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Attorney and Counselor at Law

BOARD CERTIFIED OIL, GAS & MINERAL LAW TEXAS BOARD OF LEGAL SPECIALIZATION; ALSO LICENSED IN NEW MEXICO

April 10, 2007

Via Facsimile (505) 982-2151

Mr. Jim Bruce, Esquire  
P.O. Box 1056  
Santa Fe, NM

RE: Application for Permit to Drill and to Allow Multiple Operators in 320 Acre Unit- Cause No. 13877, Bold Energy, LP

Dear Mr. Bruce:

With reference to the above described case, I have been retained by Bold Energy, LP ("Bold"), to review that certain Letter Agreement dated March 27, 1997, by OXY USA, Inc., addressed to Threshold Development Company, Broadstreet Financial Company, Leland Hodges and Herbert F. Boles, c/o Threshold Development Company and concerning Sections 8 and 9, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico (the "TO Agreement"). My understanding is that Bold is the successor in interest to the Threshold Development Company rights pursuant to this Agreement. While not intimately familiar with all of the facts and proceedings presently before the Division in this case, my directed focus for review of the TO Agreement is the issue of whether or not that Agreement has terminated.

For purposes of this review I have assumed the following facts:

1. The TO Agreement was signed by all parties;
2. OXY USA, Inc. ("OXY") commenced the drilling of the first test well as provided for in paragraph 1;
3. OXY completed at least one (1) or more wells on the lands subject to the TO Agreement in a timely fashion;
4. The well or wells drilled by OXY pursuant to the Agreement have achieved payout status, as defined in said Agreement;
5. More than 180 days have elapsed since the drilling of the last well by OXY pursuant to the TO Agreement.

For purposes of my analysis, upon which I base my opinion, I have reviewed sequentially the twenty-four (24) numbered subsections of the TO Agreement, scrutinizing each such section with respect to any remaining rights of OXY, that are executory in nature, that may still be afforded OXY pursuant to this Agreement. This analysis reflects only one (1) provision in the TO Agreement, with any arguable remaining executory rights of OXY in the leases that were assigned pursuant to this Agreement, namely numbered Section 12 therein, reproduced herein as follows:

Oil Conservation Division  
Case No.             
Exhibit No.

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"12. Operations on the subject lands shall be governed by and the parties hereto shall execute the Operating Agreement which is attached hereto as Exhibit "C", including those exhibits to that Agreement as are included herewith".

You have specifically asked me to opine as to whether or not this Agreement has "terminated". While I find no express termination provision set forth in the TO Agreement, my analysis indicated above reflects that OXY has no remaining rights under this Agreement, except that its ownership interest be subject to, and governed by the terms of the contemplated Operating Agreement. More specifically, in Section 6 of the TO Agreement, there is language to indicate that upon the cessation of the continuous drilling right that OXY was afforded in Sections 1 through 5 thereof, that all of the rights of OXY to drill, or earn additional interests pursuant to such Agreement, terminated. Specifically, the following language is instructive:

"The failure to commence operations for the drilling of a well on or before the one-hundred, eightieth (180<sup>th</sup>) day from the drilling rig release date for the preceding well shall terminate OXY's right to drill more wells on the then unearned portions of the Subject Lands" (emphasis added).

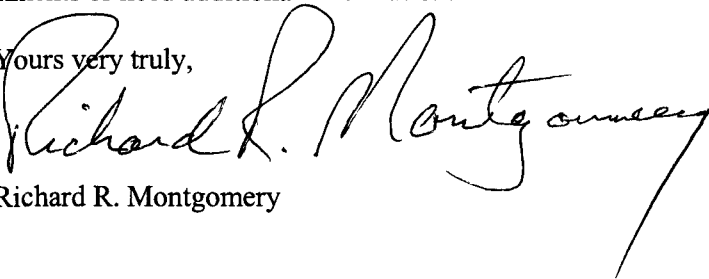
This language strongly suggests that for drilling and development issues, the TO Agreement is no longer applicable. Further, none of Sections 7 through 24 of the TO Agreement, except Section 12, quoted above, affords any additional rights in the lands the subject of this Agreement, other than the right to receive an Assignment of the earned acreage. Additionally, you have advised me that OXY remains obligated pursuant to the TO Agreement, in that Assignments of the after payout interest of Bold, and others have not been executed and delivered by OXY. These administrative matters, performance of which was long ago demanded by the parties, and for many months ignored by OXY, should not be the basis to argue that the Agreement is still in force. It is my understanding that, except for the delivery of the after payout assignments, all matters concerning the earned acreage have been accomplished by the parties. Accordingly, there are no further rights, duties or obligations of Bold, or the other parties other than OXY remaining to be performed pursuant to the Agreement. Therefore, the more pertinent question may not be has the Agreement "terminated", but instead, does the Agreement remain effective as between the parties, and for what issues is the Agreement still valid. My conclusion would be that, concerning the issue of drilling and development of the acreage, the rights of OXY under the Agreement have clearly terminated, except for its rights under the Operating Agreement.

Therefore, it is my opinion that the TO Agreement, while not terminated by an express provision therefor, is no longer a valid, enforceable Agreement by OXY as to drilling and development of this acreage, in that the terms and provisions of the Agreement no longer afford any party thereto rights, duties or obligations with respect to drilling or development of the subject lands.

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Please let me know if have questions, comments or need additional information.

Yours very truly,

A handwritten signature in cursive script, reading "Richard R. Montgomery". The signature is written in dark ink and is positioned above the printed name.

Richard R. Montgomery

RRM/kd  
Encl.

cc: