

OGXResources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

James Brooks

June 26, 2008

Mr. Mark E. Fesmire, P. E.
Director of the Oil Conservation Division
New Mexico Energy, Minerals, and Natural Resources Department
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

RECEIVED
2008 JUL 2 PM 3 05

Re: **Case No. 14024, Order No. R-12896**
Compulsory Pooling of the E/2 of Section 34, T22S-R27E
Weems No. 1 Well, Eddy County, New Mexico

Dear Mr. Fesmire:

Pursuant to the terms of the above referenced Order No. R-12896 (paragraph 8), OGX Resources LLC respectfully submits a copy of our Authority for Expenditure itemizing the estimated costs of drilling, completing, and equipping our Weems No. 1 Well in the E/2 of Section 34, T22S-R27E, Eddy County, New Mexico. Also enclosed are copies of certified letters sent to each pooled working interest owner.

In accordance with paragraph 18 of Order No. R-12896, please be advised that subsequent to the effective date of the Order, OGX was able to obtain oil and gas leases from Timothy J. Walterscheid and Ronal R. O'Connor; therefore, their interests will not be subject to the order. Copies of these two leases are enclosed.

We are currently in the process of completing the Weems well and will furnish you and each pooled working interest owner a schedule of actual well costs within ninety (90) days following completion.

Please let us know if your office needs anything further at this time.

Yours very truly,

OGX RESOURCES LLC

Kaye Smith

Kaye Smith

Enclosures

ks:\shared\ogx\compulsory pooling\weems\ocd ltr 062608 afe est costs

OGX RESOURCES LLC
AUTHORIZATION FOR EXPENDITURE

DATE: 3/3/08

OGX AFE No.: 8015002
AFE Title: WEEMS 34 FED #1 - DIRECTIONAL STRAWN / MORROW
Well Name & No.: WEEMS 34 FED #1

Field: STRAWN / MORROW
County: EDDY

State: NEW MEXICO

Exploratory XX Development:
Proposed Formation: MORROW
Description: SEC 34, T-22-S, R-27-E, EDDY COUNTY, NEW MEXICO

Oil: GAS XX
Proposed Depth: 12,500 TVD

	MAJ	SUB	DRY HOLE	MAJ	COMPLETION	TOTAL
DEVELOPMENTAL DRILLING:						
Turnkey	725	470	\$0	726	\$0	\$0
Mobilization/Demob.		471	\$100,000		\$0	\$100,000
Location, Pits, Roads		472	\$75,000		\$10,000	\$85,000
Cement and Cementing Services		473	\$95,000		\$25,000	\$120,000
Mud Logging 40days @ 1200 per day		474	\$48,000		\$0	\$48,000
Mud Materials, Chemical & Water		475	\$180,000		\$10,000	\$190,000
Logging and Sidewall Coring		478	\$100,000		\$4,500	\$104,500
Perforating		479	\$0		\$10,000	\$10,000
Stimulation		480	\$0		\$265,000	\$265,000
Formation Testing		482	\$22,000		\$0	\$22,000
Testing Tubular Goods		484	\$0		\$7,500	\$7,500
Tool Rental DOWNHOLE		488	\$225,000		\$5,000	\$230,000
Tool Rental SURFACE		488	\$45,000			
Drilling Footage		489	\$0		\$0	\$0
Drilling Day Work 48 days @ 15500 per day		490	\$744,000		\$30,000	\$774,000
Float Equipment		491	\$17,000		\$45,000	\$62,000
Bits, Core Barrells, etc.		492	\$110,000		\$550	\$110,550
Other Special Well Services		494	\$65,000		\$10,000	\$75,000
Contract Services & Equip		510	\$20,000		\$25,000	\$45,000
Directional Drilling		511	\$200,000		\$0	\$200,000
Communication		528	\$23,000		\$0	\$23,000
Fuel & Power		539	\$130,000		\$0	\$130,000
Auto & Truck Expense		545	\$70,000		\$2,500	\$72,500
Company Supervision 80 @ 1200		501	\$57,600		\$36,000	\$93,600
Miscellaneous & Contingencies 15%		599	\$348,990		\$72,908	\$421,898
Subtotal			\$2,675,590		\$558,958	\$3,234,548

DEVELOPMENTAL LWE "DRILLING"

Surface Casing 13 3/8 @ 500'	727	441	\$14,500	727	\$0	\$14,500
Conductor Pipe		442	\$6,500		\$0	\$6,500
Intermediate Casing 9 5/8" @ 2600'		443	\$49,920		\$0	\$49,920
Production Casing 7" @ 9750'		443	\$263,250		\$0	\$263,250
Drilling Liner		450	\$0		\$0	\$0
Production Liner 4 1/2" - 3100'		460	\$0		\$34,500	
Casing Head		445	\$5,500		\$19,000	\$24,500
X-Mas Tree		446	\$0		\$23,000	\$23,000
Completion Equipment		447	\$0		\$5,000	\$5,000
Retrievable Packers		448	\$0		\$5,000	\$5,000
Tubing		449	\$0		\$69,000	\$69,000
Other Material & Equipment		469	\$1,000		\$1,500	\$2,500
Subtotal			\$340,670		\$157,000	\$497,670

ONSHORE FACILITIES

Location, Pits, Roads	745	472			\$1,000	\$1,000
Contract Services & Equip		510			\$15,000	\$15,000
Engineering Surveys		516			\$0	\$0
Auto & Truck Expense		545			\$1,000	\$1,000
Welding Services		566			\$7,500	\$7,500
Instal Elect/Pneu System		567			\$0	\$0
Painting Service		568			\$0	\$0
Miscellaneous & Contingencies		599			\$1,500	\$1,500
Subtotal					\$26,000	\$26,000

ONSHORE FACILITIES

Misc Valves & Fittings	746	153			\$15,000	\$15,000
Corrosion or Chemical Treating Equip		438			\$0	\$0
Pumping Equipment		451			\$0	\$0
Gas Engines & Electric Motors		452			\$0	\$0
Electric Lines, Poles, Transformers, etc.		453			\$0	\$0
Bottom Hole Pump		454			\$0	\$0
Field Lines		456			\$7,500	\$7,500
Tanks, Stairs, Walkways, etc.		457			\$20,000	\$20,000
Separator & Fittings		458			\$10,500	\$10,500
Heaters, Treaters & Connections		459			\$0	\$0
Power & Circulating Pumps		460			\$1,200	\$1,200
Meters		463			\$15,000	\$15,000
Other Material & Equipment		469			\$35,000	\$35,000
Subtotal					\$104,200	\$104,200

