



3106 N. Big Spring St. Ste. 100
Midland, TX 79705
Tel: (432) 685-9158

December 28, 2006

Oxy USA WTP LP
P. O. Box 4294
Houston, TX 77210-4294

RE: Rule 104 Notification to Multiple Operators in Shared Proration Unit
for Permit to Drill New Well
Oxy Checker State #2
1980' FNL & 660' FWL, Unit E
Sec 8, T19S, R29E, Eddy County, NM
Turkey Track Canyon

Dear Sirs:

Bold Energy, LP is planning to drill the above referenced well on a 320-acre proration unit containing the W/2 of Section 8, as shown on the attached plat, which is shared by the 320-acre proration unit occupied by the Oxy Checker State #1 and operated by Oxy USA. In compliance with New Mexico State Rule 104, addressing multiple operators sharing the same proration unit, Bold hereby gives official notification twenty (20) days in advance of submitting the Application to Drill to the New Mexico Oil Conservation Division. If no written objection is received to Bold Energy, LP within the twenty days of receipt of this notification, the application will be submitted.

An administrative approval may be obtained if non-objection waivers are included with the application. Bold Energy, LP respectfully requests that, if you have no objection, you sign below and return this letter at your earliest convenience. If you have any questions, or if there is anything I can do to expedite this request, please contact me at (432) 685-9158. Thank you.

A handwritten signature in cursive script that reads 'Denise Menoud'.

Denise Menoud, Regulatory Specialist
Gray Surface Specialties,
Agent for Bold Energy, LP

Oxy USA WTP, LP has no objection to the 320-acre proration unit assignment to the above well drilling application.

(Signature and Title)

(Date)

BEFORE THE OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 13872...Exhibit No. 5
Submitted by:
BOLD ENERGY, LP
Hearing Date: May 10, 2007

District I
1625 N. French Dr., Hobbs, NM 88240

District II
811 South First, Artesia, NM 88210

District III
1000 Rio Grande Rd., Aztec, NM 87410

District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

Form C-102
Revised March 17, 1999

Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ APT Number 30-015-29463		² Pool Code		³ Pool Name Undesignated Wolfcamp	
⁴ Property Code 20665		⁵ Property Name OXY Checker State Com.			⁶ Well Number 1
⁷ OGBID No. 16696		⁸ Operator Name OXY USA Inc.			⁹ Elevation 3379

¹⁰ Surface Location

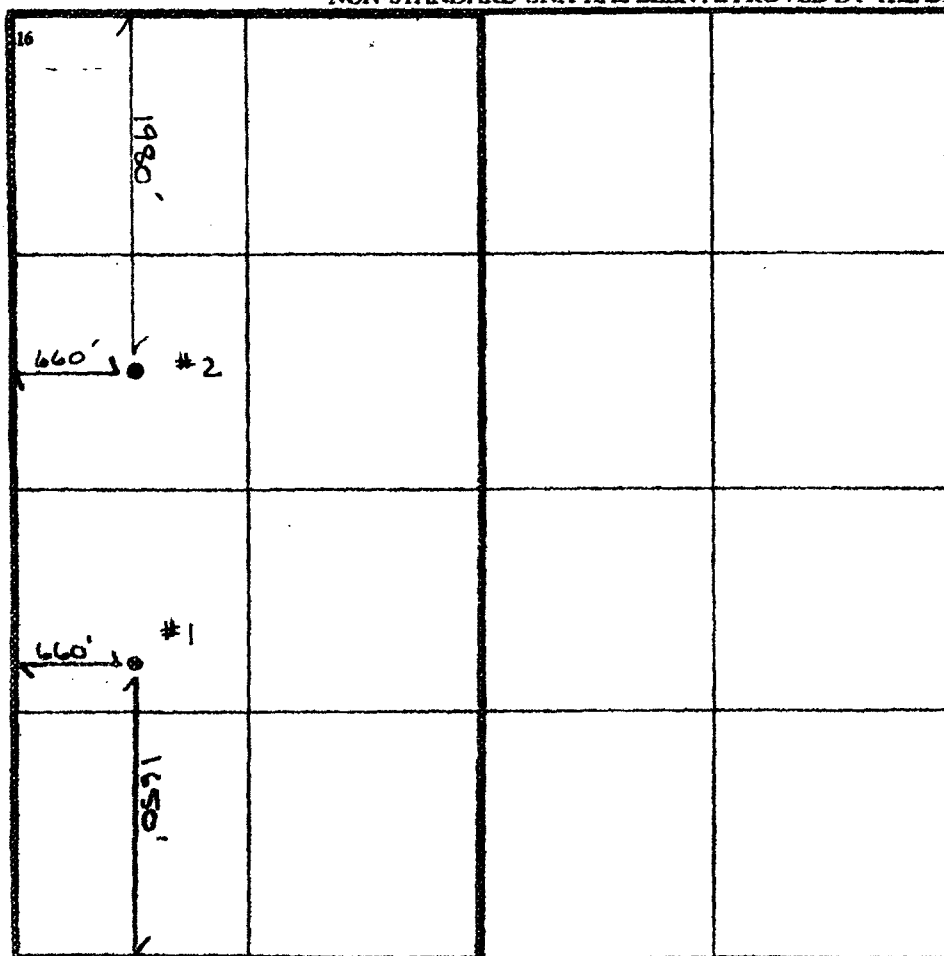
UL or lot no.	Section	Township	Range	Lot idn	Feet from the	North/South line	Feet from the	East/West line	County
L	8	19S	29E		1650	South	660	West	Eddy

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot idn	Feet from the	North/South line	Feet from the	East/West line	County

¹² Dedicated Acres 320	¹³ Joint or Infill N	¹⁴ Consolidation Code	¹⁵ Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

¹⁶ 	<p>¹⁷ OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</p> <p><i>David Stewart</i> Signature David Stewart Printed Name Regulatory Analyst Title 8/18/00 Date</p>
	<p>¹⁸ SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>Date of Survey Signature and Seal of Professional Surveyor Certificate Number</p>

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Thursday, January 04, 2007 7:59 AM
To: 'Peggy Kerr'
Subject: RE: December 27th election Date
Importance: High

Tracking: **Recipient** **Read**
 'Peggy Kerr'
 Chatwell, Betty Read: 01/04/2007 8:02 AM

Peggy, we met with Management this morning and subject to Bold acquiring a Termination Agreement from all the WIO's of the March 27, 1997 Letter Agreement, OXY will agree, after the termination of the Letter Agreement, to operate under the JOA. Once the Letter Agreement is terminated Bold may propose the Checker State #2 well.
 David Evans

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Wednesday, December 27, 2006 2:13 PM
To: Evans, David (Midland, Texas)
Subject: RE: December 27th election Date

Our fax machine is down. Please send fax to Joe's digital fax 224-1054.

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Wednesday, December 27, 2006 2:01 PM
To: Peggy.Kerr@BoldEnergy.com
Cc: joseph.castillo@BoldEnergy.com; Bob_Doty@oxy.com
Subject: RE: December 27th election Date
Importance: High

Peggy, I just sent you a fax re-stating OXY's position that the Letter Agreement has not expired and since Bold does not have an interest in any "new well", until after payout, Bold does not have the right to propose therefore, your afe is invalid. Having said this, we are waiting on Management to provide us guidance on how to resolve this matter. Management should be back in the office January 2...David

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Wednesday, December 27, 2006 11:05 AM
To: Evans, David (Midland, Texas)
Cc: 'Joseph Castillo'; Doty, Bob
Subject: RE: December 27th election Date

David --- Our attorney says the March 27, 1997 agreement does not prohibit Bold from proposing wells. Bold's attorney agrees the obligations of the March 27, 1997 Letter Agreement has been fulfilled and the Letter Agreement should be dissolved and additional operations should be under the March 1, 1997 JOA.

We will hold to the November 27 date of the consent/non-consent election of Oxy in our proposal for the Checker State # 2

Let me hear from you asap. We are agreeable to come over and meet with you today.

05/08/2007

Thanks
Peggy Kerr-Worthington

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Wednesday, December 27, 2006 9:44 AM
To: Peggy.Kerr@boldenergy.com
Cc: Joseph.Castillo@boldenergy.com; Bob_Doty@oxy.com
Subject: RE: December 27th election Date
Importance: High

Peggy, as we discussed on December 23, 2006, Bold has no right to propose a well under the Agreement so no election is required. Bob and I have to review this matter with Management as soon as they return from Holiday vacation the first of January. I will give you a call in as soon as I can this morning. David

From: Peggy Kerr [mailto:Peggy.Kerr@boldenergy.com]
Sent: Wednesday, December 27, 2006 9:08 AM
To: Evans, David (Midland, Texas)
Cc: Joseph Castillo
Subject: December 27th election Date

We need to get together today about the election on the Checker State # 2.

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Thursday, January 04, 2007 11:04 AM
To: 'Peggy Kerr'
Subject: Checker State #2

Importance: High

Attachments: Scan001.TIF



Scan001.TIF (143
KB)

Peggy, we oppose this request and stand ready to appear at the NMOCD. If you can get a Termination Letter drafted and executed by all the WIO's we can go forward and get this well drilled. I will send you a formal response today. David

Sent: Tuesday, January 09, 2007 3:51 PM
To: Gary Tidmore
Subject: FW: Oxy->TDC Sec 9 Assignment (Turkey Track)



I was checking to be SURE that all of the documents had been completed under the Oxy F/O. We cannot find in the county records where an assignment of the reversionary interest from Oxy into TDC was ever done for Sec. 9 (We found the assignment of reversionary interest for Sec. 8 filed in the county records). I know you don't have any of the files, but I am once again just asking if your memory recalls this being a pending item.
Thanks

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

From: Cindy McGill
Sent: Tuesday, January 09, 2007 2:41 PM
To: Peggy Kerr
Subject: Oxy->TDC Sec 9 Assignment (Turkey Track)

Peggy,

I went to Caprock Title and did not find anything filed of records from Oxy to Threshold for Section 9. One tract book stopped at 1998 for this Section and the next book started at 2000. I thought there might be a page missing out of the tract book so I asked Caprock to run a name search. Only the E/2 & W/2 Sec 8 assignments came up on that search. Caprock was running a list by tract description when I left. She said she would call me if something came up on that run.

I pulled the reels for the Sec 8 assignments and there wasn't an assignment recorded for Section 9 with those two assignments. There was an assignment from Oxy to Thomas Beall dated February 24th 2003 covering Sec 8 & Sec 9. I pulled that reel and there wasn't anything filed conveying from Oxy to Threshold around that particular document. I made a copy of that document in case you want to look at it. It references the assignments from Threshold to Oxy and the Section 8 & 9 leases. It looks like Oxy conveyed only 13% to Beall.

I'll let you know if I hear anything back from Caprock.

Cindy McGill, CPL/ESA
Landman
(432) 686-1100
(432) 686-1104 FAX

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Thursday, January 11, 2007 2:17 PM
To: 'Peggy Kerr'
Subject: RE: Oxy->TDC Sec 9 Assignment (Turkey Track)
Importance: High

Peggy, we pulled the file from Houston and no originals exist. Send me your drafts and I will look at them. I received Mr. Castillo's letter dated 12-29-06 asserting Bold's rights. Since you are working on a termination letter are we going forward where the Checker State #2 can be re-afe'd under the JOA or do I need to get our Legal folks to respond? I think we are close to where we both wanted to be, that is where the well can be drilled under the JOA? David

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Tuesday, January 09, 2007 5:37 PM
To: Evans, David (Midland, Texas)
Subject: FW: Oxy->TDC Sec 9 Assignment (Turkey Track)

David, I cannot find where an assignment of the reversionary interest has been recorded from Oxy into TDC/Monarch/Boles for the Sec. 9 acreage. I found the Sec. 8 Assignments, but nothing in Sec. 9.

My Tech is preparing the Assignment in same form as Oxy prepared for Sec. 8. There is one difference in that there was an assignment into Tom Beal from Oxy for Sec. 9, thus we will need for Oxy and Beal to both execute the assignment of the reversionary rights into Bold, Monarch/Boles to clean up the title. We found paperwork in the file for the date of payout.

I want to be sure that all documents are recorded prior to my letter to dissolve the March 27, 1997 Letter Agreement. I have talked to all the parties who would be subject to this Letter Agreement and each has to execute a letter to dissolve the agreement.

Can you have your lease records department review the file and see if there was an Assignment from Oxy into TDC, et al for the reversionary interest in Sec. 9. It could have possibly been done and just not sent for recordation.

Thank you for your help.

Peggy Kerr-Worthington

From: Gary Tidmore [mailto:g_tidmore@thresholddevelopment.com]
Sent: Tuesday, January 09, 2007 4:12 PM
To: Peggy Kerr
Subject: RE: Oxy->TDC Sec 9 Assignment (Turkey Track)

Peggy:

I thought they had been done, but it has been so long since we did them, I cannot be absolutely certain.

GT

-----Original Message-----

From: Peggy Kerr [mailto:Peggy.Kerr@boldenergy.com]

Evans, David (Midland, Texas)

From: Peggy Kerr [Peggy.Kerr@boldenergy.com]
Sent: Monday, January 15, 2007 1:00 PM
To: Evans, David (Midland, Texas)
Cc: Joseph Castillo
Subject: Oxy Termination Letter
Attachments: Oxy Termination Letter.doc

Here is the termination letter. Let me know if you have any changes.

Also attached are the assignments. Hard copies of these documents will be sent to you upon confirmation of your review

As far as the time clock on the AFE for the Checker State # 2, it has been Bold's position all along that the Letter Agreement expired years ago by virtue of the fact that a) both of the Test Wells and both of the Option Wells as defined by the farmout were drilled, and b) drilling on these sections ceased well beyond the 180 day continuous drilling provision. Bold will give Oxy one more week to make its election (i.e. January 22nd) after which date we will view Oxy as non-consent. This will give Oxy additional time to look at the merits of drilling this well.

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

BOLD ENERGY, LP

415 W. WALL, SUITE 500
MIDLAND, TEXAS 79701

MAIN: 432-686-1100
FAX: 432-686-1104

January 15, 2007

Mr. David R. Evans
OXY USA WTP L.P.
6 Desta Drive, Suite 6000
Midland, TX 79705

Mr. Dick Frech
Monarch Resources, Inc.
115 W. 7th Street, Suite 1310
Fort Worth, Texas 76102

Mr. Herbert Boles
223 W. Wall, Suite 825
Midland, TX 79701

Mr. Tom Beall
550 W. Texas, Suite 220
Midland, TX 79701

Subject: Termination of Farmout Agreement dated 3/27/97
Turkey Track - Sec. 8 & 9, T19S, R29E
Eddy County, NM

Gentlemen:

By Agreement ("Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles ("Farmors") farmed out to Oxy USA Inc. ("Oxy") an interest in Sec. 8, as to all depths below three thousand feet subsurface, and Section 9, as to all rights below five thousand feet subsurface, Township 19 South, Range 29E, Eddy County, New Mexico. The Agreement required Oxy to commence drilling operations on the referenced lands subject to a continuous development obligation. The Parties named above are the original parties to that Agreement.

The successors and assigns to the March 27, 1997 Agreement are currently Bold Energy LP, Monarch Resources, Inc. and Herbert F. Boles.

Oxy conveyed an interest into Tom Beall subject to the March 27, 1997 Agreement which is recorded in Vol. 506, Page 1175 in the records of Eddy County, New Mexico.

January 15, 2007
Page 2
OXY USA WTP L.P.

The obligation wells have been drilled and completed. The reversionary interest into the Farmers have been exercised years prior to the date of this letter.

The Parties have made and delivered all assignments and transfers of interest in the leases and lands that are the subject of the Agreement, with the exception of the two assignments attached hereto as Exhibit A.

It is the belief of Bold that Oxy reassigned to Threshold, et al its reversionary interest in Sec. 9 as required under paragraph 21 of the March 27, 1997 Agreement, but for some unknown reason documents were never filed in the records of the state or county. Bold has prepared the Exhibit A documents and request the execution of these documents by Oxy and Thomas M. Beall. Bold will record the documents.

The Parties have determined that the purpose of the Agreement no longer exists, and, notwithstanding any provision in the Agreement to the contrary, desire to terminate the Agreement.

For adequate consideration, the Parties named above, being all parties in interest to the Agreement, or their successors and assigns, hereby terminate the Agreement and each of them release one another from any and all obligations created by the Agreement, and extinguish all rights created by the Agreement from and after the Effective Date stated above.

If you concur the obligations have been satisfied under this agreement, we ask for you to please execute two (2) copies of this letter, in the space provided below, and return the same to the attention of Peggy Kerr-Worthington. This Letter may be executed in any number of counterparts, no one of which need bear the signatures of all of the parties, but any one of which will constitute an original hereof for all purposes.

OXY USA WTP L.P.

Monarch Resources, Inc.

Herbert Boles

Thomas M. Beall

Bold Energy LP

Joseph Castillo
President of Bold Energy, LP

Exhibit "A"

Attached to that certain Letter dated January 11, 2007 between Oxy, et al and Bold Energy, LP covering assignments of reversionary interest for lands in Sec. 9, T19S, R29E, Eddy County, New Mexico

Oxy Champion State

ASSIGNMENT OF OIL AND GAS LEASE(S)

KNOW ALL MEN BY THESE PRESENTS that OXY USA Inc., a Delaware corporation, whose P.O Box 50250 Midland, Texas 79710, and Thomas M. Beall and wife, Carolyn Read Beall whose address is P.O. Box 3098 Midland, Texas 79702, hereinafter collectively called "Assignor", for and in consideration of Ten Dollars (\$10.00) and other valuable consideration paid, does hereby, subject to the exceptions and reservations hereinafter contained, grant, convey, sell, assign, and transfer unto Bold Energy, LP (87.5%), Monarch Resources Inc. (11.875%), and Herbert F. Boles and his wife (Norma J. Boles) (.625%), hereinafter individually and collectively called "Assignee" all of whose address for the purposes of this document shall be C/O Bold Energy, LP 415 West Wall, Suite 500, Midland, Texas 79701.

the undivided right, title and interest described below in and to the following described lease(s):

Lessor: State of New Mexico B-8096
 State of New Mexico VA-0465
 State of New Mexico VB-0455

Lessee: Continental Oil Company
 Mitchell Energy Corporation
 Ameristate Oil and Gas, Inc...

Dated: April 10, 1939
 December 1, 1991
 December 1, 1995

Recording Data: Not Available

Description: The Northwest Quarter (NW/4) and the Southwest Quarter of the Northeast Quarter (SW/4NE/4) of Section 9, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, insofar and only insofar as the oil, gas and mineral lease covers and affects the interval between 5,000 feet and 11,600 feet.

 The Northeast Quarter of the Northeast Quarter (NE/4NE/4) of Section 9, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, insofar and only insofar as the oil, gas and mineral lease covers and affects the interval between 5,000 feet and 11,600 feet.

 The Northwest Quarter of the Northeast Quarter (NW/4NE/4) and the Southeast Quarter of the Northeast Quarter (SE/4NE/4) of Section 9, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, insofar and only insofar as the oil, gas and mineral lease covers and affects the interval between 5,000 feet and 11,600 feet....

1. Assignor grants Assignee, insofar as Assignor has the right to do so and subject always to the terms and conditions of the lease(s) herein assigned, the right to pool or combine said lease(s) or lands, and in the event any lease assigned is pooled or unitized with other leases or lands for production, the overriding royalty herein shall, as to the lands covered by this Assignment and so unitized, be paid to Assignor in the proportion that the number of acres assigned herein and so unitized bears to the total number of acres in such unit and the Assignor's after payout working interest in the well shall be in the proportion that the number of acres assigned herein and so unitized bears to the total number of acres in such unit.

2. If a lease is described herein covers less than a full oil and gas leasehold estate in any lands described herein under such lease, or if Assignor's interest in such lease covering any lands described herein under such lease is less than the full oil and gas leasehold estate (excluding and disregarding any applicable royalty, overriding royalty, production payment or other burden to which such leasehold estate is subject), then the overriding royalty reserved out of the production from the lands in which Assignor's interest is less than the full oil and gas leasehold estate in such lands herein described under such lease shall be payable in the proportion that Assignor's interest in the oil and gas lease bears to the full oil and gas leasehold estate in such lands, and the interest in the well in which Assignor may elect to receive a working interest shall be in the proportion that the oil and gas leasehold estate in such lease conveying the land described herein bears to the full oil and gas leasehold estate in said lands.
3. This Assignment is made subject to the provisions and conditions of that certain Letter Agreement dated March 27, 1997 between set Assignors and said Assignee, together with any other agreements, easements or rights of way contained in or referred to in Assignor's records in the county records of Eddy County, New Mexico.
4. This Assignment is made subject to, and Assignee shall comply with, all applicable rules, regulations, laws and orders issued or promulgated by any court or governmental agency having jurisdiction over operation, production or marketing on and from the lands covered hereby.
5. Assignor agrees to execute such other and further documents as may be required to convey and deliver to Assignee good and merchantable title in and to the lands and leases described herein and to properly reflect said title and interest in the county of records and any applicable state or federal records.

TO HAVE AND TO HOLD the same unto said Assignee, its successors and assigns, according to the terms and conditions of said lease(s), the said Assignee to perform all such conditions and covenants thereof as to the portion of lands herein assigned, but subject however to the provisions and conditions of said Agreement hereinbefore mentioned. This Assignment is made without warranty of title either express or implied.

The reservations herein made and the provisions and covenants contained herein shall attach to and run with the lease or leases assigned and the land herein described to and shall be binding upon and inure to the benefit of Assignor and Assignee and their respective successors and assigns.

This instrument may be executed in any number of counterparts, no one of which need bear the signature of all the parties, but any one of which may serve as an original for all purposes. Should any Assignor named herein fail for any reason to execute and/or deliver this instrument shall never the less be effective to convey to the Assignee the interest of the Assignor(s) actually executing and delivering the same to the Assignee.

IN WITNESS WHEREOF, the undersigned parties, Assignor, have executed this instrument or caused this instrument to be executed on their behalf as of this 10th day of January, 2007, but effective as of 12/1/97 effective payout date of the Oxy Champion State well.

OXY USA Inc.

Thomas M. Beall

Carolyn Read Beall

STATE OF TEXAS)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____,
2007, by _____, as _____, on behalf of
_____, a _____...

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____,
2007, by _____.

Notary Public

ASSIGNMENT OF OIL AND GAS LEASE(S)

KNOW ALL MEN BY THESE PRESENTS that OXY USA Inc., a Delaware corporation, whose P.O Box 50250 Midland, Texas 79710, and Thomas M. Beall and wife, Carolyn Read Beall whose address is P.O. Box 3098 Midland, Texas 79702, hereinafter collectively called "Assignor", for and in consideration of Ten Dollars (\$10.00) and other valuable consideration paid, does hereby, subject to the exceptions and reservations hereinafter contained, grant, convey, sell, assign, and transfer unto Bold Energy, LP (87.5%), Monarch Resources Inc. (11.875%), and Herbert F. Boles and his wife (Norma J. Boles) (.625%), hereinafter individually and collectively called "Assignee" all of whose address for the purposes of this document shall be C/O Bold Energy, LP 415 West Wall, Suite 500, Midland, Texas 79701.

the undivided right, title and interest described below in and to the following described lease(s):

Lessor: State of New Mexico B-8096

Lessee: Continental Oil Company

Dated: April 10, 1939

Recording Data: Not Available

Description: The South Half (S/2) of Section 9, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, insofar and only insofar as the oil, gas and mineral lease covers and affects the interval between 5,000 feet and 11,650 feet.

6. Assignor grants Assignee, insofar as Assignor has the right to do so and subject always to the terms and conditions of the lease(s) herein assigned, the right to pool or combine said lease(s) or lands, and in the event any lease assigned is pooled or unitized with other leases or lands for production, the overriding royalty herein shall, as to the lands covered by this Assignment and so unitized, be paid to Assignor in the proportion that the number of acres assigned herein and so unitized bears to the total number of acres in such unit and the Assignor's after payout working interest in the well shall be in the proportion that the number of acres assigned herein and so unitized bears to the total number of acres in such unit.
7. If a lease is described herein covers less than a full oil and gas leasehold estate in any lands described herein under such lease, or if Assignor's interest in such lease covering any lands described herein under such lease is less than the full oil and gas leasehold estate (excluding and disregarding any applicable royalty, overriding royalty, production payment or other burden to which such leasehold estate is subject), then the overriding royalty reserved out of the production from the lands in which Assignor's interest is less than the full oil and gas leasehold estate in such lands herein described under such lease shall be payable in the proportion that Assignor's interest in the oil and gas lease bears to the full oil and gas leasehold estate in such lands, and the interest in the well in which Assignor may elect to receive a working interest shall be in the proportion that the oil and gas leasehold estate in such lease conveying the land described herein bears to the full oil and gas leasehold estate in said lands.
8. This Assignment is made subject to the provisions and conditions of that certain Letter Agreement dated March 27, 1997 between set Assignors and said Assignee, together with any other agreements, easements or rights of way contained in or referred to in Assignor's records in the county records of Eddy County, New Mexico.

9. This Assignment is made subject to, and Assignee shall comply with, all applicable rules, regulations, laws and orders issued or promulgated by any court or governmental agency having jurisdiction over operation, production or marketing on and from the lands covered hereby.
10. Assignor agrees to execute such other and further documents as may be required to convey and deliver to Assignee good and merchantable title in and to the lands and leases described herein and to properly reflect said title and interest in the county of records and any applicable state or federal records.

TO HAVE AND TO HOLD the same unto said Assignee, its successors and assigns, according to the terms and conditions of said lease(s), the said Assignee to perform all such conditions and covenants thereof as to the portion of lands herein assigned, but subject however to the provisions and conditions of said Agreement hereinbefore mentioned. This Assignment is made without warranty of title either express or implied.

The reservations herein made and the provisions and covenants contained herein shall attach to and run with the lease or leases assigned and the land herein described to and shall be binding upon and inure to the benefit of Assignor and Assignee and their respective successors and assigns.

This instrument may be executed in any number of counterparts, no one of which need bear the signature of all the parties, but any one of which may serve as an original for all purposes. Should any Assignor named herein fail for any reason to execute and/or deliver this instrument shall never the less be effective to convey to the Assignee the interest of the Assignor(s) actually executing and delivering the same to the Assignee.

IN WITNESS WHEREOF, the undersigned parties, Assignor, have executed this instrument or caused this instrument to be executed on their behalf as of this 10th day of January, 2007, but effective as of 7/3/2001 effective payout date of the Oxy Sparkplug well.

OXY USA Inc.

Thomas M. Beall

Carolyn Read Beall

STATE OF TEXAS)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by _____, as _____, on behalf of _____, a _____.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____,
2007, by _____.

Notary Public

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Tuesday, February 27, 2007 7:51 AM
To: Chatwell, Betty
Subject: FW: Executed Assignments

Importance: High

Attachments: Champion St Assgn.tif; Sparkplug St Assgn.tif



Champion St
Assgn.tif (104 KB)...

Sparkplug St

Assgn.tif (92 KB)...

File JOA....

-----Original Message-----

From: William Carr [mailto:WCarr@hollandhart.com]
Sent: Monday, February 26, 2007 4:00 PM
To: JamesBruc@aol.com
Cc: Evans, David (Midland, Texas)
Subject: FW: Executed Assignments
Importance: High

Jim-

Attached hereto are copies of two assignments that have been executed by OXY, by separate e-mail I will forward an executed copy of the Termination Agreement. It is my understanding that these are the documents that Bold discussed with you last week. They are not effective until also signed by Bold and others and should not be construed as an agreement by OXY that the 1997 letter agreement has been terminated until all have signed. Once all have signed and the agreement has been terminated, this spacing unit can be developed under the JOA. I am concerned that since these documents were sent to Peggy Kerr, we have not received a response from Bold.

Today, I have been in discussions with OXY concerning this matter. If we do not get this resolved, I have been directed to seek a Declaratory Judgment on the status of these contracts. If you can give this a push, we may all be better off.
Bill

-----Original Message-----

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Monday, February 26, 2007 12:36 PM
To: Peggy.Kerr@boldenergy.com
Cc: William Carr
Subject: FW: Executed Assignments
Importance: High

Peggy, I will send you the executed Originals in the mail. Please provide us with a recorded copy. David

>
> From: Rodriguez, Rocio
> Sent: Monday, February 26, 2007 1:29 PM
> To: Evans, David (Midland, Texas)
> Subject: Scanned Docs
>
> <<Champion St Assgn.tif>> <<Sparkplug St Assgn.tif>>

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Tuesday, March 13, 2007 2:37 PM
To: 'Peggy Kerr'
Subject: RE: Threshold Matter

Agreed....

-----Original Message-----

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Tuesday, March 13, 2007 2:32 PM
To: Evans, David (Midland, Texas)
Subject: RE: Threshold Matter

I've been working on another project, but will try to get the stipulation done this week. The documents are at Tom Beal's office. I'll send him an e-mail to return to you. I don't think there is anything wrong with the termination agreement, but the conveyance documents made him nervous and he is not interested in signing anything other than a stipulation at this point in time.

Peg

-----Original Message-----

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Tuesday, March 13, 2007 2:22 PM
To: Peggy.Kerr@BoldEnergy.com
Subject: Threshold Matter

Peggy, any progress on completing a Stipulation? Also, please either destroy the Assignments I sent you or forward them back to me since they are in error. Thank you, David

Evans, David (Midland, Texas)

From: Peggy Kerr [Peggy.Kerr@boldenergy.com]
Sent: Monday, March 19, 2007 11:01 AM
To: Evans, David (Midland, Texas); Tom Beall
Subject: Turkey Track
Importance: High
Attachments: Oxy Termination Letter.doc; Oxy FarmOut.doc

Dave/Tom

Here is the latest Oxy Termination Letter and Stipulation.

I have attached the Oxy F/O as a convenience to review.

Please review and advise if this document is sufficient. It has not had legal review.

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

05/08/2007

BOLD ENERGY, LP

415 W. WALL, SUITE 500
MIDLAND, TEXAS 79701

MAIN: 432-686-1100
FAX: 432-686-1104

March 19, 2007

Mr. David R. Evans
OXY USA WTP L.P.
6 Desta Drive, Suite 6000
Midland, TX 79705

Mr. Dick Frech
Monarch Resources, Inc.
115 W. 7th Street, Suite 1310
Fort Worth, Texas 76102

Mr. Herbert Boles
223 W. Wall, Suite 825
Midland, TX 79701

Mr. Thomas M. Beall
550 W. Texas, Suite 220
Midland, TX 79701

Subject: Termination of Farmout Agreement dated 3/27/97
Turkey Track - Sec. 8 & 9, T19S, R29E
Eddy County, NM

Gentlemen:

By Agreement ("Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles ("Farmors") farmed out to Oxy USA Inc. ("Oxy") an interest in Sec. 8, as to all depths below three thousand feet subsurface, and Section 9, as to all rights below five thousand feet subsurface, Township 19 South, Range 29E, Eddy County, New Mexico. The Agreement required Oxy to commence drilling operations on the referenced lands subject to a continuous development obligation. The Parties named above are the original parties to that Agreement.

The successors and assigns to the March 27, 1997 Agreement are currently Bold Energy LP, Monarch Resources, Inc. and Herbert F. Boles.

Oxy conveyed an interest into Thomas M. Beall subject to the March 27, 1997 Agreement which is recorded in Vol. 506, Page 1175 in the records of Eddy County, New Mexico.

OXY USA WTP L.P.
March 19, 2007
Page 2

The obligation wells have been drilled and completed. The reversionary interests into the Farmors have been exercised years prior to the date of this letter.

The Parties have determined that the purpose of the Agreement no longer exists, and, notwithstanding any provision in the Agreement to the contrary, desire to terminate the Agreement and Stipulate as to their current interest under this Agreement. A Stipulation of Interest has been prepared as an Attachment "A" to this Termination Agreement.

For adequate consideration, the Parties named above, being all parties in interest to the Agreement, or their successors and assigns, hereby terminate the Agreement and each of them release one another from any and all obligations created by the Agreement, and extinguish all rights created by the Agreement from and after the Effective Date stated above.

If you concur the obligations have been satisfied under this agreement, we ask for you to please execute this letter in the space provided below, and further execute the unattached Stipulation of Interest. Please return on original of each to the attention of Peggy Kerr-Worthington. This Letter may be executed in any number of counterparts, no one of which need bear the signatures of all of the parties, but any one of which will constitute an original hereof for all purposes.

Sincerely,

Peggy Kerr-Worthington

OXY USA WTP L.P.

Monarch Resources, Inc.

Herbert Boles

Thomas M. Beall

Bold Energy LP

Joseph Castillo
President of Bold Energy, LP

Exhibit "A"

Attached to that certain Letter dated March 19, 2007 between Oxy, et al and Bold Energy, LP
STIPULATION OF INTEREST

Reference is here made for all purposes to that certain leases and land listed below:

Lessor: State of New Mexico B-8096
State of New Mexico VA-0465
State of New Mexico VB-0455

Lessee: Continental Oil Company
Mitchell Energy Corporation
Ameristate Oil and Gas, Inc...

Dated: April 10, 1939
December 1, 1991
December 1, 1995

Recording Data: Not Available

Description: All of Section 8, as to all depths below three thousand feet subsurface, and
Section 9, as to all rights below five thousand feet subsurface, Township 19
South, Range 29 East, N.M.P.M., Eddy County, New Mexico

Whereas, under that certain Letter Agreement dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles, (Farmers) farmed out to Oxy USA WTP Limited Partnership ("Oxy") an interest in Sec. 8, as to all depths below three thousand feet subsurface, and Section 9 as to all rights below five thousand feet subsurface in Township 19 South, Range 29E, Eddy County, New Mexico.

Whereas, certain Assignments covering a portion of the interest under this Letter Agreement were never filed of record.

Whereas, through various conveyances, the record title owners are now Bold Energy LP, Monarch Resources, Inc. Herbert F. Boles, Thomas M. Beall and Oxy.

Now, therefore, for value received, the record title owners identified above do hereby covenant, stipulate and agree that:

- a) The occurrence of payout has been reached for all wells drilled under the March 27, 1997 Letter Agreement.
- b) Ownership in depths below the base of the Bone Spring Formation down to 100 feet below the total depth drill in each well, the interest shall be as follows:

Herbert T. Boles	46.5% X .00625	.00290625	WI
Monarch Resources	46.5% X .11875	.05521875	WI
Thomas M. Beall	53.5% X .13	.06955000	WI
Bold Energy, LP	46.5% X .875	.40687500	WI
Oxy USA, WTP LP	.535 X .875	.46545000	WI
- c) Ownership in depths below 5,000 feet subsurface down to and including, but not below, the base of the Bone Spring Formation

Herbert T. Boles	50% X .00625	.00315000	WI
Monarch Resources	50% X .11875	.05937500	WI
Thomas M. Beall	50.0% X .13	.06500000	WI
Bold Energy, LP	46.5% X .875	.40687500	WI
Oxy USA, WTP LP	50 X .87	.43500000	WI

The parties hereby sell, transfer, and assign, without warranty of title, one to the other such interest in the above-described lands and oil and gas lease as is necessary to give effect to the above stipulated ownership percentages.

This Stipulation shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns.

This instrument may be executed in any number of counterparts, no one of which need bear the signature of all the parties, but any one of which may serve as an original for all purposes.

Dated this ____ day of March, 2007, to be effective, however, as of the date each well drilled under the March 27, 1997 Letter Agreement reached payout status.

BOLD ENERGY, LP

OXY USA, WTP LIMITED PARTNERSHIP
By: OXY USA, INC., General Partner

Joseph Castillo
President

William B. Bledsoe, Attorney in Fact

MONARCH RESOURCES, INC.

Leland A. Hodges
President

Thomas M. Beall

Carolyn Read Beall

Herbert F. Boles

Norma Jean Boles

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by Joseph Castillo, as President, on behalf of BOLD ENERGY, LP, a Limited Partnership.

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

Notary Public

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by William B. Bledsoe, as Attorney in Fact, on behalf of OXY USA, WTP LIMITED PARTNERSHIP, a Delaware Limited Partnership

STATE OF TEXAS)
) SS.
COUNTY OF _____

Notary Public

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by Leland A. Hodges, as President of MONARCH RESOURCES, INC., a _____ Corporation.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007,
by Thomas M. Beall and Carolyn Read Beall

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____,
2007, by Herbert F. Boles and Norma Jean Boles

Notary Public

Evans, David (Midland, Texas)

From: Peggy Kerr [Peggy.Kerr@BoldEnergy.com]
Sent: Wednesday, March 21, 2007 4:55 PM
To: Evans, David (Midland, Texas); 'Tom Beall'
Subject: FW: Turkey Track
Importance: High
Attachments: Oxy Termination Letter.doc

Thank you both for your comments.

David --- I went back to the original letter and made the changes requested. I left one paragraph out as there was no longer a need. You might check and see if this is "ok". Let me know when these are signed.

Tom --- Thank you again for your suggestions. Your requested changes have been made. I still need to get from you the old documents which need to be returned to Oxy and destroyed. Let me know a good time to get together

Peg

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Monday, March 19, 2007 3:03 PM
To: Peggy.Kerr@boldenergy.com
Cc: Bob_Doty@oxy.com
Subject: RE: Turkey Track
Importance: High

Peggy, would you take another look at the original letter we signed and sent you. All that needs changing is the reference to the assignment. I have that letter approved and can have it re-executed with the stipulation. This new letter has some of the problems we took out last time. David

From: Peggy Kerr [mailto:Peggy.Kerr@boldenergy.com]
Sent: Monday, March 19, 2007 11:01 AM
To: Evans, David (Midland, Texas); Tom Beall
Subject: Turkey Track
Importance: High

Dave/Tom
Here is the latest Oxy Termination Letter and Stipulation.

I have attached the Oxy F/O as a convenience to review.

Please review and advise if this document is sufficient. It has not had legal review.

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

05/08/2007

BOLD ENERGY, LP

415 W. WALL, SUITE 500
MIDLAND, TEXAS 79701

MAIN: 432-686-1100
FAX: 432-686-1104

March 19, 2007

Mr. David R. Evans
OXY USA WTP L.P.
6 Desta Drive, Suite 6000
Midland, TX 79705

Mr. Dick Frech
Monarch Resources, Inc.
115 W. 7th Street, Suite 1310
Fort Worth, Texas 76102

Mr. Herbert Boles
223 W. Wall, Suite 825
Midland, TX 79701

Mr. Thomas M. Beall
550 W. Texas, Suite 220
Midland, TX 79701

Subject: Termination of Farmout Agreement dated 3/27/97
Turkey Track - Sec. 8 & 9, T19S, R29E
Eddy County, NM

Gentlemen:

By Agreement ("Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles ("Farmors") farmed out to Oxy USA Inc. ("Oxy") an interest in Sec. 8, as to all depths below three thousand feet subsurface, and Section 9, as to all rights below five thousand feet subsurface, Township 19 South, Range 29E, Eddy County, New Mexico. The Agreement required Oxy to commence drilling operations on the referenced lands subject to a continuous development obligation. The Parties named above are the original parties to that Agreement.

The successors and assigns to the March 27, 1997 Agreement are currently Bold Energy LP, Monarch Resources, Inc. and Herbert F. Boles.

Oxy conveyed an interest into Thomas M. Beall subject to the March 27, 1997 Agreement which is recorded in Vol. 506, Page 1175 in the records of Eddy County, New Mexico.

OXY USA WTP L.P.
March 19, 2007
Page 2

The obligation wells have been drilled and completed. The reversionary interests into the Farmors have been exercised years prior to the date of this letter.

The Parties have made and delivered some, but not all, assignments and transfers of interests in the leases and lands that are the subject of the Agreement.

The Parties have determined that the purpose of the Agreement no longer exists, and, notwithstanding any provision in the Agreement to the contrary, desire to terminate the Agreement and Stipulate as to their current interest under this Agreement. A Stipulation of Interest has been prepared as an Attachment "A" to this Termination Agreement.

For adequate consideration, the Parties named above, being all parties in interest to the Agreement, or their successors and assigns, hereby terminate the Agreement and each of them release one another from any and all obligations created by the Agreement, from and after the Effective Date stated above.

If you concur the obligations have been satisfied under this agreement, we ask for you to please execute this letter in the space provided below, and further execute the unattached Stipulation of Interest. Please return one original of each to the attention of Peggy Kerr-Worthington. This Letter may be executed in any number of counterparts, no one of which need bear the signatures of all of the parties, but any one of which will constitute an original hereof for all purposes. In order for this Agreement to become effective all current parties subject to the March 27, 1997 Farmout Agreement must execute this March 19, 2007 Termination Letter Agreement.

Sincerely,

Peggy Kerr-Worthington

OXY USA WTP L.P.

Monarch Resources, Inc.

Herbert Boles

Thomas M. Beall

Bold Energy LP

Joseph Castillo
President of Bold Energy, LP

Exhibit "A"

Attached to that certain Letter dated March 19, 2007 between Oxy, et al and Bold Energy, LP

STIPULATION OF INTEREST

Reference is here made for all purposes to that certain leases and land listed below:

Lessor: State of New Mexico B-8096
State of New Mexico VA-0465
State of New Mexico VB-0455

Lessee: Continental Oil Company
Mitchell Energy Corporation
Ameristate Oil and Gas, Inc...

Dated: April 10, 1939
December 1, 1991
December 1, 1995

Recording Data: Not Available

Description: All of Section 8, as to all depths below three thousand feet subsurface, and
Section 9, as to all rights below five thousand feet subsurface, Township 19
South, Range 29 East, N.M.P.M., Eddy County, New Mexico

Whereas, under that certain Letter Agreement dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles, (Farmers) farmed out to Oxy USA WTP Limited Partnership ("Oxy") an interest in Sec. 8, as to all depths below three thousand feet subsurface, and Section 9 as to all rights below five thousand feet subsurface in Township 19 South, Range 29E, Eddy County, New Mexico.

Whereas, certain Assignments covering a portion of the interest under this Letter Agreement were never filed of record.

Whereas, through various conveyances, the operating rights are now Bold Energy LP, Fuel Products Inc., Monarch Resources, Inc. Herbert F. Boles, Thomas M. Beall and Oxy.

