

CONTINGENCY PLAN FOR HYDROGEN SULFIDE DISCHARGE

DRILLING OPERATIONS

- I. **HYDROGEN SULFIDE PHYSICAL PROPERTIES AND TOXICITY** - Hydrogen sulfide is extremely toxic. The acceptable concentration for eight-hour exposure is 20 ppm, which is .002% by volume. Hydrogen sulfide is heavier than air (specific gravity - 1.192) and is colorless. It forms an explosive mixture with air between 4.3 and 46.0 volume percent. Toxicity data for hydrogen sulfide and various gasses are compared in the table below.

Common Name	Chemical Formula	Sp. Gravity (Air =1)	Threshold Limit	Hazardous Limit	Lethal Conc.
Hydrogen Cyanide	HCN	0.94	10 ppm	150 ppm	300 ppm
Hydrogen Sulfide	H ₂ S	1.18	10 ppm * 20 ppm **	250 ppm/hr	600 ppm
Sulfur Dioxide	SO ₂	2.21	5 ppm	--	1000 ppm
Chlorine	Cl ₂	2.45	1 ppm	4 ppm/hr	1000 ppm
Carbon Monoxide	CO	0.97	50 ppm	400 ppm/hr	1000 ppm
Carbon Dioxide	CO ₂	1.52	5000 ppm	5%	10%
Methane	CH ₄	0.55	9%	Combustable above 5% in air	--

*Threshold Limit - concentration at which it is believed that all workers may be repeatedly exposed day after day without adverse effects, 10 ppm = 1972 ACGIH concentration (American Conference of Governmental Industrial Hygienist).

**Threshold Limit = 20 ppm - 1966 ANSI acceptable ceiling concentration for eight-hour exposure (based on a 40-hour week) per OSHA Rules and Regulations (Federal Register, Vol. 37, #202, Part II, dated October 18, 1972).

SEP 22 2014

- II. **PHYSICAL EFFECTS OF HYDROGEN SULFIDE** - The physiological effects of hydrogen sulfide are summarized in the table below.

<u>Percent Vol.</u>	<u>Concentration ppm</u>	<u>Physical Effects</u>
0.001	10	obvious and unpleasant odor.
0.002	20	Safe for 8-hour exposure.
0.01	100	Kills smell in 3 to 15 minutes, may sting eyes and throat.
0.02	200	Kills smell shortly, stings eyes and throat.
0.05	500	Dizziness, breathing ceases in a few minutes, needs prompt artificial resuscitation.
0.07	700	Unconscious quickly, death will result if not rescued promptly.
0.10	1000	Unconscious at once, followed by death within minutes.

- III. **ACCIDENTAL RELEASE OF HYDROGEN SULFIDE** - The possible release of hydrogen sulfide gas could result from leakage at either wellhead, flow lines, separators or drill string at this drilling location.

- A. In the event of an accidental release, the tool pusher, supervisor or agent of the operator in the vicinity at the time of the discharge will be in charge of all activities on the ground and shall be responsible for the following.
1. Notify all personnel, Company or outside, that are in the area to evacuate as soon as possible. This includes drilling rig crews, roustabout gangs, supervisory personnel, maintenance personnel, sales representatives, farm or ranch hands, visitors and all others that may be in the vicinity.
 2. Notify the County Sheriff's office, and the Department of Public Safety, and request their assistance to provide road blocks and direct traffic away from the drilling location. They should also be asked to assist in the evacuation of residents, if any, in affected area.
 3. Alert local Hospital and Fire Department in the event that medical services or ambulance assistance is needed.

4. Call the Operations Manager in the Midland Office and advise him of the nature and extent of the emergency situation.
 - B. Operations Manager or his assistant will notify the appropriate state and federal agencies that the contingency plan has been activated and what level and type of reaction has already been initiated.
 - C. Fasken's Senior Representative or employee on the scene will be in charge and shall initiate measures necessary to bring the gas flow under control securing whatever additional personnel and equipment are necessary to control the flow in the shortest time thereby reducing potential exposure of the general public to hydrogen sulfide.
- IV. **WEATHER CONDITIONS** - During adverse weather conditions such as drizzle, rain, fog, calm winds, and snow, hydrogen sulfide collects in low lying areas. These areas should be avoided, any personnel in such areas should be evacuated, and law enforcement personnel should be requested to keep people and traffic from entering. Should moderate, unidirectional winds be blowing hydrogen sulfide from the source of the discharge toward a populated area, residents and other personnel should be evacuated by law enforcement personnel who should then maintain an exclusion perimeter to avoid people from reentering the area until the emergency is over.
- V. **TERMINATION OF EMERGENCY AND FOLLOW-UP PROCEDURES** - Fasken's Senior Representative or employee on the scene, with the cooperation of the Senior Law Enforcement Officer in whose jurisdiction the emergency occurred, will declare the emergency terminated when there is no further danger to oilfield personnel or general public. This will occur only after a sufficient number of gas measurements in the vicinity have been made by a qualified technician showing that hydrogen sulfide concentration is below the 20 ppm threshold. In addition, the Operator's Senior Representative or employee will perform the following duties connected with the emergency:
- A. Notify all cooperating law enforcement agencies and emergency medial services that the emergency has been terminated.
 - B. Notify all evacuees that they may return safely to their residences or job sites.
 - C. Make an estimate of damages and/or expenses incurred in the control of the emergency, the evacuation of any persons and the destruction of property, if any, including domestic animals and livestock. He is to make an itemized list of all such damages and/or expenses along with their addresses, and any other specific information pertinent to the situation. He is to deliver this list to the Operations Manager as soon as possible.
 - D. **UNDER NO CIRCUMSTANCE** are damage estimates, names of affected personnel, if any, or any other information pertaining to the emergency to be given to the press. Public information regarding the emergency will be issued by headquarters office in Midland, Texas.
- VI. Copies of the Contingency Plan are available in Fasken's office in Midland, Texas.
- VII. This plan is subject to approval of the state and federal agencies and shall be revised as required.

