



Lynda F. Townsend, CPL/ESA
Senior Landman

April 4, 2005

VIA UNITED PARCEL SERVICE

Mr. Jim Wakefield
Kaiser Francis Oil Company
6733 South Yale Avenue
Tulsa, OK 74136

Re: Chesapeake's Proposed KF State 4 #1
S/2 Section 4-21S-35E
Lea County, New Mexico

Dear Mr. Wakefield:

Pursuant to Chesapeake Operating, Inc.'s proposal on behalf of Chesapeake Exploration Limited Partnership ("Chesapeake") dated March 9, 2005, enclosed is Chesapeake's standard operating agreement. Please sign and return the signature pages to my attention and the address below.

Should you have any questions please give me a call.

Very truly yours,

Chesapeake Operating, Inc.

Lynda F. Townsend

Enclosures

W:\Permian\Operated Wells\KF State 4 #1\CAITransmittal Letters.doc

Chesapeake Energy Corporation
6100 N. Western Ave. • Oklahoma City, OK 73118 • P.O. Box 18496 • Oklahoma City, OK 73154-0496
405.879.9414 • fax 405.767.4251 • ltownsend@chkenergy.com

BEFORE THE
OIL CONSERVATION DIVISION
Case # 13492&13493 Exhibit No. __
Submitted By:
Chesapeake Inc.
Hearing Date: August 22, 2005

Stipulated Exhibit 13
NMOCD Case Nos. 13492 / 13493

CHK 000166

4/4/05

CUSTOMER ID (IF NECESSARY) Wakefield, Jim

COMPANY NAME Mr. Jim Wakefield

ATTENTION Kaiser Francis Oil Company

ADDRESS (STREET ADDRESS ONLY - NO P.O. BOX)

6733 South Yale Avenue

CITY Tulsa STATE OK ZIP 74136

PHONE # (918) 491-4510 RESIDENTIAL DELIVERY Y N

SERVICE TYPE (PLEASE CHECK ONE)

DOMESTIC SERVICES:

- NEXT BUSINESS DAY BY 10:30 AM
- NEXT BUSINESS DAY BY END OF DAY
- NEXT BUSINESS DAY **BY 8 AM**
- **ADD'L \$25.00 CHARGE**
- TWO DAY DELIVERY - AM
- TWO DAY DELIVERY - PM
- UPS GROUND (3-5 DAY)
- *SATURDAY DELIVERY*
- *ADDITIONAL \$10.00 CHARGE*
- USPS EXPRESS MAIL (P.O. BOX ONLY)
- \$ INSURANCE (IF VALUE EXCEEDS \$100)

INTERNATIONAL SERVICES:

- WORLDWIDE EXPRESS PLUS **BY 8:30 AM NEXT DAY**
- **TO CANADA - ADD'L \$40.00 CHARGE**
- WORLDWIDE EXPRESS BY 10:30 AM NEXT DAY
- WORLDWIDE EXPEDITED WITHIN 3 DAYS
- STANDARD GROUND ECONOMY
- *SATURDAY DELIVERY*
- *ADDITIONAL \$10.00 CHARGE*
- USPS EXPRESS MAIL (P.O. BOX ONLY)
- \$ INSURANCE (IF VALUE EXCEEDS \$100)

IF YOU HAVE ANY QUESTIONS ABOUT DELIVERY SERVICES AND TIMES, PLEASE CONTACT THE MAILROOM FOR SPECIFICS

ALL SERVICE TYPES ARE SUBJECT TO AVAILABILITY
PER AREA OF DELIVERY

SENDER Sara Caldwell

APPROVED BY *Synda A. Townsend*

CONTENTS: KF State 4 #1 JOA



Lynda F. Townsend, CPL/ESA
Senior Landman

April 4, 2005

VIA UNITED PARCEL SERVICE

Mr. Tim Reece
Samson Resources Company
Centennial Tower
200 N Loraine, Suite 1010
Midland, TX 79701

Re: Chesapeake's Proposed KF State 4 #1
S/2 Section 4-21S-35E
Lea County, New Mexico

Dear Mr. Reece:

Pursuant to Chesapeake Operating, Inc.'s proposal on behalf of Chesapeake Exploration Limited Partnership ("Chesapeake") dated March 9, 2005, enclosed is Chesapeake's standard operating agreement. Please sign and return the signature pages to my attention and the address below.

Should you have any questions please give me a call.

Very truly yours,

Chesapeake Operating, Inc.

Lynda F. Townsend

Enclosures

W:\Permian\Operated Wells\KF State 4 #1\JOA\Transmittal Letters.doc

Chesapeake Energy Corporation
6100 N. Western Ave. • Oklahoma City, OK 73116 • P.O. Box 18496 • Oklahoma City, OK 73154-0496
405.879.9414 • fax 405.767.4251 • ltownsend@chkenergy.com

CHK 000168

4/4/05

CUSTOMER ID (IF NECESSARY) Reece, Tim

COMPANY NAME Mr. Tim Reece

ATTENTION Samson Resources Company

ADDRESS (STREET ADDRESS ONLY - NO P.O. BOX)
200 N Loralne, Suite 1010

CITY Midland STATE TX ZIP 79701

PHONE # (432) 686-6312 RESIDENTIAL DELIVERY Y N

SERVICE TYPE (PLEASE CHECK ONE)

DOMESTIC SERVICES:

- NEXT BUSINESS DAY BY 10:30 AM
- NEXT BUSINESS DAY BY END OF DAY
- NEXT BUSINESS DAY **BY 8 AM**
ADD'L \$25.00 CHARGE
- TWO DAY DELIVERY - AM
- TWO DAY DELIVERY - PM
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PER AREA OF DELIVERY

SENDER Sara Caldwell

APPROVED BY *Sandra A. Townsend*

CONTENTS: KF State 4 #1 JOA

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

March 9 , 2005 ,

OPERATOR Chesapeake Exploration Limited Partnership

CONTRACT AREA SW/4 & SE/4 (AKA Units Q, R, S, T, U, V, W AND X), Section 4,

Township 21 South, Range 35 East, Containing 320 acres, more or less, NMPM

COUNTY OR PARISH OF Lea County STATE OF New Mexico

Well Name: KF 4 State #1

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD., FORT
WORTH, TEXAS, 76137-2791, APPROVED
FORM. A.A.P.L. NO. 610 - 1982 REVISED

CHK 000176

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OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

- A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.
- B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
- C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.
- D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.
- F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.
- G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
- H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

ARTICLE II.
EXHIBITS

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

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

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

ARTICLE III.
INTERESTS OF PARTIES

1
2
3
4 A. Oil and Gas Interests:

5
6 If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement
7 and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof
8 shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

9
10 B. Interests of Parties in Costs and Production:

11
12 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and
13 paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set
14 forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the
15 payment of royalties / to the extent of _____ as provided by law, which shall be borne as hereinafter set forth.

16
17 ~~Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and~~
18 ~~payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or~~
19 ~~cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the~~
20 ~~other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received~~
21 ~~by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and~~
22 ~~receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to~~
23 ~~such higher price.~~

24
25 Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

26
27 ~~C. Excess Royalties, Overriding Royalties and Other Payments:~~

28
29 ~~Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty,~~
30 ~~overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so~~
31 ~~burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any~~
32 ~~and all claims and demands for payment asserted by owners of such excess burden.~~

33
34 D. Subsequently Created Interests:

35
36 If any party should hereafter create an overriding royalty, production payment or other burden payable out of production
37 attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or
38 was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and
39 ~~or does not appear of record in the records of the county in which~~
40 ~~the Contract Area is located prior to the execution of this Agreement~~
41 ~~accepted obligation of all parties / (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the~~
42 ~~timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred~~
43 ~~to as "burdened party"), and:~~

- 44
45 1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion
46 of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or
47 production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party,
48 or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest,
49 and,
50
51 2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be
52 enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of
53 the burdened party.

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ARTICLE IV.
TITLES

A. Title Examination:

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

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

ARTICLE IV
continued

and lease brokers

1 Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys / for title examination
 2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties
 3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-
 4 hibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
 5 functions.
 6

7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection
 8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling
 9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.
 10 This shall not prevent any party from appearing on its own behalf at any such hearing. / Costs incurred by Operator in procuring
 11 spacing and Pooling orders including fees paid outside attorneys shall be borne by the Drilling Parties.

12 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above
 13 provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to partic-
 14 ipate in the drilling of the well.
 15

B. Loss of Title:

16
 17
 18 1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a
 19 reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days
 20 from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisi-
 21 tion will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil
 22 and gas leases and interests; and,

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

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

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

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

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

39 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest
 40 claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in
 41 connection therewith.
 42

43
 44 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well
 45 payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,
 46 there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required
 47 payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,
 48 which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the
 49 date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in
 50 the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the
 51 required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to
 52 the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it
 53 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled
 54 or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

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

61 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest
 62 lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.
 63

64 3. Other Losses: All losses / incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses
 65 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
 66 the Contract Area.
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 68
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ARTICLE V.
OPERATOR

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3
4 A. Designation and Responsibilities of Operator:

5
6 Chesapeake Exploration Limited Partnership, by and through its agent Chesapeake Operating, Inc. shall be the
7 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and
8 required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall
9 have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross
10 negligence or willful misconduct.

11
12 B. Resignation or Removal of Operator and Selection of Successor:

13
14 1. Resignation or Removal of Operator Operator may resign at any time by giving written notice thereof to Non-Operators.
15 If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as
16 Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator
17 may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the
18 affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining
19 after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the
20 first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action
21 by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier
22 date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a cor-
23 porate name or structure of Operator or transfer of Operator's interest to any ^{affiliate} / single subsidiary, parent or successor corporation shall not
24 be the basis for removal of Operator.

25
26 2. Selection of Successor Operator Upon the resignation or removal of Operator, a successor Operator shall be selected by
27 the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor
28 Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest
29 based on ownership as shown on Exhibit "A", provided, however, if an Operator which has been removed fails to vote or votes only to
30 succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based
31 on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

32
33 C. Employees:

34
35 The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the
36 compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

37
38 D. Drilling Contracts:

39
40 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so
41 desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing
42 rates in the area ~~and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced~~, and
43 such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of in-
44 dependent contractors who are doing work of a similar nature.

45
46
47
48
49 ARTICLE VI.
50 DRILLING AND DEVELOPMENT

51
52 A. Initial Well:

53
54 On or before the 1st day of May, 2005, Operator shall commence the drilling of a well for
55 oil and gas at the following location:

56 660' FSL & 990' FEL Section 4, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico

57
58
59
60 and shall thereafter continue the drilling of the well with due diligence to a depth of 12,100 feet or a depth sufficient, in
61 Operator's sole opinion, to adequately test the Morrow formation

62
63
64
65 unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is en-
66 countered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

67
68 Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and
69 gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which
70 event Operator shall be required to test only the formation or formations to which this agreement may apply.

ARTICLE VI
continued

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

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6 E. Subsequent Operations:

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

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

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

44

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47 * Nothing contained herein shall prohibit Operator or the participating parties from actually commencing the proposed
48 operation before the expiration of the notice period nor shall the timing of such commencement affect in any way the validity of a
49 party's election or deemed election.

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51

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

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

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ARTICLE VI
continued

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

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11 500

12 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 500% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

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21 (b) 500 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 500 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties ^{five} 500% of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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

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

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52

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

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ARTICLE VI
continued

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

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

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16 The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.
17 except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well
18 after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for pro-
19 duction, ceases to produce in paying quantities; or (c) Operator proposes to recomplete additional zones in any producing well drilled
20 under the terms of this Agreement.

21
22
23 3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been
24 completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a
25 reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening
26 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever
27 first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second gram-
28 matical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently
29 withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion
30 each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Par-
31 ties.

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

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

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

51
52
53
54 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period
55 shall be limited to forty-eight (48) hours, ^{inclusive} of Saturday, Sunday and legal holidays; provided, however, any party may request and
56 receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time
57 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand
58 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-
59 ty's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other in-
60 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

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65 C. TAKING PRODUCTION IN KIND:

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

ARTICLE VI
continued

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

2

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

6

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

15

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

20

21 D. Access to Contract Area and Information:

22

23 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books
25 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with
26 governmental agencies, daily drilling reports, well logs, / ^{and actual monthly oil and gas production and sales volumes} tank tables, daily gauge and run tickets and reports of stock on hand at the first of
27 each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of
28 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-
29 quests the information. / Non-consenting parties shall be denied access to the well location and well information until the non-consent
30 period has expired.

31 E. Abandonment of Wells:

32

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

41

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

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

5
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-
8 quest, ^{At its election,} Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-
12 visions hereof.

13
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article
18 VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

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20
21 A. Liability of Parties:

22
23 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and
24 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted
25 among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor
26 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.
27
28

29
30 B. Liens and Payment Defaults:

31
32 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.
42

43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that
45 the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.
47

48 C. Payments and Accounting:

49
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,
53 showing expenses incurred and charges and credits made and received.
54

55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within
60 fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-
62 penses to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.
63

64 D. Limitation of Expenditures:

65
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:
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ARTICLE VII
continued

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

3
4 Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof ^{made available} / ~~furnished~~ to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight
7 (48) hours ^{inclusive} / ~~exclusive~~ of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

14
15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage
18 and/or surface facilities.

19
20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
21 to require an expenditure in excess of Fifty Thousand Dollars (\$50,000.00)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting
27 an information copy thereof for any single project costing in excess of Fifty Thousand
28 Dollars (\$50,000.00) but less than the amount first set forth above in this paragraph. / An AFE is an estimate only of costs and
29 in no way shall the execution of an AFE limit the liability of any party.

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

31
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
33 party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have con-
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on
35 behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-
38 visions of Article IV.B.2.

39
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
42 circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45
46 F. Taxes:

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

59
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as
65 provided in Exhibit "C".

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

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ARTICLE VII
continued

1 G. Insurance:

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

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

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ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

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15 A. Surrender of Leases:

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17 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
18 or in part unless all parties consent thereto ~~; however, no consent shall be necessary to release~~
19 ~~a lease which has expired or otherwise terminated.~~

20

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

35

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

40

41 B. Renewal or Extension of Leases:

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

48

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

53

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

56

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

62

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

64

65 C. ~~Acreage or Cash Contributions:~~

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

ARTICLE VIII
continued

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

5
6 ~~If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such~~
7 ~~consideration shall not be deemed a contribution or contemplated in this Article VIII.C.~~

8
9 D. Maintenance of Uniform Interests:

10
11 ~~For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no~~
12 ~~party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,~~
13 ~~equipment and production unless such disposition covers either:~~

14
15 ~~1. the entire interest of the party in all leases and equipment and production; or~~

16
17 ~~2. an equal undivided interest in all leases and equipment and production in the Contract Area.~~

18
19 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
20 and shall be made without prejudice to the right of the other parties.

21
22 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may
23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
24 and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such
25 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter
26 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract
27 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

28
29 E. Waiver of Rights to Partition:

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

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35 F. ~~Preferential Right to Purchase:~~

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

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47 ARTICLE IX.
48 INTERNAL REVENUE CODE ELECTION

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50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as per-
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
63 Subtitle "A", of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is per-
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
66 computation of partnership taxable income.

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ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifty Thousand Dollars (~~\$50,000.00~~) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

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ARTICLE XI.
FORCE MAJEURE

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

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

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

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ARTICLE XII.
NOTICES

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

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ARTICLE XIII.
TERM OF AGREEMENT

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

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

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

4 A. Laws, Regulations and Orders:

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

10 B. Governing Law:

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

17 C. Regulatory Agencies:

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

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

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

ARTICLE XV.
OTHER PROVISIONS

41 A. CONFLICTS

42 Notwithstanding anything herein contained to the contrary, it is understood and agreed that if there is any conflict
43 between any part of or all of the terms and provisions of Article XV and any other terms and provisions of this agreement,
44 the terms and provisions of this Article XV shall prevail and control.

46 B. PRIORITY OF OPERATIONS

47 If at any time there is more than one operation proposed in connection with any well subject to this agreement and if the
48 Consenting Parties do not agree on the sequence of proposed operations, such proposed operations shall be conducted in the
49 following sequence:

- | | | |
|-----------|---|---|
| 51 First | - | testing, coring or logging |
| 52 Second | - | completion attempts without plugging back in ascending order from |
| 53 | | deepest to shallowest depths; |
| 54 Third | - | sidetracking in the order of least deviation from the original bottomhole |
| 55 | | location to the greatest deviation; |
| 56 Fourth | - | deepening of a well below the authorized depth in descending order |
| 57 | | from shallowest to deepest depths; |
| 58 Fifth | - | plugging back and completion attempts in ascending order from |
| 59 | | deepest to shallowest depths. |

C. MISCELLANEOUS COSTS

The following expenses shall be a direct charge, borne by the Joint Account as provided in Exhibit "C", and shall not be included as administrative overhead as set forth in Part III of Exhibit "C".

1. All reasonable costs incurred by Operator, and necessary in its sole judgment, in obtaining spacing, pooling or other orders or rulings from state regulatory bodies or courts regarding the Contract Area.
2. All reasonable costs incurred by Operator in complying with the Natural Gas Policy Act of 1978, or in complying with federal, state or local law for the obtaining and monitoring of any well classifications required in the Natural Gas Policy Act of 1978; or in complying with any laws administered by, or any rules or regulations promulgated by, through, or under the United States Department of Energy regarding the Contract Area.

D. MULTIPLE BILLING

In no event shall Operator be required to make more than three billings for the entire interest credited to each Non-operator on Exhibit "A". If any Non-Operator to this Agreement disposes of any part or all of the interest credited to it on Exhibit "A", hereinafter referred to as "Selling Party", such Selling Party shall be solely responsible for billing its assignee or assignees and shall remain primarily liable to the other Parties for the interest or interests assigned until such time as Selling Party has 1) designated and qualified the assignees to receive the billing for its interest, 2) designated assignees have been approved and accepted by Operator, and 3) has furnished to Operator written notice of the conveyance and photocopy of the recorded assignments by which the transfer is made. The sale or other disposition of any interest in the leases covered by this agreement shall be made specifically subject to the provisions of this Article. Operator's approval will not be unreasonably withheld.

E. PAYMENT OF CERTAIN ROYALTIES

If at any time a portion or all of the Contract Area is subject to a valid drilling and spacing unit order entered by the New Mexico Oil Conservation Division and notwithstanding the provision of Article III.B. and Article III.C. hereof with respect to payment of royalties, the Operator is hereby authorized to receive all royalty proceeds from the sale of gas production from each such drilling and spacing unit within the Contract Area and to remit such proceeds to the parties entitled thereto. Non-Operators agree to direct their gas purchasers to remit all royalty proceeds to Operator for distribution to royalty owners. If any gas purchaser refuses to remit directly to the Operator for any or all of Non-Operator's share of such proceeds, then such Non-Operator shall within ten (10) days of receipt thereof, remit such portion to Operator, less that portion of such Non-Operator's share of such proceeds attributable to its net revenue interest in each such drilling and spacing unit. Such proceeds shall be net after taxes and shall not include any portion of the value of gas sold which in the opinion of a party hereto selling such gas, is subject to refund by virtue of an order of the Federal Energy Regulatory Commission. Upon approval by the Federal Energy Regulatory Commission of any portion of such rate subject to refund obligation, a Non-Operator shall, if increased royalties result, remit to Operator such increased royalty amount, which shall be distributed over the unit on the basis of royalty ownership at the time of accrual. Each Non-Operator shall furnish to Operator the names, addresses, tax identification or Social Security numbers, and fractional interests of all owners of royalty in the leasehold and oil and gas interests contributed to the unit by each Non-Operator and shall immediately advise Operator of any change in such data of which Non-Operator subsequently becomes aware. If division order title opinions are not otherwise provided for herein, Non-Operator shall, upon Operator's request, furnish Operator with copies of division order title opinions prepared by a reputable attorney covering the land subject to Non-Operator's leaseholds or oil and gas interests in each drilling and spacing unit. Operator shall have no liability to Non-operator for losses sustained or liabilities incurred except as may otherwise be provided herein. Each Non-Operator agrees to indemnify, hold and save Operator harmless from any claims, losses, demands and causes of action which may be asserted by reason of an error in the ownership information furnished to Operator and each Non-Operator shall indemnify operator against loss resulting from Operator's actions taken in reliance upon any information furnished by Non-Operator to Operator or by reason of Non-Operator withholding payment of any sums which it believes are subject to refund as hereinabove provided. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

F. PREPAYMENT OF COSTS AND EXPENSES

Notwithstanding any other provisions of this agreement, and without prejudice to any other rights of the Operator, Operator will have the right to request and receive from each Non-Operator payment in advance of its respective share of (i) lease acreage acquisition costs to the extent the Non-Operator is acquiring its leasehold interest from the Operator and all or part of the completed well cost for the initial well to be drilled under Article VI.A. or any other well to be drilled hereunder to which such Non-Operator has consented, and (ii) the cost of any completion, reworking, recompletion, sidetracking, deepening, plugging back operation or any other operation hereunder to which such Non-Operator has consented (any such operation under clause (i) or (ii) being herein called a "Drilling Operation"). Such request for advance payment may be made on all Non-Operators or on any one Non-Operator in writing and may be either mailed, hand-delivered or transmitted by facsimile machine.

A Non-Operator receiving a request for advance payment will, within two (2) days of the receipt of such request if a drilling rig is on location and within fifteen (15) days of the receipt of such request in all other cases, pay to Operator in cash the full amount of such request. Operator will credit the amount to the Non-Operator's account for the payment of such Non-Operator's share of costs of such Drilling Operation and, following the end of each month, Operator will charge such account with such Non-Operator's share of actual costs incurred during such month.

Payment of an advance will not relieve a Non-Operator of the obligation to pay such Non-Operator's share of the actual cost of a Drilling Operation and, when the actual costs have been determined, Operator will adjust the accounts of the parties by refunding any net amounts due or invoicing the parties for additional sums owing, which additional sums shall be paid in accordance with the Accounting Procedure.

In the event a Non-Operator to which a request for advance payment was made does not, within the time and manner above provided, fully satisfy the request for advance payment as provided in this paragraph F, then Operator may, in the Operator's sole discretion at any time prior to actual payment, exercise any one or more of the following rights and remedies: (a) if the advance was requested for leasehold acreage acquisition or the drilling of the initial well under Article VI.A., Operator may rescind and terminate this agreement as to such Non-Operator by written notice to such Non-Operator, and upon sending such notice, Non-Operator will be deemed to have relinquished all of its leasehold and contract rights in the Contract Area; (b) if the advance was requested for any Drilling Operation, including, without limitation, the initial well drilled pursuant to Article VI.A., Operator may notify such Non-Operator that such Non-Operator is deemed to have relinquished its interest in the well to which the Drilling Operation relates and to have elected to go non-consent on such Drilling Operation under Article VI.B.2; (c) sue the Non-Operator who failed to pay as provided above for its proportionate share of expenses plus interest; or (d) exercise any and all other rights and remedies available to the Operator under this agreement and applicable law. Each of the parties to this agreement hereby agrees to execute and deliver to the other parties hereto any and all documents, agreements and acknowledgments necessary to evidence any actions taken by the Operator pursuant to the provisions of this paragraph F. All remedies herein provided are cumulative and not alternative, and no failure to exercise or delay in exercising any such right will operate as a waiver thereof.

G. DISTRIBUTION OF REVENUE

Notwithstanding anything to the contrary contained herein, and without prejudice to any other rights possessed by Operator, Operator at its sole discretion, may receive the proceeds from all oil and/or gas production attributable to any Non-Operator's ownership in the Contract Area and distribute those proceeds to said Non-Operator during the next calendar month ensuing following receipt of the proceeds by Operator from the purchaser.

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ARTICLE XVI
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 9th day of March, (year) 2005.

Sara Caldwell, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, ~~other than those in Article~~ _____, have been made to the form, other than as shown by ~~strikeout and/or bold type~~.

OPERATOR

CHESAPEAKE EXPLORATION LIMITED
PARTNERSHIP by Chesapeake Operating, Inc.,
General Partner

Henry J. Hood, Senior Vice President - Land and Legal

NON-OPERATORS

KAISER FRANCIS OIL COMPANY

BY: _____
TITLE: _____

SAMSON RESOURCES COMPANY

BY: _____
TITLE: _____

EXHIBIT "A"

EXHIBIT A TO THAT CERTAIN JOINT OPERATING AGREEMENT DATED MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON RESOURCES COMPANY AS NON-OPERATORS

1. Contract Area: SW/4 & SE/4 (AKA Units Q, R, S, T, U, V, W AND X), Section 4, Township 21 South, Range 35 East, Containing 320 acres, more or less, NMPM, Lea County, New Mexico

2. Restrictions as to depths and formations: None.

3. Interests of Parties:

<u>Owner</u>	<u>Working Interest</u>
Chesapeake Exploration Limited Partnership P. O. Box 18496 Oklahoma City, Oklahoma 73154-0496 Attention: Henry J. Hood	50.000000%
Kaiser Francis Oil Company P.O. Box 21468 Tulsa, Oklahoma 74121-1468	43.750000%
Samson Resources Company Centennial Tower 200 N Loraine, Suite 1010 Midland, TX 79701	<u>6.250000%</u>
TOTAL	100.000000%

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EXHIBIT "A-1"

ATTACHED TO AND MADE A PART OF THAT CERTAIN JOINT OPERATING AGREEMENT MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON RESOURCES COMPANY, AS NON-OPERATORS

INSOFAR AND ONLY INSOFAR as the following described Oil and Gas Leases cover the SW/4 & SE/4 (AKA Units Q, R, S, T, U, V, W AND X), Section 4, Township 21 South, Range 35 East, Containing 320 acres, more or less, NMPM, Lea County, New Mexico.

Lease No.: NM7930001-002
Lessor: State of New Mexico V0-7063
Lessee: Rubicon Oil & Gas I, LP
Lease Date: May 1, 2004
Legal Desc: SW/4 Section 4, Township 21 South, Range 35 East, Containing 160 acres, more or less, NMPM, Lea County, New Mexico

Lessor: State of New Mexico B1481
Lessee: Empire Gas and Fuel Company
Lease Date: December 19, 1932
Legal Desc: SE/4 Section 4, Township 21 South, Range 35 East, Containing 160 acres, more or less, NMPM, Lea County, New Mexico

END OF EXHIBIT "A-1"

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CHK 000196

THERE IS NO EXHIBIT "B"

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EXHIBIT " C "

1 Attached to and made a part of that certain Operating Agreement dated March 9, 2005 by and between Chesapeake
2 Exploration I, Limited Partnership, as Operator and Kaiser Francis Oil Company and Samson Resources Company, as Non-Operators
3
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6
7 **ACCOUNTING PROCEDURE**
8 **JOINT OPERATIONS**
9

10
11 **I. GENERAL PROVISIONS**
12

13
14 **1. Definitions**
15

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

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

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

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

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

24 "Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

35
36 **2. Statement and Billings**
37

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

43
44 **3. Advances and Payments by Non-Operators**
45

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

50 B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made
51 within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Bank One of Oklahoma, N.A. +2%
52 on the first day of the month in which delinquency occurs plus 1% or the
53 maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located,
54 whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid
55 amounts.

56 Operator may, at its option, choose to substitute other penalties described elsewhere in this Agreement for failure to pay bills within the thirty
57 (30) day time frame described above.

58
59 **4. Adjustments**
60

61 Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof;
62 provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall
63 conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar
64 year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes
65 claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same
66 prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of
67 Controllable Material as provided for in Section V.

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5. Audits

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

3. Labor

A. (1) Salaries and wages of Operator's field employees ^{and/or consultants} directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First level Supervisors in the field. ^{and/or consultants}

(3) Salaries and wages of Technical Employees ^{and/or consultants} directly employed on the Joint Property if such charges are excluded from the overhead rates.

(4) Salaries and wages of Technical Employees ^{and/or consultants} either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

4. Employee Benefits

Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

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1 5. Material

2

3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such
4 Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is
5 reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be
6 avoided.

7

8 6. Transportation

9

10 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

11

12 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

15

16 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the
20 Parties.

21

22 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is
23 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the
24 amount most recently recommended by the Council of Petroleum Accountants Societies.

25

26 7. Services

27

28 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph
29 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract
30 services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead
31 rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the
32 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

33

34 8. Equipment and Facilities Furnished By Operator

35

36 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to
39 exceed ten percent (10%) per annum. Such rates shall not exceed average commercial
40 rates currently prevailing in the immediate area of the Joint Property.

41

42 B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the
43 immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates
44 published by the Petroleum Motor Transport Association.

45

46 9. Damages and Losses to Joint Property

47

48 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or
49 losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross
50 negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as
51 soon as practicable after a report thereof has been received by Operator.

52

53 10. Legal Expense

54

55 Expense of handling, investigating and settling litigation or claims, ^{title and regulatory work,} discharging of liens, payment of judgments and
56 amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to
57 protect or recover the Joint Property, ~~except that no charge for services of Operator's legal staff or fees or expense of~~
58 ~~outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be~~
59 ~~covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section~~
60 ~~I, Paragraph 3.~~

61

62 11. Taxes

63

64 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,
65 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad
66 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then
67 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties
68 hereto in accordance with the tax value generated by each party's working interest.

69

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1 12. Insurance

2
3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the
4 event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation
5 and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-
6 insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

7
8 13. Abandonment and Reclamation

9
10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory
11 authority.

12
13 14. Communications

14
15 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and
16 microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint
17 Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

18
19 15. Other Expenditures

20 The cost of Operator's Field Offices not covered in Section III, or any
21 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which
22 is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint
23 Operations.

24
25
26 III. OVERHEAD

27
28 1. Overhead - Drilling and Producing Operations

29
30 i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge
31 drilling and producing operations on either:

- 32
33 (X) Fixed Rate Basis, Paragraph IA. or
34 () Percentage Basis, Paragraph IB

35
36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under
38 Paragraph 3A, Section II. ~~The cost and expense of services from outside sources in connection with matters of~~
39 ~~taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in~~
40 ~~the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are~~
41 ~~agreed to by the Parties as a direct charge to the Joint Account.~~

42
43 ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant
44 services and contract services of technical personnel directly employed on the Joint Property:

- 45
46 () shall be covered by the overhead rates, or
47 (X) shall not be covered by the overhead rates.

48
49 iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services
50 and contract services of technical personnel either temporarily or permanently assigned to and directly employed in
51 the operation of the Joint Property:

- 52
53 () shall be covered by the overhead rates, or
54 (X) shall not be covered by the overhead rates.

55
56 A. Overhead - Fixed Rate Basis

57
58 (1) Operator shall charge the Joint Account at the following rates per well per month:

59
60 Drilling Well Rate \$ 8,136.10
61 (Prorated for less than a full month)

62
63 Producing Well Rate \$ 813.61

64
65 (2) Application of Overhead - Fixed Rate Basis shall be as follows:

66
67 (a) Drilling Well Rate

68 (i) Charges for drilling wells shall begin on the date ^{location work begins} ~~the well is spudded~~ and terminate on the date
69 the drilling rig, completion rig, or other units used in completion of the well is released, whichever
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is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through day of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
 - (2) ~~Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing such completion is considered a separate well by the governing regulatory authority.~~
 - (3) ~~An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.~~
 - (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
 - (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached ^{by the percent increase or decrease published by COPAS} ~~by the percent increase or decrease published by COPAS~~. ~~The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as approved and recorded by COPAS, published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.~~

~~B. Overhead - Percentage Basis~~

- ~~(1) Operator shall charge the Joint Account of the following rates:~~

~~(a) Development~~

~~_____ Percent (_____%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.~~

~~(b) Operating~~

~~_____ Percent (_____%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.~~

- ~~(2) Application of Overhead - Percentage Basis shall be as follows:~~

~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, re-drilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.~~

~~1. Overhead - Major Construction~~

~~To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint~~

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Account for overhead based on the following rates for any Major Construction project in excess of £ 50,000.00

A. 4.0 % of first £100,000 or total cost if less, plus

B. 3.0 % of costs in excess of £100,000 but less than £1,000,000, plus

C. 1.0 % of costs in excess of £1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

A. % of total costs through £100,000, plus

B. % of total costs in excess of £100,000 but less than £1,000,000, plus

C. % of total costs in excess of £1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

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1 pound Oil Field Haulers Association interstate truck rate shall be used.

2
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,
5 to the railway receiving point nearest the Joint Property.

6
7 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10
11 (2) Line Pipe

12
13 (a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.
15 Freight charges shall be calculated from Lorain, Ohio.

16
17 (b) Line Pipe movements (except size 24 inch OD) and larger with walls 3/4 inch and over) less than 30,000
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,
19 plus the percent most recently recommended by COPAS
20 plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular
21 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,
22 Ohio.

23 (c) Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f.o.b. the point of
24 manufacture at current new published prices plus transportation cost to the railway receiving point
25 nearest the Joint Property.

26
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at
29 prices agreed to by the Parties.

30
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the
33 railway receiving point nearest the Joint Property.

34
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39
40 B. Good Used Material (Condition B)

41
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:

43
44 (1) Material moved to the Joint Property

45
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47
48 (2) Material used on and moved from the Joint Property

49
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was
51 originally charged to the Joint Account as new Material or

52
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was
54 originally charged to the Joint Account as used Material

55
56 (3) Material not used on and moved from the Joint Property

57
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.

59
60 The cost of reconditioning, if any, shall be absorbed by the transferring property.

61
62 C. Other Used Material

63
64 (1) Condition C

65
66 Material which is not in sound and serviceable condition and not suitable for its original function until
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition
69 C value plus cost of reconditioning does not exceed Condition B value.
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(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph I.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. ~~Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.~~

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

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overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT
MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED
PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON
RESOURCES COMPANY, AS NON-OPERATORS

1. Operator shall procure and maintain, at all times while conducting operations under this Agreement, the following insurance coverages with limits not less than those specified below:

A.	Worker's Compensation	Statutory
	Employer's Liability	\$100,000 each accident
B.	Comprehensive General Liability including:	
	(a) property damage and bodily injury liability including, but not limited to, losses resulting from explosion, collapse, underground damage; and	
	(b) contractual liability assumed under this Agreement.	\$1,000,000 Combined single limit
C.	Comprehensive Automobile Liability covering owned, non-owned and hired vehicles.	\$1,000,000 Combined single limit
D.	Umbrella Liability in excess of A (except Worker's Compensation), B, and C above.	\$20,000,000 Combined single limit
E.	Cost of Well Control and Operator's Extra Expense, including Care, Well Control Custody, and Control Coverage	\$5,000,000 OEE and \$250,000 CCC

2. The insurance described in 1. above shall be carried at the joint expense of the parties hereto and all premiums and other costs and expenses related thereto shall be charged to the Joint Account in accordance with the Accounting Procedure attached as Exhibit "C" to this Agreement, unless prior to spud a Non-Operator who desires to provide its own insurance provides Operator with a certificate of insurance evidencing such individual coverage.

3. Operator shall use every reasonable effort to have its contractors and subcontractors comply with applicable Worker's Compensation laws, rules and regulations and carry such insurance as Operator may deem necessary.

4. Operator shall not be liable to Non-Operator for loss suffered because of insufficiency of the insurance procured and maintained for the Joint Account nor shall Operator be liable to Non-Operator for any loss occurring by reason of Operator's inability to procure or maintain the insurance provided for herein. If at any time during the term of this Agreement, Operator is unable to procure or maintain said insurance, Operator shall promptly so notify Non-Operator in writing.

5. In the event of loss not covered by the insurance provided for herein, such loss shall be charged to the Joint Account and borne by the parties in accordance with their respective percentage of participation as determined by this Agreement.

6. Any party hereto may individually and at its own expense procure such additional insurance as it desires; provided, however, such party shall provide Operator with a certificate of insurance evidencing such coverage before spud of the well and such coverage includes waivers by the insurer of all right of subrogation in favor of the other parties.

EXHIBIT "E"

ATTACHED TO AND MADE A PARTY OF THAT CERTAIN OPERATING AGREEMENT
DATED MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED
PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND
SAMSON RESOURCES COMPANY, AS NON-OPERATORS

GAS STORAGE AND BALANCING AGREEMENT

The parties to the Operating Agreement to which this gas storage agreement is attached own the working interest in the gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto is not able to market its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this storage agreement shall automatically become effective.

During the period or periods when any party hereto is not selling or otherwise disposing of its share of gas produced from the Contract Area, or its purchaser is unable to take its share of gas produced from the Contract Area, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such Contract Area and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this gas storage agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser. Each party not selling or otherwise disposing of its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced and metered under this Agreement. A nonconsenting party pursuant to Article VI of this Operating Agreement shall be credited with only its proportionate share of gas against its nonconsent penalties regardless of what share such owner's purchaser is taking at any given time.