Now, therefore, for value received, the record title owners identified above do hereby covenant, stipulate and agree that:

- a) The occurrence of payout has been reached for all wells drilled under the March 27, 1997 Letter Agreement.
- b) Ownership in depths below the base of the Bone Spring Formation down to 100 feet below the total depth drill in each well, the interest shall be as follows:
- | | | | |
|-------------------|----------------|-----------|----|
| Herbert T. Boles | 46.5% X .00625 | .00290625 | WI |
| Monarch Resources | 46.5% X .11875 | .05521875 | WI |
| Thomas M. Beall | 53.5% X .13 | .06955000 | WI |
| Bold Energy, LP | 46.5% X .875 | .40687500 | WI |
| Oxy USA, WTP LP | .535 X .875 | .46545000 | WI |
- c) Ownership in depths below 5,000 feet subsurface down to and including, but not below, the base of the Bone Spring Formation
- | | | | |
|-------------------|--------------|-----------|----|
| Herbert T. Boles | 50% X .00625 | .00315000 | WI |
| Monarch Resources | 50% X .11875 | .05937500 | WI |
| Thomas M. Beall | 50.0% X .13 | .06500000 | WI |
| Bold Energy, LP | 46.5% X .875 | .40687500 | WI |
| Oxy USA, WTP LP | 50 X .87 | .43500000 | WI |

The parties hereby sell, transfer, and assign, without warranty of title, one to the other such interest in the above-described lands and oil and gas lease as is necessary to give effect to the above stipulated ownership percentages.

This Stipulation shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns.

This instrument may be executed in any number of counterparts, no one of which need bear the signature of all the parties, but any one of which may serve as an original for all purposes.

Dated this ____ day of March, 2007, to be effective, however, as of the date each well drilled under the March 27, 1997 Letter Agreement reached payout status.

BOLD ENERGY, LP

OXY USA, WTP LIMITED PARTNERSHIP
By: OXY USA, INC., General Partner

Joseph Castillo
President

William B. Bledsoe, Attorney in Fact

MONARCH RESOURCES, INC.

Leland A. Hodges
President

Thomas M. Beall

Carolyn Read Beall

Herbert F. Boles

Norma Jean Boles

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by Joseph Castillo, as President, on behalf of BOLD ENERGY, LP, a Limited Partnership.

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

Notary Public

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by William B. Bledsoe, as Attorney in Fact, on behalf of OXY USA, WTP LIMITED PARTNERSHIP, a Delaware Limited Partnership

STATE OF TEXAS)
) SS.
COUNTY OF _____

Notary Public

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by Leland A. Hodges, as President of MONARCH RESOURCES, INC., a _____ Corporation.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007,
by Thomas M. Beall and Carolyn Read Beall

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____,
2007, by Herbert F. Boles and Norma Jean Boles

Notary Public

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Monday, March 26, 2007 10:12 AM
To: 'Peggy Kerr'
Subject: FW: Oxy Termination Letter.doc/OXY - AUTO & CHECKER STATE WELLS

Peggy, here are the gross for the 4 wells. I think they conflict with the numbers in the Stipulation. David

From: Raptis, Eli
Sent: Friday, March 23, 2007 7:45 AM
To: Evans, David (Midland, Texas); Herrington, Gerald
Cc: Breed, William; Grady, Richard
Subject: RE: Oxy Termination Letter.doc/OXY - AUTO & CHECKER STATE WELLS

73000012	OXY CHECKER STATE COM #1	0.03477500	035401	04	THOMAS M BEALL
73000012	OXY CHECKER STATE COM #1	0.03477500	039026	05	FUEL PRODUCTS INC
73000012	OXY CHECKER STATE COM #1	0.00290630	042068	04	HERBERT F BOLES
73000012	OXY CHECKER STATE COM #1	0.05521870	043739	04	MONARCH RESOURCES INC
73000012	OXY CHECKER STATE COM #1	0.40687500	080562	01	BOLD ENERGY LP
73000012	OXY CHECKER STATE COM #1	0.46545000	999241	02	OXY USA WTP LP

73000015	OXY AUTO STATE #1	0.03477500	035401	04	THOMAS M BEALL
73000015	OXY AUTO STATE #1	0.03477500	039026	05	FUEL PRODUCTS INC
73000015	OXY AUTO STATE #1	0.00290630	042068	04	HERBERT F BOLES
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73000015	OXY AUTO STATE #1	0.40687500	080562	01	BOLD ENERGY LP
73000015	OXY AUTO STATE #1	0.46545000	999241	02	OXY USA WTP LP

David,
The Checker State #1 paid out 10/2003 and the current expense DOI is shown above (that was a farmout).
The Auto State #1 paid out 2/2001 and the current expense DOI is also shown above (that was a farmout).

Thanks, Eli.

From: Evans, David (Midland, Texas)
Sent: Thursday, March 22, 2007 4:16 PM
To: Herrington, Gerald; Raptis, Eli
Cc: Breed, William; Grady, Richard
Subject: RE: Oxy Termination Letter.doc/OXY Champion and Sparkplug wells

How about the Checker and the Auto? I forgot to mention them... David

From: Herrington, Gerald
Sent: Thursday, March 22, 2007 1:51 PM
To: Raptis, Eli; Evans, David (Midland, Texas)
Cc: Breed, William; Grady, Richard
Subject: RE: Oxy Termination Letter.doc/OXY Champion and Sparkplug wells

POS doesn't currently show those numbers exactly, but I think POS may be out of date.
The numbers Eli has listed would appear to be correct for an APO situation.

Jerry

From: Raptis, Eli
Sent: Thursday, March 22, 2007 1:34 PM

To: Evans, David (Midland, Texas)
Cc: Herrington, Gerald; Breed, William; Grady, Richard
Subject: FW: Oxy Termination Letter.doc/OXY Champion and Sparkplug wells
Importance: High

73000018	OXY SPARKPLUG STATE #1	0.03477500	035401	04	THOMAS M BEALL
73000018	OXY SPARKPLUG STATE #1	0.03477500	039026	05	FUEL PRODUCTS INC
73000018	OXY SPARKPLUG STATE #1	0.00290630	042068	04	HERBERT F BOLES
73000018	OXY SPARKPLUG STATE #1	0.05521870	043739	04	MONARCH RESOURCES INC
73000018	OXY SPARKPLUG STATE #1	0.40687500	080562	01	BOLD ENERGY LP
73000018	OXY SPARKPLUG STATE #1	0.46545000	999241	02	OXY USA WTP LP

73000017	OXY CHAMPION STATE COM. #1	0.03477500	035401	04	THOMAS M BEALL
73000017	OXY CHAMPION STATE COM. #1	0.03477500	039026	05	FUEL PRODUCTS INC
73000017	OXY CHAMPION STATE COM. #1	0.00290630	042068	04	HERBERT F BOLES
73000017	OXY CHAMPION STATE COM. #1	0.40687520	080562	01	BOLD ENERGY LP
73000017	OXY CHAMPION STATE COM. #1	0.52066850	999241	02	OXY USA WTP LP

David,
The Sparkplug #1 paid out 7/2001 and the expense DOI is shown above (that was a farmout).
The Champion #1 will payout in a few months and the expenses DOI is also shown above (non-consent party is Monarch Res).
Thanks, Eli.

From: Evans, David (Midland, Texas)
Sent: Thursday, March 22, 2007 11:02 AM
To: Raptis, Eli; Herrington, Gerald
Subject: Oxy Termination Letter.doc/OXY Champion and Sparkplug wells
Importance: High

<< File: Oxy Termination Letter.doc >>

Guys, I need your help. We are trying to cleanup a matter that occurred in 1997. The attached document has been prepared by BOLD and proposes to stipulate the interests in the Champion and Sparkplug wells. I am getting conflicting information as to the correct interests for these wells in our system. Can you verify that both wells have paid out and whether or not the numbers referenced on the stipulation match what we are billing? David

Evans, David (Midland, Texas)

From: Peggy Kerr [Peggy.Kerr@BoldEnergy.com]
Sent: Monday, March 26, 2007 2:02 PM
To: Evans, David (Midland, Texas)
Subject: RE: Oxy Termination Letter.doc/OXY - AUTO & CHECKER STATE WELLS

David,

The Stipulation prepared is based on the Letter Agreement. Any F/O's or N/C's other than what is in the records or in the Letter Agreement, I have knowledge. If Oxy desires to change the interest to something other than what is shown, I am fine with you making this change. I am not sure that a N/C interest should be represented in this Stipulation.

Peg

-----Original Message-----

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Monday, March 26, 2007 10:12 AM
To: Peggy.Kerr@BoldEnergy.com
Subject: FW: Oxy Termination Letter.doc/OXY - AUTO & CHECKER STATE WELLS

Peggy, here are the gross for the 4 wells. I think they conflict with the numbers in the Stipulation. David

>
> From: Raptis, Eli
> Sent: Friday, March 23, 2007 7:45 AM
> To: Evans, David (Midland, Texas); Herrington, Gerald
> Cc: Breed, William; Grady, Richard
> Subject: RE: Oxy Termination Letter.doc/OXY - AUTO & CHECKER
> STATE WELLS

>
> 73000012 OXY CHECKER STATE COM #1 0.03477500 035401
> 04 THOMAS M BEALL
> 73000012 OXY CHECKER STATE COM #1 0.03477500 039026
> 05 FUEL PRODUCTS INC
> 73000012 OXY CHECKER STATE COM #1 0.00290630 042068
> 04 HERBERT F BOLES
> 73000012 OXY CHECKER STATE COM #1 0.05521870 043739
> 04 MONARCH RESOURCES INC
> 73000012 OXY CHECKER STATE COM #1 0.40687500 080562
> 01 BOLD ENERGY LP
> 73000012 OXY CHECKER STATE COM #1 0.46545000 999241
> 02 OXY USA WTP LP

>
> 73000015 OXY AUTO STATE #1 0.03477500 035401 04
> THOMAS M BEALL
> 73000015 OXY AUTO STATE #1 0.03477500 039026 05
> FUEL PRODUCTS INC
> 73000015 OXY AUTO STATE #1 0.00290630 042068 04
> HERBERT F BOLES
> 73000015 OXY AUTO STATE #1 0.05521870 043739 04
> MONARCH RESOURCES INC
> 73000015 OXY AUTO STATE #1 0.40687500 080562 01
> BOLD ENERGY LP
> 73000015 OXY AUTO STATE #1 0.46545000 999241 02
> OXY USA WTP LP

>
>
> David,
> The Checker State #1 paid out 10/2003 and the current expense DOI is

> shown above (that was a farmout).
> The Auto State #1 paid out 2/2001 and the current expense DOI is also
> shown above (that was a farmout).

>
> Thanks, Eli.

>
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>
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> To: Herrington, Gerald; Raptis, Eli
> Cc: Breed, William; Grady, Richard
> Subject: RE: Oxy Termination Letter.doc/OXY Champion and
> Sparkplug wells

> How about the Checker and the Auto? I forgot to mention them...David

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> From: Herrington, Gerald
> Sent: Thursday, March 22, 2007 1:51 PM
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> Cc: Breed, William; Grady, Richard
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> Sparkplug wells

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> situation.

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> Sent: Thursday, March 22, 2007 1:34 PM
> To: Evans, David (Midland, Texas)
> Cc: Herrington, Gerald; Breed, William; Grady, Richard
> Subject: FW: Oxy Termination Letter.doc/OXY Champion and
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> Importance: High

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From: Evans, David (Midland, Texas)
Sent: Monday, March 26, 2007 2:08 PM
To: 'Peggy Kerr'
Subject: RE: Oxy Termination Letter.doc/OXY - AUTO & CHECKER STATE WELLS

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Monarch must have been sent an AFE for additional work after the payout of the Champion well. Bold has its APO interest reflected??

David -- I am find with making the changes to BPO and APO, I need you to fill in the document with these numbers. I also am fine with making this subject to the JOA. Can you put this in the document, as well.

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> stipulation match what we are billing? David

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Monday, March 26, 2007 2:59 PM
To: 'Peggy Kerr'
Subject: RE: Oxy Termination Letter.doc/OXY - AUTO & CHECKER STATE WELLS

Bob is out till tomorrow. He didn't say anything to me which he normally does...David

-----Original Message-----

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Monday, March 26, 2007 2:53 PM
To: Evans, David (Midland, Texas)
Subject: RE: Oxy Termination Letter.doc/OXY - AUTO & CHECKER STATE WELLS

Did John Worrall ever call Bob and discuss Turkey Track area. This would have been last week? John is on Vacation this week so I can't reach him to find out latest?

Peg

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> To: Raptis, Eli; Herrington, Gerald

> Subject: Oxy Termination Letter.doc/OXY Champion and Sparkplug
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> << File: Oxy Termination Letter.doc >>

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Sent: Monday, March 26, 2007 3:01 PM
To: Evans, David (Midland, Texas)
Subject: RE: Oxy Termination Letter.doc/OXY - AUTO & CHECKER STATE WELLS

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Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Friday, April 20, 2007 3:44 PM
To: 'Peggy Kerr'
Cc: Joseph Castillo; Doty, Bob
Subject: RE: Checker State

Peggy, I will send this to our legal dept. Let's talk on Monday. David

-----Original Message-----

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Friday, April 20, 2007 3:41 PM
To: Evans, David (Midland, Texas)
Cc: Joseph Castillo
Subject: RE: Checker State

I had our corporate counsel, Rick Montgomery, work on documents too! He made quite a few changes to earlier versions. Attached are copies of the documents (I received 5 minutes ago). Here are my thoughts, let's review and see if the attached documents appear to be correct. If so, please have Oxy execute and I will send to Mr. Beall, Monarch and Mr. Boles along with a new AFE (costs are lower). I need Oxy to withdraw the protest letter to the APD.

Bold wants Oxy to participate in this well. We want an APD so we can move forward with the drilling and completion of the well.

If we can get these documents signed and a withdrawal letter sent to the OCD, we can avoid a trip back to Santa Fe on the 26th of April.

I am free to meet today, Monday or Tuesday.

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Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Friday, April 20, 2007 3:54 PM
To: 'Peggy Kerr'
Subject: RE: Checker State

I think we should change the dates to April 23. We also have a non-consent issue that has to be acknowledged and correction of OXY's name. David

-----Original Message-----

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Friday, April 20, 2007 3:51 PM
To: Evans, David (Midland, Texas)
Subject: RE: Checker State

I noticed Rick left the date of March 19, 2007. Would you rather I change this to current date. The Stipulation has April, 2007.

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From: Peggy Kerr [Peggy.Kerr@boldenergy.com]

Sent: Tuesday, April 03, 2007 9:04 AM

To: Evans, David (Midland, Texas)

Subject: Termination Agreement and Stipulation

Any progress?

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
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(432) 686-1104 Fax
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05/08/2007

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Attachments: Stipulation of Interest.doc



Stipulation of
Interest.doc (5...

This matches the Stipulation numbers, since both the checker and Auto are for depths below the base of the Bone Spring Formation.

Peg

-----Original Message-----

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Friday, April 20, 2007 3:55 PM
To: Peggy.Kerr@BoldEnergy.com
Subject: FW: Oxy Termination Letter.doc/OXY - AUTO & CHECKER STATE WELLS

See below....David

>
> From: Raptis, Eli
> Sent: Friday, March 23, 2007 7:45 AM
> To: Evans, David (Midland, Texas); Herrington, Gerald
> Cc: Breed, William; Grady, Richard
> Subject: RE: Oxy Termination Letter.doc/OXY - AUTO & CHECKER
> STATE WELLS
>
> 73000012 OXY CHECKER STATE COM #1 0.03477500 035401
> 04 THOMAS M BEALL
> 73000012 OXY CHECKER STATE COM #1 0.03477500 039026
> 05 FUEL PRODUCTS INC
> 73000012 OXY CHECKER STATE COM #1 0.00290630 042068
> 04 HERBERT F BOLES
> 73000012 OXY CHECKER STATE COM #1 0.05521870 043739
> 04 MONARCH RESOURCES INC
> 73000012 OXY CHECKER STATE COM #1 0.40687500 080562
> 01 BOLD ENERGY LP
> 73000012 OXY CHECKER STATE COM #1 0.46545000 999241
> 02 OXY USA WTP LP
>
> 73000015 OXY AUTO STATE #1 0.03477500 035401 04
> THOMAS M BEALL
> 73000015 OXY AUTO STATE #1 0.03477500 039026 05
> FUEL PRODUCTS INC
> 73000015 OXY AUTO STATE #1 0.00290630 042068 04
> HERBERT F BOLES
> 73000015 OXY AUTO STATE #1 0.05521870 043739 04
> MONARCH RESOURCES INC
> 73000015 OXY AUTO STATE #1 0.40687500 080562 01
> BOLD ENERGY LP
> 73000015 OXY AUTO STATE #1 0.46545000 999241 02
> OXY USA WTP LP
>
>
> David,
> The Checker State #1 paid out 10/2003 and the current expense DOI is

> shown above (that was a farmout).
> The Auto State #1 paid out 2/2001 and the current expense DOI is also
> shown above (that was a farmout).

> Thanks, Eli.

>
>
>
>
> From: Evans, David (Midland, Texas)
> Sent: Thursday, March 22, 2007 4:16 PM
> To: Herrington, Gerald; Raptis, Eli
> Cc: Breed, William; Grady, Richard
> Subject: RE: Oxy Termination Letter.doc/OXY Champion and
> Sparkplug wells

> How about the Checker and the Auto? I forgot to mention them...David

>
>
> From: Herrington, Gerald
> Sent: Thursday, March 22, 2007 1:51 PM
> To: Raptis, Eli; Evans, David (Midland, Texas)
> Cc: Breed, William; Grady, Richard
> Subject: RE: Oxy Termination Letter.doc/OXY Champion and
> Sparkplug wells

> POS doesn't currently show those numbers exactly, but I think POS may
> be out of date.

> The numbers Eli has listed would appear to be correct for an APO
> situation.

> Jerry

>
> From: Raptis, Eli
> Sent: Thursday, March 22, 2007 1:34 PM
> To: Evans, David (Midland, Texas)
> Cc: Herrington, Gerald; Breed, William; Grady, Richard
> Subject: FW: Oxy Termination Letter.doc/OXY Champion and
> Sparkplug wells
> Importance: High

>
> 73000018 OXY SPARKPLUG STATE #1 0.03477500 035401 04
> THOMAS M BEALL
> 73000018 OXY SPARKPLUG STATE #1 0.03477500 039026 05
> FUEL PRODUCTS INC
> 73000018 OXY SPARKPLUG STATE #1 0.00290630 042068 04
> HERBERT F BOLES
> 73000018 OXY SPARKPLUG STATE #1 0.05521870 043739 04
> MONARCH RESOURCES INC
> 73000018 OXY SPARKPLUG STATE #1 0.40687500 080562 01
> BOLD ENERGY LP
> 73000018 OXY SPARKPLUG STATE #1 0.46545000 999241 02
> OXY USA WTP LP

>
> 73000017 OXY CHAMPION STATE COM. #1 0.03477500 035401
> 04 THOMAS M BEALL
> 73000017 OXY CHAMPION STATE COM. #1 0.03477500 039026
> 05 FUEL PRODUCTS INC
> 73000017 OXY CHAMPION STATE COM. #1 0.00290630 042068
> 04 HERBERT F BOLES
> 73000017 OXY CHAMPION STATE COM. #1 0.40687520 080562
> 01 BOLD ENERGY LP
> 73000017 OXY CHAMPION STATE COM. #1 0.52066850 999241
> 02 OXY USA WTP LP

> David,
> The Sparkplug #1 paid out 7/2001 and the expense DOI is shown above
> (that was a farmout).
> The Champion #1 will payout in a few months and the expenses DOI is
> also shown above (non-consent party is Monarch Res).
> Thanks, Eli.
>
>
>

> From: Evans, David (Midland, Texas)
> Sent: Thursday, March 22, 2007 11:02 AM
> To: Raptis, Eli; Herrington, Gerald
> Subject: Oxy Termination Letter.doc/OXY Champion and Sparkplug
> wells
> Importance: High
>
> << File: Oxy Termination Letter.doc >>
> Guys, I need your help. We are trying to cleanup a matter that
> occurred in 1997. The attached document has been prepared by BOLD and
> proposes to stipulate the interests in the Champion and Sparkplug
> wells. I am getting conflicting information as to the correct
> interests for these wells in our system. Can you verify that both
> wells have paid out and whether or not the numbers referenced on the
> stipulation match what we are billing? David

Evans, David (Midland, Texas)

From: Peggy Kerr [Peggy.Kerr@BoldEnergy.com]
Sent: Monday, April 23, 2007 8:53 AM
To: Evans, David (Midland, Texas)
Cc: 'Rick Montgomery'
Subject: FW: Checker State Stipulation and Termination Letter

David,
Will this language in the document help with your concern on the NC ?

Please give us the correct name and we will incorporate in the document.

Thanks

Peggy

From: Rick Montgomery [mailto:r.montgomery@t3wireless.com]
Sent: Monday, April 23, 2007 8:48 AM
To: Peggy Kerr
Subject: Checker State Stipulation and Termination Letter

I understand we got OXY's name wrong, and that there is a concern about a current non-consent under the operating agreement. Let me know the name, and I will work it through the document, and see if changing section (e) in the subject to section will help. I would suggest something as follows:

- e) That certain Operating Agreement dated March 27, 1997, by and between OXY USA, Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands, and this Stipulation of Interest shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights duties or obligations of the parties pursuant thereto.

Richard R. Montgomery
P.O. Box 50468
Midland, Texas 79710
110 W. Louisiana, Suite 300
Midland, Texas 79701
Phone: 432-683-8900
Fax: 432-683-8903
Email: "r.montgomery@t3wireless.com"

05/08/2007

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Monday, April 23, 2007 9:46 AM
To: 'Peggy Kerr'
Subject: RE: Checker State

Working on that right now....David

-----Original Message-----

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Monday, April 23, 2007 8:21 AM
To: Evans, David (Midland, Texas)
Subject: RE: Checker State

Can you please see if legal can review this document today.

Peg

-----Original Message-----

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Monday, April 23, 2007 8:14 AM
To: Peggy.Kerr@BoldEnergy.com
Subject: RE: Checker State

Peggy, let me see how Legal responds and then call you for a meeting. A meeting may not be necessary. David

-----Original Message-----

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Friday, April 20, 2007 4:39 PM
To: Evans, David (Midland, Texas)
Subject: RE: Checker State

- 1) I'll be glad to change the dates to April 23, 2003
- 2) The Stipulation applies only to Sec 8, the Oxy Checker and Oxy Auto. The assignments in Sec. 9 are already of record. I did not a N/C interest on the Oxy accounting decks for the Oxy Checker and Oxy Auto. Mr. Montgomery advised only record title should be stipulated.
- 3) What is the correction needed for Oxy's name and I'll get that done.

See you Monday. Could we get together around 9:00 in the morning?

Peg

-----Original Message-----

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Friday, April 20, 2007 3:54 PM
To: Peggy.Kerr@BoldEnergy.com
Subject: RE: Checker State

I think we should change the dates to April 23. We also have a non-consent issue that has to be acknowledged and correction of OXY's name. David

-----Original Message-----

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Friday, April 20, 2007 3:51 PM

To: Evans, David (Midland, Texas)
Subject: RE: Checker State

I noticed Rick left the date of March 19, 2007. Would you rather I change this to current date. The Stipulation has April, 2007.

-----Original Message-----

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Friday, April 20, 2007 3:44 PM
To: Peggy.Kerr@BoldEnergy.com
Cc: Joseph.Castillo@BoldEnergy.com; Bob_Doty@oxy.com
Subject: RE: Checker State

Peggy, I will send this to our legal dept. Let's talk on Monday. David

-----Original Message-----

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Friday, April 20, 2007 3:41 PM
To: Evans, David (Midland, Texas)
Cc: Joseph Castillo
Subject: RE: Checker State

I had our corporate counsel, Rick Montgomery, work on documents too! He made quite a few changes to earlier versions. Attached are copies of the documents (I received 5 minutes ago). Here are my thoughts, let's review and see if the attached documents appear to be correct. If so, please have Oxy execute and I will send to Mr. Beall, Monarch and Mr. Boles along with a new AFE (costs are lower). I need Oxy to withdraw the protest letter to the APD.

Bold wants Oxy to participate in this well. We want an APD so we can move forward with the drilling and completion of the well.

If we can get these documents signed and a withdrawal letter sent to the OCD, we can avoid a trip back to Santa Fe on the 26th of April.

I am free to meet today, Monday or Tuesday.

Thanks

Peggy

-----Original Message-----

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Friday, April 20, 2007 3:13 PM
To: Peggy.Kerr@BoldEnergy.com
Subject: Checker State

Peggy, I think the documents should be ready on Monday. Do you want me to send out to all parties or deliver them to you? David

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Monday, April 23, 2007 4:48 PM
To: 'Peggy Kerr'
Cc: 'Rick Montgomery'
Subject: RE: Checker State Stipulation and Termination Letter

Peggy, as we discussed earlier today, I will not have the document in time to cancel the hearing. Regardless of the status of the Termination Agreement, OXY disagrees with Bold's plan of development and must therefore oppose you on the 26th. OXY's attorney's are working on its comments but they won't be ready before Thursday. OXY would prefer you drop the hearing, allow us to get the Letter Agreement and Stipulation signed and then propose the well under the JOA. It is my understanding that Bold will not drop the hearing nor re-propose the well once the Termination Agreement is executed. Short of a miracle happening I guess I will see you in Santa Fe..... David

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Monday, April 23, 2007 8:53 AM
To: Evans, David (Midland, Texas)
Cc: 'Rick Montgomery'
Subject: FW: Checker State Stipulation and Termination Letter

David,
 Will this language in the document help with your concern on the NC ?

Please give us the correct name and we will incorporate in the document.

Thanks

Peggy

From: Rick Montgomery [mailto:r.montgomery@t3wireless.com]
Sent: Monday, April 23, 2007 8:48 AM
To: Peggy Kerr
Subject: Checker State Stipulation and Termination Letter

I understand we got OXY's name wrong, and that there is a concern about a current non-consent under the operating agreement. Let me know the name, and I will work it through the document, and see if changing section (e) in the subject to section will help. I would suggest something as follows:

- e) That certain Operating Agreement dated March 27, 1997, by and between OXY USA, Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands, and this Stipulation of Interest shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights duties or obligations of the parties pursuant thereto.

Richard R. Montgomery
 P.O. Box 50468

05/08/2007

Midland, Texas 79710

110 W. Louisiana, Suite 300

Midland, Texas 79701

Phone: 432-683-8900

Fax: 432-683-8903

Email: "r.montgomery@t3wireless.com"

STUBBEMAN, McRAE, SEALY, LAUGHLIN & BROWDER, INC.

ATTORNEYS AT LAW

MIDLAND, TEXAS

FASKEN CENTER • TOWER TWO

550 WEST TEXAS AVENUE, SUITE 800 • 79701

P.O. BOX 1540 • 79702

432/682-1618

FACSIMILE 432/682-4884

DAVID A. SUTTER

LICENSED IN TEXAS, NEW MEXICO AND NEBRASKA
DIRECT DIAL 688-0270

dsutter@stubbemanlawfirm.com

April 23, 2007

LETTER OPINION

OXY USA WTP Limited Partnership
6 Desta Drive, Suite 6000
P. O. Box 50250
Midland, Texas 79710

Attn: Mr. David Evans

Re: Threshold Development Company Letter Agreement
dated March 27, 1997
Sections 8 and 9, Township 19 South, Range 29 East
Eddy County, New Mexico

Gentlemen::

At your request, we have examined a copy of the captioned letter agreement. You have asked whether Bold Energy, LP ("Bold"), successor in interest to Threshold Development Company, may participate as a 46.5% working interest owner in the drilling of in-fill wells on Sections 8 and 9, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico. You have also indicated that Bold believes the March 27, 1997 Letter Agreement terminated. It is our opinion that the March 27, 1997 Letter Agreement is still in full force and effect and that Bold does not have the right to propose an in-fill well on units earned by OXY, because all such wells "shall be drilled at the sole risk, cost and expense of OXY".

According to the information you have provided, OXY drilled four wells on Sections 8 and 9 which were completed below the base of the Bone Springs formation in various formations which were spaced on 320-acre spacing. Upon reaching the objective depth in the wells, OXY earned all of Threshold Development Company's interest in the spacing unit established for each well. Upon "payout", Threshold Development Company was entitled to a 46.5% working interest in each well and the earned unit for those zones below the base of the Bone Springs formation. You have stated that payout has occurred on all four wells. Bold, as the successor in interest to Threshold Development Company, has now proposed the drilling of an additional in-fill well on Section 8 and has requested that OXY either elect to go non-consent or participate as a 53.5% working interest owner in such well.

While the March 27, 1997 Letter Agreement does not include a term, we believe that this letter agreement is to remain in full force and effect so long as oil and/or gas is produced from the contract area

covered by the letter agreement, plus an additional period of ninety (90) days. Under Paragraph 14 of the letter agreement, if there is a cessation of production from an earned unit, OXY's rights in such unit shall terminate unless OXY commences further operations for reworking or drilling an additional well on the earned unit within ninety (90) days after cessation of all production. Attached to the letter agreement is an operating agreement in which OXY USA Inc. is named as operator. This operating agreement covers the same lands covered by the letter agreement. The term of the operating agreement is for so long as oil and/or gas is produced in paying quantities from the contract area, plus an additional period of ninety (90) days from cessation of all production. The term of the operating agreement and the term of the letter agreement are consistent and clearly indicate an intention of the parties for both agreements to remain in effect for so long as oil and/or gas is produced in paying quantities from the contract area, plus an additional period of ninety (90) days. Absent the cessation of production on any of the units earned by OXY or absent the existence of a written document in which OXY and Bold's predecessors effectively agreed to terminate the March 27, 1997 Letter Agreement, it is our opinion that the March 27, 1997 Letter Agreement is still in full force and effect.

Because the March 27, 1997 Letter Agreement remains in full force and effect, it is our opinion that the well proposal submitted by Bold is governed by Paragraph No. 9 of the letter agreement which provides as follows:

- "9. With regard to any well to be drilled on the Subject Lands below the base of the Bone Springs formation whether such well is an Option Well or a well proposed to be drilled on an Earned Unit, all such wells shall be drilled at the sole risk, cost and expense of OXY and Farmers shall be entitled to receive an undivided forty-six and one half percent (46.5%) working interest in such well upon the occurrence of payout (as hereinafter defined), it being the expressed intention hereof that, any and all wells drilled on the Subject Lands below the base of the Bone Springs formation shall be subject to the Farmor's right to back-in for a full forty-six and one half percent (46.5%) working interest upon the occurrence of payout (as hereinafter defined)."

As previously mentioned, Paragraph 14 of the letter agreement further provides that upon cessation of production from an earned unit, all of OXY's right, title and interest in such unit shall terminate unless OXY commences further operations for reworking an existing well or for drilling an additional well on the subject earned unit within ninety (90) days after completion of operations. While further drilling below the base of the Bone Springs formation is contemplated in the letter agreement, such additional drilling is to be conducted and paid for by OXY and not Bold.

When read with Paragraph 14, Paragraph 9 is intended to relieve Threshold Development Company, or its successors and assigns, from paying for any wells drilled on an earned unit below the base of the Bone Springs formation, including any additional drilling that may be required by OXY in order to maintain its rights under this agreement in Paragraph 14. Consequently, Bold, as successor in interest to Threshold Development Company, would own no interest in any in-fill wells drilled on earned units under this agreement until payout has occurred on each in-fill well. Obviously, payout cannot occur until an actual in-fill well is drilled by OXY. While Bold owns an interest in the existing wells drilled on Section 8, it owns no interest in any additional wells drilled on earned units, until such wells are drilled by OXY and payout has occurred.

While Paragraph 9 relieves Threshold Development Company from paying for any wells drilled on an earned unit below the base of the Bone Springs formation, we also believe that Paragraph 9 is intended

to protect OXY from drilling unnecessary wells on an earned unit, where production from such wells can be recovered from wells already drilled and paid for by OXY. To allow anything else, would require OXY to participate in and drill wells which are not otherwise required to be drilled under the terms of the letter agreement.

You have indicated that the parties to this letter agreement never executed an operating agreement, even though Paragraph 18 of the letter agreement required the parties to do so. By executing the letter agreement, we believe that the parties effectively adopted the operating agreement, even though the operating agreement was never separately executed by the parties. Nevertheless, under Paragraph 18 of the letter agreement, if there is an inconsistency between the letter agreement and the operating agreement, then the terms of the letter agreement shall control. Given the foregoing, we believe that the failure of the parties to execute the operating agreement attached as Exhibit "C" to the letter agreement would have no effect on the proposal submitted by Bold, since such a proposal is governed by Paragraph 9 of the letter agreement.

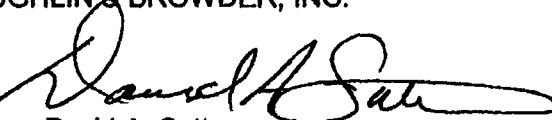
CONCLUSION

Based upon our examination of the foregoing letter agreement, it is our opinion that this letter agreement is still in full force and effect so long as there is production in paying quantities from each of the earned units in Sections 8 and 9, and that Bold Energy, LP may not propose or drill wells below the base of the Bone Springs formation on Sections 8 and 9, because Sections 8 and 9 encompass all of the units earned by OXY under the March 27, 1997 Letter Agreement. In each earned unit, Bold Energy, LP owns only an after payout interest in the existing wells that were drilled on Sections 8 and 9 and a possible future interest in any in-fill wells drilled by OXY, assuming such wells are drilled by OXY and payout on these wells does in fact occur.

If you have any questions regarding the foregoing, please advise.

Respectfully submitted,

STUBBEMAN, McRAE, SEALY,
LAUGHLIN & BROWDER, INC.

By: 
David A. Sutter

DAS:br

Evans, David (Midland, Texas)

From: Peggy Kerr [Peggy.Kerr@boldenergy.com]
Sent: Thursday, April 26, 2007 3:42 PM
To: Rick Montgomery
Cc: Evans, David (Midland, Texas)
Subject: Stipulation of Interest and Termination Agreement
Attachments: Oxy-TDC Sec. 8.pdf; TDC-Oxy Sec.8.pdf; NM 015 100054 000 TDC et al OXY Sec 9 below 5000.pdf

Rick -- Please review the attached Stipulation. I incorrectly informed you to prepare for a stipulation for Sec. 8 rather than Sec. 9. Sec. 9 assignments for the BIAPO has NOT been done. The recorded assignments from Oxy into THC for Sec. 8 are attached.

David --- I will e-mail new document upon Mr. Montgomery's review. Bear with me in getting this done correctly.

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

05/08/2007

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Thursday, April 26, 2007 3:45 PM
To: 'Peggy Kerr'
Subject: RE: Checker State Stipulation and Termination Letter

Peggy, were you going to send me a signed copy for the assignment in section 9? David

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Monday, April 23, 2007 8:53 AM
To: Evans, David (Midland, Texas)
Cc: 'Rick Montgomery'
Subject: FW: Checker State Stipulation and Termination Letter

David,
Will this language in the document help with your concern on the NC ?

Please give us the correct name and we will incorporate in the document.

Thanks

Peggy

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Subject: Checker State Stipulation and Termination Letter

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- e) That certain Operating Agreement dated March 27, 1997, by and between OXY USA, Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands, and this Stipulation of Interest shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights duties or obligations of the parties pursuant thereto.

Richard R. Montgomery
P.O. Box 50468
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Phone: 432-683-8900
Fax: 432-683-8903
Email: "r.montgomery@t3wireless.com"

05/08/2007

Evans, David (Midland, Texas)

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Sent: Thursday, April 26, 2007 3:52 PM
To: Peggy Kerr; Rick Montgomery
Cc: Evans, David (Midland, Texas)
Subject: RE: Stipulation of Interest and Termination Agreement
Attachments: Stipulation of Interest.doc; Oxy Termination Letter revised 4-20-07.doc

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

From: Peggy Kerr
Sent: Thursday, April 26, 2007 3:42 PM
To: 'Rick Montgomery'
Cc: 'David_Evans@oxy.com'
Subject: Stipulation of Interest and Termination Agreement

Rick -- Please review the attached Stipulation. I incorrectly informed you to prepare for a stipulation for Sec. 8 rather than Sec. 9. Sec. 9 assignments for the BIAPO has NOT been done. The recorded assignments from Oxy into THC for Sec. 8 are attached.

David --- I will e-mail new document upon Mr. Montgomery's review. Bear with me in getting this done correctly.

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

STIPULATION OF INTEREST

Reference is here made for all purposes to those certain leases (the "Leases") and lands (the "Lands") described below:

Lessor: State of New Mexico B-8096
State of New Mexico VA-0465
State of New Mexico VB-0455

Lessee: Continental Oil Company
Mitchell Energy Corporation
Ameristate Oil and Gas, Inc...

Dated: April 10, 1939
December 1, 1991
December 1, 1995

Recording Data: Not Available

Lands: All of Section 8, as to all depths below three thousand feet subsurface, and Section 9, as to all depths below five thousand feet subsurface, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico

Under that certain Letter Agreement (the "1997 Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles, ("Farmors") farmed out to Oxy USA, Inc., an interest in Section 8, as to all depths below three thousand feet subsurface, and Section 9 as to all depths below five thousand feet subsurface in Township 19 South, Range 29East, Eddy County, New Mexico.

Oxy USA, Inc. has performed pursuant to the 1997 Agreement, and received assignments, as therein provided, subject to certain after payout rights of the Farmors. Whereas, certain Assignments reflecting after payout rights as provided for in the 1997 Agreement as to Section 8 were not executed, delivered or filed of record.

Through various conveyances, the ownership of the rights in the Leases and Lands are now vested in Bold Energy LP, Monarch Resources, Inc., Herbert F. Boles, Thomas M. Beall, Fuel Products, Inc. and Oxy USA WTP Limited Partnership.

Now, therefore, for value received, the owners identified above do hereby covenant, stipulate and agree that:

- a) Payout has occurred for all wells drilled under the 1997 Agreement.
- b) Pursuant to the 1997 Agreement:
 - (i) The OXY Champion State No. 1 well was drilled in the N/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,500' subsurface, and the N/2 of said Section 9 was established as the earned spacing unit for such well (the "N/2 Unit"); and
 - (ii) The OXY Sparkplug State No. 1 well was drilled in the S/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,500' subsurface, and the S/2 of said Section 9 was established as the earned spacing unit for such well (the "S/2 Unit").
- c) The ownership of the Leases, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below the base of the Bone Spring Formation down to 100 feet below the total depth drilled respectively in the earning well drilled on each of the N/2 Unit and S/2 Unit shall be as follows:

Herbert T. Boles	46.5% X .00625	.00290625	WI
Monarch Resources	46.5% X .11875	.05521875	WI
Thomas M. Beall	26.75% X .13	.03477500	WI
Fuel Products, Inc.	26.75% X .13	.03477500	WI
Bold Energy, LP	46.5% X .875	.40687500	WI
Oxy USA WTP,	53.5% X .87	.46545000	WI

Limited Partnership

- d) Ownership of the Leases and Lands, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below 3,000 feet subsurface down to and including, but not below, the base of the Bone Spring Formation:

Herbert T. Boles	50% X .00625	.00312500	WI
Monarch Resources	50% X .11875	.05937500	WI
Thomas M. Beall	25% X .13	.03250000	WI
Fuel Products, Inc.	25% X .13	.03250000	WI
Bold Energy, LP	50% X .875	.43750000	WI
Oxy USA, WTP	50% X .87	.43500000	WI
Limited Partnership			

- e) That certain Operating Agreement dated March 27, 1997, by and between OXY USA, Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands, and this Stipulation of Interest shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights duties or obligations of the parties pursuant thereto.

The parties hereby sell, transfer, and assign, without warranty of title, one to the other such interest in the Leases, as to the Lands as is necessary to give effect to the above stipulated ownership percentages, together with:

- a) A like undivided interest in, to or under or by virtue of the presently existing and valid unitization, communitization, and pooling agreements and the properties covered and the units and pooled and communitized acres created thereby (including, but not limited to, all units formed under orders, regulations, rules or other official acts of any federal, state or other governmental agency), insofar and only insofar as such agreements, properties and units relate to the Leases and Lands and for which ownership is stipulated herein;
- b) A like undivided interest in or to all improvements, easements, surface leases, permits, rights-of-way, licenses, servitudes and other similar interests necessary or useful to or used in connection with the exploration, development or operation of the Leases or the Lands for which ownership is stipulated herein;
- c) A like undivided interest in or to all personal property, fixtures and improvements appurtenant to or located on or near the Lands, or used or held for use in connection with the production, treatment, storage or transportation of oil, gas, casinghead gas, condensate, distillate or other liquid or vaporous hydrocarbons or other minerals from the Leases for which ownership is stipulated herein; such personal property, fixtures and improvements shall include, but shall not be limited to, all Hydrocarbons in tanks, and all wells, tanks, boilers, buildings, plants, fixtures, machinery and other equipment, pipelines, powerlines, telephone lines, roads and other appurtenances pertaining to the Leases for which ownership is stipulated herein; and
- d) A like undivided interest in or to all rights, duties and obligations attributable to or arising from any valid oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases or production therefrom or attributable thereto.
- f) That certain Operating Agreement dated March 27, 1997, by and between OXY USA, Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands, and this Stipulation of Interest shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights duties or obligations of the parties pursuant thereto.

This Stipulation is expressly made subject to:

- a) A proportionate part of the covenants, provisions, royalties and terms of the Leases;

[illegible]

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by William B. Bledsoe, as Attorney in Fact, on behalf of OXY USA, WTP LIMITED PARTNERSHIP, a Delaware Limited Partnership

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Leland A. Hodges, as President of MONARCH RESOURCES, INC., a _____ Corporation.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Thomas M. Beall and wife, Carolyn Read Beall

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Herbert F. Boles and wife, Norma Jean Boles

Notary Public

BOLD ENERGY, LP

415 W. WALL, SUITE 500
MIDLAND, TEXAS 79701

MAIN: 432-686-1100
FAX: 432-686-1104

March 19, 2007

Mr. David R. Evans
OXY USA WTP LP
6 Desta Drive, Suite 6000
Midland, TX 79705

Mr. Dick Frech
Monarch Resources, Inc.
115 W. 7th Street, Suite 1310
Fort Worth, Texas 76102

Mr. Herbert Boles
223 W. Wall, Suite 825
Midland, TX 79701

Mr. Thomas M. Beall
550 W. Texas, Suite 220
Midland, TX 79701

Mr. Thomas M. Beall
Fuel Products, Inc.
PO Box 3098
Midland, TX 79702

Subject: Termination of Farmout Agreement dated 3/27/97
Turkey Track - Sec. 8 & 9, T19S, R29E
Eddy County, NM

Gentlemen:

By agreement ("Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles ("Farmors") farmed out to Oxy USA Inc. ("Oxy") certain ownership interests in Sec. 8, as to all depths below three thousand feet subsurface, and in Section 9, as to all depths below five thousand feet subsurface, all in Township 19 South, Range 29 East, Eddy County, New Mexico. The Agreement required Oxy to commence drilling operations on the referenced lands and earn certain rights in said lands, subject to a continuous development obligation. The Parties named above are the original parties to that Agreement.

