;
- QEP Marketing Company (QEP Marketing) markets affiliate and third-party natural gas and oil, and owns and operates an underground gas-storage reservoir.

Operations are focused in two major regions: the Northern Region (primarily in the Rockies) and the Southern Region (primarily Oklahoma, Louisiana, and the Texas Panhandle) of the United States. QEP's corporate headquarters are located in Denver, Colorado.

Shares of QEP Resources' common stock trade on the New York Stock Exchange under the ticker symbol "QEP".

Note 2 – Basis of Presentation of Interim Consolidated Financial Statements

The interim condensed consolidated financial statements contain the accounts of QEP and its majority-owned or controlled subsidiaries. The condensed consolidated financial statements were prepared in accordance with United States Generally Accepted Accounting Principles (GAAP) and with the instructions for quarterly reports on Form 10-Q and Regulations S-X and S-K. All significant intercompany accounts and transactions have been eliminated in consolidation.

The condensed consolidated financial statements reflect all normal recurring adjustments and accruals that are, in the opinion of management, necessary for a fair statement of financial position and results of operations for the interim periods presented. Interim condensed consolidated financial statements do not include all of the information and notes required by GAAP for audited annual consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 .

The preparation of the condensed consolidated financial statements and notes in conformity with GAAP requires that management make estimates and assumptions that affect revenues, expenses, assets and liabilities, and disclosure of contingent assets and liabilities. Actual results could differ from estimates. The results of operations for the three and nine months ended September 30, 2012 , are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 .

De-designation of commodity derivative contracts

Effective January 1, 2012, QEP elected to discontinue hedge accounting prospectively for all of its derivative instruments. Accordingly, all realized and unrealized gains and losses will be recognized in earnings immediately each quarter as derivative contracts are settled and marked-to-market. For the three and nine months ended September 30, 2012 , unrealized losses of \$57.1 million and unrealized gains of \$32.8 million were included in income that, prior to January 1, 2012, would have been deferred in Accumulated Other Comprehensive Income (AOCI) under hedge accounting. Refer to Note 7 – Derivative Contracts for additional information.

Transportation and other handling costs

In the fourth quarter of 2011, QEP revised its reporting of transportation and handling costs to reflect revenues in accordance with industry practice and GAAP. Transportation and handling costs, previously netted against revenues, were recast on the Condensed Consolidated Statement of Operations from "Revenues" to "Natural gas, oil and NGL transportation and other handling costs" for prior periods presented. The impact of this revision was immaterial to the accompanying financial

statements and had no effect on income from continuing operations, net income, or earnings per share. The following table details the impact for the three and nine months ended September 30, 2011, on the Condensed Consolidated Statement of Operations.

	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	As reported ⁽¹⁾	As revised	Change	As reported ⁽¹⁾	As revised	Change
	(in millions)			(in millions)		
REVENUES						
Natural gas sales	\$ 266.7	\$ 309.8	\$ 43.1	\$ 795.8	\$ 921.1	\$ 125.3
Oil sales	76.1	76.9	0.8	218.4	220.6	2.2
NGL sales	75.7	79.3	3.6	183.1	191.0	7.9
Gathering, processing and other	77.1	57.1	(20.0)	224.8	162.6	(62.2)
OPERATING EXPENSES						
Natural gas, oil and NGL transportation and other handling costs	—	27.5	27.5	—	73.2	73.2

⁽¹⁾ The “As reported” numbers reflect QEP Field Services NGL sales of \$41.6 million and \$115.3 million for the three and nine months ended September 30, 2011, which were reclassified from “Gathering, processing and other” into “NGL sales” for consistency with current period presentation. In its third quarter 2011 Form 10-Q, QEP reported “NGL sales” of \$34.1 million and \$67.8 million, and “Gathering, processing and other” of \$118.7 million and \$340.1 million for the three and nine months ended September 30, 2011, respectively. The QEP Field Services NGL reclassification is all within “Revenues” and has no effect on income from continuing operations, net income or earnings per share.

Impairment of oil and gas properties

Proved gas and oil properties are evaluated on a field-by-field basis for potential impairment. Impairment is indicated when a triggering event occurs and/or the sum of the estimated undiscounted future net cash flows of an evaluated asset is less than the asset’s carrying value. Triggering events could include, but are not limited to, an impairment of gas and oil reserves caused by mechanical problems, faster-than-expected decline of reserves, lease-ownership issues, other-than-temporary decline in natural gas, NGL and crude oil prices and changes in the utilization of midstream gathering and processing assets. If impairment is indicated, fair value is calculated using a discounted-cash flow approach. Cash flow estimates require forecasts and assumptions for many years into the future for a variety of factors, including commodity prices, operating costs, and estimates of probable and possible reserves. Cash flow estimates relating to future cash flows from probable and possible reserves are reduced by additional risk-weighting factors.

Unproved properties are evaluated on a specific-asset basis or in groups of similar assets, as applicable. The Company performs periodic assessments of individually significant unproved oil and gas properties for impairment and recognizes a loss at the time of impairment. In determining whether a significant unproved property is impaired, the Company considers numerous factors including, but not limited to, current exploration plans, favorable or unfavorable exploration activity on adjacent leaseholds, in-house geologists’ evaluation of the lease, and the remaining lease term.

During the three and nine months ended September 30, 2012, QEP recorded impairment charges of \$7.3 million and \$68.7 million on its oil and gas properties, respectively. Of the \$68.7 million impairment charge in the nine months ended September 30, 2012, \$49.3 million related to the non-cash, price-related impairment charges on proved properties incurred in the first half of 2012. The impairment charges were related to the reduced value of certain fields resulting from lower natural gas, crude oil and NGL prices and impairments of unproven leasehold acquisition costs. Of the \$68.7 million impairment charge during the nine months ended September 30, 2012, \$60.0 million was related to oil and gas properties in the Southern Region and \$8.7 million was related to oil and gas properties in the Northern Region.

Natural gas, NGL and crude oil prices

Historically, field-level prices received for QEP’s natural gas, NGL, and crude oil production have been volatile and unpredictable, and that volatility is expected to continue. In recent years, domestic natural gas supply has grown faster than natural gas demand, driven by advances in drilling and completion technologies, including horizontal drilling and multi-stage

hydraulic fracturing, which have allowed producers to extract increased quantities of natural gas from shale, tight sand formations, and other unconventional reservoirs. Increased natural gas and NGL supplies have resulted in downward pressure on natural gas and NGL prices, while growing U.S. supplies combined with concern about the global economy and other factors have created volatility in the price of crude oil. Changes in the market prices for natural gas, crude oil, and NGL directly impact many aspects of QEP's business, including its financial condition, revenues, results of operations, planned drilling activity and related capital expenditures, liquidity, rate of growth, costs of goods and services required to drill and complete wells, and may impact the carrying value of its oil and natural gas properties.

New accounting pronouncements

In May of 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which develops common measurement and disclosure requirements regarding an entity's fair value measurements and aligns GAAP and International Financial Reporting Standards. The amendments are required for interim and annual reporting periods beginning after December 15, 2011. The adoption of these requirements did not have a material impact on the financial statements of QEP.

In June of 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, which revises the manner in which entities are able to present the components of comprehensive income in their financial statements. The new guidance requires entities to report the components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. However, this ASU does not change the items that are reported in other comprehensive income. The amendments are effective for reporting periods (including interim periods) beginning after December 15, 2011. The adoption of this ASU required minor disclosure changes to QEP's financial statements and footnotes.

In December of 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which enhances disclosure requirements regarding an entity's financial instruments and derivative instruments that are offset or subject to a master netting arrangement. This information about offsetting and related netting arrangements will enable users of financial statements to understand the effect of those arrangements on the entity's financial position, including the effect of rights of setoff. The amendments are required for annual reporting periods beginning after January 1, 2013, and interim periods within those annual periods. QEP is evaluating the impact of this ASU on its disclosure requirements.

In July of 2012, the FASB issued ASU 2012-02, *Intangibles - Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment*, which revises the way an entity can test indefinite-lived intangible assets for impairment by allowing an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If there is no indication of impairment from the qualitative impairment test, the entity is not required to complete a quantitative impairment test of determining and comparing the fair value with the carrying amount of the indefinite-lived asset. Under the guidance in this ASU, an entity also has the option to bypass the qualitative assessment in any period and proceed directly in performing the quantitative impairment test and can resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this standard will allow the Company to more efficiently complete the annual goodwill impairment test but will not have a significant impact on the Company's consolidated financial statements.

Note 3 - Acquisition

On September 27, 2012, QEP Energy completed an acquisition of oil and gas properties in the Williston Basin for an aggregate purchase price of approximately \$1.4 billion, subject to post-closing adjustments (the "Acquisition"). The properties are located in Williams and McKenzie counties of North Dakota, approximately 12 miles west of QEP's existing core acreage in the Williston Basin.

The Acquisition meets the definition of a business combination under ASC 805, *Business Combinations*, as it included proved properties. Pro-forma information has not been presented due to the immateriality of revenues and expenses related to the Acquisition during the periods presented. The results of operations from September 27 to September 30, 2012 from the assets purchased in the Acquisition are not included in the three and nine months ended September 30, 2012 Condensed Consolidated Statements of Operations. During the third quarter of 2012, QEP Energy recorded the acquisition on its Condensed Consolidated Balance Sheet; however, the final purchase price is subject to revision based on the final valuation work and settlement of post-closing adjustments. The following table presents a summary of the preliminary purchase accounting entries (in millions):

Consideration given:

Cash paid at closing	\$	1,394.2
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Amounts recognized for preliminary fair value of assets acquired and liabilities assumed:

Proved properties	\$	707.6
Unproved properties		686.5
Asset retirement obligations		(0.6)
Other assets		0.7
Total fair value	\$	<u>1,394.2</u>

Note 4 – Earnings Per Share

Basic earnings per share (EPS) are computed by dividing net income attributable to QEP by the weighted-average number of common shares outstanding during the reporting period. Diluted EPS includes the potential increase in the number of outstanding shares that could result from the exercise of in-the-money stock options. QEP's unvested restricted shares are included in weighted-average basic common shares outstanding because once the shares are granted, the restricted shares are considered issued and outstanding, the historical forfeiture rate is minimal and the restricted shares receive dividends.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are considered participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Company's unvested restricted stock awards contain non-forfeitable dividend rights and participate equally with common stock with respect to dividends issued or declared. However, the Company's unvested restricted stock does not have a contractual obligation to share in losses of the Company. The Company's unexercised stock options do not contain rights to dividends. Under the two-class method, the earnings used to determine basic earnings per common share are reduced by an amount allocated to participating securities. When the Company records a net loss, none of the loss is allocated to the participating securities since the securities are not obligated to share in Company losses. Use of the two-class method has an insignificant impact on the calculation of basic and diluted earnings per common share. During the three months ended September 30, 2012, 0.8 million shares were not included in diluted common shares outstanding as they were anti-dilutive due to QEP's net loss position. There were no anti-dilutive shares during the nine months ended September 30, 2012, and during the three and nine months ended September 30, 2011.

A reconciliation of the components of basic and diluted shares used in the EPS calculation follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
		(in millions)		
Weighted-average basic common shares outstanding	177.9	176.6	177.6	176.5
Potential number of shares issuable upon exercise of in-the-money stock options under the Long-term Stock Incentive Plan	—	1.9	1.0	2.0
Average diluted common shares outstanding	177.9	178.5	178.6	178.5

Note 5 – Asset Retirement Obligations

QEP records asset retirement obligations (ARO) when there are legal obligations associated with the retirement of tangible long-lived assets. The Company's ARO liability applies primarily to abandonment costs associated with gas and oil wells, production facilities and certain other properties. The fair values of such costs are estimated by Company personnel based on abandonment costs of similar assets and depreciated over the life of the related assets. Revisions to ARO estimates result from changes in expected cash flows or material changes in estimated asset retirement costs. The ARO liability is adjusted to present value each period through an accretion calculation using a credit-adjusted risk-free interest rate.

The following is a reconciliation of the changes in the asset retirement obligation from January 1, 2012, to September 30, 2012, respectively:

	Asset Retirement Obligations	
	2012	
	(in millions)	
ARO liability at January 1,	\$	163.9
Accretion		7.7
Liabilities incurred		5.2
Liabilities settled		(0.2)
ARO liability at September 30,	\$	176.6

Note 6 – Fair Value Measurements

QEP measures and discloses fair values in accordance with the provisions of ASC 820 “Fair Value Measurements and Disclosures”. This guidance defines fair value in applying GAAP, establishes a framework for measuring fair value and expands disclosures about fair-value measurements, but does not change existing guidance as to whether or not an instrument is carried at fair value. ASC 820 also establishes a fair-value hierarchy. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

QEP has determined its commodity derivative instruments are Level 2. The Level 2 fair value of commodity derivative contracts (see Note 7 - Derivative Contracts) is based on market prices posted on the NYMEX on the last trading day of the reporting period and industry standard discounted cash flow models. QEP primarily applies the market approach for recurring fair value measurements and maximizes its use of observable inputs and minimizes its use of unobservable inputs. QEP considers bid and ask prices for valuing the majority of its assets and liabilities measured and reported at fair value. In addition to using market data, QEP makes assumptions in valuing its assets and liabilities, including assumptions about risk and the risks inherent in the inputs to the valuation technique. The Company’s policy is to recognize significant transfers between levels at the end of the reporting period.

However, certain of the Company’s commodity derivative instruments are valued using industry standard models that consider various inputs, including quoted forward prices for commodities, time value, volatility, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these inputs are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable prices at which transactions are executed in the marketplace. The determination of fair value for derivative assets and liabilities also incorporates nonperformance risk for counterparties and for QEP. Derivative contract fair values are reported on a net basis to the extent a legal right of offset with the counterparty exists.

In addition, QEP has interest rate swaps that it has determined are Level 2. The fair values of the interest rate swaps are determined using the market standard methodology of discounting the future expected cash flows that would occur under the contractual terms of the swap. The variable interest rates used in the calculation of projected cash flows are based on an expectation of future interest rates derived from observable market interest rate curves. QEP incorporates credit valuation adjustments to reflect both its nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. While the credit valuation adjustments are not observable inputs, they are not significant to the overall valuation and the other inputs used to value the interest rate swaps are observable Level 2 inputs.

The fair value of financial assets and liabilities at September 30, 2012, is shown in the table below:

	Fair Value Measurements				
	September 30, 2012				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Netting Adjustments</u>	<u>Total</u>
	(in millions)				
Financial Assets					
Commodity derivative instruments - short-term	\$ —	\$ 199.4	\$ —	\$ (12.2)	\$ 187.2
Commodity derivative instruments - long-term	—	38.2	—	(3.0)	\$ 35.2
Total financial assets	<u>\$ —</u>	<u>\$ 237.6</u>	<u>\$ —</u>	<u>\$ (15.2)</u>	<u>\$ 222.4</u>
Financial Liabilities					
Commodity derivative instruments - short-term	\$ —	\$ 12.3	\$ —	\$ (12.2)	\$ 0.1
Interest rate swaps - short-term	—	2.6	—	—	\$ 2.6
Commodity derivative instruments - long-term	—	3.0	—	(3.0)	\$ —
Interest rate swaps - long-term	—	4.1	—	—	\$ 4.1
Total financial liabilities	<u>\$ —</u>	<u>\$ 22.0</u>	<u>\$ —</u>	<u>\$ (15.2)</u>	<u>\$ 6.8</u>

Fair values related to the Company's crude oil costless collars were transferred from Level 3 to Level 2 in the second quarter of 2012, due to the enhancements to the Company's internal valuation process, including the use of observable inputs to assess the fair value. There were no other significant transfers in or out of Levels 1, 2 or 3 for the periods presented herein.

The change in the fair value of Level 3 commodity derivative instruments assets and liabilities for the nine months ended September 30, 2012, is shown below:

	Change in Level 3 Fair Value Measurements <u>2012</u> (in millions)
Balance at January 1,	\$ —
Realized gains and losses	0.6
Unrealized gains and losses	3.8
Settlements	(0.6)
Transfers out of Level 3	(3.8)
Balance at September 30,	<u>\$ —</u>

The fair value of financial assets and liabilities at December 31, 2011, is shown in the table below:

	Fair Value Measurements				
	December 31, 2011				
	Level 1	Level 2	Level 3	Netting Adjustments	Total
	(in millions)				
Financial Assets					
Commodity derivative instruments - short-term	\$ —	\$ 284.1	\$ —	\$ (10.4)	\$ 273.7
Commodity derivative instruments - long-term	—	123.5	—	—	\$ 123.5
Total financial assets	\$ —	\$ 407.6	\$ —	\$ (10.4)	\$ 397.2
Financial Liabilities					
Commodity derivative instruments - short-term	\$ —	\$ 11.7	\$ —	\$ (10.4)	\$ 1.3
Commodity derivative instruments - long-term	—	—	—	—	\$ —
Total financial liabilities	\$ —	\$ 11.7	\$ —	\$ (10.4)	\$ 1.3

The following table discloses the fair value and related carrying amount of certain financial instruments not disclosed in other notes to the condensed consolidated financial statements in this quarterly report on Form 10-Q:

	Carrying Amount	Level 1 Fair Value	Carrying Amount	Level 1 Fair Value
	September 30, 2012		December 31, 2011	
	(in millions)			
Financial liabilities				
Checks outstanding in excess of cash balances	\$ 27.5	\$ 27.5	\$ 29.4	\$ 29.4
Long-term debt	\$ 3,180.7	\$ 3,330.4	\$ 1,679.4	\$ 1,754.9

The carrying amount of checks outstanding in excess of cash balances approximates fair value. The fair value of fixed-rate long-term debt is based on the trading levels and dollar prices for the Company's debt at the end of the quarter. The carrying amount of variable-rate long-term debt approximates fair value because the floating interest rate paid on such debt was set for periods of one month.

The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with property, plant and equipment. Significant Level 3 inputs used in the calculation of asset retirement obligations include plugging costs and reserve lives. A reconciliation of the Company's asset retirement obligations is presented in Note 5 – Asset Retirement Obligations.

Nonrecurring Fair Value Measurements

The provisions of the fair value measurement standard are also applied to the Company's nonrecurring, non-financial measurements. The Company utilizes fair value on a non-recurring basis to review its proved oil and gas properties for potential impairment when events and circumstances indicate a possible decline in the recoverability of the carrying value of such property. During the nine months ended September 30, 2012 and the year ended December 31, 2011, the Company recorded impairments on certain oil and gas properties resulting in a write down of the associated carrying value to fair value. The fair value of the property was measured utilizing the income approach and utilizing inputs which are primarily based upon internally developed cash flow models. Given the unobservable nature of the inputs, proved oil and gas property impairments are considered Level 3 within the fair value hierarchy. During the nine months ended September 30, 2012, the Company recorded \$49.3 million of impairments related to some of its proved properties. The proved properties were written down to their estimated fair values of \$36.7 million, at the time of impairment.

Note 7 – Derivative Contracts

QEP has established policies and procedures for managing commodity price volatility through the use of derivative instruments. In the normal course of business, QEP uses commodity derivative instruments to reduce the impact of downward movements in commodity prices on cash flow, returns on capital, and other financial results. However, these instruments typically limit gains from favorable price movements. The volume of production subject to commodity derivative instruments and the mix of the instruments are frequently evaluated and adjusted by management in response to changing market conditions. QEP may enter into commodity derivative contracts for up to 100% of forecasted production from proved reserves. In addition, QEP may enter into commodity derivative contracts on a portion of its extracted NGL volumes in its midstream business and a portion of its natural gas sales and purchases for marketing transactions. QEP does not enter into commodity derivative instruments for speculative purposes.

QEP uses commodity derivative instruments known as fixed-price swaps and costless collars to realize a known price or range of prices for a specific volume of production delivered into a regional sales point. Costless collars are combinations of put and call options that have a floor price and a ceiling price and payments are made or received only if the settlement price is outside the range between the floor and ceiling prices. QEP's commodity derivative instruments do not require the physical delivery of natural gas, crude oil, or NGL between the parties at settlement. Swap and costless collar transactions are settled in cash with one party paying the other for the net difference in prices, multiplied by the contract volume, for the settlement period. Natural gas price derivative instruments are typically structured as fixed-price swaps at regional price indices. Oil price derivative instruments are typically structured as NYMEX fixed-price swaps based at Cushing, Oklahoma. NGL price derivative instruments are typically structured as Mont Belvieu, Texas fixed-price swaps.

QEP enters into commodity derivative transactions that do not have margin requirements or collateral provisions that would require payments prior to the scheduled settlement dates. Commodity derivative contract counterparties are normally financial institutions and energy trading firms with investment-grade credit ratings. QEP routinely monitors and manages its exposure to counterparty risk by requiring specific minimum credit standards for all counterparties and avoids concentration of credit exposure by transacting with multiple counterparties.

Through December 31, 2011, QEP designated the majority of its natural gas, oil and NGL derivative contracts as cash flow hedges, whose unrealized fair value gains and losses were recorded to AOCI. Effective January 1, 2012, QEP elected to de-designate all of its natural gas, crude oil and NGL derivative contracts that were previously designated as cash flow hedges and discontinue hedge accounting prospectively. As a result of discontinuing hedge accounting, the mark-to-market values at December 31, 2011, were fixed in AOCI as of the de-designation date and are being reclassified into the Consolidated Statement of Operations as the transactions settle and affect earnings. At September 30, 2012, AOCI consisted of \$182.9 million (\$114.9 million after tax) of unrealized gains. QEP expects to reclassify into earnings from AOCI the fixed value related to de-designated natural gas, oil and NGL hedges over the remainder of 2012 and 2013. Currently, QEP recognizes all gains and losses from changes in the fair value of natural gas, oil and NGL derivative contracts immediately in earnings rather than deferring any such amounts in AOCI. All commodity derivative instruments are recorded on the Consolidated Balance Sheets as either assets or liabilities measured at their fair values and all realized and unrealized gains and losses from derivative instruments incurred after January 1, 2012, are presented in the Consolidated Statement of Operations in "Realized and unrealized gains on derivative contracts" below operating income.

QEP also uses interest rate swaps to mitigate a portion of its exposure to interest rate volatility risk. During the second quarter of 2012, QEP entered into variable-to-fixed interest rate swap agreements having a combined notional principal amount of \$300.0 million to minimize the interest rate volatility risk associated with its \$300.0 million senior, unsecured term loan. QEP locked in a fixed interest rate in exchange for a variable interest rate indexed to the one-month LIBOR rate. The interest rate swaps settle monthly and will mature in March of 2017.

QEP Energy Derivative Contracts

The following table sets forth QEP Energy's quantities and average prices for its commodity derivative contracts as of September 30, 2012:

Year	Type of Contract	Index	Total Volumes	Swaps		Collars	
				Average price per unit	Floor price	Ceiling price	
			(in millions)				
Natural gas sales			(MMBtu)				
2012	Swap	NYMEX	19.3	\$	4.72		
2012	Swap	IFPEPL (1)	1.8	\$	4.70		
2012	Swap	IFNPCR (2)	22.1	\$	4.67		
2012	Swap	IFCNPTE (3)	2.8	\$	2.66		
2013	Swap	NYMEX	29.2	\$	3.68		
2013	Swap	IFNPCR (2)	65.7	\$	5.66		
Oil sales			(Bbls)				
2012	Swap	NYMEX WTI	1.3	\$	97.42		
2012	Collar	NYMEX WTI	0.4			\$ 87.50	\$ 115.36
2013	Swap	NYMEX WTI	5.1	\$	98.48		
2014	Swap	NYMEX WTI	1.8	\$	92.72		
NGL sales			(Gals)				
2012	Swap	Mt. Belvieu Ethane	3.9	\$	0.64		
2012	Swap	Mt. Belvieu Propane	5.8	\$	1.28		

(1) Inside FERC monthly settlement index for the Panhandle Eastern Pipeline Company.

(2) Inside FERC monthly settlement index for the Northwest Pipeline Corp. Rocky Mountains.

(3) Inside FERC monthly settlement index for Centerpoint East.

QEP Field Services Derivative Contracts

QEP Field Services enters into commodity derivative transactions to manage price risk on extracted NGL volumes. The following table sets forth QEP Field Services' volumes and swap prices for its commodity derivative contracts as of September 30, 2012:

Year	Type of Contract	Index	Total Volumes	Average Swap price per gallon	
			(in millions)		
NGL sales			(Gals)		
2012	Swap	Mt. Belvieu Ethane	3.9	\$	0.64
2012	Swap	Mt. Belvieu Propane	1.9	\$	1.28

QEP Marketing Derivative Contracts

QEP Marketing enters into commodity derivative transactions to lock in a margin on natural gas volumes placed into storage and for marketing transactions in which QEP Marketing is required to sell gas volumes at a fixed price. The following table sets forth QEP Marketing's volumes and swap prices for its commodity derivative contracts as of September 30, 2012:

Year	Type of Contract	Index	Total Volumes (in millions)	Average Swap price per MMBtu	
Natural gas sales			(MMBtu)		
2012	Swap	IFNPCR (1)	2.1	\$	3.93
2013	Swap	IFNPCR (1)	3.1	\$	3.77
Natural gas purchases			(MMBtu)		
2012	Swap	IFNPCR (1)	1.5	\$	2.76
2013	Swap	IFNPCR (1)	0.1	\$	2.59

(1) Inside FERC monthly settlement index for the Northwest Pipeline Corp. Rocky Mountains.

QEP Resources Derivative Contracts

In the second quarter of 2012, QEP Resources entered into interest rate swap agreements to effectively lock in a fixed interest rate on debt outstanding under its Term Loan.

The following table sets forth QEP Resources' notional amounts and interest rates for its interest rate swaps outstanding as of September 30, 2012:

Notional amount (in millions)	Type of Contract	Maturity	Fixed Rate Paid	Variable Rate Received
\$300.0	Swap	March 2017	1.07%	One month LIBOR

QEP Derivative Financial Statement Presentation

The following table presents the balance sheet location of QEP's outstanding derivative contracts on a gross contract basis as opposed to the net contract basis presentation in the Condensed Consolidated Balance Sheets and the related fair values at the balance sheet dates:

Balance Sheet line item		Gross asset derivative instruments fair value		Gross liability derivative instruments fair value	
		September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
		(in millions)		(in millions)	
Current:					
Commodity	Fair value of derivative contracts	\$ 199.4	\$ 284.1	\$ 12.3	\$ 11.7
Interest rate swaps	Fair value of derivative contracts	—	—	2.6	—
Long-term:					
Commodity	Fair value of derivative contracts	38.2	123.5	3.0	—
Interest rate swaps	Fair value of derivative contracts	—	—	4.1	—
Total derivative instruments		<u>\$ 237.6</u>	<u>\$ 407.6</u>	<u>\$ 22.0</u>	<u>\$ 11.7</u>

The effects and location of the change in fair value and settlement of QEP's derivative contracts on the Condensed Consolidated Statements of Operations are summarized in the following tables:

<i>Derivative instruments not designated as cash flow hedges</i>	Location of gain (loss) recognized in earnings	Three Months Ended		Nine Months Ended	
		September 30, 2012	2011	September 30, 2012	2011
(in millions)					
Realized gain (loss) on commodity derivative contracts					
QEP Energy					
Natural gas derivative contracts		\$ 86.2	\$ (27.9)	\$ 283.8	\$ (86.7)
Oil derivative contracts		2.7	—	2.2	—
NGL derivative contracts		3.4	—	6.5	—
QEP Field Services					
NGL derivative contracts		1.9	—	6.3	—
QEP Marketing					
Natural gas derivative contracts		(0.4)	—	3.7	—
Total realized gain (loss) on commodity derivative contracts		93.8	(27.9)	302.5	(86.7)
Unrealized gain (loss) on commodity derivative contracts					
QEP Energy					
Natural gas derivative contracts		(50.6)	27.9	3.3	86.7
Oil derivative contracts		4.1	—	31.2	—
NGL derivative contracts		(4.4)	—	3.4	—
QEP Field Services					
NGL derivative contracts		(2.5)	—	2.0	—
QEP Marketing					
Natural gas derivative contracts		(1.4)	—	(0.5)	—
Total unrealized (loss) gain on commodity derivative contracts		(54.8)	27.9	39.4	86.7
Total realized and unrealized gain on commodity derivative contracts		\$ 39.0	\$ —	\$ 341.9	\$ —
Realized gain (loss) on interest rate swaps					
Realized loss on interest rate swaps		\$ (0.6)	\$ —	\$ (0.6)	\$ —
Unrealized gain (loss) on interest rate swaps					
Unrealized loss on interest rate swaps		(2.3)	—	(6.6)	—
Total realized and unrealized loss on interest rate swaps		\$ (2.9)	\$ —	\$ (7.2)	\$ —
Grand Total	Realized and unrealized gains on derivative contracts	\$ 36.1	\$ —	\$ 334.7	\$ —

<i>Derivative instruments classified as cash flow hedges</i>	Location of gain (loss) recognized in earnings	Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2012	2011	2012	2011
<i>Commodity derivatives</i>					
Gain on derivative instruments for the effective portion of hedge recognized in AOCI	Accumulated other comprehensive income	\$ —	\$ 129.6	\$ —	\$ 191.1
Gain reclassified from AOCI into income for effective portion of hedge	Natural gas sales	—	71.6	—	209.1
Gain reclassified from AOCI into income for effective portion of hedge	Oil sales	—	0.9	—	1.0
Gain reclassified from AOCI into income for effective portion of hedge	NGL sales	—	(0.3)	—	(0.3)
Gain reclassified from AOCI into income for effective portion of hedge	Marketing sales	—	—	—	—
Gain reclassified from AOCI into income for effective portion of hedge	Marketing purchases	—	0.4	—	4.3
Gain recognized in income for the ineffective portion of hedges	Interest and other income	—	(2.7)	—	(2.6)

The Company estimates that derivative contracts that were outstanding in AOCI at September 30, 2012, having a fixed fair value of \$97.7 million, will be settled and reclassified from AOCI to the Condensed Consolidated Statements of Operations during the next twelve months.

Note 8 – Restructuring Costs

During the first quarter 2012, QEP began incurring costs related to the closure of its Oklahoma City office and the subsequent consolidation of its Southern Region operations into a single regional office located in Tulsa. The creation of one office for QEP's Southern Region is intended to increase regional efficiency, team-based collaboration and organizational productivity over the long term. During the third quarter of 2012, QEP incurred additional restructuring and reorganization costs related to consolidating various corporate and accounting functions to the Denver corporate headquarters. As part of the reorganization, QEP will incur costs associated with the severance, retention and relocation of employees and other exit costs associated with the termination of operating leases arising from office space that will no longer be utilized by the Company. The majority of the restructuring costs will be incurred during the remainder of 2012 and in 2013.

The following table summarizes, by line of business, each major type of costs expected to be incurred and the total amounts recorded in "General and administrative" expense on the Condensed Consolidated Statement of Operations the respective periods indicated:

	<u>QEP Energy</u>	<u>QEP Field Services</u>	<u>QEP Marketing</u>	<u>Total</u>
	(in millions)			
Restructuring costs expected to be incurred				
One-time termination benefits	\$ 3.4	\$ —	\$ 0.3	\$ 3.7
Retention & relocation expense	5.5	0.2	0.2	5.9
Lease termination costs	0.6	—	—	0.6
Total restructuring costs expected to be incurred	\$ 9.5	\$ 0.2	\$ 0.5	\$ 10.2
Total restructuring costs recognized in income during the current period				
During the three months ended September 30, 2012				
One-time termination benefits	\$ 0.2	\$ —	\$ —	\$ 0.2
Retention & relocation expense	—	—	—	—
Lease termination costs	—	—	—	—
Total restructuring costs incurred for the three months ended September 30, 2012	\$ 0.2	\$ —	\$ —	\$ 0.2
During the nine months ended September 30, 2012				
One-time termination benefits	\$ 2.1	\$ —	\$ —	\$ 2.1
Retention & relocation expense	3.2	—	—	3.2
Lease termination costs	—	—	—	—
Total restructuring costs incurred for the nine months ended September 30, 2012	\$ 5.3	\$ —	\$ —	\$ 5.3

The following is a reconciliation of the restructuring liability, by line of business, which is included within "Accounts payable and accrued expenses" on the Condensed Consolidated Balance Sheets:

	<u>QEP Energy</u>	<u>QEP Field Services</u>	<u>QEP Marketing</u>	<u>Total</u>
	(in millions)			
Balance at December 31, 2011	\$ —	\$ —	\$ —	\$ —
Costs incurred and charged to expense	5.3	—	—	5.3
Costs paid or otherwise settled	(5.1)	—	—	(5.1)
Balance at September 30, 2012	\$ 0.2	—	—	\$ 0.2

Note 9 – Debt

As of the indicated dates, the principal amount of QEP’s debt, including amounts outstanding under its revolving credit facility, consisted of the following:

	September 30, 2012	December 31, 2011
	(in millions)	
Revolving Credit Facility due 2016	\$ 664.0	\$ 606.5
Term Loan due 2017	300.0	—
6.05% Senior Notes due 2016	176.8	176.8
6.80% Senior Notes due 2018	134.0	138.6
6.80% Senior Notes due 2020	136.0	138.0
6.875% Senior Notes due 2021	625.0	625.0
5.375% Senior Notes due 2022	500.0	—
5.25% Senior Notes due 2023	650.0	—
Total principal amount of debt	3,185.8	1,684.9
Less unamortized discount	(5.1)	(5.5)
Total long-term debt outstanding	\$ 3,180.7	\$ 1,679.4

Of the total debt outstanding on September 30, 2012, the revolving credit facility due August 25, 2016, the Term Loan due April 18, 2017, and the 6.05% Senior Notes due September 1, 2016, will mature within the next five years.

Credit Facility

QEP’s revolving credit facility agreement, which matures in August 2016, provides for loan commitments of \$1.5 billion from a group of financial institutions. The Credit Facility provides for borrowing at short-term interest rates and contains customary covenants and restrictions. The credit facility agreement also contains an accordion provision that would allow for the amount of the facility to be increased to \$2.0 billion and for the maturity to be extended for up to two additional one-year periods, with the agreement of the lenders.

During the nine months ended September 30, 2012, QEP’s weighted-average interest rate on borrowings from its Credit Facility was 2.05%. At September 30, 2012 and December 31, 2011, QEP was in compliance with the covenants under the credit agreement. At September 30, 2012, there was \$664.0 million outstanding and QEP had \$4.1 million in letters of credit outstanding under the Credit Facility.

Term Loan

During the second quarter of 2012, QEP entered into a \$300.0 million senior, unsecured term loan agreement (Term Loan) with a group of financial institutions. The Term Loan provides for borrowings at short-term interest rates and contains covenants, restrictions and interest rates that are substantially the same as the Company’s Credit Facility. The Term Loan matures in April 2017, and the maturity date may be extended one year with the agreement of the lenders. The proceeds from the Term Loan were used to pay down the Credit Facility and for general corporate purposes. During the nine months ended September 30, 2012, QEP’s weighted-average interest rate on borrowings from the Term Loan was 2.02%. At September 30, 2012, QEP was in compliance with the covenants under the Term Loan credit agreement.

Senior Notes

During the third quarter of 2012, QEP completed a public offering of \$650.0 million in aggregate principal amount of 5.25% senior notes due in May 2023 (2023 Senior Notes). The 2023 Senior Notes were issued at face value. Interest on the 2023 Senior Notes will be paid semi-annually, in May and November of each year. The estimated net proceeds of \$640.8 million were used to fund a portion of the Acquisition, as described in Note 3 - Acquisition. The estimated costs associated with the offering were \$9.2 million and were deferred and are being amortized over the life of the notes. The amortization expense related to all of the Company’s deferred finance costs is included in “Interest expense” on the Condensed Consolidated Statement of Operations.

During the second quarter of 2012, QEP repurchased \$6.7 million of its senior notes outstanding. QEP recognized a loss on extinguishment of debt from those repurchases and associated write-offs of debt issuance costs, discounts and premiums paid of \$0.6 million.

During the first quarter of 2012, QEP completed a public offering of \$500.0 million in aggregate principal amount of 5.375% senior notes due in October 2022 (2022 Senior Notes). The 2022 Senior Notes were issued at face value. Interest on the 2022 Senior Notes will be paid semi-annually, in April and October of each year. The net proceeds of \$493.1 million were used to repay indebtedness under QEP's Credit Facility. The finance costs associated with the offering were \$6.9 million and were deferred and are being amortized over the life of the notes.

At September 30, 2012, the Company had \$2,221.8 million principal amount of senior notes outstanding with maturities ranging from September 2016 to May 2023 and coupons ranging from 5.25% to 6.875%. The senior notes pay interest semi-annually, are unsecured senior obligations and rank equally with all of our other existing and future unsecured and senior obligations. QEP may redeem some or all of its senior notes at any time before their maturity at a redemption price based on a make-whole amount plus accrued and unpaid interest to the date of redemption. The indenture governing QEP's senior notes contains customary events of default and covenants that may limit QEP's ability to, among other things, place liens on its property or assets.

Note 10 – Contingencies

QEP is involved in various commercial and regulatory claims, litigation and other legal proceedings that arise in the ordinary course of its business. Management does not believe any of them will have a material effect on the Company's financial position, results of operations or cash flows, except with regard to cases discussed below where management cannot determine at this time whether they will have a material effect. In accordance with ASC 450, *Contingencies*, an accrual is recorded for a loss contingency when its occurrence is probable and damages can be reasonably estimated based on the anticipated most likely outcome or the minimum amount within a range of possible outcomes. QEP's estimates are based on information known about the claims, and experience in contesting, litigating and settling similar claims. Disclosures are also provided for reasonably possible losses that could have a material effect on the Company's financial position, results of operations or cash flows. The following discussion describes the nature of QEP's major loss contingencies.

Environmental Claims

United States of America v. QEP Field Services, Civil No. 208CV167, U.S. District Court for Utah. The U.S. Environmental Protection Agency (EPA) alleged that QEP Field Services (f/k/a Questar Gas Management) violated the Clean Air Act (CAA) and sought substantial penalties and a permanent injunction involving the manner of operation of five compressor stations located in the Uinta Basin of eastern Utah. On May 16, 2012, QEP Field Services settled this matter and the parties executed a consent decree which was subsequently approved by court order. The civil penalty paid to the government during the third quarter of 2012 was \$3.7 million. A contribution of \$0.4 million will be payable to a non-profit corporation or trust to be created by the Ute Indian Tribe of the Uintah and Ouray Reservation for the implementation of environmental programs for the benefit of Tribal members. The settlement also requires the Company to reduce its emissions by removing certain equipment, installing additional pollution controls and replacing the natural gas powered instrument control systems with compressed air control systems, all of which will require capital expenditures of approximately \$2.4 million, of which \$0.8 million had been spent as of September 30, 2012. QEP Field Services will have continuing operational compliance obligations under the consent decree at the affected facilities.

Litigation

Chieftain Royalty Company v. QEP Energy Company, Case No CJ2011-1, U. S. District Court for Oklahoma. This is a class action filed by two royalty owners on behalf of all QEP Energy royalty owners in the state of Oklahoma since 1988, asserting various claims for damages related to royalty valuation on all of QEP's Oklahoma wells. These claims include breach of contract, breach of fiduciary duty, fraud, unjust enrichment, tortious breach of contract, conspiracy, and conversion, based generally on asserted improper deduction of post-production costs. The court has certified the class as to the breach of contract, breach of fiduciary duty and unjust enrichment claims. Because this case involves complex legal issues and uncertainties, a large class of plaintiffs and a large number of producing properties and wells, and because the proceedings are in the early stages, with substantive discovery yet to be conducted, the Company is unable to estimate a reasonably possible loss or range of loss. Although the plaintiff class has not made a formal demand, based upon the class allegations, we believe the class may seek damages in excess of \$200 million. QEP Energy is still evaluating the claims, but believes that it has properly valued and paid royalty under Oklahoma law and will vigorously defend this case.

Questar Gas Company v. QEP Field Services Company, Civil No. 120902969, Third Judicial District Court, State of Utah. QEP Field Services' former affiliate Questar Gas Company (QGC) filed this complaint in state court in Utah on May 1, 2012, asserting claims for breach of contract, breach of implied covenant of good faith and fair dealing, for an accounting and declaratory judgment related to a 1993 gathering agreement (1993 Agreement) entered when the parties were affiliates. Under the 1993 Agreement, QEP Field Services provides gathering services for producing properties developed by former affiliate Wexpro Company on behalf of QGC's utility ratepayers. The core dispute pertains to the annual calculation of the gathering rate, which is based on a cost of service concept expressed in the 1993 Agreement and in a 1998 amendment. The annual gathering rate has been calculated in the same manner under the contract since it was amended in 1998, without any prior objection or challenge by QGC. Specific monetary damages are not asserted. Also, on May 1, 2012, QEP Field Services Company filed a legal action against Questar Gas entitled *QEP Field Services Company v. Questar Gas Company*, in the Second District Court in Denver County, Colorado, seeking declaratory judgment relating to its gathering service and charges under the same agreement.

Note 11 – Share-Based Compensation

QEP issues stock options and restricted shares under its Long-Term Stock Incentive Plan (LTSIP) and awards performance-based share units under its Cash Incentive Plan (CIP) to certain officers, employees, and non-employee directors. QEP recognizes expense over time as the stock options, restricted shares, and performance-based share units vest. Deferred share-based compensation is included in additional paid-in capital in the Condensed Consolidated Balance Sheets. There were 13.1 million shares available for future grants under the LTSIP at September 30, 2012. Share-based compensation expense is recognized in “General and administrative” on the Condensed Consolidated Statements of Operations. During the three and nine months ended September 30, 2012, QEP recognized \$7.2 million and \$19.5 million, respectively, in total compensation expense related to share-based compensation compared to \$5.7 million and \$16.5 million during the three and nine months ended September 30, 2011. The increase in share-based compensation recognized in 2012 compared to 2011 was due to increased restricted shares and options granted in late 2011 and throughout 2012.

Stock Options

QEP uses the Black-Scholes-Merton mathematical model to estimate the fair value of stock options for accounting purposes. Fair-value calculations rely upon subjective assumptions used in the mathematical model and may not be representative of future results. The Black-Scholes-Merton model is intended for measuring the value of options traded on an exchange.

The calculated fair value of options granted and major assumptions used in the model at the date of grant are listed below:

	Stock Option Variables
	Nine Months Ended
	September 30, 2012
Fair value of options at grant date	\$ 14.29
Risk-free interest rate	0.81%
Expected price volatility	55.9%
Expected dividend yield	0.26%
Expected life in years	5.0

Stock option transactions under the terms of the LTSIP are summarized below:

	Options Outstanding	Weighted- Average Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
		(per share)	(in years)	(in millions)
Outstanding at December 31, 2011	2,003,694	\$ 21.23		
Granted	301,035	30.76		
Exercised	(336,675)	9.21		
Forfeited	—	—	—	
Outstanding at September 30, 2012	1,968,054	\$ 24.74	3.4	\$ 15.1
Options Exercisable at September 30, 2012	1,505,051	\$ 22.38	2.6	\$ 14.6
Unvested Options at September 30, 2012	463,003	\$ 32.43	5.9	\$ 0.2

The total intrinsic value (the difference between the market price at the exercise date and the exercise price) of options exercised was \$7.1 million and \$2.7 million during the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, \$3.6 million of unrecognized compensation cost related to stock options granted under the LTSIP is expected to be recognized over a weighted-average period of 2.2 years.

Restricted Shares

Restricted share grants typically vest in equal installments over a three or four-year period from the grant date. The total fair value of restricted stock that vested during the nine months ended September 30, 2012 and 2011, was \$16.6 million and \$11.5 million, respectively. The weighted average grant-date fair value of restricted stock was \$30.59 per share and \$39.26 per share for the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, \$21.1 million of unrecognized compensation cost related to restricted shares granted under the LTSIP is expected to be recognized over a weighted-average vesting period of 2.2 years.

Transactions involving restricted shares under the terms of the LTSIP are summarized below:

	Restricted Shares Outstanding	Weighted- Average Price
		(per share)
Unvested balance at December 31, 2011	1,099,752	\$ 32.80
Granted	778,780	30.59
Vested	(538,668)	31.88
Forfeited	(61,502)	32.70
Unvested balance at September 30, 2012	1,278,362	\$ 31.85

Performance Share Units

Cash payouts are dependent upon the Company's total shareholder return compared to a group of its peers over a three-year period. The awards are denominated in share units but delivered in cash at the end of the performance period. The weighted average grant-date fair value of the performance share units was \$30.90 per share and \$39.07 per share for the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, \$6.2 million of unrecognized compensation cost, or the fair market value, related to performance shares granted under the CIP is expected to be recognized over a weighted-average vesting period of 2.1 years.

Transactions involving performance share units under the terms of the CIP are summarized below:

	Performance Share Units Outstanding	Weighted- Average Price
Unvested balance at December 31, 2011	115,274	\$ 39.07
Granted	179,304	30.90
Vested	—	—
Forfeited	(12,713)	35.69
Unvested balance at September 30, 2012	281,865	\$ 34.03

Note 12 – Employee Benefits

The Company has a funded qualified defined benefit pension plan and an unfunded supplemental defined benefit pension plan. The Company also has unfunded postretirement benefit plans that provide certain health care and life insurance benefits for certain retired employees. During the nine months ended September 30, 2012, the Company made contributions of \$4.9 million to its funded pension plan, and \$1.0 million to its unfunded pension plan. Contributions to funded plans increase plan assets while contributions to unfunded plans are used to fund current benefit payments. During the remainder of 2012, the Company expects to contribute approximately \$0.7 million to its funded pension plans, and approximately \$0.3 million to its unfunded pension plans. In July 2012, Congress passed the Moving Ahead for Progress in the 21st Century Act, which included pension funding stabilization provisions. The measure, which is designed to stabilize the discount rate used to determine funding requirements from the effects of interest rate volatility, may reduce the Company's United States Pension Plan contributions during the remainder of 2012 from the planned amounts.

The following table sets forth the Company's pension and postretirement benefits net period benefit costs:

	Pension			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(in millions)			
Service cost	\$ 1.1	\$ 0.7	\$ 3.0	\$ 2.1
Interest cost	1.3	1.2	3.7	3.4
Expected return on plan assets	(0.9)	(0.7)	(2.7)	(1.9)
Amortization of prior service costs	1.3	1.4	3.9	4.0
Amortization of actuarial loss	0.6	—	1.0	—
Periodic expense	<u>\$ 3.4</u>	<u>\$ 2.6</u>	<u>\$ 8.9</u>	<u>\$ 7.6</u>
	Postretirement benefits			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(in millions)			
Service cost	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
Interest cost	—	—	0.2	0.2
Expected return on plan assets	—	—	—	—
Amortization of prior service costs	0.1	0.1	0.3	0.3
Recognized net actuarial loss	—	—	—	—
Periodic expense	<u>\$ 0.2</u>	<u>\$ 0.2</u>	<u>\$ 0.6</u>	<u>\$ 0.6</u>

Note 13 – Operations by Line of Business

QEP's lines of business include natural gas and oil exploration and production (QEP Energy), midstream field services (QEP Field Services) and marketing (QEP Marketing and other). The lines of business are managed separately and therefore the financial information is presented separately due to the distinct differences in the nature of operations of each line of business, among other factors.

The following table is a summary of operating results for the three months ended September 30, 2012, by line of business:

	QEP Energy	QEP Field Services	QEP Marketing & Other (in millions)	Eliminations	QEP Consolidated
Revenues ⁽¹⁾					
From unaffiliated customers	\$ 374.0	\$ 77.9	\$ 90.5	\$ —	\$ 542.4
From affiliated customers	—	31.8	145.8	(177.6)	—
Total Revenues	<u>374.0</u>	<u>109.7</u>	<u>236.3</u>	<u>(177.6)</u>	<u>542.4</u>
Operating expenses					
Purchased gas, oil and NGL expense	45.9	4.9	236.7	(144.9)	142.6
Lease operating expense	43.1	—	—	(0.9)	42.2
Natural gas, oil and NGL transportation and other handling costs	59.8	6.9	—	(30.4)	36.3
Gathering, processing and other	—	21.8	0.1	0.2	22.1
General and administrative	32.2	10.6	0.5	(1.6)	41.7
Production and property taxes	22.5	1.7	0.1	—	24.3
Depreciation, depletion and amortization	217.4	15.8	0.9	—	234.1
Other operating expenses	11.7	—	—	—	11.7
Total operating expenses	<u>432.6</u>	<u>61.7</u>	<u>238.3</u>	<u>(177.6)</u>	<u>555.0</u>
Operating (loss) income ⁽²⁾	(58.6)	48.0	(2.0)	—	(12.6)
Realized and unrealized gains (losses) on derivative contracts	41.4	(0.6)	(4.7)	—	36.1
Interest and other income	(0.2)	—	28.4	(28.4)	(0.2)
Income from unconsolidated affiliates	—	2.3	—	—	2.3
Interest expense	(24.1)	(3.5)	(30.8)	28.4	(30.0)
(Loss) income before income taxes	<u>(41.5)</u>	<u>46.2</u>	<u>(9.1)</u>	<u>—</u>	<u>(4.4)</u>
Income tax benefit (provision)	15.3	(16.5)	3.5	—	2.3
Net (loss) income	<u>(26.2)</u>	<u>29.7</u>	<u>(5.6)</u>	<u>—</u>	<u>(2.1)</u>
Net income attributable to noncontrolling interest	—	(1.0)	—	—	(1.0)
Net (loss) income attributable to QEP ⁽³⁾	<u>\$ (26.2)</u>	<u>\$ 28.7</u>	<u>\$ (5.6)</u>	<u>\$ —</u>	<u>\$ (3.1)</u>

⁽¹⁾ The impact of QEP's settled derivative contracts for the three months ended September 30, 2012 are reflected below operating (loss) income.

⁽²⁾ Operating (loss) income for the three months ended September 30, 2012, excludes the impact of realized commodity derivative contract settlements. During the three months ended September 30, 2012, gains and losses from realized commodity derivative contract settlements were included below operating (loss) income.

⁽³⁾ Net (loss) income attributable to QEP for the three months ended September 30, 2012 includes the impact of unrealized gains and losses from changes in the fair value of the commodity derivative contracts.

The following table is a summary of operating results for the three months ended September 30, 2011, by line of business:

	QEP Energy	QEP Field Services	QEP Marketing & Other (in millions)	Eliminations	QEP Consolidated
Revenues ⁽¹⁾					
From unaffiliated customers	\$ 635.6	\$ 98.6	\$ 145.7	\$ —	\$ 879.9
From affiliated customers	—	21.0	148.5	(169.5)	—
Total Revenues	635.6	119.6	294.2	(169.5)	879.9
Operating expenses					
Purchased gas, oil and NGL expenses	208.1	—	292.0	(147.4)	352.7
Lease operating expense	38.0	—	—	(1.0)	37.0
Natural gas, oil and NGL transportation and other handling costs	45.0	2.5	—	(20.0)	27.5
Gathering, processing and other	—	26.6	0.4	—	27.0
General and administrative	23.0	6.6	0.2	(1.1)	28.7
Production and property taxes	26.3	1.4	—	—	27.7
Depreciation, depletion and amortization	174.4	14.0	0.6	—	189.0
Other operating expenses	8.1	—	—	—	8.1
Total operating expenses	522.9	51.1	293.2	(169.5)	697.7
Net gain (loss) from asset sales	1.2	(0.1)	0.1	—	1.2
Operating income ⁽²⁾	113.9	68.4	1.1	—	183.4
Interest and other (loss) income	(0.7)	—	25.0	(25.0)	(0.7)
Income from unconsolidated affiliates	—	2.3	—	—	2.3
Loss on early extinguishment of debt	—	—	(0.7)	—	(0.7)
Interest expense	(20.5)	(3.8)	(23.5)	25.0	(22.8)
Income before income taxes	92.7	66.9	1.9	—	161.5
Income taxes	(34.4)	(24.0)	(0.7)	—	(59.1)
Net income	58.3	42.9	1.2	—	102.4
Net income attributable to noncontrolling interest	—	(0.9)	—	—	(0.9)
Net income attributable to QEP ⁽³⁾	\$ 58.3	\$ 42.0	\$ 1.2	\$ —	\$ 101.5

(1) Revenues for the three months ended September 30, 2011, have been recast to reflect QEP's revised reporting of its transportation and handling costs. See Note 2 - Basis of Presentation of Interim Consolidated Financial Statements for additional information. In addition, revenues for the three months ended September 30, 2011, reflect the impact of QEP's settled derivative contracts. See Note 7 - Derivative Contracts for detailed information on derivative contract settlements in the three months ended September 30, 2011.

(2) Under hedge accounting, gains and losses from realized commodity derivative contract settlements were included in revenues and operating income during the three months ended September 30, 2011.

(3) Under hedge accounting, unrealized gains and losses from changes in the fair value were deferred in accumulated other comprehensive income during the three months ended September 30, 2011.

The following table is a summary of operating results for the nine months ended September 30, 2012, by line of business:

	QEP Energy	QEP Field Services	QEP Marketing & Other	Eliminations	QEP Consolidated
	(in millions)				
Revenues ⁽¹⁾					
From unaffiliated customers	\$ 1,106.3	\$ 254.9	\$ 283.7	\$ —	\$ 1,644.9
From affiliated customers	—	88.1	396.3	(484.4)	—
Total Revenues	<u>1,106.3</u>	<u>343.0</u>	<u>680.0</u>	<u>(484.4)</u>	<u>1,644.9</u>
Operating expenses					
Purchased gas, oil and NGL expense	159.0	9.0	681.7	(393.8)	455.9
Lease operating expense	125.3	—	—	(2.5)	122.8
Natural gas, oil and NGL transportation and other handling costs	167.4	27.7	—	(83.6)	111.5
Gathering, processing and other	—	65.6	0.8	—	66.4
General and administrative	94.3	24.1	0.6	(4.5)	114.5
Production and property taxes	63.6	4.6	0.2	—	68.4
Depreciation, depletion and amortization	597.7	47.2	2.5	—	647.4
Other operating expenses	78.1	—	—	—	78.1
Total operating expenses	<u>1,285.4</u>	<u>178.2</u>	<u>685.8</u>	<u>(484.4)</u>	<u>1,665.0</u>
Net gain from asset sales	1.5	—	—	—	1.5
Operating (loss) income ⁽²⁾	(177.6)	164.8	(5.8)	—	(18.6)
Realized and unrealized gains (losses) on derivative contracts	330.4	8.3	(4.0)	—	334.7
Interest and other income	2.2	0.1	81.1	(81.0)	2.4
Income from unconsolidated affiliates	0.1	5.5	—	—	5.6
Loss on early extinguishment of debt	—	—	(0.6)	—	(0.6)
Interest expense	(71.1)	(9.4)	(83.4)	81.0	(82.9)
Income (loss) before income taxes	<u>84.0</u>	<u>169.3</u>	<u>(12.7)</u>	<u>—</u>	<u>240.6</u>
Income tax (provision) benefit	(32.4)	(59.2)	5.1	—	(86.5)
Net income (loss)	51.6	110.1	(7.6)	—	154.1
Net income attributable to noncontrolling interest	—	(2.7)	—	—	(2.7)
Net income (loss) attributable to QEP ⁽³⁾	<u>\$ 51.6</u>	<u>\$ 107.4</u>	<u>\$ (7.6)</u>	<u>\$ —</u>	<u>\$ 151.4</u>

⁽¹⁾ The impact of QEP's settled derivative contracts, for the nine months ended September 30, 2012, are reflected below operating (loss) income.

⁽²⁾ Operating (loss) income for the nine months ended September 30, 2012, excludes the impact of realized commodity derivative contract settlements. During the nine months ended September 30, 2012, gains and losses from realized commodity derivative contract settlements were included below operating (loss) income.

⁽³⁾ Net (loss) income attributable to QEP for the nine months ended September 30, 2012, includes the impact of unrealized gains and losses from changes in the fair value of the commodity derivative contracts.

The following table is a summary of operating results for the nine months ended September 30, 2011, by line of business:

	QEP Energy	QEP Field Services	QEP Marketing & Other	Eliminations	QEP Consolidated
	(in millions)				
Revenues ⁽¹⁾					
From unaffiliated customers	\$ 1,587.3	\$ 273.9	\$ 444.7	\$ —	\$ 2,305.9
From affiliated customers	—	64.5	426.8	(491.3)	—
Total Revenues	1,587.3	338.4	871.5	(491.3)	2,305.9
Operating expenses					
Purchased gas, oil and NGL expense	362.8	—	862.4	(421.9)	803.3
Lease operating expense	106.4	—	—	(2.3)	104.1
Natural gas, oil and NGL transportation and other handling costs	130.8	4.6	—	(62.2)	73.2
Gathering, processing and other	—	78.3	1.1	—	79.4
General and administrative	69.8	22.4	1.8	(4.9)	89.1
Production and property taxes	73.9	4.4	0.2	—	78.5
Depreciation, depletion and amortization	524.0	40.7	1.7	—	566.4
Other operating expenses	23.9	—	—	—	23.9
Total operating expenses	1,291.6	150.4	867.2	(491.3)	1,817.9
Net gain (loss) from asset sales	1.4	—	—	—	1.4
Operating income ⁽²⁾	297.1	188.0	4.3	—	489.4
Interest and other income	(0.5)	—	74.2	(74.2)	(0.5)
Income from unconsolidated affiliates	0.1	4.4	—	—	4.5
Loss on extinguishment of debt	—	—	(0.7)	—	(0.7)
Interest expense	(60.8)	(10.4)	(70.0)	74.2	(67.0)
Income before income taxes	235.9	182.0	7.8	—	425.7
Income taxes	(87.7)	(65.6)	(2.7)	—	(156.0)
Net income	148.2	116.4	5.1	—	269.7
Net income attributable to noncontrolling interest	—	(2.2)	—	—	(2.2)
Net income attributable to QEP ⁽³⁾	\$ 148.2	\$ 114.2	\$ 5.1	\$ —	\$ 267.5

(1) Revenues for the nine months ended September 30, 2011, have been recast to reflect QEP's revised reporting of its transportation and handling costs. See Note 2 - Basis of Presentation of Interim Consolidated Financial Statements for additional information. In addition, revenues for the nine months ended September 30, 2011, reflect the impact of QEP's settled derivative contracts. See Note 7 - Derivative Contracts for detailed information on derivative contract settlements in the nine months ended September 30, 2011.

(2) Under hedge accounting, realized gains and losses from realized commodity derivative contract settlements were included in revenues and operating income during the three and nine months ended September 30, 2011.

(3) Under hedge accounting, unrealized gains and losses from changes in the fair value were deferred in accumulated other comprehensive income during the three and nine months ended September 30, 2011.

The following table is a summary of balance sheet information by line of business:

	QEP Energy	QEP Field Services	QEP Marketing & Other	Eliminations	QEP Consolidated
	(in millions)				
Total assets as of September 30, 2012	\$ 7,416.1	\$ 1,362.7	\$ 217.3	\$ —	\$ 8,996.1
Total assets as of December 31, 2011	5,815.7	1,312.7	314.3	—	7,442.7

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of the financial statements with a narrative from the perspective of management on the financial condition, results of operations, liquidity and certain other factors that may affect the Company's operating results. MD&A should be read in conjunction with the Condensed Consolidated Financial Statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q.

The following information updates the discussion of QEP's financial condition provided in its 2011 Annual Report on Form 10-K filing and analyzes the changes in the results of operations between the three and nine month periods ended September 30, 2012 and 2011. For definitions of commonly used gas and oil terms found in this Quarterly Report on Form 10-Q, please refer to the "Glossary of Commonly Used Terms" provided in QEP's 2011 Annual Report on Form 10-K.

OVERVIEW

QEP Resources, Inc. (QEP or the Company) is a holding company with three major lines of business: natural gas and crude oil exploration and production; midstream field services; and energy marketing. These businesses are conducted through the Company's three principal subsidiaries:

- QEP Energy Company (QEP Energy) acquires, explores for, develops and produces natural gas, crude oil, and natural gas liquids (NGL);
- QEP Field Services Company (QEP Field Services) provides midstream field services, including natural gas gathering and processing, compression and treating services, for affiliates and third parties;
- QEP Marketing Company (QEP Marketing) markets affiliate and third-party natural gas and oil, and owns and operates an underground gas storage reservoir.

Strategies

We create value for our shareholders through a returns-focused investment, superior operational execution, and a low-cost business model. To achieve these objectives we strive to:

- Operate in a safe and environmentally responsible manner;
- Allocate capital to those projects that generate optimal returns;
- Maintain a sustainable, diverse inventory of low-cost, high-margin resource plays;
- Be in the highest-potential areas of the resource plays in which we operate;
- Build contiguous acreage positions that drive operating efficiencies;
- Be the operator of our assets, whenever possible;
- Be the low-cost driller and producer in each area where we operate;
- Own and operate midstream infrastructure in our core producing areas to capture value downstream of the wellhead;
- Build gas processing plants to extract liquids from our natural gas streams;
- Gather, compress and treat our production to drive down costs;
- Actively market our QEP Energy production to maximize value;
- Utilize derivative contracts to mitigate the impact of natural gas, crude oil or NGL price volatility, while locking in acceptable cash flows required to support future capital expenditures;

- Attract and retain the best people; and
- Maintain a capital structure that allows us the necessary financial flexibility with which to invest in organic growth and potential acquisition opportunities, as they may arise.

Outlook

The Company has substantial acreage positions and operations in some of the most prolific hydrocarbon resource plays in the continental United States, including the Bakken/Three Forks, Pinedale, Uinta Basin, Woodford “Cana” and Haynesville Shale. These resource plays are characterized by unconventional oil or natural gas accumulations in continuous tight sands or shales that underlie broad geographic areas. The lateral continuity of such resource plays means that aside from wells abandoned due to mechanical issues, the Company does not expect to drill unsuccessful wells. Resource plays allow the Company the opportunity to gain considerable operational efficiencies through high-density, repeatable drilling and completion operations. The Company has a large inventory of lower-risk, predictable development drilling locations across its acreage holdings in the onshore United States that provide a solid base for consistent growth in organic production and reserves. QEP believes that it has one of the lowest cash operating structures among its exploration and production company peers. However, in certain of its resource plays, QEP, like its peers, has experienced rising drilling and completion costs which could impact future drilling plans.

While predominantly a natural gas producer, the Company has increased its focus on growing the relative proportion of crude oil and NGL production in its exploration and production business. As part of the Company’s liquids growth strategy, QEP Energy acquired oil and gas properties in the Williston Basin for an aggregate purchase price of approximately \$1.4 billion subject to post-closing adjustments (the “Acquisition”) during the third quarter of 2012. The results of operations for the three and nine months ended September 30, 2012, do not include the results of operations from the assets purchased in the Acquisition.

During the third quarter of 2012, QEP Energy increased its crude oil and NGL production by 56% compared with the third quarter of 2011. During the nine months ended September 30, 2012, QEP Energy increased its crude oil and NGL production by 86% compared with the nine months ended September 30, 2011. In the third quarter of 2012, crude oil and NGL revenue accounted for approximately 48% of QEP Energy’s field-level production revenues, compared with 32% in the third quarter of 2011. During the first three quarters of 2012, crude oil and NGL revenue accounted for approximately 50% of QEP Energy’s field-level production revenues, compared with 29% during the first three quarters of 2011. QEP Energy has allocated approximately 93% of its 2012 total forecasted capital expenditure budget to crude oil and liquids-rich natural gas plays.

While QEP believes that it can grow production and reserves from its extensive inventory of identified drilling locations, the Company continues to evaluate additional acquisition opportunities that might have the potential to create significant long-term value. QEP believes that its experience, expertise, and substantial presence in its core operating areas, combined with its low-cost operating model and financial strength, enhance its ability to pursue additional acquisition opportunities. In addition, from time to time the Company may seek to divest select non-core portfolio assets as it seeks to redirect capital towards higher-return projects.

QEP owns and operates gathering and transmission pipelines and natural gas processing and treatment facilities in many of its core producing areas. These assets enable the Company to promptly connect its wells, better control its costs, and generate a significant, consistent revenue stream by providing gathering and processing services to third parties.

Financial and Operating Results

During the three and nine months ended September 30, 2012, QEP Energy experienced substantial production growth, while QEP Field Services increased processing and gathering volumes. During the three and nine months ended September 30, 2012, QEP Energy reported total equivalent production of 81.5 Bcfe and 235.3 Bcfe, increases of 15% and 17% from the three and nine months ended September 30, 2011. QEP Field Services’ gathering throughput volumes during the three and nine months ended September 30, 2012, were 2% and 5% higher, respectively, than the 2011 comparable periods. During the three and nine months ended September 30, 2012, QEP Field Services reported 3% and 24% increases in NGL sales volumes, respectively. QEP Field Services fee-based processing volumes were 2% and 4% higher in the three and nine months of 2012, respectively, when compared to the prior year periods.

The increases in production at QEP Energy and system throughput at QEP Field Services were offset by decreased commodity prices at both QEP Energy and QEP Field Services. For the three and nine months ended September 30, 2012, QEP Energy’s

average total net realized equivalent price (including commodity derivative impact) was \$5.14 per Mcfe and \$5.24 per Mcfe, respectively, compared with \$5.58 per Mcfe and \$5.60 per Mcfe during the three and nine months ended September 30, 2011, respectively. In addition, at QEP Field Services, the increases in NGL sales volumes during the third quarter 2012 and the first three quarters of 2012 were offset by decreases in average net realized NGL sales prices. Specifically, during the third quarter 2012, a 32% decrease in the average net realized NGL sales price occurred, resulting in a 46% decrease to the keep-whole processing margin. During the first three quarters of 2012, QEP Field Services incurred a 20% decrease in average net realized NGL sales prices, resulting in a 20% decrease to the keep-whole processing margin when compared to the same period last year.

During the third quarter of 2012, QEP Energy acquired oil and gas properties in the Williston Basin for approximately \$1.4 billion. The properties are located in Williams and McKenzie counties of North Dakota, approximately 12 miles west of QEP's existing core acreage in the Williston Basin.

During the third quarter of 2012, QEP completed a public offering for \$650.0 million in aggregate principal amount of 5.25% senior notes due in May 2023 (2023 Senior Notes). The 2023 Senior Notes were issued at face value. The estimated net proceeds of \$640.8 million were used to fund a portion of the Acquisition.

During the second quarter of 2012, QEP entered into a \$300.0 million senior unsecured term loan agreement (Term Loan) with a group of financial institutions. The Term Loan provides for borrowings at short-term interest rates and contains covenants, restrictions and interest rates that are substantially the same as the Company's existing revolving credit agreement. The Term Loan matures in April 2017, and the maturity date may be extended one year with the agreement of the lenders. In conjunction with the Term Loan, QEP entered into interest rate swap contracts with an aggregate notional amount of \$300.0 million that effectively lock in a fixed rate that QEP will pay over the duration of the Term Loan.

In the first quarter of 2012, QEP completed a public offering for \$500.0 million in aggregate principal amount of 5.375% senior notes due in October 2022 (2022 Senior Notes). The 2022 Senior Notes were issued at face value. The net proceeds of \$493.1 million were used to repay indebtedness under QEP's revolving credit facility.

Factors Affecting Results of Operations

Oil, Natural Gas, and NGL Prices

Historically, field-level prices received for QEP's natural gas, NGL, and crude oil production have been volatile and unpredictable, and that volatility is expected to continue. In recent years, domestic natural gas supply has grown faster than natural gas demand, driven by advances in drilling and completion technologies, including horizontal drilling and multi-stage hydraulic fracturing. These changes have allowed producers to extract increased quantities of natural gas from shale, tight sand formations, and other unconventional reservoirs. Increased natural gas supplies have resulted in downward pressure on natural gas prices, while concern about the global economy and other factors has created volatility in the price of crude oil. Changes in the market prices for natural gas, crude oil, and NGL directly impact many aspects of QEP's business, including its financial condition, revenues, results of operations, planned drilling activity and related capital expenditures, liquidity, rate of growth, and costs of goods and services required to drill and complete wells, and may impact the carrying value of its oil and natural gas properties.