Each party taking gas shall furnish the Operator a monthly statement of gas taken. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statement showing the total quantity of gas taken and/or sold by each party and the monthly and accumulative over and under delivered of each party.

Each party producing and/or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

At all times while gas is produced from the Contract Area, each party hereto will make settlement with all royalty owners for said unit as required by applicable regulations. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from the Contract Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to twenty-five percent (25%) of the overproduced party or parties' share of gas produced from the Contract Area. If two or more parties are entitled to twenty-five percent (25%) of the overproduced party or parties' share of gas produced, they shall divide such twenty-five percent (25%) in accordance with their percentage of participation in the Contract Area.

Should production of gas be discontinued before the gas account is balanced, a monetary settlement will be made between the underproduced and overproduced parties. In making such settlement, each overproduced party shall remit to the Operator an amount of money that such party received for its overproduction, less taxes theretofore paid, for a volume of gas equal to its overproduction.

Each party to the Joint Operating Agreement, whether underproduced or overproduced, is responsible for its share of lease operating expenses.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON RESOURCES COMPANY, AS NON-OPERATORS

STATE OF OKLAHOMA)
) SS:
COUNTY OF OKLAHOMA)

WHEREAS, Chesapeake Exploration Limited Partnership, as Operator, having a notice address of P.O. Box 18496, Oklahoma City, Oklahoma 73154-0496 and Kaiser Francis Oil Company, having a notice address of P.O. Box 21468, Tulsa, Oklahoma 74121-1468 and Samson Resources Company having a notice address of Centennial Tower 200 N Loraine, Suite 1010 Midland, TX 79701, as Non-Operators have entered into that certain Operating Agreement dated effective on March 9, 2005, covering oil and gas operations being conducted on those certain lands described in Exhibit "A" (the "Contract Area"), attached hereto and made a part hereof, as said Exhibit may be amended from time to time; and

WHEREAS, Operator and Non-Operators desire to give third parties record notice of the existence of said Operating Agreement and of the rights and obligations of Operator and Non-Operators thereunder.

NOW, THEREFORE, for and in consideration of One Dollar (\$1.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Operator and Non-Operators hereby stipulate and agree as follows:

I.

The Operating Agreement is on an A.A.P.L. form 610-1982 Model Form Operating Agreement, as amended by the parties, plus attachments.

II.

Article VI.C. grants each party to the Operating Agreement the right to take in kind its proportionate share of all oil and gas produced from the Contract Area. Additionally, the parties have agreed to be bound by a volumetric Gas Balancing Agreement which is attached as Exhibit "E" to the Operating Agreement.

III.

Pursuant to Article VII.B., each Non-Operator mortgages to Operator, and grants to Operator a lien upon, its oil and gas leasehold estates and "oil and gas interests", as that term is defined in Article I.C. thereof, in the Contract Area, and grants to Operator a security interest in its share of oil or gas when extracted from the Contract Area and its interest in all equipment located thereon to secure payment of its share of expense under the Operating Agreement (including costs of investigation, defenses and payment of any final judgment or settlement for damages arising out of operations thereunder), together with interest thereon in accordance with the Operating Agreement, in addition to any other remedies available to Operator in law or pursuant to the Operating Agreement. Upon default by a Non-Operator in the payment of its share of expense, without prejudice to any other rights and remedies, Operator shall have the right to collect from the purchaser of production from the Contract Area the proceeds from the sale of such Non-Operator's share of oil or gas produced and sold from the Contract Area until the amount owed by Non-Operator, including interest, has been paid. Each purchaser of oil and gas produced from the Contract Area shall be entitled to rely upon Operator's written statement

concerning the amount of any default. Operator grants a like mortgage, lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If Operator pays a defaulting party's share of any costs or expenses pursuant to Article VII. B.4 of the Operating Agreement, all other parties to the Operating Agreement, including Non-Operators shall, upon being billed by Operator, contribute their proportionate share of all sums advanced by Operator for and on behalf of the defaulting party. Such contributing parties shall in addition to any other right they may have hereunder receive a share of any interest in the Contract Area forfeited by the defaulting party as well as any percentage penalty recoupment from such defaulting party. The share for each such contributing party shall be in proportion to its contribution.

IV.

This Memorandum shall constitute a Financing Statement covering oil and gas extracted from the Contract Area to the extent that such oil and gas is owned by a defaulting party under the Operating Agreement. This Mortgage and Financing Statement shall be filed for record in the real estate records of any county or parish in which the contract Area is situated and/or the Secretary of State and shall be filed by Operator upon its own motion or upon the request of any Non-Operator. Each of the undersigned Non-Operators shall be considered as both a debtor, to the extent that such party has failed to pay his or its share of expense, and as a secured party mortgagee.

V.

In addition to the lien contained in Article VII.B. of the Operating Agreement, the Gas Balancing Agreement attached as Exhibit "E" to the Operating Agreement provides that each overproduced party grants a lien to each Underproduced Party upon its leasehold interest and upon its interest in gas production and the proceeds therefrom, and upon its interest in material and equipment, to the extent and so long as the Overproduced Party is overproduced, to secure its balancing obligations, both in kind and in cash, which lien shall be inferior and subject to the Operator's lien as provided in Article VII.B. of the parties Operating Agreement.

VI.

Operator may, on behalf of all parties, terminate the effect of this Memorandum as to all or any portion of the Contract Area by recording a full or partial release hereof.

VII.

Any party requiring additional information concerning the rights and obligations of the parties under the Operating Agreement may contact the Operator at the following address:

OPERATOR: Chesapeake Exploration Limited Partnership by its
General Partner, Chesapeake Operating, Inc.
P.O. Box 18496
Oklahoma City, Oklahoma 73154
Attn: Henry J. Hood

VIII.

This Memorandum may be executed in any number of counterparts, each of which shall be considered an original for all purposes and shall be binding upon the heirs, successors and assigns of the parties. The Operator is hereby authorized to compile the signature and notary pages from each of the counterparts in order to have one instrument containing signature and notarial acknowledgments for all parties for recording purposes.

MEMORANDUM OF OPERATING AGREEMENT

STATE OF OKLAHOMA)
) SS:
COUNTY OF OKLAHOMA)

WHEREAS, Chesapeake Exploration Limited Partnership, as Operator, having a notice address of P.O. Box 18496, Oklahoma City, Oklahoma 73154-0496 and Kaiser Francis Oil Company, having a notice address of P.O. Box 21468, Tulsa, Oklahoma 74121-1468 and Samson Resources Company having a notice address of Centennial Tower 200 N Loraine, Suite 1010 Midland, TX 79701, as Non-Operators have entered into that certain Operating Agreement dated effective on March 9, 2005, covering oil and gas operations being conducted on those certain lands described in Exhibit "A" (the "Contract Area"), attached hereto and made a part hereof, as said Exhibit may be amended from time to time; and

WHEREAS, Operator and Non-Operators desire to give third parties record notice of the existence of said Operating Agreement and of the rights and obligations of Operator and Non-Operators thereunder.

NOW, THEREFORE, for and in consideration of One Dollar (\$1.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Operator and Non-Operators hereby stipulate and agree as follows:

I.

The Operating Agreement is on an A.A.P.L. form 610-1982 Model Form Operating Agreement, as amended by the parties, plus attachments.

II.

Article VI.C. grants each party to the Operating Agreement the right to take in kind its proportionate share of all oil and gas produced from the Contract Area. Additionally, the parties have agreed to be bound by a volumetric Gas Balancing Agreement which is attached as Exhibit "E" to the Operating Agreement.

III.

Pursuant to Article VII.B., each Non-Operator mortgages to Operator, and grants to Operator a lien upon, its oil and gas leasehold estates and "oil and gas interests", as that term is defined in Article I.C. thereof, in the Contract Area, and grants to Operator a security interest in its share of oil or gas when extracted from the Contract Area and its interest in all equipment located thereon to secure payment of its share of expense under the Operating Agreement (including costs of investigation, defenses and payment of any final judgment or settlement for damages arising out of operations thereunder), together with interest thereon in accordance with the Operating Agreement, in addition to any other remedies available to Operator in law or pursuant to the Operating Agreement. Upon default by a Non-Operator in the payment of its share of expense, without prejudice to any other rights and remedies, Operator shall have the right to collect from the purchaser of production from the Contract Area the proceeds from the sale of such Non-Operator's share of oil or gas produced and sold from the Contract Area until the amount owed by Non-Operator, including interest, has been paid. Each purchaser of oil and gas produced from the Contract Area shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like mortgage, lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If Operator pays a defaulting party's share of any costs or expenses pursuant to Article VII. B.4 of the Operating Agreement, all other parties to the Operating Agreement, including Non-Operators shall, upon being billed by Operator, contribute their proportionate share of all sums advanced by Operator for and on behalf of the defaulting party. Such contributing parties shall in addition to any other right they may have hereunder receive a share of any interest in the Contract Area forfeited by the defaulting party as well as any percentage penalty recoupment from such defaulting party. The share for each such contributing party shall be in proportion to its contribution.

IV.

This Memorandum shall constitute a Financing Statement covering oil and gas extracted from the Contract Area to the extent that such oil and gas is owned by a defaulting party under the Operating Agreement. This Mortgage and Financing Statement shall be filed for record in the real estate records of any county or parish in which the contract Area is situated and/or the Secretary of State and shall be filed by Operator upon its own motion or upon the request of any Non-Operator. Each of the undersigned Non-Operators shall be considered as both a debtor, to the extent that such party has failed to pay his or its share of expense, and as a secured party mortgagee.

V.

In addition to the lien contained in Article VII.B. of the Operating Agreement, the Gas Balancing Agreement attached as Exhibit "E" to the Operating Agreement provides that each overproduced party grants a lien to each Underproduced Party upon its leasehold interest and upon its interest in gas production and the proceeds therefrom, and upon its interest in material and equipment, to the extent and so long as the Overproduced Party is overproduced, to secure its balancing obligations, both in kind and in cash, which lien shall be inferior and subject to the Operator's lien as provided in Article VII.B. of the parties Operating Agreement.

VI.

Operator may, on behalf of all parties, terminate the effect of this Memorandum as to all or any portion of the Contract Area by recording a full or partial release hereof.

VII.

Any party requiring additional information concerning the rights and obligations of the parties under the Operating Agreement may contact the Operator at the following address:

OPERATOR: Chesapeake Exploration Limited Partnership by its
General Partner, Chesapeake Operating, Inc.
P.O. Box 18496
Oklahoma City, Oklahoma 73154
Attn: Henry J. Hood

VIII.

This Memorandum may be executed in any number of counterparts, each of which shall be considered an original for all purposes and shall be binding upon the heirs, successors and assigns of the parties. The Operator is hereby authorized to compile the signature and notary pages from each of the counterparts in order to have one instrument containing signature and notarial acknowledgments for all parties for recording purposes.

OPERATOR:

CHESAPEAKE EXPLORATION
LIMITED PARTNERSHIP

By: _____
Henry J. Hood,
Senior Vice President-Land and Legal
of Chesapeake Operating, Inc.,
General Partner

NON-OPERATOR:

KAISER FRANCIS OIL COMPANY

By: _____
Its: _____

SAMSON RESOURCES COMPANY

By: _____
Its: _____

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA)

This instrument was acknowledged before me on _____, 2005,
by Henry J. Hood, Senior Vice President-Land and Legal of Chesapeake Operating, Inc.,
General Partner of Chesapeake Exploration Limited Partnership, an Oklahoma limited
partnership.

Notary Public
Name: Sandra L. Mathis
My Commission Expires: May 5, 2006
Commission Number: 02007791

STATE OF _____)
)
COUNTY OF _____)

This instrument was acknowledged before me on _____, 2005
by _____, _____ of Kaiser
Francis Oil Company, a(n) _____ company, on behalf of the company.