The successors and assigns to the Agreement are Bold Energy LP, Monarch Resources, Inc., Herbert F. Boles, OXY USA WTP LP, Thomas M. Beall and Fuel Products, Inc.

The obligation wells have been drilled and completed pursuant to the Agreement. The reversionary, after payout interests are vested in the Farmors.

The parties to the Agreement have made and delivered some, but not all, assignments and transfers of interests in the leases and lands that are called for by, and are the subject of the Agreement.

The parties have determined that the Agreement no longer serves any practical purpose, and desire to terminate the Agreement and stipulate as to their current interest in the leases and lands the subject of the Agreement. A Stipulation of Interest (the "Stipulation") has been prepared as an Attachment "A" to this letter.

For adequate consideration, the Parties named above, being all parties in interest to the Agreement, or their successors and assigns, hereby terminate the Agreement and each of them release one another from any and all obligations created by the Agreement, from and after March 19, 2007, except that the parties agree that the Operating Agreement appended to the Agreement as Exhibit "C", is a valid agreement, and from and after the execution of this letter by all parties, and the execution of the Stipulation by all parties, shall be the only agreement between the parties to govern all rights, duties, liabilities and obligations of the parties, and among them, as to the leases and lands the subject of the Agreement.

If you concur the obligations have been satisfied under this agreement, we ask for you to please execute this letter in the space provided below, and further execute the unattached Stipulation of Interest. Please return one original of each to the attention of Peggy Kerr-Worthington. This Letter may be executed in any number of counterparts, no one of which need bear the signatures of all of the parties, but any one of which will constitute an original hereof for all purposes. In order for this letter to become effective all current parties subject to the Agreement must execute this letter.

Sincerely,
Bold Energy, LP

Peggy Kerr-Worthington

(Signature spaces on the following page.)

OXY USA WTP L.P.
March 19, 2007
Page 3

OXY USA WTP L.P.

By: _____
Printed Name: _____
Title: _____

Herbert Boles

Norma Jean Boles

Bold Energy LP

Joseph Castillo
President of Bold Energy, LP

Monarch Resources, Inc.

By: _____
Printed Name: _____
Title: _____

Thomas M. Beall

Carolyn R. Beall

Exhibit "A"

Attached to that certain Letter dated March 19, 2007 between Oxy, et al and Bold Energy, LP

STIPULATION OF INTEREST

Reference is here made for all purposes to those certain leases (the "Leases") and lands (the "Lands") described below:

Lessor: State of New Mexico B-8096
State of New Mexico VA-0465
State of New Mexico VB-0455

Lessee: Continental Oil Company
Mitchell Energy Corporation
Ameristate Oil and Gas, Inc...

Dated: April 10, 1939
December 1, 1991
December 1, 1995

Recording Data: Not Available

Lands: All of Section 8, as to all depths below three thousand feet subsurface, and
Section 9, as to all depths below five thousand feet subsurface, Township 19
South, Range 29 East, N.M.P.M., Eddy County, New Mexico

Under that certain Letter Agreement (the "1997 Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles, ("Farmors") farmed out to Oxy USA, Inc., an interest in Section 8, as to all depths below three thousand feet subsurface, and Section 9 as to all depths below five thousand feet subsurface in Township 19 South, Range 29East, Eddy County, New Mexico.

Oxy USA, Inc. has performed pursuant to the 1997 Agreement, and received assignments, as therein provided, subject to certain after payout rights of the Farmors. Whereas, certain Assignments reflecting after payout rights as provided for in the 1997 Agreement as to Section 8 were not executed, delivered or filed of record.

Through various conveyances, the ownership of the rights in the Leases and Lands are now vested in Bold Energy LP, Monarch Resources, Inc., Herbert F. Boles, Thomas M. Beall, Fuel Products, Inc. and Oxy USA WTP Limited Partnership.

Now, therefore, for value received, the owners identified above do hereby covenant, stipulate and agree that:

- a) Payout has occurred for all wells drilled under the 1997 Agreement.
- b) Pursuant to the 1997 Agreement:
 - (i) The OXY Champion State No. 1 well was drilled in the N/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,500' subsurface, and the N/2 of said Section 9 was established as the earned spacing unit for such well (the "N/2 Unit"); and
 - (ii) The OXY Sparkplug State No. 1 well was drilled in the S/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,500' subsurface, and the S/2 of said Section 9 was established as the earned spacing unit for such well (the "S/2 Unit").
- c) The ownership of the Leases, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below the base of the Bone Spring Formation down to 100 feet below the total depth drilled respectively in the earning well drilled on each of the N/2 Unit and S/2 Unit shall be as follows:

Herbert T. Boles	46.5% X .00625	.00290625	WI
Monarch Resources	46.5% X .11875	.05521875	WI
Thomas M. Beall	26.75% X .13	.03477500	WI
Fuel Products, Inc.	26.75% X .13	.03477500	WI

Bold Energy, LP	46.5% X .875	.40687500	WI
Oxy USA WTP, Limited Partnership	53.5% X .87	.46545000	WI

- d) Ownership of the Leases and Lands, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below 3,000 feet subsurface down to and including, but not below, the base of the Bone Spring Formation:

Herbert T. Boles	50% X .00625	.00312500	WI
Monarch Resources	50% X .11875	.05937500	WI
Thomas M. Beall	25% X .13	.03250000	WI
Fuel Products, Inc.	25% X .13	.03250000	WI
Bold Energy, LP	50% X .875	.43750000	WI
Oxy USA, WTP Limited Partnership	50% X .87	.43500000	WI

- e) That certain Operating Agreement dated March 27, 1997, by and between OXY USA, Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands, and this Stipulation of Interest shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights duties or obligations of the parties pursuant thereto.

The parties hereby sell, transfer, and assign, without warranty of title, one to the other such interest in the Leases, as to the Lands as is necessary to give effect to the above stipulated ownership percentages, together with:

- a) A like undivided interest in, to or under or by virtue of the presently existing and valid unitization, communitization, and pooling agreements and the properties covered and the units and pooled and communitized acres created thereby (including, but not limited to, all units formed under orders, regulations, rules or other official acts of any federal, state or other governmental agency), insofar and only insofar as such agreements, properties and units relate to the Leases and Lands and for which ownership is stipulated herein;
- b) A like undivided interest in or to all improvements, easements, surface leases, permits, rights-of-way, licenses, servitudes and other similar interests necessary or useful to or used in connection with the exploration, development or operation of the Leases or the Lands for which ownership is stipulated herein;
- c) A like undivided interest in or to all personal property, fixtures and improvements appurtenant to or located on or near the Lands, or used or held for use in connection with the production, treatment, storage or transportation of oil, gas, casinghead gas, condensate, distillate or other liquid or vaporous hydrocarbons or other minerals from the Leases for which ownership is stipulated herein; such personal property, fixtures and improvements shall include, but shall not be limited to, all Hydrocarbons in tanks, and all wells, tanks, boilers, buildings, plants, fixtures, machinery and other equipment, pipelines, powerlines, telephone lines, roads and other appurtenances pertaining to the Leases for which ownership is stipulated herein; and
- d) A like undivided interest in or to all rights, duties and obligations attributable to or arising from any valid oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases or production therefrom or attributable thereto.
- f) That certain Operating Agreement dated March 27, 1997, by and between OXY USA, Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands, and this Stipulation of Interest shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights duties or obligations of the parties pursuant thereto.

This Stipulation is expressly made subject to:

- a) A proportionate part of the covenants, provisions, royalties and terms of the Leases;

- b) The terms and conditions of all existing orders, rules and regulations and ordinances of federal, state and other governmental agencies having jurisdiction;
- c) Any valid and subsisting oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases;
- d) A proportionate part of all overriding royalty interests, restrictions, exceptions, reservations, burdens, encumbrances, conditions, limitations, interests, instruments, agreements and other matters, if any, which are of record in the state and county above named and which burden or affect the properties, rights or interests herein assigned; and
- e) That certain Operating Agreement dated March 27, 1997, by and between OXY USA, Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands.

This Stipulation shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns.

This instrument may be executed in any number of counterparts, no one of which need bear the signature of all the parties, but any one of which may serve as an original for all purposes. This instrument shall not be binding on any executing party, until signed by all parties.

Dated this ____ day of April, 2007, to be effective, however, as of the date each well drilled under the March 27, 1997 Letter Agreement reached payout status.

BOLD ENERGY, LP

OXY USA, WTP LIMITED PARTNERSHIP
By: OXY USA, INC., General Partner

Joseph Castillo
President

William B. Bledsoe, Attorney in Fact

MONARCH RESOURCES, INC.

Leland A. Hodges
President

Thomas M. Beall

Carolyn Read Beall

Herbert F. Boles

Norma Jean Boles

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by Joseph Castillo, as President, on behalf of BOLD ENERGY, LP, a Limited Partnership.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by William B. Bledsoe, as Attorney in Fact, on behalf of OXY USA, WTP LIMITED PARTNERSHIP, a Delaware Limited Partnership

STATE OF TEXAS)
) SS.
COUNTY OF _____

Notary Public

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Leland A. Hodges, as President of MONARCH RESOURCES, INC., a _____ Corporation.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Thomas M. Beall and wife, Carolyn Read Beall

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Herbert F. Boles and wife, Norma Jean Boles

Notary Public

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Thursday, April 26, 2007 4:37 PM
To: 'Peggy Kerr'
Subject: RE: Stipulation of Interest and Termination Agreement

Peggy, are the interests in d correct? David

From: Peggy Kerr [mailto:Peggy.Kerr@boldenergy.com]
Sent: Thursday, April 26, 2007 3:52 PM
To: Peggy Kerr; Rick Montgomery
Cc: Evans, David (Midland, Texas)
Subject: RE: Stipulation of Interest and Termination Agreement

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

From: Peggy Kerr
Sent: Thursday, April 26, 2007 3:42 PM
To: 'Rick Montgomery'
Cc: 'David_Evans@oxy.com'
Subject: Stipulation of Interest and Termination Agreement

Rick -- Please review the attached Stipulation. I incorrectly informed you to prepare for a stipulation for Sec. 8 rather than Sec. 9. Sec. 9 assignments for the BIAPO has NOT been done. The recorded assignments from Oxy into THC for Sec. 8 are attached.

David --- I will e-mail new document upon Mr. Montgomery's review. Bear with me in getting this done correctly.

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

05/08/2007

Evans, David (Midland, Texas)

From: Peggy Kerr [Peggy.Kerr@boldenergy.com]
Sent: Monday, April 30, 2007 11:25 AM
To: Evans, David (Midland, Texas)
Subject: FW: Termination Letter and Stipulation
Attachments: Stipulation of Interest revised 4-26-07.doc; Oxy Termination Letter revised 4-26-07.doc

Any word on whether these documents are satisfactory to Oxy?

Peggy Kerr-Worthington
 Bold Energy LP
 415 W. Wall, Suite 500
 Midland, TX 79701
 (432) 686-1100 Office Phone
 (432) 686-1104 Fax
 (432) 230-9777 Cell Phone

From: Peggy Kerr
Sent: Friday, April 27, 2007 10:37 AM
To: 'David_Evans@oxy.com'
Cc: 'Rick Montgomery'
Subject: Termination Letter and Stipulation

Dave --- The following information is what you sent from Oxy's JIB. The attached stipulation reflects the leasehold ownership, but the NC is taken care of in following article. This has been reviewed by Rick Montgomery and we desire for this document to be reviewed and approved by Oxy.

- e) *That certain Operating Agreement dated March 27, 1997, by and between OXY USA, Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands, and this Stipulation shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights, duties or obligations of the parties pursuant thereto.*

From: Raptis, Eli
 > Sent: Thursday, March 22, 2007 1:34 PM
 > To: Evans, David (Midland, Texas)
 > Cc: Herrington, Gerald; Breed, William; Grady, Richard
 > Subject: FW: Oxy Termination Letter.doc/OXY Champion and
 > Sparkplug wells
 > Importance: High
 >
 > 73000018 OXY SPARKPLUG STATE #1 0.03477500 035401 04
 > THOMAS M BEALL
 > 73000018 OXY SPARKPLUG STATE #1 0.03477500 039026 05
 > FUEL PRODUCTS INC
 > 73000018 OXY SPARKPLUG STATE #1 0.00290630 042068 04
 > HERBERT F BOLES
 > 73000018 OXY SPARKPLUG STATE #1 0.05521870 043739 04
 > MONARCH RESOURCES INC
 > 73000018 OXY SPARKPLUG STATE #1 0.40687500 080562 01

05/08/2007

> BOLD ENERGY LP
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 > OXY USA WTP LP
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 > David,
 > The Sparkplug #1 paid out 7/2001 and the expense DOI is shown above
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 > The Champion #1 will payout in a few months and the expenses DOI is
 > also shown above (non-consent party is Monarch Res).
 > Thanks, Eli.

>
 >
 > From: Evans, David (Midland, Texas)
 > Sent: Thursday, March 22, 2007 11:02 AM
 > To: Raptis, Eli; Herrington, Gerald
 > Subject: Oxy Termination Letter.doc/OXY Champion and Sparkplug
 > wells
 > Importance: High

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

05/08/2007

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Monday, April 30, 2007 4:38 PM
To: 'Peggy Kerr'
Subject: RE: Termination Letter and Stipulation

Peggy, I am flying to Houston tomorrow to go over this with legal. I will be back next Monday hopefully with a document that has been signed....David

From: Peggy Kerr [mailto:Peggy.Kerr@boldenergy.com]
Sent: Monday, April 30, 2007 11:25 AM
To: Evans, David (Midland, Texas)
Subject: FW: Termination Letter and Stipulation

Any word on whether these documents are satisfactory to Oxy?

Peggy Kerr-Worthington
 Bold Energy LP
 415 W. Wall, Suite 500
 Midland, TX 79701
 (432) 686-1100 Office Phone
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From: Peggy Kerr
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Cc: 'Rick Montgomery'
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Peggy Kerr-Worthington
 Bold Energy LP
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Evans, David (Midland, Texas)

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Sent: Friday, April 27, 2007 10:37 AM
To: Evans, David (Midland, Texas)
Cc: Rick Montgomery
Subject: Termination Letter and Stipulation
Attachments: Stipulation of Interest revised 4-26-07.doc; Oxy Termination Letter revised 4-26-07.doc

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05/08/2007

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> Sent: Thursday, March 22, 2007 11:02 AM
> To: Raptis, Eli; Herrington, Gerald
> Subject: Oxy Termination Letter.doc/OXY Champion and Sparkplug
> wells
> Importance: High

Peggy Kerr-Worthington
Bold Energy LP
415 W. Wall, Suite 500
Midland, TX 79701
(432) 686-1100 Office Phone
(432) 686-1104 Fax
(432) 230-9777 Cell Phone

STIPULATION OF INTEREST

Reference is here made for all purposes to those certain leases (the "Leases") and lands (the "Lands") described below:

Lessor: State of New Mexico B-8096
State of New Mexico VA-0465
State of New Mexico VB-0455

Lessee: Continental Oil Company
Mitchell Energy Corporation
Ameristate Oil and Gas, Inc...

Dated: April 10, 1939
December 1, 1991
December 1, 1995

Recording Data: Not Available

Lands: All of Section 8, as to all depths below three thousand feet subsurface, and Section 9, as to all depths below five thousand feet subsurface, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico

Under that certain Letter Agreement (the "1997 Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles, ("Farmors") farmed out to Oxy USA, Inc., an interest in Section 8, as to all depths below three thousand feet subsurface, and Section 9 as to all depths below five thousand feet subsurface in Township 19 South, Range 29 East, Eddy County, New Mexico.

Oxy USA, Inc. has performed pursuant to the 1997 Agreement, and received assignments, as therein provided, subject to certain after payout rights of the Farmors. Whereas, certain Assignments reflecting after payout rights as provided for in the 1997 Agreement as to Section 8 were not executed, delivered or filed of record.

Through various conveyances, the ownership of the rights in the Leases and Lands are now vested in Bold Energy LP, Monarch Resources, Inc., Herbert F. Boles, Thomas M. Beall, Fuel Products, Inc. and Oxy USA WTP Limited Partnership.

Now, therefore, for value received, the owners identified above do hereby covenant, stipulate and agree that:

- a) Payout has occurred for all wells drilled under the 1997 Agreement.
- b) Pursuant to the 1997 Agreement:
 - (i) The OXY Champion State No. 1 well was drilled in the N/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,500' subsurface, and the N/2 of said Section 9 was established as the earned spacing unit for such well (the "N/2 Unit"); and
 - (ii) The OXY Sparkplug State No. 1 well was drilled in the S/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,500' subsurface, and the S/2 of said Section 9 was established as the earned spacing unit for such well (the "S/2 Unit").
- c) The ownership of the Leases, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below the base of the Bone Spring Formation down to 100 feet below the total depth drilled respectively in the earning well drilled on each of the N/2 Unit and S/2 Unit shall be as follows:

Herbert T. Boles	46.5% X .00625	.00290625	WI
Monarch Resources	46.5% X .11875	.05521875	WI
Thomas M. Beall	26.75% X .13	.03477500	WI
Fuel Products, Inc.	26.75% X .13	.03477500	WI
Bold Energy, LP	46.5% X .875	.40687500	WI
Oxy USA WTP LP	53.5% X .87	.46545000	WI

- d) Ownership of the Leases and Lands, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below 5,000 feet subsurface down to and including, but not below, the base of the Bone Spring Formation:

Herbert T. Boles	50% X .00625	.00312500 WI
Monarch Resources	50% X .11875	.05937500 WI
Thomas M. Beall	25% X .13	.03250000 WI
Fuel Products, Inc.	25% X .13	.03250000 WI
Bold Energy, LP	50% X .875	.43750000 WI
Oxy USA, WTP LP	50% X .87	.43500000 WI

The parties hereby sell, transfer, and assign, without warranty of title, one to the other such interest in the Leases, as to the Lands as is necessary to give effect to the above stipulated ownership percentages, together with:

- a) A like undivided interest in, to or under or by virtue of the presently existing and valid unitization, communitization, and pooling agreements and the properties covered and the units and pooled and communitized acres created thereby (including, but not limited to, all units formed under orders, regulations, rules or other official acts of any federal, state or other governmental agency), insofar and only insofar as such agreements, properties and units relate to the Leases and Lands and for which ownership is stipulated herein;
- b) A like undivided interest in or to all improvements, easements, surface leases, permits, rights-of-way, licenses, servitudes and other similar interests necessary or useful to or used in connection with the exploration, development or operation of the Leases or the Lands for which ownership is stipulated herein;
- c) A like undivided interest in or to all personal property, fixtures and improvements appurtenant to or located on or near the Lands, or used or held for use in connection with the production, treatment, storage or transportation of oil, gas, casinghead gas, condensate, distillate or other liquid or vaporous hydrocarbons or other minerals from the Leases for which ownership is stipulated herein; such personal property, fixtures and improvements shall include, but shall not be limited to, all Hydrocarbons in tanks, and all wells, tanks, boilers, buildings, plants, fixtures, machinery and other equipment, pipelines, powerlines, telephone lines, roads and other appurtenances pertaining to the Leases for which ownership is stipulated herein; and
- d) A like undivided interest in or to all rights, duties and obligations attributable to or arising from any valid oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases or production therefrom or attributable thereto.

This Stipulation is expressly made subject to:

- a) A proportionate part of the covenants, provisions, royalties and terms of the Leases;
- b) The terms and conditions of all existing orders, rules and regulations and ordinances of federal, state and other governmental agencies having jurisdiction;
- c) Any valid and subsisting oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases;
- d) A proportionate part of all overriding royalty interests, restrictions, exceptions, reservations, burdens, encumbrances, conditions, limitations, interests, instruments, agreements and other matters, if any, which are of record in the state and county above named and which burden or affect the properties, rights or interests herein assigned; and
- e) That certain Operating Agreement dated March 27, 1997, by and between OXY USA, Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands, and this Stipulation shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights, duties or obligations of the parties pursuant thereto.

This Stipulation shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns.

This instrument may be executed in any number of counterparts, no one of which need bear the signature of all the parties, but any one of which may serve as an original for all purposes. This instrument shall not be binding on any executing party, until signed by all parties.

Dated this ____ day of April, 2007, to be effective, however, as of the date each well drilled under the March 27, 1997 Letter Agreement reached payout status.

BOLD ENERGY, LP

OXY USA, WTP LIMITED PARTNERSHIP
By: OXY USA, INC., General Partner

Joseph Castillo
President

William B. Bledsoe, Attorney in Fact

MONARCH RESOURCES, INC.

Leland A. Hodges
President

Thomas M. Beall

Carolyn Read Beall

Herbert F. Boles

Norma Jean Boles

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by Joseph Castillo, as President, on behalf of BOLD ENERGY, LP, a Limited Partnership.