TOTAL WELL COST: 3,016,260 846,158 3,862,418

Approved: _____

Date: _____

Title: _____

Company: _____

OGXResources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

CERTIFIED MAIL RECEIPT NO. 7007 0710 0005 1787 2864

June 27, 2008

Mr. Ken Gray
Devon Energy Production Co., L.P.
20 N. Broadway
Oklahoma City, OK 73102-8260

Re: **Case No. 14024, Order No. R-12896**
Compulsory Pooling of the E/2 of Section 34, T22S-R27E
Weems No. 1 Well, Eddy County, New Mexico

Dear Mr. Gray:

OGX Resources LLC previously sent you a certified letter in which we advised you of our proposal to drill the Weems No. 1 Well in the E/2 of Section 34, T22S-R27E, Eddy County, New Mexico. We believe Devon either has or had a contractual interest with Burlington Northern and Santa Fe Railway Company/Atchison, Topeka and Santa Fe Railway Company ("BNSF") pertaining to oil and gas leases in these lands. In that letter we requested copies of documentation wherein Devon was granted oil and gas leasing rights.

Devon was invited to either participate in the well or lease its mineral rights to OGX for \$300.00 per net mineral acre with a one-quarter (1/4th) royalty for a term of one (1) year. You were also furnished a copy of our AFE itemizing estimated costs at that time. Inasmuch as you made no decision to either participate in the well or execute an oil and gas lease, Devon's mineral interest was made subject to the above referenced Compulsory Pooling Order No. R-12896, a copy of which is enclosed.

Pursuant to the terms of the above referenced Order No. R-12896 (paragraph 8), OGX Resources LLC is required to submit to you a copy of our Authority for Expenditure itemizing the estimated costs of drilling, completing, and equipping our Weems No. 1 Well. Please be advised that you have thirty (30) days from your receipt of this letter in which to now pay your proportionate part of these estimated costs in lieu of having these costs withheld from production and subjecting your interest to a 200% penalty as a reasonable risk charge for drilling the well. Should you choose to participate in this well by paying your part of the estimated costs, please send us the requested documentation to enable us to determine your interest and execute one (1) copy of the AFE and return it to our office. We will, in turn, send you an invoice for your estimated working interest costs along with an Operating Agreement for your review and signature. We will furnish you a schedule of actual well costs within ninety (90) days following completion.

Mr. Ken Gray
June 27, 2008
Page Two

Should you now wish to execute an oil and gas lease under the originally proposed terms, please call our office as soon as possible. No response from you within thirty (30) days will be an indication of your choice to be deemed a non-consenting working interest owner and your interest will continue to be subject to the Compulsory Pooling Order.

Please let us know if you have any questions.

Yours very truly,

OGX RESOURCES LLC

A handwritten signature in cursive script, appearing to read "Kaye Smith".

Kaye Smith

Enclosures

OGXResources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

CERTIFIED MAIL RECEIPT NO. 7007 0710 0005 1787 2888

June 27, 2008

Ms. Phyllis K. Daniell, Executor of The Estate of Kathleen O'Connor and
Successor Trustee of The Kathleen O'Connor Trust and the
Unknown Heirs of Kathleen O'Connor
4665 Pauling Ave.
San Diego, CA 92122

Re: **Case No. 14024, Order No. R-12896**
Compulsory Pooling of the E/2 of Section 34, T22S-R27E
Weems No. 1 Well, Eddy County, New Mexico

Dear Ms. Daniell:

OGX Resources LLC previously sent you a certified letter in which we advised you of our proposal to drill the Weems No. 1 Well in the E/2 of Section 34, T22S-R27E, Eddy County, New Mexico, under which you own mineral rights. You were invited to either participate in the well or lease your mineral rights to OGX for \$300.00 per net mineral acre with a one-quarter (1/4th) royalty for a term of one (1) year. You were also furnished a copy of our AFE itemizing estimated costs at that time. Inasmuch as you made no decision to either participate in the well or execute an oil and gas lease, your mineral interest was made subject to the above referenced Compulsory Pooling Order No. R-12896, a copy of which is enclosed.

Pursuant to the terms of the above referenced Order No. R-12896 (paragraph 8), OGX Resources LLC is required to submit to you a copy of our Authority for Expenditure itemizing the estimated costs of drilling, completing, and equipping our Weems No. 1 Well. Please be advised that you have thirty (30) days from your receipt of this letter in which to now pay your proportionate part of these estimated costs in lieu of having these costs withheld from production and subjecting your interest to a 200% penalty as a reasonable risk charge for drilling the well. Should you choose to participate in this well by paying your part of the estimated costs, please execute one (1) copy of the AFE and return it to our office with your check in the amount of \$60,309.78, representing your 1.56145% in this well on a communitized basis. Upon receipt of your AFE and check, we will send you an Operating Agreement for your review and signature. We will furnish you a schedule of actual well costs within ninety (90) days following completion.

Should you now wish to execute an oil and gas lease under the originally proposed terms, please call our office as soon as possible. No response from you within thirty (30) days will be an indication of your choice to be deemed a non-consenting working interest owner and your interest will continue to be subject to the Compulsory Pooling Order.

Ms. Phyllis K. Daniell
June 27, 2008
Page Two

Please let us know if you have any questions.

Yours very truly,

OGX RESOURCES LLC

A handwritten signature in cursive script, appearing to read "Kaye Smith".

Kaye Smith

Enclosures

cc Elizabeth Ryan
Hinkle Law Firm
400 N. Pennsylvania Ave., Suite 700
Roswell, NM 88201

OGXResources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

CERTIFIED MAIL RECEIPT NO. 7007 0710 0005 1787 2871

June 27, 2008

Mr. Michael W. O'Connor
P. O. Box 411
Marfa, TX 79843

Re: **Case No. 14024, Order No. R-12896**
Compulsory Pooling of the E/2 of Section 34, T22S-R27E
Weems No. 1 Well, Eddy County, New Mexico

Dear Mr. O'Connor:

OGX Resources LLC previously sent you a certified letter in which we advised you of our proposal to drill the Weems No. 1 Well in the E/2 of Section 34, T22S-R27E, Eddy County, New Mexico, under which you own mineral rights. You were invited to either participate in the well or lease your mineral rights to OGX for \$300.00 per net mineral acre with a one-quarter (1/4th) royalty for a term of one (1) year. You were also furnished a copy of our AFE itemizing estimated costs at that time. Inasmuch as you made no decision to either participate in the well or execute an oil and gas lease, your mineral interest was made subject to the above referenced Compulsory Pooling Order No. R-12896, a copy of which is enclosed.