HOBBS OCD

SEP 19 2014

RECEIVED

FASKEN OIL AND RANCH, LTD.

6101 Holiday Hill Road

Midland, TX 79707

CONTINGENCY PLAN FOR HYDROGEN SULFIDE DISCHARGE

DRILLING OPERATIONS

Fasken Oil and Ranch, Ltd.

H2S Contingency Plan

Emergency Phone Numbers

Laguna "16" State No. 4H

Fasken Oil and Ranch, Ltd.

432 687-1777

Key Personnel

Tommy Taylor, Drilling Manager

432 556-2228

Cory Frederick, Drilling Engineer

432-288-0086

Deryl Briles, Drilling Foreman

432 556-4269

Jimmy Davis, Operations Manager

432 557-5668

Hobbs, Lea County, New Mexico

Ambulance

911

State Police

911 or 575 392-5580

Sheriff's Office

911 or 575 396-3611

Fire Department

911 or 575 397-9308

Local Emergency Planning Committee

575 393-2870

New Mexico Oil Conservation Division

575 393-6161

Carlsbad, Eddy County, New Mexico

Ambulance

911

State Police

911 or 575 885-3138

Sheriff's Department

911 or 575 887-7551

Fire Department

911 or 575 885-3125

Local Emergency Planning Committee

575 887-7553

Bureau of Land Management

575 887-6544

New Mexico Oil Conservation Division (Artesia)

575 748-1283

Statewide and National Emergency Numbers

New Mexico Department of Homeland Security And Emergency Management	505 476-9600
New Mexico State Emergency Operations Center (24 Hour Number)	505 476-9635
National Emergency Response Center	800 424-8802

Other Numbers for Emergency Response

Boots & Coots IWC	800 256-9688 or 281 931-8884
Cudd Pressure Control	432 563-3356
MCH Care Star Flight Service (air ambulance)	432 640-4000
Aerocare (air ambulance)	806 725-1111

Fasken Oil and Ranch, Ltd.

Laguna "16" State No. 4H

Additional Remarks

Please find attached the Cooperative Development Agreement between Fasken Oil and Ranch, Ltd., Intrepid, and Mosiac concerning the drilling and completeing of wells in this section.

5/14/12

**COOPERATIVE DEVELOPMENT AGREEMENT
FOR SECTION 16, TOWNSHIP 20 SOUTH, RANGE 32 EAST, NMPM,
LEA COUNTY, NEW MEXICO**

This Cooperative Development Agreement (this "Agreement") is dated effective as of May 17, 2012 ("Effective Date"), by and between Fasken Oil and Ranch, Ltd. ("**Fasken**"), Intrepid Potash – New Mexico, LLC ("**Intrepid**"), Mosaic Potash Carlsbad, Inc. ("**Mosaic**") (individually a "Party" and collectively the "Parties"), and the State of New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division ("**NMOCD**"), which is joining this Agreement solely for the purposes set forth in paragraph 10.

RECITALS

A. Fasken holds oil and gas leases issued by the New Mexico State Land Office that cover all of Section 16, Township 20 South, Range 32 East, N.M.P.M., in Lea County, New Mexico ("**Section 16**"), as more fully described in Exhibit A hereto.

B. All other persons or entities other than Fasken that own working, operating, record title, operating right, and/or back-in or reversionary interests in the oil and gas leases identified in Exhibit A hereto, the Laguna State No. 1 well in the SE/4 of Section 16, and/or any oil and gas unit(s) that include any or all of Section 16 are identified in Exhibit B hereto and shall be referred to herein as the "Section 16 Interest Owners".

C. Fasken has applied to the NMOCD for the drilling of an additional oil and gas well ("Laguna State Well No. 2") in the NW/4 of Section 16.

D. Intrepid and Mosaic (referred to individually as a "Potash Lessee" and collectively as the "**Potash Lessees**") currently hold potash leases covering certain lands in Section 16 and the eight sections that have a common section line with, or have a common corner with, Section 16 (the "**Nine Section Block**"). Each of Intrepid and Mosaic represent that with respect to the potash leases which it owns in the Nine Section Block, it owns the entire lease and has no co-owners in such leases.

E. The NMOCD is the state agency authorized by New Mexico law to regulate the drilling of oil and gas wells in any area that potentially contains commercial deposits of potash. See NMSA 1978, § 70-2-12.

F. Fasken's proposed Laguna State Well No. 2 in the NW/4 of Section 16 has been the subject of proceedings before the NMOCD involving Fasken and Intrepid, and is currently the subject of an appeal to the First Judicial District Court, Santa Fe County, New Mexico styled as *Intrepid Potash-New Mexico, LLC, v. The New Mexico Oil Conservation Commission*, No. D-101-CV-2010-03754 (the "Proceedings").

AGREEMENT

To resolve the existing dispute between Fasken and Intrepid about development issues in Section 16, and to provide assurances with respect to future potentially competing development

plans associated with the production of oil and gas and the mining of potash in or around Section 16, the Parties acknowledge and agree to the following:

1. **Strawn/Morrow Wells.** Fasken and the Section 16 Interest Owners may drill, and Intrepid and Mosaic agree to support the drilling of, (i) the Laguna State Well No. 2, at the location specified in the Proceedings and (ii) two additional vertical wells to the Strawn/Morrow formations at the following locations:
 - a. A location adjacent (i.e within an approximately 10 acre square well pad, with the abandoned well at its center) to the abandoned Texas-State A No. 2 Well in the SE/4 of the SW/4 of Section 16, and
 - b. A location adjacent (i.e within an approximately 10 acre square well pad, with the abandoned well at its center) to the abandoned Halfway State No. 1 Well in the SW/4 of the NE/4 of Section 16.
2. **Drilling islands for additional wells.** Fasken and the Section 16 Interest Owners may drill additional vertical, horizontal or directional wells to other producing formations from drilling islands adjacent (i.e within an approximately 10 acre square well pad, each with the below-referenced well at its center) to the following surface locations:
 - a. The existing Fasken operated Laguna 16 State Well No. 1 in the SE/4 of Section 16;
 - b. The abandoned Texas-State No. 2-A Well located in the SW/4 of the SW/4 of Section 16;
 - c. The abandoned Texas-State A No. 2 Well located in the SE/4 of the SW/4 of Section 16;
 - d. The abandoned Winnetou State No. 1-YS well located in the SW/4 of the SE/4 of Section 16;
 - e. The location of the proposed Laguna 16 State No. 2 Well, located in the SE/4 of the NW/4 of Section 16; and
 - f. The abandoned Halfway State No. 1 Well located in the SW/4 of the NE/4 of Section 16.

Any wellbores on these drilling islands (as originally drilled and as such wells may be deepened, recompleted, sidetracked and/or reworked) (i) shall be drilled vertically from the surface to a depth below the base of the McNutt Potash Member of the Salado Formation and (ii) from such depth may be drilled horizontally or directionally as the operator deems appropriate to reach the target formations, provided that, except for the vertical portion of a wellbore described above, a wellbore shall not enter, penetrate or cross into any depths above the Base of the

McNutt Potash Member of the Salado Formation. The "Base of the McNutt Potash Member of the Salado Formation" shall mean the depth that is 100 feet below the base of Marker Bed 126 (or the stratigraphic equivalent) within the Salado Formation as found at a subsurface depth of 1993 feet in the Laguna 16 State No. 1 Well, , located in the SE/4 of Section 16, T. 20 S., R. 32 E., N.M.P.M., Eddy County, New Mexico. The wells permitted by paragraph 1 above and this paragraph 2 are herein referred to as the "Allowed Wells."

3. **No additional locations.** Fasken and the Section 16 Interest Owners will not propose, stake or submit applications for permits to drill or drill (i) any well in Section 16 other than the Allowed Wells or (ii) drill any well with a surface location outside of Section 16 such that the wellbore of such well enters, penetrates or crosses into any depths within Section 16 that are above the Base of the McNutt Potash Member of the Salado Formation.
4. **NMOCD.** Fasken and the Section 16 Interest Owners acknowledge and agree that the NMOCD is solely responsible for the permitting of any and all wells in Section 16 and the Potash Lessees make no guarantees or representations as to NMOCD's approval or non-approval of the drilling of any of the Allowed Wells. Denial by NMOCD of the right to drill any or all Allowed Wells shall not void this Agreement in any way or entitle Fasken or the Section 16 Interest Owners to any payment, relief or performance by the Potash Lessees. The effectiveness and enforceability of this Agreement is not subject to or conditioned upon approval, concurrence, or acceptance of this Agreement by any state agency.
5. **Section 16 Interest Owners.** Fasken represents and warrants that it has identified in Exhibit B hereto all Section 16 Interest Owners. Fasken shall obtain and deliver to the Potash Lessees a Ratification of Development Agreement, in the form attached as Exhibit C hereto, (each a "**Ratification**") from each of the persons and entities identified in Exhibit B. The effectiveness of this Agreement is expressly subject to Fasken obtaining and delivering to Intrepid an executed Ratification from each and all of the persons and entities identified in Exhibit B. Fasken agrees to defend, hold harmless and indemnify the Potash Lessees and their past, present and future officers, directors, shareholders, employees, members, independent contractors, attorneys, insurers, heirs, parents, subsidiaries, successors, assigns, and affiliates (the "**Potash Releasees**") from any and all actions, causes of action, claims, demands, costs and expenses, including attorneys' fees, of every kind and nature whatsoever, in law or in equity, brought against any of the Potash Releasees by any of the Section 16 Interest Owners that Fasken failed to identify in Exhibit B hereto as to any matter relating to or arising from that person or entity's right, title or interest in the oil and gas leases

identified in Exhibit A hereto, the Laguna State No. 1 well in the SE/4 of Section 16, and/or any oil and gas unit(s) that include any or all of Section 16 or any actions by any such person or entity that such person or entity would have been prohibited from taking had such person or entity executed a Ratification.