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

Notary Public

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by William B. Bledsoe, as Attorney in Fact, on behalf of OXY USA, WTP LIMITED PARTNERSHIP, a Delaware Limited Partnership

STATE OF TEXAS)
) SS.
COUNTY OF _____

Notary Public

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by Leland A. Hodges, as President of MONARCH RESOURCES, INC., a _____ Corporation.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____,
2007, by Thomas M. Beall and wife, Carolyn Read Beall

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____,
2007, by Herbert F. Boles and wife, Norma Jean Boles

Notary Public

BOLD ENERGY, LP

415 W. WALL, SUITE 300
MIDLAND, TEXAS 79701

MAIN: 432-686-1100
FAX: 432-686-1104

April 20, 2007

Mr. David R. Evans
OXY USA WTP LP
6 Desta Drive, Suite 6000
Midland, TX 79705

Mr. Dick Frech
Monarch Resources, Inc.
115 W. 7th Street, Suite 1310
Fort Worth, Texas 76102

Mr. Herbert Boles
223 W. Wall, Suite 825
Midland, TX 79701

Mr. Thomas M. Beall
550 W. Texas, Suite 220
Midland, TX 79701

Mr. Thomas M. Beall
Fuel Products, Inc.
PO Box 3098
Midland, TX 79702

Subject: Termination of Farmout Agreement dated 3/27/97
Turkey Track - Sec. 8 & 9, T19S, R29E
Eddy County, NM

Gentlemen:

By agreement ("Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles ("Farmors") farmed out to Oxy USA Inc. ("Oxy") certain ownership interests in Sec. 8, as to all depths below three thousand feet subsurface, and in Section 9, as to all depths below five thousand feet subsurface, all in Township 19 South, Range 29 East, Eddy County, New Mexico. The Agreement required Oxy to commence drilling operations on the referenced lands and earn certain rights in said lands, subject to a continuous development obligation. The Parties named above are the original parties to that Agreement.

OXY USA WTP L.P.
April 20, 2007
Page 2

The successors and assigns to the Agreement are Bold Energy LP, Monarch Resources, Inc., Herbert F. Boles, OXY USA WTP LP, Thomas M. Beall and Fuel Products, Inc.

The obligation wells have been drilled and completed pursuant to the Agreement. The reversionary, after payout interests are vested in the Farmers.

The parties to the Agreement have made and delivered some, but not all, assignments and transfers of interests in the leases and lands that are called for by, and are the subject of the Agreement.

The parties have determined that the Agreement no longer serves any practical purpose, and desire to terminate the Agreement and stipulate as to their current interest in the leases and lands the subject of the Agreement. A Stipulation of Interest (the "Stipulation") has been prepared as an Attachment "A" to this letter.

For adequate consideration, the Parties named above, being all parties in interest to the Agreement, or their successors and assigns, hereby terminate the Agreement and each of them release one another from any and all obligations created by the Agreement, from and after April 20, 2007, except that the parties agree that the Operating Agreement appended to the Agreement as Exhibit "C", is a valid agreement, and from and after the execution of this letter by all parties, and the execution of the Stipulation by all parties, shall be the only agreement between the parties to govern all rights, duties, liabilities and obligations of the parties, and among them, as to the leases and lands the subject of the Agreement.

If you concur the obligations have been satisfied under this agreement, we ask for you to please execute this letter in the space provided below, and further execute the unattached Stipulation of Interest. Please return one original of each to the attention of Peggy Kerr-Worthington. This Letter may be executed in any number of counterparts, no one of which need bear the signatures of all of the parties, but any one of which will constitute an original hereof for all purposes. In order for this letter to become effective all current parties subject to the Agreement must execute this letter.

Sincerely,
Bold Energy, LP

Peggy Kerr-Worthington

(Signature spaces on the following page.)

OXY USA WTP L.P.
April 20, 2007
Page 3

OXY USA WTP L.P.

By: _____
Printed Name: _____
Title: _____

Herbert Boles

Norma Jean Boles

Bold Energy LP

Joseph Castillo
President of Bold Energy, LP

Monarch Resources, Inc.

By: _____
Printed Name: _____
Title: _____

Thomas M. Beall

Carolyn R. Beall

Exhibit "A"

Attached to that certain Letter dated April 20, 2007 between Oxy, et al and Bold Energy, LP

STIPULATION OF INTEREST

Reference is here made for all purposes to those certain leases (the "Leases") and lands (the "Lands") described below:

Lessor: State of New Mexico B-8096
State of New Mexico VA-0465
State of New Mexico VB-0455

Lessee: Continental Oil Company
Mitchell Energy Corporation
Ameristate Oil and Gas, Inc...

Dated: April 10, 1939
December 1, 1991
December 1, 1995

Recording Data: Not Available

Lands: All of Section 8, as to all depths below three thousand feet subsurface, and
Section 9, as to all depths below five thousand feet subsurface, Township 19
South, Range 29 East, N.M.P.M., Eddy County, New Mexico

Under that certain Letter Agreement (the "1997 Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles, ("Farmors") farmed out to Oxy USA, Inc., an interest in Section 8, as to all depths below three thousand feet subsurface, and Section 9 as to all depths below five thousand feet subsurface in Township 19 South, Range 29East, Eddy County, New Mexico.

Oxy USA, Inc. has performed pursuant to the 1997 Agreement, and received assignments, as therein provided, subject to certain after payout rights of the Farmors. Whereas, certain Assignments reflecting after payout rights as provided for in the 1997 Agreement as to Section 8 were not executed, delivered or filed of record.

Through various conveyances, the ownership of the rights in the Leases and Lands are now vested in Bold Energy LP, Monarch Resources, Inc., Herbert F. Boles, Thomas M. Beall, Fuel Products, Inc. and Oxy USA WTP Limited Partnership.

Now, therefore, for value received, the owners identified above do hereby covenant, stipulate and agree that:

- a) Payout has occurred for all wells drilled under the 1997 Agreement.
- b) Pursuant to the 1997 Agreement:
 - (i) The OXY Champion State No. 1 well was drilled in the N/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,500' subsurface, and the N/2 of said Section 9 was established as the earned spacing unit for such well (the "N/2 Unit"); and
 - (ii) The OXY Sparkplug State No. 1 well was drilled in the S/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,500' subsurface, and the S/2 of said Section 9 was established as the earned spacing unit for such well (the "S/2 Unit").
- c) The ownership of the Leases, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below the base of the Bone Spring Formation down to 100 feet below the total depth drilled respectively in the earning well drilled on each of the N/2 Unit and S/2 Unit shall be as follows:

Herbert T. Boles	46.5% X .00625	.00290625	WI
Monarch Resources	46.5% X .11875	.05521875	WI
Thomas M. Beall	26.75% X .13	.03477500	WI
Fuel Products, Inc.	26.75% X .13	.03477500	WI
Bold Energy, LP	46.5% X .875	.40687500	WI
Oxy USA WTP LP	53.5% X .87	.46545000	WI

- d) Ownership of the Leases and Lands, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below 5,000 feet subsurface down to and including, but not below, the base of the Bone Spring Formation:

Herbert T. Boles	50% X .00625	.00312500 WI
Monarch Resources	50% X .11875	.05937500 WI
Thomas M. Beall	25% X .13	.03250000 WI
Fuel Products, Inc.	25% X .13	.03250000 WI
Bold Energy, LP	50% X .875	.43750000 WI
Oxy USA, WTP LP	50% X .87	.43500000 WI

The parties hereby sell, transfer, and assign, without warranty of title, one to the other such interest in the Leases, as to the Lands as is necessary to give effect to the above stipulated ownership percentages, together with:

- a) A like undivided interest in, to or under or by virtue of the presently existing and valid unitization, communitization, and pooling agreements and the properties covered and the units and pooled and communitized acres created thereby (including, but not limited to, all units formed under orders, regulations, rules or other official acts of any federal, state or other governmental agency), insofar and only insofar as such agreements, properties and units relate to the Leases and Lands and for which ownership is stipulated herein;
- b) A like undivided interest in or to all improvements, easements, surface leases, permits, rights-of-way, licenses, servitudes and other similar interests necessary or useful to or used in connection with the exploration, development or operation of the Leases or the Lands for which ownership is stipulated herein;
- c) A like undivided interest in or to all personal property, fixtures and improvements appurtenant to or located on or near the Lands, or used or held for use in connection with the production, treatment, storage or transportation of oil, gas, casinghead gas, condensate, distillate or other liquid or vaporous hydrocarbons or other minerals from the Leases for which ownership is stipulated herein; such personal property, fixtures and improvements shall include, but shall not be limited to, all Hydrocarbons in tanks, and all wells, tanks, boilers, buildings, plants, fixtures, machinery and other equipment, pipelines, powerlines, telephone lines, roads and other appurtenances pertaining to the Leases for which ownership is stipulated herein; and
- d) A like undivided interest in or to all rights, duties and obligations attributable to or arising from any valid oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases or production therefrom or attributable thereto.

This Stipulation is expressly made subject to:

- a) A proportionate part of the covenants, provisions, royalties and terms of the Leases;
- b) The terms and conditions of all existing orders, rules and regulations and ordinances of federal, state and other governmental agencies having jurisdiction;
- c) Any valid and subsisting oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases;
- d) A proportionate part of all overriding royalty interests, restrictions, exceptions, reservations, burdens, encumbrances, conditions, limitations, interests, instruments, agreements and other matters, if any, which are of record in the state and county above named and which burden or affect the properties, rights or interests herein assigned; and
- e) That certain Operating Agreement dated March 27, 1997, by and between OXY USA, Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands, and this Stipulation shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights, duties or obligations of the parties pursuant thereto.

This Stipulation shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns.

This instrument may be executed in any number of counterparts, no one of which need bear the signature of all the parties, but any one of which may serve as an original for all purposes. This instrument shall not be binding on any executing party, until signed by all parties.

Dated this ____ day of April, 2007, to be effective, however, as of the date each well drilled under the March 27, 1997 Letter Agreement reached payout status.

BOLD ENERGY, LP

OXY USA, WTP LIMITED PARTNERSHIP
By: OXY USA, INC., General Partner

Joseph Castillo
President

William B. Bledsoe, Attorney in Fact

MONARCH RESOURCES, INC.

Leland A. Hodges
President

Thomas M. Beall

Carolyn Read Beall

Herbert F. Boles

Norma Jean Boles

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by Joseph Castillo, as President, on behalf of BOLD ENERGY, LP, a Limited Partnership.

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

Notary Public

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by William B. Bledsoe, as Attorney in Fact, on behalf of OXY USA, WTP LIMITED PARTNERSHIP, a Delaware Limited Partnership

STATE OF TEXAS)
) SS.
COUNTY OF _____

Notary Public

The foregoing instrument was acknowledged before me this ____ day of _____, 2007, by Leland A. Hodges, as President of MONARCH RESOURCES, INC., a _____ Corporation.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007,
by Thomas M. Beall and wife, Carolyn Read Beall

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____,
2007, by Herbert F. Boles and wife, Norma Jean Boles

Notary Public

Evans, David (Midland, Texas)

From: Peggy Kerr [Peggy.Kerr@BoldEnergy.com]
Sent: Monday, April 30, 2007 4:41 PM
To: Evans, David (Midland, Texas)
Subject: Read: Termination Letter and Stipulation
Attachments: ATT1478243.txt

Your message

To: Peggy.Kerr@boldenergy.com
Subject: RE: Termination Letter and Stipulation
Sent: 4/30/2007 4:37 PM

was read on 4/30/2007 4:40 PM.

Evans, David (Midland, Texas)

From: Peggy Kerr [Peggy.Kerr@BoldEnergy.com]
Sent: Monday, April 30, 2007 4:45 PM
To: Evans, David (Midland, Texas)
Subject: RE: Termination Letter and Stipulation

I'll buy you the biggest margarita in Texas if we can get this done!!!

After this is signed, we sure would like to get with Oxy team and see if we can agree to other ideas for the Turkey Track area.

First comes the document -- Thanks for working on this.

Peg

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Monday, April 30, 2007 4:38 PM
To: Peggy.Kerr@boldenergy.com
Subject: RE: Termination Letter and Stipulation

Peggy, I am flying to Houston tomorrow to go over this with legal. I will be back next Monday hopefully with a document that has been signed....David

05/08/2007

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Monday, April 30, 2007 5:04 PM
To: 'Peggy Kerr'
Subject: RE: Termination Letter and Stipulation

I will call you after we talk to the attorney

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Monday, April 30, 2007 4:45 PM
To: Evans, David (Midland, Texas)
Subject: RE: Termination Letter and Stipulation

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05/08/2007

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From: Peggy Kerr [Peggy.Kerr@BoldEnergy.com]
Sent: Monday, April 30, 2007 5:58 PM
To: Evans, David (Midland, Texas)
Subject: Read: Termination Letter and Stipulation
Attachments: ATT1484494.txt

Your message

To: Peggy.Kerr@BoldEnergy.com
Subject: RE: Termination Letter and Stipulation
Sent: 4/30/2007 5:03 PM

was read on 4/30/2007 5:57 PM.

Evans, David (Midland, Texas)

From: Peggy Kerr [Peggy.Kerr@BoldEnergy.com]
Sent: Wednesday, May 02, 2007 1:14 PM
To: Evans, David (Midland, Texas)
Subject: RE: Termination Letter and Stipulation

Please let me know the status.

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Monday, April 30, 2007 5:04 PM
To: Peggy.Kerr@BoldEnergy.com
Subject: RE: Termination Letter and Stipulation

I will call you after we talk to the attorney

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
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To: Evans, David (Midland, Texas)
Subject: RE: Termination Letter and Stipulation

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Sent: Monday, April 30, 2007 4:38 PM
To: Peggy.Kerr@boldenergy.com
Subject: RE: Termination Letter and Stipulation

Peggy, I am flying to Houston tomorrow to go over this with legal. I will be back next Monday hopefully with a document that has been signed....David

05/08/2007

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Monday, May 07, 2007 2:24 PM
To: 'Peggy Kerr'
Cc: 'William Carr'
Subject: RE: Termination Letter and Stipulation
Importance: High

I just spoke with our Attorney and we should be seeing the documents within the next hour or so.....will you accept an e-mailed executed document? David

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Wednesday, May 02, 2007 1:14 PM
To: Evans, David (Midland, Texas)
Subject: RE: Termination Letter and Stipulation

Please let me know the status.

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Monday, April 30, 2007 5:04 PM
To: Peggy.Kerr@BoldEnergy.com
Subject: RE: Termination Letter and Stipulation

I will call you after we talk to the attorney

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Subject: RE: Termination Letter and Stipulation

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Peg

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Monday, April 30, 2007 4:38 PM
To: Peggy.Kerr@boldenergy.com
Subject: RE: Termination Letter and Stipulation

Peggy, I am flying to Houston tomorrow to go over this with legal. I will be back next Monday hopefully with a document that has been signed....David

05/08/2007

Evans, David (Midland, Texas)

From: Peggy Kerr [Peggy.Kerr@BoldEnergy.com]
Sent: Monday, May 07, 2007 4:41 PM
To: Evans, David (Midland, Texas)
Subject: RE: Termination Letter and Stipulation

Yes

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Monday, May 07, 2007 2:24 PM
To: Peggy.Kerr@BoldEnergy.com
Cc: WCarr@hollandhart.com
Subject: RE: Termination Letter and Stipulation
Importance: High

I just spoke with our Attorney and we should be seeing the documents within the next hour or so.....will you accept an e-mailed executed document? David

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To: Peggy.Kerr@BoldEnergy.com
Subject: RE: Termination Letter and Stipulation

I will call you after we talk to the attorney

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To: Evans, David (Midland, Texas)
Subject: RE: Termination Letter and Stipulation

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05/08/2007

To: Peggy.Kerr@boldenergy.com

Subject: RE: Termination Letter and Stipulation

Peggy, I am flying to Houston tomorrow to go over this with legal. I will be back next Monday hopefully with a document that has been signed....David

05/08/2007

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Monday, May 07, 2007 4:41 PM
To: 'Peggy Kerr'
Subject: FW: Any hope of having the Bold Agreement today or by 9 in the morning?

Let's talk in the morning? David

From: Janiszewski, Tom
Sent: Monday, May 07, 2007 4:40 PM
To: Evans, David (Midland, Texas)
Subject: RE: Any hope of having the Bold Agreement today or by 9 in the morning?

Yes. Tonight.

Thomas A. Janiszewski

Assistant General Counsel
Occidental Permian Ltd.
OXY USA WTP LP
OXY USA Inc.
Phone: 713.366.5529
Fax: 713.985.1262

From: Evans, David (Midland, Texas)
Sent: Monday, May 07, 2007 4:39 PM
To: Janiszewski, Tom
Subject: Any hope of having the Bold Agreement today or by 9 in the morning?

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Monday, May 07, 2007 4:44 PM
To: 'Peggy Kerr'
Subject: RE: Any hope of having the Bold Agreement today or by 9 in the morning?

I am coming back to the office tonight to review and send it to you....David

-----Original Message-----

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Monday, May 07, 2007 4:43 PM
To: Evans, David (Midland, Texas)
Subject: RE: Any hope of having the Bold Agreement today or by 9 in the morning?

You bet --- we need to talk before 11:00 as I've got a meeting at that time.

-----Original Message-----

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Monday, May 07, 2007 4:41 PM
To: Peggy.Kerr@BoldEnergy.com
Subject: FW: Any hope of having the Bold Agreement today or by 9 in the morning?

Let's talk in the morning? David

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> From: Janiszewski, Tom
> Sent: Monday, May 07, 2007 4:40 PM
> To: Evans, David (Midland, Texas)
> Subject: RE: Any hope of having the Bold Agreement today or by 9
> in the morning?

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> Yes. Tonight.

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>
> Thomas A. Janiszewski
> Assistant General Counsel
> Occidental Permian Ltd.
> OXY USA WTP LP
> OXY USA Inc.
> Phone: 713.366.5529
> Fax: 713.985.1262

>
>
> From: Evans, David (Midland, Texas)
> Sent: Monday, May 07, 2007 4:39 PM
> To: Janiszewski, Tom
> Subject: Any hope of having the Bold Agreement today or by 9 in
> the morning?

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Tuesday, May 08, 2007 8:54 AM
To: Janiszewski, Tom; Flynn, Steve (Houston)
Subject: RE: Bold

Thank you Tom. Looks good to me. Waiting on Bold's review and response before having the document's signed. David

From: Janiszewski, Tom
Sent: Monday, May 07, 2007 6:02 PM
To: Evans, David (Midland, Texas); Flynn, Steve (Houston)
Subject: Bold

Here you go.

<< File: Stipulation of Interest Oxy Comments 5.7.2007.doc >> << File: Oxy Termination Letter revised 4-26-07 Oxy comment 5.7.2007.doc >>

Thomas A. Janiszewski

Assistant General Counsel
Occidental Permian Ltd.
OXY USA WTP LP
OXY USA Inc.
Phone: 713.366.5529
Fax: 713.985.1262

Tracking:

Recipient
Janiszewski, Tom
Flynn, Steve (Houston)

Read
Read: 05/08/2007 9:29 AM
Read: 05/08/2007 9:35 AM

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Tuesday, May 08, 2007 8:18 AM
To: 'Peggy Kerr'
Subject: Oxy Termination Letter revised 4-26-07 Oxy comment 5 7 2007.doc
Attachments: Oxy Termination Letter revised 4-26-07 Oxy comment 5 7 2007.doc



Oxy Termination
Letter revised...

Peggy, I will send you the Stipulation next. I am reviewing now. David

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Tuesday, May 08, 2007 11:10 AM
To: 'William Carr'; Bush, Elizabeth S.
Cc: Flynn, Steve (Houston); Janiszewski, Tom; Doty, Bob
Subject: FW: Scanned Docs

Attachments: Stipulation of Interest.tif; Bold energy - Termination Farmout Agrt.tif

Bill, originals of these documents were delivered to Bold this morning. Peggy has advised that the Termination Agreement would not be fully executed prior to the hearing set for Thursday. I will see you tomorrow in your offices around 1 o'clock.
David

From: Rodriguez, Rocio
Sent: Tuesday, May 08, 2007 11:07 AM
To: Evans, David (Midland, Texas)
Subject: Scanned Docs



Stipulation of
Interest.tif (1...



Bold energy -
Termination Farm...

Tracking:

Recipient

'William Carr'
Bush, Elizabeth S.
Flynn, Steve (Houston)
Janiszewski, Tom
Doty, Bob

Read

Read: 05/08/2007 1:06 PM
Read: 05/08/2007 11:34 AM

Evans, David (Midland, Texas)

From: Evans, David (Midland, Texas)
Sent: Tuesday, May 08, 2007 11:19 AM
To: 'Peggy Kerr'
Subject: RE: Any hope of having the Bold Agreement today or by 9 in the morning?

Make sure to bring a jacket for Santa Fe! David

-----Original Message-----

From: Peggy Kerr [mailto:Peggy.Kerr@BoldEnergy.com]
Sent: Monday, May 07, 2007 4:43 PM
To: Evans, David (Midland, Texas)
Subject: RE: Any hope of having the Bold Agreement today or by 9 in the morning?

You bet --- we need to talk before 11:00 as I've got a meeting at that time.

-----Original Message-----

From: David_Evans@oxy.com [mailto:David_Evans@oxy.com]
Sent: Monday, May 07, 2007 4:41 PM
To: Peggy.Kerr@BoldEnergy.com
Subject: FW: Any hope of having the Bold Agreement today or by 9 in the morning?

Let's talk in the morning? David

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> Sent: Monday, May 07, 2007 4:40 PM
> To: Evans, David (Midland, Texas)
> Subject: RE: Any hope of having the Bold Agreement today or by 9
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> Yes. Tonight.

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> Thomas A. Janiszewski
> Assistant General Counsel
> Occidental Permian Ltd.
> OXY USA WTP LP
> OXY USA Inc.
> Phone: 713.366.5529
> Fax: 713.985.1262

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> From: Evans, David (Midland, Texas)
> Sent: Monday, May 07, 2007 4:39 PM
> To: Janiszewski, Tom
> Subject: Any hope of having the Bold Agreement today or by 9 in
> the morning?