Pursuant to the terms of the above referenced Order No. R-12896 (paragraph 8), OGX Resources LLC is required to submit to you a copy of our Authority for Expenditure itemizing the estimated costs of drilling, completing, and equipping our Weems No. 1 Well. Please be advised that you have thirty (30) days from your receipt of this letter in which to now pay your proportionate part of these estimated costs in lieu of having these costs withheld from production and subjecting your interest to a 200% penalty as a reasonable risk charge for drilling the well. Should you choose to participate in this well by paying your part of the estimated costs, please execute one (1) copy of the AFE and return it to our office with your check in the amount of \$90,464.67, representing your 2.34218% in this well on a communitized basis. Upon receipt of your AFE and check, we will send you an Operating Agreement for your review and signature. We will furnish you a schedule of actual well costs within ninety (90) days following completion.

Should you now wish to execute an oil and gas lease under the originally proposed terms, please call our office as soon as possible. No response from you within thirty (30) days will be an indication of your choice to be deemed a non-consenting working interest owner and your interest will continue to be subject to the Compulsory Pooling Order.

Mr. Michael W. O'Connor
June 27, 2008
Page Two

Please let us know if you have any questions.

Yours very truly,

OGX RESOURCES LLC

A handwritten signature in black ink, appearing to read "Kaye Smith". The signature is fluid and cursive, with the first name "Kaye" being more prominent than the last name "Smith".

Kaye Smith

Enclosures

cc Elizabeth Ryan
Hinkle Law Firm
400 N. Pennsylvania Ave., Suite 700
Roswell, NM 88201

OGXResources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

CERTIFIED MAIL RECEIPT NO. 7007 0710 0005 1787 2901

June 27, 2008

Mr. David Mark Porter
203 E. Russell St.
Carlsbad, NM 88220-6021

Re: **Case No. 14024, Order No. R-12896**
Compulsory Pooling of the E/2 of Section 34, T22S-R27E
Weems No. 1 Well, Eddy County, New Mexico

Dear Mr. Porter:

OGX Resources LLC previously sent you a certified letter in which we advised you of our proposal to drill the Weems No. 1 Well in the E/2 of Section 34, T22S-R27E, Eddy County, New Mexico, under which you own mineral rights. You were invited to either participate in the well or lease your mineral rights to OGX for \$300.00 per net mineral acre with a one-quarter (1/4th) royalty for a term of one (1) year. You were also furnished a copy of our AFE itemizing estimated costs at that time. Inasmuch as you made no decision to either participate in the well or execute an oil and gas lease, your mineral interest was made subject to the above referenced Compulsory Pooling Order No. R-12896, a copy of which is enclosed.

Pursuant to the terms of the above referenced Order No. R-12896 (paragraph 8), OGX Resources LLC is required to submit to you a copy of our Authority for Expenditure itemizing the estimated costs of drilling, completing, and equipping our Weems No. 1 Well. Please be advised that you have thirty (30) days from your receipt of this letter in which to now pay your proportionate part of these estimated costs in lieu of having these costs withheld from production and subjecting your interest to a 200% penalty as a reasonable risk charge for drilling the well. Should you choose to participate in this well by paying your part of the estimated costs, please execute one (1) copy of the AFE and return it to our office with your check in the amount of \$52,335.62, representing your 1.355% in this well on a communitized basis. (Please note that this amount and percentage is for your and Elias Baiza's interest combined.) Upon receipt of your AFE and check, we will send you an Operating Agreement for your review and signature. We will furnish you a schedule of actual well costs within ninety (90) days following completion.

Should you now wish to execute an oil and gas lease under the originally proposed terms, please call our office as soon as possible. No response from you within thirty (30) days will be an indication of your choice to be deemed a non-consenting working interest owner and your interest will continue to be subject to the Compulsory Pooling Order.

Mr. David Mark Porter
June 27, 2008
Page Two

Please let us know if you have any questions.

Yours very truly,

OGX RESOURCES LLC

A handwritten signature in cursive script that reads "Kaye Smith". The signature is written in dark ink and is positioned above the printed name.

Kaye Smith

Enclosures

OGXResources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

CERTIFIED MAIL RECEIPT NO. 7007 0710 0005 1787 2895

June 27, 2008

Mr. David Catanach
New Mexico Department of Transportation
1142 Vuelta Acequias
Santa Fe, NM 87507

Re: **Case No. 14024, Order No. R-12896**
Compulsory Pooling of the E/2 of Section 34, T22S-R27E
Weems No. 1 Well, Eddy County, New Mexico

Dear Mr. Catanach:

OGX Resources LLC previously sent the New Mexico Department of Transportation a certified letter in which we advised them of our proposal to drill the Weems No. 1 Well in the E/2 of Section 34, T22S-R27E, Eddy County, New Mexico, under which they own mineral rights. They were invited to either participate in the well or lease their mineral rights to OGX for \$300.00 per net mineral acre with a one-quarter (1/4th) royalty for a term of one (1) year. They were also furnished a copy of our AFE itemizing estimated costs at that time. Inasmuch as they made no decision to either participate in the well or execute an oil and gas lease, their mineral interest was made subject to the above referenced Compulsory Pooling Order No. R-12896, a copy of which is enclosed.

Pursuant to the terms of the above referenced Order No. R-12896 (paragraph 8), OGX Resources LLC is required to submit to you a copy of our Authority for Expenditure itemizing the estimated costs of drilling, completing, and equipping our Weems No. 1 Well. Please be advised that you have thirty (30) days from your receipt of this letter in which to now pay your proportionate part of these estimated costs in lieu of having these costs withheld from production and subjecting your interest to a 200% penalty as a reasonable risk charge for drilling the well. Should you choose to participate in this well by paying your part of the estimated costs, please execute one (1) copy of the AFE and return it to our office with your check in the amount of \$26,584.55, representing your 0.68829% in this well on a communitized basis. Upon receipt of your AFE and check, we will send you an Operating Agreement for your review and signature. We will furnish you a schedule of actual well costs within ninety (90) days following completion.