6. **Potash leases in Section 16.** Fasken and the Section 16 Interest Owners will not oppose any applications by either Potash Lessee for a potash lease in Section 16.
7. **Earliest Plugging Date and abandonment obligation for wells subject to this Agreement.** Each Allowed Well shall be permitted to produce from the date that the Allowed Well is completed until at least the date that is thirty years and ten months after the Effective Date of this agreement (the "**Earliest Plugging Date**"). The Allowed Wells shall be subject to the following notice and abandonment obligations:
 - a. **Notice of encroaching mining operations.** At any time after 180 days prior to the Earliest Plugging Date, either Potash Lessee may provide written notice to Fasken stating that (i) its mining operations are within one mile of Section 16 and (ii) it is expected its mining operations will proceed to the point where within 180 days mining operations will be within 1/2 mile of the vertical portion of an Allowed Well. Any such notice shall be accompanied by a stamped report from a professional mining engineer stating that, in his or her professional judgment, and assuming the well is properly plugged, that mining operations will be conducted within 1/2 mile of the well within 180 days.
 - b. **Abandonment obligation.** Upon receipt of the notice set forth in subparagraph (a), Fasken and the Section 16 Interest Owners will be obligated to plug and abandon the well within 180 days to the standards then in effect in the State of New Mexico at Fasken's sole cost, risk and expense. It is understood and agreed that the plugging and abandonment of a well hereunder is subject to the approval of the State of New Mexico. The Parties shall work cooperatively, in good faith and in a timely manner to obtain all necessary approvals to enable Fasken to timely meet the plugging obligation. Any delays in plugging due to action or inaction of the State of New Mexico, Fasken, or a third party shall not have any impact on the validity of the notice provided hereunder.
 - c. **Subsequent changes to the 1/2 mile regulatory provisions.** The notice and plugging obligations set forth in subparagraphs (a) and (b) herein are based upon the 1/2 mile "safety buffer" currently recognized in NMOCD Order R-111-P. In the event the applicable state regulations no longer reference a 1/2 mile "safety buffer" for the type of mining being conducted and the producing oil or gas well at issue, then the notice and subsequent plugging obligations shall be adjusted to meet the then applicable safety buffer distances.

- d. Abandonment liability. Fasken and the Section 16 Interest Owners shall have sole responsibility for any compensatory royalties or other payments to the lessor, or any other person under any oil and gas leases in Section 16 or any oil and gas unit(s) which include part of all of Section 16, or under any other agreements or applicable laws, rules or regulations that may arise as a result of any loss of production from said oil and gas lease or unit. The Potash Lessees shall have no obligation to contribute to, or pay or reimburse Fasken or the Section 16 Interest Owners for any such payment and Fasken shall indemnify, defend and save and hold harmless the Potash Lessees from and against any claims therefore.
- e. Continuing obligation to supplement notice. In the event the mining plans forming the basis for a notice sent pursuant to the provisions of subparagraph (a) herein change, the affected Potash Lessee shall immediately notify Fasken of this change and the abandonment obligation shall be extended until such time as a new notice is issued pursuant to subparagraph (a) herein.

8. Confidentiality. The Parties (including the Section 16 Interest Owners for purposes of this paragraph) agree that any information furnished by a Party to one or more other Parties under the terms of this Agreement that is designated as "Confidential" by the disclosing Party shall be kept confidential and not disclosed to any other Party or any non-party to this Agreement, provided that such information may be disclosed: (i) if a Party is required to make such disclosure under the rules and regulations of the United States Securities and Exchange Commission or other applicable law or under the rules and regulations of the New York Stock Exchange (or other public stock exchange of similar reputation and standing) on which the shares of such Party are listed, then the same may be made without the approval of the other Party (the opinion of counsel of the Party making such announcement or statement shall be conclusive evidence of such requirement by law, rule or regulation), (ii) to the extent necessary to enforce this Agreement, (iii) to a Party's attorneys or consultants to the extent necessary for the Party to evaluate and act upon the Confidential Information, or (iv) if such disclosure is legally required to be made in a judicial, administrative, or governmental proceeding pursuant to a valid subpoena or other applicable order; provided, however, in the case of disclosure under this clause "(iv)" the disclosing Party shall give the other Party at least ten days' prior written notice (unless less time is permitted by the applicable proceeding) before disclosing the existence of or any of the terms and conditions of this Agreement. This paragraph 8 shall not apply to any information that (1) is in the recipient's possession prior to disclosure to the recipient, (2) is in the public domain prior to disclosure to recipient, or (3) lawfully enters the public domain through no violation of this Agreement after disclosure to the recipient. It is further provided that the Parties acknowledge that this Agreement will be disclosed to the State Land Office of State of New Mexico, and to the New Mexico Oil Conservation Division, and that such disclosure is expressly permitted by this provision.