Notary Public
Name (Print) _____
My Commission Expires: _____

EXHIBIT "A"

EXHIBIT A TO THAT CERTAIN MEMORANDUM OF JOINT OPERATING AGREEMENT DATED MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON RESOURCES COMPANY AS NON-OPERATORS

1. Contract Area: SW/4 & SE/4 (AKA Units Q, R, S, T, U, V, W AND X), Section 4, Township 21 South, Range 35 East, Containing 320 acres, more or less, NMPM, Lea County, New Mexico

2. Restrictions as to depths and formations: None.

3. Interests of Parties:

<u>Owner</u>	<u>Working Interest</u>
Chesapeake Exploration Limited Partnership P. O. Box 18496 Oklahoma City, Oklahoma 73154-0496 Attention: Henry J. Hood	50.000000%
Kaiser Francis Oil Company P.O. Box 21468 Tulsa, Oklahoma 74121-1468	43.750000%
Samson Resources Company Centennial Tower 200 N Lorraine, Suite 1010 Midland, TX 79701	<u>6.250000%</u>
TOTAL	100.000000%

W:\Permian\Operated Wells\KF State 4 #1\JOA\Memorandum Exhibit A.doc

EXHIBIT "A-1"

ATTACHED TO AND MADE A PART OF THAT CERTAIN MEMORANDUM OF JOINT OPERATING AGREEMENT MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON RESOURCES COMPANY, AS NON-OPERATORS

INSOFAR AND ONLY INSOFAR as the following described Oil and Gas Leases cover the SW/4 & SE/4 (AKA Units Q, R, S, T, U, V, W AND X), Section 4, Township 21 South, Range 35 East, Containing 320 acres, more or less, NMPM, Lea County, New Mexico.

Lease No.: NM7930001-002
Lessor: State of New Mexico V0-7063
Lessee: Rubicon Oil & Gas I, LP
Lease Date: May 1, 2004
Legal Desc: SW/4 Section 4, Township 21 South, Range 35 East, Containing 160 acres, more or less, NMPM, Lea County, New Mexico

Lessor: State of New Mexico B1481
Lessee: Empire Gas and Fuel Company
Lease Date: December 19, 1932
Legal Desc: SE/4 Section 4, Township 21 South, Range 35 East, Containing 160 acres, more or less, NMPM, Lea County, New Mexico

END OF EXHIBIT "A-1"

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CHK 000217



Centennial Tower
200 N. Loraine, Suite 1010
Midland, TX 79701
USA
432/683-7063
Fax 432/683-6847

RECEIVED
APR 08 2005
MAILROOM

April 5, 2005

Chesapeake Operating, Inc.
Attn: Lynda F. Townsend
P. O. Box 18496
Oklahoma City, OK 73154-0496

Re: Operating Agreement
Proposed KF State 4 #1
S/2 Section 4, T-21-S, R-35-E
Lea County, New Mexico

Gentlemen:

Samson is in receipt of the Operating Agreement for the referenced well. However, please be advised that by letter dated March 30, 2005 (copy attached) Samson rescinded its election to participate in the well and, therefore, will not be executing the Operating Agreement.

Should you have any questions regarding this matter, please contact the undersigned at (432) 686-6312.

Sincerely,

Tim Reece
Senior Landman

BEFORE THE
OIL CONSERVATION DIVISION
Case # 13492&13493 Exhibit No. ___
Submitted By:
Chesapeake Inc.
Hearing Date: August 22, 2005

Stipulated Exhibit 14
NMOCD Case Nos. 13492 / 13493

CHK 000153



Centennial Tower
200 N. Lorraine, Suite 1010
Midland, TX 79701
USA
432/683-7063
Fax 432/683-6847

March 30, 2005

Chesapeake Permian, L. P.
Attn. Lynda F. Townsend
P. O. Box 18496
Oklahoma City, OK 73154-0496

VIA Facsimile 405-767-4251

Re: Chesapeake's Proposed KF State 4 #1
S/2 Section 4-21S-35E
Lea County, New Mexico

Gentlemen:

Reference is made to Samson Resources Company's letter of March 16, 2005 in response to your letter dated March 9, 2005. Upon reviewing Samson's records we have determined that there is actually no JOA between the parties which would support an election for this well. In addition, the timeframe for the purported election has not yet expired. Accordingly, please be advised the Samson hereby rescinds and revokes its invalid election to participate in Chesapeake's proposed KF State 4#1 well.

If you have any questions please call me at 432-686-6312.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. C. Reece', with a long horizontal line extending to the right.

Tim C. Reece
Senior Landman

TCR:

05-0523

CHK 000154

§ 70-2-16

Note 8

65-3-22(b), 65-3-29(h). Continental Oil Co. v. Oil Conservation Commission, 1962, 70 N.M. 310, 373 P.2d 809. Mines And Minerals ⇌ 92.59(1)

Commission's finding, that there was general correlation between deliverabilities of gas wells in pool and recoverable gas in place under tracts dedicated to said wells, was not tantamount to finding that new proration formula, based 25 percent upon acreage and 75 percent upon deliverability, was based on amounts of recoverable gas in pool and under tracts, insofar as those amounts could be practically determined and obtained without waste. Continental Oil Co. v. Oil Conservation Commission, 1962, 70 N.M. 310, 373 P.2d 809. Mines And Minerals ⇌ 92.59(2)

9. Review

Oil conservation commission cannot perform judicial functions; but neither can court per-

form administrative one; and net effect of court's admission and consideration of additional evidence, on appeal taken from proration order, was to perform administrative function. Continental Oil Co. v. Oil Conservation Commission, 1962, 70 N.M. 310, 373 P.2d 809. Mines And Minerals ⇌ 92.59(1); Mines And Minerals ⇌ 92.64

Insofar as statute purported to allow district court, on appeal from oil conservation commission's proration order, to consider new evidence, to base its decision on preponderance of evidence, or to modify orders of commission, statute was void as unconstitutional delegation of power. 1953 Comp. § 65-3-22(b); Const. art. 3, § 1. Continental Oil Co. v. Oil Conservation Commission, 1962, 70 N.M. 310, 373 P.2d 809. Constitutional Law ⇌ 74; Mines And Minerals ⇌ 92.3(2)

§ 70-2-17. Equitable allocation of allowable production; pooling; spacing

A. The rules, regulations or orders of the division shall, so far as it is practicable to do so, afford to the owner of each property in a pool the opportunity to produce his just and equitable share of the oil or gas, or both, in the pool, being an amount, so far as can be practically determined, and so far as such can be practicably obtained without waste, substantially in the proportion that the quantity of the recoverable oil or gas, or both, under such property bears to the total recoverable oil or gas, or both, in the pool, and for this purpose to use his just and equitable share of the reservoir energy.

B. The division may establish a proration unit for each pool, such being the area that can be efficiently and economically drained and developed by one well, and in so doing the division shall consider the economic loss caused by the drilling of unnecessary wells, the protection of correlative rights, including those of royalty owners, the prevention of waste, the avoidance of the augmentation of risks arising from the drilling of an excessive number of wells, and the prevention of reduced recovery which might result from the drilling of too few wells.

C. When two or more separately owned tracts of land are embraced within a spacing or proration unit, or where there are owners of royalty interests or undivided interests in oil and gas minerals which are separately owned or any combination thereof, embraced within such spacing or proration unit, the owner or owners thereof may validly pool their interests and develop their lands as a unit. Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the division, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit.

All orders effecting such pooling shall be made after notice and hearing, and shall be upon such terms and conditions as are just and reasonable and will

afford to the owner or owners of each tract or interest in the unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil or gas, or both. Each order shall describe the lands included in the unit designated thereby, identify the pool or pools to which it applies and designate an operator for the unit. All operations for the pooled oil or gas, or both, which are conducted on any portion of the unit shall be deemed for all purposes to have been conducted upon each tract within the unit by the owner or owners of such tract. For the purpose of determining the portions of production owned by the persons owning interests in the pooled oil or gas, or both, such production shall be allocated to the respective tracts within the unit in the proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit. The portion of the production allocated to the owner or owners of each tract or interest included in a well spacing or proration unit formed by a pooling order shall, when produced, be considered as if produced from the separately owned tract or interest by a well drilled thereon. Such pooling order of the division shall make definite provision as to any owner, or owners, who elects not to pay his proportionate share in advance for the prorata reimbursement solely out of production to the parties advancing the costs of the development and operation, which shall be limited to the actual expenditures required for such purpose not in excess of what are reasonable, but which shall include a reasonable charge for supervision and may include a charge for the risk involved in the drilling of such well, which charge for risk shall not exceed two hundred percent of the nonconsenting working interest owner's or owners' prorata share of the cost of drilling and completing the well.

In the event of any dispute relative to such costs, the division shall determine the proper costs after due notice to interested parties and a hearing thereon. The division is specifically authorized to provide that the owner or owners drilling, or paying for the drilling, or for the operation of a well for the benefit of all shall be entitled to all production from such well which would be received by the owner, or owners, for whose benefit the well was drilled or operated, after payment of royalty as provided in the lease, if any, applicable to each tract or interest, and obligations payable out of production, until the owner or owners drilling or operating the well or both have been paid the amount due under the terms of the pooling order or order settling such dispute. No part of the production or proceeds accruing to any owner or owners of a separate interest in such unit shall be applied toward the payment of any cost properly chargeable to any other interest in said unit.

If the interest of any owner or owners of any unleased mineral interest is pooled by virtue of this act, seven-eighths of such interest shall be considered as a working interest and one-eighth shall be considered a royalty interest, and he shall in all events be paid one-eighth of all production from the unit and creditable to his interest.

D. Minimum allowable for some wells may be advisable from time to time, especially with respect to wells already drilled when this act takes effect, to the

end that the production will repay reasonable lifting cost and thus prevent premature abandonment and resulting waste.

E. Whenever it appears that the owners in any pool have agreed upon a plan for the spacing of wells, or upon a plan or method of distribution of any allowable fixed by the division for the pool, or upon any other plan for the development or operation of such pool, which plan, in the judgment of the division, has the effect of preventing waste as prohibited by this act and is fair to the royalty owners in such pool, then such plan shall be adopted by the division with respect to such pool; however, the division, upon hearing and after notice, may subsequently modify any such plan to the extent necessary to prevent waste as prohibited by this act.

F. After the effective date of any rule, regulation or order fixing the allowable production, no person shall produce more than the allowable production applicable to him, his wells, leases or properties determined as in this act provided, and the allowable production shall be produced in accordance with the applicable rules, regulations or orders.

L. 1935, Ch. 72, § 12; L. 1949, Ch. 168, § 13; L. 1953, Ch. 76, § 1; L. 1961, Ch. 65, § 1; L. 1973, Ch. 250, § 1; L. 1977, Ch. 255, § 51.

Formerly 1941 Comp., § 69-213 1/2; 1953 Comp., § 65-3-14.

Library References

Mines and Minerals ⇨92.52.
Westlaw Key Number Search: 260k92.52.

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1. In general

The oil conservation commission is a creature of statute, expressly defined, limited and empowered by laws creating it. 1953 Comp. §§ 65-3-10, 65-3-13(c), 65-3-14(b, f),

65-3-29(h). Continental Oil Co. v. Oil Conservation Commission, 1962, 70 N.M. 310, 373 P.2d 809. Mines And Minerals ⇨ 92.16

2. Due process

Defendant oil company's failure to notify plaintiff of well costs as mandated by New Mexico Conservation Division's pooling order did not rise to the level of "state action" so as to support an action for denial of due process. U.S.C.A. Const.Amend. 14. Mountain States Natural Gas Corp. v. Petroleum Corp. of Texas, 1982, 693 F.2d 1015. Constitutional Law ⇨ 254(4)

3. Jurisdiction

Inasmuch as crux of plaintiff's claim was that defendant oil company violated its federal constitutional right to due process of law by failing to provide it with notice of well costs pursuant to New Mexico Oil Conservation Division's pooling order, trial court did not err in exercising primary jurisdiction over dispute relating to cost of drilling and completing a well. U.S.C.A. Const.Amend. 14. Mountain States Natural Gas Corp. v. Petroleum Corp. of Texas, 1982, 693 F.2d 1015. Mines And Minerals ⇨ 92.79

4. Rights of oil and gas owners

Property right of owner of natural gas is not absolute or unconditional and consists of merely (1) opportunity to produce, (2) only insofar as it is practicable to do so, (3) without waste, (4) a proportion, (5) insofar as it can be practically determined and obtained without waste, (6) of gas in pool. *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇨ 92.54

5. Proration—In general

Oil Conservation Commission was not required, as prerequisite to entry of valid proration order, to first determine amount of gas underlying each producer's tract and in the pool, where Commission's findings demonstrated that such determinations were impracticable and such findings were sustained by the record. 1953 Comp. §§ 65-3-3, 65-3-13(c), 65-3-14. *Grace v. Oil Conservation Commission of New Mexico*, 1975, 87 N.M. 205, 531 P.2d 939. *Mines And Minerals* ⇨ 92.59(1)