Should you now wish to execute an oil and gas lease under the originally proposed terms, please call our office as soon as possible. No response from you within thirty (30) days will be an indication of your choice to be deemed a non-consenting working interest owner and your interest will continue to be subject to the Compulsory Pooling Order.

Mr. David Catanach/NM Department of Transportation
June 27, 2008
Page Two

Please let us know if you have any questions.

Yours very truly,

OGX RESOURCES LLC

A handwritten signature in black ink, appearing to read "Kaye Smith". The signature is written in a cursive, flowing style.

Kaye Smith

Enclosures

OGXResources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

CERTIFIED MAIL RECEIPT NO. 7007 0710 0005 1787 2918

June 27, 2008

Danny D. Baiza and Nora D. Baiza
410 South Hemlock
Roswell, NM 88201

Re: **Case No. 14024, Order No. R-12896**
Compulsory Pooling of the E/2 of Section 34, T22S-R27E
Weems No. 1 Well, Eddy County, New Mexico

Dear Mr. and Mrs. Baiza:

OGX Resources LLC previously sent you a certified letter in which we advised you of our proposal to drill the Weems No. 1 Well in the E/2 of Section 34, T22S-R27E, Eddy County, New Mexico, under which you own mineral rights. You were invited to either participate in the well or lease your mineral rights to OGX for \$300.00 per net mineral acre with a one-quarter (1/4th) royalty for a term of one (1) year. You were also furnished a copy of our AFE itemizing estimated costs at that time. Inasmuch as you made no decision to either participate in the well or execute an oil and gas lease, your mineral interest was made subject to the above referenced Compulsory Pooling Order No. R-12896, a copy of which is enclosed.

Pursuant to the terms of the above referenced Order No. R-12896 (paragraph 8), OGX Resources LLC is required to submit to you a copy of our Authority for Expenditure itemizing the estimated costs of drilling, completing, and equipping our Weems No. 1 Well. Please be advised that you have thirty (30) days from your receipt of this letter in which to now pay your proportionate part of these estimated costs in lieu of having these costs withheld from production and subjecting your interest to a 200% penalty as a reasonable risk charge for drilling the well. Should you choose to participate in this well by paying your part of the estimated costs, please execute one (1) copy of the AFE and return it to our office with your check in the amount of \$10,522.85, representing your 0.27244% in this well on a communitized basis. (Please note that this amount and percentage is for your and Elias Baiza's interest combined.) Upon receipt of your AFE and check, we will send you an Operating Agreement for your review and signature. We will furnish you a schedule of actual well costs within ninety (90) days following completion.

Should you now wish to execute an oil and gas lease under the originally proposed terms, please call our office as soon as possible. No response from you within thirty (30) days will be an indication of your choice to be deemed a non-consenting working interest owner and your interest will continue to be subject to the Compulsory Pooling Order.

Danny D. Baiza and Nora D. Baiza
June 27, 2008
Page Two

Please let us know if you have any questions.

Yours very truly,

OGX RESOURCES LLC

A handwritten signature in cursive script, appearing to read "Kaye Smith".

Kaye Smith

Enclosures

OGXResources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

CERTIFIED MAIL RECEIPT NO. 7007 0710 0005 1787 2925

June 27, 2008

Mr. Tillman Wayne Taylor and
The Estate of Tillman Taylor
5027 Grandi Rd.
Carlsbad, NM 88220-8924

Re: **Case No. 14024, Order No. R-12896**
Compulsory Pooling of the E/2 of Section 34, T22S-R27E
Weems No. 1 Well, Eddy County, New Mexico

Dear Mr. Taylor:

OGX Resources LLC previously sent you a certified letter in which we advised you of our proposal to drill the Weems No. 1 Well in the E/2 of Section 34, T22S-R27E, Eddy County, New Mexico, under which you own mineral rights. You were invited to either participate in the well or lease your mineral rights to OGX for \$300.00 per net mineral acre with a one-quarter (1/4th) royalty for a term of one (1) year. You were also furnished a copy of our AFE itemizing estimated costs at that time. Inasmuch as you made no decision to either participate in the well or execute an oil and gas lease, your mineral interest was made subject to the above referenced Compulsory Pooling Order No. R-12896, a copy of which is enclosed.

Pursuant to the terms of the above referenced Order No. R-12896 (paragraph 8), OGX Resources LLC is required to submit to you a copy of our Authority for Expenditure itemizing the estimated costs of drilling, completing, and equipping our Weems No. 1 Well. Please be advised that you have thirty (30) days from your receipt of this letter in which to now pay your proportionate part of these estimated costs in lieu of having these costs withheld from production and subjecting your interest to a 200% penalty as a reasonable risk charge for drilling the well. Should you choose to participate in this well by paying your part of the estimated costs, please execute one (1) copy of the AFE and return it to our office with your check in the amount of \$206,796.20, representing your 5.35406% in this well on a communitized basis. (Please note that this amount and percentage is for the combined interest of Tillman Wayne Taylor and The Estate of Tillman Taylor.) Upon receipt of your AFE and check, we will send you an Operating Agreement for your review and signature. We will furnish you a schedule of actual well costs within ninety (90) days following completion.

Mr. Tillman Wayne Taylor and The Estate of Tillman Taylor
June 27, 2008
Page Two

Should you now wish to execute an oil and gas lease under the originally proposed terms, please call our office as soon as possible. No response from you within thirty (30) days will be an indication of your choice to be deemed a non-consenting working interest owner and your interest will continue to be subject to the Compulsory Pooling Order.

Please let us know if you have any questions.

Yours very truly,

OGX RESOURCES LLC

A handwritten signature in cursive script, appearing to read "Kaye Smith".