BOLD ENERGY, LP

415 W. WALL, SUITE 500
MIDLAND, TEXAS 79701

MAIN: 432-686-1100
FAX: 432-686-1104

May 8, 2007

Mr. David R. Evans
OXY USA WTP Limited Partnership
6 Desta Drive, Suite 6000
Midland, TX 79705

Mr. Dick Frech
Monarch Resources, Inc.
115 W. 7th Street, Suite 1310
Fort Worth, Texas 76102

Mr. Herbert Boles
223 W. Wall, Suite 825
Midland, TX 79701

Mr. Thomas M. Beall
550 W. Texas, Suite 220
Midland, TX 79701

Mr. Thomas M. Beall
Fuel Products, Inc.
PO Box 3098
Midland, TX 79702

Subject: Termination of Farmout Agreement dated 3/27/97
Turkey Track - Sec. 8 & 9, T19S, R29E
Eddy County, NM

Gentlemen:

By agreement ("Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles ("Farmors") farmed out to OXY USA Inc. ("OXY") certain ownership interests in Sec. 8, as to all depths below three thousand feet subsurface, and in Section 9, as to all depths below five thousand feet subsurface, all in Township 19 South, Range 29 East, Eddy County, New Mexico. The Agreement required OXY to commence drilling operations on the referenced lands and earn certain rights in said lands, subject to a continuous development obligation. The Parties named above are the original parties to that Agreement.

The successors and assigns to the Agreement as to the Farmors are Bold Energy LP, Monarch Resources, Inc., and Herbert F. Boles. The successors and assignees of OXY are OXY USA WTP Limited Partnership, Thomas M. Beall and Fuel Products, Inc.

The obligation wells have been drilled and completed pursuant to the Agreement. The reversionary, after payout interests are vested in the Farmors.

The parties to the Agreement have made and delivered some, but not all, assignments and transfers of interests in the leases and lands that are called for by, and are the subject of the Agreement.

The parties now desire to terminate the Agreement and stipulate as to their current interest in the leases and lands which are the subject of the Agreement. A Stipulation of Interest (the "Stipulation") has been prepared and is attached as Attachment "A" to this letter.

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties named above, being all of the parties in interest to the Agreement, or their successors and assigns, hereby terminate the Agreement and each of them release one another from any and all obligations created by the Agreement, from and after the date that this letter is fully executed, except that the parties agree that the Operating Agreement appended to the Agreement as Exhibit "C", is a valid agreement, and from and after the execution of this letter by all parties, and the execution of the Stipulation by all parties, shall be the only agreement between the parties to govern all rights, duties, liabilities and obligations of the parties, and among them, as to the leases and lands the subject of the Agreement. By executing this letter as provided for hereinbelow, each of the parties accepts, ratifies, and confirms that the Operating Agreement dated March 1, 1997 attached as Exhibit "C" to the Agreement is fully effective and binding as if all parties had executed a single, original instrument.

If you concur the obligations have been satisfied under this agreement, we ask for you to please execute this letter in the space provided below, and further execute the unattached Stipulation of Interest. Please return one original of each to the attention of Peggy Kerr-Worthington. This Letter may be executed in any number of counterparts, no one of which need bear the signatures of all of the parties, but any one of which will constitute an original hereof for all purposes. This letter shall not become effective unless and until executed by all current parties to the Agreement.

Sincerely,

Bold Energy, LP


Peggy Kerr-Worthington

OXY USA WTP Limited Partnership

May 8, 2007

Page 3

(Signature spaces on the following page.)

OXY USA WTP Limited Partnership.

Monarch Resources, Inc.

By: Will B. Boles
Printed Name: William B. Boles
Title: _____

By: _____
Printed Name: _____
Title: _____

Herbert Boles

Thomas M. Beall

Norma Jean Boles

Carolyn R. Beall

Bold Energy LP

Joseph Castillo
President of Bold Energy, LP

ATTACHMENT "A"

STIPULATION OF INTEREST

Reference is here made for all purposes to those certain leases (the "Leases") and lands (the "Lands") described below:

Lessor: State of New Mexico B-8096
State of New Mexico VA-0465
State of New Mexico VB-0455

Lessee: Continental Oil Company
Mitchell Energy Corporation
Ameristate Oil and Gas, Inc...

Dated: April 10, 1939
December 1, 1991
December 1, 1995

Recording Data: Not Available

Lands: All of Section 8, as to all depths below three thousand feet subsurface, and Section 9, as to all depths below five thousand feet subsurface, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico

Under that certain Letter Agreement (the "1997 Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles, ("Farmors") farmed out to OXY USA Inc., an interest in Section 8, as to all depths below three thousand feet subsurface, and Section 9 as to all depths below five thousand feet subsurface in Township 19 South, Range 29East, Eddy County, New Mexico.

OXY USA Inc. has performed pursuant to the 1997 Agreement, and received assignments, as therein provided, subject to certain after payout rights of the Farmors. Whereas, certain Assignments reflecting after payout rights as provided for in the 1997 Agreement as to Section 8 were executed, delivered or filed of record in Book 629, Page 553 and Book 629, Page 555 of the Public Records of Eddy County, New Mexico.

Through various conveyances, the ownership of the rights in the Leases and Lands are now vested in Bold Energy LP, Monarch Resources, Inc., Herbert F. Boles, Thomas M. Beall, Fuel Products, Inc. and OXY USA WTP Limited Partnership (collectively, the "Owners").

Now, therefore, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Owners identified above do hereby covenant, stipulate and agree that:

- a) Payout has occurred for all wells drilled under the 1997 Agreement.
- b) Pursuant to the 1997 Agreement:
 - (i) The OXY Checker State Com No. 1 well was drilled in the W/2 of Section 8, T-19-S, R-29-E, NMPM, to a total depth of 11,470' subsurface, and the W/2 of said Section 8 was established as the earned spacing unit for such well (the "W/2 Unit");
 - (ii) The OXY Auto State No. 1 well was drilled in the E/2 of Section 8, T-19-S, R-29-E, NMPM, to a total depth of 11,460' subsurface, and the E/2 of said Section 8 was established as the earned spacing unit for such well (the "E/2 Unit");
 - (iii) The OXY Champion State No. 1 well was drilled in the N/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,500' subsurface, and the N/2 of said Section 9 was established as the earned spacing unit for such well (the "N/2 Unit"); and
 - (iv) The OXY Sparkplug State No. 1 well was drilled in the S/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,550' subsurface, and the S/2 of said Section 9 was established as the earned spacing unit for such well (the "S/2 Unit").

- c) The ownership of the Leases, insofar as the same cover Section 8, T-19-S, R-29-E, NMPM, in depths below the base of the Bone Spring Formation down to 100 feet below the total depth drilled respectively in the earning well drilled on each of the E/2 Unit and W/2 Unit shall be as follows:

Herbert T. Boles	.00290625	WI
Monarch Resources	.05521875	WI
Thomas M. Beall	.03477500	WI
Fuel Products, Inc.	.03477500	WI
Bold Energy, LP	.40687500	WI
Oxy USA WTP Limited Partnership	.46545000	WI

- d) Ownership of the Leases and Lands, insofar as the same cover Section 8, T-19-S, R-29-E, NMPM, in depths below 3,000 feet subsurface down to and including, but not below, the base of the Bone Spring Formation:

Herbert T. Boles	.00312500	WI
Monarch Resources	.05937500	WI
Thomas M. Beall	.03250000	WI
Fuel Products, Inc.	.03250000	WI
Bold Energy, LP	.43750000	WI
OXY USA WTP Limited Partnership	.43500000	WI

- e) The ownership of the Leases, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below the base of the Bone Spring Formation down to 100 feet below the total depth drilled respectively in the earning well drilled on each of the N/2 Unit and S/2 Unit shall be as follows:

Herbert T. Boles	.00290625	WI
Monarch Resources	.05521875	WI
Thomas M. Beall	.03477500	WI
Fuel Products, Inc.	.03477500	WI
Bold Energy, LP	.40687500	WI
Oxy USA WTP Limited Partnership	.46545000	WI

- f) Ownership of the Leases and Lands, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below 5,000 feet subsurface down to and including, but not below, the base of the Bone Spring Formation:

Herbert T. Boles	.00312500	WI
Monarch Resources	.05937500	WI
Thomas M. Beall	.03250000	WI
Fuel Products, Inc.	.03250000	WI
Bold Energy, LP	.43750000	WI
Oxy USA, WTP Limited Partnership	.43500000	WI

The Owners hereby GRANT, CONVEY, SELL, TRANSFER, AND ASSIGN, without warranty of title, one to the other such interest in the Leases, as to the Lands as is necessary to give effect to the above stipulated ownership percentages, together with:

- a) A like undivided interest in, to or under or by virtue of the presently existing and valid unitization, communitization, and pooling agreements and the properties covered and the units and pooled and communitized acres created thereby (including, but not limited to, all units formed under orders, regulations, rules or other official acts of any federal, state or other governmental agency), insofar and only insofar as such agreements, properties and units relate to the Leases and Lands and for which ownership is stipulated herein;
- b) A like undivided interest in or to all improvements, easements, surface leases, permits, rights-of-way, licenses, servitudes and other similar interests necessary or useful to or used in connection with the exploration, development or operation of the Leases or the Lands for which ownership is stipulated herein;

- c) A like undivided interest in or to all personal property, fixtures and improvements appurtenant to or located on or near the Lands, or used or held for use in connection with the production, treatment, storage or transportation of oil, gas, casinghead gas, condensate, distillate or other liquid or vaporous hydrocarbons or other minerals from the Leases for which ownership is stipulated herein; such personal property, fixtures and improvements shall include, but shall not be limited to, all Hydrocarbons in tanks, and all wells, tanks, boilers, buildings, plants, fixtures, machinery and other equipment, pipelines, powerlines, telephone lines, roads and other appurtenances pertaining to the Leases for which ownership is stipulated herein; and
- d) A like undivided interest in or to all rights, duties and obligations attributable to or arising from any valid oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases or production therefrom or attributable thereto.

This Stipulation is expressly made subject to:

- a) A proportionate part of the covenants, provisions, royalties and terms of the Leases;
- b) The terms and conditions of all existing orders, rules and regulations and ordinances of federal, state and other governmental agencies having jurisdiction;
- c) Any valid and subsisting oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases;
- d) A proportionate part of all overriding royalty interests, restrictions, exceptions, reservations, burdens, encumbrances, conditions, limitations, interests, instruments, agreements and other matters, if any, which are of record in the state and county above named and which burden or affect the properties, rights or interests herein assigned; and
- e) That certain Operating Agreement dated March 27, 1997, by and between OXY USA Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands; Provided, however, that this Stipulation shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights, duties or obligations of the parties pursuant thereto.

This Stipulation shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns.

This instrument may be executed in any number of counterparts, no one of which need bear the signature of all the parties, but any one of which may serve as an original for all purposes. This instrument shall not be binding on any executing party, until signed by all parties.

Dated this ____ day of May, 2007, to be effective, however, as of the date each well drilled under the March 27, 1997 Letter Agreement reached payout status.

BOLD ENERGY, LP

OXY USA WTP LIMITED PARTNERSHIP
By: OXY USA INC., General Partner

Joseph Castillo
President

William B. Bledsoe, Attorney in Fact

MONARCH RESOURCES, INC.

Leland A. Hodges
President

Thomas M. Beall

Carolyn Read Beall

Herbert F. Boles

Norma Jean Boles

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Joseph Castillo, as President, on behalf of BOLD ENERGY, LP, a Limited Partnership.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by William B. Bledsoe, as Attorney in Fact, on behalf of OXY USA INC. as General Partner of OXY USA WTP LIMITED PARTNERSHIP, a Delaware Limited Partnership

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Leland A. Hodges, as President of MONARCH RESOURCES, INC., a _____ Corporation.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Thomas M. Beall and wife, Carolyn Read Beall

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Herbert F. Boles and wife, Norma Jean Boles

Notary Public

EXHIBIT "C"

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

March 1, 19 97

OPERATOR OXY USA Inc.

CONTRACT AREA Sections 8 and 9, Township 19 South

Range 29 East, N.M.P.M., covering all rights below

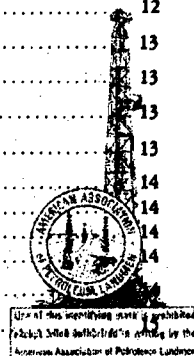
3000' subsurface

COUNTY OR ~~TOWNSHIP~~ Eddy STATE OF New Mexico

COPYRIGHT 1982 — ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 2408 CONTINENTAL LIFE BUILDING,
FORT WORTH, TEXAS, 76102, APPROVED FORM.
A.A.P.L. NO. 610 • 1982 REVISED

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between OXY USA Inc., hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drill site" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

- ☒ A. Exhibit "A", shall include the following information:
 - (1) Identification of lands subject to this agreement,
 - (2) Restrictions, if any, as to depths, formations, or substances,
 - (3) Percentages or fractional interests of parties to this agreement,
 - (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
 - (5) Addresses of parties for notice purposes.
- ☐ B. Exhibit "B", Form of Lease.
- ☒ C. Exhibit "C", Accounting Procedure.
- ☒ D. Exhibit "D", Insurance.
- ☒ E. Exhibit "E", Gas Balancing Agreement.
- ☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.
- ☐ G. Exhibit "G", Tax Partnership.

If any provision of any exhibit, except Exhibits "E" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.



ARTICLE III. INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of one-eighth (1/8) which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,
2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV. TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "A" and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

ARTICLE IV
continued

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests; and,~~

~~(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

~~(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost;~~

~~(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;~~

~~(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;~~

~~(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,~~

~~(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.~~

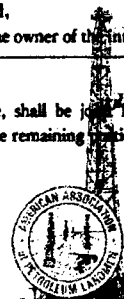
~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:~~

~~(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;~~

~~(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and,~~

~~(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.



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ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

OXY USA Inc. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

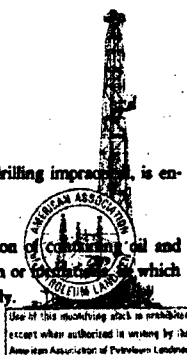
On or before the 1st day of July, 1997, Operator shall commence the drilling of a well for oil and gas at the following location:

at Operator's choice in either Section 8 or 9, Township 19 South, Range 29 East, Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to the Morrow.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impracticable, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.



ARTICLE VI

continued

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,



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ARTICLE VI

continued

and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

(b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unrecovered costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.



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ARTICLE VI

continued

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole location (herein called "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

(a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

(b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvage materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separately disposing of production by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be

ARTICLE VI

continued

required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit



ARTICLE VI

continued

"B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article VI.E.

ARTICLE VII.

EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

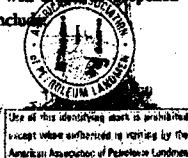
C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include



ARTICLE VII
continued

☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifty Thousand Dollars (\$ 50,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Twenty-five Thousand Dollars (\$ 25,000.00) but less than the amount first set forth above in this paragraph.

E. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.3.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

ARTICLE VII
continued

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportion

ARTICLE VIII

continued

said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or
2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

F. Preferential Right to Purchase:

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

ARTICLE IX.

INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.



Use of this operating pact is prohibited except when reflecting is working for the American Association of Petroleum Landmen.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Thirty thousand Dollars (\$ 30,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

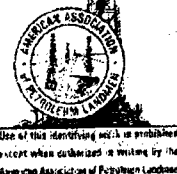
ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.



ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of New Mexico shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.
OTHER PROVISIONS

PRIORITY OF ELECTIONS:

Notwithstanding anything herein to the contrary, it is agreed that where a well shall have been drilled to the objective depth or the objective formation and the Consenting Parties in the well cannot mutually agree upon the sequence and timing of further operations regarding said well, the following elections shall control in order of priority enumerated hereafter:

- a. An election to do additional logging, coring or testing;
- b. An election to attempt to complete the well at either the objective depth or objective formation;
- c. An election to plug back and attempt to complete said well at an alternative depth or formation;
- d. An election to deepen said well;
- e. An election to sidetrack said well.

It is provided, however, that if, at the time the Consenting Parties are considering any of the above elections, the hole is in such a condition that a reasonably prudent Operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole in jeopardy or losing the same prior to completing the well in the objective depth or objective formation, such election shall be eliminated from the priorities hereinabove set forth.



ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of March, 19 97.

OPERATOR

OXY USA Inc.

Attorney-in-Fact

NON-OPERATORS

Threshold Development Company

By: _____

Leland Hodges

Broad Street Financial Company

By: _____

Herbert F. Boles

Norma J. Boles



EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated March 1, 1997 by and between OXY USA Inc., as Operator, and Threshold Development Company, as Non-Operator.

I. Identification of lands subject to this agreement:

Sections 8 and 9, T19S-R29E, N.M.P.M., Eddy County, New Mexico.

II. Restrictions, if any, as to depths, formations, or substances:

All rights below 3,000' subsurface

III. Percentages or fractional interests of parties to this Agreement:

Wells completed below the base of the Bone Springs

	<u>BPO</u>	<u>APQ</u>
OXY USA Inc.	100	53.50000
Broad Street Financial Company	0	17.43750
Leland A. Hodges, et vir	0	5.521875
Herbert F. Boles	0	.290625
Threshold Development Company	<u>0</u>	<u>23.250000</u>
	100	100

Wells completed above the base of the Bone Springs

OXY USA Inc.	50.000%
Broad Street Financial Company	18.750%
Leland A. Hodges, et vir	5.938%
Herbert F. Boles	0.312%
Threshold Development Company	<u>25.000%</u>
	100

IV. Addresses of parties for notice purposes:

OXY USA Inc.
Attention: Primary Oil & Gas Team Landman-NM
P. O. Box 50250
Midland, Texas 79710

Broad Street Financial Company
37 West Broad Street, Suite 1100
Columbus, Ohio 43215-4132

Leland A. Hodges
115 West 7th Street, Suite 1310
Fort Worth, Texas 76102-7013

Herbert F. Boles
P. O. Box 2021
Midland, Texas 79702-2021

Threshold Development Company
Attention: Bud Vinson
Fort Worth Club Tower
Penthouse II, Suite D
777 Taylor Street
Fort Worth, Texas 76102

V. Lease Schedule:

LEASE DATE: April 10, 1939
LESSOR: State of New Mexico
LESSEE: Continental Oil Company
SERIAL NO. B-8096
RECORDING DATA: Not Available

DESCRIPTION: All of Section 8, the SW/4NE/4, the NW/4, the SE/4 and the SW/4 of Section 9, T19S-R29E, N.M.P.M. limited to depths below 3000', Eddy County, New Mexico.

LEASE DATE: December 1, 1991
LESSOR: State of New Mexico
LESSEE: Mitchell Energy Corporation
SERIAL NO. VA-0465
RECORDING DATA: Not Available

DESCRIPTION: The NE/4NE/4 of Section 9, T19S-R29E, N.M.P.M. limited to depths below 3000', Eddy County, New Mexico.

LEASE DATE: December 1, 1995
LESSOR: State of New Mexico
LESSEE: Ameristate Oil and Gas, Inc.
SERIAL NO. VB-0455
RECORDING DATA: Not Available

DESCRIPTION: The NW/4NE/4 and the SE/4NE/4 of Section 9, T19S-R29E, N.M.P.M. limited to depths below 3000', Eddy County, New Mexico.

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated March 1, 1997
with OXY USA Inc. as Operator and Threshold Development Company as
Non-Operator.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Bank of America in San Francisco on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

3. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

~~(2) Salaries of First Level Supervisors in the field.~~

~~(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.~~

~~(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.~~

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph 1, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed eight percent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(x) Fixed Rate Basis, Paragraph 1A, or
() Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

() shall be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

() shall be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 5500.00
(Prorated for less than a full month)

Producing Well Rate \$ 550.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~B. Overhead - Percentage Basis~~

- ~~(1) Operator shall charge the Joint Account at the following rates:~~

~~(a) Development~~~~_____ Percent (_____ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.~~~~(b) Operating~~~~_____ Percent (_____ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.~~~~(2) Application of Overhead - Percentage Basis shall be as follows:~~~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.~~~~2. Overhead - Major Construction~~~~To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ _____:~~

- ~~A. _____ 5 _____ % of first \$100,000 or total cost if less, plus~~
- ~~B. _____ 3 _____ % of costs in excess of \$100,000 but less than \$1,000,000, plus~~
- ~~C. _____ 2 _____ % of costs in excess of \$1,000,000.~~

~~Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.~~~~3. Catastrophe Overhead~~~~To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:~~

- ~~A. _____ 5 _____ % of total costs through \$100,000; plus~~
- ~~B. _____ 3 _____ % of total costs in excess of \$100,000 but less than \$1,000,000; plus~~
- ~~C. _____ 2 _____ % of total costs in excess of \$1,000,000.~~

~~Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.~~~~4. Amendment of Rates~~~~The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.~~**IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS**

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 80,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 80,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
- (b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
- (c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
- (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

Exhibit "D" - Attached to and made a part of that certain Operating Agreement dated March 1, 1997, by and between OXY USA Inc., as "Operators" and Threshold Development Company as "Non-Operator".

Insurance Exhibit

The Operator shall provide for Workmen's Compensation coverage in accordance with the law of the State in which operations are being conducted. The cost thereof shall be borne by the Joint Account accordance with the terms of the Accounting Procedure attached to the Operating Agreement referenced above. No other insurance shall be provided by the Operator for the benefit of the parties hereto.

EXHIBIT "E" - Attached to and made a part of that certain Operating Agreement dated March 1, 1997, by and between OXY USA Inc., as "Operator" and Threshold Development Company as "Non-Operators".