QEP uses commodity derivatives to reduce the volatility of the prices QEP receives for a portion of its production and to protect cash flow and returns on invested capital from a drop in commodity prices. Generally, QEP intends to enter into commodity derivative contracts for approximately 50% of its forecasted annual production by the end of the first quarter of each fiscal year. As of September 30, 2012, QEP Energy had approximately 70% of its remaining forecasted 2012 natural gas, oil and NGL equivalent production covered with fixed-price swaps or costless collars assuming 2012 annual production of 316.9 Bcfe, including 77% of its remaining forecasted 2012 natural gas production covered with fixed-price swaps assuming 2012 annual natural gas production of 247.1 Bcf. During the first three quarters of 2012, QEP entered into commodity derivative contracts for a greater portion of its 2012 natural gas production in light of concerns of oversupply in the natural gas market. See Item 3 "Quantitative and Qualitative Disclosures about Market Risk—Commodity Derivative Transactions" for further details concerning QEP's commodity derivatives transactions. In addition, as a result of the continued spread between oil and natural gas prices, QEP Energy has allocated approximately 93% of its forecasted 2012 drilling and completion capital expenditure budget to oil and liquids-rich natural gas projects in its portfolio.

Unrealized Derivative Gains and Losses

The Company elected to discontinue hedge accounting beginning January 1, 2012, and unrealized gains and losses from mark-

to-market valuations of all derivative positions are reflected as unrealized derivative gains or losses in the Company's income statement. See Note 7 - Derivative Contracts to the Condensed Consolidated Financial Statements, in Item 1, Part I of this Quarterly Report on Form 10-Q for additional information regarding the discontinuance of hedge accounting. Payments due to or from counterparties in the future on these derivatives will typically be offset by corresponding changes in prices ultimately received from the sale of QEP's production. QEP has incurred significant unrealized gains and losses in the first three quarters of 2012 and in prior periods and may continue to incur these types of gains and losses in the future.

Global Geopolitical and Macroeconomic Factors

QEP continues to monitor the outlook of the global economy, including the European debt crisis and its potential impact on global economic growth and the banking and financial sectors, political unrest in the Middle East, a slowing of growth in Asia, particularly China, the United States federal budget deficit, changes in regulatory oversight policy and commodity price volatility. A dramatic decline in regional or global economic conditions, a major recession or depression, regional political instability, economic sanctions, war, or other factors beyond the control of QEP could have a significant impact on natural gas, NGL and crude oil supply, demand and prices.

Supply, Demand and Other Market Risk Factors

After peaking in late 2011, U.S. natural gas directed drilling rig count decreased in 2012, as natural gas producers reduced drilling for natural gas in response to low natural gas prices. The reduction in natural gas production lagged the downturn in the natural gas rig count because natural gas producers had a significant inventory of drilled wells waiting on completion. As a result of the lag, U.S. natural gas production did not decline in most producing areas until the third quarter of 2012. The U.S. natural gas market entered the storage injection season with record high inventory levels. However, the combination of strong natural gas demand from electric power generation, combined with recent declines in U.S. natural gas production, has led to a decrease in natural gas storage inventories below record highs to levels near the five-year high. This has resulted in a general firming of natural gas prices during the third quarter of 2012. Despite increased stability in natural gas prices during the third quarter of 2012, QEP expects U.S. natural gas prices to remain volatile and well below the five year average price over the near term. Continued low natural gas prices have caused U.S. E&P companies, including QEP, to shift capital investments away from predominantly dry gas areas towards fields that are known to have liquids-rich natural gas and crude oil deposits. This shift in focus has caused domestic NGL production to increase dramatically. The increased NGL supplies, the warmer than average winter of 2011-2012, and price dislocations from infrastructure bottlenecks in certain regions, have all contributed to a weakening in domestic NGL prices, particularly ethane. QEP expects NGL prices to remain volatile for the foreseeable future. QEP anticipates global crude oil prices to remain near current levels, assuming the global economy and socio-political backdrops remain relatively stable. Disruption to the global oil supply system, political and/or economic instability, and/or other factors could trigger additional volatility in crude oil prices. In addition, transportation, refining, or other infrastructure constraints could introduce significant price differentials between regional markets where QEP sells its crude oil production and national (NYMEX or Cushing) and global (Brent or U.S. Gulf Coast) markets. Because of the global and regional price volatility and the uncertainty around the commodity price environment, QEP continues to manage its capital spending program and financial flexibility accordingly.

Potential for Future Asset Impairments

During the first three quarters of 2012, U.S. natural gas prices were lower than in the first three quarters of 2011. The carrying value of some of the Company's properties is sensitive to declines in natural gas, crude oil and NGL prices. These assets are at risk of impairment if future prices for natural gas, crude oil or NGL prices decline. The cash flow model that the Company uses to assess proved properties for impairment includes numerous assumptions, such as management's estimates of future oil and gas production, market outlook on forward commodity prices, operating and development costs, and discount rates. All inputs to the cash flow model must be evaluated at each date of estimate. However, a decrease in forward natural gas, crude oil and NGL prices alone could result in an impairment of properties. For additional information see Item 1A - Risk Factors of Part I and see Item 8, Note 1 - Significant Accounting Policies of Part II of QEP's 2011 Annual Report on Form 10-K.

During the three and nine months ended September 30, 2012, QEP recorded impairment charges of \$7.3 million and \$68.7 million, on some of its oil and gas properties. The impairment charges related to the reduced value of certain fields resulting from lower natural gas, crude oil and NGL prices and impairments of unproven leasehold acquisition costs. Of the \$68.7 million impairment charge in the nine months ended September 30, 2012, \$49.3 million related to the non-cash, price-related impairment charge on proved properties incurred in the second quarter of 2012. Of the \$68.7 million impairment charge during the nine months ended September 30, 2012, \$60.0 million related to oil and gas properties in the Southern Region and \$8.7 million related to oil and gas properties in the Northern Region.

Impact of Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), was passed by Congress and signed into law in July 2010. The Dodd-Frank Act is designed to provide a comprehensive framework for the regulation of the over-the-counter derivatives market with the intent to provide greater transparency and reduction of risk between counterparties. The Dodd-Frank Act subjects swap dealers and major swap participants to capital and margin requirements and requires many derivative transactions to be cleared on exchanges. The Dodd-Frank Act provides for a potential exemption from these clearing and cash collateral requirements for commercial end-users. QEP is currently evaluating the final rules of the Commodity Futures Trading Commission (CFTC) and assessing the impact on the Company's risk management program. QEP believes it will meet the requirements for the commercial end-user clearing exception and be able to continue to execute derivative transactions and not be required to meet the mandated clearing requirements. The CFTC's final rules are expected to have an impact on many of QEP's derivatives counterparties, which may result in additional costs that might be passed on to the Company, thereby potentially decreasing the relative effectiveness of our derivatives and potential profitability.

Critical Accounting Estimates

QEP's significant accounting policies are described in Item 7 of Part II of its 2011 Annual Report on Form 10-K. The Company's Condensed Consolidated Financial Statements are prepared in accordance with United States Generally Accepted Accounting Principles (GAAP). The preparation of the Company's Condensed Consolidated Financial Statements requires management to make assumptions and estimates that affect the reported results of operations and financial position. QEP's accounting policies on gas and oil reserves, successful efforts accounting for gas and oil operations, impairment of gas and oil properties, asset retirement obligations, accounting for derivative contracts, revenue recognition, environmental obligations and other contingencies, benefit plan obligations, share-based compensation, and income taxes, among others, may involve a high degree of complexity and judgment on the part of management.

RESULTS OF OPERATIONS

Net Income (Loss)

QEP Resources' net loss was \$3.1 million, or \$0.02 per diluted share, in the third quarter of 2012, compared to net income of \$101.5 million, or \$0.57 per diluted share, in the third quarter of 2011. The decline in net income during the third quarter of 2012 was attributable to a 145% decrease in QEP Energy's net income and a 32% decrease in QEP Field Services net income. QEP Energy's net income decreased in the third quarter of 2012 due to a \$50.9 million unrealized loss on derivative contracts, deferred in AOCI in the first three quarters of 2011, and 8% lower net realized equivalent commodity prices, partially offset by increased production volumes. The decrease in QEP Field Services' third quarter 2012 net income was driven by a 9% decline in gathering margins and a 19% decline in processing margins. Net income attributable to QEP for the first three quarters of 2012 was \$151.4 million, or \$0.85 per diluted share, compared to \$267.5 million, or \$1.50 per diluted share in the first three quarters of 2011. The decrease in the first three quarters of 2012 was due to a 65% decrease in QEP Energy's net income and a 6% decrease in QEP Field Services net income. QEP Energy's net income decreased during the first three quarters of 2012 due to a second quarter 2012 commodity price-related impairment charge on proved properties of \$49.3 million and 6% lower net realized equivalent commodity prices partially offset by a \$37.9 million unrealized gain on commodity derivative contracts and increased production volumes. QEP Field Services' decrease in net income during the first three quarters of 2012 was driven by a 20% decrease in the keep-whole processing margin and 7% lower gathering margins.

The following table provides a summary of net income (loss) attributable to QEP by line of business:

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2012	2011	Change	2012	2011	Change
	(in millions)					
QEP Energy	\$ (26.2)	\$ 58.3	\$ (84.5)	\$ 51.6	\$ 148.2	\$ (96.6)
QEP Field Services	28.7	42.0	(13.3)	107.4	114.2	(6.8)
QEP Marketing and other	(5.6)	1.2	(6.8)	(7.6)	5.1	(12.7)
Net (loss) income attributable to QEP	\$ (3.1)	\$ 101.5	\$ (104.6)	\$ 151.4	\$ 267.5	\$ (116.1)
Earnings per diluted share	\$ (0.02)	\$ 0.57	\$ (0.59)	\$ 0.85	\$ 1.50	\$ (0.65)
Average diluted shares	177.9	178.5	(0.6)	178.6	178.5	0.1

Adjusted EBITDA

Management believes Adjusted EBITDA (a non-GAAP measure) is an important measure of the Company's cash flow, liquidity, and ability to incur and service debt, fund capital expenditures and make distributions to shareholders. The use of this measure allows investors to understand how management evaluates financial performance to make operating decisions and allocate resources. It is also an important measure for comparing the Company's financial performance to other gas and oil producing companies. In addition, Adjusted EBITDA is a measure used in the Company's debt covenants under its Credit Agreement and Term Loan.

Consistent with such debt covenants, management defines Adjusted EBITDA as net income before the following items: depreciation, depletion and amortization (DD&A), abandonment and impairment, interest and other income, interest expense, income taxes, unrealized gains and losses on derivative contracts, losses on early extinguishment of debt, gains and losses from assets sales, and exploration expense. During the year ended December 31, 2011, QEP revised its reporting of transportation and handling costs to better align with industry practice and GAAP. This revised disclosure does not change current or prior period disclosure of net income or Adjusted EBITDA. For additional information, see Note 2 - Basis of Presentation of Interim Consolidated Financial Statements to the Condensed Consolidated Financial Statements, in Item 1, Part I of the Quarterly Report on Form 10-Q, for additional details.

The following table provides a summary of Adjusted EBITDA by line of business:

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2012	2011	Change	2012	2011	Change
	(in millions)					
QEP Energy	\$ 262.8	\$ 267.3	\$ (4.5)	\$ 789.3	\$ 757.0	\$ 32.3
QEP Field Services	68.0	84.8	(16.8)	223.8	233.1	(9.3)
QEP Marketing and other	(2.1)	1.6	(3.7)	(0.2)	6.0	(6.2)
Adjusted EBITDA	\$ 328.7	\$ 353.7	\$ (25.0)	\$ 1,012.9	\$ 996.1	\$ 16.8

Adjusted EBITDA decreased to \$328.7 million during the third quarter of 2012, compared to \$353.7 million in the third quarter of 2011. During the three months ended September 30, 2012, QEP Energy's Adjusted EBITDA decreased 2% due to a 16% decline in net realized natural gas prices and 23% lower net realized NGL prices, which were offset by a 15% increase in total production in QEP Energy. During the three months ended September 30, 2012, QEP Field Services' Adjusted EBITDA decreased 20% due to lower gathering and processing margins. During the first three quarters of 2012, Adjusted EBITDA increased to \$1,012.9 million from \$996.1 million in the first three quarters of 2011, despite 15% lower net realized natural gas prices, 1% lower net realized crude oil prices and 15% lower net realized NGL prices. The impact of lower net realized prices during the first three quarters of 2012 was partially offset by an 17% increase in total production at QEP Energy, and increased processing margins at QEP Field Services.

The following table is a reconciliation of Adjusted EBITDA to net income, the most comparable GAAP financial measure:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(in millions)					
Net (loss) income attributable to QEP Resources	\$ (3.1)	\$ 101.5	\$ (104.6)	\$ 151.4	\$ 267.5	\$ (116.1)
Net income attributable to non-controlling interest	1.0	0.9	0.1	2.7	2.2	0.5
Net (loss) income	(2.1)	102.4	(104.5)	154.1	269.7	(115.6)
Unrealized loss (gain) on derivative contracts	57.1	(27.9)	85.0	(32.8)	(86.7)	53.9
Net gain from asset sales	—	(1.2)	1.2	(1.5)	(1.4)	(0.1)
Interest and other loss (income)	0.2	0.7	(0.5)	(2.4)	0.5	(2.9)
Income tax (benefit) provision	(2.3)	59.1	(61.4)	86.5	156.0	(69.5)
Interest expense	30.0	22.8	7.2	82.9	67.0	15.9
Loss on early extinguishment of debt	—	0.7	(0.7)	0.6	0.7	(0.1)
Depreciation, depletion and amortization	234.1	189.0	45.1	647.4	566.4	81.0
Abandonment and impairment	9.5	5.7	3.8	71.8	16.4	55.4
Exploration expenses	2.2	2.4	(0.2)	6.3	7.5	(1.2)
Adjusted EBITDA	<u>\$ 328.7</u>	<u>\$ 353.7</u>	<u>\$ (25.0)</u>	<u>\$ 1,012.9</u>	<u>\$ 996.1</u>	<u>\$ 16.8</u>

The following table is a reconciliation of QEP Energy Adjusted EBITDA to net income:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(in millions)					
Net (loss) income attributable to QEP Energy	\$ (26.2)	\$ 58.3	\$ (84.5)	\$ 51.6	\$ 148.2	\$ (96.6)
Unrealized loss (gain) on derivative contracts	50.9	(27.9)	78.8	(37.9)	(86.7)	48.8
Net gain from asset sales	—	(1.2)	1.2	(1.5)	(1.4)	(0.1)
Interest and other loss (income)	0.2	0.7	(0.5)	(2.2)	0.5	(2.7)
Income tax (benefit) provision	(15.3)	34.4	(49.7)	32.4	87.7	(55.3)
Interest expense	24.1	20.5	3.6	71.1	60.8	10.3
Depreciation, depletion and amortization	217.4	174.4	43.0	597.7	524.0	73.7
Abandonment and impairment	9.5	5.7	3.8	71.8	16.4	55.4
Exploration expenses	2.2	2.4	(0.2)	6.3	7.5	(1.2)
Adjusted EBITDA	<u>\$ 262.8</u>	<u>\$ 267.3</u>	<u>\$ (4.5)</u>	<u>\$ 789.3</u>	<u>\$ 757.0</u>	<u>\$ 32.3</u>

The following table is a reconciliation of QEP Field Services Adjusted EBITDA to net income:

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2012	2011	Change	2012	2011	Change
	(in millions)					
Net income attributable to QEP Field Services	\$ 28.7	\$ 42.0	\$ (13.3)	\$ 107.4	\$ 114.2	\$ (6.8)
Net income attributable to non-controlling interest	1.0	0.9	0.1	2.7	2.2	0.5
Net income	29.7	42.9	(13.2)	110.1	116.4	(6.3)
Unrealized loss (gain) on derivative contracts	2.5	—	2.5	(2.0)	—	(2.0)
Net gain from asset sales	—	0.1	(0.1)	—	—	—
Interest and other income	—	—	—	(0.1)	—	(0.1)
Income taxes	16.5	24.0	(7.5)	59.2	65.6	(6.4)
Interest expense	3.5	3.8	(0.3)	9.4	10.4	(1.0)
Depreciation, depletion and amortization	15.8	14.0	1.8	47.2	40.7	6.5
Adjusted EBITDA	<u>\$ 68.0</u>	<u>\$ 84.8</u>	<u>\$ (16.8)</u>	<u>\$ 223.8</u>	<u>\$ 233.1</u>	<u>\$ (9.3)</u>

The following table is a reconciliation of QEP Marketing and other Adjusted EBITDA to net income:

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2012	2011	Change	2012	2011	Change
	(in millions)					
Net (loss) income attributable to QEP Marketing and other	\$ (5.6)	\$ 1.2	\$ (6.8)	\$ (7.6)	\$ 5.1	\$ (12.7)
Unrealized loss on derivative contracts	3.7	—	3.7	7.1	—	7.1
Net gain from asset sales	—	(0.1)	0.1	—	—	—
Interest and other income	—	—	—	(0.1)	—	(0.1)
Income tax (benefit) provision	(3.5)	0.7	(4.2)	(5.1)	2.7	(7.8)
Interest expense (income)	2.4	(1.5)	3.9	2.4	(4.2)	6.6
Loss on early extinguishment of debt	—	0.7	(0.7)	0.6	0.7	(0.1)
Depreciation, depletion and amortization	0.9	0.6	0.3	2.5	1.7	0.8
Adjusted EBITDA	<u>\$ (2.1)</u>	<u>\$ 1.6</u>	<u>\$ (3.7)</u>	<u>\$ (0.2)</u>	<u>\$ 6.0</u>	<u>\$ (6.2)</u>

Production

QEP Energy reported production of 81.5 Bcfe in the third quarter of 2012, a 15% increase when compared to the 70.7 Bcfe reported in the third quarter of 2011. On an energy-equivalent basis, crude oil and NGL comprised approximately 21% of QEP Energy's production during the third quarter of 2012, up from 15% for the third quarter of 2011. QEP Energy reported production of 235.3 Bcfe in the first three quarters of 2012, a 17% increase over the 201.3 Bcfe reported during the first three quarters of 2011. On an energy-equivalent basis, crude oil and NGL comprised approximately 20% of QEP Energy's production for the first three quarters, up from 13% for the first three quarters of 2011.

A summary of QEP Energy production is shown in the following table:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
QEP Energy Production Volumes						
Natural gas (Bcf)	64.5	59.8	4.7	188.0	175.9	12.1
Oil (Mbbl)	1,442.6	922.6	520.0	3,973.1	2,559.2	1,413.9
NGL (Mbbl)	1,386.7	894.4	492.3	3,906.2	1,675.0	2,231.2
Total production (Bcfe)	81.5	70.7	10.8	235.3	201.3	34.0
Average daily production (MMcfe)	885.8	767.7	118.1	858.8	737.2	121.6

A summary of natural gas production by major geographical area is shown in the following table:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
QEP Energy - Natural gas Production (Bcf)						
Northern Region						
Pinedale	21.7	17.8	3.9	56.9	50.2	6.7
Uinta Basin	4.5	3.6	0.9	11.8	11.8	—
Legacy	3.0	2.9	0.1	9.0	9.0	—
Southern Region						
Haynesville/Cotton Valley	27.7	26.7	1.0	86.5	80.6	5.9
Midcontinent	7.6	8.8	(1.2)	23.8	24.3	(0.5)
Total production	64.5	59.8	4.7	188.0	175.9	12.1

A summary of oil production by major geographical area is shown in the following table:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
QEP Energy - Oil Production (Mbbl)						
Northern Region						
Pinedale	187.4	149.2	38.2	493.5	419.0	74.5
Uinta Basin	210.4	198.6	11.8	630.7	657.3	(26.6)
Legacy	660.9	379.0	281.9	1,806.9	906.6	900.3
Southern Region						
Haynesville/Cotton Valley	12.1	9.9	2.2	34.5	36.2	(1.7)
Midcontinent	371.8	185.9	185.9	1,007.5	540.1	467.4
Total production	1,442.6	922.6	520.0	3,973.1	2,559.2	1,413.9

A summary of NGL production by major geographical area is shown in the following table:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
QEP Energy - NGL Production (Mbbbl)						
Northern Region						
Pinedale	861.3	489.0	372.3	2,327.2	489.0	1,838.2
Uinta Basin	116.7	23.6	93.1	224.6	83.1	141.5
Legacy	47.5	33.5	14.0	137.1	89.8	47.3
Southern Region						
Haynesville/Cotton Valley	2.0	2.2	(0.2)	6.4	6.2	0.2
Midcontinent	359.2	346.1	13.1	1,210.9	1,006.9	204.0
Total production	1,386.7	894.4	492.3	3,906.2	1,675.0	2,231.2

A summary of natural gas equivalent total production by major geographical area is shown in the following table:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
QEP Energy - Total Production (Bcfe)						
Northern Region						
Pinedale	28.0	21.6	6.4	73.9	55.6	18.3
Uinta Basin ⁽¹⁾	6.4	4.8	1.6	16.9	16.2	0.7
Legacy	7.3	5.6	1.7	20.6	15.1	5.5
Southern Region						
Haynesville/Cotton Valley	27.9	26.8	1.1	86.8	80.9	5.9
Midcontinent	11.9	11.9	—	37.1	33.5	3.6
Total production	81.5	70.7	10.8	235.3	201.3	34.0

⁽¹⁾ During the nine months ended September 30, 2011, the Uinta Basin production included a 1.6 Bcfe positive adjustment due to an increase of QEP's ownership interest within a federal unit.

Northern Region – Pinedale Division. Net production from Pinedale in western Wyoming grew 30% to 28.0 Bcfe in the third quarter of 2012 compared to the third quarter of 2011. Net production from Pinedale grew 33% to 73.9 Bcfe in the first three quarters of 2012 compared to the first three quarters of 2011. Pinedale production growth was driven by increased drilling activity and the fee-based processing agreement at Blacks Fork II entered into in the third quarter of 2011 between QEP Energy and QEP Field Services. As a result of the processing agreement, QEP Energy NGL production at Pinedale for the three and nine months ended September 30, 2012, was 861.3 Mbbbl and 2,327.2 Mbbbl, contrasted with 489.0 Mbbbl in the comparable 2011 periods. During the three and nine months ended September 30, 2012, the Pinedale Division represented 34% and 31% of QEP Energy's total production compared to 31% and 28% during the three and nine months ended September 30, 2011, respectively.

Northern Region – Uinta Basin Division. In the Uinta Basin, production increased 33% to 6.4 Bcfe in the third quarter of 2012 from the third quarter of 2011 due to increased drilling activity in the Lower Mesaverde Formation in the Red Wash Unit. NGL production increased 93.1 Mbbbl in the third quarter of 2012 compared to the third quarter of 2011 primarily as a result of QEP Energy executing a cryogenic, fee-based processing agreement with QEP Field Services for a portion of the Red Wash Unit natural gas production. During the first three quarters of 2012, Uinta Basin production increased 4% and NGL production increased 170%. During the three and nine months ended September 30, 2012, the Uinta Basin Division production represented 8% and 7% of QEP Energy's total production compared to 7% and 8% during the three and nine months ended September 30, 2011, respectively.

Northern Region – Legacy Division. QEP Energy Legacy Division properties include all Northern Region Rockies properties except the Pinedale Anticline and the Uinta Basin. Legacy Division net production during the third quarter of 2012 increased

30% to 7.3 Bcfe, driven by a 74% increase in crude oil production and a 42% increase in NGL production. During the first three quarters of 2012, net production in the Legacy Division increased 36% to 20.6 Bcfe due to a 99% increase in crude oil production and a 53% increase in NGL production. The increased production in the three and nine months ended September 30, 2012, was due to increased oil-directed drilling activity in the North Dakota Bakken/Three Forks play. During both the three and nine months ended September 30, 2012, the Legacy Division production represented 9% of QEP Energy's total production, compared to 7% during both the three and nine months ended September 30, 2011, respectively. These production results do not include production related to properties acquired in the Acquisition.

Southern Region – Haynesville/Cotton Valley Division. Net production from the Haynesville Shale and Cotton Valley tight gas plays in northwest Louisiana increased 4% to 27.9 Bcfe in the third quarter of 2012, when compared to the third quarter of 2011. During the first three quarters of 2012, net production from the Haynesville Shale and Cotton Valley plays increased 7% to 86.8 Bcfe. The increases during the three and nine months ended September 30, 2012, were due to the completion of several high-rate wells in early 2012 that were drilled during the latter half of 2011. QEP Energy has discontinued its operated, development drilling in the Haynesville shale and Cotton Valley tight gas plays in response to depressed natural gas prices. QEP Energy expects production from the Division to continue its decline from the second quarter of 2012 as the final operated rig was released in July of 2012. In addition, the completion of five wells that have been drilled and cased in 2012 are currently planned to be deferred until early 2013. During the three and nine months ended September 30, 2012, Haynesville/Cotton Valley production comprised 34% and 37% of QEP Energy's total production, respectively, compared to 38% and 40% in the three and nine months ended September 30, 2011, respectively.

Southern Region – Midcontinent Division. Net production in the Midcontinent was flat in the third quarter of 2012 when compared to the third quarter of 2011. Crude oil production increased 100% or 185.9 Mbbl and NGL production increased 4% or 13.1 Mbbl but was offset by a 1.2 Bcf decrease in natural gas production. During the first three quarters of 2012, net production in the Midcontinent grew 11% to 37.1 Bcfe compared to the first three quarters of 2011, driven by a 87% increase in crude oil production and a 20% increase in NGL production. Midcontinent production growth was driven by continued development of the Granite Wash/Marmaton/Tonkawa plays in Texas and western Oklahoma and the Woodford "Cana" Shale liquids-rich gas play in the Anadarko Basin of western Oklahoma. During the three and nine months ended September 30, 2012, the Midcontinent Division represented 15% and 16% of QEP Energy's total production, down from 17% during the third quarter and first three quarters of 2011.

Pricing

During the year ended December 31, 2011, QEP revised its reporting of natural gas, oil and NGL transportation and handling costs. Transportation and handling costs have been recast on the Condensed Consolidated Statement of Operations from revenues to "Natural gas, oil and NGL transportation and other handling costs" for all periods presented. Prior to the recast, transportation and other handling costs were netted against revenue and were reflected in field-level prices. See Note 2 - Basis of Presentation of Interim Consolidated Financial Statements to the Condensed Consolidated Financial Statements, in Item 1, Part I of this Quarterly Report on Form 10-Q, for additional information.

In addition, QEP Energy's field-level and realized prices (after the impact of all settled commodity derivatives) for natural gas, oil and NGLs were lower during the three and nine months ended September 30, 2012, as compared to the 2011 periods. A regional comparison of average field level prices is shown in the following tables:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
QEP Energy - Average field-level natural gas price (per Mcf)						
Northern Region	\$ 2.53	\$ 3.92	\$ (1.39)	\$ 2.42	\$ 4.00	\$ (1.58)
Southern Region	2.73	4.04	(1.31)	2.56	4.08	(1.52)
Average field-level natural gas price	2.64	3.99	(1.35)	2.50	4.05	(1.55)
QEP Energy - Average field-level oil price (per bbl)						
Northern Region	\$ 80.00	\$ 80.80	\$ (0.80)	\$ 82.04	\$ 84.35	\$ (2.31)
Southern Region	86.01	88.46	(2.45)	91.38	90.88	0.50
Average field-level oil price	81.60	82.42	(0.82)	84.49	85.82	(1.33)
QEP Energy - Average field-level NGL price (per bbl)						
Northern Region	\$ 30.75	\$ 35.81	\$ (5.06)	\$ 36.79	\$ 40.64	\$ (3.85)
Southern Region	19.56	45.13	(25.57)	29.05	43.61	(14.56)
Average field-level NGL price	27.83	39.44	(11.61)	34.38	42.43	(8.05)

A comparison of net realized average natural gas, oil and NGL prices, including the realized gains and losses on commodity derivative contracts, is shown in the following table:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012 ⁽¹⁾	2011 ⁽²⁾	Change	2012 ⁽¹⁾	2011 ⁽²⁾	Change
Natural gas (per Mcf)						
Average field-level price	\$ 2.64	\$ 3.99	\$ (1.35)	\$ 2.50	\$ 4.05	\$ (1.55)
Commodity derivative impact	1.34	0.73	0.61	1.51	0.69	0.82
Net realized price	\$ 3.98	\$ 4.72	\$ (0.74)	\$ 4.01	\$ 4.74	\$ (0.73)
Oil (per bbl)						
Average field-level price	\$ 81.60	\$ 82.42	\$ (0.82)	\$ 84.49	\$ 85.82	\$ (1.33)
Commodity derivative impact	1.83	0.91	0.92	0.55	0.37	0.18
Net realized price	\$ 83.43	\$ 83.33	\$ 0.10	\$ 85.04	\$ 86.19	\$ (1.15)
NGL (per bbl)						
Average field-level price	\$ 27.83	\$ 39.44	\$ (11.61)	\$ 34.38	\$ 42.43	\$ (8.05)
Commodity derivative impact	2.46	—	2.46	1.66	—	1.66
Net realized price	\$ 30.29	\$ 39.44	\$ (9.15)	\$ 36.04	\$ 42.43	\$ (6.39)

(1) The impact from commodity derivatives is reported below operating (loss) income in "Realized and unrealized gains on derivative contracts" beginning January 1, 2012, in the Condensed Consolidated Statement of Operations.

(2) The impact of settled commodity derivatives that qualified for hedge accounting was reported in "Revenues" in the Condensed Consolidated Statement of Operations. The impact of the commodity derivatives that did not qualify for hedge accounting are reported below operating (loss) income in "Realized and unrealized gains on derivative contracts."

Gathering

During the three and nine months ended September 30, 2012, QEP Field Services gathering margins declined 9% and 7%, respectively, due mainly to a decrease in other gathering revenue and related margin from the elimination of a third-party interruptible processing agreement. Partially offsetting the decline in gathering margin was a 2% and a 5% increase in gathering system throughput volume and a 3% increase in average gas gathering revenue per MMBtu during the three and nine months

ended September 30, 2012, respectively. Gathering system throughput volume was 1.4 million MMBtu per day for the three and nine months ended September 30, 2012, compared to 1.4 million MMBtu per day and 1.3 million MMBtu per day during the three and nine months ended September 30, 2011, respectively. The increased volumes were mainly related to the gathering system tied into the Blacks Fork hub in Southwest Wyoming, which were 6% and 7% higher in the three and nine months ended September 30, 2012, respectively, and the northwest Louisiana gathering system, which were 3% and 14% higher in the three and nine months September 30, 2012, respectively. The Blacks Fork hub accounted for 53% and 51% of the total gathering system throughput during the three and nine months ended September 30, 2012, compared to 51% and 50% in the three and nine months ended September 30, 2011, while the Louisiana hub accounted for 22% and 24% of the total throughput during the three and nine months ended September 30, 2012, compared to 22% during both the three and nine months ended September 30, 2011, respectively.

During the three and nine months ended September 30, 2011, QEP Field Services reported other gathering revenues and related gathering expense related to a short-term interruptible gas processing contract with a third-party processor. The short-term processing arrangement was in effect prior to the startup of QEP Field Service's Blacks Fork II processing plant. Of the \$8.5 million and \$30.6 million decrease in other gathering revenues, \$9.2 million and \$32.6 million of the decrease related to the elimination of this contract. In addition, gathering expenses related to the elimination of this contract were \$3.0 million and \$10.7 million lower during the three and nine months ended September 30, 2012.

The following tables are a summary of QEP Field Services' financial and operating results from gathering activities:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
<i>Gathering Margin</i>	(in millions)			(in millions)		
Gathering revenues	\$ 43.9	\$ 41.9	\$ 2.0	\$ 131.6	\$ 120.0	\$ 11.6
Other gathering revenues	8.0	16.5	(8.5)	28.6	59.2	(30.6)
Gathering expense	(9.0)	(11.0)	2.0	(26.9)	(35.3)	8.4
Gathering margin	<u>\$ 42.9</u>	<u>\$ 47.4</u>	<u>\$ (4.5)</u>	<u>\$ 133.3</u>	<u>\$ 143.9</u>	<u>\$ (10.6)</u>

Operating Statistics

Natural gas gathering volumes (in millions of MMBtu)

For unaffiliated customers	60.2	66.3	(6.1)	184.4	193.4	(9.0)
For affiliated customers	69.1	60.6	8.5	202.5	173.6	28.9
Total Gas Gathering Volumes	<u>129.3</u>	<u>126.9</u>	<u>2.4</u>	<u>386.9</u>	<u>367.0</u>	<u>19.9</u>
Average gas gathering revenue (per MMBtu)	\$ 0.34	\$ 0.33	\$ 0.01	\$ 0.34	\$ 0.33	\$ 0.01

Processing

Although a significant portion of the QEP Field Services gas processing services are performed for a volumetric-based fee, QEP Field Services also provides "keep-whole" processing services for certain customers. Under a keep-whole processing contract, QEP Field Services retains and sells NGL's extracted at its processing plants and keeps the customer "whole" by buying and delivering a Btu-equivalent amount of natural gas to the customer. Keep-whole processing exposes the Company to the "frac" spread. The frac spread is the difference between the market value of NGLs extracted at the processing plant and the market value of an energy-equivalent volume of natural gas.

QEP Field Services processing margin decreased 19% during the third quarter of 2012, but increased 1% during the first three quarters of 2012. The decrease in the processing margin during the third quarter of 2012 was due to a 46% decline in keep-whole processing margins, partially offset by an 18% increase in fee-based processing revenues. During the first three quarters of 2012 fee-based processing revenues increased 38% , partially offset by a 20% decrease in the keep-whole processing margin.

During the third quarter and first three quarters of 2012, keep-whole processing margins decreased due to a decrease in the net realized NGL sales price per gallon, offset by increased NGL sales volumes. Including the impact of gains on derivative contract settlements, NGL prices decreased 32% and 20% in the three and nine months ended September 30, 2012, respectively, compared to the three and nine months ended September 30, 2011, which caused a corresponding decrease in the keep-whole processing margin per NGL gallon. During the three and nine months ended September 30, 2012, the keep-whole processing margin per NGL gallon was \$0.45 and \$0.53, respectively, compared to \$0.86 and \$0.83 during the three and nine

months ended September 30, 2011, respectively. NGL sales volumes increased 3% and 24% in the three and nine months ended September 30, 2012, respectively, compared to the 2011 periods. The increased NGL sales volumes in the third quarter and first three quarters of 2012 were primarily the result of the Blacks Fork II plant which commenced operations in July 2011, partially offset by the execution, in the second quarter of 2012, of a fee-based processing agreement with QEP Energy in the Uinta Basin that effectively transferred NGL gallons from QEP Field Services to QEP Energy.

Fee-based processing revenues increased during the third quarter of 2012 due to a 17% increase in average fee-based processing revenue to \$0.28 per MMBtu and a 2% increase in fee-based processing volumes to 65.0 million MMBtu. During the first three quarters of 2012, the increase in fee-based processing revenues was the result of a 29% increase in average fee-based processing revenue per MMBtu and a 4% increase in fee-based processing volumes. Approximately 80% and 76% of QEP Field Services' net operating revenue was derived from fee-based gathering and processing agreements in the three and nine months ended September 30, 2012, respectively, compared to 72% and 73% during the three and nine months ended September 30, 2011, respectively.

Keep-whole processing margin, as reflected in the table below, is defined as the market value for NGLs extracted from the natural gas stream less the market value of the Btu-equivalent volume of natural gas required to replace the extracted liquids and the related transportation and handling (including fractionation) costs. Transportation and handling costs were \$4.4 million and \$23.1 million higher during the three and nine months ended September 30, 2012, respectively, primarily as a result of additional transportation costs relating to NGL sale agreements that provide for transportation and fractionation of NGL's at Mont Belvieu, Texas, and the 2012 operation of the Blacks Fork II plant, which was put into service in July of 2011.

The following tables are a summary of QEP Field Services' processing financial and operating results:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
<i>Processing Margin</i>						
(in millions)						
NGL sales ⁽¹⁾	\$ 28.9	\$ 44.1	\$ (15.2)	\$ 112.7	\$ 119.9	\$ (7.2)
Realized gains from commodity derivative contract settlements	1.9	—	1.9	6.3	—	6.3
Processing (fee-based) revenues	18.2	15.4	2.8	51.8	37.6	14.2
Other processing fees	5.4	1.7	3.7	8.4	1.7	6.7
Processing (expense)	(4.7)	(3.1)	(1.6)	(12.1)	(8.9)	(3.2)
Processing plant fuel and shrink (expense)	(8.1)	(12.5)	4.4	(26.6)	(34.1)	7.5
Natural gas, oil and NGL transportation and other handling costs	(6.9)	(2.5)	(4.4)	(27.7)	(4.6)	(23.1)
Processing margin	\$ 34.7	\$ 43.1	\$ (8.4)	\$ 112.8	\$ 111.6	\$ 1.2
Keep-whole processing margin	\$ 15.8	\$ 29.1	\$ (13.3)	\$ 64.7	\$ 81.2	\$ (16.5)

Operating Statistics

Natural gas processing volumes

NGL sales (MMgal)	34.9	34.0	0.9	121.5	98.2	23.3
Average net realized NGL sales price (per gal) ⁽²⁾	\$ 0.88	\$ 1.30	\$ (0.42)	\$ 0.98	\$ 1.22	\$ (0.24)
Fee-based processing volumes (in millions of MMBtu)						
For unaffiliated customers	26.0	31.9	(5.9)	83.7	96.4	(12.7)
For affiliated customers	39.0	31.9	7.1	105.5	84.7	20.8
Total fee-based processing volumes	65.0	63.8	1.2	189.2	181.1	8.1
Average fee-based processing revenue (per MMBtu)	\$ 0.28	\$ 0.24	\$ 0.04	\$ 0.27	\$ 0.21	\$ 0.06

(1) NGL sales for the three and nine months ended September 30, 2011, have been recast to reflect QEP's revised reporting of its transportation and handling costs. See Note 2 - Basis of Presentation of Interim Consolidated Financial Statements for additional information. In addition, revenues for the three and nine months ended September 30, 2011, reflect the impact of QEP's settled derivative contracts which during the three and nine months ended September 30, 2012, are reflected below operating (loss) income. See Note 7 - Derivative Contracts for detailed information on derivative contract settlements in the three and nine months ended September 30, 2011.

(2) Average net realized NGL sales price per gallon is calculated as NGL sales including realized gains from commodity derivative contracts settlements divided by NGL sales volumes.

Revenue, Volume and Price Variance Analysis

On January 1, 2012, QEP discontinued hedge accounting. During the three and nine months ended September 30, 2012, commodity derivative realized gains and losses from derivative contract settlements were included below operating (loss) income in "Realized and unrealized gains on derivative contracts" on the Condensed Consolidated Statement of Operations. Conversely, during the three and nine months ended September 30, 2011, the commodity derivative realized gains and losses on settlements were included in each respective revenue category in conjunction with hedge accounting and the realization of the underlying contract. For additional information regarding the discontinuance of hedge accounting and impact on the Condensed Consolidated Statement of Operations, see Note 7 - Derivative Contracts, in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The following table is a summary of QEP's total revenues:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(in millions)					
QEP Resources Revenues						
Natural gas sales	\$ 170.3	\$ 309.8	\$ (139.5)	\$ 470.4	\$ 921.1	\$ (450.7)
Oil sales	117.7	76.9	40.8	335.7	220.6	115.1
NGL sales	67.5	79.3	(11.8)	247.0	191.0	56.0
Gathering, processing and other	46.3	57.1	(10.8)	141.9	162.6	(20.7)
Purchased gas and oil sales	140.6	356.8	(216.2)	449.9	810.6	(360.7)
Total Revenues	<u>\$ 542.4</u>	<u>\$ 879.9</u>	<u>\$ (337.5)</u>	<u>\$ 1,644.9</u>	<u>\$ 2,305.9</u>	<u>\$ (661.0)</u>

QEP Energy's revenues for the three and nine months ended September 30, 2012, generated from the sale of natural gas, oil and NGLs, decreased primarily due to lower prices for natural gas, crude oil and NGL, partially offset by higher production volumes, as follows:

	Natural Gas	Oil	NGLs	Total
	(in millions)			
QEP Energy Production Revenues				
Three months ended September 30, 2011 Revenues	\$ 309.8	\$ 76.9	\$ 35.2	\$ 421.9
Changes associated with volumes ⁽¹⁾	19.3	42.7	15.5	77.5
Changes associated with prices ⁽²⁾	(87.2)	(1.0)	(12.1)	(100.3)
Changes associated with discontinuance of hedge accounting ⁽³⁾	(71.6)	(0.9)	—	(72.5)
Three months ended September 30, 2012 Revenues	<u>\$ 170.3</u>	<u>\$ 117.7</u>	<u>\$ 38.6</u>	<u>\$ 326.6</u>

	Natural Gas	Oil	NGLs	Total
	(in millions)			
QEP Energy Production Revenues				
Nine months ended September 30, 2011 Revenues	\$ 921.1	\$ 220.6	\$ 71.1	\$ 1,212.8
Changes associated with volumes ⁽¹⁾	49.4	121.1	95.2	265.7
Changes associated with prices ⁽²⁾	(291.0)	(5.0)	(32.0)	(328.0)
Changes associated with discontinuance of hedge accounting ⁽³⁾	(209.1)	(1.0)	—	(210.1)
Nine months ended September 30, 2012 Revenues	<u>\$ 470.4</u>	<u>\$ 335.7</u>	<u>\$ 134.3</u>	<u>\$ 940.4</u>

⁽¹⁾ The revenue variance attributed to the change in volume is calculated by multiplying the change in volumes from the three and nine months ended September 30, 2012, to the three and nine months ended September 30, 2011, by the average field-level price for the three and nine months ended September 30, 2011.

⁽²⁾ The revenue variance attributed to the change in price is calculated by multiplying the change in field-level prices or fee from the three and nine months ended September 30, 2012, to the three and nine months ended September 30, 2011, by volume for the three and nine months ended September 30, 2012. Pricing changes are driven by changes in the commodity field-level prices excluding impact from commodity derivatives.

⁽³⁾ During the three and nine months ended September 30, 2011, realized gains and losses on commodity derivative contract settlements were included in natural gas revenues on the Condensed Consolidated Statement of Operations. Conversely, during the three and nine months ended September 30, 2012, the realized gains and losses on commodity derivative contract settlements are recognized below operating (loss) income on the Condensed Consolidated Statement of Operations.

QEP Field Services gathering and processing revenues decreased during the third quarter and first three quarters of 2012 compared to the third quarter and first three quarters of 2011. During the three and nine months ended September 30, 2012, various factors decreased gathering revenues including the elimination of a short-term, third-party, interruptible processing agreement recorded as other gathering revenues and reflected as a change associated with other factors. Changes associated with other factors increased processing revenues by \$3.7 million and \$6.7 million during the three and nine months ended September 30, 2012, respectively, due to charges to customers recorded as other processing fees at QEP Field Services. The following table presents changes in QEP Field Services major revenue categories and the related volume and pricing impact:

	Three Months Ended September 30,			
	NGLs	Processing	Gathering	Total
	(in millions)			
<i>QEP Field Services</i>				
Three months ended September 30, 2011 Revenues	\$ 44.1	\$ 17.1	\$ 58.4	\$ 119.6
Changes associated with volumes ⁽¹⁾	2.3	(0.2)	0.9	3.0
Changes associated with prices/fees ⁽²⁾	(17.5)	3.0	1.1	(13.4)
Changes associated with other factors ⁽³⁾	—	3.7	(8.5)	(4.8)
Three months ended September 30, 2012 Revenues	\$ 28.9	\$ 23.6	\$ 51.9	\$ 104.4

	Nine Months Ended September 30,			
	NGLs	Processing	Gathering	Total
	(in millions)			
<i>QEP Field Services</i>				
Nine months ended September 30, 2011 Revenues	\$ 119.9	\$ 39.3	\$ 179.2	\$ 338.4
Changes associated with volumes ⁽¹⁾	28.8	1.2	6.6	36.6
Changes associated with prices/fees ⁽²⁾	(36.0)	13.0	5.0	(18.0)
Changes associated with other factors ⁽³⁾	—	6.7	(30.6)	(23.9)
Nine months ended September 30, 2012 Revenues	\$ 112.7	\$ 60.2	\$ 160.2	\$ 333.1

- (1) The revenue variance attributed to the change in volume is calculated by multiplying the change in volumes from the three and nine months ended September 30, 2012, to the three and nine months ended September 30, 2011, by the average price or fee for the three and nine months ended September 30, 2011.
- (2) The revenue variance attributed to the change in fees is calculated by multiplying the change in prices or fees from the three and nine months ended September 30, 2012, to the three and nine months ended September 30, 2011, by volume for the three and nine months ended September 30, 2012.
- (3) The revenue variance attributed to the change associated with other factors represents the changes in other gathering revenues and changes in other processing fees. These other revenues are not included in average gathering revenue per MMBtu or average fee-based processing revenue per MMBtu in QEP Field Services operating statistics and thus have not been included in the price and volume variance analysis presented above.

Purchased gas, oil and NGL sales decreased by \$216.2 million and \$360.7 million, or 61% and 44%, during the three and nine months ended September 30, 2012, respectively, from 2011. The decreases in the three and nine months ended September 30, 2012, were due to decreased resale natural gas volumes and prices. Resale natural gas volumes were 60% and 29% lower during the three and nine months ended September 30, 2012, while resale natural gas prices were 41% and 44% lower during the three and nine months ended September 30, 2012, respectively.

Operating Expenses

The following table presents QEP Resources' total operating expenses and the changes from the three and nine months ended September 30, 2012, to the three and nine months ended September 30, 2011. The narrative following the table explains the significant variances between the comparable periods.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(in millions)					
Purchased gas and oil expense	\$ 142.6	\$ 352.7	\$ (210.1)	\$ 455.9	\$ 803.3	\$ (347.4)
Lease operating expense	42.2	37.0	5.2	122.8	104.1	18.7
Natural gas, oil and NGL transportation and other handling costs	36.3	27.5	8.8	111.5	73.2	38.3
Gathering, processing and other	22.1	27.0	(4.9)	66.4	79.4	(13.0)
General and administrative	41.7	28.7	13.0	114.5	89.1	25.4
Production and property taxes	24.3	27.7	(3.4)	68.4	78.5	(10.1)
Depreciation, depletion and amortization	234.1	189.0	45.1	647.4	566.4	81.0
Exploration expenses	2.2	2.4	(0.2)	6.3	7.5	(1.2)
Abandonment and impairment	9.5	5.7	3.8	71.8	16.4	55.4
Total operating expenses	<u>\$ 555.0</u>	<u>\$ 697.7</u>	<u>\$ (142.7)</u>	<u>\$ 1,665.0</u>	<u>\$ 1,817.9</u>	<u>\$ (152.9)</u>

Purchased gas, oil and NGL expense decreased 60% and 43% in the three and nine months ended September 30, 2012, respectively. The decreases during both the three and nine months ended September 30, 2012 were due to 41% and 44% lower natural gas purchased prices, and 57% and 24% lower natural gas purchased volumes.

Lease operating expense increased 14% and 18% during the three and nine months ended September 30, 2012, respectively, due to higher water disposal costs, and increased trucking, chemical, labor and pumper costs. Water disposal costs increased \$1.6 million and \$7.1 million during the three and nine months ended September 30, 2012, respectively, primarily in the Northern Region due to increased drilling activity and related water disposal constraints in the Williston Basin. During the three and nine months ended September 30, 2012, trucking, labor and pumper costs increased \$4.3 million and \$8.9 million, respectively, primarily in the Northern Region due to increased drilling activity and liquids production in the Williston Basin.

For the three and nine months ended September 30, 2012, natural gas, oil and NGL transportation and other handling costs increased \$8.8 million and \$38.3 million, respectively, when compared to the corresponding period in 2011. The increases during the three and nine months ended September 30, 2012, are primarily due to transportation costs relating to agreements that provide for transportation and fractionation of NGL's at Mont Belvieu, Texas and the 2012 operation of the Blacks Fork II plant which was put into service in the third quarter of 2011. See Note 2 - Basis of Presentation and of Interim Consolidated Financial Statements to the Condensed Consolidated Financial Statements, in Item 1, Part I of this Quarterly Report on Form 10-Q, for a discussion of the recasting of 2011 transportation and other handling costs.

Gathering, processing and other expense decreased by \$4.9 million and \$13.0 million for the three and nine months ended September 30, 2012, respectively, due to lower gathering expenses from the elimination of a short-term, third-party interruptible processing agreement in which QEP Field Services was required to purchase the shrink gas. The short-term processing arrangement was in effect during the first half of 2011 before the expansion of the Blacks Fork processing plant was put into service during the third quarter of 2011.

For the third quarter of 2012, general and administrative (G&A) expense increased \$13.0 million to \$41.7 million, compared to the same period in 2011. The increase in G&A during the third quarter of 2012 was primarily due to a \$3.4 million increase from changes in the Company's stock prices impacting the mark-to-market of the deferred compensation wrap plan, \$2.6 million in higher costs due to increased headcount and the annual compensation program, \$2.5 million increase in professional and outside services, \$2.3 million increase in charitable contributions, \$1.5 million in higher stock-based compensation expense and \$0.2 million attributable to restructuring costs (see Note 8 - Restructuring Costs of this Form 10-Q for additional information on the restructuring costs) offset slightly by various other immaterial decreases. G&A expense increased \$25.4 million, or 29%, during the first three quarters of 2012 when compared to the first three quarters of 2011. The increase in G&A in the first three quarters of 2012 was primarily due to \$5.3 million in restructuring costs, \$5.5 million increase in professional and outside services, \$5.4 million in higher costs due to increased headcount and the annual compensation program, \$3.0 million increase in stock-based compensation expense, \$2.4 million from the mark-to-market of the deferred compensation wrap plan, \$2.2 million increase in charitable contributions with the remaining increases related to various immaterial items.

Production and property taxes decreased 12% for the third quarter of 2012 and 13% during the first three quarters of 2012. The

decrease in the three and nine months ended September 30, 2012 was due to a 19% and a 20% decrease, respectively, in field-level equivalent sales prices which are used as the basis for production taxes in most states where QEP operates.

For the three and nine months ended September 30, 2012, QEP's total DD&A expense grew \$45.1 million, or 24%, and \$81.0 million, or 14%, respectively, as compared to the same periods in 2011. The third quarter and first three quarters of 2012 increases in DD&A expense were the result of increased production and increased DD&A rates in all Divisions at QEP Energy. Also contributing to the increase in DD&A expense during the nine months ended September 30, 2012, was the completion of the Blacks Fork II plant during the third quarter of 2011 at QEP Field Services.

Exploration expenses decreased \$0.2 million, or 8%, during the third quarter of 2012 and decreased \$1.2 million, or 16%, in the first three quarters of 2012 compared with 2011 periods. The first three quarters of 2012 decrease primarily related to a decrease of \$0.4 million in dry hole expense, a \$0.4 million decrease in delay rentals and a \$0.4 million decrease in exploration related labor costs.

Abandonment and impairment expenses increased \$3.8 million in the third quarter of 2012 compared with the third quarter of 2011. The third quarter of 2012 increase related to write-offs of expiring leasehold costs, primarily of unproved properties in the Midcontinent Division. During the first three quarters of 2012, abandonment and impairment expenses increased \$55.4 million from the first three quarters of 2011. The increase in the first three quarters of 2012 was primarily due to the \$49.3 million impairment of proved properties combined with an increase in the write-offs of expiring leasehold costs included in unproved properties. The Company's proved properties have significant reserves and are sensitive to declines in natural gas, crude oil and NGL prices. These assets are at risk of impairment if future natural gas, crude oil or NGL prices experience significant declines.

CONSOLIDATED RESULTS BELOW OPERATING (LOSS) INCOME

Realized and unrealized gain on derivative contracts

Effective January 1, 2012, QEP discontinued hedge accounting, thus changes during the three and nine months ended September 30, 2012, and all changes in mark-to-market are recognized in the current period earnings. In 2011, QEP used hedge accounting and changes in the mark-to-market value of the commodity derivative contracts were reflected in AOCI and ultimately revenues when the commodity derivatives were settled. Gains and losses on derivative instruments during 2012 are comprised of both realized and unrealized gains and losses on QEP's commodity derivative contracts and interest rate swaps. During the third quarter of 2012, gains on commodity derivative instruments were \$39.0 million, of which \$93.8 million was realized, partially offset by a \$54.8 million unrealized loss on commodity derivative instruments. During the first three quarters of 2012, gains on commodity derivative instruments were \$341.9 million, of which \$302.5 million was realized and \$39.4 million was unrealized. Additionally, during the third quarter of 2012, QEP recognized a loss from its interest rate swaps of \$2.9 million, of which \$0.6 million was realized and \$2.3 million was unrealized. During the first three quarters of 2012, losses from interest rate swaps were \$7.2 million, of which \$0.6 million was realized and \$6.6 million was unrealized.

Interest and other income

Interest and other income are comprised primarily of interest earned on investments, gains and losses on warehouse inventory, and other miscellaneous income. During the three and nine months ended September 30, 2012, interest and other income increased \$0.5 million and \$2.9 million, respectively. The increases were primarily due to the discontinuance of hedge accounting in the three and nine months ended September 30, 2012, compared to a \$2.7 million and \$2.6 million of losses due to hedge ineffectiveness recognized in three and nine months ended September 30, 2011, respectively. These increases were partially offset by variances in warehouse inventory valuations of \$1.6 million and \$1.5 million for the three and nine months ended September 30, 2012, respectively, when compared to the prior year periods.

Loss from early extinguishment of debt

During the first three quarters of 2012, QEP recorded a loss from early extinguishment of debt of \$0.6 million from the retirement of a portion of QEP's Senior Notes. During the three and nine months ended September 30, 2011, QEP recorded a loss from early extinguishment of debt of \$0.7 million due to replacing the previous \$1.0 billion revolving credit facility with a new \$1.5 billion revolving credit facility in August 2011.

Interest expense

Interest expense increased \$7.2 million, or 32%, during the third quarter of 2012 when compared to the third quarter of 2011.

The increase in third quarter 2012 interest expense was attributable to average debt levels that were approximately \$945.4 million higher than average debt levels in the third quarter of 2011. During the first three quarters of 2012, interest expense increased \$15.9 million, or 24%, when compared to the first three quarters of 2011. The increase in interest expense during the first three quarters of 2012 was due to average debt levels that were approximately \$872.7 million higher than average debt levels in the first three quarters of 2011. The increase in average debt levels is mostly related to the issuance of QEP's 2022 Senior Notes, 2023 Senior Notes and Term Loan in the first three quarters of 2012.

Income taxes

QEP's effective combined federal and state income tax rate was 52.3% for the third quarter of 2012, higher than the 36.6% in the third quarter of 2011. The higher third quarter of 2012 combined effective rate resulted from the size of tax deduction adjustment items in relation to the small net loss generated in the third quarter. The effective combined federal and state income tax rate was 36.0% for the first three quarters of 2012, compared to 36.6% in the first three quarters of 2011. The first three quarters of 2012 had a combined rate that was slightly lower due to a lower tax rate in the first quarter of 2012, resulting from changes in estimates and subsequent reduction of accruals that are non-deductible for income tax purposes.

DISCUSSION BY LINE OF BUSINESS

QEP Energy

QEP Energy reported a net loss of \$26.2 million in the third quarter of 2012, a decrease of \$84.5 million from the \$58.3 million net income reported in the third quarter of 2011. The decline in third quarter of 2012 net income was primarily due an unrealized loss from commodity derivative instruments of \$50.9 million combined with 8% lower average total equivalent net realized prices, partially offset by increased production volumes. During the first three quarters of 2012, QEP Energy reported net income of \$51.6 million, a 65% decrease from the \$148.2 million in the first three quarters of 2011. The primary reasons for the decrease in the first three quarters of 2012 were a \$49.3 million non-cash impairment on proved properties and 6% lower average total equivalent net realized prices, partially offset by an unrealized gain from commodity derivative contracts of \$37.9 million and increased production.

The following table provides a summary of QEP Energy's financial and operating results:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(in millions)					
Revenues						
Natural gas sales	\$ 170.3	\$ 309.8	\$ (139.5)	\$ 470.4	\$ 921.1	\$ (450.7)
Oil sales	117.7	76.9	40.8	335.7	220.6	115.1
NGL sales	38.6	35.2	3.4	134.3	71.1	63.2
Purchased gas, oil and NGL sales	45.3	211.2	(165.9)	159.1	367.2	(208.1)
Other	2.1	2.5	(0.4)	6.8	7.3	(0.5)
Total Revenues	<u>374.0</u>	<u>635.6</u>	<u>(261.6)</u>	<u>1,106.3</u>	<u>1,587.3</u>	<u>(481.0)</u>
Operating expenses						
Purchased gas, oil and NGL expense	45.9	208.1	(162.2)	159.0	362.8	(203.8)
Lease operating expense	43.1	38.0	5.1	125.3	106.4	18.9
Natural gas, oil and NGL transportation and other handling costs	59.8	45.0	14.8	167.4	130.8	36.6
General and administrative	32.2	23.0	9.2	94.3	69.8	24.5
Production and property taxes	22.5	26.3	(3.8)	63.6	73.9	(10.3)
Depreciation, depletion and amortization	217.4	174.4	43.0	597.7	524.0	73.7
Exploration expenses	2.2	2.4	(0.2)	6.3	7.5	(1.2)
Abandonment and impairment	9.5	5.7	3.8	71.8	16.4	55.4
Total Operating Expenses	<u>432.6</u>	<u>522.9</u>	<u>(90.3)</u>	<u>1,285.4</u>	<u>1,291.6</u>	<u>(6.2)</u>
Net gain from asset sales	—	1.2	(1.2)	1.5	1.4	0.1
Operating (Loss) Income	<u>(58.6)</u>	<u>113.9</u>	<u>(172.5)</u>	<u>(177.6)</u>	<u>297.1</u>	<u>(474.7)</u>
Realized gain (loss) on derivative instruments	92.3	(27.9)	120.2	292.5	(86.7)	379.2
Unrealized (loss) gain on derivative instruments	(50.9)	27.9	(78.8)	37.9	86.7	(48.8)
Interest and other (loss) income	(0.2)	(0.7)	0.5	2.2	(0.5)	2.7
Income from unconsolidated affiliates	—	—	—	0.1	0.1	—
Interest expense	(24.1)	(20.5)	(3.6)	(71.1)	(60.8)	(10.3)
(Loss) Income before Income Taxes	<u>(41.5)</u>	<u>92.7</u>	<u>(134.2)</u>	<u>84.0</u>	<u>235.9</u>	<u>(151.9)</u>
Income tax benefit (provision)	15.3	(34.4)	49.7	(32.4)	(87.7)	55.3
Net (Loss) Income Attributable to QEP	<u>\$ (26.2)</u>	<u>\$ 58.3</u>	<u>\$ (84.5)</u>	<u>\$ 51.6</u>	<u>\$ 148.2</u>	<u>\$ (96.6)</u>

Operating expenses per unit

QEP Energy total operating expenses (the sum of depreciation, depletion and amortization expense, lease operating expense, natural gas, oil and NGL transportation and other handling costs, general and administrative expense, and a portion of total QEP interest expense that is allocated to QEP Energy based on intercompany agreements and production taxes) per Mcfe of production increased 5% to \$4.89 per Mcfe in the third quarter of 2012 compared to \$4.64 per Mcfe in the third quarter of 2011. Total operating expenses per Mcfe decreased 1% to \$4.75 per Mcfe in the first three quarters of 2012 compared to \$4.80 per Mcfe in the first three quarters of 2011. The following table presents certain QEP Energy operating expenses on a units of production basis.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(per Mcfe)					
Depreciation, depletion and amortization	\$ 2.67	\$ 2.47	\$ 0.20	\$ 2.54	\$ 2.60	\$ (0.06)
Lease operating expense	0.53	0.54	(0.01)	0.53	0.53	—
Natural gas, oil and NGL transportation and other handling costs	0.73	0.64	0.09	0.71	0.65	0.06
General and administrative expense	0.39	0.33	0.06	0.40	0.35	0.05
Allocated interest expense	0.30	0.29	0.01	0.30	0.30	—
Production taxes	0.27	0.37	(0.10)	0.27	0.37	(0.10)
Total Operating Expenses	\$ 4.89	\$ 4.64	\$ 0.25	\$ 4.75	\$ 4.80	\$ (0.05)

DD&A expense increased \$0.20 per Mcfe in the third quarter of 2012 when compared to the third quarter of 2011. The increase in DD&A expense per Mcfe was the result of increased production from higher-rate DD&A pools and increases in those higher DD&A rate pools from increased drilling costs in the Midcontinent and Legacy Divisions. DD&A expense decreased \$0.06 per Mcfe in the first three quarters of 2012, when compared to the first three quarters of 2011. During the first three quarters of 2012 the DD&A expense per Mcfe decline was the result of booking NGL reserves associated with the fee-based processing agreement entered into between QEP Energy and QEP Field Services for QEP Energy's Pinedale production, increased percentage of production from the lower cost DD&A pools and impairments taken in the fourth quarter of 2011.

QEP Energy's average production costs (lease operating expense) per Mcfe were 2% lower in the third quarter of 2012 compared to the third quarter of 2011. During the first three quarters of 2012, average production costs per Mcfe were flat compared to the first three quarters of 2011. The following table presents average production cost, excluding production taxes for QEP Energy by region on a units of production basis:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(per Mcfe)					
Northern Region	\$ 0.61	\$ 0.57	\$ 0.04	\$ 0.59	\$ 0.59	\$ —
Southern Region	0.44	0.51	(0.07)	0.48	0.48	—
Average production cost	0.53	0.54	(0.01)	0.53	0.53	—

Lease operating expense per Mcfe decreased \$0.01 during the third quarter ended September 30, 2012, when compared to the third quarter of 2011. The decrease in the third quarter of 2012 lease operating expense is primarily due to a \$0.07 per Mcfe decrease in the Southern Region, which was mostly offset by a \$0.04 per Mcfe increase in the Northern Region. The Southern Region decrease was a result of an 3% increase in production and a 10% decrease in lease operating expenses. The decrease in lease operating expenses in the Southern Region was driven primarily by decreases in maintenance and repairs. The Northern Region increase was driven by a 39% increase in lease operating expenses, partially offset by a 30% increase in production. Lease operating expense increase in the Northern Region was primarily the result of higher water disposal costs and increases in trucking, chemical, labor and pumper costs. Lease operating expense per Mcfe was flat for the first three quarters of 2012 compared to the 2011 first three quarters. For additional information regarding the variances in production and lease operating expenses, see "Production" and "Operating Expenses" discussions earlier in this Form 10-Q.

Natural gas, oil and NGL transportation and other handling costs per Mcfe were 14% higher in the third quarter of 2012 than in the third quarter of 2011. During the first three quarters of 2012, natural gas, oil and NGL transportation and other handling costs per Mcfe were 9% higher than in the first three quarters of 2011. The per Mcfe increase in both the three and nine months ended September 30, 2012, relates to NGL sale agreements at Mont Belvieu, Texas, and the related transportation and processing of NGL's, which were effective beginning with the startup of the Blacks Fork II plant in the third quarter of 2011.

G&A expense increased \$0.06 per Mcfe in the three months ended September 30, 2012, and increased \$0.05 per Mcfe in the nine months ended September 30, 2012. The per Mcfe increases in the three and nine months ended September 30, 2012, were the result of higher total G&A expenses in the three and nine months ended September 30, 2012, partially offset by increased production during the same periods. The increased G&A expenses for the period ended September 30, 2012 were driven by

increased headcount and the annual compensation program, increases in professional and outside services, increased stock-based compensation expense and expenses incurred in the current year for restructuring costs. See Note 8 – “Restructuring Costs” of this form 10-Q for additional information regarding restructuring costs.

Allocated interest expense per Mcfe increased \$0.01 in the three months ended September 30, 2012, but was flat in the nine months ended September 30, 2012. The increase in the three months ended September 30, 2012, was primarily due to an increase in allocated interest expense resulting from higher debt levels.

In most states in which QEP Energy operates, QEP pays production taxes based on a percentage of field-level revenue, except in Louisiana, where severance taxes are volume-based. Production taxes per Mcfe decreased by \$0.10 during the three and nine months ended September 30, 2012, because of lower field-level natural gas, oil and NGL prices.

QEP Energy Operating Regions

The following table presents operated and non-operated well completions (excluding completions from the Acquisition) for the three and nine months ended September 30, 2012:

	Operated Completions				Non-operated Completions			
	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012		Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<u>Northern Region</u>								
Pinedale	35	26.4	86	62.8	—	—	—	—
Uinta Basin	10	9.2	36	33.5	49	0.1	181	0.5
Legacy	9	7.9	18	15.2	17	1.4	66	3.7
<u>Southern Region</u>								
Haynesville/Cotton Valley	—	—	29	16.7	1	0.1	7	0.8
Midcontinent	6	5.2	19	15.1	35	4.6	96	11.5

The following table presents operated and non-operated wells drilling and waiting on completion (including wells drilling and wells waiting on completion from the Acquisition) at September 30, 2012:

	Operated				Non-operated			
	Drilling		Waiting on completion		Drilling		Waiting on completion	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<u>Northern Region</u>								
Pinedale	27	18.1	44	28.0	—	—	—	—
Uinta Basin	4	4.0	2	1.6	—	—	—	—
Legacy	13	11.1	10	7.6	15	0.7	22	3.6
<u>Southern Region</u>								
Haynesville/Cotton Valley	—	—	5	2.4	—	—	1	—
Midcontinent	4	3.1	8	8.0	12	0.3	40	1.7

Northern Region

Pinedale Division

In 2005, the Wyoming Oil and Gas Conservation Commission (WOGCC) approved 10-acre density drilling for Lance Pool wells on about 12,700 acres of QEP Energy's 17,900 acre (gross) Pinedale leasehold. In January 2008, the WOGCC approved five-acre density drilling for Lance Pool wells on about 4,200 gross acres of QEP Energy's Pinedale leasehold. On March 13, 2012, the WOGCC approved five-acre density drilling for Lance Pool wells on approximately 7,200 additional gross acres. The area approved for increased density corresponds to the currently estimated economic productive limits of QEP Energy core acreage in the field. The true vertical depth to the top of the Lance Pool tight gas sand reservoir interval ranges from 8,500 to 9,500 feet across QEP Energy's acreage. The Company currently estimates that up to 1,000 additional wells will be required to fully develop its Pinedale acreage on a combination of 5 and 10-acre density. At September 30, 2012, QEP Energy had six operated rigs drilling in the Pinedale Anticline.

Uinta Basin Division

The majority of Uinta Basin proved reserves are found in a series of vertically stacked, laterally discontinuous reservoirs at depths of 4,500 feet to deeper than 18,000 feet. QEP Energy owns working interests in approximately 253,800 net leasehold acres in the Uinta Basin. QEP Energy had three operated rigs drilling in the Uinta Basin at September 30, 2012, two of which are targeting the Lower Mesaverde Formation productive fairway in the Red Wash Unit, in which QEP holds 32,300 net acres, and the other drilling various vertical and horizontal oil targets.

Legacy Division

The remainder of QEP Energy Northern Region leasehold interests, productive wells and proved reserves are distributed over a number of fields and properties managed as the Legacy Division. Exploration and development activity in the three and nine months ended September 30, 2012, includes wells in the Williston Basin in North Dakota, and the Greater Green River and Powder River Basins in Wyoming.