Kaye Smith

Enclosures

OGXResources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

CERTIFIED MAIL RECEIPT NO. 7007 0710 0005 1787 2932

June 27, 2008

Elias H. Baiza and Marie T. Baiza
1413 E. Hermosa Drive
Tempe, Arizona 85282-5720

Re: **Case No. 14024, Order No. R-12896**
Compulsory Pooling of the E/2 of Section 34, T22S-R27E
Weems No. 1 Well, Eddy County, New Mexico

Dear Mr. and Mrs. Baiza:

OGX Resources LLC previously sent you a certified letter in which we advised you of our proposal to drill the Weems No. 1 Well in the E/2 of Section 34, T22S-R27E, Eddy County, New Mexico, under which you own mineral rights. You were invited to either participate in the well or lease your mineral rights to OGX for \$300.00 per net mineral acre with a one-quarter (1/4th) royalty for a term of one (1) year. You were also furnished a copy of our AFE itemizing estimated costs at that time. Inasmuch as you made no decision to either participate in the well or execute an oil and gas lease, your mineral interest was made subject to the above referenced Compulsory Pooling Order No. R-12896, a copy of which is enclosed.

Pursuant to the terms of the above referenced Order No. R-12896 (paragraph 8), OGX Resources LLC is required to submit to you a copy of our Authority for Expenditure itemizing the estimated costs of drilling, completing, and equipping our Weems No. 1 Well. Please be advised that you have thirty (30) days from your receipt of this letter in which to now pay your proportionate part of these estimated costs in lieu of having these costs withheld from production and subjecting your interest to a 200% penalty as a reasonable risk charge for drilling the well. Should you choose to participate in this well by paying your part of the estimated costs, please execute one (1) copy of the AFE and return it to our office with your check in the amount of \$10,522.85, representing your 0.27244% in this well on a communitized basis. (Please note that this amount and percentage is for your and Danny Baiza's interest combined.) Upon receipt of your AFE and check, we will send you an Operating Agreement for your review and signature. We will furnish you a schedule of actual well costs within ninety (90) days following completion.

Should you now wish to execute an oil and gas lease under the originally proposed terms, please call our office as soon as possible. No response from you within thirty (30) days will be an indication of your choice to be deemed a non-consenting working interest owner and your interest will continue to be subject to the Compulsory Pooling Order.

Elias H. Baiza and Marie T. Baiza
June 27, 2008
Page Two

Please let us know if you have any questions.

Yours very truly,

OGX RESOURCES LLC

A handwritten signature in cursive script that reads "Kaye Smith". The signature is written in black ink and is positioned above the printed name.

Kaye Smith

Enclosures

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made this 20th day of November, 2007, between **Timothy J. Walterscheid**, as his sole and separate property, as Lessor (whether one or more), whose address is 5107 Grandi Road, Carlsbad, NM 88220 and **OGX Resources LLC**, as Lessee, whose address is P.O. Box 2064, Midland, Texas 79702. WITNESSETH:

- 1) Lessor in consideration of Ten Dollars (\$10.00), in hand paid, of the royalties herein provided, and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas and all other minerals, conducting explorations, geological and geophysical surveys by seismograph, core test, gravity and magnetic methods, injecting gas, water and other fluids, and air into subsurface strata, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport and own said products, and housing its employees, the following described land in **Eddy County, New Mexico**, to wit:

SEE ATTACHED EXHIBIT "A"

- 2) This is a paid up lease and subject to the other provisions herein contained, shall be for a term of **one (1) year** from this date (called "primary term") and as long thereafter as oil, gas or other mineral is produced from said land (whether or not hereunder) or land with which said land is pooled (whether or not hereunder).
- 3) As royalty, Lessee covenants and agrees: (a) To deliver to the credit of Lessor, in the pipelines to which Lessee may connect its wells, the equal **1/4th (one-fourth)** part of all oil produced and saved by Lessee from said land, or from time to time, at the option of Lessee, to pay Lessor the average posted market price of such **1/4th (one-fourth)** part of such oil at the wells as of the day it is run to the pipe line or storage tanks, Lessor's interest, in either case, to bear **1/4th (one-fourth)** of the cost of treating oil to render it marketable pipe line oil; (b) to pay Lessor for gas and casinghead gas produced from said land (1) when sold by Lessee, **1/4th (one-fourth)** of the amount realized by Lessee, computed at the mouth of the well, or (2) when used by Lessee off said land or in the manufacture of gasoline or other products **1/4th (one-fourth)** of the amount realized from the sale of gasoline or other products extracted therefrom and **1/4th (one-fourth)** of the amount realized from the sale of residue gas after deducting the amount used for plant fuel and/or compression; (c) To pay Lessor on all other minerals mined and marketed or utilized by Lessee from said land, one-tenth either in kind or value at the well or mine at Lessee's election, except that on sulphur mined and marketed the royalty shall be one dollar (\$1.00) per long ton. At any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut in royalty is paid or tendered this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tender of royalties and shut in royalties may be made by check or draft. Any timely payment or tender of shut in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. Nothing herein shall impair Lessee's right to release as provided in paragraph 5 hereof. In the event of assignment of this lease in whole or part, liability for payment hereunder shall rest exclusively on the then owners of this lease severally as to acreage and undivided interests owned by each.
- 4) Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease or any portion thereof as to oil and gas, or either of them, with any other land covered by this lease, and/or with any other land, lease or leases in the immediate vicinity thereof to the extent hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the **Oil Conservation Division of New Mexico**, or other lawful authority, or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of ten percent (10%) thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, for the drilling or operation of a well at a regular location or for obtaining maximum allowable from any well to be drilled, drilling or already drilled, units thereafter created may conform substantially in size with those prescribed or permitted by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the lease premises are situated an instrument describing and designating the pooled acreage as a pooled unit; and upon such recordation the unit shall be effective as to all parties hereto, their heirs, successors, and assigns, irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty, or other rights in land included in such unit. Lessee may at its election exercise its pooling option before or after commencing operations for or completing an oil or gas well on the

leased premises, and the pooled unit may include, but is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has therefore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. In the event of operations for drilling on or production of oil or gas from any part of a pooled unit which includes all or a portion of the land covered by this lease, regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, such operations shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease and in such event operations for drilling shall be deemed to have been commenced on said land within the meaning of paragraph 5 of this lease; and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled unit. Such allocation shall be on an acreage basis—that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease (or in each such separate tract) and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered as production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. The formation of any unit hereunder shall not have the effect of changing the ownership of any shut-in production royalty which may become payable under this lease. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interest as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but Lessee shall nevertheless have the right to pool as provided above with consequent allocation of production as above provided. As used in this paragraph 4, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

- 5) If at the expiration of the primary term, oil, gas, or other mineral is not being produced on said land, or from the land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 90 consecutive days, and if they result in the production of oil, gas or other mineral, so long thereafter as oil, gas, or other mineral is produced from said land, or from the land pooled therewith. If, after the expiration of the primary term of this lease and after oil, gas, or other mineral is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 90 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 90 consecutive days, and if they result in the production of oil, gas, or other mineral, so long thereafter as oil, gas, or other mineral is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 330 feet of and draining the leased premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.
- 6) Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipelines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without Lessor's consent.
- 7) The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns; but no change or division in ownership of the land, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part, liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8) The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or reversion of the estate created hereby nor be grounds for cancellation hereof in whole or in part. No obligation reasonably to develop the leased premises shall arise during the primary term. Should oil, gas or other mineral in paying quantities be discovered on said premises, then after the expiration of the primary term, Lessee shall develop the

acreage retained hereunder as a reasonably prudent operator, but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas or other mineral in paying quantities. If after the expiration of the primary term, Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument.

