

Oil and Gas Property Purchase and Sale Transactions

13th Biennial Parker C. Fielder Oil and Gas Tax Conference

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Oil and Gas Property Purchase and Sale Transactions

- Who are the parties?
 - Seller: the party owning the oil and gas working interest or royalty interest who chooses to dispose of that interest for cash and other consideration in a taxable transaction for federal income tax purposes
 - Buyer: the party who intends to acquire a working interest in the oil and gas property in exchange for the payment of cash consideration (including any debt financing and the assumption of certain Seller obligations)

Oil and Gas Property

Purchase and Sale Transactions

- Why are these transactions entered into?
 - Seller
 - Unfavorable future commodity price expectations
 - Expected property development costs exceed debt and equity capital available
 - Distressed financial condition requires the sale
 - Buyer
 - Favorable future commodity price expectations
 - Debt and equity capital available to finance development costs
 - Favorable balance sheet allows the purchase

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Purchase and Sale Documents

- What are the key documents to execute the transaction?
 - The Letter of Intent, Term Sheet or Heads of Agreement
 - Can be “binding” or “non-binding”
 - Sets out the fundamental terms for the transaction
 - The Purchase and Sale Agreement (“PSA”)
 - Exhibits – lists and agreed forms of closing documents
 - Schedules - exceptions to representations and warranties and setting amounts of plugging and abandonment obligations
 - The Assignment and Bill of Sale

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Purchase and Sale Agreements

- What are the key provisions of the PSA?
 - The purchase and sale of the Assets
 - The purchase price and any adjustments to purchase price
 - Representations and warranties of Seller and Buyer
 - Inspection of the properties, Seller's data room, Buyer's due diligence
 - Environmental defects, title defects and preferential purchase rights

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Purchase and Sale Agreements

- What are the key provisions of the PSA?
 - Obligations of Buyer and Seller to close
 - Termination
 - Closing of the transaction
 - Post-closing rights and obligations (e.g., indemnities)
 - Definitions

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