During the third quarter of 2012, QEP Energy closed on the previously discussed Acquisition of 27,600 net acres of producing leaseholds in the Williston Basin. Including the recently acquired properties, QEP has approximately 117,000 net acres of leasehold rights in the Williston Basin in western North Dakota, where the Company is targeting the Bakken and Three Forks formations. The true vertical depth to the top of the Bakken Formation ranges from approximately 9,500 feet to 10,000 feet across QEP Energy's leasehold. The Three Forks Formation lies approximately 60 to 70 feet below the Middle Bakken Formation and is also a target for horizontal drilling. As of September 30, 2012, QEP Energy had five operated rigs drilling in the project area.

Southern Region

Haynesville/Cotton Valley Division

QEP Energy has approximately 50,700 net acres of Haynesville Shale lease rights in northwest Louisiana and additional lease rights that cover the Hosston and Cotton Valley formations. The depth of the top of the Haynesville Shale ranges from approximately 10,500 feet to 12,500 feet across QEP Energy's leasehold and is below the Hosston and Cotton Valley formations that QEP Energy has been developing in northwest Louisiana since the 1990's. As of September 30, 2012, due to depressed natural gas prices QEP Energy did not have any operated rigs drilling in the project area.

Midcontinent Division

QEP Energy's Midcontinent properties cover all properties in the Southern Region except the Haynesville/Cotton Valley area of northwest Louisiana, and are distributed over a large area, including the Anadarko Basin of western Oklahoma and the Texas Panhandle.

QEP Energy has approximately 76,000 net acres of Woodford Shale lease rights in western Oklahoma. The true vertical depth to the top of the Woodford Shale ranges from approximately 10,500 feet to 14,500 feet across QEP Energy's leasehold. As of September 30, 2012, QEP Energy had two operated rigs drilling in the Woodford/Cana play.

QEP Energy has approximately 35,000 net acres of Granite Wash/Atoka Wash lease rights in the Texas Panhandle and western Oklahoma and has been drilling vertical Granite Wash/Atoka Wash wells for over a decade. The true vertical depth to the top of

the Granite Wash/Atoka Wash interval ranges from approximately 11,100 feet to 15,900 feet across QEP Energy's leasehold. In the past few years, QEP and other operators have drilled a number of successful horizontal wells in the Granite Wash/Atoka Wash play but have also drilled some wells with disappointing results. As of September 30, 2012, QEP Energy had one rig drilling in oil plays in the Texas Panhandle.

QEP Field Services

QEP Field Services, which provides gas gathering and processing services, generated net income of \$28.7 million in the third quarter of 2012, compared to \$42.0 million in the same period of 2011. During the first three quarters of 2012 QEP Field Services net income decreased 6% to \$107.4 million compared to \$114.2 million in the first three quarters of 2011. The decrease in net income during the third quarter of 2012 was the result of lower processing and gathering margins. During the first three quarters of 2012, gathering margins were lower than the 2011 comparable period, however, processing margins increased slightly during the first three quarters of 2012. Gathering margins were lower during the first three quarters of 2012 as the result of decreased other gathering revenue due to the elimination of a short-term, third-party interruptible processing agreement. The short-term processing arrangement was in effect during the first three quarters of 2011, before the expansion of the Blacks Fork processing plant was put into service during the third quarter of 2011. Processing margins were lower in the third quarter of 2012 because of lower keep-whole processing margins, however, during the first three quarters of 2012 the decrease in the keep-whole margin was more than offset by increases in fee-based processing revenues.

The following table provides a summary of QEP Field Services' financial and operating results:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(in millions)					
Revenues						
NGL sales	\$ 28.9	\$ 44.1	\$ (15.2)	\$ 112.7	\$ 119.9	\$ (7.2)
Processing (fee based)	18.2	15.4	2.8	51.8	37.6	14.2
Other processing fees	5.4	1.7	3.7	8.4	1.7	6.7
Gathering	43.9	41.9	2.0	131.6	120.0	11.6
Other gathering	8.0	16.5	(8.5)	28.6	59.2	(30.6)
Purchased gas, oil and NGL sales	5.3	—	5.3	9.9	—	9.9
Total Revenues	109.7	119.6	(9.9)	343.0	338.4	4.6
Operating expenses						
Purchased gas, oil and NGL expense	4.9	—	4.9	9.0	—	9.0
Processing	4.7	3.1	1.6	12.1	8.9	3.2
Processing plant fuel and shrinkage	8.1	12.5	(4.4)	26.6	34.1	(7.5)
Gathering	9.0	11.0	(2.0)	26.9	35.3	(8.4)
Natural gas, oil and NGL transportation and other handling costs	6.9	2.5	4.4	27.7	4.6	23.1
General and administrative	10.6	6.6	4.0	24.1	22.4	1.7
Taxes other than income taxes	1.7	1.4	0.3	4.6	4.4	0.2
Depreciation, depletion and amortization	15.8	14.0	1.8	47.2	40.7	6.5
Total Operating Expenses	61.7	51.1	10.6	178.2	150.4	27.8
Net gain from asset sales	—	(0.1)	0.1	—	—	—
Operating Income	48.0	68.4	(20.4)	164.8	188.0	(23.2)
Interest and other income	—	—	—	0.1	—	0.1
Income from unconsolidated affiliates	2.3	2.3	—	5.5	4.4	1.1
Realized gains on derivative instruments	1.9	—	1.9	6.3	—	6.3
Unrealized gains on derivative instruments	(2.5)	—	(2.5)	2.0	—	2.0
Interest expense	(3.5)	(3.8)	0.3	(9.4)	(10.4)	1.0
Income before Income Taxes	46.2	66.9	(20.7)	169.3	182.0	(12.7)
Income taxes	(16.5)	(24.0)	7.5	(59.2)	(65.6)	6.4
Net income	29.7	42.9	(13.2)	110.1	116.4	(6.3)
Net income attributable to noncontrolling interest	(1.0)	(0.9)	(0.1)	(2.7)	(2.2)	(0.5)
Net Income Attributable to QEP	\$ 28.7	\$ 42.0	\$ (13.3)	\$ 107.4	\$ 114.2	\$ (6.8)

Natural gas, oil and NGL transportation and other handling costs increased \$4.4 million and \$23.1 million during the three and nine months ended September 30, 2012, respectively. The increases in both periods were primarily due to transportation costs relating to the Blacks Fork II plant, placed into service in the third quarter of 2011, and the related transportation and ultimate sale of additional NGL's at Mont Belvieu, Texas.

General and administrative expenses increased by \$4.0 million during the third quarter of 2012 and increased \$1.7 million

during the first three quarters of 2012. The increase in G&A costs during the current period was primarily due to increases in headcount and related compensation costs, increase in the mark-to-market value of the deferred compensation wrap plan, and higher professional and outside services.

See “Gathering” and “Processing” sections, as appearing earlier, for additional discussion of the significant changes in QEP Field Services comparative financial statements.

QEP Marketing and Other

QEP Marketing, which markets affiliate and third-party natural gas and oil, and owns and operates a gas storage facility, generated a net loss of \$5.6 million in the three months ended September 30, 2012, a \$6.8 million decrease over the \$1.2 million of income in the three months ended September 30, 2011 from lower marketing margins and unrealized losses from derivative contracts. During the nine months ended September 30, 2012, net income decreased \$12.7 million, or 249%, due primarily to lower marketing volumes and margins combined with unrealized losses from derivative contracts. During the three and nine months ended September 30, 2012, QEP Marketing had a loss on resale gas, oil and NGL of \$1.8 million and \$7.0 million, respectively, related to fulfillment of firm transportation contract commitments.

The following table provides a summary of QEP Marketing and Other financial and operating results:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(in millions)					
Revenues						
Purchased gas, oil and NGL sales	\$ 234.9	\$ 293.1	\$ (58.2)	\$ 674.7	\$ 865.3	\$ (190.6)
Other	1.4	1.1	0.3	5.3	6.2	(0.9)
Total Revenues	<u>236.3</u>	<u>294.2</u>	<u>(57.9)</u>	<u>680.0</u>	<u>871.5</u>	<u>(191.5)</u>
Operating expenses						
Purchased gas, oil and NGL expense	236.7	292.0	(55.3)	681.7	862.4	(180.7)
Gathering, processing and other	0.1	0.4	(0.3)	0.8	1.1	(0.3)
General and administrative	0.5	0.2	0.3	0.6	1.8	(1.2)
Production and property taxes	0.1	—	0.1	0.2	0.2	—
Depreciation, depletion and amortization	0.9	0.6	0.3	2.5	1.7	0.8
Total Operating Expenses	<u>238.3</u>	<u>293.2</u>	<u>(54.9)</u>	<u>685.8</u>	<u>867.2</u>	<u>(181.4)</u>
Net gain from asset sales	—	0.1	(0.1)	—	—	—
Operating (Loss) Income	(2.0)	1.1	(3.1)	(5.8)	4.3	(10.1)
Realized (loss) gain on derivative instruments	(1.0)	—	(1.0)	3.1	—	3.1
Unrealized loss on derivative instruments	(3.7)	—	(3.7)	(7.1)	—	(7.1)
Interest and other income	28.4	25.0	3.4	81.1	74.2	6.9
Loss on extinguishment of debt	—	(0.7)	0.7	(0.6)	(0.7)	0.1
Interest expense	(30.8)	(23.5)	(7.3)	(83.4)	(70.0)	(13.4)
(Loss) Income before Income Taxes	(9.1)	1.9	(11.0)	(12.7)	7.8	(20.5)
Income tax benefit (provision)	3.5	(0.7)	4.2	5.1	(2.7)	7.8
Net (Loss) Income Attributable to QEP	<u>\$ (5.6)</u>	<u>\$ 1.2</u>	<u>\$ (6.8)</u>	<u>\$ (7.6)</u>	<u>\$ 5.1</u>	<u>\$ (12.7)</u>

LIQUIDITY AND CAPITAL RESOURCES

QEP seeks to fund its development projects by employing a capital structure and financing strategy to provide sufficient liquidity to withstand commodity price swings. As part of this strategy QEP funds long-term capital intensive development projects while maintaining the ability to employ an exploration program, execute acquisitions and maintain an appropriate debt rating. In addition, QEP maintains a commodity price derivative strategy to reduce commodity price volatility and to provide certainty to cash flows and operations.

QEP funds its operations, capital expenditures and working capital requirements with cash flow from its operating activities and borrowings under its credit facilities. Periodically, QEP's access to debt and capital markets and sales of non-strategic properties will provide additional liquidity. The Company believes cash flow from operations, cash-on-hand and availability under its Credit Facility will be sufficient to fund the Company's planned capital expenditures and operating expenses during the next 12 months. To the extent actual operating results differ from the Company's estimates, QEP's liquidity could be adversely affected.

The following table provides QEP's available liquidity and debt to equity ratio compared to the previous period:

	September 30, 2012	December 31, 2011
	(in millions, except %)	
Cash and cash equivalents	\$ —	\$ —
Amount available under the Credit Facility ⁽¹⁾	831.9	893.5
Total liquidity	\$ 831.9	\$ 893.5
Total debt ⁽²⁾	\$ 3,180.7	\$ 1,679.4
Total common shareholders' equity	3,329.0	3,301.5
Ratio of debt to total capital ⁽³⁾	49%	34%

(1) See discussion of Credit Facility below. Includes outstanding letters of credit of \$4.1 million.

(2) Includes all outstanding long-term debt which is discussed in detail below. At September 30, 2012, debt levels were higher than at December 31, 2011, primarily due to the Acquisition.

(3) Defined as total debt divided by the sum of total debt plus common shareholders' equity.

Credit Facility

QEP's revolving credit facility agreement, which matures in August 2016, provides for loan commitments of \$1.5 billion from a syndicate of financial institutions. The Credit Facility provides for borrowings at short-term interest rates and contains customary covenants and restrictions. The credit facility agreement also contains provisions which would allow for the amount of the facility to be increased to \$2.0 billion and for the maturity to be extended for two additional one-year periods. QEP's weighted-average interest rate on borrowings from its Credit Facility was 2.05% during the first three quarters of 2012. At September 30, 2012, QEP was in compliance with the debt covenants under the credit agreement. At October 26, 2012, QEP had \$661.5 million outstanding under its Credit Facility and \$4.1 million of letters of credit issued.

Term Loan

During the second quarter of 2012, the Company entered into a \$300.0 million Term Loan with a group of financial institutions. The Term Loan agreement provides for borrowings at short-term interest rates and contains covenants, restrictions and interest rates that are substantially the same as the Company's Credit Facility. The Term Loan matures in April of 2017, and the maturity date may be extended one year with the agreement of the lenders. The proceeds from the Term Loan were used to pay down the Company's Credit Facility and general corporate purposes. During the third quarter of 2012, QEP's weighted-average interest rate on the Term Loan was 2.02%. In conjunction with the Term Loan, QEP entered into interest rate swap contracts with a combined notional principal amount of \$300.0 million which will mature in March 2017. Under the swap contracts, QEP pays 1.07% for the life of the swaps and receives one-month LIBOR. The interest rate at September 30, 2012 under the Term Loan is one-month LIBOR, plus 1.75% (the Applicable Margin) which, when combined with the fixed interest rate swaps, results in an effective rate of 2.82% for borrowings under the Term Loan. To the extent that the Applicable Margin under the Term Loan changes, the effective fixed rate paid for borrowings under the Term Loan will change.

Senior Notes

During the third quarter of 2012, the Company completed an offering of \$650.0 million in aggregate principal amount of 5.25% senior notes due in May 2023. The proceeds from the 2023 Senior Notes were used to finance a portion of the Acquisition. In addition, during the first quarter of 2012, the Company completed an offering of \$500.0 million in aggregate principal amount of 5.375% senior notes due in October 2022. The proceeds from the 2022 Senior Notes were used to repay indebtedness under the Company's Credit Facility. In the second quarter of 2012, the Company purchased \$6.7 million of its Senior Notes outstanding.

The Company's senior notes outstanding as of September 30, 2012, totaled \$2,221.8 million principal amount and are comprised of six issuances as follows:

- \$176.8 million 6.05% Senior Notes due September 2016
- \$134.0 million 6.80% Senior Notes due April 2018
- \$136.0 million 6.80% Senior Notes due March 2020
- \$625.0 million 6.875% Senior Notes due March 2021
- \$500.0 million 5.375% Senior Notes due October 2022
- \$650.0 million 5.25% Senior Notes due May 2023

Cash Flow from Operating Activities

Cash flows from operations are primarily affected by natural gas, oil and NGL production volumes and commodity prices (including the effects of settlements of the Company's derivative contracts) and by changes in working capital. QEP enters into commodity derivative transactions covering a substantial, but varying, portion of its anticipated future gas, oil and NGL production for the next 12 to 24 months.

Net cash provided by operating activities increased 2% during the first three quarters of 2012, when compared to the first three quarters of 2011 due to higher noncash adjustments to net income and an increase in the source of cash from operating assets and liabilities. Noncash adjustments to net income consisted primarily of depreciation, depletion and amortization; abandonment and impairment charges; unrealized gains on derivative contracts; and changes in deferred income taxes. Changes in operating assets and liabilities were a source of cash in the first three quarters of 2012, primarily due to a decrease in accounts receivable offset by a decrease in accounts payable. Changes in operating assets and liabilities driving a source of cash in the first three quarters of 2011 were increases in accounts payable, offset by increases in accounts receivable. Net cash provided from operating activities is presented below:

	Nine Months Ended September 30,		
	2012	2011	Change
		(in millions)	
Net income	\$ 154.1	\$ 269.7	\$ (115.6)
Noncash adjustments to net income	763.4	673.8	89.6
Changes in operating assets and liabilities	54.5	12.2	42.3
Net cash provided from operating activities	<u>\$ 972.0</u>	<u>\$ 955.7</u>	<u>\$ 16.3</u>

Cash Flow from Investing Activities

A comparison of capital expenditures for the first three quarters of 2012 and 2011 and a forecast for calendar year 2012 are presented in the table below:

	Nine Months Ended			Current Forecast Twelve Months Ended ⁽¹⁾	Prior Forecast Twelve Months Ended ⁽²⁾
	September 30,			December 31, 2012	December 31, 2012
	2012	2011	Change		
	(in millions)				
QEP Energy	\$ 2,391.0	\$ 939.4	\$ 1,451.6	\$ 1,370.0	\$ 1,320.0
QEP Field Services	141.2	68.1	73.1	170.0	170.0
QEP Marketing	0.7	0.2	0.5	1.0	1.0
Corporate	5.7	3.2	2.5	9.0	9.0
Total accrued capital expenditures	2,538.6	1,010.9	1,527.7	1,550.0	1,500.0
Change in accruals	(97.6)	(12.5)	(85.1)	—	—
Total cash capital expenditures	\$ 2,441.0	\$ 998.4	\$ 1,442.6	\$ 1,550.0	\$ 1,500.0

(1) Represents the upper end of the most recent guidance and excludes approximately \$1.4 billion of properties acquired in the Acquisition.

(2) Forecast as reported in the 2012 Second Quarter Report on Form 10-Q, filed on July 31, 2012.

During the first three quarters of 2012 capital expenditures on a cash basis increased 144% to \$2,441.0 million, compared to \$998.4 million during the first three quarters of 2011. The increase of \$1,442.6 million cash capital expenditures during the first three quarters of 2012 was the result of QEP Energy's approximate \$1.4 billion Acquisition. Approximately \$2,302.8 million of the total 2012 cash capital expenditures was invested in QEP Energy, including \$902.8 million in drilling and completion and other expenditures and \$1,400.0 million in property acquisitions. QEP Field Services first three quarters of 2012 cash capital expenditures of \$131.8 million were invested to expand capacity at the Company's gathering, processing and treating facilities, including the construction of a new 150 MMcfd cryogenic gas processing plant in the Uinta Basin.

QEP Energy capital investment, on an accrual basis, in the first three quarters of 2012 increased \$1,451.6 million over the first three quarters of 2011 due to increased capital expenditures in the Legacy Division (which was higher primarily due to the Acquisition), offset by lower capital expenditures in the Haynesville Division (approximately 75% lower) due to the reduced drilling program as capital was allocated out of the dry-gas Haynesville play into higher return oil and liquids-rich natural gas drilling programs.

QEP Field Services capital investment increased \$73.1 million, on an accrual basis, in the first three quarters of 2012 compared to the first three quarters of 2011 due to the projects directed to grow the midstream business including the construction of a new 150 MMcfd fee-based cryogenic gas processing plant in the Uinta Basin and the 10,000 Bbl/d expansion to the NGL fractionators located at the Blacks Fork processing complex.

At September 30, 2012, forecasted capital investments, excluding the approximate \$1.4 billion Acquisition, for 2012 is expected to be \$1,550.0 million, comprised of \$1,370.0 million at QEP Energy, \$170.0 million at QEP Field Services, and \$10.0 million for QEP Resources and QEP Marketing. For the remainder of 2012, QEP intends to fund capital expenditures with cash flow from operating activities, and, if needed, borrowings under its revolving credit facility. As a result of the continued spread between crude oil and natural gas prices, QEP plans to decrease capital expenditures for the Haynesville Shale and other dry-gas development areas and increase capital expenditures for higher return projects, including Pinedale, Uinta Basin Red Wash Mesaverde, and oil-directed horizontal drilling in the Bakken, Powder River Basin and Midcontinent, for the remainder of 2012. QEP Energy has allocated approximately 93% of its forecasted 2012 drilling and completion capital expenditure budget to crude oil and liquids-rich natural gas projects in its portfolio. QEP plans to invest a total of approximately \$170.0 million in capital expenditures during 2012 to grow its midstream business, including the construction of a new 150 MMcfd fee-based cryogenic gas processing plant in the Uinta Basin (expected to be completed in early 2013) as well as a new 10,000 Bbl/d expansion of the NGL fractionator located at the Blacks Fork processing complex (expected to be completed in the second half of 2013). QEP Resources plans to invest approximately \$9.0 million in capital expenditures

related to corporate activities, primarily the implementation of a new Enterprise Resource Planning system. The aggregate levels of capital expenditures for 2012 and the allocation of those expenditures are dependent on a variety of factors, including drilling results, natural gas and oil prices, industry conditions, the extent to which properties or working interests are acquired, the availability of capital resources to fund the expenditures and changes in management's business assessments as to where QEP's capital can be most profitably deployed. Accordingly, the actual levels of capital expenditures and the allocation of those expenditures may vary materially from QEP's estimates.

Cash Flow from Financing Activities

In the first three quarters of 2012, net cash proceeds from financing activities was \$1,463.7 million compared to \$35.3 million in the first three quarters of 2011. During the first three quarters of 2012, QEP completed offerings of \$650.0 million and \$500.0 million of senior notes and entered into a \$300.0 million Term Loan. QEP had borrowings from the Credit Facility of \$933.5 million and repayments on the Credit Facility of \$876.0 million. In addition, QEP retired \$6.7 million of its outstanding senior notes.

At September 30, 2012, long-term debt consisted of \$664.0 million outstanding under the Credit Facility, \$300.0 million under the Term Loan and \$2,221.8 million in senior notes (including \$5.1 million of net original issue discount).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

QEP's primary market risk exposures arise from changes in the market price for natural gas, oil and NGL, and to volatility in interest rates. These risks can affect revenues and cash flows from operating, investing and financing activities. Commodity prices have historically been volatile and are subject to wide fluctuations in response to relatively minor changes in supply and demand. If commodity prices fluctuate significantly, revenues and cash flow may significantly decrease or increase. QEP Energy and QEP Marketing also have long-term contracts for pipeline capacity and are obligated to pay for transportation services with no guarantee that QEP will be able to fully utilize the contractual capacity of these transportation commitments. In addition, a non-cash write-down of the Company's oil and gas properties may be required if future oil and natural gas commodity prices experience a sustained, significant decline. Furthermore, the Company's credit facility and term loan agreement have floating interest rates which expose QEP to interest rate risk. To manage the Company's exposure to these risks, QEP enters into commodity derivative contracts in the form of costless collars and fixed-price swaps to manage commodity price risk and periodically interest rate swaps to manage interest rate risk.

Commodity Price Risk Management

QEP's subsidiaries use commodity price derivative instruments in the normal course of business to reduce the risk of adverse commodity price movements. The Company's risk management policies provide for the use of derivative instruments to manage this risk. However, these same arrangements typically limit future gains from favorable price movements. The types of commodity derivative instruments utilized by the Company include fixed-price swaps and costless collars. The volume of commodity derivative instruments utilized by the Company may vary from year-to-year. The derivative instruments currently utilized by the Company do not have margin requirements or collateral provisions that would require payments prior to the scheduled cash settlement dates. As of September 30, 2012, QEP held commodity price derivative contracts totaling 147.7 million MMBtu of natural gas, 6.8 million barrels of oil, and 15.5 million gallons of NGL. At December 31, 2011, the QEP derivative contracts covered 213.0 million MMBtu of natural gas, 2.0 million barrels of oil, and 53.9 million gallons of NGL.

The following table presents open 2012 derivative positions as of October 26, 2012:

QEP Energy Commodity Derivative Positions

Year	Type of Contract	Index	Total Volumes	Swaps		Collars	
				Average price per unit	Floor price	Ceiling price	
			(in millions)				
Natural gas sales			(MMBtu)				
2012	Swap	NYMEX	19.3	\$	4.72		
2012	Swap	IFPEPL ⁽¹⁾	1.8	\$	4.70		
2012	Swap	IFNPCR ⁽²⁾	22.1	\$	4.67		
2012	Swap	IFCNPTE ⁽³⁾	2.8	\$	2.66		
2013	Swap	NYMEX	40.2	\$	3.74		
2013	Swap	IFNPCR ⁽²⁾	65.7	\$	5.66		
2014	Swap	NYMEX	18.3	\$	4.21		
Oil sales			(Bbls)				
2012	Swap	NYMEX WTI	1.3	\$	97.42		
2012	Collar	NYMEX WTI	0.4			\$ 87.50	\$ 115.36
2013	Swap	NYMEX WTI	5.1	\$	98.48		
2014	Swap	NYMEX WTI	1.8	\$	92.72		
NGL sales			(Gals)				
2012	Swap	Mt. Belvieu Ethane	3.9	\$	0.64		
2012	Swap	Mt. Belvieu Propane	5.8	\$	1.28		

QEP Field Services Commodity Derivative Positions

Year	Type of Contract	Index	Total Volumes	Average Swap price per gallon	
			(in millions)		
NGL sales			(Gals)		
2012	Swap	Mt. Belvieu Ethane	3.9	\$	0.64
2012	Swap	Mt. Belvieu Propane	1.9	\$	1.28

QEP Marketing Commodity Derivative Positions

Year	Type of Contract	Index	Total Volumes	Average Swaps price per MMBtu
			(in millions)	
Natural gas sales			(MMBtu)	
2012	Swap	IFNPCR	2.3	\$ 3.87
2013	Swap	IFNPCR	3.9	\$ 3.79
Natural gas purchases			(MMBtu)	
2012	Swap	IFNPCR	2.0	\$ 2.92
2013	Swap	IFNPCR	0.1	\$ 2.59

Changes in the fair value of derivative contracts from December 31, 2011 to September 30, 2012, are presented below:

	Commodity derivative contracts
	(in millions)
Net fair value of gas and oil derivative contracts outstanding at December 31, 2011	\$ 395.9
Contracts settled	(302.6)
Change in gas and oil prices on futures markets	113.3
Contracts added	15.7
Net fair value of gas, oil and NGL derivative contracts outstanding at September 30, 2012	\$ 222.3

The following table shows sensitivity of fair value of gas, oil and NGL derivative contracts to changes in the market price of gas, oil and NGL and basis differentials:

	September 30, 2012
	(in millions)
Net fair value - asset (liability)	\$ 222.3
Fair value if market prices of gas, oil and NGL and basis differentials decline by 10%	348.8
Fair value if market prices of gas, oil and NGL and basis differentials increase by 10%	94.8

Utilizing the actual derivative contractual volumes, a 10% increase in underlying commodity prices would reduce the fair value of these instruments by \$127.5 million, while a 10% decrease in underlying commodity prices would increase the fair value of these instruments by \$126.5 million as of September 30, 2012. However, a gain or loss eventually would be substantially offset by the actual sales value of the physical production covered by the derivative instruments. For additional information regarding the Company's commodity derivative transactions, see Note 7 – Derivative Contracts under Part I, Item 1 of this Form 10-Q.

Interest-Rate Risk Management

The Company's ability to borrow and the rates offered by lenders can be adversely affected by illiquid credit markets as described in the risk factors in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The Company's Credit Facility has a floating interest rate which expose QEP to interest rate risk. At September 30, 2012, the Company had \$664.0 million outstanding under the Credit Facility. If interest rates were to increase or decrease 10% over the nine months ended September 30, 2012, at our average level of borrowing for those same periods, our interest expense would increase or decrease by \$0.5 million for the nine months ended September 30, 2012, or less than 1% in each period. The remaining \$2,221.8 million of the Company's debt is fixed rate Senior Notes that are not subject to interest rate movements.

The Company's Term Loan has a floating interest rate which exposes QEP to interest rate risk. At September 30, 2012, the Company had \$300.0 million outstanding under the Term Loan. During the second quarter of 2012, QEP entered into interest rate swap contracts, with an aggregate notional amount of \$300.0 million, to minimize the interest rate volatility risk associated with its \$300.0 million senior, unsecured term loan agreement. QEP pays a fixed interest rate and receives a floating interest rate indexed to the one-month LIBOR. At September 30, 2012, the fair value of the interest rate swaps was a derivative liability balance of \$6.7 million. A 50 basis point decrease would cause the fair value of the interest rate swaps to decrease by \$6.0 million while a 50 basis point increase would cause the fair value of the interest rate swaps to increase by \$6.5 million. For additional information regarding the Company's debt instruments, see Note 9 – Debt under Part I, Item 1 of this Form 10-Q.

Forward-Looking Statements

This quarterly report contains information that includes or is based upon “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. Forward-looking statements include statements relating to, among other things:

- QEP’s growth strategies;
- natural gas, oil and NGL prices and factors affecting the volatility of such prices;
- plans to drill or participate in wells and to defer completion of wells;
- future expenses and operating costs;
- the outcome of contingencies such as legal proceedings;
- expected contributions related to the Company’s pension plans;
- results from planned drilling operations and production operations;
- amount and allocation of forecasted capital expenditures and plans for funding capital expenditures and operating expenses;
- the amount and timing of the settlement of derivative contracts;
- incurrence of unrealized derivative gains and losses;
- expected mix of revenues from the Company’s gathering business;
- impact on earnings from discontinuing hedge accounting;
- the significance of Adjusted EBITDA as a measure of cash flow and liquidity;
- the ability of QEP to use derivative instruments to manage commodity price risk and the availability to the Company of the end-user exemption under Title VII of the Dodd-Frank Act;
- payment of dividends;
- plans to hedge a portion of forecasted production;
- outcome of litigation;
- potential for future asset impairments;
- estimated future purchase accounting adjustments;
- maintaining an appropriate debt rating; and
- acquisition plans.

Any or all forward-looking statements may turn out to be incorrect. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining actual future results. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to the following:

- the risk factors discussed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2011
- changes in natural gas, oil and NGL prices;
- general economic conditions, including the performance of financial markets and interest rates;
- global geopolitical and macroeconomic factors;
- drilling results;
- shortages of oilfield equipment, services and personnel;
- permitting delays;
- operating risks such as unexpected drilling conditions;
- weather conditions;
- changes in maintenance and construction costs, including possible inflationary pressures;
- the availability and cost of debt financing;
- changes in laws or regulations, including the implementation of the Dodd-Frank Act and initiatives related to drilling and completion techniques, including hydraulic fracturing;
- actions, or inaction, by federal, state, local or tribal governments;
- derivatives and hedging activities;
- liabilities from litigation; and
- other factors, most of which are beyond the Company's control.

QEP undertakes no obligation to publicly correct or update the forward-looking statements in this quarterly report, in other documents, or on the website to reflect future events or circumstances. All such statements are expressly qualified by this cautionary statement.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2012. Based on such evaluation, such officers have concluded that, as of September 30, 2012, the Company's disclosure controls and procedures are designed and effective to ensure that information required to be included in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that information is accumulated and communicated to the Company's management including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating the Company's disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events and the application of judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of these and other inherent limitations of control systems, there is only reasonable assurance that the Company's controls will succeed in achieving their goals under all potential future conditions.

Changes in Internal Controls.

There were no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2012, that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is set forth in Note 10 - Contingencies to the Company's consolidated financial statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Risk factors relating to the Company are set forth in its Annual Report on Form 10-K for the year ended December 31, 2011. No material changes, except as noted below, to such risk factors have occurred during the nine months ended September 30, 2012.

Our ability to produce crude oil and natural gas economically and in commercial quantities could be impaired if we are unable to acquire adequate supplies of water for our drilling operations or are unable to dispose of, or recycle the water we use at a reasonable cost and in accordance with applicable environmental rules. The hydraulic fracturing process on which we depend to produce commercial quantities of crude oil and natural gas from many reservoirs requires the use and disposal of significant quantities of water. Our inability to secure sufficient amounts of water, or to dispose of or recycle the water used in our operations at a reasonable cost, could adversely impact our operations.

Moreover, the imposition of new environmental initiatives and regulations could include restrictions on our ability to conduct certain operations such as hydraulic fracturing or disposal of waste, including, but not limited to, produced water, drilling fluids and other wastes associated with the exploration, development or production of natural gas.

Compliance with environmental regulations and permit requirements governing the withdrawal, storage and use of surface water or groundwater necessary for hydraulic fracturing of wells may increase our operating costs and cause delays, interruptions or termination of our operations, the extent of which cannot be predicted, all of which could have an adverse effect on our operations and financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

QEP had no unregistered sales of equity during the third quarter of 2012.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are being filed as part of this report:

Exhibit No.	Exhibits
10.1	Purchase and Sale Agreement, dated as of August 23, 2012, by and among QEP Energy Company, as purchaser, and Helis Oil & Gas Company, L.L.C., as seller.
10.2	Purchase and Sale Agreement, dated August 23, 2012, by and among QEP Energy Company, as purchaser, and Black Hills Exploration and Production, Inc., Unit Petroleum Company, Sundance Energy, Inc., Highline Exploration, Inc., Houston Energy, L.P., Nisku Royalty, LP, Empire Oil Company and Kent M. Lynch, as sellers.
31.1	Certification signed by C. B. Stanley, QEP Resources, Inc.'s Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification signed by Richard J. Doleshek, QEP Resources, Inc.'s Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification signed by C. B. Stanley and Richard J. Doleshek, QEP Resources, Inc.'s Chief Executive Officer and Chief Financial Officer, respectively, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

SIGNATURES

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

QEP RESOURCES, INC.

(Registrant)

October 30, 2012

/s/ C. B. Stanley

C. B. Stanley,
Chairman, President and Chief Executive Officer

October 30, 2012

/s/ Richard J. Doleshek

Richard J. Doleshek,
Executive Vice President,
Chief Financial Officer and Treasurer

Exhibit Index

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10.1	Purchase and Sale Agreement, dated August 23, 2012, by and among QEP Energy Company, as purchaser, and Helis Oil & Gas Company, L.L.C., as seller.
10.2	Purchase and Sale Agreement, dated August 23, 2012, by and among QEP Energy Company, as purchaser, and Black Hills Exploration and Production, Inc., Unit Petroleum Company, Sundance Energy, Inc., Highline Exploration, Inc., Houston Energy, L.P., Nisku Royalty, LP, Empire Oil Company and Kent M. Lynch, as sellers.
31.1	Certification signed by C. B. Stanley, QEP Resources, Inc.'s Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification signed by Richard J. Doleshek, QEP Resources, Inc.'s Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification signed by C. B. Stanley and Richard J. Doleshek, QEP Resources, Inc.'s Chief Executive Officer and Chief Financial Officer, respectively, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

PURCHASE AND SALE AGREEMENT

BY AND BETWEEN

HELIS OIL & GAS COMPANY, L.L.C.,

AS SELLER,

AND

QEP ENERGY COMPANY,

AS PURCHASER

DATED AS OF AUGUST 23, 2012

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PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement (as may be amended, restated, supplemented or otherwise modified from time to time, this “Agreement”) is dated as of August 23, 2012 (the “Execution Date”), by and between Helis Oil & Gas Company, L.L.C., a Louisiana limited liability company (“Seller”), on the one part, and QEP Energy Company, a Texas corporation (“Purchaser”), on the other part. Seller and Purchaser are sometimes referred to herein individually as a “Party” and collectively as the “Parties.”

RECITALS:

- A. Seller owns certain interests in oil and gas properties, rights and related assets that are defined and described herein as the “Assets.”
- B. Seller desires to sell to Purchaser and Purchaser desires to purchase from Seller the Assets, in the manner and upon the terms and conditions hereafter set forth.

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations, warranties, covenants, conditions and agreements contained herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound by the terms hereof, agree as follows:

ARTICLE 1 DEFINITIONS AND INTERPRETATION

Section 1.1 Defined Terms. In addition to the terms defined in the preamble and the Recitals of this Agreement, for purposes hereof, the capitalized terms used herein and not otherwise defined shall have the meanings set forth in Appendix A.

Section 1.2 References and Rules of Construction. All references in this Agreement to Exhibits, Schedules, Appendices, Articles, Sections, subsections, clauses and other subdivisions refer to the corresponding Exhibits, Schedules, Appendices, Articles, Sections, subsections, clauses and other subdivisions of or to this Agreement unless expressly provided otherwise. Titles appearing at the beginning of any Exhibits, Schedules, Appendices, Articles, Sections, subsections, clauses and other subdivisions of this Agreement are for convenience only, do not constitute any part of this Agreement and shall be disregarded in construing the language hereof. The words “this Agreement,” “herein,” “hereby,” “hereunder” and “hereof,” and words of similar import, refer to this Agreement as a whole and not to any particular Article, Section, subsection, clause or other subdivision unless expressly so limited. The words “this Article,” “this Section,” “this subsection,” “this clause,” and words of similar import, refer only to the Article, Section, subsection and clause hereof in which such words occur. The word “including” (in its various forms) means including without limitation. All references to “\$” shall be deemed references to Dollars. Each accounting term not defined herein will have the meaning given to it under GAAP as interpreted as of the Execution Date. Unless expressly provided to the contrary, the word “or” is not exclusive. Pronouns in masculine, feminine or neuter genders shall be construed to state and include any other gender, and words, terms and titles (including terms defined herein) in the singular form shall be construed

to include the plural and vice versa, unless the context otherwise requires. Appendices, Exhibits and Schedules referred to herein are attached to and by this reference incorporated herein for all purposes. Reference herein to any federal, state, local or foreign Law shall be deemed to also refer to all rules and regulations promulgated thereunder, unless the context requires otherwise.

ARTICLE 2 PURCHASE AND SALE

Section 2.1 Purchase and Sale. At the Closing, upon the terms and subject to the conditions of this Agreement, Seller agrees to sell, transfer and convey the Assets to Purchaser and Purchaser agrees to purchase, accept and pay for the Assets and to assume the Assumed Purchaser Obligations.

Section 2.2 Assets. As used herein, the term “Assets” means, subject to the terms and conditions of this Agreement, all of Seller’s (and, as applicable, its Affiliates’) right, title and interest in and to the following:

(a) The oil and gas leases, oil, gas and mineral leases, subleases and other leaseholds, royalties, overriding royalties, net profits interests, mineral fee interests, carried interests, and other rights to Hydrocarbons in place in McKenzie and Williams Counties, North Dakota, including those that are identified on Exhibit A-1 (collectively, the “Leases”);

(b) All pooled, communitized or unitized acreage that includes all or a part of any Lease, including those shown on Exhibit A-2 (collectively, the “Units”), and all tenements, hereditaments and appurtenances belonging to the Leases and Units;

(c) All oil, gas, water, carbon dioxide, or injection wells located on the Leases or Units, whether producing, shut-in or temporarily abandoned, including the wells shown on Exhibit A-2 (collectively, the “Wells”);

(d) All tanks, flowlines, pipelines, gathering systems and appurtenances thereto located on the Leases or Units or used, or held for use, in connection with the operation of the Wells, including those identified on Exhibit A-3 (the “Gathering Systems” and together with the Units, the Leases and the Wells, the “Properties”);

(e) The field office, shop and yard (and all contents thereof) located on the eastern edge of Watford City, North Dakota on a tract of land located within a subdivision known as “Country Club Acres” in the SW1/4SE1/4 of Section 16, Township 150 North, Range 98 West, 5th P.M. McKenzie County, North Dakota, containing approximately 9.31 acres, more or less (the “Field Office and Yard”);

(f) All contracts, agreements and instruments to the extent applicable to the Properties or the production of Hydrocarbons from the Properties, including operating agreements, unitization, pooling and communitization agreements, declarations and orders, area of mutual interest agreements, joint venture agreements, farmin and farmout agreements, participation agreements, exchange agreements, transportation agreements, agreements for the sale and purchase

of Hydrocarbons and processing agreements, *but excluding* any contracts, agreements and instruments the transfer of which is restricted by its terms or applicable Law; *provided, however*, Seller shall use its Commercially Reasonable Efforts to obtain waivers or consents for the transfer of such contracts, agreements or instruments pursuant to Section 4.6 (subject to such qualification, the “Contracts”);

(g) All surface fee interests, easements, Permits, licenses, servitudes, rights-of-way, surface leases and other surface rights appurtenant to, and used or held for use solely in connection with, the Properties, including those interests set forth on Exhibit A-3, *but excluding*, in all such instances, any items the transfer of which is restricted by its terms or applicable Law; *provided, however*, Seller shall use its Commercially Reasonable Efforts to obtain waivers or consents for the transfer of such contracts, agreements or instruments pursuant to Section 4.6;

(h) All equipment, materials, supplies, machinery, tools, fixtures and other tangible personal property (including but not limited to spare parts, casing, tubing, wellheads, etc.) and improvements located on the Properties and the Field Office and Yard or used or held for use solely in connection with the operation of the Properties or the production of Hydrocarbons from the Properties; *but excepting and reserving* any Hydrocarbons stored in stock tanks, pipelines or other storage as of the Effective Time other than such Hydrocarbons for which there is a purchase price adjustment pursuant to Section 3.3(a)(iv) (subject to such exclusion, the “Equipment”);

(i) The Leased Assets, except to the extent that any of the Leased Assets are transferable with the payment of a fee or other consideration (unless Purchaser has agreed in writing to pay such fee or other consideration) *but excluding*, in all such instances, any items the transfer of which is restricted by its terms or applicable Law; *provided, however*, Seller shall use its Commercially Reasonable Efforts to obtain waivers or consents for the transfer of such Leased Assets pursuant to Section 4.6;

(j) All Hydrocarbons produced from or attributable to the Leases, the Units or the Wells at and after the Effective Time;

(k) All geophysical and other seismic data, and other technical data and information, relating to the Properties, *but excluding*, in all such instances, any data the transfer of which is restricted by its terms (unless such data is *transferable* with the payment of a fee or other consideration and Purchaser has agreed in writing to pay such fee or other consideration) or applicable Law;

(l) All (i) trade credits, accounts receivable, notes receivable, take-or-pay amounts receivable and other receivables and general intangibles, attributable to the other Assets with respect to periods of time from and after the Effective Time, (ii) liens and security interests in favor of Seller, whether choate or inchoate, under any law or contract, to the extent arising from, or relating to, the ownership, operation, or sale or other disposition at or after the Effective Time of any of the other Assets, and (iii) claims of indemnity, contribution or reimbursement relating to the Assumed Purchaser Obligations;

(m) All rights to audit the records of any Person and to receive refunds or payments of any nature, and all amounts of money, relating thereto, in each case, to the extent arising from, or relating to, the ownership, operation, or sale or other disposition at or after the Effective Time of the other Assets;

(n) All intangible rights, inchoate rights, transferable rights under warranties made by prior owners, manufacturers, vendors and Third Parties, and rights accruing under applicable statute of limitation or prescription, to the extent related to or attributable to the other Assets (*excluding* items that relate to matters for which Seller is required to provide indemnification to Purchaser hereunder);

(o) All claims, rights, demands, complaints, causes of action, suits, actions, judgments, damages, awards, fines, penalties, recoveries, settlements, appeals, duties, obligations, liabilities, losses, debts, costs and expenses (including court costs, expert witness fees and reasonable attorneys' fees) in favor of Seller arising from acts, omissions or events, or damage to or destruction of the Properties (*excluding* items that relate to matters for which Seller is required to provide indemnification to Purchaser hereunder); and

(p) The Records.

Section 2.3 Excluded Assets. The Assets shall not include, and there is excepted, reserved and excluded from this transaction, the Excluded Assets.

Section 2.4 Effective Time; Proration of Costs and Revenues.

(a) Subject to the other terms and conditions of this Agreement, possession of the Assets shall be transferred from Seller to Purchaser at the Closing, but certain financial benefits and burdens of the Assets shall be transferred effective as of 7:00 a.m., Mountain Time, on July 1, 2012 (the "Effective Time"), as described below.

(b) Purchaser shall be entitled to all production of Hydrocarbons from or attributable to the Leases, the Units and the Wells at and after the Effective Time (and all products and proceeds attributable thereto), and to all other income, proceeds, receipts and credits earned with respect to the Assets at and after the Effective Time (provided that, notwithstanding the preceding, Seller shall be entitled to all overhead fees and similar payments received from Third Parties with respect to any of the Assets operated by Seller prior to the Closing), and shall be responsible for (and entitled to any refunds with respect to) all Property Costs incurred at and after the Effective Time.

(c) Seller shall be entitled to all production of Hydrocarbons from or attributable to the Leases, the Units and the Wells prior to the Effective Time (and all products and proceeds attributable thereto), all other income, proceeds, receipts and credits earned with respect to the Assets prior to the Effective Time and all overhead fees and similar payments received from Third Parties with respect to any of the Assets operated by Seller prior to the Closing, and shall be responsible for (and entitled to any refunds other than for those Property Costs paid or payable by Purchaser with respect to) all Property Costs incurred prior to the Effective Time.

(d) Should Purchaser receive any proceeds or other amounts to which Seller is entitled under Section 2.4(c), Purchaser shall fully disclose, account for and promptly remit the same to Seller. If Seller receives any proceeds or other amounts with respect to the Assets to which Seller is not entitled pursuant to Section 2.4(c), Seller shall fully disclose, account for, and promptly remit the same to Purchaser.

(e) Should Purchaser pay any Property Costs for which Seller is responsible under Section 2.4(c), Seller shall reimburse Purchaser promptly after receipt of an invoice with respect to such Property Costs, accompanied by copies of the relevant vendor or other invoice and proof of payment. Should Seller pay any Property Costs for which Seller is not responsible under Section 2.4(c), Purchaser shall reimburse Seller promptly after receipt of an invoice with respect to such Property Costs, accompanied by copies of the relevant vendor or other invoice and proof of payment.

(f) Seller shall have no further entitlement to amounts earned from the sale of Hydrocarbons produced from or attributable to the Assets and other income earned with respect to the Assets and no further responsibility for Property Costs (except to the extent such Property Costs are the responsibility of Seller under Article 11 or Article 12) incurred with respect to the Assets following the final determination and payment of the Adjusted Purchase Price in accordance with Section 9.4(b).

(g) Consistent with Section 12.2 (as applicable), Taxes that are included in Property Costs, right-of-way fees, insurance premiums and other Property Costs that are paid periodically shall be prorated based on the number of days in the applicable period falling before and the number of days in the applicable period falling at and after the Effective Time, except that production, severance and similar Taxes (*excluding*, for the avoidance of doubt, ad valorem and similar property Taxes that are assessed based on the quantity of or the value of production during preceding annual periods) measured by the quantity of or the value of production shall be prorated based on the number of units or value of production actually produced or sold, as applicable, before, and at or after, the Effective Time. In each case, Purchaser shall be responsible for the portion allocated to the period at and after the Effective Time and Seller shall be responsible for the portion allocated to the period before the Effective Time.

Section 2.5 Procedures.

(a) For purposes of allocating production (and accounts receivable with respect thereto) under Section 2.4, (i) liquid Hydrocarbons shall be deemed to be “from or attributable to” the Leases, the Units and the Wells when they pass through the inlet flange of the pipeline connecting into the storage facilities into which they are run or, if there are no such storage facilities, when they pass through the LACT meters or similar meters at the initial point of entry into the pipelines through which they are transported from the field and (ii) gaseous Hydrocarbons shall be deemed to be “from or attributable to” the Leases, the Units and the Wells when they pass through the delivery point sales meters on the pipelines through which they are transported. Seller shall utilize reasonable interpolative procedures to arrive at an allocation of production when exact meter readings or gauging and strapping data is not available. Seller shall provide to Purchaser evidence of all meter readings and all gauging and strapping procedures conducted on or about the Effective

Time in connection with the Assets, together with all data necessary to support any estimated allocation, for purposes of establishing the adjustment to the Unadjusted Purchase Price pursuant to Section 3.3. The terms “earned” and “incurred” shall be interpreted in accordance with generally accepted accounting principles and Council of Petroleum Accountants Society (“COPAS”) standards, and expenditures that are incurred pursuant to an operating agreement, unit agreement or similar agreement shall be deemed incurred when expended by the operator of the applicable Lease, Unit or Well, in accordance with Seller’s current practice.

(b) After Closing, Purchaser shall handle all joint interest audits and other audits of Property Costs covering the period for which Seller is in whole or in part responsible under Section 2.4, *provided* that Purchaser shall not agree to any adjustments to previously assessed costs for which Seller is liable, or any compromise of any audit claims to which Seller would be entitled, without the prior written consent of Seller, which consent shall not be unreasonably withheld, conditioned or delayed. Any expenses from such audit shall be borne by Purchaser and Seller, respectively, in the same proportion as the Property Costs at issue are or would be borne by Purchaser and Seller. Purchaser shall provide Seller with a copy of all applicable audit reports and written audit agreements received by Purchaser or its Affiliates and relating to periods for which Seller is wholly or partially responsible.

ARTICLE 3 PURCHASE PRICE

Section 3.1 Purchase Price. The purchase price for the Assets shall be six hundred forty million two hundred eighty-five thousand one hundred seventy-nine Dollars (\$640,285,179)(the “Unadjusted Purchase Price”), as adjusted and paid, as applicable, pursuant to and in accordance with Section 3.3, Section 9.3 and Section 9.4. Contemporaneously with the execution and delivery of this Agreement, Purchaser has delivered or caused to be delivered to an account (the “Escrow Account”) with JPMorgan Chase (the “Escrow Agent”), a wire transfer in the amount equal to (10%) of the Unadjusted Purchase Price (the “Deposit”) to be held, invested, and disbursed in accordance with the terms of this Agreement and an escrow agreement of even date herewith among Seller, Purchaser, and Escrow Agent (the “Escrow Agreement”). The balance in the Escrow Account shall be distributed to Seller in accordance with Section 9.3(a) if the Closing occurs or shall be otherwise distributed in accordance with the terms of Section 10.3.

Section 3.2 Allocation of Purchase Price . The Parties recognize that this transaction is a sale of the Assets to Purchaser subject to the requirements of Section 1060 of the Code and the Treasury Regulations thereunder and, therefore, that an IRS Form 8594, Asset Acquisition Statement, will be required to be filed by the Parties. The Parties agree that the Unadjusted Purchase Price and any liabilities associated with the Assets (to the extent properly taken into account as consideration under the Code) shall be allocated among the Assets for Tax purposes as set forth on Schedule 3.2 (the “Purchase Price Allocation Schedule”). Such allocation shall be determined in accordance with Section 1060 of the Code and the Treasury Regulations thereunder and is intended by the Parties to be consistent with the Allocated Values as determined pursuant to Section 3.4. Within twenty (20) days following the final determination of the Adjusted Purchase Price, Purchaser shall deliver to Seller for its review and reasonable comment, a revised Purchase Price Allocation

Schedule, adjusted to reflect the Adjusted Purchase Price. The Purchase Price Allocation Schedule shall be revised to take into account subsequent adjustments to the Unadjusted Purchase Price or the Adjusted Purchase Price and any indemnification payments in the manner provided by applicable Law. If the Parties are unable to agree on any revisions to the Purchase Price Allocation Schedule, any dispute arising in connection with the Purchase Price Allocation Schedule shall be resolved pursuant to procedures comparable to the procedures applicable under Section 9.4(b). The Parties shall, and shall cause their respective Affiliates to, use the Purchase Price Allocation Schedule (as adjusted pursuant to this Section 3.2) in reporting this transaction to the applicable Taxing authorities, including on IRS Form 8594 and any other information or Tax Returns and supplements thereto required to be filed under Section 1060 of the Code and the Treasury Regulations thereunder. Neither Party shall, or shall permit their Affiliates to, file any Tax Return or otherwise take any position for Tax purposes that is inconsistent with the Purchase Price Allocation Schedule (as adjusted pursuant to this Section 3.2); *provided, however*, that nothing contained herein shall prevent either Party from settling any proposed deficiency or adjustment by any Taxing authority based upon or arising out of the allocation (which may result in a change to the allocation), and neither Party shall be required to litigate any proposed deficiency or adjustment by any Taxing authority challenging such allocation.

Section 3.3 Adjustments to Purchase Price . All adjustments to the Unadjusted Purchase Price shall be made (x) in accordance with the terms of this Agreement and, to the extent not inconsistent with this Agreement, in accordance with GAAP as applied by Seller in its accounting of and for the Assets (as of the Effective Time), (y) without duplication (in this Agreement or otherwise) and (z) only with respect to matters (A) in the case of Section 3.3(a)(vi) and Section 3.3(b)(v), for which notice is given on or before the Title Claim Date, and (B) in all of the other cases set forth in Section 3.3(a) and Section 3.3(b), identified on or before the 180th day after Closing (the “Cut-off Date”). Each adjustment to the Unadjusted Purchase Price described in Section 3.3(a) and Section 3.3(b) shall be allocated among the Assets in accordance with Section 3.4.

Without limiting the foregoing, the Unadjusted Purchase Price shall be adjusted as follows, with the resulting adjustments to such Unadjusted Purchase Price herein the “Adjusted Purchase Price”:

- (h) The Unadjusted Purchase Price shall be adjusted upward by the following amounts (without duplication):
 - (i) an amount equal to all Property Costs and other costs attributable to the ownership and operation of the Assets that are incurred at and after the Effective Time but paid by Seller (as is consistent with Section 2.4(b) and Section 2.4(c)), *but excluding* any amounts previously reimbursed to Seller pursuant to Section 2.4(e);
 - (ii) an amount equal to, to the extent that such amounts have been received by Purchaser and not remitted or paid to Seller, (A) all proceeds from the production of Hydrocarbons from or attributable to the Leases, the Units and the Wells prior to the Effective Time, (B) all other income, proceeds, receipts and credits earned with respect to the Assets prior to the Effective Time and (C) any other amounts to which Seller is entitled pursuant to Section 2.4(c);
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(iii) the amount of all prepaid expenses (including pre-paid bonuses, rentals, location building expenses, cash calls and advances to Third Party operators for expenses not yet incurred; prepaid production Taxes, severance Taxes and other similar Taxes; and scheduled payments) paid by Seller with respect to the ownership or operation of the Assets at or after the Effective Time;

(iv) to the extent that proceeds for such volumes have not been received by Seller, an amount equal to the aggregated volumes of Hydrocarbons stored in stock tanks, pipelines or other storage as of the Effective Time that are attributable to the ownership and operation of the Assets *multiplied* by the contract price therefor on the Effective Time;

(v) to the extent that Seller is underproduced or overdelivered as of the Effective Time as shown with respect to the any net Imbalances for any product set forth in Schedule 5.15, as complete and final settlement of all such Imbalances for each such product, the value of such Imbalances (calculated on the basis of the average price of production of the applicable product for the 30 day period prior to the delivery of the preliminary settlement statement referred to in Section 9.4(a));

(vi) any undisputed amounts for Title Benefits determined pursuant to Section 4.3;

(vii) an amount equal to the Seller Overhead Services Amount; and

(viii) any other amount provided for elsewhere in this Agreement or otherwise agreed upon in writing by the Parties as an upward adjustment to the Unadjusted Purchase Price.

(i) The Unadjusted Purchase Price shall be adjusted downward by the following amounts (without duplication):

(i) an amount equal to all Property Costs and other costs attributable to the ownership and operation of the Assets that are incurred prior to the Effective Time but paid by Purchaser (as is consistent with Section 2.4(b) and Section 2.4(c)), *but excluding* any amounts previously reimbursed to Purchaser pursuant to Section 2.4(e);

(ii) an amount equal to, to the extent that such amounts have been received by Seller and not remitted or paid to Purchaser, (A) all proceeds from the production of Hydrocarbons from or attributable to the Leases, the Units and the Wells at and after the Effective Time, (B) all other income, proceeds, receipts and credits earned with respect to the Assets at and after the Effective Time (excluding, all overhead fees and similar payments received from Third Parties with respect to any Assets operated by Seller prior to the Closing) and (C) any other amounts to which Purchaser is entitled pursuant to Section 2.4(b);

(iii) to the extent that Seller is overproduced or underdelivered as of the Effective Time as shown with respect to the any net Imbalances for any product set forth in Schedule 5.15, as complete and final settlement of all such Imbalances for each such product,

the value of such Imbalances (calculated on the basis of the average price of production of the applicable product for the 30 day period prior to the delivery of the preliminary settlement statement referred to in Section 9.4(a));

(iv) to the extent not transferred to Purchaser at the Closing, all funds held in suspense by Seller with respect to the operation, ownership, production and developments, including those amounts set forth on Schedule 5.20;

(v) any undisputed amounts for Title Defects determined pursuant to Section 4.2 (which shall include, for purposes of certainty, an amount equal to the Allocated Value of any Assets excluded from this transaction pursuant to Section 4.2(c)) and any amounts excluded pursuant to Section 4.2(e);

(vi) an amount equal to the Allocated Value of any Assets excluded from this transaction pursuant to Section 4.6;

(vii) an amount equal to the Allocated Value of any Assets excluded from this transaction pursuant to Section 4.7(a); and

(viii) any other amount provided for elsewhere in this Agreement or otherwise agreed upon in writing by the Parties as a downward adjustment to the Unadjusted Purchase Price.

Section 3.4 Allocated Values . The “Allocated Values” for the Assets (which are provided for, and allocated amongst, each of the Units) are set forth on Schedule 3.4 . The share of each adjustment allocated to a particular Asset shall be allocated to the particular Asset to which such adjustment relates to the extent such adjustment relates to such Asset and to the extent that it is, in the commercially reasonable discretion of Seller, possible to do so. Any adjustment not allocated to a specific Asset pursuant to the immediately preceding sentence shall be allocated among the various Assets on a pro-rata basis in proportion to the Unadjusted Purchase Price allocated to such Asset on Schedule 3.4 . Seller has accepted such Allocated Values for purposes of this Agreement and the transactions contemplated hereby, but makes no representation or warranty as to the accuracy of such values.

ARTICLE 4 TITLE AND ENVIRONMENTAL MATTERS

Section 4.1 Seller’s Title. Except for the special warranty of title set forth in the Assignments, Seller makes no warranty or representation, express, implied, statutory or otherwise, with respect to Seller’s title to any of the Assets, and Purchaser hereby acknowledges and agrees that, subject to Section 4.5, Purchaser’s sole remedy for any defect of title, including any Title Defect, with respect to any of the Assets, (a) on or before the applicable Title Claim Date, shall be as set forth in Section 4.2 and, (b) subject to the following sentence, from and after the applicable Title Claim Date (without duplication), shall be pursuant to the special warranty of title set forth in the Assignments. Purchaser further acknowledges and agrees that Purchaser shall not be entitled

to protection under (or the right to make a claim against) the special warranty of title provided in the Assignments for any Title Defect reported under this Article 4.

Section 4.2 Title Defects.

(j) To assert a claim of a Title Defect, Purchaser must deliver a claim notice to Seller (a "Title Defect Notice") promptly after the discovery thereof, but in no event later than thirty (30) days after the Execution Date (such cut-off date, the "Title Claim Date"). To be effective, each Title Defect Notice shall be in writing and include (i) a description of the alleged Title Defect that is reasonably sufficient for Seller to determine the basis of the alleged Title Defect, (ii) if the Title Defect is an Environmental Defect, the Asset(s) adversely affected by such Title Defect and if the Title Defect is anything other than an Environmental Defect, the Unit adversely affected by such Title Defect (in each case, a "Title Defect Property"), (iii) the Allocated Value of each Title Defect Property, (iv) all documents upon which Purchaser relies for its assertion of a Title Defect, including, at a minimum, supporting documents reasonably necessary for Seller (as well as any title attorney or examiner hired by Seller) to verify the existence of the alleged Title Defect and (v) the amount by which Purchaser reasonably believes the Allocated Value of each Title Defect Property is reduced by the alleged Title Defect and the computations and information upon which Purchaser's belief is based, including any analysis by any title attorney or examiner hired by Purchaser (or, in the case of an Environmental Defect, any environmental remediation analysis prepared by or for Purchaser).

(k) Seller shall have the right, but not the obligation, to attempt, at its sole cost, to cure or remove on or before 120 days after the Title Claim Date (the "Cure Period") any Title Defects (other than Environmental Defects for which this Section 4.2(b) shall not apply) for which Seller has received a Title Defect Notice from Purchaser prior to the Title Claim Date, and Purchaser shall take all actions reasonably requested by Seller to assist it with the cure or removal of any such Title Defects. No reduction shall be made to the Closing Payment with respect to any Title Defect for which Seller has provided notice to Purchaser prior to or on the Closing Date that Seller intends to attempt to cure the Title Defect during the Cure Period (a "Remedy Notice") or for which Seller disputes the existence (a "Disputed Defect"). If any Title Defect with respect to which Seller provided a Remedy Notice to Purchaser is not cured by Seller within the Cure Period, Seller shall make an election with respect to such Title Defect pursuant to Section 4.2(c) no later than 130 days after the Title Claim Date (the "Remedy Deadline"); *provided, however*, that any downward adjustments to the Unadjusted Purchase Price made pursuant to Section 4.2(c) shall occur at the times set forth in Section 9.4; and *provided, further*, that if, prior to the Remedy Deadline, the Parties cannot agree on (i) the proper and adequate cure for any such Title Defect, (ii) the Title Defect Amount or (iii) whether the alleged Title Defect constitutes a Title Defect, such dispute(s) shall be finally and exclusively resolved in accordance with the provisions of Section 4.4. An election by Seller to attempt to cure a Title Defect shall be without prejudice to its rights under Section 4.4 and shall not constitute an admission against interest or a waiver of Seller's right to dispute the existence, nature or value of, or cost to cure, the alleged Title Defect. Any Disputed Defects that have not been cured, waived or otherwise resolved by the Parties prior to the Remedy Deadline shall be exclusively and finally resolved in accordance with the provisions of Section 4.4.

(l) Subject to Section 4.2(e) regarding certain Environmental Defects, in the event that any Title Defect is not waived by Purchaser or, subject to Section 4.2(b), not cured prior to the expiration of the Cure Period or Environmental Cure Period, as applicable, Seller shall, subject to the Individual Defect Threshold and the Aggregate Defect Deductible, elect to:

(i) make a downward adjustment to the Unadjusted Purchase Price equal to an amount determined (the "Title Defect Amount") pursuant to Section 4.2(d) as being the value of such Title Defect; or

(ii) (A) subject to the consent of Purchaser, in the case of a Title Defect that is not an Environmental Defect, exclude or have Purchaser reconvey, as applicable, the Title Defect Property that is adversely affected by such Title Defect;

(B) subject to the consent of Purchaser, in the case of an Environmental Defect for which the asserted Title Defect Amount is less than the Allocated Value of the Title Defect Property, exclude the applicable Title Defect Property from the Assets; or

(C) in the case of a Title Defect that is an Environmental Defect for which the asserted Title Defect Amount is equal to or greater than the Allocated Value of such Title Defect Property, in Seller's sole discretion, exclude the Title Defect Property from the Assets;

in any of which events the Unadjusted Purchase Price shall be adjusted downward, by an amount equal to the Allocated Value of such Title Defect Property and such Title Defect Property shall no longer be included within the definition of Assets for any purpose under this Agreement.

Notwithstanding the foregoing provisions of this Section 4.2(c), no reduction shall be made in the Unadjusted Purchase Price with respect to any Title Defect for which the Parties agree to execute and deliver to one another a written indemnity agreement, under which Seller agrees to fully, unconditionally and irrevocably indemnify and hold harmless Purchaser from any and all Damages arising out of or resulting from such Title Defect. Upon the election of the remedy of a Title Defect pursuant to this Section 4.2(c), the Parties shall complete any further reconveyancing (or conveyancing in the case of an Environmental Defect Hold-Back Property) of the relevant Title Defect Property as is necessary to effect such remedy. In the case of any such reconveyancing, Purchaser shall assign the relevant Title Defect Property to Seller with a special warranty of title, subject to the Permitted Encumbrances, by, through and under Purchaser. Any post-Closing conveyance of an Environmental Defect Hold-Back Property shall be effected by the execution of an Assignment in the form set forth on Exhibit B, and such Environmental Defect Hold-Back Property shall, from and after the date of such conveyance, be deemed to be an Asset for all purposes of this Agreement. Any downward adjustments to the Unadjusted Purchase Price pursuant to this Section 4.2 shall be made (and accounted for) at the times set forth in Section 9.4.

(m) The Title Defect Amount resulting from a Title Defect shall be the amount by which the Allocated Value of the Title Defect Property adversely affected by such Title Defect

is reduced as a result of the existence of such Title Defect and shall be determined in accordance with the following methodology, terms and conditions:

(i) if Purchaser and Seller agree on the Title Defect Amount, that amount shall be the Title Defect Amount;

(ii) if the Title Defect is a lien, encumbrance or other charge that is undisputed and liquidated in amount, then the Title Defect Amount shall be the amount necessary to be paid to remove the Title Defect from Seller's interest in the affected Title Defect Property;

(iii) if the Title Defect reflects a discrepancy (with a proportional decrease in the working interest for the affected Title Defect Property) between (A) the Net Revenue Interest for the affected Title Defect Property and (B) the Net Revenue Interest stated in Schedule 3.4 then the Title Defect Amount shall be the product of the Allocated Value of such Title Defect Property *multiplied* by a fraction, the numerator of which is the amount of the Net Revenue Interest decrease and the denominator of which is the Net Revenue Interest stated in Schedule 3.4;

(iv) if the Title Defect is an Environmental Defect, the Title Defect Amount shall be the amount of the estimated costs and expenses to correct or remediate the Environmental Defect (as of the Closing Date) in such a manner that is consistent with applicable Environmental Laws;

(v) if the Title Defect represents an obligation, encumbrance, burden or charge upon or other defect in title to the Title Defect Property of a type not described in subsections (ii), (iii) or (iv) above, the Title Defect Amount shall be determined by taking into account the Allocated Value of the Title Defect Property, the portion of the Title Defect Property adversely affected by the Title Defect, the legal effect of the Title Defect, the potential economic effect of the Title Defect over the life of the Title Defect Property, the values placed upon the Title Defect by Purchaser and Seller and such other factors as are necessary to make a proper evaluation; provided, however, that, the foregoing considerations notwithstanding, in the event that the Title Defect is reasonably susceptible of being cured, the Title Defect Amount shall not be greater than the reasonable cost and expense of curing or remediating, as applicable, such Title Defect;

(vi) the Title Defect Amount with respect to a Title Defect shall be determined without duplication of any costs or losses included in any other Title Defect Amount hereunder, or for which Purchaser otherwise receives credit in the calculation of the Adjusted Purchase Price; and

(vii) notwithstanding anything to the contrary in this Article 4, the aggregate Title Defect Amounts attributable to the effects of all Title Defects (other than Environmental Defects) upon any Title Defect Property shall not exceed the Allocated Value of such Title Defect Property.

(n) (i) Notwithstanding anything to the contrary in this Section 4.2:

- (A) with respect to alleged Environmental Defects (for which the asserted Title Defect Amount is in excess of the Individual Defect Threshold) for which Purchaser and Seller have not, prior to the Closing, agreed to a Title Defect Amount (in accordance with Section 4.2(d)(iv)) or for which, prior to Closing, the Title Defect Amount has not been determined pursuant to Section 4.4;
- (B) in the event the Parties have not, prior to Closing, agreed that an alleged Environmental Defect constitutes a Defect;
- (C) with respect to alleged Environmental Defects for which the asserted Title Defect Amount is less than the Allocated Value of the Title Defect Property and the Parties have made an election to exclude pursuant to Section 4.2(c);
- (D) with respect to an alleged Environmental Defect for which the asserted Title Defect Amount is equal to or greater than the Allocated Value of the Title Defect Property and Seller has made an election to exclude pursuant to Section 4.2(c); or
- (E) with respect to any alleged Environmental Defect for which Seller has provided notice to Purchaser prior to the Closing Date that Seller intends to cure or remove the Environmental Defect on or before 180 days after the Title Claim Date (the “Environmental Cure Period”),

the affected Title Defect Property that is subject to such alleged Environmental Defect (an “Environmental Defect Hold-Back Property”) shall (X) not be included in the Assets at Closing, and (Y) the Unadjusted Purchase Price shall be adjusted downward by an amount equal to the Allocated Value of such Environmental Defect Hold-Back Property (and, if not already reflected in the preliminary settlement statement prepared prior to Closing pursuant to Section 9.4(a), the Allocated Value of such Environmental Defect Hold-Back Property shall be excluded from the Closing Payment payable at Closing).