- 9) Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land, either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in event of failure of title, it is agreed that if this lease covers a less interest in the oil, gas, sulphur, or other minerals in all or any part of said land than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), or no interest therein, then the royalties, and other monies accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. All royalty interest covered by this lease (whether or not owned by Lessor) shall be paid out of the royalty herein provided. Should any one or more of the parties named above as Lessor's fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10) Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing any oil, gas or other minerals therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation force majeure, and Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the lease premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

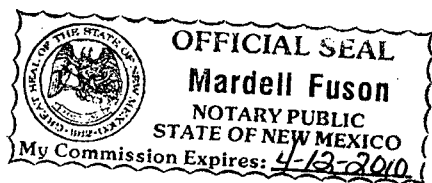
IN WITNESS THEREOF, this instrument is executed on the date first above written.

By: Timothy J. Walterscheid
Timothy J. Walterscheid

ACKNOWLEDGMENT

STATE OF New Mexico §
§
COUNTY OF Eddy §
§

This instrument was personally acknowledged before me on this 28th day of November 2007, by Timothy J. Walterscheid.



Mardell Fuson
Notary Public for the State of New Mexico
Notary's commission expires: 4-13-2010

Exhibit "A"

T-22-S, R-27-E, N.M.P.M.

E/2 of Block 9 (comprised of Lots 1, 3, 5, 7, 9, 11, 13, 15, 17, 19, 21, 23, 25, and 27) located in the Town of Otis as described in and according to the official plat thereof on file in Book 158, Page 85, in the Office of the County Clerk, Eddy County, New Mexico

It is the intent of Lessor and Lessee that this lease cover and include all lands owned by Lessor in the Town of Otis as described in the plat of Otis, on file in the Office of County Clerk, Eddy County, New Mexico and Lessor hereby grants, leases and lets unto Lessee exclusively, in accordance with the terms and provisions of this lease, whether owned as reflected of record, by prescription, possession, after acquired title, or otherwise and including all streets, alleys and roads adjacent thereto.

End of Exhibit "A"

RECEPTION NO: 0714552 STATE OF
NEW MEXICO, COUNTY OF EDDY
RECORDED 12/06/2007 8:39 AM
BOOK 0719 PAGE 0911 *[Signature]*
DARLENE ROSPRIM, COUNTY CLERK



AMENDMENT OF LEASE DESCRIPTION

STATE OF NEW MEXICO §
 §
 COUNTY OF EDDY §

THAT, WHEREAS, on the 20th day of November, 2007, **Timothy J. Walterscheid**, as his sole and separate property, whose address is 5107 Grandi Road, Carlsbad, New Mexico 88220, as Lessor, did execute and deliver to **OGX Resources LLC**, whose address is P.O. Box 2064, Midland, Texas 79702, as Lessee, an Oil, Gas and Mineral Lease covering certain lands (the "Lands") in Eddy County, New Mexico, described in said lease as follows, to-wit:

T-22-S, R-27-E, N.M.P.M.

E/2 of Block 9 (comprised of Lots 1, 3, 5, 7, 9, 11, 13, 15, 17, 19, 21, 23, 25, and 27) located in the Town of Otis as described in and according to the official plat thereof on file in Book 158, Page 85, in the Office of the County Clerk, Eddy County, New Mexico

It is the intent of Lessor and Lessee that this lease cover and include all lands owned by Lessor in the Town of Otis as described in the plat of Otis, on file in the Office of County Clerk, Eddy County, New Mexico and Lessor hereby grants, leases and lets unto Lessee exclusively, in accordance with the terms and provisions of this lease, whether owned as reflected of record, by prescription, possession, after acquired title, or otherwise and including all streets, alleys and roads adjacent thereto.

Said lease is duly recorded in **Book 719, Page 0911** of the records of Eddy County, New Mexico, (herein the "Lease") reference to the Lease and to the records thereof being made for all purposes; and

WHEREAS, it is the desire of the undersigned to amend the description as contained in the Lease to describe the Lands as follows, to-wit:

T-22-S, R-27-E, N.M.P.M.

E/2 of Block 9 (comprised of Lots 1, 3, 5, 7, 9, 11, 13, 15, 17, 19, 21, 23, 25, and 27) located in the Town of Otis and according to the plat of Otis, on file in the Office of the County Clerk, Eddy County, New Mexico

It is the intent of Lessor and Lessee that this lease cover and include all lands owned by Lessor in the Town of Otis as described in the plat of Otis, on file in the Office of County Clerk, Eddy County, New Mexico and Lessor hereby grants, leases and lets unto Lessee exclusively, in accordance with the terms and provisions of this lease, whether owned as reflected of record, by prescription, possession, after acquired title, or otherwise and including all streets, alleys and roads adjacent thereto.

ATTN KATIE ANDERSON
 OGX RESOURCES LLC
 P O BOX 2064
 MIDLAND TX 79702

NM 010-0024-00-AMND 01

NOW, THEREFORE, in consideration of the premises, the considerations, obligations and agreements stipulated in the Lease, and the further consideration of One Dollar (\$1.00) and other good and valuable consideration to the undersigned in hand paid by OGX Resources LLC, the receipt of which is hereby acknowledged, and for all purposes of making the Lease more definite and certain in respect to the identity of the Lands, the undersigned hereby declares that it was and is the intention to lease for oil, gas and other minerals the identical tract of land as last above described, and does hereby amend the Lease to include in the lease description all the Lands last above described in lieu of the Lands first hereinabove described and does hereby ratify, approve, confirm and adopt the Lease as hereby amended with the same force and effect as if the said correct and complete description had been inserted in the Lease before execution thereof.