The two fundamental powers and duties of commission in proration matters are prevention of waste and protection of correlative rights; and prevention of waste is of paramount interest, with protection of correlative rights being interrelated and inseparable from it. 1953 Comp. §§ 65-3-2 et seq., 65-3-10, 65-3-22(b). *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇨ 92.49

Commission, prorating production, must determine, insofar as practicable, (1) amount of recoverable gas under each producer's tract, (2) total amount of recoverable gas in pool, (3) proportion that (1) bears to (2), and (4) what portion of arrived at proportion can be recovered without waste. 1953 Comp. §§ 65-3-10, 65-3-13(c), 65-3-14(b), 65-3-29(h). *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇨ 92.59(1)

6. — Formulas, proration

Oil Conservation Commission, requested to act so as to change proration formula in Basin-Dakota gas pool from existing 25-75 formula to 60-40 formula, made basic findings necessary to authorize its change of production formula to 60-40 although it did not in express language find portion of gas which could be recovered from pool without waste and did adopt formula in compliance with statutory requirements. 1953 Comp. §§ 65-3-1 to 65-3-29. *El Paso Natural Gas Co. v. Oil Conservation Commission*, 1966, 76 N.M. 268, 414 P.2d 496. *Mines And Minerals* ⇨ 92.59(1)

"Pure acreage" formula which commission had originally applied would have to be assumed valid until it was successfully attacked

on application for change of proration formula. 1953 Comp. §§ 65-3-2, 65-3-3(e), 65-3-5, 65-3-10, 65-3-13(c), 65-3-14(a, b, f), 65-3-15(e), 65-3-22(b), 65-3-29(h). *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇨ 92.59(2)

Commission's finding, that new proration formula would result in more equitable allocation of gas production than formula in use under prior order, was not equivalent of, or proper substitute for, required finding that present formula did not protect correlative rights. 1953 Comp. §§ 65-3-2, 65-3-3(e), 65-3-5, 65-3-10, 65-3-13(c), 65-3-14(a, b, f), 65-3-15(e), 65-3-22(b), 65-3-29(h). *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇨ 92.59(1)

Commission's finding, that there was general correlation between deliverabilities of gas wells in pool and recoverable gas in place under tracts dedicated to said wells, was not tantamount to finding that new proration formula, based 25 percent upon acreage and 75 percent upon deliverability, was based on amounts of recoverable gas in pool and under tracts, insofar as those amounts could be practically determined and obtained without waste. *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇨ 92.59(2)

7. — Orders, proration

Conservation Commission's orders, which created two nonstandard gas proration units and force-pooled the tracts comprising the units, included sufficient findings as to correlative rights and economic waste. *Rutter & Wilbanks Corp. v. Oil Conservation Commission*, 1975, 87 N.M. 286, 532 P.2d 582. *Mines And Minerals* ⇨ 92.79

Substantial evidence supported orders of Conservation Commission which created two nonstandard gas proration units and force-pooled the tracts comprising the units and which had effect of including certain undrilled areas within the two drilling units, each of which had a completed gas well, thus diluting overriding royalty interests. *Rutter & Wilbanks Corp. v. Oil Conservation Commission*, 1975, 87 N.M. 286, 532 P.2d 582. *Mines And Minerals* ⇨ 92.79

In entering order prorating gas pool, Oil Conservation Commission had jurisdiction of the subject matter, which was conservation of gas. 1953 Comp. §§ 65-3-5, 65-3-13(c). *Grace v. Oil Conservation Commission of New Mexico*, 1975, 87 N.M. 205, 531 P.2d 939. *Mines And Minerals* ⇨ 92.59(1)

A supposedly valid proration order in current use cannot be replaced in absence of findings

Note 7

that present formula does not protect correlative rights and that new formula is based on amounts of recoverable gas in pool and under tracts, insofar as those amounts can be practically determined and obtained without waste. 1953 Comp. §§ 65-3-10, 65-3-13(c), 65-3-14(b, f), 65-3-29(h). *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇌ 92.59(1)

8. — Waste prevention, proration

Standards, in statute empowering Oil Conservation Commission to prevent waste and protect correlative rights, were sufficient to allow the Commission's power to prorate and create standard or nonstandard spacing units to remain intact, and there was no unlawful delegation of power; fact that more explicit standards appeared in particular sections of conservation statutes did not dictate a different result. 1953 Comp. §§ 65-3-10, 65-3-14.5, 65-3-14.5, subd. C. *Rutter & Wilbanks Corp. v. Oil Conservation Commission*, 1975, 87 N.M. 286, 532 P.2d 582. *Constitutional Law* ⇌ 62(5.1); *Mines And Minerals* ⇌ 92.3(2); *Mines And Minerals* ⇌ 92.23(1)

9. — Market demand, proration

Even after pool is prorated, market demand must be determined since, if allowable production from pool exceeds market demand, waste will result if allowable is produced; and conversely, production must be limited to allowable even if market demand exceeds that amount, since setting of allowables is necessary in order to prevent waste. 1953 Comp. §§ 65-3-3(e), 65-3-13(c), 65-3-15(e). *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇌ 92.53

10. — Findings, proration

Conservation Commission's orders, which created two nonstandard gas proration units and force-pooled the tracts comprising the units, included sufficient findings as to correlative rights and economic waste. *Rutter & Wilbanks Corp. v. Oil Conservation Commission*, 1975, 87 N.M. 286, 532 P.2d 582. *Mines And Minerals* ⇌ 92.79

Upon application to prorate gas pool, evidence was sufficient to sustain findings that the amount of recoverable gas under each producer's tract could not be practically determined in the pool by formula which considers effective feet of pay, porosity, and water saturation and that a 100% surface acreage formula should be adopted, despite contention that amount of recoverable gas under each producer's tract or in the pool could be determined. 1953 Comp. §§ 65-3-13(c), 65-3-14, 65-3-22(b). *Grace v. Oil Conservation Commission of New Mexico*,

1975, 87 N.M. 205, 531 P.2d 939. *Mines And Minerals* ⇌ 92.59(1)

Formal and elaborate findings are not absolutely necessary, in proration case, but nevertheless basic jurisdictional findings, supported by evidence, are required to show that commission has heeded mandate and standards set out by statute. *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Administrative Law And Procedure* ⇌ 485; *Administrative Law And Procedure* ⇌ 486; *Mines And Minerals* ⇌ 92.59(1)

Commission's finding, that new proration formula would result in more equitable allocation of gas production than formula in use under prior order, was not equivalent of, or proper substitute for, required finding that present formula did not protect correlative rights. 1953 Comp. §§ 65-3-2, 65-3-3(e), 65-3-5, 65-3-10, 65-3-13(c), 65-3-14(a, b, f), 65-3-15(e), 65-3-22(b), 65-3-29(h). *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇌ 92.59(1)

Commission's finding, that there was general correlation between deliverabilities of gas wells in pool and recoverable gas in place under tracts dedicated to said wells, was not tantamount to finding that new proration formula, based 25 percent upon acreage and 75 percent upon deliverability, was based on amounts of recoverable gas in pool and under tracts, insofar as those amounts could be practically determined and obtained without waste. *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇌ 92.59(2)

11. Spacing units

Under conservation statutes, the Oil Conservation Commission has power to fix spacing units without first creating proration units. 1953 Comp. §§ 65-3-11, 65-3-14, 65-3-14(b, c), 65-3-14.5. *Rutter & Wilbanks Corp. v. Oil Conservation Commission*, 1975, 87 N.M. 286, 532 P.2d 582. *Mines And Minerals* ⇌ 92.23(1)

12. Pooling

"Pooling" involves combination of several small tracts of land to meet spacing requirements for single oil or gas well, while "unitization" refers to fieldwide or partial fieldwide operation of producing reservoir involving multiple adjoining land tracts. *Amoco Production Co. v. Heimann*, 1990, 904 F.2d 1405, certiorari denied 111 S.Ct. 350, 498 U.S. 942, 112 L.Ed.2d 314. *Mines And Minerals* ⇌ 92.79

Defendant oil company violated terms of New Mexico Oil Conservation Division pooling order requiring it to provide plaintiff at least 30 days' notice before commencing drilling operations. *Mountain States Natural Gas Corp. v. Petro-*

2d 939. Mines And

findings are not absolute, but nevertheless, supported by evidence show that commission standards set out in *Co. v. Oil Conservation*, N.M. 310, 373 P.2d And Procedure ⇨ And Procedure ⇨ ⇨ 92.59(1)

at new proration formula equitable allocation formula in use under valent of, or proper ling that present for relative rights. 1953 e), 65-3-5, 65-3-10, b, f), 65-3-15(e), ontinental Oil Co. v. ion, 1962, 70 N.M. s And Minerals ⇨

at there was general abilities of gas wells in place under wells, was not tanta- / proration formula, eage and 75 percent ased on amounts of d under tracts, inso- be practically deter- ut waste. Continen- vation Commission, .2d 809. Mines And

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ibination of several eet spacing require- well, while "unitiza- or partial fieldwide ervoir involving mul- Amoco Production F.2d 1405, certiorari 498 U.S. 942, 112 l Minerals ⇨ 92.79 iolated terms of New ivision pooling order ntiff at least 30 days' ; drilling operations. Gas Corp. v. Petro-

leum Corp. of Texas, 1982, 693 F.2d 1015. Mines And Minerals ⇨ 92.79

In proceeding on request for partial participation filed by holder of oil and gas leasehold estate, evidence sustained Oil Conservation Commission's findings that oil and gas reserves in the deeper formation at issue were commercially feasible to produce and that any nonconsenting working interest owner should be allowed to pay his share of well costs out of production, that the most likely production would be from pre-Mississippian dolomite, that production from the shallower formation alone would not be to the advantage of the mineral interest and royalty owners, and that drilling to a deeper zone would prevent waste and protect correlative rights. *Viking Petroleum, Inc. v. Oil Conservation Com'n of State of N.M.*, 1983, 100 N.M. 451, 672 P.2d 280. Mines And Minerals ⇨ 92.79

The granting or refusal to grant forced pooling of multiple zones with an election to participate in less than all zones, the amount of costs to be reimbursed to the operator, and the percentage risk charge to be assessed, if any, are determinations to be made by the Oil Conservation Commission on a case-to-case basis and upon the particular facts in each case. *Viking Petroleum, Inc. v. Oil Conservation Com'n of State of N.M.*, 1983, 100 N.M. 451, 672 P.2d 280. Mines And Minerals ⇨ 92.79

Oil Conservation Commission's power to pool is not limited to tracts within 320-acre standing spacing units; the Commission has authority to pool separately owned tracts within an oversize nonstandard spacing unit. 1953 Comp. §§ 65-3-14(c), 65-3-14.5, subd. C. *Rutter & Wilbanks Corp. v. Oil Conservation Commission*, 1975, 87 N.M. 286, 532 P.2d 582. Mines And Minerals ⇨ 92.79

13. Allowable production

Enabling gas purchasers to more nearly meet market demand is not authorized statutory basis upon which change of allowables may be placed, and commission has no authority to require production of greater percentage of allowable, or to see to it that gas purchasers can more nearly meet market demand, unless such results stem from or are made necessary for prevention of waste or protection of correlative rights. 1953 Comp. §§ 65-3-3(e), 65-3-13(c), 65-3-15(e). *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. Mines And Minerals ⇨ 92.53

14. Correlative rights

For purpose of determining whether conclusion of New Mexico Oil Conservation Commission, that oil and gas unitization plan was fair and protected lessors' correlative rights, would be accorded collateral estoppel effect, fairness of unit participation plan was "actually litigat-

ed" before Commission, given express statutory obligation of Commission to protect "correlative rights," and Commission's finding that per-acre allocation of unit revenues protected such rights. NMSA 1978, §§ 70-2-11, 70-2-33, subd. H, 70-7-6, subd. B. *Amoco Production Co. v. Heimann*, 1990, 904 F.2d 1405, certiorari denied 111 S.Ct. 350, 498 U.S. 942, 112 L.Ed.2d 314. *Administrative Law And Procedure* ⇨ 501; *Mines And Minerals* ⇨ 92.79

Standards, in statute empowering Oil Conservation Commission to prevent waste and protect correlative rights, were sufficient to allow the Commission's power to prorate and create standard or nonstandard spacing units to remain intact, and there was no unlawful delegation of power; fact that more explicit standards appeared in particular sections of conservation statutes did not dictate a different result. 1953 Comp. §§ 65-3-10, 65-3-14.5, 65-3-14.5, subd. C. *Rutter & Wilbanks Corp. v. Oil Conservation Commission*, 1975, 87 N.M. 286, 532 P.2d 582. *Constitutional Law* ⇨ 62(5.1); *Mines And Minerals* ⇨ 92.3(2); *Mines And Minerals* ⇨ 92.23(1)