(i) During the Environmental Cure Period, Seller shall have the right, but not the obligation, at its sole cost, to cure or remove the Environmental Defect affecting any Environmental Defect Hold-Back Property, in which case Seller shall release and indemnify Purchaser Group in accordance with Section 7.1, applied *mutatis mutandis* if Seller or Seller’s Representatives access Purchaser’s property in its attempt to cure or remove the Environmental Defect affecting an Environmental Defect Hold-Back Property. Any Environmental Defect Hold-Back Property for which the Environmental Defect is cured or removed during the Environmental Cure Period shall promptly thereafter be conveyed from Seller to Purchaser, provided that if the Parties cannot agree on the proper and adequate cure for an Environmental Defect or that an Environmental Defect has been cured or removed,

such dispute shall be finally and exclusively resolved in accordance with the provisions of Section 4.4.

(ii) If an Environmental Defect affecting any Environmental Defect Hold-Back Property is not cured or removed by Seller within the Environmental Cure Period, then the Parties or Seller, as applicable, shall determine the remedy with respect to such Environmental Defect pursuant to Section 4.2(c) no later than 10 days after the end of the Environmental Cure Period;

(iii) If any conveyance of an Environmental Defect Hold-Back Property is completed prior to the Final Settlement Statement Date, then the Unadjusted Purchase Price shall be adjusted upward by an amount equal to the Allocated Value of such conveyed Environmental Defect Hold-Back Property and further adjusted as applicable for the adjustments set forth in Section 3.3 that relate to such Environmental Defect Hold-Back Property. If any conveyance of an Environmental Defect Hold-Back Property is completed after the Final Settlement Statement Date, then Purchaser shall pay to Seller an amount equal to the Allocated Value of such conveyed Environmental Defect Hold-Back Property, adjusted as applicable for the adjustments set forth in Section 3.3 that relate to such Environmental Defect Hold-Back Property.

(f) It is understood and agreed that Environmental Defects shall constitute Title Defects for purposes of this Agreement (as is provided in the definition of "Title Defects" set forth in Appendix A) and, as such, will be handled in accordance with, and in all instances will be subject to, the provisions of this Section 4.2 (other than Section 4.2(b) and Section 4.2(d)(vii) which shall not apply to Environmental Defects) and the other applicable provisions of this Article 4 (including the thresholds and deductibles set forth in Section 4.5). For the avoidance of doubt, the Aggregate Defect Deductible is a single amount which includes both Title Defects and Environmental Defects. Without limiting the disclaimers and acknowledgements set forth in Article 5 and Article 6, respectively, **PURCHASER HEREBY WAIVES AND RELEASES ANY REMEDIES OR CLAIMS (WHETHER AT LAW OR IN EQUITY) THAT IT MAY HAVE AGAINST SELLER, ITS AFFILIATES OR ANY OTHER MEMBER OF THE SELLER GROUP UNDER APPLICABLE LAWS WITH RESPECT TO ENVIRONMENTAL DEFECTS, EXCEPT SOLELY FOR THOSE REMEDIES SET FORTH IN THIS ARTICLE 4 AND SECTION 11.2(B)(IV).**

Section 4.3 Title Benefits.

(c) Seller has the right, but not the obligation, to deliver to Purchaser on or before the Title Claim Date with respect to each Title Benefit discovered by Seller a notice (a "Title Benefit Notice") in writing and including (i) a description of the Title Benefit reasonably sufficient to determine the basis of the alleged Title Benefit, (ii) the Unit affected by such Title Benefit (a "Title Benefit Property"), (iii) the Allocated Value of each Title Benefit Property, (iv) all documents upon which Seller relies for its assertion of a Title Benefit, including, at a minimum, supporting documents reasonably necessary for Purchaser (as well as any title attorney or examiner hired by Purchaser) to verify the existence of the alleged Title Benefit and (v) the amount by which Seller reasonably believes the Allocated Value of each Title Benefit Property is increased by such Title Benefit and

the computations and information upon which Seller's belief is based on or before the Title Claim Date with respect to each Title Benefit discovered by Seller.

(d) Subject to the Individual Benefit Threshold and the Aggregate Benefit Deductible, with respect to each Title Benefit Property affected by Title Benefits reported under Section 4.3(a), the Unadjusted Purchase Price shall be increased by an amount (the "Title Benefit Amount") equal to the increase in the Allocated Value for such Title Benefit Property, as determined pursuant to Section 4.3(c). Any upward adjustments to the Unadjusted Purchase Price pursuant to this Section 4.3 shall be made (and accounted for) at the times set forth in Section 9.4.

(e) The Title Benefit Amount resulting from a Title Benefit shall be the amount by which the Allocated Value of the Title Benefit Property affected by such Title Benefit is increased as a result of the existence of such Title Benefit and shall be determined in accordance with the following methodology, terms and conditions:

(i) if Purchaser and Seller agree on the Title Benefit Amount, that amount shall be the Title Benefit Amount;

(ii) if the Title Benefit reflects a difference (with a proportional increase in the working interest for the affected Title Defect Property) between (A) the Net Revenue Interest for the affected Title Benefit Property and (B) the Net Revenue Interest stated in Schedule 3.4, then the Title Benefit Amount shall be the product of the Allocated Value of such Title Benefit Property *multiplied* by a fraction, the numerator of which is the amount of the Net Revenue Interest increase and the denominator of which is the Net Revenue Interest stated in Schedule 3.4; and

(iii) if the Title Benefit represents a benefit in the ownership or title to the Title Benefit Property of a type not described in subsections (i) or (ii) above, the Title Benefit Amount shall be determined by taking into account the Allocated Value of the Title Benefit Property, the portion of the Title Benefit Property benefitted by the Title Benefit, the legal effect of the Title Benefit, the potential economic effect of the Title Benefit over the life of the Title Benefit Property, the values placed upon the Title Benefit by Purchaser and Seller and such other factors as are necessary to make a proper evaluation.

(f) If the Parties cannot reach an agreement on alleged Title Benefits and Title Benefit Amounts by the scheduled Closing, the provisions of Section 4.4 shall apply.

Section 4.4 Title Disputes. The Parties shall attempt to agree on all Title Defects and Title Benefits and Title Defect Amounts and Title Benefit Amounts, respectively, prior to Closing. If the Parties are unable to agree on Title Defects and Title Benefits and Title Defect Amounts and Title Benefit Amounts, respectively, by the scheduled Closing, then Seller's good faith estimate shall be used to determine the Closing Payment pursuant to Section 9.4. If, after the Remedy Deadline, the Parties are unable to agree on an alleged Title Defect or Title Benefit or Title Defect Amount or Title Benefit Amount (the "Disputed Title Matters") such dispute(s), and only such dispute(s), shall be exclusively and finally resolved in accordance with the following provisions of this Section 4.4. Purchaser shall provide to Seller by not later than the tenth (10th) Business Day

following the Remedy Deadline a written description meeting the requirements of Section 4.2(a) or Section 4.3(a), as applicable, together with all supporting documentation, of the Disputed Title Matters. By not later than ten (10) Business Days after Seller's receipt of Purchaser's written description of the Disputed Title Matters, Seller shall provide to Purchaser a written response setting forth Seller's position with respect to the Disputed Title Matters together with all supporting documentation.

(a) By not later than ten (10) Business Days after Purchaser's receipt of Seller's written response to Purchaser's written description of the Disputed Title Matters, Purchaser may initiate a non-administered arbitration of any such dispute(s) conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association, to the extent that such rules do not conflict with the terms of this Section, by written notice (the "Title Arbitration Notice") to Seller of any Disputed Title Matters not otherwise resolved or waived that are to be resolved by arbitration ("Final Disputed Title Matters").

(b) The arbitration shall be held before a one member arbitration panel (the "Title Arbitrator"), determined as follows. The Title Arbitrator shall be an attorney with at least ten (10) years' experience (i) in the case of Title Defects other than Environmental Defects, examining oil and gas titles in the State of North Dakota and (ii) in the case of Environmental Defects, as an environmental attorney practicing in the State of North Dakota. Within two (2) Business Days following Seller's receipt of the Title Arbitration Notice, Seller and Purchaser shall each exchange lists of three (3) acceptable, qualified arbitrators. Within two (2) Business Days following the exchange of lists of acceptable arbitrators, the Parties shall select by mutual agreement the Title Arbitrator from their original lists of three (3) acceptable arbitrators. If no such agreement is reached within seven (7) Business Days following the delivery of Title Arbitration Notice, the Houston, Texas office of the American Arbitration Association shall select an arbitrator from the original lists provided by the Parties to serve as the Title Arbitrator.

(c) Within three (3) Business Days following the selection of the Title Arbitrator, the Parties shall submit one copy to the Title Arbitrator of (i) this Agreement, with specific reference to this Section 4.4 and the other applicable provisions of this Article 4, (ii) Purchaser's written description of the Final Disputed Title Matters, together with the supporting documents that were provided to Seller, (iii) Seller's written response to Purchaser's written description of the Final Disputed Title Matters, together with the supporting documents that were provided to Purchaser and (iv) the Title Arbitration Notice. The Title Arbitrator shall resolve the Final Disputed Title Matters based only on the foregoing submissions, and shall select either the position of Seller or Purchaser with respect to each Final Disputed Title Matter. Neither Purchaser nor Seller shall have the right to submit additional documentation to the Title Arbitrator nor to demand discovery on the other Party.

(d) The Title Arbitrator shall make its determination by written decision within thirty (30) days following Seller's receipt of the Title Arbitration Notice (the "Arbitration Decision"). The Arbitration Decision shall be final and binding upon the Parties, without right of appeal. In making its determination, the Title Arbitrator shall be bound by the provisions of this Article 4. The Title Arbitrator may consult with and engage disinterested Third Parties to advise the Title Arbitrator,

but shall disclose to the Parties the identities of such consultants and shall only use such Third Parties to the extent necessary to resolve the Final Disputed Title Matters. Any such consultant shall not have worked as an employee or consultant for either Party or its Affiliates during the five (5) year period preceding the arbitration nor have any financial interest in the dispute.

(e) The Title Arbitrator shall act as an expert for the limited purpose of determining the specific disputed Title Defects and Title Defect Amounts or Title Benefits and Title Benefit Amounts and shall not be empowered to award damages, interest or penalties to either Party with respect to any matter.

(f) Each Party shall each bear its own legal fees and other costs of preparing and presenting its case. Seller shall bear one-half and Purchaser shall bear one-half of the costs and expenses of the Title Arbitrator, including any costs incurred by the Title Arbitrator that are attributable to the consultation of any Third Party.

(g) The Parties shall implement the Arbitration Decision as follows: (i) in the case of alleged Title Defects determined to be Title Defects, such Title Defects shall be remedied pursuant to Section 4.2(c) within ten (10) Business Days following Seller's receipt of the Arbitration Decision (with any amounts owed, as a result of such remedy, to be made and accounted for at the times set forth in Section 9.4(b)), and (ii) in the case of disputed Title Benefits, Title Benefit Amounts or Title Defect Amounts, any amounts determined to be owed by either Party shall be accounted for in the determination of the Adjusted Purchase Price pursuant to Section 9.4(b). Any alleged Title Defects or Title Benefits determined not to be Title Defects or Title Benefits under the Arbitration Decision shall be final and binding as not being Title Defects or Title Benefits. The Parties shall complete any reconveyancing of property as is necessary to effect the remedy determined pursuant to subsection (i) above. In the case of any such reconveyancing, Purchaser shall assign the relevant Lease or Well to Seller with a special warranty of title, subject to no burdens, liens or encumbrances other than the Permitted Encumbrances, by, through and under Purchaser.

(h) Any dispute over the interpretation or application of this Section 4.4 shall be decided by the Title Arbitrator with reference to the Laws of the State of Texas.

Section 4.5 Limitations on Applicability.

(a) The right of Purchaser or Seller to assert a Title Defect or Title Benefit, respectively, under this Article 4 shall terminate on the Title Claim Date, except that until the alleged Title Defect or Title Benefit or Title Defect Amount or Title Benefit Amount, as applicable, is resolved in accordance with this Agreement, there shall be no termination of Purchaser's or Seller's rights under this Article 4 with respect to any alleged Title Defect or Title Benefit or Title Defect Amount or Title Benefit Amount properly reported in accordance with Section 4.4 on or before the Title Claim Date. Thereafter, Purchaser's and Seller's sole and exclusive rights and remedies with regard to title to the Assets shall be as set forth in the respective Assignments. Without limiting the foregoing, if a Title Defect under this Article 4 results from any matter that could also result in the breach of any representation or warranty of Seller as set forth in Article 5 or a breach of Seller's special warranty of title in the Assignments, and Purchaser has knowledge of such matter prior to the Title Claim Date, Purchaser shall only be entitled to assert such matter as a Title Defect to the

extent permitted by Article 4; and, for the avoidance of doubt, Purchaser shall be precluded from also asserting any such matter as the basis of the breach of any such representation or warranty or as a claim against Seller's special warranty of title provided in the Assignments.

(b) Notwithstanding anything to the contrary in this Agreement, in no event shall there be any adjustments to the Unadjusted Purchase Price or other remedies available in respect of Title Defects (including Title Defects constituting Environmental Defects) or Title Benefits, as applicable, under this Article 4:

(i) With respect to Title Defects, (A) for any Title Defect Amount with respect to an individual Title Defect Property if such amount does not exceed One Hundred Thousand Dollars (\$100,000) (the "Individual Defect Threshold"), *provided that*, Purchaser shall be entitled to recover the full Title Defect Amount once the Individual Defect Threshold is met, subject to the Aggregate Defect Deductible; and (B) unless the amount of all such Title Defect Amounts (*provided that* each such Title Defect Amount exceeds the Individual Defect Threshold), in the aggregate (excluding any Title Defect Amounts with respect to Title Defects cured or indemnified by Seller in accordance with this Article 4) exceeds two and one-half percent (2.5%) of the Unadjusted Purchase Price (the "Aggregate Defect Deductible"), after which point, subject to the Individual Defect Threshold, Purchaser shall be entitled to adjustments to the Unadjusted Purchase Price or other remedies elected by Seller in accordance with Section 4.2(c) only with respect to Title Defect Amounts in excess of such Aggregate Defect Deductible and only to the extent that Title Defect Amounts exceed the Aggregate Defect Deductible. Notwithstanding the foregoing, Title Defects which would otherwise constitute breaches of the special warranty of title set forth in the Assignments but which are asserted prior to the Title Claim Date shall not be subject to the Individual Defect Threshold or the Aggregate Defect Deductible.

(ii) With respect to Title Benefits, (A) for any Title Benefit Amount with respect to an individual Title Benefit Property: if such amount does not exceed One Hundred Thousand Dollars (\$100,000) (the "Individual Benefit Threshold"), *provided that*, Seller shall be entitled to recover the full Title Benefit Amount once the Individual Benefit Threshold is met, subject to the Aggregate Benefit Deductible; and (B) unless the amount of all such Title Benefit Amounts (*provided that* each such Title Benefit Amount exceeds the Individual Benefit Threshold), in the aggregate exceeds two and one-half percent (2.5%) of the Unadjusted Purchase Price (the "Aggregate Benefit Deductible"), after which point, subject to the Individual Benefit Threshold, Seller shall be entitled to adjustments to the Unadjusted Purchase Price only with respect to Title Benefit Amounts in excess of such Aggregate Benefit Deductible and only to the extent that Title Benefit Amounts exceed the Aggregate Benefit Deductible.

(c) Without prejudice to any of the other dates by which performance or the exercise of rights is due hereunder, or the Parties' rights or obligations in respect thereof, the Parties hereby acknowledge that, as set forth more fully in Section 13.14, time is of the essence in performing their obligations and exercising their rights under this Article 4, and, as such, that each and every

date and time by which such performance or exercise is due shall be the firm and final date and time.

Section 4.6 Consents to Assignment and Preferential Rights to Purchase.

(a) Promptly after the Execution Date, Seller shall prepare and send (i) notices to the holders of any required consents to assignment (including the Specified Consent Requirements that are set forth on Schedule 5.16) requesting consents to the Assignments; (ii) notices to the holders of any applicable preferential rights to purchase or similar rights (including rights to purchase or similar rights arising in connection with change in control provisions) (collectively, "Preferential Rights") that are set forth on Schedule 5.16 in compliance with the terms of such rights and requesting waivers of such rights; and (iii) upon Purchaser's review and written request, notices under each Contract and for each interest described under Section 2.2(g) or Section 2.2(i) for which consent or a waiver is required from a counterparty or under applicable Law in order to transfer, assign or amend such Contract. Seller shall use Commercially Reasonable Efforts to cause such consents and waivers of Preferential Rights (or the exercise thereof), to be obtained and delivered prior to Closing. Purchaser shall cooperate with Seller in seeking to obtain such consents to assignment and waivers of Preferential Rights. Any Preferential Right must be exercised subject to all terms and conditions set forth in this Agreement, including the successful Closing of this Agreement pursuant to Article 9 as to those Assets for which Preferential Rights have not been exercised. The consideration payable under this Agreement for any particular Asset for purposes of Preferential Right notices shall be the Allocated Value for such Asset, subject to adjustment pursuant to Section 3.3. If, prior to the Closing Date, any Party discovers any required consents or Preferential Rights (applying to the Assets) for which notices have not been delivered pursuant to the first sentence of this Section 4.6(a), then (A) the Party making such discovery shall provide the other Party with written notification of such consents or Preferential Rights, as applicable, (B) Seller, following delivery or receipt of such written notification, will promptly send notices to the holders of such required consents requesting consents and notices to the holders of such Preferential Rights in compliance with the terms of such rights and requesting waivers of such rights and (C) the terms and conditions of this Section 4.6 shall apply to the Assets subject to such consents or Preferential Rights, as applicable.

(b) In no event shall there be included in the Assignments any Asset for which a Specified Consent Requirement has not been satisfied. In cases in which the Asset subject to such a requirement is a Contract and Purchaser is assigned the Property or Properties to which the Contract relates, but the Contract is not transferred to Purchaser due to the unwaived Specified Consent Requirement, (i) Seller shall continue after Closing to use Commercially Reasonable Efforts to satisfy the Specified Consent Requirement so that such Contract can be transferred to Purchaser upon receipt of the Specified Consent Requirement, (ii) the Contract shall be held by Seller for the benefit of Purchaser until the Specified Consent Requirement is satisfied or the Contract has terminated and (iii) Purchaser shall pay all amounts due thereunder, perform all obligations thereunder and indemnify Seller against any Damages incurred or suffered by Seller as a consequence of remaining a party to such Contract until the Specified Consent Requirement is satisfied or the Contract has terminated. In cases in which the Asset subject to such a Specified Consent Requirement is a Property and such consent is not satisfied by Closing, the affected Property

and the Assets related to that Property shall not be transferred at Closing and the Unadjusted Purchase Price shall be reduced by the Allocated Value of the Property and related Assets, provided that Seller shall continue after Closing to use Commercially Reasonable Efforts to satisfy the Specified Consent Requirement so that such Property and the Assets related to the Property can be transferred to Purchaser upon receipt of the Specified Consent Requirement, subject to the remainder of this Section 4.6(b). If an unsatisfied Specified Consent Requirement with respect to which an adjustment to the Unadjusted Purchase Price is made under Section 3.3 is subsequently satisfied prior to the date of delivery of the final settlement statement under Section 9.4(b), a separate closing shall be held within five (5) Business Days thereof at which (i) Seller shall convey the affected Property and related Assets to Purchaser in accordance with this Agreement and (ii) Purchaser shall pay an amount equal to the Allocated Value of such Property and related Assets, adjusted in accordance with Section 3.3, to Seller. If such consent requirement is not satisfied by the date of delivery of the final settlement statement, Seller shall have no further obligation to sell and convey such Property and related Assets and Purchaser shall have no further obligation to purchase, accept and pay for such Property, and the affected Property and related Assets shall be deemed to be deleted from Exhibit A-1, Exhibit A-2, Schedule 3.4 and the other applicable Exhibits and Schedules to this Agreement for all purposes.

(c) If any Preferential Right affecting an Asset is exercised prior to Closing, the Unadjusted Purchase Price shall be decreased by the Allocated Value for such Assets, and the affected Assets shall be deemed to be deleted from Exhibit A-1, Exhibit A-2, Schedule 3.4 and the other applicable Exhibits and Schedules to this Agreement for all purposes. Seller shall retain the consideration paid by the Third Party, and shall have no further obligation with respect to such affected Assets under this Agreement. Should a Third Party fail to exercise its Preferential Right as to any portion of the Assets prior to Closing and the time for exercise or waiver has not yet expired, the affected Assets shall not be transferred at Closing and the Unadjusted Purchase Price shall be reduced by the Allocated Values of such Assets. In the event that such Third Party exercises its Preferential Right following the Closing, Seller shall have no further obligation to sell and convey the affected Assets and Purchaser shall have no further obligation to purchase, accept and pay for such affected Assets, and the affected Assets shall be deemed to be deleted from Exhibit A-1, Exhibit A-2, Schedule 3.4 and the other applicable Exhibits and Schedules to this Agreement for all purposes. If, on the other hand, the applicable Preferential Rights are waived or expire, a separate closing shall be held within five (5) Business Days thereof at which (i) Seller shall convey the affected Assets to Purchaser in accordance with this Agreement and (ii) Purchaser shall pay an amount equal to the Allocated Value of such Assets, adjusted in accordance with Section 3.3, to Seller.

Section 4.7 Casualty or Condemnation Loss.

(a) If, after the Execution Date, but prior to the Closing Date, any portion of the Assets is damaged, destroyed or made unavailable or unusable for the intended purpose by fire or other casualty or is taken in condemnation or under right of eminent domain (each a "Casualty Loss"), and the loss as a result of such individual Casualty Loss exceeds five percent (5%) of the Unadjusted Purchase Price, Purchaser shall nevertheless be required to close, and Seller shall elect by written notice to Purchaser prior to Closing either (i) to cause the Assets adversely affected by any such individual Casualty Loss to be repaired or restored to at least their condition prior to such

Casualty Loss, at Seller's sole cost and expense, as promptly as reasonably practicable (which work may extend after the Closing Date), (ii) to indemnify Purchaser against any costs or expenses that Purchaser reasonably incurs to repair or restore the Assets subject to any such Casualty Loss or (iii) to exclude the affected Assets from this Agreement and reduce the Unadjusted Purchase Price by the Allocated Value of such Assets. In each case, Seller shall retain all rights to insurance, unpaid awards, condemnation payments and other rights and claims against Third Parties with respect to the Casualty Loss, except to the extent the Parties otherwise agree in writing.

(b) If, after the Execution Date, but prior to the Closing Date, any Casualty Loss occurs, and the loss as a result of such individual Casualty Loss is five percent (5%) or less of the Unadjusted Purchased Price, Purchaser shall nevertheless be required to close and Seller shall, at Closing, pay to Purchaser all sums paid to Seller by Third Parties (including insurers) by reason of such individual Casualty Loss and, to the extent necessary, shall assign, transfer and set over to Purchaser or subrogate Purchaser to all of Seller's right, title and interest (if any) in unpaid awards, condemnation payments and other rights and claims against Third Parties (other than Persons within the Seller Group) arising out of the Casualty Loss.

ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF SELLER

Section 5.1 Generally.

(o) Any representation or warranty qualified to the "knowledge of Seller" or "to Seller's knowledge" or with any similar knowledge qualification is limited to matters within the Actual Knowledge of the individuals listed in Schedule 5.1. As used in this Agreement, the term "Actual Knowledge" with respect to any individual means information personally known by such individual.

(p) Inclusion of a matter on a Schedule in relation to a representation or warranty that addresses matters having a Material Adverse Effect shall not be deemed an indication that such matter does, or may, have a Material Adverse Effect. Likewise, the inclusion of a matter on a Schedule to this Agreement in relation to a representation or warranty shall not be deemed an indication that such matter necessarily would, or may, breach such representation or warranty absent its inclusion on such Schedule. Matters may be set forth on a Schedule for information purposes only.

(q) Subject to the foregoing provisions of this Section 5.1, the disclaimers and waivers contained in and the other terms and conditions of this Agreement, Seller represents and warrants to Purchaser the matters set forth in Section 5.2 through Section 5.21 as of the Execution Date and on the Closing Date, as applicable (except for the representations and warranties that refer to a specified date which will be deemed made as of such date).

Section 5.2 Existence and Qualification . Seller is a limited liability company, validly existing and in good standing under the Laws of the State of Louisiana and is duly qualified to do business in the State of North Dakota.

Section 5.3 Power . Seller has the requisite power to enter into and perform this Agreement and to consummate the transactions contemplated by this Agreement.

Section 5.4 Authorization and Enforceability. The execution, delivery and performance of this Agreement and all documents required to be executed and delivered by Seller at Closing, and the performance of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary limited liability company action on the part of Seller. This Agreement has been duly executed and delivered by Seller (and all documents required hereunder to be executed and delivered by Seller at Closing will be duly executed and delivered by Seller) and this Agreement constitutes, and at the Closing such documents will constitute, the valid and binding obligations of Seller, enforceable in accordance with their terms, except as such enforceability may be limited by applicable bankruptcy or other similar Laws affecting the rights and remedies of creditors generally, as well as by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.5 No Conflicts . Assuming the receipt of all consents and approvals from Third Parties in connection with the transactions contemplated hereby and the waiver of or compliance with all Preferential Right rights applicable to the transfer of the Assets contemplated hereby, the execution, delivery and performance of this Agreement by Seller, and the transactions contemplated by this Agreement, will not (a) violate any provision of the limited liability company agreement or other organizational documents of Seller, (b) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, license or agreement to which Seller is a party or that affects the Assets, (c) violate any judgment, order, ruling or decree applicable to Seller as a party in interest, or (d) violate any Laws applicable to Seller or any of the Assets, except any matters described in subsections (b) or (c) above which would not have a Material Adverse Effect.

Section 5.6 Liability for Brokers' Fees . Purchaser shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of Seller or its Affiliates, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any agreement or transaction contemplated hereby.

Section 5.7 Intellectual Property. Seller owns, or has the licenses or rights to use all material Intellectual Property used in the ownership or operation of the Assets. Seller has not received from any Third Party a claim in writing that Seller is infringing on the Intellectual Property of such Third Party.

Section 5.8 Insurance . Seller has made available to Purchaser copies of all policies of insurance applicable to the Assets (with redactions of those portions of the policies not applicable to the Assets), which are set forth on Schedule 5.8 , and, for recently renewed policies (to the extent applicable to the Assets), binders to which Seller is a party or under which the Assets are covered. Except as set forth in Schedule 5.8 , (a) all such policies of insurance to which Seller is a party and which relate to the Assets are valid, outstanding, and enforceable, (b) will continue in full force and effect immediately prior to the Closing and (c) Seller has paid all premiums due, and has otherwise

performed all of its obligations, under each policy to which Seller is a party (or that provides coverage to Seller) and which relate to the Assets.

Section 5.9 Litigation . Except as set forth on Schedule 5.9 , there are no actions, suits or proceedings pending, or to Seller's knowledge, threatened in writing, before any Governmental Body or arbitrator with respect to Seller or the Assets that would materially impair Seller's ability to perform its obligations under this Agreement or that would affect the Assets.

Section 5.10 Payment of Royalties and Rentals. With respect to Assets for which the counterparty is not a Governmental Body (and, to Seller's knowledge, with respect to Assets for which the counterparty is a Governmental Body) all royalties, overriding royalties and other burdens on production that are payable by Seller (for its own account) relating to the Assets have been properly and legally paid before the same became delinquent. With respect to Leases and other agreements for which the counterparty is not a Governmental Body (and, to Seller's knowledge, with respect to Leases and other agreements for which the counterparty is a Governmental Body) all delay rentals and royalties that are payable by Seller (for its own account) that perpetuate Leases and similar payments under surface use agreements have been properly and legally paid before the same became delinquent.

Section 5.11 Taxes and Assessments.

- (a) All Asset Taxes that have become due and payable have been properly paid in full.
 - (b) All Tax Returns with respect to Asset Taxes that are required to be filed with respect to the Assets have been filed and all such Tax Returns are true, correct and complete in all material respects.
 - (c) There are no liens for unpaid Taxes against the Assets other than liens for current period Taxes not yet due and payable.
 - (d) Except as set forth on Schedule 5.11 , no on-going action, suit, Governmental Body proceeding or audit is now in progress or pending (and if pending, for which Seller has been provided notice by such adverse Third Party or Governmental Body) with respect to Asset Taxes, and Seller has not received written notice of any pending claim against the Assets from any applicable Governmental Body for assessment of Asset Taxes and to Seller's knowledge no such claim has been threatened.
 - (e) Seller has not granted an extension or waiver of the statute of limitations applicable to any Tax Return, which period has not yet expired. No power of attorney that is currently in force has been granted with respect to any matter relating to Asset Taxes that could be binding on Purchaser with respect to the Assets after Closing.
 - (f) Seller is not a party to or bound by any Tax allocation or Tax sharing or indemnification agreement with respect to the Assets.
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(g) Except as disclosed on Schedule 5.11 , none of the Assets is held in an arrangement that is classified as, or deemed by law or agreement to be, a partnership for U.S. federal income tax purposes. Any tax partnership set forth on Schedule 5.11 shall have in effect for the taxable year that includes the Closing Date an election under Section 754 of the Code.

(h) All of the Assets have been properly listed and described on the property tax rolls for the Tax units in which the Assets are located and no portion of the Assets constitutes omitted property for property tax purposes.

(i) Neither Purchaser nor any of its Affiliates will be held liable for any unpaid Taxes of Seller or with respect to the Assets (other than Asset Taxes for the period from and after the Effective Time) as a successor or transferee, by statute, contract or otherwise.

Section 5.12 Capital Commitments . Except as set forth on Schedule 5.12 , as of the Effective Time, there were no outstanding AFEs or other capital commitments to Third Parties that were binding on the Assets and could reasonably be expected to require expenditures by the owner of such Assets after the Effective Time in excess of \$250,000.

Section 5.13 Compliance with Laws. To Seller's knowledge, Seller has complied with, and the Assets have been operated in, compliance with all applicable Laws in all material respects.

Section 5.14 Contracts . Except as set forth on Schedule 5.14 ,

To Seller's knowledge, Seller is not in default under any Contract.

(a) There are no (i) Contracts with Affiliates of Seller that will be binding on the Assets after Closing or (ii) hedges, swaps, derivatives or other similar contracts that will be binding on the Assets after Closing.

(b) None of the Properties are subject to or burdened by and the Seller is not a party to any Contract with respect to Seller's operation of the Assets, that can be reasonably expected to result in aggregate payments or receipts of revenue by the Seller of more than \$500,000 annually in the current year or any subsequent year.

(c) There are no Contracts that contain a call on production with respect to the Properties.

(d) None of the Properties are subject to or burdened by any pending farmout agreement, exploration agreement, participation agreement or other similar contract.

(e) There are no material surface use agreements or similar contracts that benefit or burden the Properties.

(f) None of the Properties are subject to or burdened by any (i) operating agreement, transportation, gathering, processing or similar contract or Hydrocarbon sales contract (in each case) that is not terminable without penalty on sixty (60) days' or less notice or (ii) any

indenture, mortgage, loan, credit or sale-leaseback or similar contract that will not be terminated at or prior to the Closing.

Section 5.15 Payments for Production . Except as set forth on Schedule 5.15 , Seller is not obligated by virtue of any take-or-pay payment, advance payment or other similar payment (other than royalties, overriding royalties and similar arrangements reflected in the Net Revenue Interest figures set forth on Schedule 3.4 ; gas balancing arrangements; and non-consent provisions in the Contracts) to deliver Hydrocarbons, or proceeds from the sale thereof, attributable to the Properties at some future time without receiving payment therefor at or after the time of delivery, and, similarly, except as set forth on Schedule 5.15 , there are not any Imbalances attributable to the Properties.

Section 5.16 Consents and Preferential Purchase Rights . Except as set forth on Schedule 5.16 , to Seller's knowledge, none of the Properties, or any portion thereof, is subject to any Preferential Right or Specified Consent Requirement that may be applicable to the transactions contemplated by this Agreement, except Customary Post-Closing Consents.

Section 5.17 Properties. To Seller's knowledge, (a) no default exists in the performance of any obligation of Seller under the Leases that would entitle the lessor thereunder to cancel or terminate any such Leases, and (b) except as set forth in Schedule 5.17, no party to any Lease or any successor to the interest of such party has filed or threatened in writing to file any action to terminate, cancel, rescind or procure judicial reformation of any such Lease.

Section 5.18 Non-Consent Operations . Except as set forth on Schedule 5.18 or otherwise reflected on Exhibit A-1 or Exhibit A-2 , as applicable, no operations are being conducted or have been conducted on the Properties with respect to which Seller has elected to be a non-consenting party under the applicable operating agreement and with respect to which all of Seller's rights have not yet reverted to it.

Section 5.19 Plugging and Abandonment. Seller has not received any written notices or demands from Governmental Bodies or Third Parties to plug or abandon any wells located on the Leases or the Units. To Seller's knowledge, except as set forth on Schedule 5.19, the wells located on the Leases and the Units that are neither in use for purposes of production or injection, nor temporarily suspended or temporarily abandoned in accordance with applicable Law, have been plugged and abandoned in accordance with applicable Law in all material respects.

Section 5.20 Suspense Funds. Except as set forth on Schedule 5.20, as of the date hereof, Seller does not hold any Third Party funds in suspense with respect to production of Hydrocarbons from any of the Assets other than amounts less than the statutory minimum amount that Seller is permitted to accumulate prior to payment.

Section 5.21 Bankruptcy . There are no bankruptcy, insolvency, reorganization, receivership or similar proceedings pending against, being contemplated by or, to Seller's knowledge, threatened against Seller.

(A) EXCEPT AS AND TO THE EXTENT EXPRESSLY SET FORTH IN ARTICLE 4, THIS ARTICLE 5, IN THE CERTIFICATE OF SELLER TO BE DELIVERED PURSUANT TO SECTION 9.2(B) OR IN THE ASSIGNMENTS TO BE DELIVERED BY SELLER TO PURCHASER HEREUNDER, (i) SELLER MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS, STATUTORY OR IMPLIED, AND (ii) SELLER EXPRESSLY DISCLAIMS ALL LIABILITY AND RESPONSIBILITY FOR ANY STATEMENT OR INFORMATION MADE OR COMMUNICATED (ORALLY OR IN WRITING) TO THE PURCHASER GROUP (INCLUDING ANY OPINION, INFORMATION OR ADVICE THAT MAY HAVE BEEN PROVIDED TO PURCHASER BY ANY PERSON OF THE SELLER GROUP).

(B) EXCEPT AS AND TO THE EXTENT EXPRESSLY SET FORTH IN ARTICLE 4, THIS ARTICLE 5, IN THE CERTIFICATE OF SELLER TO BE DELIVERED PURSUANT TO SECTION 9.2(B) OR IN THE ASSIGNMENTS TO BE DELIVERED BY SELLER TO PURCHASER HEREUNDER, WITHOUT LIMITING THE GENERALITY OF SECTION 5.22(A), SELLER EXPRESSLY DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS, STATUTORY OR IMPLIED, ORAL OR WRITTEN, AS TO (i) TITLE TO ANY OF THE ASSETS, (ii) THE CONTENTS, CHARACTER OR NATURE OF ANY DESCRIPTIVE MEMORANDUM, OR ANY REPORT OF ANY PETROLEUM ENGINEERING CONSULTANT, OR ANY GEOLOGICAL OR SEISMIC DATA OR INTERPRETATION, RELATING TO THE ASSETS, (iii) THE QUANTITY, QUALITY OR RECOVERABILITY OF HYDROCARBONS IN OR FROM THE ASSETS, (iv) ANY ESTIMATES OF THE VALUE OF THE ASSETS OR FUTURE REVENUES GENERATED BY THE ASSETS, (v) THE PRODUCTION OF PETROLEUM SUBSTANCES FROM THE ASSETS, OR WHETHER PRODUCTION HAS BEEN CONTINUOUS OR IN PAYING QUANTITIES, (vi) THE MAINTENANCE, REPAIR, CONDITION, QUALITY, SUITABILITY, DESIGN OR MARKETABILITY OF THE ASSETS OR (vii) ANY OTHER MATERIALS OR INFORMATION THAT MAY HAVE BEEN MADE AVAILABLE OR COMMUNICATED TO THE PURCHASER GROUP IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY DISCUSSION OR PRESENTATION RELATING THERETO (INCLUDING ANY ITEMS PROVIDED IN CONNECTION WITH SECTION 7.1), AND FURTHER DISCLAIM ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR CONFORMITY TO MODELS OR SAMPLES, IT BEING EXPRESSLY UNDERSTOOD AND AGREED BY THE PARTIES THAT PURCHASER SHALL BE DEEMED TO BE OBTAINING THE EQUIPMENT AND OTHER TANGIBLE PROPERTY INCLUDED AS PART OF THE ASSETS IN ITS PRESENT STATUS, CONDITION AND STATE OF REPAIR, “AS IS” AND “WHERE IS” WITH ALL FAULTS, AND THAT, AS OF CLOSING, PURCHASER HAS MADE OR CAUSED TO BE MADE SUCH INSPECTIONS AS PURCHASER DEEMS APPROPRIATE.

(C) EXCEPT AS AND TO THE EXTENT EXPRESSLY PROVIDED IN ARTICLE 4 AND SECTION 11.2(B)(IV), SELLER SHALL NOT HAVE ANY LIABILITY IN CONNECTION WITH AND HAS NOT AND WILL NOT MAKE (AND HEREBY DISCLAIMS) ANY REPRESENTATION OR WARRANTY REGARDING ANY MATTER OR CIRCUMSTANCE RELATING TO ENVIRONMENTAL LAWS, ENVIRONMENTAL DEFECTS, ENVIRONMENTAL LIABILITIES, THE RELEASE OF HAZARDOUS SUBSTANCES, HYDROCARBONS OR NORM INTO THE ENVIRONMENT OR THE PROTECTION OF HUMAN HEALTH, SAFETY, NATURAL RESOURCES OR THE ENVIRONMENT, OR ANY OTHER ENVIRONMENTAL CONDITION OF THE ASSETS, AND NOTHING IN THIS AGREEMENT OR OTHERWISE SHALL BE CONSTRUED AS SUCH A REPRESENTATION OR WARRANTY, AND PURCHASER SHALL BE DEEMED TO BE TAKING THE ASSETS “AS IS” AND “WHERE IS” FOR PURPOSES OF THEIR ENVIRONMENTAL CONDITION.

**ARTICLE 6
REPRESENTATIONS AND WARRANTIES OF PURCHASER**

Section 6.1 Generally.

(a) Any representation or warranty qualified to the “knowledge of Purchaser” or “to Purchaser’s knowledge” or with any similar knowledge qualification is limited to matters within the Actual Knowledge of the individuals listed in Schedule 6.1.

(b) Purchaser represents and warrants to Seller the matters set forth in Section 6.2 through Section 6.13 as of the Execution Date and on the Closing Date (except for representations and warranties that refer to a specified date which will be deemed made as of such date).

Section 6.2 Existence and Qualification. Purchaser is a Texas corporation, validly existing, and in good standing under the Laws of the State of Texas and is duly qualified to do business in the State of North Dakota.

Section 6.3 Power. Purchaser has the requisite power to enter into and perform this Agreement and consummate the transactions contemplated by this Agreement.

Section 6.4 Authorization and Enforceability. The execution, delivery and performance of this Agreement and all documents required to be executed and delivered by Purchaser at Closing, and the performance of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary limited liability company, corporate or partnership action on the part of Purchaser. This Agreement has been duly executed and delivered by Purchaser (and all documents required hereunder to be executed and delivered by Purchaser at Closing will be duly executed and delivered by Purchaser) and this Agreement constitutes, and at the Closing such documents will constitute, the valid and binding obligations of Purchaser, enforceable in accordance with their terms except as such enforceability may be limited by applicable bankruptcy or other similar Laws affecting the rights and remedies of creditors generally as well as by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 6.5 No Conflicts. The execution, delivery and performance of this Agreement by Purchaser, and the transactions contemplated by this Agreement, will not (a) violate any provision of the certificate of incorporation, bylaws, agreement of limited partnership or other organizational documents of Purchaser, (b) result in a material default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license or agreement to which Purchaser is a party, (c) violate any judgment, order, ruling, or regulation applicable to Purchaser as a party in interest, or (d) violate any Laws applicable to Purchaser or any of its assets, except any matters described in subsections (b), (c) or (d) above which would not have a material adverse effect on Purchaser's ability to consummate the transactions contemplated herein and to perform its obligations in connection therewith pursuant to the terms hereof.

Section 6.6 Liability for Brokers' Fees. Seller shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of Purchaser or its Affiliates, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any agreement or transaction contemplated hereby.

Section 6.7 Litigation. There are no actions, suits or proceedings pending, or to Purchaser's knowledge, threatened in writing, before any Governmental Body or arbitrator against Purchaser that are reasonably likely to materially impair Purchaser's ability to perform its obligations under this Agreement or any document required to be executed and delivered by Purchaser at Closing.

Section 6.8 Financing. Purchaser has and will maintain between the Execution Date and Closing sufficient cash, available lines of credit or other sources of immediately available funds (in Dollars) to enable it to pay the Closing Payment to Seller at the Closing.

Section 6.9 Securities Law Compliance. Purchaser is acquiring the Assets for its own account for use in its trade or business, and not with a view toward or for sale associated with any distribution thereof, nor with any present intention of making a distribution thereof within the meaning of the Securities Act of 1933, as amended, and applicable state securities Laws.

Section 6.10 Independent Evaluation.

(a) Purchaser is knowledgeable of the oil and gas business and of the usual and customary practices of oil and gas producers, including those in the areas where the Assets are located.

(b) Purchaser is a party capable of making such investigation, inspection, review and evaluation of the Assets as a prudent purchaser would deem appropriate under the circumstances including with respect to all matters relating to the Assets, their value, operation and suitability.

(c) In making the decision to enter into this Agreement and consummate the transactions contemplated hereby, Purchaser has relied solely on the basis of its own independent due diligence investigation of the Assets and the terms and conditions of this Agreement.

Section 6.11 Consents, Approvals or Waivers. Purchaser's execution, delivery and performance of this Agreement (and any document required to be executed and delivered by Purchaser at Closing) is not and will not be subject to any consent, approval, or waiver from any Governmental Body or other Third Party, except consents and approvals of assignments by Governmental Bodies that are customarily obtained after Closing.

Section 6.12 Bankruptcy. There are no bankruptcy, insolvency, reorganization or receivership proceedings pending against, being contemplated by, or threatened against Purchaser.

Section 6.13 Qualification. Purchaser is, or as of the Closing Date will be, qualified under applicable Law to own the Assets and has, or as of the Closing Date will have, complied with all necessary bonding requirements of Governmental Bodies required for Purchaser's ownership or operation of the Assets.

Section 6.14 Limitation. Purchaser acknowledges the following:

(A) EXCEPT AS AND TO THE EXTENT EXPRESSLY SET FORTH IN ARTICLE 4, ARTICLE 5, IN THE CERTIFICATE OF SELLER TO BE DELIVERED PURSUANT TO SECTION 9.2(B) OR IN THE ASSIGNMENTS TO BE DELIVERED BY SELLER TO PURCHASER HEREUNDER, THERE ARE NO REPRESENTATIONS AND WARRANTIES, EXPRESS, STATUTORY OR IMPLIED, BY SELLER AS TO THE ASSETS OR PROSPECTS THEREOF AND PURCHASER HAS NOT RELIED UPON ANY ORAL OR WRITTEN INFORMATION PROVIDED BY SELLER.

(B) EXCEPT AS AND TO THE EXTENT EXPRESSLY PROVIDED IN ARTICLE 4 AND SECTION 11.2(B)(IV), SELLER AND THE OTHER MEMBERS OF THE SELLER GROUP SHALL NOT HAVE ANY LIABILITY IN CONNECTION WITH AND SELLER HAS DISCLAIMED, HAS NOT MADE AND WILL NOT MAKE ANY REPRESENTATION OR WARRANTY REGARDING ANY MATTER OR CIRCUMSTANCE RELATING TO ENVIRONMENTAL LAWS, ENVIRONMENTAL DEFECTS, ENVIRONMENTAL LIABILITIES, THE RELEASE OF HAZARDOUS SUBSTANCES, HYDROCARBONS OR NORM INTO THE ENVIRONMENT OR PROTECTION OF HUMAN HEALTH, SAFETY, NATURAL RESOURCES OR THE ENVIRONMENT OR ANY OTHER ENVIRONMENTAL CONDITION OF THE ASSETS.

(C) THE ASSETS HAVE BEEN USED FOR EXPLORATION, DEVELOPMENT AND PRODUCTION OF HYDROCARBONS AND THERE MAY BE PETROLEUM, PRODUCED WATER, WASTE, OR OTHER SUBSTANCES OR MATERIALS LOCATED IN, ON OR UNDER THE PROPERTIES OR ASSOCIATED WITH THE ASSETS. EQUIPMENT AND SITES INCLUDED IN THE ASSETS MAY CONTAIN ASBESTOS, NORM OR OTHER HAZARDOUS SUBSTANCES. NORM MAY AFFIX OR ATTACH ITSELF TO THE INSIDE OF WELLS, MATERIALS AND

EQUIPMENT AS SCALE, OR IN OTHER FORMS. THE WELLS, MATERIALS AND EQUIPMENT LOCATED ON THE PROPERTIES OR INCLUDED IN THE ASSETS MAY CONTAIN NORM AND OTHER WASTES OR HAZARDOUS SUBSTANCES. NORM CONTAINING MATERIAL OR OTHER WASTES OR HAZARDOUS SUBSTANCES MAY HAVE COME IN CONTACT WITH VARIOUS ENVIRONMENTAL MEDIA, INCLUDING WATER, SOILS OR SEDIMENT. SPECIAL PROCEDURES MAY BE REQUIRED FOR THE ASSESSMENT, REMEDIATION, REMOVAL, TRANSPORTATION OR DISPOSAL OF ENVIRONMENTAL MEDIA, WASTES, ASBESTOS, NORM AND OTHER HAZARDOUS SUBSTANCES FROM THE ASSETS.

**ARTICLE 7
COVENANTS OF THE PARTIES**

Section 7.1 Access.

(i) Between the Execution Date and the Closing Date, Seller shall give Purchaser access to the Assets and access to and the right to copy, at Purchaser's sole cost, risk and expense, the Records (or originals thereof) in Seller's possession, for the purpose of conducting a reasonable due diligence review of the Assets, *but only* to the extent that Seller may do so without violating any obligations to any Third Party and to the extent that Seller has the authority to grant such access without breaching any restriction binding on it (and Seller shall use reasonable efforts to seek waivers of such restrictions if and to the extent requested by Purchaser, provided, however, that Seller shall have no obligation to expend any monies in seeking such waivers). Subject to the foregoing, Purchaser shall be entitled to conduct (i) a Phase I Environmental Site Assessment of the Assets and may conduct visual inspections and record reviews relating to the Assets, including their condition and compliance with Environmental Laws, and (ii) a Phase II Environmental Site Assessment of the Assets, subject to, prior to performing such actions, (A) receipt of Seller's written permission (such permission not to be unreasonably withheld, conditioned or delayed) to perform the Phase II Environmental Site Assessment and (B) written protocol with Seller for the conduct of any such Phase II Environmental Site Assessment. Otherwise, Purchaser shall not operate any equipment or conduct any testing or sampling of soil, groundwater or other materials (including any testing or sampling for Hazardous Substances, Hydrocarbons or NORM) on or with respect to the Assets prior to Closing. Purchaser shall abide by Seller's, and any Third Party operator's, safety rules, regulations, and operating policies (including the execution and delivery of any documentation or paperwork, *e.g.*, boarding agreements or liability releases, required by Third Party operators with respect to Purchaser's access to any of the Assets) while conducting its due diligence evaluation of the Assets. Any conclusions made from any examination done by Purchaser shall result from Purchaser's own independent review and judgment.

(j) The access granted to Purchaser under this Section 7.1 shall be limited to Seller's normal business hours, and Purchaser's investigation shall be conducted in a manner that minimizes interference with the operation of the Assets. Purchaser shall coordinate its access rights of the Assets with Seller to reasonably minimize any inconvenience to or interruption of the conduct of business by Seller. Purchaser shall provide Seller with at least forty-eight (48) hours' written

notice before the Assets are accessed pursuant to this Section 7.1, along with a listing of its representatives involved and a description of the activities Purchaser intends to undertake.

(k) Purchaser acknowledges that, pursuant to its right of access to the Assets, Purchaser will become privy to confidential and other information of Seller and that such confidential information (which includes Purchaser's conclusions with respect to its evaluations) shall be held confidential by Purchaser in accordance with the terms of the Confidentiality Agreement and any applicable privacy Laws regarding personal information.

(L) In connection with the rights of access, examination and inspection granted to Purchaser under this Section 7.1, **(i) PURCHASER WAIVES AND RELEASES ALL CLAIMS AGAINST THE SELLER GROUP ARISING IN ANY WAY THEREFROM OR IN ANY WAY CONNECTED THEREWITH AND (ii) PURCHASER HEREBY AGREES TO INDEMNIFY, DEFEND AND HOLD HARMLESS EACH MEMBER OF THE SELLER GROUP AND THIRD PARTY OPERATORS FROM AND AGAINST ANY AND ALL DAMAGES ATTRIBUTABLE TO PERSONAL INJURY, DEATH OR PHYSICAL PROPERTY DAMAGE, OR VIOLATION OF THE SELLER GROUP'S OR ANY THIRD PARTY OPERATOR'S RULES, REGULATIONS, OR OPERATING POLICIES, ARISING OUT OF, RESULTING FROM OR RELATING TO ANY FIELD VISIT OR OTHER DUE DILIGENCE ACTIVITY CONDUCTED BY PURCHASER WITH RESPECT TO THE ASSETS, EVEN IF SUCH LIABILITIES ARISE OUT OF OR RESULT FROM, SOLELY OR IN PART, THE SOLE, ACTIVE, PASSIVE, CONCURRENT OR COMPARATIVE NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT OR VIOLATION OF LAW BY THE SELLER GROUP OR THIRD PARTY OPERATORS EXCEPT IN EACH CASE TO THE EXTENT CAUSED BY THE WILLFUL MISCONDUCT OR GROSS NEGLIGENCE OF THE SELLER GROUP .**

Section 7.2 Government Reviews. In a timely manner, the Parties shall (a) make all required filings, prepare all required applications and conduct negotiations with each Governmental Body as to which such filings, applications or negotiations are necessary or appropriate in the consummation of the transactions contemplated hereby and (b) provide such information as each may reasonably request to make such filings, prepare such applications and conduct such negotiations. Each Party shall reasonably cooperate with and use all reasonable efforts to assist the other with respect to such filings, applications, and negotiations.

Section 7.3 Public Announcements; Confidentiality.

(a) Neither Party shall make any press release or other public announcement regarding the existence of this Agreement, the contents hereof or the transactions contemplated hereby without the prior written consent of the other Party (collectively, the "Public Announcement Restrictions"). Notwithstanding the foregoing, the Public Announcement Restrictions shall not restrict disclosures to the extent (i) necessary for a Party to perform this Agreement (including disclosures to Governmental Bodies or Third Parties holding Preferential Rights, rights of consent or other rights that may be applicable to the transaction contemplated by this Agreement, as reasonably necessary to provide notices, seek waivers, amendments or termination of such rights, or seek such consents); (ii) required (upon advice of counsel) by applicable securities or other Laws

or regulations or the applicable rules of any stock exchange on which Parties' or their respective Affiliates' stock is listed, and in such event, the disclosures may include at the option of the disclosing Party an 8-K filing, a press release, a detailed power point presentation and a conference call, and, to the extent required by Law, filing this Agreement with the Securities and Exchange Commission as an exhibit to an 8-K or 10-Q; or (iii) that such Party has given the other Party a reasonable opportunity to review such disclosure prior to its release and no objection is raised. In the case of the disclosures described under subsections (i) and (ii) of this Section 7.3(a), each Party shall use its reasonable efforts to consult with the other Party regarding the contents of any such release or announcement prior to making such release or announcement, it being understood that no Party may deny the other from making such disclosure.

(b) Except as set forth in this Section 7.3, the Parties shall keep all information and data relating to this Agreement and the Assets strictly confidential except for disclosures to Representatives of the Parties (in which event, the disclosing Party will be responsible for making sure that the Representatives keep such information and data confidential) and any disclosures required to perform this Agreement (collectively, the "Confidentiality Restrictions"). However, prior to making any disclosures permitted under the preceding sentence, the Party disclosing such information shall obtain an undertaking of confidentiality from the Person receiving such information. The Confidentiality Restrictions shall not restrict disclosures that are required (upon advice of counsel) by applicable securities or other Laws or regulations or the applicable rules of any stock exchange having jurisdiction over the Parties or their respective Affiliates. Following Closing, Purchaser shall not be bound by Confidentiality Restrictions relating to information concerning the Assets and Seller shall be bound by Confidentiality Restrictions relating to information concerning the Assets for a period of twelve (12) months, except to the extent such information concerning the Assets (i) is or becomes generally available to the public other than as a result of a disclosure by Seller or (ii) was provided to Seller by, or becomes available to Seller from, a Third Party, provided that such Third Party was not known by Seller, after reasonable investigation, to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to Purchaser.

(c) To the extent that the foregoing provisions of this Section 7.3 conflict with the provisions of the Confidentiality Agreement, the provisions of this Section 7.3 shall control to the extent of such conflict. The Confidentiality Agreement shall terminate automatically at Closing without further action by either Party.

Section 7.4 Operation of Business. Except (i) as otherwise contemplated by this Agreement, (ii) as to the matters set forth on Schedule 7.4 or (iii) as otherwise approved by Purchaser, from the Execution Date until the Closing Date, Seller shall:

(c) conduct its business related to the Assets in the ordinary course consistent with Seller's recent exploration and drilling program and other recent practices;

(d) not commit to any new operation reasonably anticipated by Seller to require future capital expenditures by the owner of the Assets in excess of \$250,000;

(e) not voluntarily terminate, materially amend, execute or extend any material Contracts or enter into any new contract that would have to be disclosed on Schedule 5.14 if in existence on the Execution Date;

(f) maintain insurance coverage on the Assets presently furnished by nonaffiliated Third Parties in the amounts and of the types presently in force;

(g) use Commercially Reasonable Efforts to maintain in full force and effect all Leases that are presently producing in paying quantities;

(h) maintain all material Permits, approvals, bonds and guaranties affecting the Assets, and make all filings that Seller is required to make under applicable Law with respect to the Assets;

(i) not transfer, sell, hypothecate, encumber or otherwise dispose of any material Properties or Equipment except for sales and dispositions of Equipment or Hydrocarbons made in the ordinary course of business consistent with past practices;

(j) provide Purchaser with all well proposals (including all AFEs and related documents in connection with such well proposals) within five (5) Business Days after receipt thereof;

(k) not elect to be treated as a non-consenting party under the rules and regulations of the North Dakota Industrial Commission or any applicable joint operating agreement with respect to any operation; provided, if Seller desires to elect to be treated as a non-consenting party under either case in the foregoing clause of this Section 7.4(i), and Purchaser denies approval of such election by Seller, Seller shall participate in the operation and, if this Agreement terminates prior to Closing, Purchaser shall bear the costs associated with such operation (and shall indemnify Seller from and against such costs) and shall be entitled to the benefits attributable to such operation until the applicable non-consent recoupment has been satisfied in the applicable case described in the foregoing clause of this Section 7.4(i);

(l) not make, revoke or amend any Tax election with respect to Asset Taxes, enter into any settlement of any material issue with respect to Asset Taxes, or execute or consent to any waivers extending the statutory period of limitations with respect to the collection of any Asset Taxes, in each case, to the extent such action would bind or otherwise affect the Purchaser at or after the Effective Time; and

(m) not enter into an agreement in contravention of any of the foregoing.

Requests for approval of any action restricted by this Section 7.4 shall be delivered to both of the following individuals by electronic correspondence (at the email addresses set forth below) and a facsimile transmission (at the fax numbers set forth below), each of whom shall have full authority or have access to the requisite authority to grant or deny such requests for approval on behalf of Purchaser, which such approval may be withheld, conditioned or delayed in Purchaser's reasonable discretion:

Matt Thompson
Telephone: 303-640-4226
Fax: 303-295-0222
Email: matt.thompson@qepres.com

Vinnie Rigatti
Telephone: 303-672-6935
Fax: 303-573-0307
Email: vinnie.rigatti@qepres.com

With a copy (in the case of any written notice) to:

Cory Miller
Telephone: 303-672-6944
Fax: 303-295-0222
Email: cory.miller@qepres.com;

Austin Murr
Telephone: 303-672-6941
Fax: 303-573-0307
Email: Austin.murr@qepres.com

Purchaser's approval of any action restricted by this Section 7.4 shall be considered granted within ten (10) days (unless a shorter time, not to be less than 48 hours, is reasonably required by the circumstances and the applicable operating agreement and such shorter time is specified in Seller's notice) after Purchaser's receipt of Seller's written notice requesting such consent, unless Purchaser notifies Seller to the contrary during that period. Notwithstanding the foregoing, in the event of an emergency, Seller may take such action as a prudent operator would take and shall notify Purchaser of such action promptly thereafter.

Section 7.5 Non-Solicitation of Employees. From the Execution Date through the Closing, Purchaser will not, and will cause its Affiliates not to, directly or indirectly, solicit for employment or employ any officer or employee of Seller or its Affiliates with whom Purchaser or its Affiliates have had direct contact as part of its evaluation, negotiation or consummation of the transactions contemplated herein without obtaining the prior written consent of Seller (except as may otherwise be set forth in the Transition Services Agreement). This Section 7.5 shall not include general solicitations of employment not specifically directed towards officers or employees of Seller or its Affiliates.

Section 7.6 Change of Name. Within ninety (90) days after Closing, Purchaser shall eliminate or obscure the name "Helis Oil & Company, L.L.C." and any variants thereof from the Assets and shall have no right to use any logos, trademarks or trade names belonging to Seller or any of its Affiliates.

Section 7.7 Replacement of Bonds, Letters of Credit and Guaranties. The Parties understand that none of the bonds, letters of credit and guaranties, if any, posted by Seller or its Affiliates with Governmental Bodies or co-owners and relating to the Assets will be transferred to Purchaser. On or prior to Closing, Purchaser shall obtain, or cause to be obtained in the name of

Purchaser, replacements for such bonds, letters of credit and guaranties, to the extent such replacements are necessary to permit the cancellation of the bonds, letters of credit and guaranties posted by Seller or to consummate the transactions contemplated by this Agreement.

Section 7.8 Notification of Breaches. Between the Execution Date and the Closing Date:

(a) Purchaser shall notify Seller promptly after Purchaser obtains actual knowledge that any representation or warranty of Seller contained in this Agreement is untrue in any material respect or will be untrue in any material respect as of the Closing Date or that any covenant or agreement to be performed or observed by Seller prior to or on the Closing Date has not been so performed or observed in any material respect.

(b) Seller shall notify Purchaser promptly after Seller obtains actual knowledge that any representation or warranty of Purchaser contained in this Agreement is untrue in any material respect or will be untrue in any material respect as of the Closing Date or that any covenant or agreement to be performed or observed by Purchaser prior to or on the Closing Date has not been so performed or observed in any material respect.

(c) If any of Purchaser's or Seller's representations or warranties is untrue or shall become untrue in any material respect between the Execution Date and the Closing Date, or if any of Purchaser's or Seller's covenants or agreements to be performed or observed prior to or on the Closing Date shall not have been so performed or observed in any material respect, but if such breach of representation, warranty, covenant or agreement shall (if curable) be cured by the Closing (or, if the Closing does not occur, by the date set forth in Section 9.1), then such breach shall be considered not to have occurred for all purposes of this Agreement.

Section 7.9 Amendment to Schedules .

(d) As of the Closing Date, all Schedules to this Agreement, as applicable, shall be deemed amended and supplemented by Seller to include reference to any matter which results in an adjustment to the Adjusted Purchase Price pursuant to Section 3.3 as a result of the removal under the terms of this Agreement of any of the Assets.

(e) Prior to Closing, Seller shall have the right to supplement its Schedules relating to the representations and warranties set forth in Article 5 with respect to any matters discovered or occurring subsequent to the Execution Date which, if existing or known at the date hereof or thereafter, would have been required to be set forth or described in such Schedules, including amendments to reflect actions taken in compliance with Section 7.4 ("Section 7.4 Updates "). For all purposes of this Agreement, including for purposes of determining whether the conditions set forth in Article 8 have been fulfilled, the Schedules to Seller's representations and warranties contained in this Agreement shall be deemed to include only that information contained therein on the Execution Date and shall be deemed to exclude all information contained in any addition, supplement or amendment thereto; provided, however, that (a) if Closing shall occur, then only those matters disclosed pursuant to any such addition, supplement or amendment at or prior to Closing which arose and/or occurred, as applicable, from and after the Execution Date up to Closing and which were not caused by Seller shall be waived and Purchaser shall not be entitled to

make a claim with respect thereto pursuant to the terms of this Agreement or otherwise and (b) Section 7.4 Updates shall be deemed to have been made on the Execution Date and shall be included for all purposes of this Agreement. For the avoidance of doubt, if any matter disclosed pursuant to any such addition, supplement or amendment at or prior to Closing did not arise and/or occur, as applicable, from and after the Execution Date up to Closing or relates to a matter caused by Seller (other than Section 7.4 Updates), regardless of when Seller obtained knowledge of such matter, such addition, supplement or amendment shall not be waived and Purchaser shall be entitled to make a claim with respect thereto pursuant to the terms of this Agreement.

Section 7.10 Regulatory Matters . From and after the date of this Agreement until December 31, 2017 (the “Records Period ”), Seller shall, and shall cause its Affiliates and their respective officers, directors, managers, employees, agents and representatives to, provide reasonable cooperation to Purchaser, its Affiliates and their agents and representatives in connection with Purchaser’s or its Affiliates’ filings, if any, that are required by the Securities and Exchange Commission, under securities laws applicable to Purchaser and its Affiliates (collectively, the “Filings ”). During the Records Period, Seller agrees to make available to Purchaser and its Affiliates and their agents and representatives any and all books, records, information and documents that are attributable to the Assets in Seller’s or its Affiliates’ possession or control and access to Seller’s and its Affiliates’ personnel, in each case as reasonably required by Purchaser, its Affiliates and their agents and representatives in order to prepare, if required, in connection with the Filings, financial statements meeting the requirements of Regulation S-X under the Securities Act of 1933 (“Securities Act ”), along with any documentation attributable to the Assets required to complete any audit associated with such financial statements. During the Records Period, Seller shall, and shall cause its Affiliates to, provide reasonable cooperation to the independent auditors chosen by Purchaser (“Purchaser’s Auditor ”) in connection with any audit by Purchaser’s Auditor of any financial statements of Seller or its Affiliates with respect to the Assets that Purchaser or any of its Affiliates requires to comply with the requirements of the Securities Act or the Securities Exchange Act of 1934 with respect to any Filings. During the Records Period, Seller and its Affiliates shall retain all books, records, information and documents relating to the Assets for the three (3) fiscal years prior to January 1, 2012 and the period from January 1, 2012 through the Closing Date. Purchaser will reimburse Seller and its Affiliates, within ten (10) business days after demand in writing therefor, for any reasonable out-of-pocket costs incurred by Seller and its Affiliates in complying with the provision of this Section 7.10.

Section 7.11 Further Assurances. After Closing, the Parties agree to take such further actions and to execute, acknowledge and deliver all such further documents as are reasonably requested by the other Party for carrying out the purposes of this Agreement or of any document delivered pursuant to this Agreement. Without limiting the foregoing, prior to the end of the services period under the Transition Services Agreement, Seller shall use Commercially Reasonable Efforts to provide to Purchaser a complete list of surface agreements that benefit or burden the Properties.

ARTICLE 8 CONDITIONS TO CLOSING

Section 8.1 Seller's Conditions to Closing. The obligations of Seller to consummate the transactions contemplated by this Agreement are subject to the satisfaction (or waiver by Seller) on or prior to Closing of each of the following conditions precedent:

(d) Representations. The representations and warranties of Purchaser set forth in Article 6 shall be true and correct in all material respects as of the Execution Date and as of the Closing Date as though made on and as of the Closing Date;

(e) Performance. Purchaser shall have performed and observed, in all material respects, all covenants and agreements to be performed or observed by it under this Agreement prior to or on the Closing Date;

(f) No Action. On the Closing Date, no injunction, order or award restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, or granting material damages in connection therewith, shall have been issued and remain in force, and no suit, action or other proceeding by a Third Party (including any Governmental Body) seeking to restrain, enjoin or otherwise prohibit the consummation of the transactions contemplated by this Agreement, or seeking substantial damages in connection therewith, shall be pending before any Governmental Body or arbitrator;

(g) Title Defects; Environmental Defects; Casualty; Preferential Rights; Consents. In each case subject to the Individual Defect Threshold and the Aggregate Defect Deductible, as applicable, the sum of (a) all Title Defect Amounts (including Environmental Defects) that have been determined pursuant to Section 4.2 prior to Closing, less the sum of all Title Benefit Amounts that have been determined under Section 4.3 prior to Closing, plus (b) the Allocated Value of any Assets excluded from the transactions as contemplated by Section 4.6, Section 4.7 or Section 4.2(c)(ii) shall be less than twenty percent (20%) of the Unadjusted Purchase Price;

(h) Governmental Consents. All material consents and approvals of any Governmental Body required for the transfer of the Assets from Seller to Purchaser as contemplated under this Agreement, except Customary Post-Closing Consents, shall have been granted, or the necessary waiting period shall have expired, or early termination of the waiting period shall have been granted; and

(i) Deliveries. Purchaser shall deliver (or be ready, willing and able to deliver at Closing) to Seller duly executed counterparts of the documents and certificates to be delivered by Purchaser under Section 9.3.

Section 8.2 Purchaser's Conditions to Closing. The obligations of Purchaser to consummate the transactions contemplated by this Agreement are subject to the satisfaction (or waiver by Purchaser) on or prior to Closing of each of the following conditions precedent:

(d) Representations. The representations and warranties of Seller set forth in Article 5 shall be true and correct as of the Execution Date and as of the Closing Date as though made on and as of the Closing Date (other than representations and warranties that refer to a specified date, which need only be true and correct on and as of such specified date), except for such breaches,

if any, as would not, individually or in the aggregate, have a Material Adverse Effect (except to the extent that such representation or warranty is qualified in terms of materiality);

(e) Performance. Seller shall have performed and observed, in all material respects, all covenants and agreements to be performed or observed by it under this Agreement prior to or on the Closing Date, except, in the case of breaches of Section 7.4, for such breaches, if any, as would not, individually or in the aggregate, have a Material Adverse Effect (except to the extent such covenant or agreement is qualified in terms of materiality);

(f) No Action. On the Closing Date, no injunction, order or award restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, or granting material damages in connection therewith, shall have been issued and remain in force, and no suit, action or other proceeding by a Third Party (including any Governmental Body) seeking to restrain, enjoin or otherwise prohibit the consummation of the transactions contemplated by this Agreement, or seeking substantial damages in connection therewith, shall be pending before any Governmental Body or arbitrator;

(g) Title Defects; Environmental Defects; Casualty; Preferential Rights; Consents. In each case subject to the Individual Defect Threshold and the Aggregate Defect Deductible, as applicable, the sum of (a) all Title Defect Amounts (including Environmental Defects) that have been determined pursuant to Section 4.2 prior to Closing, less the sum of all Title Benefit Amounts that have been determined under Section 4.3 prior to Closing, plus (b) the Allocated Value of any Assets excluded from the transactions as contemplated by Section 4.6, Section 4.7 or Section 4.2(c)(ii) shall be less than twenty percent (20%) of the Unadjusted Purchase Price;

(h) Governmental Consents. All material consents and approvals of any Governmental Body required for the transfer of the Assets from Seller to Purchaser as contemplated under this Agreement, except Customary Post-Closing Consents, shall have been granted, or the necessary waiting period shall have expired, or early termination of the waiting period shall have been granted; and

(i) Deliveries. Seller shall deliver (or be ready, willing and able to deliver at Closing) to Purchaser duly executed counterparts of the documents and certificates to be delivered by Seller under Section 9.2.