EXHIBIT "E"
GAS BALANCING AGREEMENT ("AGREEMENT")
ATTACHED TO AND MADE PART OF THAT CERTAIN
OPERATING AGREEMENT DATED _____

BY AND BETWEEN _____, AND _____
("OPERATING AGREEMENT") RELATING TO THE _____
AREA, _____ COUNTY, STATE OF _____

1. DEFINITIONS

The following definitions shall apply to this Agreement:

- 1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are representative of prices and delivery conditions existing under other similar agreements in the area between unaffiliated parties at the same time for natural gas of comparable quality and quantity.
- 1.02 "Balancing Area" shall mean each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a single well is completed in two or more producing intervals, each producing interval from which the Gas production is not commingled in the wellbore shall be considered a separate well or Balancing Area.
- 1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced from the Balancing Area during each month.
- 1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by field equipment operated for the joint account. For the purposes of this Agreement, "Gas" does not include gas used in joint operations, such as for fuel, recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.
- 1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.
- 1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic foot of space at a standard pressure base and at a standard temperature base.
- 1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute.
- 1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the event this Agreement is not employed in connection with an operating agreement, the individual or entity designated as the operator of the well(s) located in the Balancing Area.
- 1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors, transferees and assigns.

- 1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the Balancing Area pursuant to the Operating Agreement covering the Balancing Area. For the purposes of applying the Oklahoma Production Revenue Standards Act hereto the terms "Percentage Interest", "Proportionate Production Interest, and "Working Interest Share of Production" shall be considered equivalent terms.
- 1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding royalties, production payments or similar interests.
- 1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.16 "Winter Period" shall mean the months of November, December, January and February.

2. BALANCING AREA

2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in MMBtus.

2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

3. RIGHT OF PARTIES TO TAKE GAS

3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified of the volumes nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of this Agreement.

3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production.

3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the Balancing Area bear to the total Percentage Interests of such Parties.

3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking Party.

3.5 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum Monthly Availability; provided, however, that this limitation shall not apply to the extent that it would preclude production that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of production at which Gas

can be delivered from the Balancing Area, as determined by the Operator, considering the maximum efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency, mode of operation, production facility capabilities and pipeline pressures.

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions of the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one year. Notwithstanding the provisions of article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken for the account of such Party.

4. IN-KIND BALANCING

4.1 Effective the first day of any calendar month following at least thirty (30) days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying fifty percent (50%) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than fifty percent (50%) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

4.2 Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than twelve and one half percent (12.5%) of its Full Share of Current Production for Makeup Gas during the Winter Period.

4.3 Notwithstanding anything herein to the contrary no Underproduced Party which is a Non-Consenting Party under the Operating Agreement and is not then entitled to participate in any operation regarding a Balancing Area shall be entitled to take gas from said Balancing Area for which it is a Non-Consenting Party.

5. STATEMENT OF GAS BALANCES

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within forty-five (45) days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum Accountants Societies Bulletin No. 24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

5.2 If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the required data.

6. PAYMENTS ON PRODUCTION

6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due

on all volumes of Gas actually taken by such Party.

6.2 Each Party shall pay or cause to be paid all Royalty due with respect to Royalty owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of Current Production.

6.3 In the event that any governmental authority requires that Royalty payments be made on any other basis than that provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date required by such governmental authority, and the method provided for herein shall be thereby superseded.

7. CASH SETTLEMENTS

7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

7.2 Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the methodology set out in Section 7.4.

7.3 Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash settlement, accompanied by appropriate accounting detail. At the time of payment, the Overproduced Party will notify the Operator of the Gas imbalance settled by the Overproduced Party's payment.

7.4 The amount of the cash settlement will be based on the proceeds received by the Overproduced Party under an Arm's Length Agreement for the Gas taken from time to time by the Overproduced Party in excess of the Overproduced Party's Full Share of Current Production. Any Makeup Gas taken by the Underproduced Party prior to monetary settlement hereunder will be applied to offset Overproduction chronologically in the order of accrual.

7.5 The values used for calculating the cash settlement under Section 7.4 will include all proceeds received for the sale of the Gas by the Overproduced Party calculated at the Balancing Area, after deducting any production or severance taxes paid and any Royalty actually paid by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments amounted to a discharge of said Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of the Overproduction.

7.5.1 For Overproduction sold under a gas purchase contract providing for payment based on a percentage of the proceeds obtained by the purchaser upon resale of residue gas and liquid or liquifiable hydrocarbons extracted at a gas processing plant, the values used for calculating cash settlement will include proceeds received by the Overproduced Party for both the liquid hydrocarbons (including liquifiable hydrocarbons) and the residue gas attributable to the Overproduction.

7.5.2 For Overproduction processed for the account of the Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, where settlement for the gas so processed was on a basis other than percentage of the proceeds, the values used for calculating cash settlement will include the proceeds received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from the Overproduction, less the actual reasonable costs incurred by the Overproduced Party to process the Overproduction and to transport, fractionate and handle the liquid hydrocarbons extracted therefrom prior to sale.

7.6 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be based on the spot sales prices published for the applicable geographic area during such month in a mutually acceptable pricing bulletin.

7.7 Interest compounded at the maximum lawful rate of interest applicable to the Balancing Area will accrue for all amounts due under Section 7.1, beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Section 7.2 and 7.3 contributed to the accrual of the interest.

7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties fail to reach agreement on an in-kind settlement.

7.9 That portion of any monies collected by an Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or other governmental authority may be withheld by the Overproduced Party until such prices are finally approved by such governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental authority.

8. TESTING

Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only after fifteen (15) day's prior written notice to the Operator and shall last no longer than seventy-two (72) hours.

9. OPERATING COSTS

Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales or use are in proportion to its Percentage Interest in the Balancing Area.

10. LIQUIDS

The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated for the joint account in accordance with their Percentage Interests in the Balancing Area.

11. AUDIT RIGHTS

Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not limited to information regarding Btu-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

12. MISCELLANEOUS

12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the Operating Agreement, the provisions of this Agreement shall govern.

12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party (other than Operator) to pay any amounts owed pursuant to the terms hereof.

12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

12.5 Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

12.6 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any such person or entity.

12.7 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the Balancing Area.

12.8 With respect to accounting treatment of any gas imbalances as may exist, the parties agree to use the "cumulative method" [as defined in Income Tax Regulation §1.761-2 (d) (4)] of accounting for federal income tax purposes. The "entitlements method" shall not be used for reporting gas sales from the properties subject hereto.

13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

13.1 Subject to the provisions of Section 13.2 hereof, and notwithstanding anything in this Agreement or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall cause its assignee or other transferee to assume its obligations hereunder.

13.2 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its interest by merger, reorganization, consolidation or sale of substantially all of its

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assets to a subsidiary or parent company, or to any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

EXHIBIT " F "

EQUAL OPPORTUNITY AND AFFIRMATIVE ACTION

During the performance of this contract, the Operator (meaning and referring separately to each party hereto) agrees as follows:

1. **NONSEGREGATED FACILITIES REQUIREMENTS:** The provisions of this Section apply only if the total contract amount exceeds \$10,000. A Certification of Nonsegregated Facilities, as required by 41 CFR §1-12.803-10(4)(1) and 60-1.8, shall be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period.
2. **EQUAL EMPLOYMENT OPPORTUNITY:** The provisions of this Section apply only if the total contract amount exceeds \$10,000. During the performance of this contract, the Seller agrees that it will comply with all provisions of Executive Order No. 11246 which is incorporated into this agreement by this reference.
3. **EQUAL EMPLOYMENT OPPORTUNITY REPORTING REQUIREMENTS:** The following applies only if Seller has 50 or more employees and holds contracts, subcontracts or purchase orders amounting to more than \$50,000: Seller will complete and file Government Standard Form 100, Equal Employment Opportunity Employer Information Report EEO-1 (or such other form as may have superseded it), in accordance with the instructions contained therein.
4. **AFFIRMATIVE ACTION COMPLIANCE PROGRAMS:** The provisions of this Section apply only if Seller has 50 or more employees and holds contracts, subcontracts or purchase orders amounting to more than \$50,000.
 - (a) In compliance with Paragraph 60-1.40, and in accordance with Sections 60-2.1 through 60-2.32 of the rules of the Office of Federal Contract Compliance Programs, Seller shall develop a written affirmative action compliance program for each of its establishments. Within 120 days from the issue date of this contract, Seller shall maintain a copy of separate affirmative action compliance programs for each of its establishments.
 - (b) Seller shall require each of its subcontractors who have 50 or more employees and a subcontract placed hereunder of \$50,000 or more to develop a written affirmative action compliance program for each of its establishments in conformance with the requirements of this Section.
5. **EMPLOYMENT OF QUALIFIED HANDICAPPED INDIVIDUALS:** The provisions of this Section apply only if the total contract amount exceeds \$2,500. Seller agrees to comply with Section 503 of the Rehabilitation Act of 1973, Section III of the Rehabilitation Act amendments of 1974 and 41 CFR §60-741.4 which are incorporated into this agreement by this reference.
6. **EMPLOYMENT OF VETERANS:** The provisions of this Section apply only if the total contract amount exceeds \$10,000. Seller agrees to comply with Section 2012 of the Vietnam Era Veterans Readjustment Act of 1974, and 41 CFR §60-250.4 which are incorporated into this agreement by this reference.
7. **UTILIZATION OF MINORITY BUSINESS ENTERPRISES:** The provisions of this Section apply only if the total contract amount exceeds \$10,000.
 - (a) It is the policy of the Government that minority business enterprises shall have the maximum practicable opportunity to participate in the performance of Government contracts.
 - (b) Contractor agrees to use its best efforts to carry out this policy in the award of its subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority business enterprise" means a business, at least 50 percent of which is owned by minority group members or, in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members. For the purpose of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orizontals, American-Indians, American-Eskimos, and American Aleuts. Contractors may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation. 41 CFR §1-1.1310-2(a).
8. **UTILIZATION OF LABOR SURPLUS AREA CONCERNS:** The provisions of this Section apply only if the total contract amount exceeds \$10,000.
 - (a) It is the policy of the Government to award contracts to labor surplus area concerns that agree to perform substantially in labor surplus areas, where this can be done consistent with the efficient performance of the contract and at prices no higher than are obtainable elsewhere. Contractor agrees to use its best efforts to place its subcontracts in accordance with this policy.
 - (b) In complying with subsection (a) of this Section and with subsection (b) of Section 9 of this contract entitled "Utilization of Small Business Concerns," the Contractor in placing his subcontracts shall observe the following order of preference: (1) small business concerns that are labor surplus area concerns, (2) other small business concerns, and (3) other labor surplus area concerns.
 - (c)(1) The term "labor surplus area" means a geographical area identified by the Department of Labor as an area of concentrated unemployment or underemployment or an area of labor surplus.
 - (2) The term "labor surplus area concern" means a concern that together with its first-tier subcontractors will perform substantially in labor surplus areas.
 - (3) The term "perform substantially in a labor surplus area" means that the costs incurred on account of manufacturing, production, or appropriate services in labor surplus areas exceed 50 percent of the contract price. 41 CFR §1-1.805-3(a).
9. **UTILIZATION OF SMALL BUSINESS CONCERNS:** The provisions of this Section apply only if the total contract amount exceeds \$10,000.
 - (a) It is the policy of the Government as declared by Congress that a fair proportion of the purchases and contracts for supplies and services for the Government be placed with small business concerns.
 - (b) Contractor agrees to accomplish the maximum amount of subcontracting to small business concerns that Contractor finds to be consistent with the efficient performance of this contract. 41 CFR §1-1.710-3(a).
10. **AFFIRMATIVE ACTION FOR DISABLED VETERANS AND VETERANS OF THE VIETNAM ERA:** The provisions of this Section apply only if the total contract amount exceeds \$10,000. Seller agrees to comply with Section 402 of the Vietnam Era Veterans Readjustment Assistance Act of 1974 and 41 CFR §60-250.1 which are incorporated into this agreement by this reference.
11. **UTILIZATION OF WOMEN-OWNED BUSINESS CONCERNS:** The provisions of this Section apply only if the total contract amount exceeds \$10,000.
 - (a) It is the policy of the United States Government that women-owned businesses shall have the maximum practicable opportunity to participate in the performance of contracts awarded by any Federal agency.
 - (b) Contractor agrees to use its best efforts to carry out this policy in the award of subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, a "woman-owned business" concern means a business that is at least 51% owned by a woman or women who also control and operate it. "Control" in this context means exercising the power to make policy decisions. "Operate" in this context means being actively involved in the day-to-day management. "Woman" mean all women business owners. Temporary Regulation 54, Appendix to 41 CFR Chapter 1. (See Executive Order 12138).

STIPULATION OF INTEREST

Reference is here made for all purposes to those certain leases (the "Leases") and lands (the "Lands") described below:

Lessor: State of New Mexico B-8096
State of New Mexico VA-0465
State of New Mexico VB-0455

Lessee: Continental Oil Company
Mitchell Energy Corporation
Ameristate Oil and Gas, Inc...

Dated: April 10, 1939
December 1, 1991
December 1, 1995

Recording Data: Not Available

Lands: All of Section 8, as to all depths below three thousand feet subsurface, and Section 9, as to all depths below five thousand feet subsurface, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico

Under that certain Letter Agreement (the "1997 Agreement") dated March 27, 1997, Threshold Development Company, Broad Street Financial Company, Leland Hodges and Herbert F. Boles, ("Farmors") farmed out to OXY USA Inc., an interest in Section 8, as to all depths below three thousand feet subsurface, and Section 9 as to all depths below five thousand feet subsurface in Township 19 South, Range 29East, Eddy County, New Mexico.

OXY USA Inc. has performed pursuant to the 1997 Agreement, and received assignments, as therein provided, subject to certain after payout rights of the Farmors. Whereas, certain Assignments reflecting after payout rights as provided for in the 1997 Agreement as to Section 8 were executed, delivered or filed of record in Book 629, Page 553 and Book 629, Page 555 of the Public Records of Eddy County, New Mexico.

Through various conveyances, the ownership of the rights in the Leases and Lands are now vested in Bold Energy LP, Monarch Resources, Inc., Herbert F. Boles, Thomas M. Beall, Fuel Products, Inc. and OXY USA WTP Limited Partnership (collectively, the "Owners").

Now, therefore, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Owners identified above do hereby covenant, stipulate and agree that:

- a) Payout has occurred for all wells drilled under the 1997 Agreement.
- b) Pursuant to the 1997 Agreement:
 - (i) The OXY Checker State Com No. 1 well was drilled in the W/2 of Section 8, T-19-S, R-29-E, NMPM, to a total depth of 11,470' subsurface, and the W/2 of said Section 8 was established as the earned spacing unit for such well (the "W/2 Unit");
 - (ii) The OXY Auto State No. 1 well was drilled in the E/2 of Section 8, T-19-S, R-29-E, NMPM, to a total depth of 11,460' subsurface, and the E/2 of said Section 8 was established as the earned spacing unit for such well (the "E/2 Unit");
 - (iii) The OXY Champion State No. 1 well was drilled in the N/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,500' subsurface, and the N/2 of said Section 9 was established as the earned spacing unit for such well (the "N/2 Unit"); and
 - (iv) The OXY Sparkplug State No. 1 well was drilled in the S/2 of Section 9, T-19-S, R-29-E, NMPM, to a total depth of 11,550' subsurface, and the S/2 of said Section 9 was established as the earned spacing unit for such well (the "S/2 Unit").

- c) The ownership of the Leases, insofar as the same cover Section 8, T-19-S, R-29-E, NMPM, in depths below the base of the Bone Spring Formation down to 100 feet below the total depth drilled respectively in the earning well drilled on each of the E/2 Unit and W/2 Unit shall be as follows:

Herbert T. Boles	.00290625	WI
Monarch Resources	.05521875	WI
Thomas M. Beall	.03477500	WI
Fuel Products, Inc.	.03477500	WI
Bold Energy, LP	.40687500	WI
Oxy USA WTP Limited Partnership	.46545000	WI

- d) Ownership of the Leases and Lands, insofar as the same cover Section 8, T-19-S, R-29-E, NMPM, in depths below 3,000 feet subsurface down to and including, but not below, the base of the Bone Spring Formation:

Herbert T. Boles	.00312500	WI
Monarch Resources	.05937500	WI
Thomas M. Beall	.03250000	WI
Fuel Products, Inc.	.03250000	WI
Bold Energy, LP	.43750000	WI
OXY USA WTP Limited Partnership	.43500000	WI

- e) The ownership of the Leases, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below the base of the Bone Spring Formation down to 100 feet below the total depth drilled respectively in the earning well drilled on each of the N/2 Unit and S/2 Unit shall be as follows:

Herbert T. Boles	.00290625	WI
Monarch Resources	.05521875	WI
Thomas M. Beall	.03477500	WI
Fuel Products, Inc.	.03477500	WI
Bold Energy, LP	.40687500	WI
Oxy USA WTP Limited Partnership	.46545000	WI

- f) Ownership of the Leases and Lands, insofar as the same cover Section 9, T-19-S, R-29-E, NMPM, in depths below 5,000 feet subsurface down to and including, but not below, the base of the Bone Spring Formation:

Herbert T. Boles	.00312500	WI
Monarch Resources	.05937500	WI
Thomas M. Beall	.03250000	WI
Fuel Products, Inc.	.03250000	WI
Bold Energy, LP	.43750000	WI
Oxy USA, WTP Limited Partnership	.43500000	WI

The Owners hereby GRANT, CONVEY, SELL, TRANSFER, AND ASSIGN, without warranty of title, one to the other such interest in the Leases, as to the Lands as is necessary to give effect to the above stipulated ownership percentages, together with:

- a) A like undivided interest in, to or under or by virtue of the presently existing and valid unitization, communitization, and pooling agreements and the properties covered and the units and pooled and communitized acres created thereby (including, but not limited to, all units formed under orders, regulations, rules or other official acts of any federal, state or other governmental agency), insofar and only insofar as such agreements, properties and units relate to the Leases and Lands and for which ownership is stipulated herein;
- b) A like undivided interest in or to all improvements, easements, surface leases, permits, rights-of-way, licenses, servitudes and other similar interests necessary or useful to or used in connection with the exploration, development or operation of the Leases or the Lands for which ownership is stipulated herein;

- c) A like undivided interest in or to all personal property, fixtures and improvements appurtenant to or located on or near the Lands, or used or held for use in connection with the production, treatment, storage or transportation of oil, gas, casinghead gas, condensate, distillate or other liquid or vaporous hydrocarbons or other minerals from the Leases for which ownership is stipulated herein; such personal property, fixtures and improvements shall include, but shall not be limited to, all Hydrocarbons in tanks, and all wells, tanks, boilers, buildings, plants, fixtures, machinery and other equipment, pipelines, powerlines, telephone lines, roads and other appurtenances pertaining to the Leases for which ownership is stipulated herein; and
- d) A like undivided interest in or to all rights, duties and obligations attributable to or arising from any valid oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases or production therefrom or attributable thereto.

This Stipulation is expressly made subject to:

- a) A proportionate part of the covenants, provisions, royalties and terms of the Leases;
- b) The terms and conditions of all existing orders, rules and regulations and ordinances of federal, state and other governmental agencies having jurisdiction;
- c) Any valid and subsisting oil, casinghead gas and gas sales, purchase, exchange and processing contracts and agreements, insofar and only insofar as the same are appurtenant or relate to the Leases;
- d) A proportionate part of all overriding royalty interests, restrictions, exceptions, reservations, burdens, encumbrances, conditions, limitations, interests, instruments, agreements and other matters, if any, which are of record in the state and county above named and which burden or affect the properties, rights or interests herein assigned; and
- e) That certain Operating Agreement dated March 27, 1997, by and between OXY USA Inc. as Operator, and Threshold Development Company, et al., as Non-Operators, the contract area for which is the Lands; Provided, however, that this Stipulation shall have no effect on the rights of the parties pursuant to the Operating Agreement, as to existing accounts, elections, including without limitation elections previously made to participate, or not participate in any proposed operation, or existing rights, duties or obligations of the parties pursuant thereto.

This Stipulation shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns.

This instrument may be executed in any number of counterparts, no one of which need bear the signature of all the parties, but any one of which may serve as an original for all purposes. This instrument shall not be binding on any executing party, until signed by all parties.

Dated this ____ day of May, 2007, to be effective, however, as of the date each well drilled under the March 27, 1997 Letter Agreement reached payout status.

BOLD ENERGY, LP

OXY USA WTP LIMITED PARTNERSHIP
By: OXY USA INC., General Partner

Joseph Castillo
President



William B. Bledsoe, Attorney in Fact 

MONARCH RESOURCES, INC.

Leland A. Hodges
President

Thomas M. Beall

Carolyn Read Beall

Herbert F. Boles

Norma Jean Boles

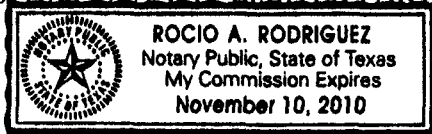
STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Joseph Castillo, as President, on behalf of BOLD ENERGY, LP, a Limited Partnership.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this 8 day of May, 2007, by William B. Bledsoe, as Attorney in Fact, on behalf of OXY USA INC. as General Partner of OXY USA WTP LIMITED PARTNERSHIP, a Delaware Limited Partnership



Rocio A. Rodriguez
Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Leland A. Hodges, as President of MONARCH RESOURCES, INC., a _____ Corporation.

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Thomas M. Beall and wife, Carolyn Read Beall

Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 2007, by Herbert F. Boles and wife, Norma Jean Boles

Notary Public