Protection of correlative rights depends upon commission's findings as to extent and limitations of property right of each owner, and in making such findings commission acts in an administrative capacity, and not in judicial or quasi-judicial capacity, and therefore commission is entitled to participate in appeal challenging proration order. 1953 Comp. §§ 65-3-2 et seq., 65-3-10, 65-3-22(b). *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. Mines And Minerals ⇨ 92.59(1); *Mines And Minerals* ⇨ 92.62

15. Findings

Administrative findings by Oil Conservation Commission should be sufficiently extensive to show the basis of the order and the reasoning of the Commission in reaching its conclusion. *Viking Petroleum, Inc. v. Oil Conservation Com'n of State of N.M.*, 1983, 100 N.M. 451, 672 P.2d 280. *Mines And Minerals* ⇨ 92.17

16. Judicial review

Supreme Court is limited to the same review of administrative actions as the district court. *Viking Petroleum, Inc. v. Oil Conservation Com'n of State of N.M.*, 1983, 100 N.M. 451, 672 P.2d 280. *Administrative Law And Procedure* ⇨ 683

Special weight is given to the experience, technical competence and specialized knowledge of the Oil Conservation Commission, and court's review of Commission orders is limited to the evidence presented to Commission. *Viking Petroleum, Inc. v. Oil Conservation Com'n of State of N.M.*, 1983, 100 N.M. 451, 672 P.2d 280. *Mines And Minerals* ⇨ 92.21

§ 70-2-17

Note 16

On appeal from order of district court upholding decisions of Oil Conservation Commission, the Supreme Court would make the same review of the Commission's action as did the district court and was restricted to considering whether, as a matter of law, the action of the Commission was consistent with and within the scope of its statutory authority, and whether the administrative orders were supported by substantial evidence. *Rutter & Wilbanks Corp. v. Oil Conservation Commission*, 1975, 87 N.M. 286, 532 P.2d 582. *Mines And Minerals* ⇨ 92.21

The Supreme Court, in reviewing judgment of the district court in proceeding to review order of Oil Conservation Commission, in first instance makes same review of Commission's action as district court did. *El Paso Natural Gas Co. v. Oil Conservation Commission*, 1966, 76 N.M. 268, 414 P.2d 496. *Mines And Minerals* ⇨ 92.21

Oil conservation commission cannot perform judicial functions; but neither can court perform administrative one; and net effect of court's admission and consideration of additional evidence, on appeal taken from proration

order, was to perform administrative function. *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇨ 92.59(1); *Mines And Minerals* ⇨ 92.64

Insofar as statute purported to allow district court, on appeal from oil conservation commission's proration order, to consider new evidence, to base its decision on preponderance of evidence, or to modify orders of commission, statute was void as unconstitutional delegation of power. 1953 Comp. § 65-3-22(b); Const. art. 3, § 1. *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Constitutional Law* ⇨ 74; *Mines And Minerals* ⇨ 92.3(2)

"Pure acreage" formula which commission had originally applied would have to be assumed valid until it was successfully attacked on application for change of proration formula. 1953 Comp. §§ 65-3-2, 65-3-3(e), 65-3-5, 65-3-10, 65-3-13(c), 65-3-14(a, b, f), 65-3-15(e), 65-3-22(b), 65-3-29(h). *Continental Oil Co. v. Oil Conservation Commission*, 1962, 70 N.M. 310, 373 P.2d 809. *Mines And Minerals* ⇨ 92.59(2)

§ 70-2-18. Spacing or proration unit with divided mineral ownership

A. Whenever the operator of any oil or gas well shall dedicate lands comprising a standard spacing or proration unit to an oil or gas well, it shall be the obligation of the operator, if two or more separately owned tracts of land are embraced within the spacing or proration unit, or where there are owners of royalty interests or undivided interests in oil or gas minerals which are separately owned or any combination thereof, embraced within such spacing or proration unit, to obtain voluntary agreements pooling said lands or interests or an order of the division pooling said lands, which agreement or order shall be effective from the first production. Any division order that increases the size of a standard spacing or proration unit for a pool, or extends the boundaries of such a pool, shall require dedication of acreage to existing wells in the pool in accordance with the acreage dedication requirements for said pool, and all interests in the spacing or proration units that are dedicated to the affected wells shall share in production from the effective date of the said order.

B. Any operator failing to obtain voluntary pooling agreements, or failing to apply for an order of the division pooling the lands dedicated to the spacing or proration unit as required by this section, shall nevertheless be liable to account to and pay each owner of minerals or leasehold interest, including owners of overriding royalty interests and other payments out of production, either the amount to which each interest would be entitled if pooling had occurred or the amount to which each interest is entitled in the absence of pooling, whichever is greater.

C. Nonstandard spacing or proration units may be established by the division and all mineral and leasehold interests in any such nonstandard unit

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:**

CASE NO. 13153, Rehearing

**APPLICATION OF PRIDE ENERGY COMPANY
FOR CANCELLATION OF A DRILLING PERMIT
AND REINSTATEMENT OF A DRILLING
PERMIT, AN EMERGENCY ORDER HALTING
OPERATIONS, AND COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO**

ORDER NO. R-12108-C

ORDER OF THE OIL CONSERVATION COMMISSION

BY THE COMMISSION;

THIS MATTER originally came before the Oil Conservation Commission (the Commission) on August 12, 2004, and the Commission entered Order No. R12108-A disposing of this application on September 10, 2004. Pursuant to the application of Yates Petroleum Corporation for rehearing, and the order of the Commission granting same (Order No. R-12108-B, issued on October 14, 2004), this matter came again before the Commission for rehearing on November 10, 2004 at Santa Fe, New Mexico, and the Commission, having heard the evidence and arguments of counsel and carefully considered the same, now, on this 9th day of December, 2004,

FINDS:

1. Notice has been given of the application and the hearing of this matter, and the Commission has jurisdiction of the parties and the subject matter.
2. In the original application in this case, Pride Energy Company (Pride) sought an order canceling a permit issued to Yates Petroleum Corporation (Yates) to re-enter the

abandoned State X Well No. 1 (API No. 30-025-01838) (the subject well), located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico. Pride also sought reinstatement of a drilling permit previously issued to it to re-enter the same well, and an emergency order preventing Yates from conducting any operations on the well.

3. Pride additionally sought an order pooling all uncommitted mineral interests underlying the W/2 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico, from the surface to the base of the Mississippian formation, forming a standard 320-acre gas spacing and proration unit (the Unit) for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the undesignated Four Lakes-Mississippian Gas Pool and the undesignated Four Lakes-Morrow Gas Pool, such unit to be dedicated to the well.

4. Both Yates and Pride appeared at the original Commission hearing on August 12, 2004 through counsel and presented land and technical testimony. Pride presented the testimony of John W. Pride, a petroleum landman and one of the principals of Pride, and Jeff Ellard, a geologist employed by Pride. Yates presented the testimony of Charles E. Moran, a landman employed by Yates, John Amiet, a geologist employed by Yates, and David F. Boneau, a petroleum engineer employed by Yates.

Undisputed Facts

5. Based on the statements of counsel and testimony offered by the parties, the Commission concludes that the following facts pertinent to this case are undisputed:

- (a) Yates is the owner of the entire working interest in the north half and southeast quarter of Section 12, Township 12 South, Range 34 East.
- (b) Pride is the owner of the entire working interest in the southwest quarter of Section 12.
- (c) The subject well is located in the northwest quarter of Section 12 on land leased exclusively to Yates.
- (d) Pride is the operator of the State M Well No. 1 (API No. 30-025-20689) (the State M), located 660 feet from the south and west lines of Section 1, Township 12 South, Range 34 East, which well is completed in, and producing from, the Mississippian formation. That well is dedicated to a spacing unit comprising the west half of Section 1, pursuant to a voluntary unit agreement to which Pride and Yates are both parties.
- (e) On May 24, 2001 Yates filed an Application for Permit to Drill (APD) to re-enter the subject well, which it designated the "Limbaugh AYO State Well No. 1", and to which it proposed to dedicate a spacing unit comprising the north half of Section 12. The Division approved that APD on May 25, 2001.

(f) On April 15, 2002, in anticipation of the forthcoming expiration of its APD, Yates filed a sundry notice to extend its APD for an additional year, until May 25, 2003. The Division approved the requested extension on April 18, 2002.

(g) On May 25, 2003, Yates' APD to re-enter the subject well expired.

(h) On July 10, 2003, Pride filed an APD to re-enter the subject well under the name "State X Well No. 1," to which it proposed to dedicate a spacing unit comprising the west half of Section 12, including the southwest quarter, which is leased to Pride.

(i) Pride's APD was approved by the Division on July 16, 2003.

(j) On August 25, 2003, Yates filed a new APD to re-enter the subject well, again designating the well as the "Limbaugh AYO State No. 1" and again proposing to dedicate to the well a spacing unit comprising the north half of Section 12.

(k) On August 26, 2003, the district supervisor of OCD District 1, approved Yates' APD for the subject well, and prepared a letter to Pride canceling Pride's APD.

(l) Yates has stipulated that it will undertake no operations with respect to the subject well pending the Commission's decision, thereby mooted Pride's request for an emergency order prohibiting such operations.

Technical Evidence

6. Although the history and land ownership are undisputed, as indicated in the foregoing findings, there exists controversy concerning the technical aspects of the case.

7. At the August 12, 2004 Commission hearing, the parties presented the following technical evidence:

(a) Mr. Ellard, Pride's geologist, testified that the objective in re-entering the subject well would be the Austin cycle of the upper Mississippian (the target reservoir), in which production was encountered in the State M, to the north of the subject well.

(b) Mr. Ellard further testified that the target reservoir was formed by shedding of fragmented rock from a raised fault block produced by faults lying to the west of these two wells. In wells farther to the south and east, away from the faulting, where the rock was not fragmented, the formation is present, but with insufficient porosity to be productive.

(c) Mr. Ellard opined that producible hydrocarbons would most likely be located closest to the fault because, of the material shed from the **upthrown** side of the fault, that material composed of larger particles, and therefore characterized by greater porosity and permeability, would be deposited in close proximity to the fault.

(d) Mr. Ellard placed the fault that created the target reservoir on a bearing more or less north to south and located a short distance to the west of the State M and the subject well, generally along and close to the section line between Section 12 and the adjacent Section 11. On this basis, he opined that the subject well would more likely drain producible hydrocarbons from the quarter section lying south of the subject well (the southwest quarter of Section 12), than from the quarter section lying east of the subject well (the northeast quarter of Section 12).

(e) Mr. Ellard testified that it is not possible to determine with any degree of accuracy the extent of the target reservoir with the information presently available. However, he opined, based on comparison of the old log of the subject well with the old log of the State M, that the subject well would likely encounter a comparable thickness of pay in the target reservoir (25 feet as compared to 30 feet in the State M).

(f) Mr. Amiet, Yates' geologist, agreed generally with Mr. Ellard's interpretation of the nature of the target reservoir and the mechanism of deposition, including the assessment that the extent of the target reservoir could not be determined with available information, but disagreed with Mr. Ellard's placement of the fault that produced the up-thrown block from which the reservoir material was presumably eroded.

(g) Mr. Amiet testified that 3D seismic run along a west-to-east bearing close to the location of the subject well, and which was admitted in evidence, demonstrated that no significant fault down-thrown to the east existed in the westward proximity of the subject well. He opined that the fault that controls the location of the target reservoir runs to the north of the State M and trends northeast to southwest. Accordingly, he concluded that the subject well is more distant from the fault than is the State M, and the Pride acreage in the southwest quarter of Section 12 is yet more distant.

(h) Mr. Amiet interpreted the logs from the subject well to show no more than 10 feet of reservoir in the target formation (as compared to 30 feet in the M1), confirming his conclusion that the subject well is more distant from the fault.

(i) Mr. Amiet testified that Yates had other 3-D seismic runs that tended to confirm his placement of the controlling fault, but Yates did not offer this other seismic information in evidence.

(j) Mr. Amiet further testified that the prevailing contours on the down-thrown side of the controlling fault favored the flow of eroded material to the east, rather than to the south. On this basis, he opined that the Yates acreage in the east

half of Section 12 is more likely to contain reservoir rock that might be drained by the subject well than is the Pride acreage in the southwest quarter.