9. **Information with respect to potash mining operations.** In order to make informed financial decisions with respect to Allowed Wells, Fasken may request information from each Potash Lessee about the current status of, and future plans for, its mining operations in the Nine Section Block. This right to information shall be exercised no more than once per calendar year and shall extend until such time as Fasken has abandoned all of the Allowed Wells that it drills subject to this Agreement. Fasken's request for information shall include a description of its contemplated or planned new development activities and a stamped report by a professional petroleum engineer that, in his or her professional judgment, Fasken's plans are technically feasible and allowed under the operative state regulations. Each Potash Lessee shall provide separately to Fasken, in response to such request, (a) the status of its mining operations in the Nine Section Block, (b) the distance from the specific well referenced in Fasken's notice to any such mining operations, (c) the expected rate and direction of those mining operations, and (d) the expected date, to the best of its knowledge and if known at that time, upon which mining operations will be within a ½ mile of the well. The information provided by each Potash Lessee shall be deemed Confidential and Fasken shall not share any information furnished by a Potash Lessee with the other Potash Lessee. The Potash Lessees shall respond to such request for information within 60 days of receipt. In the event that the Potash Lessees fail to respond to such request for information, Fasken shall notify them of the amount of its planned or contemplated investment in the new development activities and the projected time period which it anticipates will be necessary in order to recover its investment and a reasonable return thereon. Each Potash Lessee shall then have an additional 30 days from receipt of such notice within which to provide the requested information. If, at the end of this 30 day notice period, either Potash Lessee has not provided the requested information, then such non-responding Potash Lessee's right to notify Fasken of encroaching mining operations under Section 7.a. above and to thereby require Fasken to abandon an Allowed Well hereunder shall be extended to the end of the time period specified in Fasken's notice under this provision. The failure of one Potash Lessee to respond to the second notice under this provision shall not affect the rights of the Potash Lessee which does so respond to notify Fasken of encroaching mining operations and to require abandonment of an Allowed Well under Paragraph 7 hereof.
10. **Administrative approval.** The NMOCD acknowledges and agrees that submission of an Application for Permit to Drill for an Allowed Well, filed by Fasken or a Section 16 Owner that retains its interest in Section 16, which APD is accompanied by a Memorandum of this Development Agreement, constitutes compliance with Section G(3) of existing Rule R-111-P and is otherwise sufficient to permit processing for administrative approval of the well by the NMOCD in collaboration with the State Land Office.
11. **Settlement Agreement.** This effectiveness of this Agreement as to Fasken and Intrepid shall be subject to these Parties' execution of the Settlement Agreement of

this same date and these Parties' execution and filing, through counsel, of all documents necessary to dismiss the Proceedings.

12. **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of each Party hereto and the Section 16 Interest Owners, as well as their legal representatives, successors, and assigns.
13. **Counterparts.** This Agreement may be executed and delivered by each Party hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute but one and the same agreement.
14. **Memorandum of Agreement.** This Agreement shall not be filed for record in the records of Lea County, New Mexico. However, the Parties agree to execute a Memorandum of this Agreement for the purpose of recording same in the county records.
15. **Power and Authority.** The Parties and the Section 16 Interest Owners each represent that they have all requisite power and authority to enter into this Agreement and to perform their respective obligations under this Agreement.
16. **No Waiver; Amendment.** No waiver of any default or any obligation by any Party to this Agreement or the Section 16 Interest Owners shall be implied from any failure by any other Party to take any action with respect to the default or unperformed obligation. This Agreement may not be amended nor any rights hereunder waived except by an instrument in writing signed by the Party to be charged with such amendment or waiver and delivered by such Party to the Party claiming the benefit of such amendment or waiver.
17. **Covenants to Run with the Land; After-Acquired Interests; Binding on Assignees.**
 - a. *Rights Assignable.* If Fasken or the Section 16 Interest Owners assign any of their interests in Section 16, any oil and gas unit covering part or all of Section 16, or any Allowed Well to any person or entity, the assigning party shall assign its rights and cause such assignee to assume its obligations hereunder insofar as the same cover or relate to the assigned interests. No such assignment shall require the consent of any non-assigning party. If Intrepid or Mosaic assign any of their interests in the Nine Section Block, the assigning Party shall assign its rights and cause such assignee to assume its obligations hereunder insofar as the same cover or related to the assigned interests. No such assignment shall require the consent of any non-assigning party.