The undersigned does further covenant and agree that the Lease in all its terms and provisions as hereby amended is now a valid and subsisting Oil, Gas and Mineral Lease covering the Lands as last hereinabove described and does hereby lease, let and demise all of the Lands unto said OGX Resources LLC, its heirs and assigns, subject to and under the terms and provisions of said lease.

EXECUTED this 10th day of March, 2008.

LESSOR:

LESSEE:

By: Timothy J. Walterscheid
Timothy J. Walterscheid

OGX Resources LLC

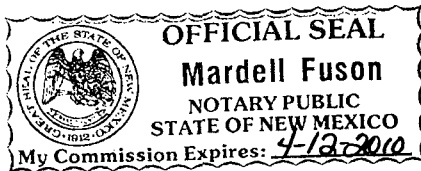
By: Richard H. Coats
Richard H. Coats, Member

{ACKNOWLEDGMENTS ON NEXT PAGE}

ACKNOWLEDGMENTS

STATE OF New Mexico §
 COUNTY OF Eddy §

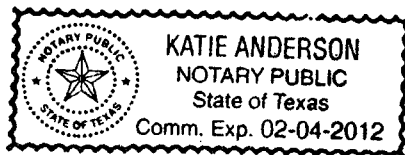
This instrument was acknowledged before me this 10th day of March, 2008,
 by **Timothy J. Walterscheid**, as his sole and separate property.



Mardell Fuson
 Notary in and for State of New Mexico
 My Commission Expires: 4-12-2010

STATE OF TEXAS §
 COUNTY OF MIDLAND §

This instrument was acknowledged before me this 18th day of March, 2008,
 by **Richard H. Coats**, as Member of OGX Resources LLC, a Texas limited liability company,
 on behalf of said company.



Katie Anderson
 Notary in and for State of Texas
 My Commission Expires: 2-4-2012

RECEPTION NO: 0803298 STATE OF
 NEW MEXICO, COUNTY OF EDDY
 RECORDED 03/24/2008 8:48 AM
 BOOK 0732 PAGE 0444 Anderson
 DARLENE ROSPRIM, COUNTY CLERK



OIL AND GAS LEASE

THIS AGREEMENT made this 26th day of October, 2007, between **Ronal R. O'Connor, as his sole and separate property**, as Lessor (whether one or more), whose address is 202 E. Orchard Lane, Carlsbad, NM 88220, and **OGX Resources LLC**, as Lessee, whose address is P.O. Box 2064, Midland, Texas 79702. WITNESSETH:

- 1) Lessor in consideration of Ten Dollars (\$10.00), in hand paid, of the royalties herein provided, and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, conducting explorations, geological and geophysical surveys by seismograph, core test, gravity and magnetic methods, injecting gas, water and other fluids, and air into subsurface strata, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport and own said products, and housing its employees, the following described land in Eddy County, New Mexico, to wit:

T-22-S, R-27-E, N.M.P.M.**Section 34: NE/4SE/4****Section 35: W/2SW/4, EXCEPT 1.6 acres of NW/4SW/4 lying North and East of the AT&SF**

Railway Right-of-Way; SE/4SW/4, EXCEPT 2/3 of an acre, more or less, in the Northeast corner, lying North and East of said Right-of-Way; and All that part of NE/4SW/4 lying South and West of said Right-of-Way; containing 164.73 acres, more or less

- 2) This is a paid up lease and subject to the other provisions herein contained, shall be for a term of **three (3) years** from this date (called "primary term") and as long thereafter as oil and gas is produced from said land (whether or not hereunder) or land with which said land is pooled (whether or not hereunder).
- 3) As royalty, Lessee covenants and agrees: (a) To deliver to the credit of Lessor, in the pipelines to which Lessee may connect its wells, the equal **one-fourth (1/4th)** part of all oil produced and saved by Lessee from said land, or from time to time, (a) to pay Lessor for gas and casinghead gas produced from said land (1) when sold by Lessee, **one-fourth (1/4th)** of the amount realized by Lessee, computed at the mouth of the well, or (2) when used by Lessee off said land or in the manufacture of gasoline or other products **one-fourth (1/4th)** of the amount realized from the sale of gasoline or other products extracted therefrom and **one-fourth (1/4th)** of the amount realized from the sale of residue gas after deducting the amount used for plant fuel and/or compression. At any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut in royalty is paid or tendered this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tender of royalties and shut in royalties may be made by check or draft. Any timely payment or tender of shut in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. Nothing herein shall impair Lessee's right to release as provided in paragraph 5 hereof. In the event of assignment of this lease in whole or part, liability for payment hereunder shall rest exclusively on the then owners of this lease severally as to acreage and undivided interests owned by each.
- 4) Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease or any portion thereof as to oil and gas, or either of them, with any other land covered by this lease, and/or with any other land, lease or leases in the immediate vicinity thereof to the extent hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the **Oil Conservation Division of New Mexico**, or other lawful authority, or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of ten percent (10%) thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, for the drilling or operation of a well at a regular location or for obtaining maximum allowable from any well to be drilled, drilling or already drilled, units thereafter created may conform substantially in size with those prescribed or permitted by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the lease premises are situated an instrument describing and designating the pooled acreage as a pooled unit; and upon such recordation the unit shall be effective as to all parties hereto, their heirs, successors, and assigns, irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty, or other rights in land included in such unit. Lessee may at its election exercise its pooling option before or after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has therefore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. In the event of operations for drilling on or production of oil or gas from any part of a pooled unit which includes all or a portion of the land covered by this lease, regardless of whether such operations for

drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, such operations shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease and in such event operations for drilling shall be deemed to have been commenced on said land within the meaning of paragraph 5 of this lease; and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled unit. Such allocation shall be on an acreage basis—that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease (or in each such separate tract) and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered as production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. The formation of any unit hereunder shall not have the effect of changing the ownership of any shut-in production royalty which may become payable under this lease. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interest as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but Lessee shall nevertheless have the right to pool as provided above with consequent allocation of production as above provided. As used in this paragraph 4, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