ARTICLE 9 CLOSING

Section 9.1 Time and Place of Closing . Consummation of the purchase and sale transaction as contemplated by this Agreement (the "Closing"), shall, unless otherwise agreed to in writing by Purchaser and Seller, take place at the offices of Latham & Watkins LLP, counsel to Seller, located at 811 Main Street, Suite 3700, Houston, Texas 77002, at 10:00 a.m., Central Time, on September 27, 2012, or if all conditions in Article 8 to be satisfied prior to Closing have not yet been satisfied or waived, within five (5) Business Days of such conditions having been satisfied or waived, subject to the rights of the Parties under Article 10. The date on which the Closing occurs is herein referred to as the "Closing Date."

Section 9.2 Obligations of Seller at Closing . At the Closing, upon the terms and subject to the conditions of this Agreement, and subject to the simultaneous performance by Purchaser of its obligations pursuant to Section 9.3, Seller shall deliver or cause to be delivered to Purchaser, among other things, the following:

- (n) Counterparts of the Assignments of the Assets, in sufficient duplicate originals to allow recording in all appropriate jurisdictions and offices, duly executed by Seller and acknowledged before a notary public;
- (o) A certificate duly executed by an authorized officer of Seller, dated as of Closing, certifying on behalf of Seller that the conditions set forth in Section 8.2(a) and Section 8.2(b) have been fulfilled;
- (p) Counterparts of the Letter-in-lieu of Transfer Order covering the relevant Assets, duly executed by Seller;
- (q) Counterparts of the Transition Services Agreement, duly executed by Seller;
- (r) A certificate duly executed by the secretary or any assistant secretary of Seller, dated as of the Closing, (i) attaching and certifying on behalf of Seller complete and correct copies of (A) the certificate of formation of Seller, (B) the resolutions of the members of Seller authorizing the execution, delivery, and performance by Seller of this Agreement and the transactions contemplated hereby and (C) any required approval by Seller's members of this Agreement and the transactions contemplated hereby and (ii) certifying the incumbency and true signatures of the officers who execute this Agreement and any other agreement, certificate or document related hereto or executed in connection herewith on behalf of Seller;
- (s) A certification of non-foreign status with respect to Seller which meets the requirements of Treasury Regulation § 1.1445-2(b)(2);
- (t) An executed IRS Form W-9 for Seller;
- (u) Executed releases for the Existing Mortgage and any and all other liens, mortgages and other encumbrances on the Assets incurred by Seller or its Affiliates in connection with borrowed monies;
- (v) Where approvals are received by Seller pursuant to a filing or application under Section 7.2, copies of those approvals; and
- (w) All other instruments, documents and other items reasonably necessary to effectuate the terms of this Agreement, as may be reasonably requested by Purchaser.

Section 9.3 Obligations of Purchaser at Closing. At the Closing, upon the terms and subject to the conditions of this Agreement, and subject to the simultaneous performance by Seller of its obligations pursuant to Section 9.2, Purchaser shall deliver or cause to be delivered to Seller, among other things, the following:

(a) A wire transfer of the Closing Payment to the accounts designated by Seller in immediately available funds, and in accordance with the Escrow Agreement, an instruction to the Escrow Agent to distribute the balance in the Escrow Account to Seller to the accounts designated by Seller in immediately available funds;

(b) A certificate by an authorized officer of Purchaser, dated as of Closing, certifying on behalf of Purchaser that the conditions set forth in Section 8.1(a) and Section 8.1(b) have been fulfilled;

(c) Counterparts of the Assignments of the Assets, in sufficient duplicate originals to allow recording in all appropriate jurisdictions and offices, duly executed by Purchaser and acknowledged before a notary public;

(d) Counterparts of the Letter-in-lieu of Transfer Order covering the relevant Assets, duly executed by Purchaser;

(e) Counterparts of the Transition Services Agreement, duly executed by Purchaser;

(f) A certificate duly executed by the secretary or any assistant secretary of Purchaser, dated as of the Closing, (i) attaching, and certifying on behalf of Purchaser as complete and correct, copies of (A) the certificate of incorporation of Purchaser, (B) the resolutions of the Board of Directors (or body of similar power and authority) of Purchaser or its general partner authorizing the execution, delivery, and performance by Purchaser of this Agreement and the transactions contemplated hereby and (C) any required approval by the shareholders, unit holders or other equity holders of Purchaser of this Agreement and the transactions contemplated hereby and (ii) certifying the incumbency and true signatures of the officers who execute this Agreement and any other agreement, certificate or document related hereto or executed in connection herewith on behalf of Purchaser;

(g) Where approvals are received by Purchaser pursuant to a filing or application under Section 7.2, copies of those approvals;

(h) Evidence of replacement bonds, guaranties and letters of credit pursuant to Section 7.7; and

(i) All other instruments, documents and other items reasonably necessary to effectuate the terms of this Agreement, as may be reasonably requested by Seller.

Section 9.4 Closing Payment and Post-Closing Purchase Price Adjustments.

(a) Not later than five (5) Business Days prior to the Closing Date, Seller shall prepare and deliver to Purchaser, using and based upon the best information available to Seller, a preliminary settlement statement estimating the initial Adjusted Purchase Price after giving effect to all adjustments to the Unadjusted Purchase Price set forth in Section 3.3. The estimate delivered

in accordance with this Section 9.4(a) less the Deposit shall constitute the Dollar amount to be paid by Purchaser to Seller at the Closing (the "Closing Payment").

(b) Seller shall prepare and deliver to Purchaser a statement setting forth the final calculation of the Adjusted Purchase Price and showing the calculation of each adjustment, based, to the extent possible, on actual credits, charges, receipts and other items before and after the Effective Time no later than the later of (x) thirty (30) days following the Cure Period and (y) the date on which the Parties or the Title Arbitrator, as applicable, finally determines all Title Defect Amounts and Title Benefit Amounts under Section 4.4 (such later date, the "Final Settlement Statement Date"). Seller shall, at Purchaser's request, supply reasonable documentation available to support any credit, charge, receipt or other item included in such statement. Purchaser shall deliver to Seller a written report containing any changes that Purchaser proposes be made to Seller's statement no later than sixty (60) days following Purchaser's receipt thereof. Seller may deliver a written report to Purchaser during this same period reflecting any changes that Seller proposes to be made to such statement as a result of additional information received after the statement was prepared. The Parties shall undertake to agree on the final statement of the Adjusted Purchase Price no later than ninety (90) after the Final Settlement Statement Date. In the event that the Parties cannot reach agreement within such period of time, either Party may refer the remaining matters in dispute to the Houston, Texas office of Deloitte for review and final determination by arbitration. The accounting firm shall conduct the arbitration proceedings in Houston, Texas in accordance with the Commercial Arbitration Rules of the American Arbitration Association, to the extent that such rules do not conflict with the terms of this Section 9.4(b). The accounting firm's determination shall be made within thirty (30) days after submission of the matters in dispute and shall be final and binding on both Parties, without right of appeal. In determining the proper amount of any adjustment to the Unadjusted Purchase Price, the accounting firm shall not increase the Unadjusted Purchase Price more than the increase proposed by Seller nor decrease the Unadjusted Purchase Price more than the decrease proposed by Purchaser, as applicable. The accounting firm shall act as an expert for the limited purpose of determining the specific disputed matters submitted by the Parties and may not award damages or penalties to the Parties with respect to any matter. Each Party shall bear its own legal fees and other costs of presenting its case. Seller shall bear one-half and Purchaser shall bear one-half of the costs and expenses of the accounting firm. Within ten (10) days after the earlier of (i) the expiration of Purchaser's sixty (60) day review period without delivery of any written report or (ii) the date on which the Parties finally determine the Adjusted Purchase Price or the accounting firm finally determines the disputed matters, as applicable, (A) Purchaser shall pay to Seller the amount by which the Adjusted Purchase Price (after deducting the Deposit amount) exceeds the Closing Payment or (B) Seller shall pay to Purchaser the amount by which the Closing Payment exceeds the Adjusted Purchase Price (after deducting the Deposit amount), as applicable. Any post-Closing payment pursuant to this Section 9.4(b) shall bear interest from the Closing Date to the date of payment at the Prime Rate.

(c) Purchaser shall assist Seller in the preparation of the final statement of the Adjusted Purchase Price under Section 9.4(b) by furnishing invoices, receipts, reasonable access to personnel, and such other assistance as may be requested by Seller to facilitate such process post-Closing.

(d) All payments made or to be made under this Agreement to Seller shall be made by electronic transfer of immediately available funds to the account designated by Seller in writing to Purchaser. All payments made or to be made hereunder to Purchaser shall be by electronic transfer or immediately available funds to a bank and account specified by Purchaser in writing to Seller.

ARTICLE 10 TERMINATION

Section 10.1 Termination. This Agreement may be terminated at any time prior to Closing:

(a) By the mutual prior written consent of the Parties; or

(x) By either Party if Closing has not occurred on or before October 31, 2012. However, no Party shall be entitled to terminate this Agreement under this Section 10.1(b) if the Closing has failed to occur because such Party negligently or willfully failed to perform or observe in any material respect its covenants or agreements hereunder.

Section 10.2 Effect of Termination. If this Agreement is terminated pursuant to Section 10.1, this Agreement shall become void and of no further force or effect (except for the provisions of Section 5.6, Section 5.22, Section 6.6, Section 7.1(d), Section 7.3, Article 1, Article 10, Article 13 (other than Section 13.12, Section 13.15, Section 13.17 and Section 13.18) and Appendix A, which shall continue in full force and effect) and, without prejudice to its rights under Section 10.3(a) (if applicable), Seller shall be free immediately to enjoy all rights of ownership of the Assets and to sell, transfer, encumber or otherwise dispose of the Assets to any Person without any restriction under this Agreement. Notwithstanding anything to the contrary in this Agreement, the termination of this Agreement under Section 10.1 shall not relieve either Party, subject to Section 13.11, from liability for any willful or negligent failure to perform or observe in any material respect any of its agreements or covenants contained herein that are to be performed or observed at or prior to Closing; provided that Seller's remedy shall be solely as set forth in Section 10.3(a).

Section 10.3 Distribution of Deposit Upon Termination.

(e) If Seller terminates this Agreement under Section 10.1(b), and Purchaser has willfully failed to perform or observe its covenants and agreements or is in breach of its representations and warranties hereunder, or Closing has otherwise not occurred as a result of an act or omission of Purchaser (other than an act or omission expressly permitted by this Agreement), then in addition to its rights under Section 10.2 above, Seller will, as liquidated damages for lost opportunities (and not as a penalty), be entitled to receive (and Purchaser shall direct the Escrow Agent to deliver to Seller) the Deposit together with any interest or income thereon, free of any claims by Purchaser or any other Person, as its sole and exclusive remedy with respect to the termination of this Agreement, and Seller in no event shall have any rights under Section 13.17.

(f) If this Agreement is subject to termination for any reason other than the reasons set forth in Section 10.1(a) (in which case Seller shall direct the Escrow Agent to deliver to Purchaser the Deposit and any interest accrued thereon, free of any claims by Seller or any other

Person with respect thereto) or Section 10.3(a), Purchaser may either (i) elect to terminate this Agreement and cause Seller to direct the Escrow Agent to deliver to Purchaser the Deposit and any interest accrued thereon, free of any claims by Seller or any other Person with respect thereto, as its sole and exclusive remedy with respect to the termination of this Agreement or (ii) in lieu of terminating this Agreement, exercise its rights under Section 13.17.

ARTICLE 11 ASSUMPTION; INDEMNIFICATION

Section 11.1 Assumption . Without limiting Purchaser's rights to indemnity under Section 11.2 and Purchaser's remedy for Title Defects in Article 4 and pursuant to the special warranty in the Assignments, from and after the Closing, Purchaser shall assume and fulfill, perform, pay and discharge all of the Assumed Purchaser Obligations.

Section 11.2 Indemnification.

(g) From and after Closing, Purchaser shall indemnify, defend and hold harmless the Seller Group from and against all Damages incurred, suffered by or asserted against such Persons:

(iv) caused by or arising out of or resulting from the Assumed Purchaser Obligations (including, for purposes of certainty, Environmental Liabilities under CERCLA that constitute Assumed Purchaser Obligations);

(v) caused by or arising out of or resulting from Purchaser's breach of any of Purchaser's covenants or agreements contained in Article 7 or Article 12; or

(vi) caused by or arising out of or resulting from any breach of any representation or warranty made by Purchaser contained in Article 6 of this Agreement or in the certificate delivered by Purchaser at Closing pursuant to Section 9.3(b);

EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF THE SELLER GROUP .

(h) From and after Closing, Seller shall indemnify, defend and hold harmless the Purchaser Group from and against all Damages incurred, suffered by or asserted against such Persons:

(i) caused by or arising out of or resulting from Seller's breach of Seller's covenants or agreements contained in Article 7 or Article 12; or

(ii) caused by or arising out of or resulting from any breach of any representation or warranty made by Seller contained in Article 5, or in the certificate delivered by Seller at Closing pursuant Section 9.2(b);

(iii) caused by or arising out of any personal injury or death relating to the ownership, use or operation of the Assets that occurs prior to the Closing Date;

(iv) caused by or arising out of any off-site Environmental Liabilities that arise from ownership, use or operation of the Assets and are attributable to Seller's ownership thereof that occurs prior to the Effective Time or, in the event Seller was not acting as a reasonable and prudent operator, that occurs prior to the Closing Date; or

(v) caused by or arising out of the Back-In Interest or caused by or arising out of the Excluded Assets.

EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF THE PURCHASER GROUP.

(I) Notwithstanding anything to the contrary contained in this Agreement, this Section 11.2 contains the Parties' exclusive remedies against each other with respect to breaches of the representations, warranties, covenants and agreements of the Parties in Article 5, Article 6 and Article 7 and the affirmations of such representations, warranties, covenants and agreements contained in the certificate delivered by each Party at Closing pursuant to Section 9.2(b) or Section 9.3(b), as applicable. Except for the remedies contained in this Section 11.2, Section 10.2, and Section 10.3, and any other remedies available to the Parties at Law or in equity for breaches of provisions of this Agreement other than Article 5, Article 6 and Article 7, **SELLER AND PURCHASER EACH RELEASE, REMISE AND FOREVER DISCHARGE THE OTHER AND ITS AFFILIATES AND ALL SUCH PARTIES' OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, ADVISORS AND OTHER REPRESENTATIVES FROM ANY AND ALL SUITS, LEGAL OR ADMINISTRATIVE PROCEEDINGS, CLAIMS, DEMANDS, DAMAGES, LOSSES, COSTS, LIABILITIES, INTEREST, OR CAUSES OF ACTION WHATSOEVER, IN LAW OR IN EQUITY, KNOWN OR UNKNOWN, WHICH SUCH PARTIES MIGHT NOW OR SUBSEQUENTLY MAY HAVE, BASED ON, RELATING TO OR ARISING OUT OF (i) THIS AGREEMENT, (ii) SELLER'S OWNERSHIP, USE OR OPERATION OF THE ASSETS OR (iii) THE CONDITION, QUALITY, STATUS OR NATURE OF THE ASSETS, INCLUDING, IN EACH SUCH CASE, RIGHTS TO CONTRIBUTION UNDER CERCLA OR ANY OTHER ENVIRONMENTAL LAW, BREACHES OF STATUTORY OR IMPLIED WARRANTIES, NUISANCE OR OTHER TORT ACTIONS, RIGHTS TO PUNITIVE DAMAGES AND COMMON LAW RIGHTS OF CONTRIBUTION, RIGHTS UNDER AGREEMENTS BETWEEN SELLER AND ANY PERSONS WHO ARE AFFILIATES OF SELLER, AND RIGHTS UNDER INSURANCE MAINTAINED BY SELLER OR ANY PERSON WHO IS AN AFFILIATE OF SELLER, EVEN IF CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY RELEASED PERSON.**

(j) The indemnity of each Party provided in this Section 11.2 shall be for the benefit of and extend to each Person included in the Seller Group and the Purchaser Group, as applicable. Any claim for indemnity under this Section 11.2 by any Third Party must be brought and administered by a Party to this Agreement. No Indemnified Person (including any Person within the Seller Group and the Purchaser Group) other than the Parties shall have any rights against either

Seller or Purchaser under the terms of this Section 11.2 except as may be exercised on its behalf by Purchaser or Seller, as applicable, pursuant to this Section 11.2(d). The Parties may elect to exercise or not exercise indemnification rights under this Section 11.2(d) on behalf of the other Indemnified Persons affiliated with it in its sole discretion and shall have no liability to any such other Indemnified Person for any action or inaction under this Section 11.2(d).

Section 11.3 Indemnification Actions. All claims for indemnification under Section 11.2 shall be asserted and resolved as follows:

(a) For purposes hereof, (i) the term “Indemnifying Person” when used in connection with particular Damages shall mean the Person or Persons having an obligation to indemnify another Person or Persons with respect to such Damages pursuant to this Article 11 and (ii) the term “Indemnified Person” when used in connection with particular Damages shall mean the Person or Persons having the right to be indemnified with respect to such Damages by another Person or Persons pursuant to this Article 11.

(b) To make a claim for indemnification under Section 11.2, an Indemnified Person shall notify the Indemnifying Person of its claim under this Section 11.3, including the specific details of and specific basis under this Agreement for its claim (the “Claim Notice”). In the event that the claim for indemnification is based upon a claim by a Third Party against the Indemnified Person (a “Third Person Claim”), the Indemnified Person shall provide its Claim Notice promptly after the Indemnified Person has actual knowledge of the Third Person Claim and shall enclose a copy of all papers (if any) served with respect to the Third Person Claim; *provided* that the failure of any Indemnified Person to give notice of a Third Person Claim as provided in this Section 11.3 shall not relieve the Indemnifying Person of its obligations under Section 11.2 except to the extent such failure results in insufficient time being available to permit the Indemnifying Person to effectively defend against the Third Person Claim or otherwise prejudices the Indemnifying Person’s ability to defend against the Third Person Claim. In the event that the claim for indemnification is based upon an inaccuracy or breach of a representation, warranty, covenant or agreement, the Claim Notice shall specify the representation, warranty, covenant or agreement that was inaccurate or breached.

(c) In the case of a claim for indemnification based upon a Third Person Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to notify the Indemnified Person whether it admits or denies its obligation to defend the Indemnified Person against such Third Person Claim under this Article 11. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period whether the Indemnifying Person admits or denies its obligation to defend the Indemnified Person, it shall be conclusively deemed to have denied such indemnification obligation hereunder. The Indemnified Person is authorized, prior to and during such thirty (30) day period, to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Person and that is not prejudicial to the Indemnifying Person.

(d) If the Indemnifying Person admits its obligation, it shall have the right and obligation to diligently defend, at its sole cost and expense, the Third Person Claim. The Indemnifying Person shall have full control of such defense and proceedings, including any

compromise or settlement thereof. If requested by the Indemnifying Person, the Indemnified Person agrees to cooperate in contesting any Third Person Claim that the Indemnifying Person elects to contest (*provided, however*, that the Indemnified Person shall not be required to bring any counterclaim or cross-complaint against any Person). The Indemnified Person may at its own expense participate in, but not control, any defense or settlement of any Third Person Claim controlled by the Indemnifying Person pursuant to this Section 11.3(d). An Indemnifying Person shall not, without the written consent of the Indemnified Person, settle any Third Person Claim or consent to the entry of any judgment with respect thereto which (i) does not result in a final resolution of the Indemnified Person's liability with respect to the Third Person Claim (including, in the case of a settlement, an unconditional written release of the Indemnified Person) or (ii) may materially and adversely affect the Indemnified Person (other than as a result of money damages covered by the indemnity).

(e) If the Indemnifying Person does not admit its obligation or admits its obligation but fails to diligently defend or settle the Third Person Claim, then the Indemnified Person shall have the right to defend against the Third Person Claim (at the sole cost and expense of the Indemnifying Person, if the Indemnified Person is entitled to indemnification hereunder), with counsel of the Indemnified Person's choosing, subject to the right of the Indemnifying Person to admit its obligation and assume the defense of the Third Person Claim at any time prior to settlement or final determination thereof. If the Indemnifying Person has not yet admitted its obligation to provide indemnification with respect to a Third Person Claim, the Indemnified Person shall send written notice to the Indemnifying Person of any proposed settlement and the Indemnifying Person shall have the option for ten (10) days following receipt of such notice to (i) admit in writing its obligation to provide indemnification with respect to the Third Person Claim and (ii) if its obligation is so admitted, reject, in its reasonable judgment, the proposed settlement. If the Indemnified Person settles any Third Person Claim over the objection of the Indemnifying Person after the Indemnifying Person has timely admitted its obligation in writing and assumed the defense of a Third Person Claim, the Indemnified Person shall be deemed to have waived any right to indemnity therefor.

(f) In the case of a claim for indemnification not based upon a Third Person Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to (i) cure the Damages complained of, (ii) admit its obligation to provide indemnification with respect to such Damages or (iii) dispute the claim for such indemnification. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period that it has cured the Damages or that it disputes the claim for such indemnification, the Indemnifying Person shall be deemed to have disputed such claim for indemnification.

Section 11.4 Limitation on Actions.

(d) The representations and warranties of the Parties in Article 5 and Article 6 and the covenants and agreements of the Parties in Article 7 and the corresponding representations and warranties given in the certificates delivered at Closing pursuant to Section 9.2(b) and Section 9.3(b), as applicable, shall survive the Closing for a period of twelve (12) months (unless a shorter period is expressly provided within the applicable Section), except that (i) the representations, warranties and acknowledgements, as applicable, in Section 5.2, Section 5.3, Section 5.4, Section

5.6, Section 6.2, Section 6.3, Section 6.4, and Section 6.14 shall survive indefinitely, (ii) the representations and warranties in Section 5.10, Section 5.12 and Section 5.15 and the covenants in Section 7.4 shall survive the Closing for a period of twenty-four (24) months (iii) the representations and warranties in Section 5.11 shall survive Closing until sixty (60) days after the expiration of the applicable statute of limitations (including extension) for the subject Taxes and (iv) the covenants and agreements, as applicable, in Section 7.1(d), Section 7.3, Section 7.6, Section 7.7 and Section 7.10 shall survive indefinitely. The remainder of this Agreement (including the disclaimers in Section 5.22) shall survive the Closing without time limit except (A) as may otherwise be expressly provided herein and (B) for the provisions of Article 12, which shall survive Closing until sixty (60) days after the expiration of the applicable statute of limitations (including extension) for the subject Taxes. Representations, warranties, covenants and agreements shall be of no further force and effect after the date of their expiration, *provided* that there shall be no termination of any bona fide claim asserted pursuant to this Agreement with respect to such a representation, warranty, covenant or agreement prior to its expiration date.

(e) The indemnities in Section 11.2(a)(ii), Section 11.2(a)(iii), Section 11.2(b)(i) and Section 11.2(b)(ii) shall terminate as of the termination date of each respective representation, warranty, covenant or agreement that is subject to indemnification thereunder, except in each case as to matters for which a specific written claim for indemnity has been delivered to the Indemnifying Person on or before such termination date. The indemnities in Section 11.2(a)(i), Section 11.2(b)(iii), Section 11.2(b)(iv), and Section 11.2(b)(v) shall continue without time limit.

(f) Seller shall not have any liability for any indemnification under Section 11.2(b)(i) or Section 11.2(b)(ii) (other than in respect to claims relating to a breach of a representation or warranty in Section 5.10, Section 5.11, Section 5.12 or Section 5.15 or a breach of a covenant or agreement in Section 7.4 or Article 12), until and unless the aggregate amount of the liability for all Damages for which Claim Notices are delivered by Purchaser therefor exceeds two and one-half percent (2.5%) of the Unadjusted Purchase Price, and then only to the extent such Damages exceed two and one-half percent (2.5%) of the Unadjusted Purchase Price. Purchaser shall not have any liability for any indemnification under Section 11.2(a)(ii) (other than with respect to claims relating to a breach of a covenant or agreement in Article 12) or Section 11.2(a)(iii) until and unless the aggregate amount of the liability for all Damages for which Claim Notices are delivered by Seller therefor exceeds two and one-half percent (2.5%) of the Unadjusted Purchase Price, and then only to the extent such Damages exceed two and one-half percent (2.5%) of the Unadjusted Purchase Price.

(g) Except with respect to liability for indemnification under Section 11.2(b)(i) with respect to breaches of covenants and agreements under Article 12, Section 11.2(b)(iii), Section 11.2(b)(iv), or Section 11.2(b)(v), Seller shall not be required to indemnify the Purchaser Group under this Article 11 for aggregate Damages in excess of ten percent (10%) of the Unadjusted Purchase Price.

(h) The amount of any Damages for which an Indemnified Person is entitled to indemnity under this Article 11 shall be reduced by (i) the amount of insurance proceeds realized by the Indemnified Person or its Affiliates with respect to such Damages (net of any collection costs,

and excluding the proceeds of any insurance policy issued or underwritten by the Indemnified Person or its Affiliates) and (ii) an amount equal to the amount of any net Tax benefit actually realized by the Indemnified Person or its Affiliates as a result of such Damages in the year such Damages are incurred.

(i) Purchaser shall not be entitled to indemnification or any other remedy under this Agreement with respect to any Damages or other liability, loss, cost, expense, claim, award or judgment to the extent attributable to or arising out of the actions of Purchaser as operator of any of the Properties.

(j) In no event shall (i) any Indemnified Person be entitled to duplicate compensation with respect to the same Damage, liability, loss, cost, expense, claim, award or judgment under more than one provision of this Agreement and the various documents delivered in connection with the Closing, and (ii) any Person be entitled to indemnification hereunder with respect to a breach by an Indemnifying Person of any of the representations, warranties or covenants made or agreed to by such Indemnifying Person hereunder of which such Person had actual knowledge prior to the Closing Date.

ARTICLE 12 TAX MATTERS

Section 12.1 Tax Filings. From the Effective Time through the Closing Date, Seller (or, if applicable, the designated operator) shall be responsible for filing with the Taxing authorities the applicable Tax Returns for all Asset Taxes relating to the Assets that are required to be filed on or before the Closing Date and paying the Taxes reflected on such Tax Returns as due and owing (*provided* that to the extent such Taxes relate to the periods from and after the Effective Time, as determined pursuant to Section 12.2, promptly following Seller's request (and in accordance with Section 12.2), Purchaser shall pay to Seller any such Taxes, *but only* to the extent that such amounts have not already been accounted for under Section 3.3 and have actually been paid by Seller to the applicable Governmental Body or designated operator). Purchaser (or, if applicable, the designated operator) shall be responsible for filing with the appropriate Taxing authorities the applicable Tax Returns for all Asset Taxes that are required to be filed after the Closing Date and paying the Taxes reflected on such Tax Returns as due and owing (*provided* that to the extent such Taxes relate to the periods before the Effective Time, as determined pursuant to Section 12.2, promptly following Purchaser's request (and in accordance with Section 12.2), Seller shall pay to Purchaser any such Taxes, *but only* to the extent that such amounts have not already been accounted for under Section 3.3 and have actually been paid by Purchaser to the applicable Governmental Body or designated operator); *provided, however*, that in the event that Seller (or a designated operator) is required by applicable Tax Law to file a Tax Return with respect to Asset Taxes after the Closing Date that includes all or a portion of a Tax period for which Purchaser is liable for such Taxes, Seller (or the designated operator) shall file such Tax Return and shall pay the Taxes reflected on such Tax Return as due and owing, and promptly following Seller's request (and in accordance with section 12.2), Purchaser shall pay to Seller all such Taxes allocable to the period or portion thereof beginning at or after the Effective Time, as determined pursuant to Section 12.2 (but only to the extent that such amounts have not already been accounted for under Section 3.3 and have actually been paid by

Seller to the applicable Governmental Body or designated operator), but only if such Taxes arise out of the filing of an original return. Seller shall be entitled to all Tax refunds that relate to any such Taxes allocable to any Tax period, or portion thereof, ending before the Effective Time. Notwithstanding anything to the contrary (including Section 2.4(g)), to the extent that Seller or Purchaser receives any Tax refund to which Seller or Purchaser (as the case may be) is entitled, Seller or Purchaser (as the case may be) shall immediately pay such amount to the other Party to the extent the Adjusted Purchase Price has not been increased pursuant to Section 3.3 on account thereof.

Section 12.2 Current Tax Period Taxes. Asset Taxes assessed against the Assets with respect to the Tax period in which the Effective Time occurs (the "Current Tax Period"), *but excluding* severance production or similar Taxes that are based on quantity of or the value of production of Hydrocarbons and sales and use Taxes, shall be apportioned between the Parties as of the Effective Time with (a) Seller being obligated to pay a proportionate share of the actual amount of such Taxes for the Current Tax Period determined by *multiplying* such actual Taxes by a fraction, the numerator of which is the number of days in the Current Tax Period prior to the Effective Time and the denominator of which is the total number of days in the Current Tax Period and (b) Purchaser being obligated to pay a proportionate share of the actual amount of such Taxes for the Current Tax Period determined by *multiplying* such actual Taxes by a fraction, the numerator of which is the number of days (including the Closing Date) in the Current Tax Period at and after the Effective Time and the denominator of which is the total number of days in the Current Tax Period. As described in Section 2.4(g), severance, production and similar Taxes that are based on quantity of or the value of production of Hydrocarbons shall be apportioned between the Parties based on the number of units or value of production actually produced or sold, as applicable, before, and at or after, the Effective Time. Sales and use Taxes shall be apportioned between the Parties based on transactions occurring before, and at or after, the Effective Time. In the event that Purchaser or Seller makes any payment (directly or indirectly) for which it is entitled to reimbursement under this Article 12, the applicable Party shall make such reimbursement promptly but in no event later than ten (10) days after the presentation of a statement setting forth the amount of reimbursement to which the presenting Party is entitled along with such supporting evidence as is reasonably necessary to calculate the amount of the reimbursement.

Section 12.3 Purchase Price Adjustments. The Unadjusted Purchase Price shall be increased pursuant to Section 3.3 by (or Purchaser shall otherwise reimburse Seller for) the amount of Asset Taxes imposed on the ownership of the Assets or the production of Hydrocarbons from such Assets for all Tax periods or portions thereof ending before the Effective Time that Seller has paid on behalf of other working interest owners, royalty interest owners, overriding royalty interest owners and other interest owners in such Assets and that have not been recouped by Seller before the Closing Date from such other working interest owners, royalty interest owners, overriding royalty interest owners and other interest owners in such Assets. Notwithstanding anything to the contrary (including Section 2.4(g)), to the extent that Purchaser receives any recoupment of Taxes described in the preceding sentence, Purchaser shall immediately pay such amount to Seller to the extent the Adjusted Purchase Price has not been increased pursuant to Section 3.3 on account thereof.

Section 12.4 Characterization of Certain Payments. The Parties agree that any payments made pursuant to this Article 12, Article 11, Section 2.4 or Section 9.4 shall be treated for all Tax purposes as an adjustment to the Unadjusted Purchase Price unless otherwise required by Law.

Section 12.5 Withholding Taxes. All payments due to Seller under this Agreement shall be made net of any applicable deduction or withholding for or on account of any Tax provided, however, that Purchaser shall provide at least ten (10) days' notice to Seller if any such amounts will be withheld. In the event Purchaser is required to withhold or deduct an amount for or on account of Tax from any payment due under this Agreement, the amount deducted or withheld shall be treated as paid to Seller for all purposes of this Agreement.

ARTICLE 13 MISCELLANEOUS

Section 13.1 Counterparts . This Agreement may be executed in counterparts, each of which shall be deemed an original instrument, but all such counterparts together shall constitute but one agreement. Either Party's delivery of an executed counterpart signature page by facsimile (or email) is as effective as executing and delivering this Agreement in the presence of the other Party. No Party shall be bound until such time as all of the Parties have executed counterparts of this Agreement.

Section 13.2 Notice. All notices and other communications that are required or may be given pursuant to this Agreement must be given in writing, in English and delivered personally, by courier, by facsimile or by registered or certified mail, postage prepaid, as follows:

If to Seller:

Helis Oil & Gas Company, L.L.C.
228 St. Charles Avenue, Suite 912
New Orleans, Louisiana 70130
Attn: David A. Kerstein
Facsimile: (504) 681-3379

With a copy (which shall not constitute notice) to :

Helis Oil & Gas Company, L.L.C.
100 North 27th Street, Suite 255
Billings, Montana 59101
Attn: Roxie Simpson
Facsimile: (406) 248-5253

Latham & Watkins LLP
811 Main Street, Suite 3700
Houston, Texas 77002
Attn: Michael P. Darden
Facsimile: (713) 546-5401

If to Purchaser:

QEP Resources, Inc.
Independence Plaza
1050 17th Street, Suite 500
Denver, CO 80265
Attn: Austin Murr, VP – Land and Business Development
Facsimile: 303.573.0307
Email: Austin.murr@qepres.com

With a copy (which shall not constitute notice) to:

QEP Resources, Inc.
Independence Plaza
1050 17th Street, Suite 500
Denver, CO 80265
Attn: Abigail L. Jones, Vice President Compliance, and Corporate Secretary
Facsimile: 866.400.8834
Abby.jones@qepres.com

Either Party may change its address for notice by notice to the other Party in the manner set forth above. All notices shall be deemed to have been duly given at the time of receipt by the Party to which such notice is addressed.

Section 13.3 Tax, Recording Fees, Similar Taxes & Fees.

(a) Purchaser shall bear any sales, use, excise, real property transfer, gross receipts, goods and services, registration, capital, documentary, stamp or transfer Taxes, recording fees and similar Taxes and fees incurred and imposed upon, or with respect to, the property transfers or other transactions contemplated hereby. If such transfers or transactions are exempt from any such Taxes or fees upon the filing of an appropriate certificate or other evidence of exemption, the Party required to furnish such certificate or evidence will timely furnish such certificate or evidence to the other Party or the appropriate Government Body. The Parties anticipate that the transfer of tangible personal property contemplated hereby, if any, is exempt from North Dakota sales and use Taxes as a casual or occasional sale pursuant to North Dakota Sales Tax Rule 81-04.1-01-16.

(b) Except as otherwise provided herein, all costs and expenses (including legal and financial advisory fees and expenses) incurred in connection with, or in anticipation of, this Agreement and the transactions contemplated hereby shall be paid by the Party incurring such expenses.

Section 13.4 Governing Law; Jurisdiction .

(A) THIS AGREEMENT AND THE LEGAL RELATIONS BETWEEN THE PARTIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

(B) THE PARTIES HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA LOCATED IN HARRIS COUNTY, TEXAS (OR, IF REQUIREMENTS FOR FEDERAL JURISDICTION ARE NOT MET, STATE COURTS LOCATED IN HARRIS COUNTY, TEXAS) AND APPROPRIATE APPELLATE COURTS THEREFROM FOR THE RESOLUTION OF ANY DISPUTE, CONTROVERSY, OR CLAIM ARISING OUT OF OR IN RELATION TO THIS AGREEMENT, AND EACH PARTY HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH DISPUTE, CONTROVERSY OR CLAIM MAY BE HEARD AND DETERMINED IN SUCH COURTS. THE PARTIES HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAWS, ANY OBJECTION WHICH THEY MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH DISPUTE, CONTROVERSY OR CLAIM BROUGHT IN ANY SUCH COURT OR ANY DEFENSE OF INCONVENIENT FORUM FOR THE MAINTENANCE OF SUCH DISPUTE, CONTROVERSY OR CLAIM. EACH PARTY AGREES THAT A JUDGMENT IN ANY SUCH DISPUTE MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY APPLICABLE LAW.

(C) EACH OF THE PARTIES HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.

Section 13.5 Waivers . Any failure by either Party to comply with any of its obligations, agreements or conditions herein contained may be waived by the Party to whom such compliance is owed by an instrument signed by such Party and expressly identified as a waiver, but not in any other manner. No waiver of, consent to a change in, or any delay in timely exercising any rights arising from, any of the provisions of this Agreement shall be deemed or shall constitute a waiver of, or consent to a change in, other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

Section 13.6 Assignment. No Party shall assign all or any part of this Agreement, nor shall either Party assign or delegate any of its rights or duties hereunder, without the prior written consent of the other Party (which consent may be withheld for any reason) and any assignment or delegation made without such consent shall be void. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns.

Section 13.7 Entire Agreement . This Agreement (including, for purposes of certainty, the Appendix, Exhibits and Schedules attached hereto), the documents to be executed hereunder and the Confidentiality Agreement constitute the entire agreement between the Parties pertaining to the

subject matter hereof, and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties pertaining to the subject matter hereof.

Section 13.8 Amendment . This Agreement may be amended or modified only by an agreement in writing executed by all Parties and expressly identified as an amendment or modification.

Section 13.9 No Third Party Beneficiaries. Nothing in this Agreement shall entitle any Person other than Purchaser and Seller to any claims, cause of action, remedy or right of any kind, except the rights expressly provided in Section 4.2(f), Section 7.1(d) and Section 11.2 to the Persons described therein.

Section 13.10 Construction . The Parties acknowledge that (a) the Parties have had the opportunity to exercise business discretion in relation to the negotiation of the details of the transaction contemplated hereby, (b) this Agreement is the result of arms-length negotiations from equal bargaining positions and (c) the Parties and their respective counsel participated in the preparation and negotiation of this Agreement. Any rule of construction that a contract be construed against the drafter shall not apply to the interpretation or construction of this Agreement.

Section 13.11 Limitation on Damages. **NOTWITHSTANDING ANYTHING TO THE CONTRARY, EXCEPT IN CONNECTION WITH ANY DAMAGES INCURRED BY THIRD PARTIES FOR WHICH INDEMNIFICATION IS SOUGHT UNDER THE TERMS OF THIS AGREEMENT, NONE OF PURCHASER, SELLER OR ANY OF THEIR RESPECTIVE AFFILIATES SHALL BE ENTITLED TO CONSEQUENTIAL, SPECIAL, INDIRECT, PUNITIVE OR EXEMPLARY DAMAGES IN CONNECTION WITH THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY AND, EXCEPT AS OTHERWISE PROVIDED IN THIS SENTENCE, EACH OF PURCHASER AND SELLER, FOR ITSELF AND ON BEHALF OF ITS AFFILIATES, HEREBY EXPRESSLY WAIVES ANY RIGHT TO CONSEQUENTIAL, SPECIAL, INDIRECT, PUNITIVE OR EXEMPLARY DAMAGES IN CONNECTION WITH THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY.**

Section 13.12 Recording. As soon as practicable after Closing, Purchaser shall record the Assignments and other assignments, if any, delivered at Closing in the appropriate counties as well as with any appropriate governmental agencies and provide Seller with copies of all recorded or approved instruments.

Section 13.13 Conspicuous . **THE PARTIES AGREE THAT, TO THE EXTENT REQUIRED BY APPLICABLE LAW TO BE EFFECTIVE OR ENFORCEABLE, THE PROVISIONS IN THIS AGREEMENT IN BOLD-TYPE FONT ARE “CONSPICUOUS” FOR THE PURPOSE OF ANY APPLICABLE LAW.**

Section 13.14 Time of Essence . This Agreement contains a number of dates and times by which performance or the exercise of rights is due, and the Parties intend that each and every such date and time be the firm and final date and time, as agreed. For this reason, each Party hereby waives and relinquishes any right it might otherwise have to challenge its failure to meet any

performance or rights election date applicable to it on the basis that its late action constitutes substantial performance, to require the other Party to show prejudice, or on any equitable grounds. Without limiting the foregoing, time is of the essence in this Agreement. If the date specified in this Agreement for giving any notice or taking any action is not a Business Day (or if the period during which any notice is required to be given or any action taken expires on a date which is not a Business Day), then the date for giving such notice or taking such action (and the expiration date of such period during which notice is required to be given or action taken) shall be the next day that is a Business Day.

Section 13.15 Delivery of Records . Seller, at Purchaser's cost and expense, shall deliver the Records to Purchaser within sixty (60) days following Closing.

Section 13.16 Severability . The invalidity or unenforceability of any term or provision of this Agreement in any situation or jurisdiction shall not affect the validity or enforceability of the other terms or provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction and the remaining terms and provisions shall remain in full force and effect, unless doing so would result in an interpretation of this Agreement that is manifestly unjust.

Section 13.17 Specific Performance. The Parties agree that if any of the provisions of this Agreement were not performed in accordance with their specific terms, irreparable damage would occur, no adequate remedy at Law would exist and damages would be difficult to determine, and the Parties shall be entitled to specific performance of the terms hereof and immediate injunctive relief, without the necessity of proving the inadequacy of money damages as a remedy, in addition to any other remedy available at law or in equity, subject to Section 10.3.

Section 13.18 Like-Kind Exchange . Seller and Purchaser agree that either Party may elect to treat the acquisition or sale of the Assets or any portion thereof as an exchange of like-kind property under Section 1031 of the Code ("Exchange "). Each of Seller and Purchaser agrees to use reasonable efforts to cooperate with the other Party in the completion of such an Exchange including an Exchange subject to the procedures outlined in Treasury Regulation Section 1.1031(k)-1 and/or IRS Revenue Procedure 2000-37, 2000-2 C.B. 308 (as modified by IRS Revenue Procedure 2004-51, 2004-2 C.B. 294). Each of Seller and Purchaser shall have the right at any time prior to Closing to assign its rights under this Agreement to a qualified intermediary (as that term is defined in Treasury Regulation Section 1.1031(k)-1(g)(4)(iii)) or an exchange accommodation titleholder (as that term is defined in IRS Revenue Procedure 2000-37, 2000-2 C.B. 308) to effect an Exchange. In connection with any such Exchange, any exchange accommodation title holder shall have taken all steps necessary to own the relevant Assets under applicable Law. Each of Seller and Purchaser acknowledges and agrees that neither an assignment of a Party's rights under this Agreement nor any other actions taken by a Party or any other Person in connection with the Exchange shall release either Party from, or modify, any of their respective liabilities and obligations (including indemnity obligations to each other) under this Agreement, and neither Seller nor Purchaser makes any representations as to any particular tax treatment that may be afforded to the other Party by reason of such assignment or any other actions taken in connection with the Exchange. Any Party electing to treat the acquisition or sale of the Assets as an Exchange shall be obligated to pay all additional

costs incurred hereunder as a result of the Exchange, and in consideration for the cooperation of the other Party, the Party electing Exchange treatment shall agree to pay all costs associated with the Exchange and to indemnify and hold such other Party and its Affiliates, officers, directors, partners, members, employees, and agents harmless from and against any and all liabilities and Taxes arising out of, based upon, attributable to or resulting from the Exchange or transactions or actions taken in connection with the Exchange that would not have been incurred by the other Party but for the electing Party's Exchange election.

[*Signature pages follow*]

IN WITNESS WHEREOF, this Agreement has been signed by each of the Parties on the Execution Date.

SELLER:

HELIS OIL & GAS COMPANY, L.L.C.

By Helis Energy, L.L.C., Manager

By: /s/ David A. Kerstein

David A. Kerstein

President

IN WITNESS WHEREOF, this Agreement has been signed by each of the Parties on the Execution Date.

PURCHASER:

QEP ENERGY COMPANY

By: /s/ Charles B. Stanley

Charles B. Stanley

Chairman, President and Chief Executive Officer

APPENDIX A

ATTACHED TO AND MADE A PART OF THAT CERTAIN
PURCHASE AND SALE AGREEMENT, DATED AS OF AUGUST 23, 2012, BY AND BETWEEN SELLER AND PURCHASER

DEFINITIONS

“Actual Knowledge” has the meaning set forth in Section 5.1(a).

“Adjusted Purchase Price” has the meaning set forth in Section 3.3.

“AFEs” means authorization for expenditures issued pursuant to a Contract.

“Affiliate” means, with respect to any Person, any Person that directly or indirectly Controls, is Controlled by or is under common Control with such Person.

“Aggregate Benefit Deductible” has the meaning set forth in Section 4.5(b)(ii).

“Aggregate Defect Deductible” has the meaning set forth in Section 4.5(b)(i).

“Agreement” has the meaning set forth in the preamble of this Agreement.

“Allocated Value” has the meaning set forth in Section 3.4.

“Arbitration Decision” has the meaning set forth in Section 4.4(d).

“Assignment” means the Assignment, the form of which is attached hereto as Exhibit B.

“Asset Taxes” means ad valorem, property, excise, severance, production, sales, use, or similar taxes (including any interest, fine, penalty or additions to tax imposed by a Governmental Body in connection with such taxes) based upon operation or ownership of the Assets or the production of Hydrocarbons from the Assets; *but excluding*, for the avoidance of doubt, income, capital gains or franchise taxes.

“Assets” has the meaning set forth in Section 2.2.

“Assumed Purchaser Obligations” means (i) all obligations and liabilities (including Environmental Liabilities), known or unknown, with respect to or arising from the Assets, regardless of whether such obligations or liabilities arose prior to, at or after the Effective Time, including obligations and liabilities relating in any manner to the condition, use, ownership or operation of the Assets, including obligations to (a) furnish makeup gas and settle Imbalances attributable to the Assets according to the terms of applicable gas sales, processing, gathering or transportation Contracts, (b) pay working interests, royalties, overriding royalties and other interest owners’ revenues or proceeds attributable to sales of Hydrocarbons produced from the Assets, (c) pay the proportionate share attributable to the Assets to properly plug and abandon any and all Wells, including temporarily

abandoned Wells, (d) pay the proportionate share attributable to the Assets to dismantle or decommission and remove any property and other property of whatever kind related to or associated with operations and activities conducted by whomever on the Assets, (e) pay the proportionate share attributable to the Assets to abandon, clean up, restore and remediate the premises covered by or related to the Assets in accordance with applicable agreements and Laws and (f) pay the proportionate share attributable to the Assets to perform all obligations applicable to or imposed on the lessee, owner, or operator under the Leases and the Contracts, or as required by any Law including the payment of all Taxes for which Purchaser is responsible hereunder and (ii) the matters set forth on Schedule 11.1 ; *but excluding*, in all such instances, (A) prior to the Cut-off Date, matters that are the bases for the downward adjustments set forth in Section 3.3(b), which will be exclusively settled and accounted for pursuant to the terms of Section 3.3(b) and Section 9.4; (B) matters for which Seller is obligated to indemnify Purchaser pursuant to Section 11.2(b), limited, however to the extent of Seller's obligation to indemnify; (C) Asset Taxes for which Seller is responsible pursuant to Article 12, (D) any Asset Taxes not described in (C) that are attributable to the ownership or operation of the Assets prior to the Effective Time; (E) any other Taxes (other than Asset Taxes) imposed on Seller or for which Seller is otherwise liable; and (F) any responsibility for royalties, overriding royalties and other burdens on production paid by Seller on behalf of or for the account of others, relating to the period of time prior to the Effective Time.

"Back-In Interest" means the right of Energy Consultants LLC ("EC") to a portion of the interest of Seller in the Assets upon the recovery by Seller of a certain rate of return from the Assets, all as more particularly set forth in that certain "Exploration and Production Services Agreement" between Seller and EC, dated October 18, 2006, as amended and extended by letter agreements between such parties dated October 27, 2008 and November 18, 2010.

"Business Day" means each calendar day except Saturdays, Sundays, and federal holidays.

"Casualty Loss" has the meaning set forth in Section 4.7(a).

"Central Time" means the central time zone of the United States of America.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq., as amended.

"Claim Notice" has the meaning set forth in Section 11.3(b).

"Closing" has the meaning set forth in Section 9.1.

"Closing Date" has the meaning set forth in Section 9.1.

"Closing Payment" has the meaning set forth in Section 9.4(a).

"Code" means the United States Internal Revenue Code of 1986, as amended.

"Commercially Reasonable Efforts" means reasonable efforts of a Party under existing circumstances; provided, however, that such efforts shall not include the incurring of any liability or obligation or the payment of any money (unless Purchaser has agreed to pay such costs).

“Confidentiality Agreement” means that certain Confidentiality Agreement dated June 11, 2012 between Purchaser and Seller.

“Confidentiality Restrictions” has the meaning set forth in Section 7.3(b).

“Contracts” has the meaning set forth in Section 2.2(f).

“Control” means the ability to direct the management and policies of a Person through ownership of voting shares or other equity rights, pursuant to a written agreement, or otherwise. The terms “Controls” and “Controlled by” and other derivatives shall be construed accordingly.

“COPAS” has the meaning set forth in Section 2.5(a).

“Cure Period” has the meaning set forth in Section 4.2(b).

“Current Tax Period” has the meaning set forth in Section 12.2.

“Customary Post-Closing Consents” means the consents and approvals from Governmental Bodies for the transfer of the Assets to Purchaser that are customarily obtained after the transfer of properties similar to the Assets.

“Cut-off Date” has the meaning set forth in Section 3.3.

“Damages” means the amount of any actual liability, loss, cost, expense, claim, award or judgment incurred or suffered by any Person (to be indemnified under this Agreement) arising out of or resulting from the indemnified matter, whether attributable to personal injury or death, property damage, contract claims (including contractual indemnity claims), torts, or otherwise, including reasonable fees and expenses of attorneys, consultants, accountants or other agents and experts reasonably incident to matters indemnified against, and the reasonable costs of investigation and monitoring of such matters, and the reasonable costs of enforcement of the indemnity; *provided, however*, that the term “Damages” shall not include (i) loss of profits or other consequential damages suffered by the Party claiming indemnification, or any punitive damages (except as otherwise provided herein), (ii) any liability, loss, cost, expense, claim, award or judgment to the extent resulting from or to the extent increased by the actions or omissions of any Indemnified Person after the Closing Date, (iii) only in the case of claims under Section 11.2(a)(iii) or Section 11.2(b)(ii) (other than those claims relating to a breach of a representation or warranty in Section 5.10, Section 5.11, Section 5.12, or Section 5.15), any liability, loss, cost, expense, claim, award or judgment that does not individually exceed \$100,000, and (iv) in the case of claims relating to a breach of a representation or warranty in Section 5.10, Section 5.12, or Section 5.15, any liability, loss, cost, expense, claim, award or judgment that does not individually exceed \$50,000.

“Defensible Title” means that title of Seller with respect to the Units (to all depths except for any depth limitations set forth on Exhibit A-1) that, except for and subject to the Permitted Encumbrances:

- (i) entitles Seller to receive Hydrocarbons within, produced, saved and marketed from such Units (after satisfaction of all royalties, overriding royalties, net profits interests or other similar
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burdens paid to Third Parties on or measured by production of Hydrocarbons, hereinafter “Net Revenue Interest”) of not less than the Net Revenue Interest shown therefor on Schedule 3.4 for the Units, as applicable, except for (a) decreases in connection with those operations in which Seller may be a nonconsenting co-owner, (b) decreases resulting from the reversion of interests to co-owners with operations in which such co-owners elected not to consent, (c) decreases resulting from the establishment or amendment of involuntary pools or units, (d) decreases required to allow other working interest owners to make up past underproduction or pipelines to make up past under-deliveries and (e) as otherwise shown on Schedule 3.4;

(ii) obligates Seller to bear a percentage of the costs and expenses for the maintenance and development of, and operations relating to, of each Unit not greater than the working interest shown therefor on Schedule 3.4, without future increase, except for (a) increases that are accompanied by at least a proportionate increase in Seller’s Net Revenue Interest, (b) increases resulting from contribution requirements with respect to defaults by co-owners under the applicable operating agreement and (c) as otherwise shown on Schedule 3.4; and

(iii) is free and clear of liens, encumbrances, obligations, or defects.

“Deposit” has the meaning set forth in Section 3.1.

“Disputed Defect” has the meaning set forth in Section 4.2(b).

“Disputed Title Matters” has the meaning set forth in Section 4.4.

“Dollars” means U.S. Dollars.

“Effective Time” has the meaning set forth in Section 2.4(a).

“Environmental Cure Period” has the meaning set forth in Section 4.2(e)(i)(E).

“Environmental Defect” means (i) any written notice from a Governmental Body asserting or alleging a violation of an Environmental Law attributable to the use, ownership or operation of the Assets, (ii) a condition on or affecting an Asset that violates an Environmental Law, (iii) a condition on or affecting an Asset with respect to which remedial or corrective action is required under Environmental Law and (iv) any other Environmental Liability.

“Environmental Defect Hold-Back Property” has the meaning set forth in Section 4.2(e)(i).

“Environmental Laws” means, as the same have been amended to the Execution Date, CERCLA, the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 et seq.; the Clean Air Act, 42 U.S.C. § 7401 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. § 1471 et seq.; the Toxic Substances Control Act, 15 U.S.C. §§ 2601 through 2629; the Oil Pollution Act, 33 U.S.C. § 2701 et seq.; the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. § 11001 et seq.; and the Safe Drinking Water Act, 42 U.S.C. §§ 300f through 300j; and all similar Laws as of the Execution Date of any Governmental Body having jurisdiction over the property in question addressing pollution or protection of the

environment and all regulations implementing the foregoing that are applicable to the operation and maintenance of the Assets.

“Environmental Liabilities” means any and all environmental response costs (including costs of remediation), damages, natural resource damages, settlements, consulting fees, expenses, penalties, fines, orphan share, prejudgment and post-judgment interest, court costs, attorneys’ fees and other liabilities incurred or imposed (i) pursuant to any order, notice of responsibility, directive (including requirements embodied in Environmental Laws), injunction, judgment or similar act (including settlements) by any Governmental Body or court of competent jurisdiction to the extent arising out of any violation of, or remedial obligation under, any Environmental Laws that are attributable to the ownership or operation of the Assets or (ii) pursuant to any claim or cause of action by a Governmental Body or other Person for personal injury, property damage, damage to natural resources, remediation or response costs to the extent arising out of any violation of, or any remediation obligation under, any Environmental Laws that are attributable to the ownership or operation of the Assets.

“Equipment” has the meaning set forth in Section 2.2(h).

“Escrow Account” has the meaning set forth in Section 3.1.

“Escrow Agent” has the meaning set forth in Section 3.1.

“Escrow Agreement” has the meaning set forth in Section 3.1.

“Exchange” has the meaning set forth in Section 13.18.

“Excluded Assets” means (i) the amounts to which Seller is entitled pursuant to Section 3.3(a), (ii) the Excluded Records, (iii) the Reassigned Properties, (iv) all claims and causes of action of Seller arising under or with respect to any Contract for which Seller is otherwise required to provide indemnification to Purchaser hereunder, (v) all rights and interests of Seller (a) under any policy or agreement of insurance or indemnity agreement, (b) under any bond and (c) to any insurance or condemnation proceeds or awards arising, in each case, from acts, omission or events, or damage to or destruction of property prior to the Effective Time or matters for which Seller is otherwise required to provide indemnification to Purchaser hereunder, (vi) any Leased Assets that are not transferred to Purchaser at Closing, (vii) all claims of Seller for refunds of, credits attributable to, or loss carryforwards with respect to (a) Asset Taxes attributable to any period (or portion thereof) prior to the Effective Time, (b) income, franchise and similar Taxes of Seller or for which Seller is otherwise liable or (c) any Taxes attributable to the other Excluded Assets, (viii) all geophysical and other seismic and related technical data and information relating to the Assets the transfer of which is restricted by its terms (unless such data is transferable with the payment of a fee or other consideration and Purchaser has agreed in writing to pay such fee or other consideration) or applicable Law, (ix) all data and Contracts that cannot be disclosed to Purchaser as a result of confidentiality arrangements under agreements with Third Parties (provided that Seller uses its Commercially Reasonable Efforts to obtain a waiver of any such confidentiality restriction), and (x) any of the Assets excluded from the transactions contemplated hereunder pursuant to Section 4.2, Section 4.6 or Section 4.7.

“Excluded Defect” has the meaning set forth in the definition of “Title Defect” in this Appendix A.

“Excluded Records” means (i) all corporate, financial, income and franchise Tax and legal records of Seller that relate to Seller’s business generally (whether or not relating to the Assets), (ii) any records to the extent disclosure or transfer is restricted by any Third Party license agreement or other Third Party agreement and for which a waiver has not been obtained; provided that Seller has used Commercially Reasonable Efforts to request and obtain a waiver of the same from such Third Party, and to the extent such disclosure or transfer is restricted by applicable Law, (iii) computer software, (iv) all legal records and legal files of Seller and all other work product of and attorney-client communications with any of Seller’s legal counsel (other than copies of (a) title opinions, (b) Contracts and (c) records and files with respect to any previous litigation matters), (v) personnel records, (vi) records relating to the sale of the Assets, including bids received from and records of negotiations with Third Parties and (vii) any records with respect to the other Excluded Assets.

“Execution Date” has the meaning set forth in preamble of this Agreement.

“Existing Mortgage” means the Mortgage–Collateral Real Estate Mortgage, Deed of Trust, Assignment of Production, Security Agreement, and Financing Statement, dated effective as of February 1, 2011, from Helis Oil & Gas Company, L.L.C. to John C. Hope, III, as Trustee, for the benefit of Whitney National Bank, as Administrative Agent, and all related security interests and financing statements.

“Field Office and Yard” has the meaning set forth in Section 2.2(e).

“Filings” has the meaning set forth in Section 7.10.

“Final Disputed Title Matters” has the meaning set forth in Section 4.4(a).

“Final Settlement Statement Date” has the meaning set forth in Section 9.4(b).

“GAAP” means U.S. generally accepted accounting principles.

“Gathering Systems” has the meaning set forth in Section 2.2(d).

“Governmental Body” means any instrumentality, subdivision, court, administrative agency, commission, official or other authority of the United States or any other country or any state, province, prefect, municipality, locality or other government or political subdivision thereof, or any quasi-governmental or private body exercising any administrative, executive, judicial, legislative, police, regulatory, taxing, importing or other governmental or quasi-governmental authority.

“Hazardous Substances” means any pollutants, contaminants, toxic or hazardous substances, materials, wastes, constituents, compounds or chemicals that are regulated by, or may form the basis of liability under any Laws, including asbestos-containing materials (*but excluding* any Hydrocarbons or NORM).

“Hydrocarbons” means oil, gas, condensate and other gaseous and liquid hydrocarbons or any combination thereof.

“Imbalances” means any imbalance at the wellhead between the amount of Hydrocarbons produced from any of the Wells and allocated to the interests of Seller therein and the shares of production from the relevant Well to which Seller was entitled, or at the pipeline flange (or inlet flange at a processing plant or similar location) between the amount of Hydrocarbons nominated by or allocated to Seller and the Hydrocarbons actually delivered on behalf of Seller at that point, including natural gas, oil and natural gas liquid products.

“Indemnified Person” has the meaning set forth in Section 11.3(a).

“Indemnifying Person” has the meaning set forth in Section 11.3(a).

“Individual Benefit Threshold” has the meaning set forth in Section 4.5(b)(ii).

“Individual Defect Threshold” has the meaning set forth in Section 4.5(b)(i).

“Intellectual Property” means patents, patent applications, trademarks, trademark registrations or applications therefor, trade names, service marks, service mark rights, logos, domain names, corporate names and associated goodwill, copyrights (including software), copyright registrations or applications therefor, trade secrets, know-how, processes, confidential business information, seismic rights, geological data, geophysical data, engineering data, maps, interpretations, and other confidential and proprietary information.

“Laws” means all Permits, statutes, rules, regulations, ordinances, orders, and codes of Governmental Bodies.

“Leased Assets” means all equipment, machinery, tools, fixtures, inventory, vehicles, office leases, furniture, office equipment and related peripheral equipment, computers, field equipment and related assets that are subject to or currently leased by Seller, and used or held for use solely in connection with the operation of, or the production of Hydrocarbons from, the Properties.

“Leases” has the meaning set forth in Section 2.2(a).

“Letter-in-lieu of Transfer Order” means that certain Letter-in-lieu of Transfer Order, the form of which is attached hereto as Exhibit C.

“Material Adverse Effect” means any material adverse effect on (a) the ownership, operation or value of the Assets, as currently operated, taken as a whole, or (b) Seller and its ability to consummate the transactions contemplated herein and to perform its obligations in connection therewith pursuant to the terms hereof; *provided, however*, that the term “Material Adverse Effect” (i) shall not include material adverse effects resulting from general changes in Hydrocarbon prices, general changes in industry, economic or political conditions or general changes in Laws or in regulatory policies and (ii) in the case of Section 6.5 only, shall not include the items referenced in clause (a) of this definition.

“Mountain Time” means the mountain time zone of the United States of America.

“Net Revenue Interest” has the meaning set forth in the definition of the term “Defensible Title” in this Appendix A.

“NORM” means naturally occurring radioactive material.

“Party” and “Parties” have the meanings set forth in the preamble of this Agreement.

“Permits” means any permits, approvals or authorizations by, or filings with, Governmental Bodies.

“Permitted Encumbrances” means any or all of the following:

(i) royalties and any overriding royalties, net profits interests, free gas arrangements, production payments, reversionary interests and other similar burdens on production to the extent that the net cumulative effect of such burdens does not reduce Seller’s Net Revenue Interest below that shown in Schedule 3.4, or increase Seller’s working interest above that shown in Schedule 3.4, without a proportionate increase in the Net Revenue Interest of Seller;

(ii) all unit agreements, pooling agreements, operating agreements, farmout agreements, Hydrocarbon production sales contracts, division orders and other contracts, agreements and instruments applicable to the Properties, to the extent that the net cumulative effect of such instruments does not reduce Seller’s Net Revenue Interest below that shown in Schedule 3.4, or increase Seller’s working interest above that shown in Schedule 3.4, without a proportionate increase in the Net Revenue Interest of Seller;

(iii) Preferential Rights, Third Party consents to assignment and similar transfer restrictions set forth on Schedule 5.16;

(iv) liens for Taxes or assessments not yet due and payable or Taxes being contested in good faith by appropriate proceedings (and for which Seller will remain responsible);

(v) materialman’s, mechanic’s, repairman’s, employee’s, contractor’s, operator’s and other similar liens or charges arising in the ordinary course of business for amounts not yet delinquent (including any amounts being withheld as provided by Law), or if delinquent, being contested in good faith by appropriate actions;

(vi) all rights to consent by, required notices to, filings with, or other actions by Governmental Bodies in connection with the sale or conveyance of the Assets or interests therein if they are not required or customarily obtained in the region where the Assets are located prior to the sale or conveyance, including Customary Post-Closing Consents;

(vii) excepting circumstances where such rights have already been triggered, rights of reassignment arising upon final intention to abandon or release the Assets, or any of them;

(viii) easements, rights-of-way, covenants, servitudes, Permits, surface leases and other rights in respect of surface operations which do not prevent or adversely affect operations as currently conducted on the Properties covered by the Assets;

(ix) calls on production under existing Contracts set forth on Schedule 5.14;

(x) gas balancing and other production balancing obligations, and obligations to balance or furnish make-up Hydrocarbons under Hydrocarbon sales, gathering, processing or transportation contracts to the extent reflected on Schedule 5.15 as of the Effective Time;

(xi) all rights reserved to or vested in any Governmental Body to control or regulate any of the Assets in any manner or to assess Tax with respect to the Assets, the ownership, use or operation thereof, or revenue, income or capital gains with respect thereto, and all obligations and duties under all applicable Laws of any such Governmental Body or under any franchise, grant, license or Permit issued by any Governmental Body;

(xii) any lien, charge or other encumbrance (including the Existing Mortgage) on or affecting the Assets that is expressly waived, bonded or paid by Purchaser at or prior to Closing or that is discharged by Seller at or prior to Closing;

(xiii) any lien or trust arising in connection with workers' compensation, unemployment insurance, pension or employment Laws or regulations;

(xiv) the terms and conditions of the Leases, including any depth limitations or similar limitations that may be set forth therein;

(xv) the Contracts set forth in Schedule 5.14;

(xvi) any matters shown on Exhibit A-1; and

(xvii) any other liens, charges, encumbrances, defects or irregularities that (a) do not, individually or in the aggregate, materially detract from the value of or materially interfere with the use or ownership of the Assets subject thereto or affected thereby, (b) would be accepted by a reasonably prudent purchaser engaged in the business of owning and operating oil and gas properties in the region where the Assets are located and (c) do not reduce Seller's Net Revenue Interest below that shown in Schedule 3.4, or increase Seller's working interest above that shown in Schedule 3.4, without a proportionate increase in the Net Revenue Interest of Seller.

“ Person” means any individual, firm, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization, Government Body or any other entity.

“ Phase I Environmental Site Assessment” means an environmental site assessment performed pursuant to the American Society for Testing and Materials E1527 - 05, or any similar environmental assessment.

“ Phase II Environmental Site Assessment” means a further assessment regarding a recognized environmental condition identified in Purchaser's Phase I Environmental Site Assessment.

“ Preferential Rights” has the meaning set forth in Section 4.6(a).

“Prime Rate” means the rate of interest published from time to time as the “Prime Rate” in the “Money Rates” section of The Wall Street Journal.

“Properties” has the meaning set forth in Section 2.2(d).

“Property Costs” means (i) all operating and production expenses (including costs of insurance, rentals, shut-in payments and royalty payments; title examination and curative actions; Asset Taxes; and gathering, processing and transportation costs in respect of Hydrocarbons produced from the Properties) and capital expenditures (including bonuses, broker fees, and other lease acquisition costs, costs of drilling and completing wells and costs of acquiring equipment) incurred in the ownership and operation of the Assets in the ordinary course of business, (ii) general and administrative costs with respect to the Assets and (iii) overhead costs charged to the Assets under the applicable operating agreement.

“Public Announcement Restrictions” has the meaning set forth in Section 7.3(a).

“Purchase Price Allocation Schedule” has the meaning set forth in Section 3.2.

“Purchaser” has the meaning set forth in the preamble of this Agreement.

“Purchaser Group” means Purchaser, its current and former Affiliates, and each of their respective officers, directors, employees, agents, advisors and other Representatives.

“Purchaser’s Auditor” has the meaning set forth in Section 7.10.

“Reassigned Properties” means those certain of the Assets reconveyed, if any, from Purchaser to Seller pursuant to Section 4.2(c) or Section 4.4.

“Records” means copies of any files, records, maps, information, and data, whether written or electronically stored, relating solely to the Assets, including: (i) land and title records (including abstracts of title, title opinions, and title curative documents); (ii) contract files; (iii) correspondence; (iv) operations, environmental, production, and accounting records; and (v) production, facility and well records and data; *provided, however*, that the term “Records” shall not include any of the foregoing items that are Excluded Assets and any information that cannot, without unreasonable effort or expense that Purchaser does not agree to undertake or pay, as applicable, be separated from any files, records, maps, information and data related to the Excluded Assets.

“Records Period” has the meaning set forth in Section 7.10.

“Remedy Deadline” has the meaning set forth in Section 4.2(b).

“Remedy Notice” has the meaning set forth in Section 4.2(b).

“Representatives” means (i) partners, employees, officers, directors, members, equity owners and counsel of a Party or any of its Affiliates or any prospective purchaser of a Party or an interest in a Party; (ii) any consultant or agent retained by a Party or the parties listed in subsection (i) above; and (iii) any bank, other financial institution or entity funding, or proposing to fund, such Party’s

operations in connection with the Assets, including any consultant retained by such bank, other financial institution or entity.

“Section 7.4 Updates” has the meaning set forth in Section 7.9(b).

“Securities Act” has the meaning set forth in Section 7.10.

“Seller” has the meaning set forth in the preamble of this Agreement.

“Seller Group” means Seller, its current and former Affiliates, and each of their respective officers, directors, employees, agents, advisors and other Representatives.

“Seller Overhead Services Amount” means the amount of Seller’s costs and expenses in connection with it providing overhead, general and administrative, accounting, land, technical and related services with respect to the Assets during the period from the Effective Time to the Closing, such amount not to exceed in the aggregate an amount equal to \$10,566 per month per Well being drilled (subject to any adjustments for inflation as set forth in the applicable operating agreement) and \$1,057 per month per producing Well (subject to any adjustments for inflation as set forth in the applicable operating agreement), in each case operated by Seller or its Affiliates and reduced by any overhead fees and similar payments received from Third Parties paid to Seller pursuant to Section 2.4(c).

“Specified Consent Requirement” means a requirement to obtain a lessor’s or other Person’s prior consent to assignment or transfer of an interest in a Lease or other Asset that (i) is triggered by the transactions contemplated hereunder and (ii) provides that (a) such consent may be granted or withheld in the sole discretion of the Person holding the right (or words to similar effect), (b) any purported assignment in the absence of such consent first having been obtained is void, (c) the Person holding the right may terminate the affected Lease or other instrument creating Seller’s rights in the affected Asset or (d) the Person holding the right may impose additional conditions on the proposed assignee that involve the payment of money, the posting of collateral security or the performance of other obligations by the assignee that would not be required in the absence of Seller’s assignment of the affected Lease or other Asset.

“Tax Return” means any return (including any information return), report, statement, schedule, notice, form, election, estimated Tax filing, claim for refund or other document (including any attachments thereto and amendments thereof) filed with or submitted to, or required to be filed with or submitted to, any Governmental Body with respect to any Tax.

“Taxes” means (a) all federal, state, local, and foreign income, profits, franchise, sales, use, ad valorem, property, severance, production, excise, stamp, documentary, real property transfer or gain, gross receipts, goods and services, registration, capital, transfer, or withholding taxes, unclaimed property and escheat obligations or other assessments, duties, fees or charges imposed by any Governmental Body, including any interest, penalties or additional amounts that may be imposed with respect thereto, (b) any liability for the payment of any amounts of the type described in clause (a) under Treasury Regulations Section 1.1502-6 (or any corresponding provisions of state, local or foreign Tax Law) and (c) any liability for the payment of any amounts described in clause (a) or

(b) as a result of the operation of law or any express or implied obligation to indemnify any other Person.

“Third Party” means any Person other than a Party to this Agreement or an Affiliate of a Party to this Agreement.

“Third Person Claim” has the meaning set forth in Section 11.3(b).

“Title Arbitration Notice” has the meaning set forth in Section 4.4(a).

“Title Arbitrator” has the meaning set forth in Section 4.4(b).

“Title Benefit” means any right, circumstance or condition that operates to increase the Net Revenue Interest of Seller as of the Closing Date in any of the Units above that shown on Schedule 3.4, without a greater than proportionate increase in Seller’s working interest above that shown in Schedule 3.4.

“Title Benefit Amount” has the meaning set forth in Section 4.3(b).

“Title Benefit Notice” has the meaning set forth in Section 4.3(a).

“Title Benefit Property” has the meaning set forth in Section 4.3(a).

“Title Claim Date” has the meaning set forth in Section 4.2(a).

“Title Defect” means (i) an Environmental Defect or (ii) any lien, charge, encumbrance, obligation, defect, or other similar matter that, if not cured, causes Seller not to have Defensible Title in and to the Units, as applicable, as of the Closing Date; *provided, however*, that the following shall not be considered Title Defects for any purpose of this Agreement (each an “Excluded Defect”):

(a) defects in the chain of title consisting of the failure to recite marital status in a document or omissions of successions of heirship or estate proceedings, unless Purchaser provides affirmative evidence that such failure or omission could reasonably be expected to result in another Person’s superior claim of title to the relevant Asset;

(b) defects arising out of lack of survey, unless a survey is expressly required by applicable Laws;

(c) defects based on a gap in Seller’s chain of title in the state’s records as to state leases, or in the county records as to other leases, unless such gap is affirmatively shown to exist in such records by an abstract of title, title opinion or landman’s title chain or runsheet, which documents shall be included in a Title Defect Notice;

(d) defects as a consequence of cessation of production, insufficient production, or failure to conduct operations on any of the Properties held by production, or lands pooled, communitized or unitized therewith, except to the extent the cessation of production, insufficient production or failure to conduct operations is affirmatively shown to exist such that it would give

rise to a right to terminate the lease in question, evidence of which shall be included in a Title Defect Notice;

(e) defects based on references to lack of information, including lack of information in Seller's files, the lack of Third Party records, and or the unavailability of information from regulatory agencies;

(f) defects based on references to a document because such document is not in Seller's files;

(g) defects based solely on Tax assessment, Tax payment or similar records (or the absence of such activities or records);

(h) defects arising out of lack of corporate or other entity authorization, unless such lack of authorization results in a Third Party's actual and superior claim of title to the relevant property;

(i) defects that have been cured by applicable Laws of limitations or prescription;

(j) defects arising from the matters disclosed on the Exhibits or Schedules to this Agreement; and

(k) defects arising as a consequence of, or based on, the approval of a Governmental Body not having been received by Seller.

"Title Defect Amount" has the meaning set forth in Section 4.2(c)(i).

"Title Defect Notice" has the meaning set forth in Section 4.2(a).

"Title Defect Property" has the meaning set forth in Section 4.2(a).

"Transition Services Agreement" means that certain Transition Services Agreement, the form of which is attached hereto as Exhibit D.

"Treasury Regulations" means the regulations (including temporary regulations) promulgated by the United States Department of the Treasury pursuant to and in respect of provisions of the Code in effect on the Execution Date.

"Unadjusted Purchase Price" has the meaning set forth in Section 3.1.

"Units" has the meaning set forth in Section 2.2(b).

"Wells" has the meaning set forth in Section 2.2(c).

PURCHASE AND SALE AGREEMENT

BY AND AMONG

BLACK HILLS EXPLORATION AND PRODUCTION, INC.

UNIT PETROLEUM COMPANY

SUNDANCE ENERGY, INC.

HIGHLINE EXPLORATION, INC.

HOUSTON ENERGY, L.P.

NISKU ROYALTY, LP

EMPIRE OIL COMPANY

AND

KENT M. LYNCH

AS SELLERS

AND

QEP ENERGY COMPANY,

AS PURCHASER

DATED AS OF AUGUST 23, 2012

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PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement (as may be amended, restated, supplemented or otherwise modified from time to time, this “Agreement”) is dated as of August 23, 2012 (the “Execution Date”), by and among Black Hills Exploration and Production, Inc., a Wyoming Corporation (“Black Hills”), Unit Petroleum Company, an Oklahoma Corporation (“UPC”), Sundance Energy, Inc., a Colorado Corporation, Highline Exploration, Inc., an Alabama Corporation, Houston Energy, L.P. a Texas limited partnership, Nisku Royalty, LP, a Montana limited partnership, Empire Oil Company, a North Dakota corporation, and Kent M. Lynch (each a “Seller” and, collectively, the “Sellers”), on the one part, and QEP Energy Company, a Texas corporation (“Purchaser”), on the other part. Each of the Sellers and Purchaser are sometimes referred to herein individually as a “Party” and collectively as the “Parties.”

RECITALS:

A. Sellers own certain interests in oil and gas properties, rights and related assets that are defined and described herein as the “Assets.”

B. Sellers desire to sell to Purchaser and Purchaser desires to purchase from Sellers the Assets, in the manner and upon the terms and conditions hereafter set forth.

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations, warranties, covenants, conditions and agreements contained herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound by the terms hereof, agree as follows:

ARTICLE 1
DEFINITIONS AND INTERPRETATION

Section 1.1 Defined Terms . In addition to the terms defined in the preamble and the Recitals of this Agreement, for purposes hereof, the capitalized terms used herein and not otherwise defined shall have the meanings set forth in Appendix A .

Section 1.2 References and Rules of Construction . All references in this Agreement to Exhibits, Schedules, Appendices, Articles, Sections, subsections, clauses and other subdivisions refer to the corresponding Exhibits, Schedules, Appendices, Articles, Sections, subsections, clauses and other subdivisions of or to this Agreement unless expressly provided otherwise. Titles appearing at the beginning of any Exhibits, Schedules, Appendices, Articles, Sections, subsections, clauses and other subdivisions of this Agreement are for convenience only, do not constitute any part of this Agreement and shall be disregarded in construing the language hereof. The words “this Agreement,” “herein,” “hereby,” “hereunder” and “hereof,” and words of similar import, refer to this Agreement as a whole and not to any particular Article, Section, subsection, clause or other subdivision unless expressly so limited. The words “this Article,” “this Section,” “this subsection,” “this clause,” and words of similar import, refer only to the Article, Section, subsection and clause hereof in which such words occur. The word “including” (in its various forms) means including without limitation. All references to “\$” shall be deemed references to Dollars. Each accounting term not defined herein will have the meaning given to it under GAAP as interpreted as of the Execution Date. Unless expressly provided to the contrary, the word “or” is not exclusive. Pronouns in masculine, feminine or neuter genders shall be construed to state and include any other gender, and words, terms and titles (including terms defined herein) in the singular form shall be construed to include the plural and vice versa, unless the context otherwise requires. Appendices, Exhibits and Schedules referred to herein are attached to and by this reference incorporated herein for all purposes. Reference herein to any federal, state, local or foreign Law shall be deemed to also refer to all rules and regulations promulgated thereunder, unless the context requires otherwise.

ARTICLE 2
PURCHASE AND SALE

Section 2.1 Purchase and Sale. At the Closing, upon the terms and subject to the conditions of this Agreement, each Seller agrees to sell, transfer and convey the Assets to Purchaser and Purchaser agrees to purchase, accept and pay for the Assets and to assume the Assumed Purchaser Obligations.

Section 2.2 Assets. As used herein, subject to the terms and conditions of this Agreement, the term “Assets” means with respect to a Seller all of the Seller Assets and “Seller Assets” in each case means such Seller’s (and, as applicable, its Affiliates’) right, title and interest in and to the following:

(a) The oil and gas leases, oil, gas and mineral leases, subleases and other leaseholds, royalties, overriding royalties, net profits interests, mineral fee interests, carried interests, and other rights to Hydrocarbons that are identified on Exhibit A-1 (collectively, the “Leases”);

(b) All pooled, communitized or unitized acreage that includes all or a part of any Lease, including those shown on Exhibit A-2 (collectively, the “Units”), and all tenements, hereditaments and appurtenances belonging to the Leases and Units;

(c) All oil, gas, water, carbon dioxide, or injection wells located on the Leases or Units, whether producing, shut-in or temporarily abandoned, including the wells shown on Exhibit A-2 (collectively, the “Wells”);

(d) All tanks, flowlines, pipelines, gathering systems and appurtenances thereto located on the Leases or Units or used, or held for use, in connection with the operation of the Wells, including those identified on Exhibit A-3 (the “Gathering Systems” and together with the Units, the Leases and the Wells, the “Properties”);

(e) [Reserved];

(f) All contracts, agreements and instruments to the extent applicable to the Properties or the production of Hydrocarbons from the Properties, including operating agreements, unitization, pooling and communitization agreements, declarations and orders, area of mutual interest agreements, joint venture agreements, farmin and farmout agreements, participation agreements, exchange agreements, transportation agreements, agreements for the sale and purchase of Hydrocarbons and processing agreements, *but excluding* any contracts, agreements and instruments the transfer of which is restricted by its terms or applicable Law; *provided, however*, each Seller, as applicable, shall use its Commercially Reasonable Efforts to obtain waivers or consents for the transfer of such contracts, agreements or instruments pursuant to Section 4.6, only to the extent that such waiver or consent is not obtained by Helis under the Helis PSA (subject to such qualification, the “Contracts”);

(g) All surface fee interests, easements, Permits, licenses, servitudes, rights-of-way, surface leases and other surface rights appurtenant to, and used or held for use solely in connection with, the Properties, including those interests set forth on Exhibit A-3, *but excluding*, in all such instances, any items the transfer of which is restricted by its terms or applicable Law; *provided, however*, each Seller, as applicable, shall use its Commercially Reasonable Efforts to obtain waivers or consents for the transfer of such contracts, agreements or instruments pursuant to Section 4.6 to the extent not obtained by Helis under the Helis PSA;

(h) All equipment, materials, supplies, machinery, tools, fixtures and other tangible personal property (including but not limited to spare parts, casing, tubing, wellheads, etc.) and improvements located on the Properties or used or held for use solely in connection with the operation of the Properties or the production of Hydrocarbons from the Properties; *but excepting and reserving* any Hydrocarbons stored in stock tanks, pipelines or other storage as of the Effective Time other than such Hydrocarbons for which there is a purchase price adjustment pursuant to Section 3.3(a)(iv) (subject to such exclusion, the “Equipment”);

(i) The Leased Assets, except to the extent that any of the Leased Assets are transferable with the payment of a fee or other consideration (unless Purchaser has agreed in writing to pay such fee or other consideration) *but excluding*, in all such instances, any items the transfer

of which is restricted by its terms or applicable Law; *provided, however*, each Seller, as applicable, shall use its Commercially Reasonable Efforts to obtain waivers or consents for the transfer of such contracts, agreements or instruments pursuant to Section 4.6 to the extent not obtained by Helis under the Helis PSA;

(j) All Hydrocarbons produced from or attributable to the Leases, the Units or the Wells at and after the Effective Time;

(k) All geophysical and other seismic data, and other technical data and information, relating to the Properties, *but excluding*, in all such instances, any data the transfer of which is restricted by its terms (unless such data is *transferable* with the payment of a fee or other consideration and Purchaser has agreed in writing to pay such fee or other consideration) or applicable Law;

(l) All (i) trade credits, accounts receivable, notes receivable, take-or-pay amounts receivable and other receivables and general intangibles, attributable to the Assets with respect to periods of time from and after the Effective Time, (ii) liens and security interests in favor of each Seller, whether choate or inchoate, under any law or contract, to the extent arising from, or relating to, the ownership, operation, or sale or other disposition at or after the Effective Time of any of the Assets, and (iii) claims of indemnity, contribution or reimbursement relating to the Assumed Purchaser Obligations;

(m) All rights to audit the records of any Person and to receive refunds or payments of any nature, and all amounts of money, relating thereto, in each case, to the extent arising from, or relating to, the ownership, operation, or sale or other disposition at or after the Effective Time of the Assets;

(n) All intangible rights, inchoate rights, transferable rights under warranties made by prior owners, manufacturers, vendors and Third Parties, and rights accruing under applicable statute of limitation or prescription, to the extent related to or attributable to the Assets (*excluding* items that relate to matters for which Sellers are required to provide indemnification to Purchaser hereunder);

(o) All claims, rights, demands, complaints, causes of action, suits, actions, judgments, damages, awards, fines, penalties, recoveries, settlements, appeals, duties, obligations, liabilities, losses, debts, costs and expenses (including court costs, expert witness fees and reasonable attorneys' fees) in favor of any Seller arising from acts, omissions or events, or damage to or destruction of the Properties (*excluding* items that relate to matters for which a Seller is required to provide indemnification to Purchaser hereunder); and

(p) The Records.

Section 2.3 Excluded Assets. The Assets shall not include, and there is excepted, reserved and excluded from this transaction, the Excluded Assets.

Section 2.4 Effective Time; Proration of Costs and Revenues.

(a) Subject to the other terms and conditions of this Agreement, possession of the Seller Assets shall be transferred from each Seller to Purchaser at the Closing, but certain financial benefits and burdens of the Assets shall be transferred effective as of 7:00 a.m., Mountain Time, on July 1, 2012 (the “Effective Time”), as described below.

(b) Purchaser shall be entitled to all production of Hydrocarbons from or attributable to the Leases, the Units and the Wells at and after the Effective Time (and all products and proceeds attributable thereto), and to all other income, proceeds, receipts and credits earned with respect to the Assets at and after the Effective Time (in accordance with their interests), and shall be responsible for (and entitled to any refunds with respect to) all Property Costs incurred at and after the Effective Time.

(c) Each Seller shall be entitled to all production of Hydrocarbons from or attributable to the Leases, the Units and the Wells prior to the Effective Time (and all products and proceeds attributable thereto), all other income, proceeds, receipts and credits earned with respect to its Seller Assets prior to the Effective Time, and shall be responsible for (and entitled to any refunds other than for those Property Costs paid or payable by Purchaser with respect to) all Property Costs attributable to its Seller Assets incurred prior to the Effective Time (in accordance with their interests).

(d) Should Purchaser receive any proceeds or other amounts to which any Seller is entitled under Section 2.4(c), Purchaser shall fully disclose, account for and promptly remit the same to such Seller (or, in the case of disclosure, to Sellers’ Representative) in accordance with such Seller’s applicable interests in such proceeds. If a Seller receives any proceeds or other amounts with respect to the Assets to which such Seller is not entitled pursuant to Section 2.4(c), such Seller shall fully disclose, account for, and promptly remit the same to Purchaser.

(e) Should Purchaser pay any Property Costs for which a Seller is responsible under Section 2.4(c), such Seller shall reimburse Purchaser promptly after receipt of an invoice with respect to such Property Costs, accompanied by copies of the relevant vendor or other invoice and proof of payment. Should a Seller pay any Property Costs for which such Seller is not responsible under Section 2.4(c), Purchaser shall reimburse such Seller promptly after receipt of an invoice with respect to such Property Costs, accompanied by copies of the relevant vendor or other invoice and proof of payment.

(f) Sellers shall have no further entitlement to amounts earned from the sale of Hydrocarbons produced from or attributable to the Assets and other income earned with respect to the Assets and no further responsibility for Property Costs (except to the extent such Property Costs are the responsibility of Sellers under Article 11 or Article 12) incurred with respect to the Assets following the final determination and payment of the Adjusted Purchase Price in accordance with Section 9.4(d).

(g) Consistent with Section 12.2 (as applicable), Taxes that are included in Property Costs, right-of-way fees, insurance premiums and other Property Costs that are paid

periodically shall be prorated based on the number of days in the applicable period falling before and the number of days in the applicable period falling at and after the Effective Time, except that production, severance and similar Taxes (*excluding*, for the avoidance of doubt, ad valorem and similar property Taxes that are assessed based on the quantity of or the value of production during preceding annual periods) measured by the quantity of or the value of production shall be prorated based on the number of units or value of production actually produced or sold, as applicable, before, and at or after, the Effective Time. In each case, Purchaser shall be responsible for the portion allocated to the period at and after the Effective Time and each Seller shall be responsible for the portion attributable to its Seller Assets allocated to the period before the Effective Time.

Section 2.5 Procedures.

(a) For purposes of allocating production (and accounts receivable with respect thereto) under Section 2.4, (i) liquid Hydrocarbons shall be deemed to be “from or attributable to” the Leases, the Units and the Wells when they pass through the inlet flange of the pipeline connecting into the storage facilities into which they are run or, if there are no such storage facilities, when they pass through the LACT meters or similar meters at the initial point of entry into the pipelines through which they are transported from the field and (ii) gaseous Hydrocarbons shall be deemed to be “from or attributable to” the Leases, the Units and the Wells when they pass through the delivery point sales meters on the pipelines through which they are transported. Sellers shall utilize reasonable interpolative procedures to arrive at an allocation of production when exact meter readings or gauging and strapping data is not available provided that Sellers may use and rely on such allocation, or derivations thereof, made pursuant to the Helis PSA. To the extent not provided pursuant to the Helis PSA Sellers’ Representative shall provide to Purchaser evidence of all meter readings and all gauging and strapping procedures conducted on or about the Effective Time in connection with the Assets, if available, together with all data necessary to support any estimated allocation, for purposes of establishing the adjustment to the Unadjusted Purchase Price pursuant to Section 3.3. The terms “earned” and “incurred” shall be interpreted in accordance with generally accepted accounting principles and Council of Petroleum Accountants Society (“COPAS”) standards, and expenditures that are incurred pursuant to an operating agreement, unit agreement or similar agreement shall be deemed incurred when expended by the operator of the applicable Lease, Unit or Well, in accordance with the practices currently used by the operator.

(b) After Closing, and subject to each Seller retaining the right to require an audit of Helis or any third party as Operator for pre-Effective Time charges or costs pursuant to the applicable Contract, Purchaser shall handle joint interest audits and other audits of Property Costs covering the period for which Sellers are in whole or in part responsible under Section 2.4, *provided* that Purchaser shall not agree to any adjustments to previously assessed costs for which a Seller is liable, or any compromise of any audit claims to which a Seller would be entitled, without the prior written consent of such Seller, which consent shall not be unreasonably withheld, conditioned or delayed. Any expenses from such audit shall be borne by Purchaser and Sellers, respectively, in the same proportion as the Property Costs at issue are or would be borne by Purchaser and Sellers. Purchaser shall provide Sellers with a copy of all applicable audit reports and written audit agreements received by Purchaser or its Affiliates and relating to periods for which Sellers are wholly or partially responsible.

ARTICLE 3
PURCHASE PRICE

Section 3.1 Purchase Price. The aggregate purchase price for the Assets shall be Seven Hundred Forty-Four Million Four Hundred Sixty Nine Thousand Three Hundred and Seventeen Dollars (\$744,469,317) (the “Aggregate Unadjusted Purchase Price”), a portion of which is payable to each Seller in accordance with Schedule 3.1 (such portion with respect to a Seller, its “Unadjusted Purchase Price”), as adjusted and paid, as applicable, pursuant to and in accordance with Section 3.3, Section 9.3 and Section 9.4. Contemporaneously with the execution and delivery of this Agreement, Purchaser has delivered or caused to be delivered to an account established for each Seller (the “Escrow Account”) with JP Morgan Chase (the “Escrow Agent”), a wire transfer in the amount equal to (10%) of the Unadjusted Purchase Price for that Seller (the “Deposit”) to be held, invested, and disbursed in accordance with the terms of this Agreement and an escrow agreement of even date herewith among such Seller, Purchaser, and Escrow Agent (the “Escrow Agreement”). The balance in the Escrow Account for a Seller shall be distributed to such Sellers in accordance with Section 9.3(a) if the Closing occurs or shall be otherwise distributed in accordance with the terms of Section 10.3. Any reference in this Agreement to a Deposit or Escrow Agreement shall be a reference separately to the Deposit for each Seller or to the Escrow Agreement for each Seller, as appropriate.

Section 3.2 Allocation of Purchase Price. The Parties recognize that this transaction is a sale of the Assets to Purchaser subject to the requirements of Section 1060 of the Code and the Treasury Regulations thereunder and, therefore, that an IRS Form 8594, Asset Acquisition Statement, will be required to be filed by the Parties. The Parties agree that the Aggregate Unadjusted Purchase Price and any liabilities associated with the Assets (to the extent properly taken into account as consideration under the Code) shall be allocated among the Assets for Tax purposes (and the aggregate amount allocated to each class of Assets shall be further allocated among the Sellers to reflect each Seller’s Seller Assets) as set forth on Schedule 3.2 (the “Purchase Price Allocation Schedule”). Such allocation shall be determined in accordance with Section 1060 of the Code and the Treasury Regulations thereunder and is intended by the Parties to be consistent with the Allocated Values as determined pursuant to Section 3.4. Within twenty (20) days following the final determination of the Aggregate Adjusted Purchase Price, Purchaser shall deliver to the Sellers’ Representative for its review and reasonable comment, a revised Purchase Price Allocation Schedule, adjusted to reflect the Aggregate Adjusted Purchase Price. The Purchase Price Allocation Schedule shall be revised to take into account subsequent adjustments to the Aggregate Unadjusted Purchase Price or the Aggregate Adjusted Purchase Price and any indemnification payments in the manner provided by applicable Law. If Purchaser and Sellers’ Representative are unable to agree on any revisions to the Purchase Price Allocation Schedule, any dispute arising in connection with the Purchase Price Allocation Schedule shall be resolved pursuant to procedures comparable to the procedures applicable under Section 9.4(d). The Parties shall, and shall cause their respective Affiliates to, use the Purchase Price Allocation Schedule (as adjusted pursuant to this Section 3.2) in reporting this transaction to the applicable Taxing authorities, including on IRS Form 8594 and any other information or Tax Returns and supplements thereto required to be filed under Section 1060 of the Code and the Treasury Regulations thereunder. No Party shall, or shall permit its Affiliates to, file any Tax Return or otherwise take any position for Tax purposes that is inconsistent

with the Purchase Price Allocation Schedule (as adjusted pursuant to this Section 3.2); *provided, however*, that nothing contained herein shall prevent a Party from settling any proposed deficiency or adjustment by any Taxing authority based upon or arising out of the allocation (which may result in a change to the allocation), and no Party shall be required to litigate any proposed deficiency or adjustment by any Taxing authority challenging such allocation.

Section 3.3 Adjustments to Purchase Price. All adjustments to the Unadjusted Purchase Price for each Seller shall be made (x) in accordance with the terms of this Agreement and, to the extent not inconsistent with this Agreement, in accordance with GAAP (as of the Effective Time), (y) without duplication (in this Agreement or otherwise) and (z) only with respect to matters (A) in the case of Section 3.3(a)(vi) and Section 3.3(b)(v), for which notice is given on or before the Title Claim Date, and (B) in all of the other cases set forth in Section 3.3(a) and Section 3.3(b), identified on or before the 180th day after Closing (the “Cut-off Date”). Each adjustment to the Unadjusted Purchase Prices described in Section 3.3(a) and Section 3.3(b) shall be allocated among the Assets in accordance with Section 3.4.

Without limiting the foregoing, the Unadjusted Purchase Price for each Seller shall be adjusted as follows (with the resulting adjustments to such Unadjusted Purchase Price being the “Adjusted Purchase Price” for such Seller and the sum of all Adjusted Purchase Prices being the “Aggregate Adjusted Purchase Price”):

(h) The Unadjusted Purchase Price for each Seller shall be adjusted upward by the following amounts (without duplication):

(i) an amount equal to all Property Costs and other costs attributable to the ownership and operation of such Seller’s Seller Assets that are incurred at and after the Effective Time but paid by such Seller (as is consistent with Section 2.4(b) and Section 2.4(c)), *but excluding* any amounts previously reimbursed to such Seller pursuant to Section 2.4(e);

(ii) an amount equal to, to the extent that such amounts have been received by Purchaser and not remitted or paid to such Seller, to the extent attributable to such Seller’s Seller Assets (A) all proceeds from the production of Hydrocarbons from or attributable to the Leases, the Units and the Wells prior to the Effective Time, (B) all other income, proceeds, receipts and credits earned prior to the Effective Time and (C) any other amounts to which Seller is entitled pursuant to Section 2.4(c);

(iii) the amount of all prepaid expenses (including pre-paid bonuses, rentals, location building expenses, cash calls and advances to Third Party operators for expenses not yet incurred; prepaid production Taxes, severance Taxes and other similar Taxes; and scheduled payments) paid by such Seller with respect to the ownership or operation of the Seller Assets at or after the Effective Time;

(iv) to the extent that proceeds for such volumes have not been received by such Seller, an amount equal to the aggregated volumes of Hydrocarbons stored in stock tanks, pipelines or other storage as of the Effective Time that are attributable to the ownership

and operation of its Seller Assets *multiplied* by the contract price therefor on the Effective Time;

(v) to the extent that such Seller is underproduced or overdelivered as of the Effective Time as shown with respect to the any net Imbalances for any product set forth in Schedule 5.15, as complete and final settlement of all such Imbalances for each such product, the value of such Imbalances (calculated on the basis of the average price of production of the applicable product for the 30 day period prior to the delivery of the Preliminary Settlement Statement referred to in Section 9.4(b));

(vi) any undisputed amounts for Title Benefits for such Seller determined pursuant to Section 4.3;

(vii) any other amount provided for elsewhere in this Agreement or otherwise agreed upon in writing by the Parties as an upward adjustment to such Unadjusted Purchase Price.

(i) The Unadjusted Purchase Price for each Seller shall be adjusted downward by the following amounts (without duplication):

(i) an amount equal to all Property Costs and other costs attributable to the ownership and operation of such Seller's Seller Assets owned by such Seller that are incurred prior to the Effective Time but paid by Purchaser (as is consistent with Section 2.4(b) and Section 2.4(c)), *but excluding* any amounts previously reimbursed to Purchaser pursuant to Section 2.4(e);

(ii) an amount equal to, to the extent that such amounts have been received by such Seller and not remitted or paid to Purchaser, to the extent attributable to such Seller's Seller Assets (A) all proceeds from the production of Hydrocarbons from or attributable to the Leases, the Units and the Wells at and after the Effective Time, (B) all other income, proceeds, receipts and credits earned at and after the Effective Time and (C) any other amounts to which Purchaser is entitled pursuant to Section 2.4(b);

(iii) to the extent that such Seller is overproduced or underdelivered as of the Effective Time as shown with respect to any net Imbalances for any product set forth in Schedule 5.15, as complete and final settlement of all such Imbalances for each such product, the value of such Imbalances (calculated on the basis of the average price of production of the applicable product for the 30 day period prior to the delivery of the Preliminary Settlement Statement referred to in Section 9.4(b));

(iv) to the extent not transferred to Purchaser at the Closing, all funds held in suspense by such Seller with respect to the operation, ownership, production and developments, including those amounts set forth on Schedule 5.20;

(v) any undisputed amounts for Title Defects with respect to such Seller determined pursuant to Section 4.2 (which shall include, for purposes of certainty, an amount

equal to such Seller's Title Defect Percentage of the Allocated Value of any Assets excluded from this transaction pursuant to Section 4.2(c)) and Seller's Title Defect Percentage of any amounts excluded pursuant to Section 4.2(e);

(vi) an amount equal to such Seller's Title Defect Percentage of the Allocated Value of any Assets excluded from this transaction pursuant to Section 4.6, as applicable to such Seller;

(vii) an amount equal to such Seller's Title Defect Percentage of the Allocated Value of any Assets excluded from this transaction pursuant to Section 4.7(a), as applicable to such Seller; and

(viii) any other amount provided for elsewhere in this Agreement or otherwise agreed upon in writing by the Parties as a downward adjustment to the Unadjusted Purchase Price.

Section 3.4 Allocated Values . The "Allocated Values" for the Assets (which are provided for, and allocated amongst, each of the Units) are set forth on Schedule 3.4 . The share of each adjustment allocated to each Seller in accordance with such Seller's applicable Title Defect Percentage and allocated to a particular Asset shall be allocated to the particular Asset to which such adjustment relates to the extent such adjustment relates to such Asset and to the extent that it is, in the commercially reasonable discretion of Sellers' Representative, possible to do so. Any adjustment not allocated to a specific Asset pursuant to the immediately preceding sentence shall be allocated among the various Assets on a pro-rata basis in proportion to the Unadjusted Purchase Price allocated to such Asset on Schedule 3.4 and among the Sellers in accordance with their Seller's Interest Percentages. Sellers have accepted such Allocated Values for purposes of this Agreement and the transactions contemplated hereby, but Sellers make no representation or warranty as to the accuracy of such values.

ARTICLE 4 TITLE AND ENVIRONMENTAL MATTERS

Section 4.1 Sellers' Title. Except for the special warranty of title set forth in the Assignments, no Seller makes any warranty or representation, express, implied, statutory or otherwise, with respect to such Seller's title to any of the Assets, and Purchaser hereby acknowledges and agrees that, subject to Section 4.5, Purchaser's sole remedy for any defect of title, including any Title Defect, with respect to any of the Assets, (a) on or before the applicable Title Claim Date, shall be as set forth in Section 4.2 and, (b) subject to the following sentence, from and after the applicable Title Claim Date (without duplication), shall be pursuant to the special warranty of title set forth in the Assignments. Purchaser further acknowledges and agrees that Purchaser shall not be entitled to protection under (or the right to make a claim against) the special warranty of title provided in the Assignments for any Title Defect reported under this Article 4.

Section 4.2 Title Defects.

(j) To assert a claim of a Title Defect, Purchaser must deliver a claim notice to Sellers' Representative (a "Title Defect Notice") promptly after the discovery thereof, but in no event later than thirty (30) days after the Execution Date (such cut-off date, the "Title Claim Date"). To be effective, each Title Defect Notice shall be in writing and include (i) a description of the alleged Title Defect that is reasonably sufficient for Sellers' Representative to determine the basis of the alleged Title Defect (including, if applicable, the Seller(s) affected by such Title Defect), (ii) if the Title Defect is an Environmental Defect, the Asset(s) adversely affected by such Title Defect and if the Title Defect is anything other than an Environmental Defect, the Unit (or the interests of the applicable Sellers in such Unit) adversely affected by such Title Defect (in each case, a "Title Defect Property"), (iii) the Allocated Value of each Title Defect Property, (iv) all documents upon which Purchaser relies for its assertion of a Title Defect, including, at a minimum, supporting documents reasonably necessary for Sellers' Representative (as well as any title attorney or examiner hired by Sellers' Representative) to verify the existence of the alleged Title Defect and (v) the amount by which Purchaser reasonably believes the Allocated Value of each Title Defect Property is reduced by the alleged Title Defect and the computations and information upon which Purchaser's belief is based, including any analysis by any title attorney or examiner hired by Purchaser (or, in the case of an Environmental Defect, any environmental remediation analysis prepared by or for Purchaser). For the avoidance of doubt, an Environmental Defect shall be deemed to affect all Sellers with an interest in the Assets affected by such Environmental Defect.

(k) Each Seller (acting solely through Sellers' Representative) shall have the right, but not the obligation, to attempt, at its sole cost, to cure or remove on or before 120 days after the Title Claim Date (the "Cure Period") any Title Defects (other than Environmental Defects for which this Section 4.2(b) shall not apply) for which a Title Defect Notice from Purchaser has been delivered to Sellers' Representative prior to the Title Claim Date, and Purchaser shall take all actions reasonably requested by Sellers' Representative to assist any Seller electing to cure with the cure or removal of any such Title Defects. No reduction shall be made to the Closing Payment for such Seller with respect to any Title Defect for which such Sellers' Representative has provided notice to Purchaser prior to or on the Closing Date that such Seller intends to attempt to cure the Title Defect during the Cure Period (a "Remedy Notice") or for which a Seller (acting solely through Sellers' Representative) disputes the existence (a "Disputed Defect"). If any Title Defect with respect to which Sellers' Representative has provided a Remedy Notice to Purchaser is not cured within the Cure Period, such Title Defect shall be handled in accordance with Section 4.2(c); *provided, however*, that any downward adjustments to the affected Unadjusted Purchase Price for such Seller made pursuant to Section 4.2(c) shall occur at the times set forth in Section 9.4; and *provided, further*, that if, prior to 130 days after the Title Claim Date (the "Remedy Deadline"), the Purchaser and Sellers' Representative cannot agree on (i) the proper and adequate cure for any such Title Defect, (ii) the Title Defect Amount or (iii) whether the alleged Title Defect constitutes a Title Defect, such dispute(s) shall be finally and exclusively resolved in accordance with the provisions of Section 4.4. An election by a Seller (acting solely through Sellers' Representative) to attempt to cure a Title Defect shall be without prejudice to its rights under Section 4.4 and shall not constitute an admission against interest or a waiver of such Seller's right (acting solely through Sellers' Representative) to dispute the existence, nature or value of, or cost to cure, the alleged Title Defect.

Any Disputed Defects that have not been cured, waived or otherwise resolved by the Purchaser and Sellers' Representative prior to the Remedy Deadline shall be exclusively and finally resolved in accordance with the provisions of Section 4.4. For any Title Defect Notices delivered by Purchaser hereunder that are identical to Title Defect Notices delivered to Helis under the Helis PSA, the actions taken by Helis to cure or remove such Title Defects shall benefit Sellers in proportion to their interests in the Assets affected, to the extent such actions cure or remove such Title Defect.

(l) Subject to Section 4.2(e) regarding certain Environmental Defects, in the event that any Title Defect is not waived by Purchaser or, subject to Section 4.2(b), not cured prior to the expiration of the Cure Period or Environmental Cure Period, as applicable, subject to the Individual Defect Threshold and the Aggregate Defect Deductible:

(i) unless Purchaser and Sellers' Representative make an election pursuant to Section 4.2(c)(ii)(A) or (B) or Sellers' Representative makes an election pursuant to Section 4.2(c)(ii)(C) (if applicable), there shall be a downward adjustment made to the applicable Unadjusted Purchase Price(s) of the affected Seller(s) equal to an amount determined (the "Title Defect Amount") pursuant to Section 4.2(d) as being the value of such Title Defect; or

(ii) (A) at the election of Purchaser and Sellers' Representative, in the case of a Title Defect that is not an Environmental Defect, exclude or have Purchaser reconvey, as applicable, the Title Defect Property that is adversely affected by such Title Defect;

(B) at the election of Purchaser and Sellers' Representative, in the case of an Environmental Defect for which the asserted Title Defect Amount is less than the Allocated Value of the Title Defect Property, exclude the applicable Title Defect Property from the Assets; or

(C) in the case of a Title Defect that is an Environmental Defect for which the asserted Title Defect Amount is equal to or greater than the Allocated Value of such Title Defect Property, in Sellers' Representative's sole discretion, exclude the Title Defect Property from the Assets;

in any of which events the applicable Unadjusted Purchase Prices of the affected Sellers (which, for the avoidance of doubt, in the case of an Environmental Defect shall mean all Sellers with interests in such affected Asset) shall be adjusted downward, by an amount equal to the Allocated Value of such Title Defect Property and such Title Defect Property shall no longer be included within the definition of Assets for any purpose under this Agreement. Notwithstanding anything in this Agreement to the contrary, if any property is excluded from the Helis Transaction, Sellers' interests in the same property shall be excluded from this Agreement with the same consequences as set forth in the preceding sentences.

Notwithstanding the foregoing provisions of this Section 4.2(c), no reduction shall be made in the Unadjusted Purchase Prices with respect to any Title Defect for which the applicable Parties agree to execute and deliver to one another a written indemnity agreement, under which all of the applicable

Sellers agree to fully, unconditionally and irrevocably indemnify and hold harmless Purchaser from any and all Damages arising out of or resulting from such Title Defect. Upon the election of the remedy of a Title Defect pursuant to this Section 4.2(c), the Parties shall complete any further reconveyancing (or conveyancing in the case of an Environmental Defect Hold-Back Property) of the relevant Title Defect Property as is necessary to effect such remedy. In the case of any such reconveyancing, Purchaser shall assign the relevant Title Defect Property to the applicable Sellers with a special warranty of title, subject to the Permitted Encumbrances, by, through and under Purchaser. Any post-Closing conveyance of an Environmental Defect Hold-Back Property shall be effected by the execution of an Assignment in the form set forth on Exhibit B, and such Environmental Defect Hold-Back Property shall, from and after the date of such conveyance, be deemed to be an Asset for all purposes of this Agreement. Any downward adjustments to the Unadjusted Purchase Price pursuant to this Section 4.2 shall be made (and accounted for) at the times set forth in Section 9.4.

(m) The Title Defect Amount resulting from a Title Defect shall be the amount by which the Allocated Value of the Title Defect Property adversely affected by such Title Defect is reduced as a result of the existence of such Title Defect and shall be determined in accordance with the following methodology, terms and conditions:

(i) if Purchaser and the affected Sellers (acting solely through Sellers' Representative) agree on the Title Defect Amount, that amount shall be the Title Defect Amount;

(ii) if the Title Defect is a lien, encumbrance or other charge that is undisputed and liquidated in amount, then the Title Defect Amount shall be the amount necessary to be paid to remove the Title Defect from the affected Sellers' interest in the affected Title Defect Property;

(iii) if the Title Defect reflects a discrepancy (with a proportional decrease in the working interest for the affected Title Defect Property) between (A) the Net Revenue Interest for the affected Title Defect Property and (B) the Net Revenue Interest stated in Schedule 3.4 then the Title Defect Amount shall be the product of the Allocated Value of such Title Defect Property *multiplied* by a fraction, the numerator of which is the amount of the Net Revenue Interest decrease and the denominator of which is the Net Revenue Interest stated in Schedule 3.4 ;

(iv) if the Title Defect is an Environmental Defect, the Title Defect Amount shall be the amount of the estimated costs and expenses to correct or remediate the Environmental Defect (as of the Closing Date) in such a manner that is consistent with applicable Environmental Laws;

(v) if the Title Defect represents an obligation, encumbrance, burden or charge upon or other defect in title to the Title Defect Property of a type not described in subsections (ii), (iii) or (iv) above, the Title Defect Amount shall be determined by taking into account the Allocated Value of the Title Defect Property, the portion of the Title Defect Property adversely affected by the Title Defect, the legal effect of the Title Defect, the

potential economic effect of the Title Defect over the life of the Title Defect Property, the values placed upon the Title Defect by Purchaser and the affected Sellers and such other factors as are necessary to make a proper evaluation; provided, however, that, the foregoing considerations notwithstanding, in the event that the Title Defect is reasonably susceptible of being cured, the Title Defect Amount shall not be greater than the reasonable cost and expense of curing or remediating, as applicable, such Title Defect;

(vi) the Title Defect Amount with respect to a Title Defect shall be determined without duplication of any costs or losses included in any other Title Defect Amount hereunder, or for which Purchaser otherwise receives credit in the calculation of the Adjusted Purchase Price; and

(vii) notwithstanding anything to the contrary in this Article 4, the aggregate Title Defect Amounts attributable to the effects of all Title Defects (other than Environmental Defects) upon any Title Defect Property shall not exceed the Allocated Value of such Title Defect Property.

(n) (i) Notwithstanding anything to the contrary in this Section 4.2:

- (A) with respect to alleged Environmental Defects (for which the asserted Title Defect Amount is in excess of the Individual Defect Threshold) for which Purchaser and Sellers' Representative have not, prior to the Closing, agreed to a Title Defect Amount (in accordance with Section 4.2(d)(iv)) or for which, prior to Closing, the Title Defect Amount has not been determined pursuant to Section 4.4;
 - (B) in the event the Purchaser and Sellers' Representative have not, prior to Closing, agreed that an alleged Environmental Defect constitutes a Title Defect;
 - (C) with respect to alleged Environmental Defects for which the asserted Title Defect Amount is less than the Allocated Value of the Title Defect Property and an election has been made to exclude such Title Defect Property pursuant to Section 4.2(c);
 - (D) with respect to an alleged Environmental Defect for which the asserted Title Defect Amount is equal to or less than the Allocated Value of the Title Defect Property and Sellers' Representative has made an election to exclude such Title Defect Property pursuant to Section 4.2(c); or
 - (E) with respect to any alleged Environmental Defect for which Sellers' Representative has provided notice to the Purchaser prior to or on the Closing Date that one or more Sellers intend to cure or remove the Environmental Defect on or before 180 days after the Title Claim Date (the "Environmental Cure Period"),
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the affected Title Defect Property that is subject to such alleged Environmental Defect (an “Environmental Defect Hold-Back Property”) shall (X) not be included in the Assets at Closing, and (Y) the Unadjusted Purchase Prices of all Sellers with an interest in such affected Assets shall be (in proportion to each Seller’s applicable Seller’s Title Defect Percentage) adjusted downward by an amount equal to the Allocated Value of such Environmental Defect Hold-Back Property (and, if not already reflected in the Preliminary Settlement Statement prepared prior to Closing pursuant to Section 9.4(b), the Allocated Value of such Environmental Defect Hold-Back Property shall be excluded from the Closing Payments payable to each Seller at Closing). For any Environmental Defect Notices delivered by Purchaser hereunder that are identical to Environmental Defect Notices delivered to Helis under the Helis PSA the actions taken by Helis to cure or remove such Environmental Defects shall benefit Sellers in proportion to their interests in the Assets affected.

(i) During the Environmental Cure Period, Sellers (acting solely through Sellers’ Representative) shall have the right, but not the obligation, at their sole cost, to cure or remove the Environmental Defect affecting any Environmental Defect Hold-Back Property, in which case Sellers shall release and indemnify Purchaser Group in accordance with Section 7.1, applied *mutatis mutandis*, if any of the Sellers Group (including the Operator and its Representatives) access Purchaser’s property in their attempts to cure or remove the Environmental Defect affecting an Environmental Defect Hold-Back Property. Any Environmental Defect Hold-Back Property for which the Environmental Defect is cured or removed during the Environmental Cure Period shall promptly thereafter be conveyed from Sellers to Purchaser, provided that if the Parties cannot agree on the proper and adequate cure for an Environmental Defect or that an Environmental Defect has been cure or removed, such dispute shall be finally and exclusively resolved in accordance with the provisions of Section 4.4.

(ii) If an Environmental Defect affecting any Environmental Defect Hold-Back Property is not cured or removed by Sellers within the Environmental Cure Period, then the Purchaser and Sellers’ Representative or Sellers’ Representative, as applicable, shall determine the remedy with respect to such Environmental Defect pursuant to Section 4.2(c) no later than 10 days after the end of the Environmental Cure Period;

(iii) If any conveyance of an Environmental Defect Hold-Back Property is completed prior to the Final Settlement Statement Date, then the Unadjusted Purchase Price shall be adjusted upward by an amount equal to the Allocated Value of such conveyed Environmental Defect Hold-Back Property and further adjusted as applicable for the adjustments set forth in Section 3.3 that relate to such Environmental Defect Hold-Back Property. If any conveyance of an Environmental Defect Hold-Back Property is completed after the Final Settlement Statement Date, then Purchaser shall pay to Sellers (proportional to each Seller’s applicable Seller’s Title Defect Percentages applicable to such Environmental Defect Hold-Back Property) an amount equal to the Allocated Value of such conveyed Environmental Defect Hold-Back Property, adjusted as applicable for the

adjustments set forth in Section 3.3 that relate to such Environmental Defect Hold-Back Property.

(f) It is understood and agreed that Environmental Defects shall constitute Title Defects for purposes of this Agreement (as is provided in the definition of “Title Defects” set forth in Appendix A) and, as such, will be handled in accordance with, and in all instances will be subject to, the provisions of this Section 4.2 (other than Section 4.2(b) and Section 4.2(d)(vii) which shall not apply to Environmental Defects) and the other applicable provisions of this Article 4 (including the thresholds and deductibles set forth in Section 4.5). For the avoidance of doubt, the Aggregate Defect Deductible is a single amount which includes both Title Defects and Environmental Defects. Without limiting the disclaimers and acknowledgements set forth in Article 5 and Article 6, respectively, **PURCHASER HEREBY WAIVES AND RELEASES ANY REMEDIES OR CLAIMS (WHETHER AT LAW OR IN EQUITY) THAT IT MAY HAVE AGAINST SELLERS, THEIR AFFILIATES OR ANY OTHER MEMBER OF THE SELLERS GROUP UNDER APPLICABLE LAWS WITH RESPECT TO ENVIRONMENTAL DEFECTS, EXCEPT SOLELY FOR THOSE REMEDIES SET FORTH IN THIS ARTICLE 4 AND SECTION 11.2(B)(IV).**

Section 4.3 Title Benefits.

(c) Sellers’ Representative has the right, but not the obligation, to deliver to Purchaser on or before the Title Claim Date with respect to each Title Benefit discovered by Sellers’ Representative a notice (a “Title Benefit Notice”) in writing and including (i) a description of the Title Benefit reasonably sufficient to determine the basis of the alleged Title Benefit (including, if applicable, the Seller(s) affected by such Title Benefit), (ii) the Unit affected by such Title Benefit (a “Title Benefit Property”), (iii) the Allocated Value of each Title Benefit Property, (iv) all documents upon which Sellers’ Representative relies for its assertion of a Title Benefit, including, at a minimum, supporting documents reasonably necessary for Purchaser (as well as any title attorney or examiner hired by Purchaser) to verify the existence of the alleged Title Benefit and (v) the amount by which Sellers’ Representative reasonably believes the Allocated Value of each Title Benefit Property is increased by such Title Benefit and the computations and information upon which Sellers’ Representative’s belief is based on or before the Title Claim Date with respect to each Title Benefit discovered by any Seller. If Helis delivers a Title Benefit Notice to Purchaser for Assets in which Sellers own interests, Sellers shall be deemed to have delivered to Purchaser an identical Title Benefit Notice covering their respective interests in such Assets, as applicable, and Sellers shall be entitled to receive the benefits of any Title Benefit Amount to which Helis establishes its entitlement, pursuant to the Helis PSA, proportionate to the interest of each Seller in the affected Asset.

(d) Subject to the Individual Benefit Threshold and the Aggregate Benefit Deductible, with respect to each Title Benefit Property affected by Title Benefits reported under Section 4.3(a), the Unadjusted Purchase Prices of the affected Sellers shall be increased by an amount (the “Title Benefit Amount”) equal to the increase in the Allocated Value for such Title Benefit Property, as determined pursuant to Section 4.3(c). Any upward adjustments to the Unadjusted Purchase Prices pursuant to this Section 4.3 shall be made (and accounted for) at the times set forth in Section 9.4.

(e) The Title Benefit Amount resulting from a Title Benefit shall be the amount by which the Allocated Value of the Title Benefit Property affected by such Title Benefit is increased as a result of the existence of such Title Benefit and shall be determined in accordance with the following methodology, terms and conditions:

(i) if Purchaser and Sellers' Representative agree on the Title Benefit Amount, that amount shall be the Title Benefit Amount;

(ii) if the Title Benefit reflects a difference (with a proportional increase in the working interest for the affected Title Defect Property) between (A) the Net Revenue Interest for the affected Title Benefit Property and (B) the Net Revenue Interest stated in Schedule 3.4, then the Title Benefit Amount shall be the product of the Allocated Value of such Title Benefit Property *multiplied* by a fraction, the numerator of which is the amount of the Net Revenue Interest increase of the affected Seller(s) and the denominator of which is the Net Revenue Interest of such Seller(s) stated in Schedule 3.4; and

(iii) if the Title Benefit represents a benefit in the ownership or title to the Title Benefit Property of a type not described in subsections (i) or (ii) above, the Title Benefit Amount shall be determined by taking into account the Allocated Value of the Title Benefit Property, the portion of the Title Benefit Property benefitted by the Title Benefit, the legal effect of the Title Benefit, the potential economic effect of the Title Benefit over the life of the Title Benefit Property, the values placed upon the Title Benefit by Purchaser and the affected Sellers, the affected Sellers' interest in the Property affected, and such other factors as are necessary to make a proper evaluation.

(f) If the Purchaser and Sellers' Representative cannot reach an agreement on alleged Title Benefits and Title Benefit Amounts by the scheduled Closing, the provisions of Section 4.4 shall apply.

Section 4.4 Title Disputes. The Parties (with Sellers acting solely through Sellers' Representative) shall attempt to agree on all Title Defects and Title Benefits and Title Defect Amounts and Title Benefit Amounts, respectively, prior to Closing. To the extent Title Defects and Title Benefits and Title Defect Amounts and Title Benefit Amounts affect Assets in which Helis also owns interests, Sellers and Purchaser shall be bound by any resolution of such matters effected under the Helis PSA, except as otherwise set forth in this Section 4.4. Should any Seller provide notice of disagreement, such Seller shall be entitled to take such action as permitted under this Agreement with respect to such Title Defect to the extent it affects such Seller's interest in the Properties, including, to the extent permitted by Helis, the participation in resolution of any Disputed Title Matters between Helis and Purchaser by a Title Arbitrator under the Helis PSA regarding such matter (but not in any separate or subsequent proceeding by a Title Arbitrator, it being agreed that any resolution of a Disputed Title Matter by a Title Arbitrator under the Helis PSA will be binding on each Seller to the extent such resolution affects its interests in the affected Properties, whether or not such Seller participates in the arbitration). Each Seller shall reimburse Helis for its proportionate shares, subject to the preceding sentence, of any out of pocket costs and legal fees incurred by Helis in submitting Disputed Title Matters to the Title Arbitrator; provided that if a Seller participates in the arbitration such Seller shall pay for its own costs and legal fees related to

the arbitration of Disputed Title Matters and its proportionate share of the costs of the arbitrators of Disputed Title Matters, but shall not be required to reimburse Helis for its proportionate share of any out of pocket costs and legal fees incurred by Helis in submitting Disputed Title Matters to the Title Arbitrator. Subject to the foregoing, if Purchaser and Sellers' Representative are unable to agree on Title Defects and Title Benefits and Title Defect Amounts and Title Benefit Amounts, respectively, by the scheduled Closing, then Sellers' Representative's good faith estimate shall be used to determine the Closing Payment pursuant to Section 9.4. If, after the Remedy Deadline, the Purchaser and Sellers' Representative are unable to agree on an alleged Title Defect or Title Benefit or Title Defect Amount or Title Benefit Amount (the "Disputed Title Matters") such dispute(s), and only such dispute(s), shall be exclusively and finally resolved in accordance with the following provisions of this Section 4.4. Purchaser shall provide to Sellers' Representative by not later than the tenth (10th) Business Day following the Remedy Deadline a written description meeting the requirements of Section 4.2(a) or Section 4.3(a), as applicable, together with all supporting documentation, of the Disputed Title Matters. By not later than ten (10) Business Days after Sellers' Representative's receipt of Purchaser's written description of the Disputed Title Matters, Sellers' Representative shall provide to Purchaser a written response setting forth Sellers' Representative's position with respect to the Disputed Title Matters together with all supporting documentation.

(a) By not later than ten (10) Business Days after Purchaser's receipt of Sellers' Representative's written response to Purchaser's written description of the Disputed Title Matters, Purchaser may initiate a non-administered arbitration of any such dispute(s) conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association, to the extent that such rules do not conflict with the terms of this Section 4.4, by written notice (the "Title Arbitration Notice") to Sellers' Representative of any Disputed Title Matters not otherwise resolved or waived that are to be resolved by arbitration ("Final Disputed Title Matters").

(b) The arbitration shall be held before a one member arbitration panel (the "Title Arbitrator"), determined as follows. The Title Arbitrator shall be an attorney with at least ten (10) years' experience (i) in the case of Title Defects other than Environmental Defects, examining oil and gas titles in the State of North Dakota and (ii) in the case of Environmental Defects, as an environmental attorney practicing in the State of North Dakota. Within two (2) Business Days following Sellers' Representative's receipt of the Title Arbitration Notice, Sellers' Representative and Purchaser shall each exchange lists of three (3) acceptable, qualified arbitrators. Within two (2) Business Days following the exchange of lists of acceptable arbitrators, the Purchaser and Sellers' Representative shall select by mutual agreement the Title Arbitrator from their original lists of three (3) acceptable arbitrators. If no such agreement is reached within seven (7) Business Days following the delivery of Title Arbitration Notice, the Houston, Texas office of the American Arbitration Association shall select an arbitrator from the original lists provided by the Purchaser and Sellers' Representative to serve as the Title Arbitrator.

(c) Within three (3) Business Days following the selection of the Title Arbitrator, the Purchaser and Sellers' Representative shall submit one copy to the Title Arbitrator of (i) this Agreement, with specific reference to this Section 4.4 and the other applicable provisions of this Article 4, (ii) Purchaser's written description of the Final Disputed Title Matters, together with the supporting documents that were provided to Seller, (iii) Sellers' Representative's written response

to Purchaser's written description of the Final Disputed Title Matters, together with the supporting documents that were provided to Purchaser and (iv) the Title Arbitration Notice. The Title Arbitrator shall resolve the Final Disputed Title Matters based only on the foregoing submissions, and shall select either the position of Sellers' Representative or Purchaser with respect to each Final Disputed Title Matter. Neither Purchaser nor Sellers' Representative (nor any of the Sellers individually) shall have the right to submit additional documentation to the Title Arbitrator nor to demand discovery on the other Party.

(d) The Title Arbitrator shall make its determination by written decision within thirty (30) days following Sellers' Representative's receipt of the Title Arbitration Notice (the "Arbitration Decision"). The Arbitration Decision shall be final and binding upon the Parties, without right of appeal. In making its determination, the Title Arbitrator shall be bound by the provisions of this Article 4. The Title Arbitrator may consult with and engage disinterested Third Parties to advise the Title Arbitrator, but shall disclose to the Parties the identities of such consultants and shall only use such Third Parties to the extent necessary to resolve the Final Disputed Title Matters. Any such consultant shall not have worked as an employee or consultant for either Party or its Affiliates during the five (5) year period preceding the arbitration nor have any financial interest in the dispute.

(e) The Title Arbitrator shall act as an expert for the limited purpose of determining the specific disputed Title Defects and Title Defect Amounts or Title Benefits and Title Benefit Amounts and shall not be empowered to award damages, interest or penalties to either Party with respect to any matter.

(f) Each Party shall each bear its own legal fees and other costs of preparing and presenting its case. Sellers' Representative on behalf of the affected Sellers shall bear one-half and Purchaser shall bear one-half of the costs and expenses of the Title Arbitrator, including any costs incurred by the Title Arbitrator that are attributable to the consultation of any Third Party.

(g) The Parties shall implement the Arbitration Decision as follows: (i) in the case of alleged Title Defects determined to be Title Defects, such Title Defects shall be remedied pursuant to Section 4.2(c) within ten (10) Business Days following Sellers' Representative's receipt of the Arbitration Decision (with any amounts owed, as a result of such remedy, to be made and accounted for at the times set forth in Section 9.4(d)), and (ii) in the case of disputed Title Benefits, Title Benefit Amounts or Title Defect Amounts, any amounts determined to be owed by any Party shall be accounted for in the determination of the Adjusted Purchase Price pursuant to Section 9.4(d). Any alleged Title Defects or Title Benefits determined not to be Title Defects or Title Benefits under the Arbitration Decision shall be final and binding as not being Title Defects or Title Benefits. The Parties shall complete any reconveyancing of property as is necessary to effect the remedy determined pursuant to subsection (i) above. In the case of any such reconveyancing, Purchaser shall assign the relevant Lease or Well to the affected Sellers with a special warranty of title, subject to no burdens, liens or encumbrances other than the Permitted Encumbrances, by, through and under Purchaser.

(h) Any dispute over the interpretation or application of this Section 4.4 shall be decided by the Title Arbitrator with reference to the Laws of the State of Texas.

Section 4.5 Limitations on Applicability.

(a) The right of Purchaser or Sellers (through Sellers' Representative or otherwise) to assert a Title Defect or Title Benefit, respectively, under this Article 4 shall terminate on the Title Claim Date, except that until the alleged Title Defect or Title Benefit or Title Defect Amount or Title Benefit Amount, as applicable, is resolved in accordance with this Agreement, there shall be no termination of Purchaser's or Sellers' Representative's rights under this Article 4 with respect to any alleged Title Defect or Title Benefit or Title Defect Amount or Title Benefit Amount properly reported in accordance with Section 4.4 on or before the Title Claim Date. Thereafter, Purchaser's and Sellers' sole and exclusive rights and remedies with regard to title to the Assets shall be as set forth in the respective Assignments. Without limiting the foregoing, if a Title Defect under this Article 4 results from any matter that could also result in the breach of any representation or warranty of Sellers as set forth in Article 5 or a breach of Sellers' special warranty of title in the Assignments, and Purchaser has knowledge of such matter prior to the Title Claim Date, Purchaser shall only be entitled to assert such matter as a Title Defect to the extent permitted by Article 4; and, for the avoidance of doubt, Purchaser shall be precluded from also asserting any such matter as the basis of the breach of any such representation or warranty or as a claim against Sellers' special warranty of title provided in the Assignments.

(b) Notwithstanding anything to the contrary in this Agreement, in no event shall there be any adjustments to the Unadjusted Purchase Prices or other remedies available in respect of Title Defects (including Title Defects constituting Environmental Defects) or Title Benefits, under this Article 4:

(i) With respect to Title Defects, in the case of each Seller (A) for any Title Defect Amount affecting such Seller with respect to an individual Title Defect Property if such amount does not exceed such Seller's applicable Seller's Title Defect Percentage, multiplied by One Hundred Thousand Dollars (\$100,000) (for each such Seller, the "Individual Defect Threshold" applicable to such Seller), *provided that*, Purchaser shall be entitled to recover the full Title Defect Amount once the Individual Defect Threshold is met, subject to the Aggregate Defect Deductible; and (B) unless the amount of all such Title Defect Amounts (*provided that* each such Title Defect Amount exceeds the applicable Individual Defect Threshold), in the aggregate (excluding any Title Defect Amounts with respect to Title Defects cured or indemnified by Seller in accordance with this Article 4) exceeds two and one-half percent (2.5%) of such Seller's Unadjusted Purchase Price (for each such Seller, the "Aggregate Defect Deductible" applicable to such Seller), after which point, subject to the Individual Defect Threshold, Purchaser shall be entitled to adjustments to the applicable Unadjusted Purchase Price or other remedies in accordance with Section 4.2(c) only with respect to Title Defect Amounts in excess of such Aggregate Defect Deductible and only to the extent that Title Defect Amounts exceed the Aggregate Defect Deductible. Notwithstanding the foregoing, Title Defects which would otherwise constitute breaches of the special warranty of title set forth in the Assignments but which are asserted prior to the Title Claim Date shall not be subject to the Individual Defect Thresholds or the Aggregate Defect Deductibles.

(ii) With respect to Title Benefits, in the case of each Seller (A) for any Title Benefit Amount affecting such Seller with respect to an individual Title Benefit Property: if such amount does not exceed such Seller's applicable Seller's Title Defect Percentage, multiplied by One Hundred Thousand Dollars (\$100,000) (for each such Seller, the "Individual Benefit Threshold" for such Seller), *provided that*, Seller shall be entitled to recover the full Title Benefit Amount once the Individual Benefit Threshold is met, subject to the Aggregate Benefit Deductible; and (B) unless the amount of all such Title Benefit Amounts (*provided* that each such Title Benefit Amount exceeds the Individual Benefit Threshold), in the aggregate exceeds two and one-half percent (2.5%) of such Seller's Unadjusted Purchase Price (for each Seller, the "Aggregate Benefit Deductible" applicable to such Seller), after which point, subject to the Individual Benefit Threshold, such Seller shall be entitled to adjustments to its Unadjusted Purchase Price only with respect to Title Benefit Amounts in excess of such Aggregate Benefit Deductible and only to the extent that Title Benefit Amounts exceed the Aggregate Benefit Deductible.

(c) Without prejudice to any of the other dates by which performance or the exercise of rights is due hereunder, or the Parties' rights or obligations in respect thereof, the Parties hereby acknowledge that, as set forth more fully in Section 13.14, time is of the essence in performing their obligations and exercising their rights under this Article 4, and, as such, that each and every date and time by which such performance or exercise is due shall be the firm and final date and time.

Section 4.6 Consents to Assignment and Preferential Rights to Purchase.

(a) The following terms of this Section 4.6 shall apply only to the extent they are not addressed pursuant to the Helis PSA. To the extent matters covered by this Section 4.6 are resolved under the Helis PSA, the same resolution shall be deemed to apply to Sellers and Purchaser under this Agreement, with respect to the interests of Sellers in the affected Assets.

(b) Promptly after the Execution Date, Sellers (or Sellers' Representative) shall prepare and send (i) notices to the holders of any required consents to assignment (including the Specified Consent Requirements that are set forth on Schedule 5.16) requesting consents to the Assignments; (ii) notices to the holders of any applicable preferential rights to purchase or similar rights (including rights to purchase or similar rights arising in connection with change in control provisions) (collectively, "Preferential Rights") that are set forth on Schedule 5.16 in compliance with the terms of such rights and requesting waivers of such rights; and (iii) upon Purchaser's review and written request, notices under each Contract and for each interest described under Section 2.2(g) or Section 2.2(i) for which consent or a waiver is required from a counterparty or under applicable Law in order to transfer, assign or amend such Contract. Each Seller shall use Commercially Reasonable Efforts to cause such consents and waivers of Preferential Rights (or the exercise thereof), to be obtained and delivered prior to Closing with respect to such Seller's interest in the affected Property or Consent. Purchaser shall cooperate with Sellers and Sellers' Representative in seeking to obtain such consents to assignment and waivers of Preferential Rights. Any Preferential Right must be exercised subject to all terms and conditions set forth in this Agreement, including the successful Closing of this Agreement pursuant to Article 9 as to those Assets for which Preferential Rights have not been exercised. The consideration payable under this Agreement for

any particular Asset for purposes of Preferential Right notices shall be the Allocated Value for such Asset, subject to adjustment pursuant to Section 3.3. If, prior to the Closing Date, any Party discovers any required consents or Preferential Rights (applying to the Assets) for which notices have not been delivered pursuant to the first sentence of this Section 4.6(b), then (A) the Party making such discovery shall provide the other Parties with written notification of such consents or Preferential Rights, as applicable, (B) Sellers (or Sellers' Representative), following delivery or receipt of such written notification, will promptly send notices to the holders of such required consents requesting consents and notices to the holders of such Preferential Rights in compliance with the terms of such rights and requesting waivers of such rights and (C) the terms and conditions of this Section 4.6 shall apply to the Assets subject to such consents or Preferential Rights, as applicable.

(c) In no event shall there be included in the Assignments any Asset for which a Specified Consent Requirement has not been satisfied. In cases in which the Asset subject to such a requirement is a Contract and Purchaser is assigned the Property or Properties to which the Contract relates, but the Contract is not transferred to Purchaser due to the unwaived Specified Consent Requirement, (i) each Seller (as applicable) shall continue after Closing to use Commercially Reasonable Efforts to satisfy the Specified Consent Requirement so that such Contract can be transferred to Purchaser upon receipt of the Specified Consent Requirement, (ii) the Contract shall be held by Sellers (as applicable) for the benefit of Purchaser until the Specified Consent Requirement is satisfied or the Contract has terminated and (iii) Purchaser shall pay all amounts due thereunder, perform all obligations thereunder and indemnify the applicable Sellers against any Damages incurred or suffered by such Sellers as a consequence of remaining a party to such Contract until the Specified Consent Requirement is satisfied or the Contract has terminated. In cases in which the Asset subject to such a Specified Consent Requirement is a Property and such consent is not satisfied by Closing, the affected Property and the Assets related to that Property shall not be transferred at Closing and the Unadjusted Purchase Price(s) shall be reduced by the Allocated Value of the Property and related Assets, provided that each Seller (as applicable) shall continue after Closing to use Commercially Reasonable Efforts to satisfy the Specified Consent Requirement so that such Property and the Assets related to the Property can be transferred to Purchaser upon receipt of the Specified Consent Requirement, subject to the remainder of this Section 4.6(c). If an unsatisfied Specified Consent Requirement with respect to which an adjustment to the Unadjusted Purchase Price(s) is made under Section 3.3 is subsequently satisfied prior to the date of delivery of the final settlement statement under Section 9.4(d), a separate closing shall be held within five (5) Business Days thereof at which (i) the applicable Sellers shall convey the affected Property and related Assets to Purchaser in accordance with this Agreement and (ii) Purchaser shall pay an amount equal to the Allocated Value of such Property and related Assets, adjusted in accordance with Section 3.3, to the applicable Sellers (in proportion to their Seller's Title Defect Percentages). If such consent requirement is not satisfied by the date of delivery of the final settlement statement, Sellers shall have no further obligation to sell and convey such Property and related Assets and Purchaser shall have no further obligation to purchase, accept and pay for such Property, and the affected Property and related Assets shall be deemed to be deleted from Exhibit A-1, Exhibit A-2, Schedule 3.4 and the other applicable Exhibits and Schedules to this Agreement for all purposes.