- b. *Run With Land.* Each of the waivers, covenants, agreements, conditions, restrictions, rights, and obligations set forth in this Agreement (i) shall run with and bind the interests of the Parties and the Section 16 Interest Owners in Section 16, and of the Potash Lessees in the Nine Section Block, and their respective successors and assigns, (ii) create equitable servitudes on such interests in favor of and appurtenant to the real property benefited thereby, and (iii) shall inure to the benefit of the Parties to this Agreement, and their successors, and assigns.
 - c. *After-Acquired Interests.* This Agreement shall cover all interests of the Parties and the Section 16 Interest Owners in Section 16 and any oil and gas units that cover part or all of Section 16, and the interests of the Potash Lessees in the Nine Section Block, whether owned on the Effective Date or acquired by a Party or the Section 16 Interest Owners after the Effective Date.
 - d. *Assumption by Successors.* Each Party and the Section 16 Interest Owners shall cause any assignee or successor to any of its interests in Section 16 and any oil or gas unit covering part or all of Section 16, and each Potash Lessee shall cause any assignee or successor of its interests in the Nine Section Block, to expressly assume the assignor's obligations under this Agreement insofar as they relate to the assigned interests. No such assignment by a Party or Section 16 Interest Owner shall be effective until such assumption has been furnished to the other Parties to this Agreement.
18. **Notices.** Any required notice or communication under this Agreement shall be in writing and shall be effective when personally delivered or when sent via certified mail, postage prepaid, and addressed as follows:
- a) Fasken: Fasken Oil and Ranch, Ltd.
Attention: General Manager
Attention: Land Manager
Attention: General Counsel
Fasken Oil and Ranch, Ltd.
303 West Wall, Suite 1800
Midland, Texas 79701
 - b) Intrepid:
Attn: Landman
Attn: President
Attn: General Counsel
Intrepid Potash, Inc.
707 17th Street, Suite 4200
Denver, CO 80202
 - c) Mosaic Potash Carlsbad Inc.:
Attn: Mine Engineering Superintendant
Attn: Mine Manager

Attn: General Manager
P. O. Box 71
Carlsbad, NM 88220

d) NMOCD: New Mexico Energy, Minerals and Natural Resources
Development, Oil Conservation Division
Attn: General Counsel
1220 South St. Francis Drive
Santa Fe, NM 87505

19. **Attorneys' Fees.** In the event a Party institutes any legal action or proceeding for the enforcement of any right or obligation contained in this Agreement, the prevailing Party shall be entitled to recover its costs and reasonable attorneys' and experts' fees in the preparation and prosecution of that action or proceeding.
20. **Entire Agreement.** This Agreement contains the complete understanding and agreements of the Parties and the Section 16 Interest Owners with respect to the matters referred to in this Agreement, and all prior representations, negotiations, and understandings are superseded by this Agreement.
21. **Severability.** It is the intent of the Parties and the Section 16 Interest Owners that the provisions contained in this Agreement shall be severable. Should any provisions, in whole or in part, be held invalid as a matter of law, such holding shall not affect the other portions of this Agreement, and such portions that are not invalid shall be given effect without the invalid portion.
22. **No Third Party Beneficiaries.** This Agreement is intended only to benefit the Parties hereto and the Section 16 Interest Owners and their respective permitted successors and assigns. Except as expressly provided in this Agreement, nothing in this Agreement is intended to limit or otherwise waive any claim or recourse a Party may have against any person that is not a Party to this Agreement.
23. **Governing Law/Venue.** The substantive laws of the State of New Mexico shall govern the interpretation, validity, performance, and enforcement of this Agreement. The Parties and the Section 16 Interest Owners consent to jurisdiction and venue in the United States District Court for the District of New Mexico, Albuquerque Division (or, if such court does not have jurisdiction, any New Mexico State District Court in Eddy or Lea County, New Mexico) with respect to all claims arising under this Agreement. EACH OF THE PARTIES AND THE SECTION 16 INTEREST OWNERS HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED ON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT AND ANY AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONJUNCTION HERewith, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS

PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THIS AGREEMENT. Except as provided in Section 24, the Parties and the Section 16 Interest Owners also agree that as a condition precedent to filing litigation, any Party intending to assert a claim must first give the other Party written notice of the nature of the claim, and the essential facts supporting the claim, and if the issue cannot be resolved by discussions between upper management of the Parties, the Parties will engage in mediation with a mediator selected by their mutual agreement; if they are unable to agree upon a mediator within fifteen (15) business days of receipt of the notice of the claim, a mediator shall be appointed by the Albuquerque office of the American Arbitration Association; the mediator shall be experienced in complex contractual disputes concerning oil and gas development and mining operations. If the claims have not been finally resolved by the mutual agreement of the Parties within 60 days after receipt of the notice described above, any Party may commence litigation with respect to such claims.