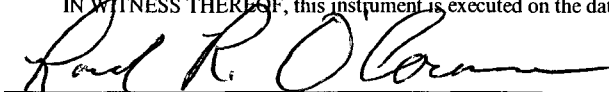
- 5) If at the expiration of the primary term, oil or gas is not being produced on said land, or from the land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 90 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas, is produced from said land, or from the land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas, is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 90 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 90 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas, is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 330 feet of and draining the leased premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.
- 6) Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipelines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without Lessor's consent.
- 7) The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns; but no change or division in ownership of the land, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part, liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8) The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or reversion of the estate created hereby nor be grounds for cancellation hereof in whole or in part. No obligation reasonably to develop the leased premises shall arise during the primary term. Should oil or gas in paying quantities be discovered on said premises, then after the expiration of the primary term, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator, but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities. If after the expiration of the primary term, Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument.
- 9) Lessor agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land, either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with right to enforce same and apply royalties accruing hereunder toward

satisfying same. Without impairment of Lessee's rights under the warranty in event of failure of title, it is agreed that if this lease covers a less interest in the oil or gas, in all or any part of said land than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), or no interest therein, then the royalties, and other monies accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. All royalty interest covered by this lease (whether or not owned by Lessor) shall be paid out of the royalty herein provided. Should any one or more of the parties named above as Lessor's fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

- 10) Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing any oil or gas therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation force majeure, and Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the lease premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.
- 11) Notwithstanding anything contained herein to the contrary, at the expiration of the primary term hereof, this lease shall terminate as to all lands which are not included with a proration unit established by the New Mexico Oil Conservation Commission for wells producing in paying quantities in order to obtain a maximum production allowable per well, unless Lessee is engaged in drilling operations or Lessee has completed a well within one hundred eighty (180) days of the expiration date of the primary term either as a dry hole or a producer. If Lessee (i) has completed a well as a commercial producer or abandoned as a dry hole within 180 days prior to expiration of the primary term or (ii) is engaged in actual drilling or reworking operations on a well at the expiration of the primary term, which drilling or reworking operations subsequently result in completion as a producer or abandonment as a dry hole, then this lease shall remain in full force and effect and Lessee shall have its option, but not the obligation, to conduct a continuous development program on the lease premises. If Lessee elects to conduct such program, it shall then commence, at its sole cost, risk, and expense, the drilling of a well at a location of its choice on the lease premises or lands pooled therewith within 180 days from (1) completion or abandonment of said well drilled or reworked and completed over the expiration of the primary term or (2) if a well was drilled, reworked and completed or abandoned such well during the primary term, within 180 days from the expiration of the primary term. Thereafter, not more than 180 days shall lapse between completion of one well and the commencement of the actual drilling operation on the said succeeding well. After the expiration of the primary term or the continuous drilling program, whichever occurs last, Lessee shall release all acreage not dedicated to a producing proration unit for wells producing in paying quantities in order to obtain a maximum production allowable per well as prescribed by the New Mexico Oil Conservation Commission, as well as all depths and horizons which are at least one hundred feet (100) below the "stratigraphic equivalent of the deepest depth drilled by Lessee and capable of producing in paying quantities" in each well which it included within the boundaries of a producing proration unit. A well shall be determined to be completed on the day Lessee releases the drilling rig used to drill such well, or the date such rig is moved off the location, whichever date occurs first, and a well shall be determined to be commenced when such well is spudded.
- 12) **INDEMNITY:** Lessee shall indemnify and hold Lessor, its heirs, successors and assigns, harmless from any and all liability, claims, demands, and causes of action in any way arising from Lessee's operations on the lease premises, or acts based upon any theory of negligence, willful misconduct, and liability without fault or other.
- 13) **ENVIRONMENTAL CONDITION OF THE LEASE PREMISES:** Lessee acknowledges that Lessor has not performed any environmental audits on the lease premises and that Lessor makes no representation concerning the environmental conditions or quality of the lease premises. Lessor leases, lets and demises the lease premises to Lessee "AS IS" and makes no warranties concerning the environmental quality or condition of the lease premises, including ground water, or whether the lease premises complies with state or federal environmental law standards or regulations.
- 14) **FURNISHING OF INFORMATION:** Lessee shall promptly furnish the Lessor copies of those portions of all Title Opinions prepared with respect to Lessor's mineral interest in the lease premises and copies of all official forms filed with federal or state agencies with respect to wells drilled on the lease premises or lands pooled therewith.
- 15) **TIMELY PAYMENT OF LESSOR'S RESERVED ROYALTY:** Within one hundred twenty (120) days following the actual date of first sale of oil or gas from a well located on the lease premises, or lands pooled therewith, Lessee shall pay, or cause to be paid the Lessor such sums as shall have accrued to Lessor as royalty under this lease and thereafter such payment shall be made monthly without necessity of the execution by the Lessor, or any other party, of a division order or transfer order. In the event the Lessor is forced to pursue collection action, Lessee shall reimburse Lessor for all reasonable attorney fees and other costs and expenses incurred in connection with any legal action or other collection action.
- 16) **OPERATION IN COMPLIANCE WITH LAW:** All operations conducted by Lessee pursuant to this oil and gas lease shall be conducted at the sole risk and expense of Lessee in a proper and workmanlike manner and in accordance with all applicable laws and regulations of the constituted authorities.

IN WITNESS THEREOF, this instrument is executed on the date first above written.

By:



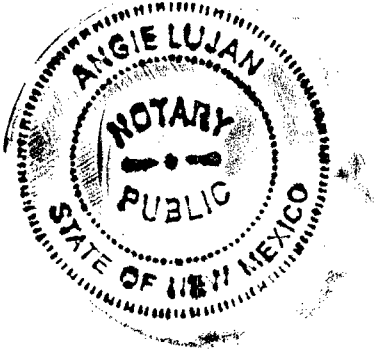
Ronal R. O'Connor, as his sole and separate property

ACKNOWLEDGMENT

STATE OF New Mexico §
COUNTY OF Eddy §
§

This instrument was personally acknowledged before me on this 28th day of November, 2007,
by Ronal R. O'Connor, as his sole and separate property.

Angie Lujan
Notary Public for the State of New Mexico
Notary's commission expires: 2-20-2011



ng:s/mike/cassdraw/OGL/OGL_Ron O'Connor 102607

RECEPTION NO: 0714172 STATE OF
NEW MEXICO, COUNTY OF EDDY
RECORDED 11/28/2007 11:59 AM
BOOK 0718 PAGE 0685 C. Cook
DARLENE ROSPRIM, COUNTY CLERK