(d) If any Preferential Right affecting an Asset is exercised prior to Closing, the Unadjusted Purchase Price(s) shall be decreased by the Allocated Value for such Assets, and the

affected Assets shall be deemed to be deleted from Exhibit A-1 , Exhibit A-2 , Schedule 3.4 and the other applicable Exhibits and Schedules to this Agreement for all purposes. Sellers shall retain the consideration paid by the Third Party, and shall have no further obligation with respect to such affected Assets under this Agreement. Should a Third Party fail to exercise its Preferential Right as to any portion of the Assets prior to Closing and the time for exercise or waiver has not yet expired, the affected Assets shall not be transferred at Closing and the Unadjusted Purchase Price(s) shall be reduced by the Allocated Values of such Assets. In the event that such Third Party exercises its Preferential Right following the Closing, Sellers shall have no further obligation to sell and convey the affected Assets and Purchaser shall have no further obligation to purchase, accept and pay for such affected Assets, and the affected Assets shall be deemed to be deleted from Exhibit A-1 , Exhibit A-2 , Schedule 3.4 and the other applicable Exhibits and Schedules to this Agreement for all purposes. If, on the other hand, the applicable Preferential Rights are waived or expire, a separate closing shall be held within five (5) Business Days thereof at which (i) the applicable Sellers shall convey the affected Assets to Purchaser in accordance with this Agreement and (ii) Purchaser shall pay an amount equal to the Allocated Value of such Assets, adjusted in accordance with Section 3.3, to the applicable Sellers (in proportion to their Seller's Title Defect Percentages).

Section 4.7 Casualty or Condemnation Loss .

(a) If, after the Execution Date, but prior to the Closing Date, any portion of the Assets is damaged, destroyed or made unavailable or unusable for the intended purpose by fire or other casualty or is taken in condemnation or under right of eminent domain (each a "Casualty Loss"), and the loss as a result of such individual Casualty Loss exceeds five percent (5%) of the applicable Unadjusted Purchase Price(s), Purchaser shall nevertheless be required to close, and Sellers' Representative shall elect by written notice to Purchaser prior to Closing either (i) to cause the Assets adversely affected by any such individual Casualty Loss to be repaired or restored to at least their condition prior to such Casualty Loss, at the applicable Sellers' sole cost and expense, as promptly as reasonably practicable (which work may extend after the Closing Date), (ii) to indemnify Purchaser against any costs or expenses that Purchaser reasonably incurs to repair or restore the Assets subject to any such Casualty Loss or (iii) to exclude the affected Assets from this Agreement and reduce the applicable Unadjusted Purchase Price(s) by the Allocated Value of such Assets. In each case, Sellers shall retain all rights to insurance, unpaid awards, condemnation payments and other rights and claims against Third Parties with respect to the Casualty Loss, except to the extent the Parties otherwise agree in writing.

(b) If, after the Execution Date, but prior to the Closing Date, any Casualty Loss occurs, and the loss as a result of such individual Casualty Loss is five percent (5%) or less of the applicable Unadjusted Purchased Price(s), Purchaser shall nevertheless be required to close and Sellers shall, at Closing, pay to Purchaser all sums paid to Sellers by Third Parties by reason of such individual Casualty Loss and, to the extent necessary, shall assign, transfer and set over to Purchaser or subrogate Purchaser to all of Sellers' right, title and interest (if any) in unpaid awards, condemnation payments and other rights and claims against Third Parties (other than Persons within the Sellers Group) arising out of the Casualty Loss.

(c) To the extent a Casualty Loss occurs with respect to Assets which are also covered by the Helis PSA, the Parties shall take such action under this Section 4.7 that is consistent with the action by Helis and Purchaser under the Helis PSA.

ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF SELLER

Section 5.1 Generally .

(o) Any representation or warranty qualified to the “knowledge of Seller” or “to Seller’s knowledge” or with any similar knowledge qualification is limited to matters, with respect to each Seller, within the Actual Knowledge of the individuals listed for such Seller in Schedule 5.1 . As used in this Agreement, the term “Actual Knowledge ” with respect to any individual means information personally known by such individual.

(p) Inclusion of a matter on a Schedule in relation to a representation or warranty that addresses matters having a Material Adverse Effect shall not be deemed an indication that such matter does, or may, have a Material Adverse Effect. Likewise, the inclusion of a matter on a Schedule to this Agreement in relation to a representation or warranty shall not be deemed an indication that such matter necessarily would, or may, breach such representation or warranty absent its inclusion on such Schedule. Matters may be set forth on a Schedule for information purposes only.

(q) Subject to the foregoing provisions of this Section 5.1, the disclaimers and waivers contained in and the other terms and conditions of this Agreement, subject to Section 5.1(d) each Seller represents and warrants to Purchaser the matters set forth in Section 5.2 through Section 5.20 as of the Execution Date and on the Closing Date, as applicable (except for the representations and warranties that refer to a specified date which will be deemed made as of such date).

(r) In respect of each representation and warranty made in this Article 5, each Seller, on a several and not a joint or joint and several basis, makes such representations and warranties to Purchaser only as to itself or, as the context so requires, as to (and to the extent of) its interests in the Assets (but not as to the other Sellers or as to their interests in the Assets).

(s) Any reference to Assets in this Article 5 is to Seller Assets, and any reference to Properties in this Article 5 is to Seller’s interest in the Properties.

Section 5.2 Existence and Qualification . Seller is duly organized, validly existing and in good standing under the Laws of its state of incorporation or formation and is duly qualified to do business in the State of North Dakota.

Section 5.3 Power . Seller has the requisite power to enter into and perform this Agreement and to consummate the transactions contemplated by this Agreement.

Section 5.4 Authorization and Enforceability . The execution, delivery and performance

of this Agreement and all documents required to be executed and delivered by Seller at Closing, and the performance of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary limited liability company, corporate, or partnership action on the part of Seller, as applicable. This Agreement has been duly executed and delivered by Seller (and all documents required hereunder to be executed and delivered by Seller at Closing will be duly executed and delivered by Seller) and this Agreement constitutes, and at the Closing such documents will constitute, the valid and binding obligations of Seller, enforceable in accordance with their terms, except as such enforceability may be limited by applicable bankruptcy or other similar Laws affecting the rights and remedies of creditors generally, as well as by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.5 No Conflicts. Assuming the receipt of all consents and approvals from Third Parties in connection with the transactions contemplated hereby and the waiver of or compliance with all Preferential Right rights applicable to the transfer of the Assets contemplated hereby, the execution, delivery and performance of this Agreement by Seller, and the transactions contemplated by this Agreement, will not (a) violate any provision of the limited liability company agreement or other organizational documents of Seller, (b) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, license or agreement to which Seller is a party or that affects the Assets, (c) violate any judgment, order, ruling or decree applicable to Seller as a party in interest, or (d) violate any Laws applicable to Seller or any of the Assets, except any matters described in subsections (b) or (c) above which would not have a Material Adverse Effect.

Section 5.6 Liability for Brokers' Fees. Purchaser shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of Seller or its Affiliates, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any agreement or transaction contemplated hereby.

Section 5.7 Intellectual Property. Seller owns, or has the licenses or rights to use all material Intellectual Property used in the ownership or operation of the Assets. Seller has not received from any Third Party a claim in writing that Seller is infringing on the Intellectual Property of such Third Party.

Section 5.8 Insurance. To the extent Seller has policies of insurance applicable to the Assets in addition to those maintained by Helis, Seller has made available to Purchaser copies of all such policies of insurance (with redactions of those portions of the policies not applicable to the Assets), which are set forth on Schedule 5.8, and, for recently renewed policies (to the extent applicable to the Assets), binders to which Seller is a party or under which the Assets are covered. Except as set forth in Schedule 5.8, (a) all such policies of insurance to which Seller is a party and which relate to the Assets are valid, outstanding, and enforceable, (b) will continue in full force and effect immediately prior to the Closing and (c) Seller has paid all premiums due, and has otherwise performed all of its obligations, under each policy to which Seller is a party (or that provides coverage to Seller) and which relate to the Assets.

Section 5.9 Litigation . Except as set forth on Schedule 5.9 , there are no actions, suits or proceedings pending, or to Seller's knowledge, threatened in writing, before any Governmental Body or arbitrator with respect to Seller or the Assets that would materially impair Seller's ability to perform its obligations under this Agreement or that would affect the Assets.

Section 5.10 Payment of Royalties and Rentals . To the knowledge of Seller, all royalties, overriding royalties and other burdens on production that have been paid by Operator or a third party operator, as applicable, on behalf of Seller relating to the Assets have been properly and legally paid before the same became delinquent. With respect to Leases and other agreements, to the knowledge of Seller, all delay rentals and royalties that perpetuate Leases and similar payments under surface use agreements have been properly and legally paid by Operator or a third party operator, as applicable, on behalf of Seller before the same became delinquent.

Taxes and Assessments

(a) To the knowledge of Seller, all Asset Taxes that have become due and payable have been properly paid in full by Helis or other designated operator.

(b) To the knowledge of Seller, all Tax Returns with respect to Asset Taxes that are required to be filed with respect to the Assets have been filed by Helis or other designated operator and all such Tax Returns are true, correct and complete in all material respects.

(c) To the knowledge of Seller, there are no liens for unpaid Taxes against the Assets other than liens for current period Taxes not yet due and payable.

(d) To the knowledge of Seller, except as set forth on Schedule 5.11 , no action, suit, Governmental Body proceeding or audit is now in progress or pending with respect to Asset Taxes, and Seller has not received written notice of any pending claim against the Assets from any applicable Governmental Body for assessment of Asset Taxes and to Seller's knowledge no such claim has been threatened.

(e) Seller has not granted an extension or waiver of the statute of limitations applicable to any Tax Return, which period has not yet expired. No power of attorney that is currently in force has been granted with respect to any matter relating to Asset Taxes that could be binding on Purchaser with respect to the Assets after Closing.

(f) Seller is not a party to or bound by any Tax allocation or Tax sharing or indemnification agreement with respect to the Assets.

(g) Except as disclosed on Schedule 5.11, none of the Assets is held in an arrangement that is classified as, or deemed by law or agreement to be, a partnership for U.S. federal income tax purposes. Any tax partnership set forth on Schedule 5.11 shall have in effect for the taxable year that includes the Closing Date an election under Section 754 of the Code.

(h) To the knowledge of Seller, all of the Assets have been properly listed and described on the property tax rolls for the Tax units in which the Assets are located and no portion of the Assets constitutes omitted property for property tax purposes.

(i) Neither Purchaser nor any of its Affiliates will be held liable for any unpaid Taxes of Seller or with respect to the Assets (other than Asset Taxes for the period from and after the Effective Time) as a successor or transferee, by statute, contract or otherwise.

Section 5.11 Capital Commitments. Except as set forth on Schedule 5.12, as of the Effective Time, there were no outstanding AFEs or other capital commitments to Third Parties received by Seller and currently pending or approved by Seller that were binding on the Assets and could reasonably be expected to require expenditures by the owner of such Assets after the Effective Time in excess of Seller's proportionate share of \$250,000.

Section 5.12 Compliance with Laws. To Seller's knowledge, Seller has complied with, and the Assets have been operated in, compliance with all applicable Laws in all material respects.

Section 5.13 Contracts. Except as set forth on Schedule 5.14,

To Seller's knowledge, neither Seller nor Operator is in default under any Contract.

(a) There are no (i) Contracts with Affiliates of Seller or, to Seller's knowledge, of Operator that will be binding on the Assets after Closing or (ii) hedges, swaps, derivatives or other similar contracts that will be binding on the Assets after Closing.

(b) None of the Properties are subject to or burdened by and, to Seller's knowledge, Operator is not a party to any Contract with respect to Seller's operation of the Assets, that can be reasonably expected to result in aggregate payments or receipts of revenue of more than \$500,000 annually in the current year or any subsequent year.

(c) There are no Contracts that contain a call on production with respect to the Properties.

(d) None of the Properties are subject to or burdened by any pending farmout agreement, exploration agreement, participation agreement or other similar contract.

(e) There are no material surface use agreements or similar contracts that benefit or burden the Properties.

(f) None of the Properties are subject to or burdened by any (i) operating agreement, transportation, gathering, processing or similar contract or Hydrocarbon sales contract (in each case) that is not terminable without penalty on sixty (60) days' or less notice or (ii) any indenture, mortgage, loan, credit or sale-leaseback or similar contract that will not be terminated at or prior to the Closing.

Section 5.14 Payments for Production. Except as set forth on Schedule 5.15, Seller is not obligated by virtue of any take-or-pay payment, advance payment or other similar payment (other than royalties, overriding royalties and similar arrangements reflected in the Net Revenue Interest figures set forth on Schedule 3.4; gas balancing arrangements; and non-consent provisions in the Contracts) to deliver Hydrocarbons, or proceeds from the sale thereof, attributable to the Properties at some future time without receiving payment therefor at or after the time of delivery, and, similarly,

except as set forth on Schedule 5.15 , there are not any Imbalances attributable to the Properties.

Section 5.15 Consents and Preferential Purchase Rights. Except as set forth on Schedule 5.16, to Seller's knowledge, none of the Properties, or any portion thereof, is subject to any Preferential Right or Specified Consent Requirement that may be applicable to the transactions contemplated by this Agreement, except Customary Post-Closing Consents.

Section 5.16 Properties. To Seller's knowledge, (a) no default exists in the performance of any obligation of Seller or Operator under the Leases that would entitle the lessor thereunder to cancel or terminate any such Leases, and (b) except as set forth in Schedule 5.17, no party to any Lease or any successor to the interest of such party has filed or threatened in writing to file any action to terminate, cancel, rescind or procure judicial reformation of any such Lease.

Non-Consent Operations

Section 5.17 Bankruptcy. There are no bankruptcy, insolvency, reorganization, receivership or similar proceedings pending against, being contemplated by or, to Seller's knowledge, threatened against Seller.

Section 5.18 Helis as Operator

No Seller is an operator for any portion of the Assets. Except for Properties operated by a third party operator, Helis is the operator of those Properties in which Helis and Seller both own an interest.

Section 5.19 Certain Disclaimers .

(A) EXCEPT AS AND TO THE EXTENT EXPRESSLY SET FORTH IN ARTICLE 4, THIS ARTICLE 5, IN THE CERTIFICATES OF SELLERS TO BE DELIVERED PURSUANT TO SECTION 9.2(B) OR IN THE ASSIGNMENTS TO BE DELIVERED BY SELLERS TO PURCHASER HEREUNDER, (i) SELLERS MAKE NO REPRESENTATIONS OR WARRANTIES, EXPRESS, STATUTORY OR IMPLIED, AND (ii) SELLERS EXPRESSLY DISCLAIM ALL LIABILITY AND RESPONSIBILITY FOR ANY STATEMENT OR INFORMATION MADE OR COMMUNICATED (ORALLY OR IN WRITING) TO THE PURCHASER GROUP (INCLUDING ANY OPINION, INFORMATION OR ADVICE THAT MAY HAVE BEEN PROVIDED TO PURCHASER BY ANY PERSON OF THE SELLERS GROUP).

(B) EXCEPT AS AND TO THE EXTENT EXPRESSLY SET FORTH IN ARTICLE 4, THIS ARTICLE 5, IN THE CERTIFICATES OF SELLERS TO BE DELIVERED PURSUANT TO SECTION 9.2(B) OR IN THE ASSIGNMENTS TO BE DELIVERED BY SELLERS TO PURCHASER HEREUNDER, WITHOUT LIMITING THE GENERALITY OF SECTION 5.21(A), SELLERS EXPRESSLY DISCLAIM ANY REPRESENTATION OR WARRANTY, EXPRESS, STATUTORY OR IMPLIED, ORAL OR WRITTEN, AS TO (i) TITLE TO ANY OF THE ASSETS, (ii) THE CONTENTS, CHARACTER OR NATURE OF ANY DESCRIPTIVE MEMORANDUM, OR ANY REPORT OF ANY PETROLEUM ENGINEERING CONSULTANT, OR ANY

GEOLOGICAL OR SEISMIC DATA OR INTERPRETATION, RELATING TO THE ASSETS, (iii) THE QUANTITY, QUALITY OR RECOVERABILITY OF HYDROCARBONS IN OR FROM THE ASSETS, (iv) ANY ESTIMATES OF THE VALUE OF THE ASSETS OR FUTURE REVENUES GENERATED BY THE ASSETS, (v) THE PRODUCTION OF PETROLEUM SUBSTANCES FROM THE ASSETS, OR WHETHER PRODUCTION HAS BEEN CONTINUOUS OR IN PAYING QUANTITIES, (vi) THE MAINTENANCE, REPAIR, CONDITION, QUALITY, SUITABILITY, DESIGN OR MARKETABILITY OF THE ASSETS OR (vii) ANY OTHER MATERIALS OR INFORMATION THAT MAY HAVE BEEN MADE AVAILABLE OR COMMUNICATED TO THE PURCHASER GROUP IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY DISCUSSION OR PRESENTATION RELATING THERETO (INCLUDING ANY ITEMS PROVIDED IN CONNECTION WITH SECTION 7.1), AND FURTHER DISCLAIM ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR CONFORMITY TO MODELS OR SAMPLES, IT BEING EXPRESSLY UNDERSTOOD AND AGREED BY THE PARTIES THAT PURCHASER SHALL BE DEEMED TO BE OBTAINING THE EQUIPMENT AND OTHER TANGIBLE PROPERTY INCLUDED AS PART OF THE ASSETS IN ITS PRESENT STATUS, CONDITION AND STATE OF REPAIR, "AS IS" AND "WHERE IS" WITH ALL FAULTS, AND THAT, AS OF CLOSING, PURCHASER HAS MADE OR CAUSED TO BE MADE SUCH INSPECTIONS AS PURCHASER DEEMS APPROPRIATE.

(C) EXCEPT AS AND TO THE EXTENT EXPRESSLY PROVIDED IN ARTICLE 4 AND SECTION 11.2(B)(IV), SELLERS SHALL NOT HAVE ANY LIABILITY IN CONNECTION WITH AND HAVE NOT AND WILL NOT MAKE (AND HEREBY DISCLAIMS) ANY REPRESENTATION OR WARRANTY REGARDING ANY MATTER OR CIRCUMSTANCE RELATING TO ENVIRONMENTAL LAWS, ENVIRONMENTAL DEFECTS, ENVIRONMENTAL LIABILITIES, THE RELEASE OF HAZARDOUS SUBSTANCES, HYDROCARBONS OR NORM INTO THE ENVIRONMENT OR THE PROTECTION OF HUMAN HEALTH, SAFETY, NATURAL RESOURCES OR THE ENVIRONMENT, OR ANY OTHER ENVIRONMENTAL CONDITION OF THE ASSETS, AND NOTHING IN THIS AGREEMENT OR OTHERWISE SHALL BE CONSTRUED AS SUCH A REPRESENTATION OR WARRANTY, AND PURCHASER SHALL BE DEEMED TO BE TAKING THE ASSETS "AS IS" AND "WHERE IS" FOR PURPOSES OF THEIR ENVIRONMENTAL CONDITION.

ARTICLE 6 REPRESENTATIONS AND WARRANTIES OF PURCHASER

Section 6.1 Generally.

(a) Any representation or warranty qualified to the "knowledge of Purchaser" or "to Purchaser's knowledge" or with any similar knowledge qualification is limited to matters within the Actual Knowledge of the individuals listed in Schedule 6.1.

(b) Purchaser represents and warrants to each Seller the matters set forth in Section 6.2 through Section 6.13 as of the Execution Date and on the Closing Date (except for representations and warranties that refer to a specified date which will be deemed made as of such date); provided, however, that Purchaser's liability pursuant to Article 11 to any given Seller for a breach of Purchaser's representations and warranties set forth in this Article 5 shall be limited as to each Seller to such Seller's applicable Seller's Interest Percentage of the aggregate Damages resulting as a result of such breach (subject, in each case, to the other limitations of Article 11).

Section 6.2 Existence and Qualification. Purchaser is a Texas corporation, validly existing, and in good standing under the Laws of the State of Texas and is duly qualified to do business in the State of North Dakota.

Section 6.3 Power. Purchaser has the requisite power to enter into and perform this Agreement and consummate the transactions contemplated by this Agreement.

Section 6.4 Authorization and Enforceability. The execution, delivery and performance of this Agreement and all documents required to be executed and delivered by Purchaser at Closing, and the performance of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary limited liability company, corporate or partnership action on the part of Purchaser. This Agreement has been duly executed and delivered by Purchaser (and all documents required hereunder to be executed and delivered by Purchaser at Closing will be duly executed and delivered by Purchaser) and this Agreement constitutes, and at the Closing such documents will constitute, the valid and binding obligations of Purchaser, enforceable in accordance with their terms except as such enforceability may be limited by applicable bankruptcy or other similar Laws affecting the rights and remedies of creditors generally as well as by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 6.5 No Conflicts. The execution, delivery and performance of this Agreement by Purchaser, and the transactions contemplated by this Agreement, will not (a) violate any provision of the certificate of incorporation, bylaws, agreement of limited partnership or other organizational documents of Purchaser, (b) result in a material default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license or agreement to which Purchaser is a party, (c) violate any judgment, order, ruling, or regulation applicable to Purchaser as a party in interest, or (d) violate any Laws applicable to Purchaser or any of its assets, except any matters described in subsections (b), (c) or (d) above which would not have a material adverse effect on Purchaser's ability to consummate the transactions contemplated herein and to perform its obligations in connection therewith pursuant to the terms hereof.

Section 6.6 Liability for Brokers' Fees. Sellers shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of Purchaser or its Affiliates, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any agreement or transaction contemplated hereby.

Section 6.7 Litigation . There are no actions, suits or proceedings pending, or to Purchaser's knowledge, threatened in writing, before any Governmental Body or arbitrator against Purchaser that are reasonably likely to materially impair Purchaser's ability to perform its obligations under this Agreement or any document required to be executed and delivered by Purchaser at Closing.

Section 6.8 Financing . Purchaser has and will maintain between the Execution Date and Closing sufficient cash, available lines of credit or other sources of immediately available funds (in Dollars) to enable it to pay the Closing Payment to Sellers at the Closing.

Section 6.9 Securities Law Compliance . Purchaser is acquiring the Assets for its own account for use in its trade or business, and not with a view toward or for sale associated with any distribution thereof, nor with any present intention of making a distribution thereof within the meaning of the Securities Act and applicable state securities Laws.

Section 6.10 Independent Evaluation .

(a) Purchaser is knowledgeable of the oil and gas business and of the usual and customary practices of oil and gas producers, including those in the areas where the Assets are located.

(b) Purchaser is a party capable of making such investigation, inspection, review and evaluation of the Assets as a prudent purchaser would deem appropriate under the circumstances including with respect to all matters relating to the Assets, their value, operation and suitability.

(c) In making the decision to enter into this Agreement and consummate the transactions contemplated hereby, Purchaser has relied solely on the basis of its own independent due diligence investigation of the Assets and the terms and conditions of this Agreement.

Section 6.11 Consents, Approvals or Waivers. Purchaser's execution, delivery and performance of this Agreement (and any document required to be executed and delivered by Purchaser at Closing) is not and will not be subject to any consent, approval, or waiver from any Governmental Body or other Third Party, except consents and approvals of assignments by Governmental Bodies that are customarily obtained after Closing.

Section 6.12 Bankruptcy. There are no bankruptcy, insolvency, reorganization or receivership proceedings pending against, being contemplated by, or threatened against Purchaser.

Section 6.13 Qualification. Purchaser is, or as of the Closing Date will be, qualified under applicable Law to own the Assets and has, or as of the Closing Date will have, complied with all necessary bonding requirements of Governmental Bodies required for Purchaser's ownership or operation of the Assets.

Section 6.14 Limitation. Purchaser acknowledges the following:

(A) EXCEPT AS AND TO THE EXTENT EXPRESSLY SET FORTH IN ARTICLE 4, ARTICLE 5, IN THE CERTIFICATES OF SELLERS TO BE DELIVERED

PURSUANT TO SECTION 9.2(B) OR IN THE ASSIGNMENTS TO BE DELIVERED BY SELLERS TO PURCHASER HEREUNDER, THERE ARE NO REPRESENTATIONS AND WARRANTIES, EXPRESS, STATUTORY OR IMPLIED, BY SELLERS AS TO THE ASSETS OR PROSPECTS THEREOF AND PURCHASER HAS NOT RELIED UPON ANY ORAL OR WRITTEN INFORMATION PROVIDED BY SELLERS.

(B) EXCEPT AS AND TO THE EXTENT EXPRESSLY PROVIDED IN ARTICLE 4 AND SECTION 11.2(B)(IV), SELLERS AND THE OTHER MEMBERS OF THE SELLERS GROUP SHALL NOT HAVE ANY LIABILITY IN CONNECTION WITH AND SELLERS HAVE DISCLAIMED, HAVE NOT MADE AND WILL NOT MAKE ANY REPRESENTATION OR WARRANTY REGARDING ANY MATTER OR CIRCUMSTANCE RELATING TO ENVIRONMENTAL LAWS, ENVIRONMENTAL DEFECTS, ENVIRONMENTAL LIABILITIES, THE RELEASE OF HAZARDOUS SUBSTANCES, HYDROCARBONS OR NORM INTO THE ENVIRONMENT OR PROTECTION OF HUMAN HEALTH, SAFETY, NATURAL RESOURCES OR THE ENVIRONMENT OR ANY OTHER ENVIRONMENTAL CONDITION OF THE ASSETS.

(C) THE ASSETS HAVE BEEN USED FOR EXPLORATION, DEVELOPMENT AND PRODUCTION OF HYDROCARBONS AND THERE MAY BE PETROLEUM, PRODUCED WATER, WASTE, OR OTHER SUBSTANCES OR MATERIALS LOCATED IN, ON OR UNDER THE PROPERTIES OR ASSOCIATED WITH THE ASSETS. EQUIPMENT AND SITES INCLUDED IN THE ASSETS MAY CONTAIN ASBESTOS, NORM OR OTHER HAZARDOUS SUBSTANCES. NORM MAY AFFIX OR ATTACH ITSELF TO THE INSIDE OF WELLS, MATERIALS AND EQUIPMENT AS SCALE, OR IN OTHER FORMS. THE WELLS, MATERIALS AND EQUIPMENT LOCATED ON THE PROPERTIES OR INCLUDED IN THE ASSETS MAY CONTAIN NORM AND OTHER WASTES OR HAZARDOUS SUBSTANCES. NORM CONTAINING MATERIAL OR OTHER WASTES OR HAZARDOUS SUBSTANCES MAY HAVE COME IN CONTACT WITH VARIOUS ENVIRONMENTAL MEDIA, INCLUDING WATER, SOILS OR SEDIMENT. SPECIAL PROCEDURES MAY BE REQUIRED FOR THE ASSESSMENT, REMEDIATION, REMOVAL, TRANSPORTATION OR DISPOSAL OF ENVIRONMENTAL MEDIA, WASTES, ASBESTOS, NORM AND OTHER HAZARDOUS SUBSTANCES FROM THE ASSETS.

ARTICLE 7 COVENANTS OF THE PARTIES

Section 7.1 Access.

(i) The following terms of this Section 7.1 shall apply only to the extent Purchaser has not obtained the relevant information regarding or access to the Assets pursuant to the Helis PSA.

(j) Between the Execution Date and the Closing Date, each Seller shall give Purchaser access to the Assets and access to and the right to copy, at Purchaser's sole cost, risk and expense, the Records (or originals thereof) in such Seller's possession, for the purpose of conducting

a reasonable due diligence review of the Seller Assets of such Seller, *but only* to the extent that such Seller may do so without violating any obligations to any Third Party and to the extent that such Seller has the authority to grant such access without breaching any restriction binding on it (and each Seller shall use its Commercially Reasonable Efforts to seek waivers of such restrictions if and to the extent requested by Purchaser). Subject to the foregoing, Purchaser shall be entitled to conduct (i) a Phase I Environmental Site Assessment of the Assets and may conduct visual inspections and record reviews relating to the Assets, including their condition and compliance with Environmental Laws, and (ii) a Phase II Environmental Site Assessment of the Assets, subject to, prior to performing such actions, (A) receipt of Operator or Sellers' Representative's written permission (such permission not to be unreasonably withheld, conditioned or delayed) to perform the Phase II Environmental Site Assessment and (B) written protocol with Operator's or Sellers' Representative for the conduct of any such Phase II Environmental Site Assessment and further subject to the agreement to provide Seller's copies of any final reports. Otherwise, Purchaser shall not operate any equipment or conduct any testing or sampling of soil, groundwater or other materials (including any testing or sampling for Hazardous Substances, Hydrocarbons or NORM) on or with respect to the Assets prior to Closing. Purchaser shall abide by Sellers', and any Third Party operator's, safety rules, regulations, and operating policies (including the execution and delivery of any documentation or paperwork, *e.g.*, boarding agreements or liability releases, required by Third Party operators with respect to Purchaser's access to any of the Assets) while conducting its due diligence evaluation of the Assets. Any conclusions made from any examination done by Purchaser shall result from Purchaser's own independent review and judgment.

(k) The access granted to Purchaser under this Section 7.1 shall be limited to Sellers' normal business hours, and Purchaser's investigation shall be conducted in a manner that minimizes interference with the operation of the Assets. Purchaser shall coordinate its access rights of the Assets with Sellers to reasonably minimize any inconvenience to or interruption of the conduct of business by Sellers. Purchaser shall provide Sellers' Representative with at least forty-eight (48) hours' written notice before the Assets are accessed pursuant to this Section 7.1, along with a listing of its representatives involved and a description of the activities Purchaser intends to undertake.

(l) Purchaser acknowledges that, pursuant to its right of access to the Assets, Purchaser will become privy to confidential and other information of Sellers and that such confidential information (which includes Purchaser's conclusions with respect to its evaluations) shall be held confidential by Purchaser in accordance with any applicable privacy Laws regarding personal information.

(M) In connection with the rights of access, examination and inspection granted to Purchaser under this Section 7.1, **(i) PURCHASER WAIVES AND RELEASES ALL CLAIMS AGAINST THE SELLERS GROUP ARISING IN ANY WAY THEREFROM OR IN ANY WAY CONNECTED THEREWITH AND (ii) PURCHASER HEREBY AGREES TO INDEMNIFY, DEFEND AND HOLD HARMLESS EACH MEMBER OF THE SELLERS GROUP AND THIRD PARTY OPERATORS FROM AND AGAINST ANY AND ALL DAMAGES ATTRIBUTABLE TO PERSONAL INJURY, DEATH OR PHYSICAL PROPERTY DAMAGE, OR VIOLATION OF THE SELLERS GROUP'S OR ANY THIRD PARTY OPERATOR'S RULES, REGULATIONS, OR OPERATING POLICIES, ARISING**

OUT OF, RESULTING FROM OR RELATING TO ANY FIELD VISIT OR OTHER DUE DILIGENCE ACTIVITY CONDUCTED BY PURCHASER WITH RESPECT TO THE ASSETS, EVEN IF SUCH LIABILITIES ARISE OUT OF OR RESULT FROM, SOLELY OR IN PART, THE SOLE, ACTIVE, PASSIVE, CONCURRENT OR COMPARATIVE NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT OR VIOLATION OF LAW BY THE SELLERS GROUP OR THIRD PARTY OPERATORS EXCEPT IN EACH CASE TO THE EXTENT CAUSED BY THE WILLFUL MISCONDUCT OR GROSS NEGLIGENCE OF THE SELLERS GROUP .

Section 7.2 Government Reviews . In a timely manner, the Parties shall (a) make all required filings, prepare all required applications and conduct negotiations with each Governmental Body as to which such filings, applications or negotiations are necessary or appropriate in the consummation of the transactions contemplated hereby and (b) provide such information as each may reasonably request to make such filings, prepare such applications and conduct such negotiations. Each Party shall reasonably cooperate with and use all reasonable efforts to assist the other with respect to such filings, applications, and negotiations.

Section 7.3 Public Announcements; Confidentiality.

(a) Neither Purchaser, nor any Seller, shall make any press release or other public announcement regarding the existence of this Agreement, the contents hereof or the transactions contemplated hereby without the prior written consent of, as the case may be, Purchaser or Sellers' Representative (collectively, the "Public Announcement Restrictions"). Notwithstanding the foregoing, the Public Announcement Restrictions shall not restrict disclosures to the extent (i) necessary for a Party to perform this Agreement (including disclosures to Governmental Bodies or Third Parties holding Preferential Rights, rights of consent or other rights that may be applicable to the transaction contemplated by this Agreement, as reasonably necessary to provide notices, seek waivers, amendments or termination of such rights, or seek such consents); (ii) required (upon advice of counsel) by applicable securities or other Laws or regulations or the applicable rules of any stock exchange on a Party's or its respective Affiliates' stock is listed, and in such event, the disclosures may include at the option of the disclosing Party an 8-K disclosure (or comparable filing for any non-United States disclosure), a press release, a detailed power point presentation and a conference call, and, to the extent required by Law, filing this Agreement with the Securities and Exchange Commission as an exhibit to an 8-K or 10-Q; (iii) that such Party has given the other Party a reasonable opportunity to review such disclosure prior to its release and no objection is raised, or (iv) of any disclosures made by Purchaser or Helis in connection with the Helis Transaction to the extent permitted under the Helis PSA. In the case of the disclosures described under subsections (i) and (ii) of this Section 7.3(a), each Purchaser or Sellers' Representative, as the case may be, shall use its reasonable efforts to consult with the other Party regarding the contents of any such release or announcement prior to making such release or announcement, it being understood that no Party may deny the other from making such disclosure.

(b) Except as set forth in this Section 7.3, the Parties shall keep all information and data relating to this Agreement and the Assets strictly confidential except for disclosures to Representatives of the Parties (in which event, the disclosing Party will be responsible for making sure that the Representatives keep such information and data confidential) and any disclosures

required to perform this Agreement (collectively, the “Confidentiality Restrictions”). However, prior to making any disclosures permitted under the preceding sentence, the Party disclosing such information shall obtain an undertaking of confidentiality from the Person receiving such information. The Confidentiality Restrictions shall not restrict disclosures that are required (upon advice of counsel) by applicable securities or other Laws or regulations or the applicable rules of any stock exchange having jurisdiction over the Parties or their respective Affiliates. Following Closing, subject to the preceding sentence, Purchaser shall not be bound by Confidentiality Restrictions relating to information concerning the Assets and Sellers (and Sellers’ Representative) shall be bound by Confidentiality Restrictions relating to information concerning the Assets for a period of twelve (12) months, except to the extent such information concerning the Assets (i) is or becomes generally available to the public other than as a result of a disclosure by Sellers, (ii) was provided to Sellers by, or becomes available to Sellers from, a Third Party, provided that such Third Party was not known by Sellers, after reasonable investigation, to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to Purchaser or (iii) is required to be disclosed under applicable law, the rules of any securities exchange to which the Reviewing Party is subject or by a governmental order, decree, regulation or rule.

Section 7.4 Operation of Business. Except (i) as otherwise contemplated by this Agreement, (ii) as to the matters set forth on Schedule 7.4 or (iii) as otherwise approved by Purchaser, from the Execution Date until the Closing Date, each Seller shall, with respect to its Seller Assets and its interest in Contracts (and as applicable shall vote its interests under the applicable joint operating agreements in a manner consistent with the following if the matter is the subject of a vote and/or shall use its Commercially Reasonable Efforts to cause the applicable operator to if permissible under the applicable joint operating agreement):

(d) conduct Seller’s business related to the Assets in the ordinary course consistent with Seller’s recent exploration and drilling program and other recent practices;

(e) not commit to any new operation reasonably anticipated to require future capital expenditures by all the owners of the Assets in excess of \$250,000;

(f) not voluntarily terminate, materially amend, execute or extend Seller’s interest in any material Contracts or enter into any new contract that would have to be disclosed on Schedule 5.14 if in existence on the Execution Date;

(g) maintain Seller’s insurance coverage on the Assets presently furnished by nonaffiliated Third Parties and not furnished by Operator in the amounts and of the types presently in force;

(h) not transfer, sell, hypothecate, encumber or otherwise dispose of any material Properties or Equipment except for sales and dispositions of Equipment or Hydrocarbons made in the ordinary course of business consistent with past practices;

(i) unless already provided to Purchaser by Helis, provide Purchaser with all well proposals (including all AFEs and related documents in connection with such well proposals) within five (5) Business Days after receipt thereof;

(j) not elect to be treated as a non-consenting party under the rules and regulations of the North Dakota Industrial Commission or any applicable joint operating agreement with respect to any operation;

(k) not make, revoke or amend any Tax election with respect to Asset Taxes, enter into any settlement of any material issue with respect to Asset Taxes, or execute or consent to any waivers extending the statutory period of limitations with respect to the collection of any Asset Taxes, in each case, to the extent such action would bind or otherwise affect the Purchaser at or after the Effective Time; and

(l) not enter into an agreement in contravention of any of the foregoing.

Requests for approval of any action restricted by this Section 7.4 shall be delivered to all of the following individuals by electronic correspondence (at the email addresses set forth below) and a facsimile transmission (at the fax numbers set forth below), each of whom shall have full authority or have access to the requisite authority to grant or deny such requests for approval on behalf of Purchaser, which such approval may be withheld, conditioned or delayed in Purchaser's reasonable discretion:

Matt Thompson
Telephone: 303-640-4226
Fax: 303-295-0222
Email: matt.thompson@qepres.com

Vinnie Rigatti
Telephone: 303-672-6935
Fax: 303-573-0307
Email: vinnie.rigatti@qepres.com

With a copy (in the case of any written notice) to:

Cory Miller
Telephone: 303-672-6944
Fax: 303-295-0222
Email: cory.miller@qepres.com; and to:
Austin Murr
Telephone: 303-672-6941
Fax: 303-573-0307
Email: Austin.murr@qepres.com

Any approval required in this Section 7.4 will be deemed given if first approved pursuant to the terms of the Helis PSA.

Section 7.5 Non-Solicitation of Employees. From the Execution Date through the Closing, Purchaser will not, and will cause its Affiliates not to, directly or indirectly, formally make an offer of employment or employ any officer or employee of Sellers or their Affiliates with whom Purchaser or its Affiliates have had direct contact with as part of its evaluation, negotiation or consummation of the transactions contemplated herein without obtaining the prior written consent

of Sellers' Representative. This Section 7.5 shall not include general solicitations of employment not specifically directed towards officers or employees of Sellers or their Affiliates.

Section 7.6 Change of Name . Within ninety (90) days after Closing, Purchaser shall eliminate or obscure the names of the Sellers from the Assets and shall have no right to use any logos, trademarks or trade names belonging to Sellers or any of their Affiliates.

Section 7.7 Replacement of Bonds, Letters of Credit and Guaranties . The Parties understand that none of the bonds, letters of credit and guaranties, if any, posted by Sellers or their Affiliates with Governmental Bodies or co-owners and relating to the Assets will be transferred to Purchaser. On or prior to Closing, Purchaser shall obtain, or cause to be obtained in the name of Purchaser, replacements for such bonds, letters of credit and guaranties, to the extent such replacements are necessary to permit the cancellation of the bonds, letters of credit and guaranties posted by Sellers or to consummate the transactions contemplated by this Agreement.

Section 7.8 Notification of Breaches . Between the Execution Date and the Closing Date:

(a) Purchaser shall notify Sellers' Representative promptly after Purchaser obtains actual knowledge that any representation or warranty of Sellers contained in this Agreement is untrue in any material respect or will be untrue in any material respect as of the Closing Date or that any covenant or agreement to be performed or observed by Sellers prior to or on the Closing Date has not been so performed or observed in any material respect.

(b) Each Seller and Sellers' Representative shall notify Purchaser promptly after such Seller or Sellers' Representative obtains actual knowledge that any representation or warranty of Purchaser contained in this Agreement is untrue in any material respect or will be untrue in any material respect as of the Closing Date or that any covenant or agreement to be performed or observed by Purchaser prior to or on the Closing Date has not been so performed or observed in any material respect.

(c) If any of Purchaser's or Sellers' representations or warranties is untrue or shall become untrue in any material respect between the Execution Date and the Closing Date, or if any of Purchaser's or Sellers' covenants or agreements to be performed or observed prior to or on the Closing Date shall not have been so performed or observed in any material respect, but if such breach of representation, warranty, covenant or agreement shall (if curable) be cured by the Closing (or, if the Closing does not occur, by the date set forth in Section 9.1), then such breach shall be considered not to have occurred for all purposes of this Agreement.

Section 7.9 Amendment to Schedules .

(d) As of the Closing Date, all Schedules to this Agreement, as applicable, shall be deemed amended and supplemented by Sellers to include reference to any matter which results in an adjustment to the Adjusted Purchase Price pursuant to Section 3.3 as a result of the removal under the terms of this Agreement of any of the Assets.

(e) Prior to Closing, any Seller or Sellers' Representative shall have the right to supplement Seller's Schedules relating to the representations and warranties set forth in Article 5

with respect to any matters discovered or occurring subsequent to the Execution Date which, if existing or known at the date hereof or thereafter, would have been required to be set forth or described in such Schedules, including amendments to reflect actions taken in compliance with Section 7.4 (“Section 7.4 Updates”). For all purposes of this Agreement, including for purposes of determining whether the conditions set forth in Article 8 have been fulfilled, the Schedules to Sellers’ representations and warranties contained in this Agreement shall be deemed to include only that information contained therein on the Execution Date and shall be deemed to exclude all information contained in any addition, supplement or amendment thereto; provided, however, that (a) if Closing shall occur, then only those matters disclosed pursuant to any such addition, supplement or amendment at or prior to Closing which arose and/or occurred, as applicable, from and after the Execution Date up to Closing and which were not caused by any Seller shall be waived and Purchaser shall not be entitled to make a claim with respect thereto pursuant to the terms of this Agreement or otherwise and (b) Section 7.4 Updates shall be deemed to have been made on the Execution Date and shall be included for all purposes of this Agreement. For the avoidance of doubt, if any matter disclosed pursuant to any such addition, supplement or amendment at or prior to Closing did not arise and/or occur, as applicable, from and after the Execution Date up to Closing or relates to a matter caused by any Seller (other than Section 7.4 Updates), regardless of when Sellers obtained knowledge of such matter, such addition, supplement or amendment shall not be waived and Purchaser shall be entitled to make a claim with respect thereto pursuant to the terms of this Agreement.

Section 7.10 Regulatory Matters. From and after the date of this Agreement until December 31, 2017 (the “Records Period”), Sellers shall, and shall cause their Affiliates and their respective officers, directors, managers, employees, agents and representatives to, provide reasonable cooperation to Purchaser, its Affiliates and their agents and representatives in connection with Purchaser’s or its Affiliates’ filings, if any, that are required by the Securities and Exchange Commission, under securities laws applicable to Purchaser and its Affiliates (collectively, the “Filings”). During the Records Period, each Seller agrees to make available to Purchaser and its Affiliates and their agents and representatives any and all books, records, information and documents that are attributable to the Assets in Seller’s or its Affiliates’ possession or control and access to such Seller’s and its Affiliates’ personnel, in each case as reasonably required by Purchaser, its Affiliates and their agents and representatives in order to prepare, if required, in connection with the Filings, financial statements meeting the requirements of Regulation S-X under the Securities Act of 1933, as amended (the “Securities Act”), along with any documentation attributable to the Assets required to complete any audit associated with such financial statements. During the Records Period, each Seller shall, and shall cause its Affiliates to, provide reasonable cooperation to the independent auditors chosen by Purchaser (“Purchaser’s Auditor”) in connection with any audit by Purchaser’s Auditor of any financial statements of such Seller or its Affiliates with respect to the Assets that Purchaser or any of its Affiliates requires to comply with the requirements of the Securities Act or the Securities Exchange Act of 1934 with respect to any Filings. During the Records Period, each Seller and its Affiliates shall retain all books, records, information and documents relating to the Assets for the three (3) fiscal years prior to January 1, 2012 and the period from January 1, 2012 through the Closing Date. Purchaser will reimburse each Seller and its Affiliates, within ten (10) business days after demand in writing therefor, for any reasonable out-of-pocket costs incurred by such Seller and its Affiliates in complying with the provision of this

Section 7.10.

Section 7.11 Further Assurances. After Closing, the Parties agree to take such further actions and to execute, acknowledge and deliver all such further documents as are reasonably requested by the other Party for carrying out the purposes of this Agreement or of any document delivered pursuant to this Agreement.

Section 7.12 Sellers' Waiver, Release and Conveyance.

Except with respect to the Retained ORRIs, each Seller hereby waives, releases and conveys to Purchaser (i) any rights it has against Helis to acquire any additional interest in the Properties (as defined herein and as defined in the Helis PSA) and (ii) any and all rights each Seller, as applicable, has against Helis or any other Person pursuant to the ORRI Agreement. For the avoidance of doubt, each Seller that is a party to the ORRI Agreement agrees that Purchaser shall have no obligations pursuant to the ORRI Agreement and that the ORRI Agreement shall be of no further force and effect from and after Closing.

Section 7.13 Sellers' Representative . Each Seller hereby constitutes and appoints UPC as such Seller's "Sellers' Representative ", to take such actions by such Seller as may be expressly required or permitted to be taken by the Sellers' Representative in this Agreement. It being understood and agreed that no fiduciary or agency relationship is created by this designation of Unit as Sellers' Representative, and Unit does not have the authority to execute any agreement or other document on behalf of Sellers, or assume any obligation on their behalf, except as expressly stated in this Agreement. Each Seller acknowledges and agrees that (i) Sellers' Representative may bind such Seller only for expressly defined purposes under this Agreement; and (ii) Purchaser may rely on and is a beneficiary of this Section 7.13. Purchaser acknowledges that Sellers' Representative may deliver notices or make elections on behalf of each Seller that vary from notices or elections delivered on behalf of other Sellers. In the absence of any indication in such notices or elections delivered by Sellers' Representative, Purchaser may rely on such notices or elections as binding on all Sellers.

**ARTICLE 8
CONDITIONS TO CLOSING**

Section 8.1 Sellers' Conditions to Closing . The obligations of each of the Sellers to consummate the transactions contemplated by this Agreement are subject to the satisfaction (or waiver by each of the Sellers) on or prior to Closing of each of the following conditions precedent:

(d) Representations. The representations and warranties of Purchaser set forth in Article 6 shall be true and correct in all material respects as of the Execution Date and as of the Closing Date as though made on and as of the Closing Date;

(e) Performance . Purchaser shall have performed and observed, in all material respects, all covenants and agreements to be performed or observed by it under this Agreement prior to or on the Closing Date;

(f) No Action. On the Closing Date, no injunction, order or award restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, or granting material damages in connection therewith, shall have been issued and remain in force, and no suit, action or other proceeding by a Third Party (including any Governmental Body) seeking to restrain, enjoin or otherwise prohibit the consummation of the transactions contemplated by this Agreement, or seeking substantial damages in connection therewith, shall be pending before any Governmental Body or arbitrator;

(g) Title Defects; Environmental Defects; Casualty; Preferential Rights; Consents. In each case subject to the Individual Defect Threshold and the Aggregate Defect Deductible, as applicable, the sum of (a) all Title Defect Amounts (including Environmental Defects) that have been determined pursuant to Section 4.2 prior to Closing, less the sum of all Title Benefit Amounts that have been determined under Section 4.3 prior to Closing, plus (b) the Allocated Value of any Assets excluded from the transactions as contemplated by Section 4.6, Section 4.7 or Section 4.2(c)(ii) shall be less than twenty percent (20%) of the Aggregate Unadjusted Purchase Price;

(h) Governmental Consents. All material consents and approvals of any Governmental Body required for the transfer of the Assets from Sellers to Purchaser as contemplated under this Agreement, except Customary Post-Closing Consents, shall have been granted, or the necessary waiting period shall have expired, or early termination of the waiting period shall have been granted; and

(i) Deliveries. Purchaser shall deliver (or be ready, willing and able to deliver at Closing) to Sellers duly executed counterparts of the documents and certificates to be delivered by Purchaser under Section 9.3.

Section 8.2 Purchaser's Conditions to Closing. The obligations of Purchaser to consummate the transactions contemplated by this Agreement with respect to any Seller are subject to the satisfaction (or waiver by Purchaser) on or prior to Closing of each of the following conditions precedent, provided, however, that if Purchaser waives a condition under the Helis PSA that is comparable to a condition in this Agreement, Purchaser shall be deemed to have waived the comparable condition in this Agreement to the extent relating to the same facts and circumstances that are the subject of the Purchaser's waiver under the Helis PSA:

(e) Representations. The representations and warranties of such Seller set forth in Article 5 shall be true and correct as of the Execution Date and as of the Closing Date as though made on and as of the Closing Date (other than representations and warranties that refer to a specified date, which need only be true and correct on and as of such specified date), except for such breaches, if any, as would not, individually or in the aggregate, have a Material Adverse Effect (except to the extent that such representation or warranty is qualified in terms of materiality), provided, however, that any such breach by a Seller asserted by Purchaser to be a failure of condition shall be deemed the failure of condition only as to such Seller and not as to any other Seller that has not committed such breach;

(f) Performance. Such Seller, as to its interest and obligations, shall have performed and observed, in all material respects, all covenants and agreements to be performed or

observed by it under this Agreement prior to or on the Closing Date, except, in the case of breaches of Section 7.4, for such breaches, if any, as would not, individually or in the aggregate, have a Material Adverse Effect (except to the extent such covenant or agreement is qualified in terms of materiality), provided, however, that any breach in such performance by a Seller asserted by Purchaser to be a failure of condition shall be deemed the failure of condition only as to such Seller and not as to any other Seller that has not committed such breach;

(g) No Action. On the Closing Date, no injunction, order or award restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, or granting material damages in connection therewith, shall have been issued and remain in force, and no suit, action or other proceeding by a Third Party (including any Governmental Body) seeking to restrain, enjoin or otherwise prohibit the consummation of the transactions contemplated by this Agreement, or seeking substantial damages in connection therewith, shall be pending before any Governmental Body or arbitrator;

(h) Title Defects; Environmental Defects; Casualty; Preferential Rights; Consents . In each case subject to the Individual Defect Threshold and the Aggregate Defect Deductible, as applicable, the sum of (a) all Title Defect Amounts (including Environmental Defects) that have been determined pursuant to Section 4.2 prior to Closing, less the sum of all Title Benefit Amounts that have been determined under Section 4.3 prior to Closing, plus (b) the Allocated Value of any Assets excluded from the transactions as contemplated by Section 4.6, Section 4.7 or Section 4.2(c)(ii) shall be less than twenty percent (20%) of the Aggregate Unadjusted Purchase Price;

(i) Governmental Consents. All material consents and approvals of any Governmental Body required for the transfer of the Assets from Sellers to Purchaser as contemplated under this Agreement, except Customary Post-Closing Consents, shall have been granted, or the necessary waiting period shall have expired, or early termination of the waiting period shall have been granted;

(j) Deliveries . Such Seller shall deliver (or be ready, willing and able to deliver simultaneously at Closing) to Purchaser duly executed counterparts of the documents and certificates to be delivered by Sellers under Section 9.2, provided, however, except as set forth in Section 8.2(h), that any failure in such delivery by a Seller asserted by Purchaser to be a failure of condition shall be deemed the failure of condition only as to such Seller and not as to any other Seller that has not committed such failure;

(k) Helis Closure. The Helis Transaction shall have closed in accordance with the terms of the Helis PSA (or closing thereunder will occur simultaneously with Closing hereunder); and

(l) Black Hills and UPC Closure . The closing hereunder with respect to Black Hills and UPC shall have occurred or be occurring simultaneously.

Section 8.3 Obligation of Purchaser To Close. In the event the Helis Transaction has closed in accordance with the terms of the Helis PSA and all of Purchaser's conditions to close set out in Section 8.2 have been satisfied or waived by Purchaser (either under this Agreement or under

the Helis PSA insofar as Purchaser has waived the comparable condition under the Helis PSA to the extent relating to the same facts and circumstances that are the subject of Purchaser's waiver under the Helis PSA), then Purchaser is obligated to consummate the Closing hereunder.

ARTICLE 9 CLOSING

Section 9.1 Time and Place of Closing. Consummation of the purchase and sale transaction as contemplated by this Agreement (the "Closing"), shall, unless otherwise agreed to in writing by Purchaser and a Seller, take place at 10:00 a.m., Central Time, on September 27, 2012 at the offices of Vinson & Elkins LLP located at 1001 Fannin Street, Suite 2500, Houston, Texas 77002 (provided, however, that the Parties agree that the Closing shall take place simultaneously with the closing of the Helis Transaction under the Helis PSA, except (i) in the event that all conditions in Article 8 to be satisfied prior to Closing have not yet been satisfied or waived, in which case Closing shall occur within five (5) Business Days of such conditions having been satisfied or waived, subject to the rights of the Parties under Article 10, at such time and place as Purchaser may establish by at least three (3) Business Days written notice to Seller, or (ii) in the event the closing under the Helis PSA occurs on a different date, Purchaser shall be permitted to change the date of the Closing to be simultaneous with or to follow the Helis closing; provided that Purchaser provides Sellers' Representative with at least three (3) Business Days written notice. The date on which the Closing occurs is herein referred to as the "Closing Date."

Section 9.2 Obligations of Sellers at Closing. At the Closing, upon the terms and subject to the conditions of this Agreement, and subject to the simultaneous performance by Purchaser of its obligations pursuant to Section 9.3, each Seller shall deliver or cause to be delivered to Purchaser, among other things, the following:

(m) Counterparts of the Assignments of such Seller's Seller Assets, in sufficient duplicate originals to allow recording in all appropriate jurisdictions and offices, duly executed by such Seller and acknowledged before a notary public;

(n) Certificates duly executed by an authorized officer of such Seller, dated as of Closing, certifying on behalf of such Seller that the conditions set forth in Section 8.2(a) and Section 8.2(b) in relation to such Seller have been fulfilled;

(o) Counterparts of the Letter-in-lieu of Transfer Order covering the relevant Seller Assets, duly executed by such Seller;

(p) [Reserved];

(q) Certificate duly executed by the secretary or any assistant secretary of such Seller, dated as of the Closing, (i) attaching and certifying on behalf of such Seller complete and correct copies of (A) the certificate of incorporation or formation, as applicable, of such Seller, (B) the resolutions of the Board of Directors or members or shareholders or partners, as applicable, of such Seller authorizing the execution, delivery, and performance by such Seller of this Agreement

and the transactions contemplated hereby and (C) any required approval by such Seller's members or shareholders or partners of this Agreement and the transactions contemplated hereby and (ii) certifying the incumbency and true signatures of the officers who execute this Agreement and any other agreement, certificate or document related hereto or executed in connection herewith on behalf of such Seller;

(r) A certification of non-foreign status with respect to such Seller which meets the requirements of Treasury Regulation § 1.1445-2(b)(2);

(s) An executed IRS Form W-9 for such Seller;

(t) Executed releases for the Existing Sundance Mortgage and any and all liens, mortgages and other encumbrances on the Assets incurred by such Seller or its Affiliates in connection with borrowed monies;

(u) Where approvals are received by such Seller pursuant to a filing or application under Section 7.2, copies of those approvals; and

(v) All other instruments, documents and other items reasonably necessary to effectuate the terms of this Agreement, as may be reasonably requested by Purchaser.

Section 9.3 Obligations of Purchaser at Closing. At the Closing, upon the terms and subject to the conditions of this Agreement, and subject to the simultaneous performance by Sellers of their obligations pursuant to Section 9.2, provided that, subject to Section 8.2(h), failure of any Seller to perform its obligations under Section 9.2 shall not excuse Purchaser from performing its obligations under this Section 9.3 with respect to those Sellers that perform their obligations under Section 9.2 (each Seller that performs its obligations under Section 9.2 being referred to as a "Closing Seller"), Purchaser shall deliver or cause to be delivered to Closing Seller, among other things, the following:

(a) Wire transfers of the applicable Closing Payments to the accounts designated on the Preliminary Settlement Statement in immediately available funds, and in accordance with the Escrow Agreement, an instruction to the Escrow Agent to distribute the balance in the Escrow Account of each Closing Seller to the account of such Closing Seller and in the amounts designated on the Preliminary Settlement Statement;

(b) A certificate by an authorized officer of Purchaser, dated as of Closing, certifying on behalf of Purchaser that the conditions set forth in Section 8.1(a) and Section 8.1(b) have been fulfilled;

(c) Counterparts of the Assignments of the Assets, in sufficient duplicate originals to allow recording in all appropriate jurisdictions and offices, duly executed by Purchaser and acknowledged before a notary public;

(d) Counterparts of the Letter-in-lieu of Transfer Order covering the relevant Assets, duly executed by Purchaser;

(e) [Reserved];

(f) A certificate duly executed by the secretary or any assistant secretary of Purchaser, dated as of the Closing, (i) attaching, and certifying on behalf of Purchaser as complete and correct, copies of (A) the certificate of incorporation of Purchaser, (B) the resolutions of the Board of Directors (or body of similar power and authority) of Purchaser or its general partner authorizing the execution, delivery, and performance by Purchaser of this Agreement and the transactions contemplated hereby and (C) any required approval by the shareholders, unit holders or other equity holders of Purchaser of this Agreement and the transactions contemplated hereby and (ii) certifying the incumbency and true signatures of the officers who execute this Agreement and any other agreement, certificate or document related hereto or executed in connection herewith on behalf of Purchaser;

(g) Where approvals are received by Purchaser pursuant to a filing or application under Section 7.2, copies of those approvals;

(h) Evidence of replacement bonds, guaranties and letters of credit pursuant to Section 7.7; and

(i) All other instruments, documents and other items reasonably necessary to effectuate the terms of this Agreement, as may be reasonably requested by Seller.

Section 9.4 Closing Payment and Post-Closing Purchase Price Adjustments.

(a) Not later than four (4) Business Days prior to the Closing Date, Purchaser shall deliver to Sellers' Representative a copy of the "Preliminary Settlement Statement" prepared pursuant to the terms of the Helis PSA (the "Helis PSS").

(b) Not later than three (3) Business Days prior to the Closing Date, Sellers' Representative shall prepare and deliver to Purchaser, using and based upon the best information available to Sellers, a preliminary settlement statement (the "Preliminary Settlement Statement") estimating the initial Adjusted Purchase Price for each Closing Seller, after giving effect to all adjustments to the Unadjusted Purchase Price set forth in Section 3.3. It is understood and agreed that the Closing Sellers may adopt and elect to use as the Preliminary Settlement Statement the Helis PSS or portions thereof, proportionate to their respective Seller Assets. The Preliminary Settlement Statement shall include wire transfer information for the Closing Payments and for the release of the Deposit and shall be signed by each Closing Seller. The estimates delivered in accordance with this Section 9.4(b) less the Deposit for each Closing Seller shall constitute the Dollar amounts to be paid by Purchaser to each Closing Seller at the Closing (the "Closing Payment" for each Closing Seller).

(c) The following Section 9.4(d) shall only apply to the extent any reporting required to be made to Purchaser by Sellers therein is not addressed by reports prepared pursuant to the terms of the Helis PSA and in such event Sellers reporting shall be due the later of five (5) Business Days after receipt of the report prepared pursuant to the Helis PSA or such later date provided in Section 9.4(d).

(d) Sellers' Representative shall prepare and deliver to Purchaser a statement setting forth the final calculation of each Adjusted Purchase Price and showing the calculation of each adjustment, based, to the extent possible, on actual credits, charges, receipts and other items before and after the Effective Time no later than the later of (x) thirty (30) days following the Cure Period and (y) the date on which the Parties or the Title Arbitrator, as applicable, finally determines all Title Defect Amounts and Title Benefit Amounts under Section 4.4 (such later date, the "Final Settlement Statement Date"). Sellers and Sellers' Representative shall, at Purchaser's request, supply reasonable documentation available to support any credit, charge, receipt or other item included in such statement. Purchaser shall deliver to Sellers' Representative a written report containing any changes that Purchaser proposes be made to Sellers' statement no later than sixty (60) days following Purchaser's receipt thereof. Sellers' Representative may deliver a written report to Purchaser during this same period reflecting any changes that Sellers' Representative proposes to be made to such statement as a result of additional information received after the statement was prepared. Sellers' Representative and Purchaser shall undertake to agree on the final statement of the Adjusted Purchase Price no later than ninety (90) after the Final Settlement Statement Date. In the event that Sellers' Representative and Purchaser cannot reach agreement within such period of time, either Sellers' Representative or Purchaser may refer the remaining matters in dispute to the Houston, Texas office of Deloitte for review and final determination by arbitration. The accounting firm shall conduct the arbitration proceedings in Houston, Texas in accordance with the Commercial Arbitration Rules of the American Arbitration Association, to the extent that such rules do not conflict with the terms of this Section 9.4(d). The accounting firm's determination shall be made within thirty (30) days after submission of the matters in dispute and shall be final and binding on both Parties, without right of appeal. In determining the proper amount of any adjustment to any Unadjusted Purchase Price, the accounting firm shall not increase such Unadjusted Purchase Price more than the increase proposed by Sellers' Representative nor decrease such Unadjusted Purchase Price more than the decrease proposed by Purchaser, as applicable. The accounting firm shall act as an expert for the limited purpose of determining the specific disputed matters submitted by Sellers' Representative and Purchaser and may not award damages or penalties to the Parties with respect to any matter. Each Party shall bear its own legal fees and other costs of presenting its case. Sellers shall bear one-half and Purchaser shall bear one-half of the costs and expenses of the accounting firm. Within ten (10) days after the earlier of (i) the expiration of Purchaser's sixty (60) day review period without delivery of any written report or (ii) the date on which the Parties finally determine each Adjusted Purchase Price or the accounting firm finally determines the disputed matters, as applicable, (A) Purchaser shall pay to each Seller the amount by which the Adjusted Purchase Price for such Seller (after deducting a portion of the Deposit amount equal to the Deposit multiplied by such Seller's applicable Seller's Interest Percentage) exceeds the applicable Closing Payment for such Seller or (B) each Seller, as applicable, shall pay to Purchaser the amount by which such Seller's Closing Payment exceeds the Adjusted Purchase Price applicable to such Seller (after deducting a portion of the Deposit amount equal to the Deposit multiplied by such Seller's applicable Seller's Interest Percentage), as applicable. Any post-Closing payment pursuant to this Section 9.4(d) shall bear interest from the Closing Date to the date of payment at the Prime Rate.

(e) Purchaser shall assist Sellers' Representative in the preparation of the final statement of the Adjusted Purchase Price under Section 9.4(d) by furnishing invoices, receipts,

reasonable access to personnel, and such other assistance as may be requested by Seller to facilitate such process post-Closing.

(f) All payments made or to be made under this Agreement to Closing Sellers shall be made by electronic transfer of immediately available funds to the accounts designated on the Preliminary Settlement Statement. All payments made or to be made hereunder to Purchaser shall be by electronic transfer of immediately available funds to a bank and account specified by Purchaser in writing to Sellers' Representative.

ARTICLE 10 TERMINATION; REMEDIES

Section 10.1 Termination. This Agreement may be terminated at any time prior to Closing:

(a) With respect to any Seller, by the mutual prior written consent of such Seller and Purchaser; or

(b) With respect to any Seller, by either (i) Purchaser, or (ii) such Seller; if Closing has not occurred on or before October 31, 2012. However, neither such Seller, on the one hand, nor Purchaser, on the other hand, shall be entitled to terminate this Agreement under this Section 10.1(b) if the Closing has failed to occur because such Seller, on the one hand, or Purchaser, on the other hand, negligently or willfully failed to perform or observe in any material respect its covenants or agreements hereunder.

(c) By Purchaser, unilaterally, by notice to Sellers' Representative if the Helis PSA is terminated in accordance with its terms prior to the closing of the Helis Transaction.

Section 10.2 Effect of Termination. If this Agreement is terminated pursuant to Section 10.1, this Agreement shall become void and of no further force or effect (except for the provisions of Section 5.6, Section 5.21, Section 6.6, Section 7.1(e), Section 7.3, Article 1, Article 10, Article 13 (other than Section 13.12, Section 13.15, Section 13.17 and Section 13.18) and Appendix A, which shall continue in full force and effect) and, without prejudice to their rights under Section 10.3(a) (if applicable), Sellers shall be free immediately to enjoy all rights of ownership of the Assets and to sell, transfer, encumber or otherwise dispose of the Assets to any Person without any restriction under this Agreement. Notwithstanding anything to the contrary in this Agreement, the termination of this Agreement under Section 10.1 shall not relieve either Party, subject to Section 13.11, from liability for any willful or negligent failure to perform or observe in any material respect any of its agreements or covenants contained herein that are to be performed or observed at or prior to Closing; provided that Sellers' remedy shall be solely as set forth in Section 10.3(a).

Section 10.3 Remedies for Failure to Close.

(a) If any Seller terminates this Agreement under Section 10.1(b), and Purchaser has willfully failed to perform or observe its covenants and agreements or is in breach of its representations and warranties hereunder, or Closing has otherwise not occurred as a result of an act or omission of Purchaser (other than an act or omission expressly permitted by this Agreement), then in addition to its rights under Section 10.2 above, each Seller will, as liquidated damages for

lost opportunities (and not as a penalty), be entitled to receive (and Purchaser shall direct the Escrow Agent to deliver to Sellers) such Seller's applicable Seller's Interest Percentage of the Deposit together with any interest or income thereon, free of any claims by Purchaser or any other Person, as its sole and exclusive remedy with respect to the termination of this Agreement; provided, however, that if Purchaser breaches its obligation under Section 8.3 to consummate the Closing with respect to any Seller, such Seller shall have the right to (i) in lieu of termination of this Agreement, exercise its rights under Section 13.17 to enforce Purchaser's obligation to close under Section 8.3 or (ii) retain the Deposit as specified above as liquidated damages.

(b) If this Agreement is subject to termination for any reason other than the reasons set forth in Section 10.1(a) or Section 10.1(c) (in each of which cases Sellers shall direct the Escrow Agent to deliver to Purchaser the Deposit and any interest accrued thereon, free of any claims by Sellers or any other Person with respect thereto) or Section 10.3(a), Purchaser may either (i) elect to terminate this Agreement and cause Sellers to direct the Escrow Agent to deliver to Purchaser the Deposit and any interest accrued thereon, free of any claims by Sellers or any other Person with respect thereto, as its sole and exclusive remedy with respect to the termination of this Agreement or (ii) in lieu of terminating this Agreement, exercise its rights under Section 13.17.

ARTICLE 11 ASSUMPTION; INDEMNIFICATION

Section 11.1 Assumption. Without limiting Purchaser's rights to indemnity under Section 11.2 and Purchaser's remedy for Title Defects in Article 4 and pursuant to the special warranty in the Assignments, from and after the Closing, Purchaser shall assume and fulfill, perform, pay and discharge all of the Assumed Purchaser Obligations.

Section 11.2 Indemnification.

(c) From and after Closing, Purchaser shall indemnify, defend and hold harmless the Sellers Group from and against all Damages incurred, suffered by or asserted against such Persons:

(i) caused by or arising out of or resulting from the Assumed Purchaser Obligations (including, for purposes of certainty, Environmental Liabilities under CERCLA that constitute Assumed Purchaser Obligations);

(ii) caused by or arising out of or resulting from Purchaser's breach of any of Purchaser's covenants or agreements contained in Article 7 or Article 12; or

(iii) caused by or arising out of or resulting from any breach of any representation or warranty made by Purchaser contained in Article 6 of this Agreement or in the certificate delivered by Purchaser at Closing pursuant to Section 9.3(b);

EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF THE SELLERS GROUP .

(d) From and after Closing, each Seller shall (on a several and not a joint and several basis and in proportion among the relevant Seller(s) equal to such Seller(s)' relative Seller's Interest Percentages or such Seller(s)' Seller's Title Defect Percentages in the case of claims relating to the Assets) indemnify, defend and hold harmless the Purchaser Group from and against all Damages incurred, suffered by or asserted against such Persons:

(i) caused by or arising out of or resulting from such Seller's breach of Sellers' covenants or agreements contained in Article 7 or Article 12; or

(ii) caused by or arising out of or resulting from any breach of any representation or warranty made by such Seller contained in Article 5, or in the certificate delivered by such Seller at Closing pursuant Section 9.2(b);

(iii) caused by or arising out of any personal injury or death relating to the ownership, use or operation of the Assets that occurs prior to the Closing Date;

(iv) caused by or arising out of any off-site Environmental Liabilities that arise from ownership, use or operation of the Assets and are attributable to Sellers' ownership thereof that occurs prior to the Effective Time or, in the event Operator was not acting as a reasonable and prudent operator, that occurs prior to the Closing Date; or

(v) caused by or arising out of the Excluded Assets.

EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF THE PURCHASER GROUP.

(E) Notwithstanding anything to the contrary contained in this Agreement, this Section 11.2 contains the Parties' exclusive remedies against each other with respect to breaches of the representations, warranties, covenants and agreements of the Parties in Article 5, Article 6, Article 7 and Article 12 and the affirmations of such representations, warranties, covenants and agreements contained in the certificate delivered by each Party at Closing pursuant to Section 9.2(b) or Section 9.3(b), as applicable. Except for the remedies contained in this Section 11.2, Section 10.2, and Section 10.3, and any other remedies available to the Parties at Law or in equity for breaches of provisions of this Agreement other than Article 5, Article 6, Article 7 and Article 12, **EACH OF SELLERS AND PURCHASER RELEASE, REMISE AND FOREVER DISCHARGE THE OTHER AND ITS AFFILIATES AND ALL SUCH PARTIES' OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, ADVISORS AND OTHER REPRESENTATIVES FROM ANY AND ALL SUITS, LEGAL OR ADMINISTRATIVE PROCEEDINGS, CLAIMS, DEMANDS, DAMAGES, LOSSES, COSTS, LIABILITIES, INTEREST, OR CAUSES OF ACTION WHATSOEVER, IN LAW OR IN EQUITY, KNOWN OR UNKNOWN, WHICH SUCH PARTIES MIGHT NOW OR SUBSEQUENTLY MAY HAVE, BASED ON, RELATING TO OR ARISING OUT OF (i) THIS AGREEMENT, (ii) SELLERS' OWNERSHIP, USE OR OPERATION OF THE ASSETS OR (iii) THE CONDITION, QUALITY, STATUS OR NATURE OF THE ASSETS, INCLUDING, IN EACH SUCH CASE, RIGHTS TO CONTRIBUTION UNDER CERCLA OR ANY OTHER**

ENVIRONMENTAL LAW, BREACHES OF STATUTORY OR IMPLIED WARRANTIES, NUISANCE OR OTHER TORT ACTIONS, RIGHTS TO PUNITIVE DAMAGES AND COMMON LAW RIGHTS OF CONTRIBUTION, RIGHTS UNDER AGREEMENTS BETWEEN SELLERS AND ANY PERSONS WHO ARE AFFILIATES OF SELLERS, AND RIGHTS UNDER INSURANCE MAINTAINED BY SELLERS OR ANY PERSON WHO IS AN AFFILIATE OF SELLERS, EVEN IF CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY RELEASED PERSON.

(f) The indemnity of each Party provided in this Section 11.2 shall be for the benefit of and extend to each Person included in the Sellers Group and the Purchaser Group, as applicable. Any claim for indemnity under this Section 11.2 by any Third Party must be brought and administered by a Party to this Agreement. No Indemnified Person (including any Person within the Sellers Group and the Purchaser Group) other than the Parties shall have any rights against either Sellers or Purchaser under the terms of this Section 11.2 except as may be exercised on its behalf by Purchaser or Sellers' Representative as applicable, pursuant to this Section 11.2(d). The Parties may elect to exercise or not exercise indemnification rights under this Section 11.2(d) on behalf of the other Indemnified Persons affiliated with it in its sole discretion and shall have no liability to any such other Indemnified Person for any action or inaction under this Section 11.2(d). Sellers' Representative shall have the authority to give and receive notices under this Article 11 on behalf of Sellers, and such notices shall be binding on Sellers, but no other action or failure to act of Sellers' Representative shall bind Sellers or constitute a waiver by Sellers of any right hereunder.

Section 11.3 Indemnification Actions. All claims for indemnification under Section 11.2 shall be asserted and resolved as follows:

(a) For purposes hereof, (i) the term "Indemnifying Person" when used in connection with particular Damages shall mean the Person or Persons having an obligation to indemnify another Person or Persons with respect to such Damages pursuant to this Article 11 and (ii) the term "Indemnified Person" when used in connection with particular Damages shall mean the Person or Persons having the right to be indemnified with respect to such Damages by another Person or Persons pursuant to this Article 11.

(b) To make a claim for indemnification under Section 11.2, an Indemnified Person shall notify the Indemnifying Person of its claim under this Section 11.3, including the specific details of and specific basis under this Agreement for its claim (the "Claim Notice"). In the event that the claim for indemnification is based upon a claim by a Third Party against the Indemnified Person (a "Third Person Claim"), the Indemnified Person shall provide its Claim Notice promptly after the Indemnified Person has actual knowledge of the Third Person Claim and shall enclose a copy of all papers (if any) served with respect to the Third Person Claim; *provided* that the failure of any Indemnified Person to give notice of a Third Person Claim as provided in this Section 11.3 shall not relieve the Indemnifying Person of its obligations under Section 11.2 except to the extent such failure results in insufficient time being available to permit the Indemnifying Person to effectively defend against the Third Person Claim or otherwise prejudices the Indemnifying Person's ability to defend against the Third Person Claim. In the event that the claim for indemnification is based upon an inaccuracy or breach of a representation, warranty, covenant

or agreement, the Claim Notice shall specify the representation, warranty, covenant or agreement that was inaccurate or breached.

(c) In the case of a claim for indemnification based upon a Third Person Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to notify the Indemnified Person whether it admits or denies its obligation to defend the Indemnified Person against such Third Person Claim under this Article 11. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period whether the Indemnifying Person admits or denies its obligation to defend the Indemnified Person, it shall be conclusively deemed to have denied such indemnification obligation hereunder. The Indemnified Person is authorized, prior to and during such thirty (30) day period, to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Person and that is not prejudicial to the Indemnifying Person.

(d) If the Indemnifying Person admits its obligation, it shall have the right and obligation to diligently defend, at its sole cost and expense, the Third Person Claim. The Indemnifying Person shall have full control of such defense and proceedings, including any compromise or settlement thereof. If requested by the Indemnifying Person, the Indemnified Person agrees to cooperate in contesting any Third Person Claim that the Indemnifying Person elects to contest (*provided, however*, that the Indemnified Person shall not be required to bring any counterclaim or cross-complaint against any Person). The Indemnified Person may at its own expense participate in, but not control, any defense or settlement of any Third Person Claim controlled by the Indemnifying Person pursuant to this Section 11.3(d). An Indemnifying Person shall not, without the written consent of the Indemnified Person, settle any Third Person Claim or consent to the entry of any judgment with respect thereto which (i) does not result in a final resolution of the Indemnified Person's liability with respect to the Third Person Claim (including, in the case of a settlement, an unconditional written release of the Indemnified Person) or (ii) may materially and adversely affect the Indemnified Person (other than as a result of money damages covered by the indemnity).

(e) If the Indemnifying Person does not admit its obligation or admits its obligation but fails to diligently defend or settle the Third Person Claim, then the Indemnified Person shall have the right to defend against the Third Person Claim (at the sole cost and expense of the Indemnifying Person, if the Indemnified Person is entitled to indemnification hereunder), with counsel of the Indemnified Person's choosing, subject to the right of the Indemnifying Person to admit its obligation and assume the defense of the Third Person Claim at any time prior to settlement or final determination thereof. If the Indemnifying Person has not yet admitted its obligation to provide indemnification with respect to a Third Person Claim, the Indemnified Person shall send written notice to the Indemnifying Person of any proposed settlement and the Indemnifying Person shall have the option for ten (10) days following receipt of such notice to (i) admit in writing its obligation to provide indemnification with respect to the Third Person Claim and (ii) if its obligation is so admitted, reject, in its reasonable judgment, the proposed settlement. If the Indemnified Person settles any Third Person Claim over the objection of the Indemnifying Person after the Indemnifying Person has timely admitted its obligation in writing and assumed the defense of a Third Person Claim, the Indemnified Person shall be deemed to have waived any right to indemnity therefor.

(f) In the case of a claim for indemnification not based upon a Third Person Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to (i) cure the Damages complained of, (ii) admit its obligation to provide indemnification with respect to such Damages or (iii) dispute the claim for such indemnification. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period that it has cured the Damages or that it disputes the claim for such indemnification, the Indemnifying Person shall be deemed to have disputed such claim for indemnification.

Section 11.4 Limitation on Actions .

(a) The representations and warranties of the Parties in Article 5 and Article 6 and the covenants and agreements of the Parties in Article 7 and the corresponding representations and warranties given in the certificates delivered at Closing pursuant to Section 9.2(b) and Section 9.3(b), as applicable, shall survive the Closing for a period of twelve (12) months (unless a shorter period is expressly provided within the applicable Section), except that (i) the representations, warranties and acknowledgements, as applicable, in Section 5.2, Section 5.3, Section 5.4, Section 5.6, Section 6.2, Section 6.3, Section 6.4, and Section 6.14 shall survive indefinitely, (ii) the representations and warranties in Section 5.10, Section 5.12 and Section 5.15 and the covenants in Section 7.4 shall survive the Closing for a period of twenty-four (24) months (iii) the representations and warranties in Section 5.11 shall survive Closing until sixty (60) days after the expiration of the applicable statute of limitations (including extension) for the subject Taxes and (iv) the covenants and agreements, as applicable, in Section 7.1(e), Section 7.3, Section 7.6, Section 7.7 and Section 7.10 shall survive indefinitely. The remainder of this Agreement (including the disclaimers in Section 5.21) shall survive the Closing without time limit except (A) as may otherwise be expressly provided herein and (B) for the covenants and agreements contained in Article 12, which shall survive Closing until sixty (60) days after the expiration of the applicable statute of limitations (including extension) for the subject Taxes. Representations, warranties, covenants and agreements shall be of no further force and effect after the date of their expiration, *provided* that there shall be no termination of any bona fide claim asserted pursuant to this Agreement with respect to such a representation, warranty, covenant or agreement prior to its expiration date.

(b) The indemnities in Section 11.2(a)(ii), Section 11.2(a)(iii), Section 11.2(b)(i) and Section 11.2(b)(ii) shall terminate as of the termination date of each respective representation, warranty, covenant or agreement that is subject to indemnification thereunder, except in each case as to matters for which a specific written claim for indemnity has been delivered to the Indemnifying Person on or before such termination date. The indemnities in Section 11.2(a)(i), Section 11.2(b)(iii), Section 11.2(b)(iv) and Section 11.2(b)(v) shall continue without time limit.

(c) No Seller shall have any liability for any indemnification under Section 11.2(b)(i) or Section 11.2(b)(ii) (other than in respect to claims relating to a breach of a representation or warranty in Section 5.10, Section 5.11, Section 5.12, Section 5.15 or a breach of a covenant or agreement in Section 7.4 or Article 12), until and unless the aggregate amount of the liability for all Damages for which Claim Notices are delivered by Purchaser therefor exceeds two and one-half percent (2.5%) of the applicable Unadjusted Purchase Price for such Seller, and then only to the extent such Damages exceed two and one-half percent (2.5%) of the applicable Unadjusted Purchase Price for such Seller. Purchaser shall not have any liability for any indemnification under

Section 11.2(a)(ii) (other than with respect to claims relating to a breach of a covenant or agreement in Article 12) or Section 11.2(a)(iii) until and unless the aggregate amount of the liability for all Damages for which Claim Notices are delivered by Sellers therefor exceeds two and one-half percent (2.5%) of the Aggregate Unadjusted Purchase Price, and then only to the extent such Damages exceed two and one-half percent (2.5%) of the Aggregate Unadjusted Purchase Price.

(d) Except with respect to liability for indemnification under Section 11.2(b)(i) with respect to breaches of covenants and agreements under Article 12, Section 11.2(b)(iii), Section 11.2(b)(iv), or Section 11.2(b)(v) no Seller shall be required to indemnify the Purchaser Group under this Article 11 for aggregate Damages in excess of ten percent (10%) of such Seller's applicable Unadjusted Purchase Price.

(e) The amount of any Damages for which an Indemnified Person is entitled to indemnity under this Article 11 shall be reduced by (i) the amount of insurance proceeds realized by the Indemnified Person or its Affiliates with respect to such Damages (net of any collection costs, and excluding the proceeds of any insurance policy issued or underwritten by the Indemnified Person or its Affiliates) and (ii) an amount equal to the amount of any net Tax benefit actually realized by the Indemnified Person or its Affiliates as a result of such Damages in the year such Damages are incurred.

(f) Purchaser shall not be entitled to indemnification or any other remedy under this Agreement with respect to any Damages or other liability, loss, cost, expense, claim, award or judgment to the extent attributable to or arising out of the actions of Purchaser or Helis as operator of any of the Properties.

(g) Notwithstanding anything in this Agreement to the contract, in no event shall (i) any Indemnified Person be entitled to duplicate compensation with respect to the same Damage, liability, loss, cost, expense, claim, award or judgment under more than one provision of this Agreement and the various documents delivered in connection with the Closing, (ii) any Person be entitled to indemnification hereunder with respect to a breach by an Indemnifying Person of any of the representations, warranties or covenants made or agreed to by such Indemnifying Person hereunder of which such Person had actual knowledge prior to the Closing Date, and (iii) Purchaser be required to indemnify any Seller (together with the members of the Sellers Group related to such Seller) for more than such Seller's applicable Seller's Interest Percentage of any Damages relating to an indemnification claim hereunder.

ARTICLE 12 TAX MATTERS

Section 12.1 Tax Filings.

Purchaser and each Seller acknowledge that from the Effective Time through the Closing Date, Helis (or, if applicable, other designated operator) shall be responsible for filing with the Taxing authorities the applicable Tax Returns for all Asset Taxes relating to the Assets in which such Seller has an interest that are required to be filed on or before the Closing Date and paying the Taxes reflected on all such Tax Returns as due and owing (*provided* that to the extent such Taxes

relate to the periods from and after the Effective Time, as determined pursuant to Section 12.2, promptly following a Seller's request (and in accordance with Section 12.2), Purchaser shall pay to such Seller its share of any such Taxes, *but only* to the extent that such amounts have not already been accounted for under Section 3.3 and have actually been paid by such Seller to the applicable Governmental Body or designated operator). Purchaser (or, if applicable, other designated operator) shall be responsible for the filing with the appropriate Taxing authorities the applicable Tax Returns for all Asset Taxes that are required to be filed after the Closing Date and paying the Taxes reflected on such Tax Returns as due and owing (*provided* that to the extent such Taxes relate to the periods before the Effective Time, as determined pursuant to Section 12.2, promptly following Purchaser's request provided to the Sellers' Representative (and in accordance with Section 12.2), the applicable Seller(s) shall pay to Purchaser any such Taxes, *but only* to the extent that such amounts have not already been accounted for under Section 3.3 and have actually been paid by Purchaser to the applicable Governmental Body or designated operator); *provided, however*, that in the event that Helis (or other designated operator) is required by applicable Tax Law to file a Tax Return with respect to Asset Taxes after the Closing Date that includes all or a portion of a Tax period for which Purchaser is liable for such Taxes, Helis (or other designated operator) shall file such Tax Return and shall pay the Taxes reflected on such Tax Return as due and owing, and promptly following a Seller's request (and in accordance with Section 12.2), Purchaser shall pay to such Seller its share of all such Taxes allocable to the period or portion thereof beginning at or after the Effective Time, as determined pursuant to Section 12.2 (*but only* to the extent that such amounts have not already been accounted for under Section 3.3 and have actually been paid by such Seller to the applicable Governmental Body or designated operator), but only if such Taxes arise out of the filing of an original return. Each Seller shall be entitled to its share of all Tax refunds that relate to any Taxes relating to the Assets in which such Seller has an interest allocable to any Tax period, or portion thereof, ending before the Effective Time. Notwithstanding anything to the contrary (including Section 2.4(g)), to the extent that a Seller or Purchaser receives any Tax refund to which such Seller or Purchaser (as the case may be) is entitled, such Seller or Purchaser (as the case may be) shall immediately pay such amount to the other Party to the extent the Adjusted Purchase Price has not been increased pursuant to Section 3.3 on account thereof.

Section 12.2 Current Tax Period Taxes. Asset Taxes assessed against the Assets with respect to the Tax period in which the Effective Time occurs (the "Current Tax Period"), *but excluding* severance production or similar Taxes that are based on quantity of or the value of production of Hydrocarbons and sales and use Taxes, shall be apportioned between the Parties as of the Effective Time with (a) the applicable Seller being obligated to pay a proportionate share of the actual amount of such Taxes for the Current Tax Period determined by *multiplying* such actual Taxes by a fraction, the numerator of which is the number of days in the Current Tax Period prior to the Effective Time and the denominator of which is the total number of days in the Current Tax Period and (b) Purchaser being obligated to pay a proportionate share of the actual amount of such Taxes for the Current Tax Period determined by *multiplying* such actual Taxes by a fraction, the numerator of which is the number of days (including the Closing Date) in the Current Tax Period at and after the Effective Time and the denominator of which is the total number of days in the Current Tax Period. As described in Section 2.4(g), severance, production and similar Taxes that are based on quantity of or the value of production of Hydrocarbons shall be apportioned between the applicable Seller and Purchaser based on the number of units or value of production actually produced or sold, as

applicable, before, and at or after, the Effective Time. Sales and use Taxes shall be apportioned between the Parties based on transactions occurring before, and at or after, the Effective Time. In the event that Purchaser or a Seller makes any payment (directly or indirectly) for which it is entitled to reimbursement under this Article 12, the applicable Party shall make such reimbursement promptly but in no event later than ten (10) days after the presentation of a statement setting forth the amount of reimbursement to which the presenting Party is entitled along with such supporting evidence as is reasonably necessary to calculate the amount of the reimbursement.

Section 12.3 Tax Indemnity. From and after Closing, each Seller shall (on a several and not a joint and several basis and in proportion among the relevant Seller(s) equal to such Seller(s)' Seller's Interest Percentage), in proportion to each Seller's applicable Seller's Interest Percentage in the Assets affected (except in the case of Taxes described in subparagraph (iii), below, which shall be borne solely by the applicable Seller), indemnify, defend and hold harmless the Purchaser Group from and against all Damages incurred, suffered by or asserted against such Persons that are caused by or arising out of (i) Asset Taxes for which Sellers are responsible pursuant to Section 12.1 or Section 12.2, (ii) any Asset Taxes not described in (i) that are attributable to the ownership or operation of the Assets prior to the Effective Time; and (iii) any other Taxes (other than Asset Taxes) imposed on a Seller or for which a Seller is otherwise liable.

Section 12.4 Characterization of Certain Payments. The Parties agree that any payments made pursuant to this Article 12, Article 11, Section 2.4 or Section 9.4 shall be treated for all Tax purposes as an adjustment to the Unadjusted Purchase Price unless otherwise required by Law.

Section 12.5 Withholding Taxes. All payments due to each Seller under this Agreement shall be made net of any applicable deduction or withholding for or on account of any Tax provided, however, that Purchaser shall provide at least ten (10) days' notice to Sellers' Representative if any such amounts will be withheld. In the event Purchaser is required to withhold or deduct an amount for or on account of Tax from any payment due under this Agreement, the amount deducted or withheld shall be treated as paid to the applicable Seller for all purposes of this Agreement.

ARTICLE 13 MISCELLANEOUS

Section 13.1 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original instrument, but all such counterparts together shall constitute but one agreement. A Party's delivery of an executed counterpart signature page by facsimile (or email) is as effective as executing and delivering this Agreement in the presence of the other Party. Purchaser and any Seller executing counterparts of this Agreement shall be bound regardless whether any other Seller executes a counterpart, except that Purchaser shall not be bound with respect to any Seller until Black Hills and UPC have executed and delivered their signature pages to this Agreement.

Section 13.2 Notice. All notices and other communications that are required or may be given pursuant to this Agreement must be given in writing, in English and delivered personally, by courier, by facsimile or by registered or certified mail, postage prepaid, as follows:

If to Sellers:

For those matters for which Sellers' Representative is expressly authorized under this Agreement to give or receive notices on behalf of Sellers:

<u>Contact</u>	<u>Copy</u>
Unit Petroleum Company 7130 South Lewis, Suite 1000 Tulsa, Oklahoma 74136 Attn: Michael Earl Facsimile: 918-493-7711 Email: michael.earl@unitcorp.com	Unit Petroleum Company 7130 South Lewis, Suite 1000 Tulsa, Oklahoma 74136 Attn: Josh Dickens Facsimile: 918-496-6302 Email: josh.dickens@unitcorp.com

For all other matters, to the above, and, as applicable:

<u>Contact</u>	<u>Copy</u>
Black Hills Exploration And Production 1515 Wynkoop Street, Suite 500 Denver, Colorado 80202 Attn: John H. Benton Facsimile: 303-566-3345 Email: john.benton@blackhillscorp.com	Black Hills Exploration And Production 1515 Wynkoop Street, Suite 500 Denver, Colorado 80202 Attn: Carleton Ekberg Facsimile: 720-210-1301 Email: carleton.ekberg@blackhillscorp.com

Sundance Energy 633 17 th Street, Suite 1950 Denver, Colorado 80202 Attn: Eric McCrady Facsimile: 303-543-5701	Hogan Lovells 1200 Seventeenth Street, Suite 1500 Denver, Colorado 80202 Attn: Howard L. Boigon Facsimile: 303-899-7333
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Highline Exploration, Inc. 100 Towncenter Blvd., Suite 302 Tuscaloosa, AL 35406 Attn: Gary Cox Facsimile: 205-752-3977 Email: gcox@hexpl.com	Highline Exploration, Inc. P.O. Box 20057 Tuscaloosa, AL 35402 Attn: Mike Farrens Facsimile: 205-752-3977 Email: mfarrens@bellsouth.net
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Houston Energy, L.P.
1415 Louisiana, Suite 2400
Houston, Texas 77002
Attn: Ronald E. Neal
Facsimile: (713) 650-8305

Nisku Royalty, LP
100 N. 27th Street, Suite 400
Billings, MT 59101
Attn: Frank B. Haughton, Jr.

Facsimile: (406) 245-1615

Empire Oil Company
PO Box 1835
510 2nd Street West
Williston, ND 58801
Attn: William R. LaCrosse
Facsimile: (701) 774-3537
Email: bill@empireoil.net

Kent M. Lynch
121 8th St West
Williston, ND 58801
Attn: Kent M. Lynch
Facsimile: (701) 774-0541
Email: mclynch@midco.net

If to Purchaser:

QEP Resources, Inc.
Independence Plaza
1050 17th Street, Suite 500
Denver, CO 80265
Attn: Austin Murr, VP – Land and Business Development
Facsimile: 303-573-0307
Email: Austin.murr@qepres.com

With a copy (which shall not constitute notice) to:

QEP Resources, Inc.
Independence Plaza
1050 17th Street, Suite 500
Denver, CO 80265
Attn: Abigail L. Jones, Vice President Compliance, and Corporate Secretary
Facsimile: 866.400.8834
Abby.jones@qepres.com

Either Party may change its address for notice by notice to the other Party in the manner set forth above. All notices shall be deemed to have been duly given at the time of receipt by the Party to which such notice is addressed.

Section 13.3 Tax, Recording Fees, Similar Taxes & Fees.

(a) Purchaser shall bear any sales, use, excise, real property transfer, gross receipts, goods and services, registration, capital, documentary, stamp or transfer Taxes, recording fees and similar Taxes and fees incurred and imposed upon, or with respect to, the property transfers or other transactions contemplated hereby. If such transfers or transactions are exempt from any such Taxes or fees upon the filing of an appropriate certificate or other evidence of exemption, the Party required to furnish such certificate or evidence will timely furnish such certificate or evidence to the other Party or the appropriate Government Body. The Parties anticipate that the transfer of tangible personal property contemplated hereby, if any, is exempt from North Dakota sales and use Taxes as a casual or occasional sale pursuant to North Dakota Sales Tax Rule 81-04.1-01-16.

(b) Except as otherwise provided herein, all costs and expenses (including legal and financial advisory fees and expenses) incurred in connection with, or in anticipation of, this Agreement and the transactions contemplated hereby shall be paid by the Party incurring such expenses.

Section 13.4 Governing Law; Jurisdiction.

(A) THIS AGREEMENT AND THE LEGAL RELATIONS BETWEEN THE PARTIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

(B) THE PARTIES HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA LOCATED IN HARRIS COUNTY, TEXAS (OR, IF REQUIREMENTS FOR FEDERAL JURISDICTION ARE NOT MET, STATE COURTS LOCATED IN HARRIS COUNTY, TEXAS) AND APPROPRIATE APPELLATE COURTS THEREFROM FOR THE RESOLUTION OF ANY DISPUTE, CONTROVERSY, OR CLAIM ARISING OUT OF OR IN RELATION TO THIS AGREEMENT, AND EACH PARTY HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH DISPUTE, CONTROVERSY OR CLAIM MAY BE HEARD AND DETERMINED IN SUCH COURTS. THE PARTIES HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAWS, ANY OBJECTION WHICH THEY MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH DISPUTE, CONTROVERSY OR CLAIM BROUGHT IN ANY SUCH COURT OR ANY DEFENSE OF INCONVENIENT FORUM FOR THE MAINTENANCE OF SUCH DISPUTE, CONTROVERSY OR CLAIM. EACH PARTY AGREES THAT A JUDGMENT IN ANY SUCH DISPUTE MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY APPLICABLE LAW.

(C) EACH OF THE PARTIES HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.

Section 13.5 Waivers. Any failure by any Party to comply with any of its obligations, agreements or conditions herein contained may be waived by the Party to whom such compliance is owed by an instrument signed by such Party and expressly identified as a waiver, but not in any other manner. No waiver of, consent to a change in, or any delay in timely exercising any rights arising from, any of the provisions of this Agreement shall be deemed or shall constitute a waiver of, or consent to a change in, other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

Section 13.6 Assignment. No Party shall assign all or any part of this Agreement, nor shall any Party assign or delegate any of its rights or duties hereunder, without the prior written consent of the Sellers' Representative in the case of an assignment by Purchaser and of Purchaser in the case of an assignment by a Seller (which consent may be withheld for any reason) and any assignment or delegation made without such consent shall be void. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns.

Section 13.7 Entire Agreement. This Agreement (including, for purposes of certainty, the Appendix, Exhibits and Schedules attached hereto), the documents to be executed hereunder constitute the entire agreement between the Parties pertaining to the subject matter hereof, and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties pertaining to the subject matter hereof.

Section 13.8 Amendment. This Agreement may be amended or modified only by an agreement in writing executed by all Parties and expressly identified as an amendment or modification.

Section 13.9 No Third Party Beneficiaries. Nothing in this Agreement shall entitle any Person other than Purchaser and Sellers to any claims, cause of action, remedy or right of any kind, except the rights expressly provided in Section 4.2(f), Section 7.1(e) and Section 11.2 to the Persons described therein.

Section 13.10 Construction. The Parties acknowledge that (a) the Parties have had the opportunity to exercise business discretion in relation to the negotiation of the details of the transaction contemplated hereby, (b) this Agreement is the result of arms-length negotiations from equal bargaining positions and (c) the Parties and their respective counsel participated in the preparation and negotiation of this Agreement. Any rule of construction that a contract be construed against the drafter shall not apply to the interpretation or construction of this Agreement.

Section 13.11 Limitation on Damages. **NOTWITHSTANDING ANYTHING TO THE CONTRARY, EXCEPT IN CONNECTION WITH ANY DAMAGES INCURRED BY THIRD PARTIES FOR WHICH INDEMNIFICATION IS SOUGHT UNDER THE TERMS OF THIS AGREEMENT, NONE OF PURCHASER, SELLERS OR ANY OF THEIR RESPECTIVE AFFILIATES SHALL BE ENTITLED TO CONSEQUENTIAL, SPECIAL, INDIRECT, PUNITIVE OR EXEMPLARY DAMAGES IN CONNECTION WITH THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY AND, EXCEPT AS OTHERWISE PROVIDED IN THIS SENTENCE, EACH OF PURCHASER AND**

SELLERS, FOR ITSELF AND ON BEHALF OF ITS AFFILIATES, HEREBY EXPRESSLY WAIVES ANY RIGHT TO CONSEQUENTIAL, SPECIAL, INDIRECT, PUNITIVE OR EXEMPLARY DAMAGES IN CONNECTION WITH THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 13.12 Recording. As soon as practicable after Closing, Purchaser shall record the Assignments and other assignments, if any, delivered at Closing in the appropriate counties as well as with any appropriate governmental agencies and provide Sellers' Representative with copies of all recorded or approved instruments.

Section 13.13 Conspicuous. **THE PARTIES AGREE THAT, TO THE EXTENT REQUIRED BY APPLICABLE LAW TO BE EFFECTIVE OR ENFORCEABLE, THE PROVISIONS IN THIS AGREEMENT IN BOLD-TYPE FONT ARE "CONSPICUOUS" FOR THE PURPOSE OF ANY APPLICABLE LAW.**

Section 13.14 Time of Essence. This Agreement contains a number of dates and times by which performance or the exercise of rights is due, and the Parties intend that each and every such date and time be the firm and final date and time, as agreed. For this reason, each Party hereby waives and relinquishes any right it might otherwise have to challenge its failure to meet any performance or rights election date applicable to it on the basis that its late action constitutes substantial performance, to require the other Party to show prejudice, or on any equitable grounds. Without limiting the foregoing, time is of the essence in this Agreement. If the date specified in this Agreement for giving any notice or taking any action is not a Business Day (or if the period during which any notice is required to be given or any action taken expires on a date which is not a Business Day), then the date for giving such notice or taking such action (and the expiration date of such period during which notice is required to be given or action taken) shall be the next day that is a Business Day.

Section 13.15 Delivery of Records. Each Seller, at Purchaser's cost and expense, shall deliver the Records to Purchaser within ten (10) days following Closing.

Section 13.16 Severability. The invalidity or unenforceability of any term or provision of this Agreement in any situation or jurisdiction shall not affect the validity or enforceability of the other terms or provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction and the remaining terms and provisions shall remain in full force and effect, unless doing so would result in an interpretation of this Agreement that is manifestly unjust.

Section 13.17 Specific Performance. The Parties agree that if any of the provisions of this Agreement were not performed in accordance with their specific terms, irreparable damage would occur, no adequate remedy at Law would exist and damages would be difficult to determine, and the Parties shall be entitled to specific performance of the terms hereof and immediate injunctive relief, without the necessity of proving the inadequacy of money damages as a remedy, in addition to any other remedy available at law or in equity, subject to Section 10.3.

Section 13.18 Like-Kind Exchange. Each of Sellers and Purchaser agree that the other Party may elect to treat the acquisition or sale of the Assets or any portion thereof as an exchange

of like-kind property under Section 1031 of the Code (“Exchange”). The applicable Seller and Purchaser each agrees to use reasonable efforts to cooperate with the other Party in the completion of such an Exchange including an Exchange subject to the procedures outlined in Treasury Regulation Section 1.1031(k)-1 and/or IRS Revenue Procedure 2000-37, 2000-2 C.B. 308 (as modified by IRS Revenue Procedure 2004-51, 2004-2 C.B. 294). Each of Sellers and Purchaser shall have the right at any time prior to Closing to assign its rights under this Agreement to a qualified intermediary (as that term is defined in Treasury Regulation Section 1.1031(k)-1(g)(4)(iii)) or an exchange accommodation titleholder (as that term is defined in IRS Revenue Procedure 2000-37, 2000-2 C.B. 308) to effect an Exchange. In connection with any such Exchange, any exchange accommodation title holder shall have taken all steps necessary to own the relevant Assets under applicable Law. Each of Sellers and Purchaser acknowledges and agrees that neither an assignment of a Party’s rights under this Agreement nor any other actions taken by a Party or any other Person in connection with the Exchange shall release either Party from, or modify, any of their respective liabilities and obligations (including indemnity obligations to each other) under this Agreement, and neither Sellers nor Purchaser makes any representations as to any particular tax treatment that may be afforded to the other Party by reason of such assignment or any other actions taken in connection with the Exchange. Any Party electing to treat the acquisition or sale of the Assets as an Exchange shall be obligated to pay all additional costs incurred hereunder as a result of the Exchange, and in consideration for the cooperation of the other Party, the Party electing Exchange treatment shall agree to pay all costs associated with the Exchange and to indemnify and hold such other Party and its Affiliates, officers, directors, partners, members, employees, and agents harmless from and against any and all liabilities and Taxes arising out of, based upon, attributable to or resulting from the Exchange or transactions or actions taken in connection with the Exchange that would not have been incurred by the other Party but for the electing Party’s Exchange election.

[*Signature page follows*]

IN WITNESS WHEREOF, this Agreement has been signed by each of the Parties on the Execution Date.

SELLERS:

UNIT PETROLEUM COMPANY

By: /s/ Mark E. Schell

Name: Mark E. Schell

Title: Senior Vice President

SELLERS:

BLACK HILLS EXPLORATION AND PRODUCTION, INC.

By: /s/ David R. Emery

Name: David R. Emery

Title: Chairman, President and CEO

SELLERS:

SUNDANCE ENERGY, INC.

By: /s/ Eric McCrady

Name: Eric McCrady

Title: CEO

SELLERS:

HIGHLINE EXPLORATION, INC.

By: /s/ Michael J. Farrens

Name: Michael J. Farrens

Title: President

SELLERS:

HOUSTON ENERGY, L.P.

By: MKD Investments, LLC, its General Partner

By: /s/ Ronald E. Neal

Name: Ronald E. Neal

Title: President

SELLERS:

NISKU ROYALTY, LP

By: FH Petroleum Corp., General Partner of Nisku Royalty, LP

By: /s/ Frank B. Haughton, Jr.

Name: Frank B. Haughton, Jr.

Title: President

SELLERS:

EMPIRE OIL COMPANY

By: /s/ William R. LaCrosse

Name: William R. LaCrosse

Title: President

SELLERS:

KENT M. LYNCH

By: /s/ Kent M. Lynch

Name: Kent M. Lynch

PURCHASER:

QEP ENERGY COMPANY

By: /s/ Chuck B. Stanley

Name: Chuck B. Stanley

Title: Chairman, President and Chief Executive Officer

SELLERS REPRESENTATIVE

**Acknowledged and agreed
as of the date first written above:**

UNIT PETROLEUM COMPANY

By: /s/ Mark E. Schell

Name: Mark E. Schell

Title: Senior Vice President

APPENDIX A

ATTACHED TO AND MADE A PART OF THAT CERTAIN PURCHASE AND SALE AGREEMENT, DATED AS OF AUGUST 23, 2012, BY AND BETWEEN SELLERS AND PURCHASER

DEFINITIONS

“Actual Knowledge” has the meaning set forth in Section 5.1(a).

“Adjusted Purchase Price” has the meaning set forth in Section 3.3.

“AFEs” means authorization for expenditures issued pursuant to a Contract.

“Affiliate” means, with respect to any Person, any Person that directly or indirectly Controls, is Controlled by or is under common Control with such Person.

“Aggregate Adjusted Purchase Price” has the meaning set forth in Section 3.3.

“Aggregate Benefit Deductible” has the meaning set forth in Section 4.5(b)(ii).

“Aggregate Defect Deductible” has the meaning set forth in Section 4.5(b)(i).

“Aggregate Unadjusted Purchase Price” has the meaning set forth in Section 3.1.

“Agreement” has the meaning set forth in the preamble of this Agreement.

“Allocated Value” has the meaning set forth in Section 3.4.

“Arbitration Decision” has the meaning set forth in Section 4.4(d).

“Assignment” means the Assignment, the form of which is attached hereto as Exhibit B.

“Asset Taxes” means ad valorem, property, excise, severance, production, sales, use, or similar taxes (including any interest, fine, penalty or additions to tax imposed by a Governmental Body in connection with such taxes) based upon operation or ownership of the Assets or the production of Hydrocarbons from the Assets; *but excluding*, for the avoidance of doubt, income, capital gains or franchise taxes.

“Assets” has the meaning set forth in Section 2.2.

“Assumed Purchaser Obligations” means (i) all obligations and liabilities (including Environmental Liabilities), known or unknown, with respect to or arising from the Assets, regardless of whether such obligations or liabilities arose prior to, at or after the Effective Time, including obligations and liabilities relating in any manner to the condition, use, ownership or operation of the Assets, including obligations to (a) furnish makeup gas and settle Imbalances attributable to the Assets according to the terms of applicable gas sales, processing, gathering or transportation Contracts,

(b) pay working interests, royalties, overriding royalties and other interest owners' revenues or proceeds attributable to sales of Hydrocarbons produced from the Assets, (c) pay the proportionate share attributable to the Assets to properly plug and abandon any and all Wells, including temporarily abandoned Wells, (d) pay the proportionate share attributable to the Assets to dismantle or decommission and remove any property and other property of whatever kind related to or associated with operations and activities conducted by whomever on the Assets, (e) pay the proportionate share attributable to the Assets to abandon, clean up, restore and remediate the premises covered by or related to the Assets in accordance with applicable agreements and Laws and (f) pay the proportionate share attributable to the Assets to perform all obligations applicable to or imposed on the lessee, owner, or operator under the Leases and the Contracts, or as required by any Law including the payment of all Taxes for which Purchaser is responsible hereunder and (ii) the matters set forth on Schedule 11.1; *but excluding*, in all such instances, (A) prior to the Cut-off Date, matters that are the bases for the downward adjustments set forth in Section 3.3(b), which will be exclusively settled and accounted for pursuant to the terms of Section 3.3(b) and Section 9.4; (B) matters for which Sellers are obligated to indemnify Purchaser pursuant to Section 11.2(b), limited, however to the extent of Sellers' obligation to indemnify; (C) Asset Taxes for which Sellers are responsible pursuant to Article 12, (D) any Asset Taxes not described in (C) that are attributable to the ownership or operation of the Assets prior to the Effective Time; and (E) any other Taxes (other than Asset Taxes) imposed on a Seller or for which a Seller is otherwise liable.

"Black Hills" has the meaning set forth in the preamble of this Agreement.

"Business Day" means each calendar day except Saturdays, Sundays, and federal holidays.

"Casualty Loss" has the meaning set forth in Section 4.7(a).

"Central Time" means the central time zone of the United States of America.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq., as amended.

"Claim Notice" has the meaning set forth in Section 11.3(b).

"Closing" has the meaning set forth in Section 9.1.

"Closing Date" has the meaning set forth in Section 9.1.

"Closing Payment" has the meaning set forth in Section 9.4(b).

"Closing Seller" has the meaning set forth in Section 9.3.

"Code" means the United States Internal Revenue Code of 1986, as amended.

"Commercially Reasonable Efforts" means reasonable efforts of a Party under existing circumstances; provided, however, that such efforts shall not include the incurring of any liability or obligation or the payment of any money (unless Purchaser has agreed to pay such costs).

“Confidentiality Restrictions” has the meaning set forth in Section 7.3(b).

“Contracts” has the meaning set forth in Section 2.2(f).

“Control” means the ability to direct the management and policies of a Person through ownership of voting shares or other equity rights, pursuant to a written agreement, or otherwise. The terms “Controls” and “Controlled by” and other derivatives shall be construed accordingly.

“COPAS” has the meaning set forth in Section 2.5(a).

“Cure Period” has the meaning set forth in Section 4.2(b).

“Current Tax Period” has the meaning set forth in Section 12.2.

“Customary Post-Closing Consents” means the consents and approvals from Governmental Bodies for the transfer of the Assets to Purchaser that are customarily obtained after the transfer of properties similar to the Assets.

“Cut-off Date” has the meaning set forth in Section 3.3.

“Damages” means the amount of any actual liability, loss, cost, expense, claim, award or judgment incurred or suffered by any Person (to be indemnified under this Agreement) arising out of or resulting from the indemnified matter, whether attributable to personal injury or death, property damage, contract claims (including contractual indemnity claims), torts, or otherwise, including reasonable fees and expenses of attorneys, consultants, accountants or other agents and experts reasonably incident to matters indemnified against, and the reasonable costs of investigation and monitoring of such matters, and the reasonable costs of enforcement of the indemnity; *provided, however*, that the term “Damages” shall not include (i) loss of profits or other consequential damages suffered by the Party claiming indemnification, or any punitive damages (except as otherwise provided herein), (ii) any liability, loss, cost, expense, claim, award or judgment to the extent resulting from or to the extent increased by the actions or omissions of any Indemnified Person after the Closing Date and (iii) only in the case of claims under Section 11.2(a)(iii) or Section 11.2(b)(ii) (other than those claims relating to a breach of a representation or warranty in Section 5.11), any liability, loss, cost, expense, claim, award or judgment that does not individually exceed the applicable Seller’s Interest Percentage of \$50,000 with respect to a claim against such Seller.

“Defensible Title” means that title of each Seller with respect to the Units (to all depths except for any depth limitations set forth on Exhibit A-1 or that would result from the application of horizontal Pugh clauses after September 30, 2012) that, except for and subject to the Permitted Encumbrances:

- (i) entitles such Seller to receive Hydrocarbons within, produced, saved and marketed from such Units (after satisfaction of all royalties, overriding royalties, net profits interests or other similar burdens paid to Third Parties on or measured by production of Hydrocarbons, hereinafter “Net Revenue Interest”) of not less than the Net Revenue Interest for such Seller on Schedule 3.4 for the Units, as applicable, except for (a) decreases in connection with those operations in which such Seller may be a nonconsenting co-owner, (b) decreases resulting from the reversion of
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interests to co-owners with operations in which such co-owners elected not to consent, (c) decreases resulting from the establishment or amendment of involuntary pools or units, (d) decreases required to allow other working interest owners to make up past underproduction or pipelines to make up past under-deliveries and (e) as otherwise for such Seller Schedule 3.4;

(ii) obligates such Seller to bear a percentage of the costs and expenses for the maintenance and development of, and operations relating to, of each Unit not greater than the working interest shown therefor on Schedule 3.4 for such Units, without future increase, except for (a) increases that are accompanied by at least a proportionate increase in such Seller's Net Revenue Interest, (b) increases resulting from contribution requirements with respect to defaults by co-owners under the applicable operating agreement and (c) as otherwise shown on Schedule 3.4; and

(iii) is free and clear of liens, encumbrances, obligations, or defects.

"Deposit" has the meaning set forth in Section 3.1.

"Disputed Defect" has the meaning set forth in Section 4.2(b).

"Disputed Title Matters" has the meaning set forth in Section 4.4.

"Dollars" means U.S. Dollars.

"Effective Time" has the meaning set forth in Section 2.4(a).

"Environmental Cure Period" has the meaning set forth in Section 4.2(e)(i)(E).

"Environmental Defect" means (i) any written notice from a Governmental Body asserting or alleging a violation of an Environmental Law attributable to the use, ownership or operation of the Assets, (ii) a condition on or affecting an Asset that violates an Environmental Law, (iii) a condition on or affecting an Asset with respect to which remedial or corrective action is required under Environmental Law and (iv) any other Environmental Liability.

"Environmental Defect Hold-Back Property" has the meaning set forth in Section 4.2(e)(i).

"Environmental Laws" means, as the same have been amended to the Execution Date, CERCLA, the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 et seq.; the Clean Air Act, 42 U.S.C. § 7401 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. § 1471 et seq.; the Toxic Substances Control Act, 15 U.S.C. §§ 2601 through 2629; the Oil Pollution Act, 33 U.S.C. § 2701 et seq.; the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. § 11001 et seq.; and the Safe Drinking Water Act, 42 U.S.C. §§ 300f through 300j; and all similar Laws as of the Execution Date of any Governmental Body having jurisdiction over the property in question addressing pollution or protection of the environment and all regulations implementing the foregoing that are applicable to the operation and maintenance of the Assets.

"Environmental Liabilities" means any and all environmental response costs (including costs of remediation), damages, natural resource damages, settlements, consulting fees, expenses, penalties,

finances, orphan share, prejudgment and post-judgment interest, court costs, attorneys' fees and other liabilities incurred or imposed (i) pursuant to any order, notice of responsibility, directive (including requirements embodied in Environmental Laws), injunction, judgment or similar act (including settlements) by any Governmental Body or court of competent jurisdiction to the extent arising out of any violation of, or remedial obligation under, any Environmental Laws that are attributable to the ownership or operation of the Assets or (ii) pursuant to any claim or cause of action by a Governmental Body or other Person for personal injury, property damage, damage to natural resources, remediation or response costs to the extent arising out of any violation of, or any remediation obligation under, any Environmental Laws that are attributable to the ownership or operation of the Assets.

"Equipment" has the meaning set forth in Section 2.2(h).

"Escrow Account" has the meaning set forth in Section 3.1.

"Escrow Agent" has the meaning set forth in Section 3.1.

"Escrow Agreement" has the meaning set forth in Section 3.1.

"Exchange" has the meaning set forth in Section 13.18.

"Excluded Assets" means, with respect to each Seller, such Seller's interests in the following, (i) the amounts to which Seller is entitled pursuant to Section 3.3(a), (ii) the Excluded Records, (iii) the Reassigned Properties, (iv) all claims and causes of action of such Seller arising under or with respect to any Contract for which such Seller is otherwise required to provide indemnification to Purchaser hereunder, (v) all rights and interests of such Seller (a) under any policy or agreement of insurance or indemnity agreement, (b) under any bond and (c) to any insurance or condemnation proceeds or awards arising, in each case, from acts, omission or events, or damage to or destruction of property prior to the Effective Time or matters for which such Seller is otherwise required to provide indemnification to Purchaser hereunder, (vi) any Leased Assets that are not transferred to Purchaser at Closing, (vii) all claims of such Seller for refunds of, credits attributable to, or loss carryforwards with respect to (a) Asset Taxes attributable to any period (or portion thereof) prior to the Effective Time, (b) income, franchise and similar Taxes of such Seller or for which such Seller is otherwise liable or (c) any Taxes attributable to the other Excluded Assets, (viii) all geophysical and other seismic and related technical data and information relating to the Assets the transfer of which is restricted by its terms (unless such data is transferable with the payment of a fee or other consideration and Purchaser has agreed in writing to pay such fee or other consideration) or applicable Law, (ix) all data and Contracts that cannot be disclosed to Purchaser as a result of confidentiality arrangements under agreements with Third Parties (provided that such Seller uses its Commercially Reasonable Efforts to obtain a waiver of any such confidentiality restriction), (x) any of the Assets excluded from the transactions contemplated hereunder pursuant to Section 4.2, Section 4.6 or Section 4.7, (xi) the Retained ORRIs, and (xii) the Excluded Mineral Interests.

"Excluded Defect" has the meaning set forth in the definition of "Title Defect" in this Appendix A.

“Excluded Mineral Interests” means certain fee mineral interest in the tracts described below that are owned by the Parties listed beside each:

<u>Tract</u>	<u>Owner(s)</u>	<u>Tract Description</u>
Tract 1	Highline Exploration, Inc. Nisku Royalty, L.P., Empire Oil Company Kent M. Lynch	T149N, R95W, 5 th P.M. Section 1: Lot 2 Section 2: Lot 1, SENE T150N, R95W, 5 th P.M. Section 35: SE
Tract 2	Empire Oil Company	T149N, R95W, 5 th P.M. Section 26: S/2SW, W/2SE Section 27: S/2NW, SW, S/2SE Section 34: N/2 Section 35: NW
Tract 3	Nisku Royalty, L.P.	T150N, R95W, 5 th P.M. Section 30: SWNW

These interests shall continue to be subject to all oil and gas leases or other agreements presently in force, subject to the terms thereof.

“Excluded Records” means with respect to each Seller (i) all corporate, financial, income and franchise Tax and legal records of such Seller that relate to such Seller’s business generally (whether or not relating to the Assets), (ii) any records to the extent disclosure or transfer is restricted by any Third Party license agreement or other Third Party agreement and for which a waiver has not been obtained; provided that such Seller has used Commercially Reasonable Efforts to request and obtain a waiver of the same from such Third Party, and to the extent such disclosure or transfer is restricted by applicable Law, (iii) computer software, (iv) all legal records and legal files of such Seller and all other work product of and attorney-client communications with any of such Seller’s legal counsel (other than copies of (a) title opinions, (b) Contracts and (c) records and files with respect to any previous litigation matters), (v) personnel records, (vi) records relating to the sale of the Assets, including bids received from and records of negotiations with Third Parties and (vii) any records with respect to the other Excluded Assets.

“Execution Date” has the meaning set forth in preamble of this Agreement.

“Existing Sundance Mortgage” means the Mortgage, Assignment, Security Agreement, Fixture Filing, and Financing Statement dated July 18, 2011, from Sundance Energy, Inc. to BOKF, NA dba Bank of Oklahoma (successor by merger to Bank of Oklahoma, NA), as Agent, recorded July 28, 2011 in McKenzie County, North Dakota, document No. 420693, in Williams County, North Dakota, on July 29, 2011, document 715963, with the Colorado Secretary of State, file no. 20112029556, among other places, as amended by First Supplement to Mortgage, Assignment,

Security Agreement, Fixture Filing, and Financing Statement dated May 24, 2012, recorded June 5, 2012 in McKenzie County, North Dakota, document No. 434762, and in Williams County, North Dakota, on June 6, 2012, document 736036, among other places.

“Filings” has the meaning set forth in Section 7.10.

“Final Disputed Title Matters” has the meaning set forth in Section 4.4(a).

“Final Settlement Statement Date” has the meaning set forth in Section 9.4(d).

“GAAP” means U.S. generally accepted accounting principles.

“Gathering Systems” has the meaning set forth in Section 2.2(d).

“Governmental Body” means any instrumentality, subdivision, court, administrative agency, commission, official or other authority of the United States or any other country or any state, province, prefect, municipality, locality or other government or political subdivision thereof, or any quasi-governmental or private body exercising any administrative, executive, judicial, legislative, police, regulatory, taxing, importing or other governmental or quasi-governmental authority.

“Hazardous Substances” means any pollutants, contaminants, toxic or hazardous substances, materials, wastes, constituents, compounds or chemicals that are regulated by, or may form the basis of liability under any Laws, including asbestos-containing materials (*but excluding* any Hydrocarbons or NORM).

“Helis” means Helis Oil & Gas Company L.L.C.

“Helis Transaction” means the transactions contemplated by the Helis PSA.

“Helis PSA” means that certain Purchase and Sale Agreement by and between Helis and Purchaser dated September 23, 2012 covering the interests of Helis in the properties of which the Assets are a part.

“Helis PSS” has the meaning set forth in Section 9.4(a).

“Helis Transaction” means the transactions contemplated by the Helis PSA.

“Hydrocarbons” means oil, gas, condensate and other gaseous and liquid hydrocarbons or any combination thereof.

“Imbalances” means any imbalance at the wellhead between the amount of Hydrocarbons produced from any of the Wells and allocated to the interests of the applicable Seller therein and the shares of production from the relevant Well to which such Seller was entitled, or at the pipeline flange (or inlet flange at a processing plant or similar location) between the amount of Hydrocarbons nominated by or allocated to such Seller and the Hydrocarbons actually delivered on behalf of such Seller at that point, including natural gas, oil and natural gas liquid products.

“Indemnified Person” has the meaning set forth in Section 11.3(a).

“Indemnifying Person” has the meaning set forth in Section 11.3(a).

“Individual Benefit Threshold” has the meaning set forth in Section 4.5(b)(ii).

“Individual Defect Threshold” has the meaning set forth in Section 4.5(b)(i).

“Intellectual Property” means patents, patent applications, trademarks, trademark registrations or applications therefor, trade names, service marks, service mark rights, logos, domain names, corporate names and associated goodwill, copyrights (including software), copyright registrations or applications therefor, trade secrets, know-how, processes, confidential business information, seismic rights, geological data, geophysical data, engineering data, maps, interpretations, and other confidential and proprietary information.

“Laws” means all Permits, statutes, rules, regulations, ordinances, orders, and codes of Governmental Bodies.

“Leased Assets” means all equipment, machinery, tools, fixtures, inventory, vehicles, office leases, furniture, office equipment and related peripheral equipment, computers, field equipment and related assets that are subject to or currently leased by Seller(s) or Operator for the benefit of Sellers, and used or held for use solely in connection with the operation of, or the production of Hydrocarbons from, the Properties.

“Leases” has the meaning set forth in Section 2.2(a).

“Letter-in-lieu of Transfer Order” means that certain Letter-in-lieu of Transfer Order, the form of which is attached hereto as Exhibit C.

“Material Adverse Effect” means any material adverse effect on (a) the ownership, operation or value of the Assets, as currently operated, taken as a whole, or (b) Sellers and their ability to consummate the transactions contemplated herein and to perform their obligations in connection therewith pursuant to the terms hereof; *provided, however*, that the term “Material Adverse Effect” (i) shall not include material adverse effects resulting from general changes in Hydrocarbon prices, general changes in industry, economic or political conditions or general changes in Laws or in regulatory policies and (ii) in the case of Section 6.5 only, shall not include the items referenced in clause (a) of this definition.

“Mountain Time” means the mountain time zone of the United States of America.

“Net Revenue Interest” has the meaning set forth in the definition of the term “Defensible Title” in this Appendix A.

“NORM” means naturally occurring radioactive material.

“Operator” means Helis Oil & Gas Company, L.L.C.

“ORRI Agreement” means that certain agreement between Nisku Royalty, LP, Highline Exploration, Inc., Empire Oil Company, Kent M. Lynch and Helis dated December 28, 2006, as amended.

“Party” and “Parties” have the meanings set forth in the preamble of this Agreement.

“Permits” means any permits, approvals or authorizations by, or filings with, Governmental Bodies.

“Permitted Encumbrances” means, in respect of each Seller, any or all of the following:

(i) royalties and any overriding royalties, net profits interests, free gas arrangements, production payments, reversionary interests and other similar burdens on production to the extent that the net cumulative effect of such burdens does not reduce such Seller’s Net Revenue Interest below that shown in Schedule 3.4, or increase such Seller’s working interest above that shown in Schedule 3.4, without a proportionate increase in the Net Revenue Interest of such Seller;

(ii) all unit agreements, pooling agreements, operating agreements, farmout agreements, Hydrocarbon production sales contracts, division orders and other contracts, agreements and instruments applicable to the Properties, to the extent that the net cumulative effect of such instruments does not reduce such Seller’s Net Revenue Interest below that shown in Schedule 3.4, or increase such Seller’s working interest above that shown in Schedule 3.4, without a proportionate increase in the Net Revenue Interest of such Seller;

(iii) Preferential Rights, Third Party consents to assignment and similar transfer restrictions set forth on Schedule 5.16;

(iv) liens for Taxes or assessments not yet due and payable or Taxes being contested in good faith by appropriate proceedings (and for which such Seller will remain responsible);

(v) materialman’s, mechanic’s, repairman’s, employee’s, contractor’s, operator’s and other similar liens or charges arising in the ordinary course of business for amounts not yet delinquent (including any amounts being withheld as provided by Law), or if delinquent, being contested in good faith by appropriate actions;

(vi) all rights to consent by, required notices to, filings with, or other actions by Governmental Bodies in connection with the sale or conveyance of the Assets or interests therein if they are not required or customarily obtained in the region where the Assets are located prior to the sale or conveyance, including Customary Post-Closing Consents;

(vii) excepting circumstances where such rights have already been triggered, rights of reassignment arising upon final intention to abandon or release the Assets, or any of them;

(viii) easements, rights-of-way, covenants, servitudes, Permits, surface leases and other rights in respect of surface operations which do not prevent or adversely affect operations as currently conducted on the Properties covered by the Assets;

(ix) calls on production under existing Contracts set forth on Schedule 5.14;

(x) gas balancing and other production balancing obligations, and obligations to balance or furnish make-up Hydrocarbons under Hydrocarbon sales, gathering, processing or transportation contracts to the extent reflected on Schedule 5.15 as of the Effective Time;

(xi) all rights reserved to or vested in any Governmental Body to control or regulate any of the Assets in any manner or to assess Tax with respect to the Assets, the ownership, use or operation thereof, or revenue, income or capital gains with respect thereto, and all obligations and duties under all applicable Laws of any such Governmental Body or under any franchise, grant, license or Permit issued by any Governmental Body;

(xii) any lien, charge or other encumbrance on or affecting the Assets that is expressly waived, bonded or paid by Purchaser at or prior to Closing or that is discharged by such Seller at or prior to Closing;

(xiii) any lien or trust arising in connection with workers' compensation, unemployment insurance, pension or employment Laws or regulations;

(xiv) the terms and conditions of the Leases, including any depth limitations or similar limitations that may be set forth therein;

(xv) the Contracts set forth in Schedule 5.14;

(xvi) any matters shown on Exhibit A-2; and

(xvii) any other liens, charges, encumbrances, defects or irregularities that (a) do not, individually or in the aggregate, materially detract from the value of or materially interfere with the use or ownership of the Assets subject thereto or affected thereby, (b) would be accepted by a reasonably prudent purchaser engaged in the business of owning and operating oil and gas properties in the region where the Assets are located and (c) do not reduce such Seller's Net Revenue Interest below that shown in Schedule 3.4, or increase such Seller's working interest above that shown in Schedule 3.4, without a proportionate increase in the Net Revenue Interest of such Seller.

“ Person” means any individual, firm, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization, Government Body or any other entity.

“ Phase I Environmental Site Assessment” means an environmental site assessment performed pursuant to the American Society for Testing and Materials E1527 - 05, or any similar environmental assessment.

“ Phase II Environmental Site Assessment” means a further assessment regarding a recognized environmental condition identified in Purchaser's Phase I Environmental Site Assessment.

“ Preferential Rights” has the meaning set forth in Section 4.6(b).

“ Preliminary Settlement Statement” has the meaning set forth in Section 9.4(b).

“Prime Rate” means the rate of interest published from time to time as the “Prime Rate” in the “Money Rates” section of The Wall Street Journal.

“Properties” has the meaning set forth in Section 2.2(d).

“Property Costs” means (i) all operating and production expenses (including costs of insurance, rentals, shut-in payments and royalty payments; title examination and curative actions; Asset Taxes; and gathering, processing and transportation costs in respect of Hydrocarbons produced from the Properties) and capital expenditures (including bonuses, broker fees, and other lease acquisition costs, costs of drilling and completing wells and costs of acquiring equipment) incurred in the ownership and operation of the Assets in the ordinary course of business, (ii) general and administrative costs with respect to the Assets and (iii) overhead costs charged to the Assets under the applicable operating agreement.

“Public Announcement Restrictions” has the meaning set forth in Section 7.3(a).

“Purchase Price Allocation Schedule” has the meaning set forth in Section 3.2.

“Purchaser” has the meaning set forth in the preamble of this Agreement.

“Purchaser Group” means Purchaser, its current and former Affiliates, and each of their respective officers, directors, employees, agents, advisors and other Representatives.

“Purchaser’s Auditor” has the meaning set forth in Section 7.10.

“Reassigned Properties” means those certain of the Assets reconveyed, if any, from Purchaser to a Seller pursuant to Section 4.2(c) or Section 4.4.

“Records” means copies of any files, records, maps, information, and data, whether written or electronically stored, relating solely to the Assets, including: (i) land and title records (including abstracts of title, title opinions, and title curative documents); (ii) contract files; (iii) correspondence; (iv) operations, environmental, production, and accounting records; and (v) production, facility and well records and data; *provided, however*, that the term “Records” shall not include any of the foregoing items that are Excluded Assets and any information that cannot, without unreasonable effort or expense that Purchaser does not agree to undertake or pay, as applicable, be separated from any files, records, maps, information and data related to the Excluded Assets.

“Records Period” has the meaning set forth in Section 7.10.

“Remedy Deadline” has the meaning set forth in Section 4.2(b).

“Remedy Notice” has the meaning set forth in Section 4.2(b).

“Representatives” means (i) partners, employees, officers, directors, members, equity owners and counsel of a Party or any of its Affiliates or any prospective purchaser of a Party or an interest in a Party; (ii) any consultant or agent retained by a Party or the parties listed in subsection (i) above; and (iii) any bank, other financial institution or entity funding, or proposing to fund, such Party’s

operations in connection with the Assets, including any consultant retained by such bank, other financial institution or entity.

“Retained ORRIs” means any overriding royalty interest burdening the Leases in favor of Highline Exploration, Inc., Nisku Royalty, LP, Empire Oil Company or Kent M. Lynch which has been duly recorded in the records of the county in which it is located including, but not limited to, those described on Exhibit D, provided however, that such overriding royalty interests in the aggregate with respect to a Lease shall not exceed the positive difference, if any, between twenty percent (20%) and all burdens existing as of the Closing on an 8/8ths basis on such Lease.

“Section 7.4 Updates” has the meaning set forth in Section 7.9(b).

“Securities Act” has the meaning set forth in Section 7.10.

“Seller Assets” has the meaning set forth in Section 2.2.

“Sellers” has the meaning set forth in the preamble of this Agreement.

“Seller’s Interest Percentage” means, in respect of each Seller, a percentage determined by (i) dividing such Seller’s Unadjusted Purchase Price, by (ii) the Aggregate Unadjusted Purchase Price for all Sellers under this Agreement. The Seller’s Interest Percentages are set forth on Schedule 3.1.

“Seller’s Title Defect Percentage” means, in respect to each Seller for a particular Unit or Asset (as applicable), a percentage determined by (i) dividing such Seller’s interest in such Unit or Asset, by (ii) the total interests of all the Sellers in such Unit or Asset.

“Sellers Group” means all Sellers, their current and former Affiliates, and each of their respective officers, directors, employees, agents, advisors and other Representatives (including, for the avoidance of doubt, Sellers’ Representative).

“Sellers’ Representative” has the meaning given such term in Section 7.13.

“Specified Consent Requirement” means a requirement to obtain a lessor’s or other Person’s prior consent to assignment or transfer of an interest in a Lease or other Asset that (i) is triggered by the transactions contemplated hereunder and (ii) provides that (a) such consent may be granted or withheld in the sole discretion of the Person holding the right (or words to similar effect), (b) any purported assignment in the absence of such consent first having been obtained is void, (c) the Person holding the right may terminate the affected Lease or other instrument creating any Seller’s rights in the affected Asset or (d) the Person holding the right may impose additional conditions on the proposed assignee that involve the payment of money, the posting of collateral security or the performance of other obligations by the assignee that would not be required in the absence of any Seller’s assignment of the affected Lease or other Asset.

“Tax Return” means any return (including any information return), report, statement, schedule, notice, form, election, estimated Tax filing, claim for refund or other document (including any

attachments thereto and amendments thereof) filed with or submitted to, or required to be filed with or submitted to, any Governmental Body with respect to any Tax.

“Taxes” means (a) all federal, state, local, and foreign income, profits, franchise, sales, use, ad valorem, property, severance, production, excise, stamp, documentary, real property transfer or gain, gross receipts, goods and services, registration, capital, transfer, or withholding taxes, unclaimed property and escheat obligations or other assessments, duties, fees or charges imposed by any Governmental Body, including any interest, penalties or additional amounts that may be imposed with respect thereto, (b) any liability for the payment of any amounts of the type described in clause (a) under Treasury Regulations Section 1.1502-6 (or any corresponding provisions of state, local or foreign Tax Law) and (c) any liability for the payment of any amounts described in clause (a) or (b) as a result of the operation of law or any express or implied obligation to indemnify any other Person.

“Third Party” means any Person other than a Party to this Agreement or an Affiliate of a Party to this Agreement.

“Third Person Claim” has the meaning set forth in Section 11.3(b).

“Title Arbitration Notice” has the meaning set forth in Section 4.4(a).

“Title Arbitrator” has the meaning set forth in Section 4.4(b).

“Title Benefit” means any right, circumstance or condition that operates to increase the Net Revenue Interest of a Seller as of the Closing Date in any of the Units above that shown in respect of such Seller on Schedule 3.4, without a greater than proportionate increase in such Sellers’ working interest above that shown in Schedule 3.4.

“Title Benefit Amount” has the meaning set forth in Section 4.3(b).

“Title Benefit Notice” has the meaning set forth in Section 4.3(a).

“Title Benefit Property” has the meaning set forth in Section 4.3(a).

“Title Claim Date” has the meaning set forth in Section 4.2(a).

“Title Defect” means (i) an Environmental Defect or (ii) any lien, charge, encumbrance, obligation, defect, or other similar matter that, if not cured, causes any Seller not to have Defensible Title in and to the Units, as applicable, as of the Closing Date; *provided, however*, that the following shall not be considered Title Defects for any purpose of this Agreement (each an “Excluded Defect”):

(a) defects in the chain of title consisting of the failure to recite marital status in a document or omissions of successions of heirship or estate proceedings, unless Purchaser provides affirmative evidence that such failure or omission could reasonably be expected to result in another Person’s superior claim of title to the relevant Asset;

(b) defects arising out of lack of survey, unless a survey is expressly required by applicable Laws;

(c) defects based on a gap in such Seller's chain of title in the state's records as to state leases, or in the county records as to other leases, unless such gap is affirmatively shown to exist in such records by an abstract of title, title opinion or landman's title chain or runsheet, which documents shall be included in a Title Defect Notice;

(d) defects as a consequence of cessation of production, insufficient production, or failure to conduct operations on any of the Properties held by production, or lands pooled, communitized or unitized therewith, except to the extent the cessation of production, insufficient production or failure to conduct operations is affirmatively shown to exist such that it would give rise to a right to terminate the lease in question, evidence of which shall be included in a Title Defect Notice;

(e) defects based on references to lack of information, including lack of information in such Seller's files, the lack of Third Party records, and or the unavailability of information from regulatory agencies;

(f) defects based on references to a document because such document is not in such Seller's files;

(g) defects based solely on Tax assessment, Tax payment or similar records (or the absence of such activities or records);

(h) defects arising out of lack of corporate or other entity authorization, unless such lack of authorization results in a Third Party's actual and superior claim of title to the relevant property;

(i) defects that have been cured by applicable Laws of limitations or prescription;

(j) defects arising from the matters disclosed on the Exhibits or Schedules to this Agreement; and

(k) defects arising as a consequence of, or based on, the approval of a Governmental Body not having been received by such Seller.

“Title Defect Amount” has the meaning set forth in Section 4.2(c)(i).

“Title Defect Notice” has the meaning set forth in Section 4.2(a).

“Title Defect Property” has the meaning set forth in Section 4.2(a).

“Treasury Regulations” means the regulations (including temporary regulations) promulgated by the United States Department of the Treasury pursuant to and in respect of provisions of the Code in effect on the Execution Date.

“Unadjusted Purchase Price” has the meaning set forth in Section 3.1.

“Units” has the meaning set forth in Section 2.2(b).

“UPC” has the meaning set forth in the preamble of this Agreement.

“Wells” has the meaning set forth in Section 2.2(c).

CERTIFICATION

I, Charles B. Stanley, certify that:

1. I have reviewed this Form 10-Q of QEP Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 30, 2012

/s/ Charles B. Stanley

Charles B. Stanley

Chairman, President and Chief Executive Officer

CERTIFICATION

I, Richard J. Doleshek, certify that:

1. I have reviewed this Form 10-Q of QEP Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 30, 2012

/s/ Richard J. Doleshek

Richard J. Doleshek

Executive Vice President, Chief Financial Officer and Treasurer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this report of QEP Resources, Inc. (the Company) on Form 10-Q for the period ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the Report), C. B. Stanley, Chairman, President and Chief Executive Officer of the Company, and Richard J. Doleshek, Executive Vice President, Chief Financial Officer and Treasurer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

QEP RESOURCES, INC.

October 30, 2012

/s/ C. B. Stanley
C. B. Stanley
Chairman, President and Chief Executive Officer

October 30, 2012

/s/ Richard J. Doleshek
Richard J. Doleshek
Executive Vice President,
Chief Financial Officer and Treasurer