24. **Injunctive Relief.** Each Party and the Section 16 Interest Owners agrees that if this Agreement is breached, or if a breach hereof is threatened, without limiting any other remedy available at law or in equity, an injunction, restraining order, specific performance and other forms of equitable relief shall be available to non-breaching Party. The mediation provisions of Section 23 shall not apply to seeking such relief. The Parties and the Section 16 Interest Owners acknowledge and agree that in the event of a breach of this Agreement, that any remedy at law may be inadequate and that the non-breaching Party would suffer immediate and irreparable injury, loss and damage; and, to the fullest extent not prohibited by applicable law, any action brought for such relief may be brought by the non-breaching Party upon ex parte application and without notice or posting of any bond, and the breaching Party expressly waives any requirement for notice or the posting of any bond. Any such relief or remedy shall not be exclusive, but shall be in addition to all remedies available at law or in equity.
25. **Waiver of Right to Rescission.** Each Party acknowledges that its right to specifically enforce this Agreement, its right to injunctive relief, and its right to monetary damages and other remedies at law or in equity (other than the rescission of this Agreement) shall be adequate compensation for breach of any representation, warranty, covenant or agreement contained herein or for any other claim arising in connection with or with respect to this Agreement. As such remedies shall be adequate, each Party waives any right to rescind this Agreement.
26. **Mutually Drafted.** The Parties stipulate and agree that this Agreement and the language used in this Agreement are the product of the Parties' efforts in consultation with their attorneys and other consultants and the Parties hereby irrevocably waive the benefit of any rule of contract construction which disfavors the drafter of an agreement or the drafter's specific language in an agreement.
27. **References.** References made in this Agreement, including use of a pronoun, shall be deemed to include where applicable, masculine, feminine, singular or plural,

individuals or entities. The word "including" shall mean "including, without limitation".

[signatures on next page]

Executed by the Parties as of the Effective Date:

Fasken Oil and Ranch, Ltd.

By: _____
Name: _____
Title: _____

Intrepid Potash-New-New Mexico, LLC

By: Martin D. Litt
Name: MARTIN D. LITT
Title: EVp, GC + Secretary

Mosaic Potash Carlsbad, Inc.

By: _____
Name: _____
Title: _____

The State of New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division is executing this Agreement solely for purposes of paragraph 10.

The State of New Mexico Energy, Minerals
and Natural Resources Department,
Oil Conservation Division

By: _____
Name: _____
Title: _____

Executed by the Parties as of the Effective Date:

Fasken Oil and Ranch, Ltd.

By: _____
Name: _____
Title: _____

Intrepid Potash-New-New Mexico, LLC

By: _____
Name: _____
Title: _____

Mosaic Potash Carlsbad, Inc.

By: William Boyer
Name: William Boyer
Title: General Manager

The State of New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division is executing this Agreement solely for purposes of paragraph 10.

The State of New Mexico Energy, Minerals
and Natural Resources Department,
Oil Conservation Division

By: _____
Name: _____
Title: _____

Executed by the Parties as of the Effective Date:

Fasken Oil and Ranch, Ltd.

By: _____
Name: _____
Title: _____

Intrepid Potash-New-New Mexico, LLC

By: _____
Name: _____
Title: _____

Mosaic Potash Carlsbad, Inc.

By: _____
Name: _____
Title: _____

The State of New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division is executing this Agreement solely for purposes of paragraph 10.

The State of New Mexico Energy, Minerals
and Natural Resources Department,
Oil Conservation Division

By: [Signature]
Name: JAMI BAILEY
Title: Director, OCD

Executed by the Parties as of the Effective Date:

Fasken Oil and Ranch, Ltd.

By: Charles F. Hedges, Jr.
Name: Charles F. Hedges, Jr.
Title: Vice President

Intrepid Potash-New-New Mexico, LLC

By: _____
Name: _____
Title: _____

Mosaic Potash Carlsbad, Inc.

By: _____
Name: _____
Title: _____

The State of New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division is executing this Agreement solely for purposes of paragraph 10.

The State of New Mexico Energy, Minerals
and Natural Resources Department,
Oil Conservation Division

By: _____
Name: _____
Title: _____

EXHIBIT A
OIL AND GAS LEASES

LEASE 1

Date: October 1, 2002
Lessor: State of New Mexico-Lease No. V06707
Lessee: Scott Exploration Inc.
Recorded: Book 1206, Page 617, Extended by Administrative OG Order 07-2 for a second 5
year term, expiring October 1, 2012, Recorded in Book 1533, Page 980
Covering: West Half of Section 16, T20S, R32E, NMPM, Lea County, New Mexico

LEASE 2

Date: October 1, 2002
Lessor: State of New Mexico-Lease V06719
Lessee: Scott Exploration Inc.
Recorded: Book 1206, Page 621
Covering: East half of Section 16, T20S, R32E, NMPM, Lea County, New Mexico

EXHIBIT B

[Section 16 Interest Owners]

Fasken Land and Minerals, Ltd.
303 West Wall, Suite 1800
Midland, TX 79701-5106

Breckenridge Partnership, Ltd.
Slash Exploration Limited Partnership
P. O. Box 1973
Roswell, NM 88202-1973
Attention: Mr. Armstrong

Legacy Reserves Operating LP
303 W. Wall, Suite 1400
Midland, TX 79701
Attention: Fred Schantz

**Hat Mesa Oil Company and
Hutchings Oil Company**
P. O. Box 1216
Albuquerque, NM 87103-1216
Attention: Sealy Hutchings Cavin, Attorney

G.Gail Mordka Family Trust
G. Gail Mordka, Trustee
1800 N. Grady
Tucson, AZ 85715-4531

Oas, LLC
P. O. Box 1513
Roswell, NM 88202-1513

Scott Exploration, Inc.
Worrall Investment Corporation
P. O. Box 1834
Roswell, NM 88202-1834
Attention: John Worrall

Barbe Development, LLC
P. O. Box 2107
Roswell, NM 88202-2107
Attention: Ken Barbe

