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**OGX Resources LLC**

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*Brooks*

November 10, 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

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:

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 an oil and gas lease from Mark David Porter; therefore, his interest will not be subject to the order. A copy of this lease is enclosed. It has been sent to Eddy County for recording and we can furnish you a recorded copy if you need it for your files. Please advise.

In our letter to you dated September 17, 2008, we submitted actual well costs in the amount of \$5,117,196.51. In accordance with paragraph 10 of Order No. R-12896, forty-five (45) days have elapsed since your receipt of these costs and we have not received notification from your office, or directly from any of the force-pooled parties, of any objections to these well costs. Therefore, we assume that the well costs submitted are deemed to be "reasonable well costs." Will your office be sending written confirmation of this determination?

Yours very truly,

OGX RESOURCES LLC



Kaye Smith

Enclosure

cc Otis Adams, Accounting/OGX Resources LLC

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## OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made this 29<sup>th</sup> day of October, 2008, between **Mark David Porter, dealing in his sole and separate property**, as Lessor (whether one or more), whose address is P.O. Box 5331, Carlsbad, NM 88221 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 **three (3) years** 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 1/5<sup>th</sup> (one-fifth) 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 1/5<sup>th</sup> (one-fifth) 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 1/5<sup>th</sup> (one-fifth) 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, 1/5<sup>th</sup> (one-fifth) 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 1/5<sup>th</sup> (one-fifth) of the amount realized from the sale of gasoline or other products extracted therefrom and 1/5<sup>th</sup> (one-fifth) 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



**Exhibit "A"**

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

Section 34: NE/4

Eddy County, NM

Commencing at the Southwest corner of Block 12; thence East along the South line of said Block 392 feet to its intersection with the West line of US Highway No. 285; thence Northwesterly along said West highway line 513 feet to its intersection with the West line of said Block 12; thence South along the West line of Block 12 a distance 356 feet to the point of beginning (1.598 acres);

All that part of Block 20 lying West of a line extending from Northwest to Southeast, intersecting the West and South boundary lines of said block and being at all points 150 feet distant, measured at right angles, from the centerline of the main line of the AT&SF Railroad (2.40 acres);

All of Block 21 Except a tract in the Northeast corner, 100 feet wide, the West boundary of which is parallel to the centerline of the AT&SF Railroad, and intersects the North and East lines of said Block 21 (9.17 acres);

Block 22 (11.34 acres); and

The West 366.6 feet of Block 23 described by metes and bounds as follows: Commencing at the Southwest corner of said Block 23; thence East along the South boundary thereof 366.6 feet; thence North parallel to the West boundary of said Block to the intersection with the North boundary of said block; thence West 366.6 feet more or less to the Northwest corner of said block; thence South along the West boundary 676 feet to the point of beginning (5.864 acres),

collectively containing 30.372 acres, more or less

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"*