Centennial LLC
P. O. Box 1837
Roswell, NM 88202-1837
Attention: Don Fedric

David Petroleum Corp.
116 West First Street
Roswell, NM 88203-4702
Attention: Ed David or Bill Owen

Tommy LaGrone
21 Citadel Drive
Amarillo, TX 79124-1421

Michael J. Norton III
60 Beach Avenue-Bay View
S.Dartmouth, MA 02748-1543

Read & Stevens, Inc.
P. O. Box 1518
Roswell, NM 88202-1518
Attention: Rory McMinn

EXHIBIT C

Form of Ratification of Development Agreement

RATIFICATION OF DEVELOPMENT AGREEMENT

**STATE OF NEW MEXICO
COUNTY OF LEA**

This instrument is executed on this _____ day of _____, 2012
and effective as of the _____ day of _____, 2012 by
_____ (hereinafter referred to as "Section 16 Interest Owners").

WITNESSETH:

A. WHEREAS, heretofore on the _____ day of _____, 2012, an agreement styled COOPERATIVE DEVELOPMENT AGREEMENT (FOR SECTION 16, TOWNSHIP 20 SOUTH, RANGE 32 EAST, N.M.P.M., LEA COUNTY, NEW MEXICO) was entered into by and between Fasken Oil and Ranch, Ltd., a Texas Limited Partnership, whose address is 303 West Wall, Suite 1800, Midland, Texas 79701, Intrepid Potash-New Mexico, LLC, a New Mexico limited liability company ("Intrepid") whose address is 707 17th Street, Suite 4200, Denver, Colorado 80202, and Mosaic Potash Carlsbad, Inc. a _____ ("Mosaic"), whose address is _____ and the New Mexico Oil Conservation Division/Commission ("NMOCD"), whose address is 1220 South St. Francis Drive, Santa Fe, New Mexico 87505, (the "Agreement") (a copy of which is attached hereto as Appendix I), as a part of the settlement of issues raised in proceedings before the NMOCD involving Fasken and Intrepid, which are currently the subject of an appeal to the First Judicial District Court, Santa Fe County, New Mexico, styled as *Intrepid Potash-New Mexico, LLC, v. The New Mexico Oil Conservation Commission*, No. D-101-CV-2010 03754 (the "Proceedings") and

B. WHEREAS, the terms and provisions of the Agreement affect oil and gas exploration, development and production, and potash development in the following lands, located in Lea County, New Mexico:

Township 20 South, Range 32 East N.M.P.M.
Section 16: All
("Section 16")

C. WHEREAS, certain terms and provisions of the Agreement affect potash development in Section 16 and the eight governmental sections with a common section line or cornering with Section 16, and

D. WHEREAS, Section 16 Interest Owner owns or may acquire certain working, operating, record title, operating rights, and/or back-in or reversionary interests in Section 16, the oil and gas leases identified in Exhibit A hereto, the Laguna State No. 1 well in the SE/4 of Section 16, and/or any oil and gas unit(s) that include any or all of Section 16 (such interests, including any

after-acquired interests of Section 16 Interest Owner in Section 16 or any oil and gas unit that covers part or all of Section 16, the "Oil and Gas Interests"), and

E. WHEREAS, Section 16 Interest Owner wishes to ratify, join and concur in all of the terms and provisions of the Agreement.

NOW THEREFORE, taking full cognizance of the terms, conditions, recitals and stipulations in the Agreement, and wishing to join and concur in the Agreement with respect to all of its right, title and interest in the Oil and Gas Interests, and in consideration of the covenants and agreements provided to Section 16 Interest Owner under the terms of the Agreement, Section 16 Interest Owner hereby joins and concurs in said Agreement to the full extent of its interest in the Oil and Gas Interests, and hereby recognizes, ratifies and confirms all terms, conditions, recitals and stipulations contained in the Agreement just as if same were set out fully and incorporated herein, it being the intention that this instrument shall express full concurrence as an owner of the Oil and Gas Interests, and shall have the same effect as if Section 16 Interest Owner had executed the Agreement as a party at the time of its execution. All of the terms and conditions of this Ratification of Development Agreement shall be binding upon, and shall inure to the benefit of, the Section 16 Interest Owner, and its heirs, successors and assigns.

Section 16 Interest Owner acknowledges, agrees and intends that (i) Intrepid will be relying on this Ratification of Development in settling the Proceedings, (ii) Intrepid and Mosaic will be relying on this Ratification of Development in not protesting the drilling of the Allowed Wells (as defined in the Agreement); (iii) Intrepid and Mosaic are intended third party beneficiaries of this Ratification of Development Agreement and each of them has the right to enforce the covenants, obligations, agreements and undertakings of Section 16 Interest Owner under this Ratification of Development and the Agreement, (iv) this Ratification of Development Agreement shall be irrevocable and shall run with the Oil and Gas Interests and bind Section 16 Owners, its heirs, successor and assigns and create equitable servitudes on such interests in favor of and appurtenant to the real property benefited thereby.

WITNESS my execution on this, the ____ day of _____ 2012, and effective
as of the _____ day of _____ 2012.

[signatures on next page]