(k) Dr. Boneau, Yates' engineering witness, calculated the probable drainage area of the State M based on production data and log analysis, to be 145 acres. Assuming that the drainage characteristics of the subject well would be otherwise similar to those of the State M, he calculated that 97% of production in the target reservoir from the subject well would be drawn from Yates acreage if Yates assumptions were correct, and 65% if Pride's assumptions were correct.

Analysis of Legal Issues

8. Based on the evidence and arguments at the August 12, 2004 hearing, the Commission finds and concludes concerning the legal issues presented as follows:

(a) This case requires an analysis of the effect of the Division's action in approving an APD.

(b) Pride filed an APD proposing a well at an orthodox location, and attached thereto a Dedication Plat (C-102) proposing to dedicate thereto a standard unit which was not then dedicated to any other well in the pool. Accordingly, Pride's APD was *prima facie* valid, and the Division properly approved it.

(c) The Division, through its district supervisor, subsequently purported to revoke its approval of Pride's APD on the ground that Pride did not own an interest in the drill-site tract.

(d) As this Commission observed in Order No. R-1 1700-B, entered in Cases No. 12731 and 12744, the Division has neither the responsibility nor jurisdiction to determine whether an applicant for a permit to drill has the requisite title to the land in question. Order No. R-1 1700-B, Finding 27.

(e) The Commission further stated in Order No. R-1 1700-B that an applicant for a permit to drill must have a good faith claim of title. Order R-1 1700-B, finding 28.

(f) Although the Division can and should cancel an APD when it properly determines that no such good faith claim exists (as the Commission determined, based on a District Court judgment, in Order No. R-1 1700-B), it should not make that determination, which necessarily cannot be made on the face of the APD or from Division records, without first giving the applicant notice and an opportunity for a hearing. Although the Commission doubts that the right conferred by approval of an APD is properly characterized as "property," it nevertheless concludes that such approval confers rights that should not be revoked arbitrarily.

(g) In any event, a determination that Pride did not have a good faith claim could not have been made in this case. Here, unlike Cases No. 12731 and 12744, there is

no title dispute. It is undisputed that Pride owns a working interest in the unit proposed in its APD, *i.e.*, the west half of Section 12, and that the west half of Section 12 is a standard unit permitted by applicable spacing rules. It is likewise undisputed that, at the time Pride filed its APD, Yates' previously approved APD calling for a north half spacing unit had expired.

(h) Again, the Commission said in Order No. R-11700-B:

An operator may first apply for a permit to drill a well and may thereafter pool (on a voluntary or compulsory basis) separately owned tracts to the well. Alternatively, the operator may first pool and later seek a permit to drill. The two are not mutually exclusive, and there is no preferred methodology.

Order R-11700-B, finding 35.

(i) The Commission accordingly concludes that an owner who would have a right to drill at its proposed location in the event of a voluntary or compulsory pooling of the unit it proposes to dedicate to the well has the necessary good faith claim of title to permit it to file an APD even though it has not yet filed a pooling application. If an owner uses this right to "tie-up" acreage without proceeding diligently to seek voluntary or compulsory pooling, or if the acreage can more properly be developed by inclusion in a different unit, an aggrieved owner can file an application with the Division to cancel its approval of the APD, which the Division can do after notice and hearing.

(j) It follows that Pride's approved APD in this case was improperly revoked, and Yates' subsequent APD was improperly approved. It does not necessarily follow, however, that Pride is entitled to the relief it seeks in this case.

(k) As the Commission stated in Order No. R-11700-B:

An application for a permit to drill serves different objectives than an application for compulsory pooling and the two proceedings should not be confused.

Order No. R-11700-B, finding 33.

(l) In Order No. R-11700-B, the Commission ordered cancellation of an APD based on a judicial determination that the party who filed the APD had no title to the subject unit and therefore could not be an operator of a well within that unit. The Commission further ordered approval of an APD subsequently filed by a party whose title the court had approved. However, the Commission deferred the issue of the proper configuration of the unit to be dedicated to the proposed well for determination in a pending compulsory pooling proceeding.

(m) Thus the existence of a properly approved APD should not be a basis for prejudging the issues in a compulsory pooling application. If the applicant prevails on its compulsory pooling application and is appointed operator in a compulsory pooling order, it is entitled to approval of an APD in any case. If the compulsory pooling application is denied, the applicant having in this case no other basis for a claim of title to the drill-site tract, cancellation of the APD would be a necessary consequence.

(n) Ordinarily, Division precedent would require an owner opposing a compulsory pooling application on the ground that prudent development would counsel the formation of a different unit to file a competing application. However, in this case, compulsory pooling would be unnecessary to form a north half unit, as Yates proposes. Accordingly, Yates should be permitted to offer evidence in support of its proposal as a defense to Pride's compulsory pooling application.

(o) The Commission accordingly concludes that its decision in this case must be based on its evaluation of the technical testimony presented in support of, and against, Pride's compulsory pooling application, irrespective of the circumstances with regard to the approval of the respective APDs.

Analysis of Technical Issues

9. Based on the evidence and arguments at the August 12, 2004 hearing, the Commission finds and concludes concerning the technical issues presented as follows:

(a) Expert witnesses for both parties concurred that, on the basis of the information presently available, the total quantity of reserves in the Mississippian formation underlying Section 12, or particular quarter sections thereof, cannot practicably be determined.

(b) None of Yates' witnesses offered any convincing reason for supposing that the east half of Section 12 would be productive in the Mississippian. Dr. Boneau testified that the State M well would have a drainage area of 145 acres, and that the subject well is likely to be only half as good a well, suggesting a drainage radius for the subject well of less than 160 acres. Although Mr. Amiet projected the target reservoir into the northeast quarter of the section, he also testified that porosity would fall off rapidly as the distance from the fault increased, and he conceded that his projection of the alluvial fan that produced the target reservoir to the east depended upon the unproven assumption that the observed contours of the formation corresponded to the contours existing at the time of deposition.

(c) If Pride's placement of the controlling fault as bearing north to south, and in close proximity to the subject well, is correct, then its conclusion that the southwest quarter of Section 12 will likely be productive in the Mississippian, and the east half of the section will not be productive, accords with the understanding of both geologists of the nature of this reservoir.

(d) Although no good logs of the subject well are available, the Commission concludes that Mr. Pride's interpretation that there is likely a comparable amount of reservoir footage in the subject well to that encountered in the State M well is more convincing, and that interpretation is consistent with the north-south alignment of the controlling fault, and with the conclusion that the southwest quarter of Section 12 is likely to be productive.

(e) Both geologists predicted that the east half of the section is less likely to be productive from the target reservoir than the west half. The southwest quarter, however, is quite likely productive if the controlling fault actually exists in the north-south orientation as Pride's evidence suggests that it does.

(f) If the southwest quarter proves to be productive, and the east half of the section does not, then the establishment of lay down units in this section would violate Pride's correlative rights. If Pride drilled a well in the southwest quarter, such well would have to be included in a south-half unit, and Yates would be entitled to one-half of the production therefrom based on its ownership of the unproductive southeast quarter. If, on the other hand stand up units are established, and the east half proves to be productive, Yates can recover for itself all of the east half production by drilling on the east-half unit.

(g) Yates relies principally on its 3-D seismic to demonstrate that the critical fault is oriented northeast-southwest, and not north-south. Though Mr. Amiet testified that Yates has seismic data that confirms his suggested location of the fault, Yates did not offer any such seismic data in evidence.

(h) Though Mr. Amiet testified that he interpreted the seismic data offered in evidence as disproving the existence of a north-south fault in the location suggested by Pride, he conceded that a small fault with a throw of as much as 100 feet might exist that might not be apparent from the seismic data. The existence of a fault with much reduced throw compared to that farther to the north would be consistent with Mr. Pride's testimony that the fault "dies" to the south.

(i) The Commission concludes that Pride's geologic interpretation is, on the whole, more convincing than Yates' interpretation.

10. The Commission accordingly concludes that:

(a) A compulsory-pooled unit should be established consisting of the west half of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico, and that such unit should be dedicated to the subject well;

(b) Pride should be designated operator of the subject well and of the unit.

(c) Yates APD for re-entry of the subject well should be cancelled.

(d) The order should provide that any pooled working interest owner in the proposed unit who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in re-entering and re-completing the well.

(e) Reasonable charges for supervision of unit operations (combined fixed rates) should be fixed at \$5,000.00 per month while drilling and \$600.00 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COP AS form titled "*Accounting Procedure-Joint Operations.*"

(f) Yates commenced operations to re-enter the subject well prior to the filing of this application, based on an APD reflecting Division approval.

(g) Pride should reimburse Yates for reasonable costs incurred by Yates in connection with such operation.

11. The Commission entered Order No. R-12108-A on September 9, 2004 granting the application of Pride Energy Company but authorizing Yates to recover the actual well costs incurred by Yates in conducting re-entry operations on the subject well after August 25, 2003 and "prior to the time when Yates received notice of the filing of the original application in this case".

12. Yates filed its Application for Rehearing in this case on September 29, 2004 in which it requested a new hearing on, among other issues, the portion of Order No. R-12108-A that limited Yates' recovery of costs to those costs incurred prior to the time it received notice of Pride's original application in this case.

13. On October 14, 2004, the Commission entered Order No. R-12108-B that granted Yates' Application for Rehearing but limited the issues for consideration on rehearing to the determination of costs for which Yates shall be allowed reimbursement.

14. On November 10, 2004, this case came on for re-hearing before the Commission on the issue of costs for which Yates shall be allowed reimbursement.

15. Yates appeared at the hearing through counsel and presented the testimony of Charles E. Moran, a landman employed by Yates and Tom Wier, an accountant employed by Yates. Pride appeared through counsel but did not present testimony.

16. Mr. Moran testified that Yates had commenced operations on the subject well in August 2003, and that these operations had continued until Yates voluntarily stopped operations pending a decision of the Division in this case. Mr. Moran further testified that, although Pride had filed an application seeking an emergency order directing Yates to cease operations on this well, the Division had deferred action on Pride's application and found, on September 12, 2003, that "Yates should not be required to cease all re-entry operations of the State 'X' Well No. 1." Mr. Moran requested that Yates be authorized to recover the actual

costs it incurred in the re-entry of the subject well prior to the time it voluntarily ceased operations on the well or October 7, 2003.

17. Mr. Moran also testified that Yates had complied with the provisions of ordering Paragraph 9 of Order No. R-12108-A by providing a schedule of all actual well costs it had incurred in conducting re-entry operations on the well by letter dated October 8, 2004, that it had received an AFE for the well from Pride by letter dated September 14, 2004; and, to be certain that it was not in a non-consent position under Commission Order No. R-12108-A, on October 13, 2004, Yates had paid to Pride its share of these AFE costs.

18. Mr. Wier reviewed the schedule of well costs submitted to Pride and the Commission on October 8, 2004, identified items that had occurred after October 7, 2003 and provided supporting information for the costs incurred prior to that date.

19. Pride requested that it be allowed time to review and object to the costs on the schedule provided by Yates and the supporting information submitted at the hearing.

20. Yates should be reimbursed for all reasonable costs incurred through October 7, 2003 in furtherance of the re-entry of the subject well, and the time for objections to those costs should be extended through December 31, 2004.

IT IS THEREFORE ORDERED THAT:

1. Pursuant to the application of Pride, all uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Mississippian formation underlying the W/2 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit (the Unit) for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the Undesignated Four Lakes-Mississippian Gas Pool and the Undesignated Four Lakes-Morrow Gas Pool. The Unit shall be dedicated to the subject well, located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 12.

2. The operator of the Unit shall commence re-entry operations on the subject well within 90 days after issuance of this order, and shall thereafter continue such operations with due diligence to test the Mississippian formation. If this order is suspended pending any further appeals, the ninety-day period provided in this paragraph shall be tolled during the time of such suspension.

3. In the event the operator does not commence re-entry operations within the time provided in ordering paragraph 2, this order shall be of no further effect, unless the operator obtains a time extension from the Division Director for good cause.

4. Should the subject well not be completed within 120 days after resumption of re-entry operations pursuant to this order, then this order shall be of no further effect, and the

unit created by this order shall terminate, unless the operator obtains a time extension from the Division Director following notice and hearing.

5. Upon final plugging and abandonment of the subject well, the pooled unit created by this Order shall terminate unless this order has been amended to authorize further operations.

6. Pride is hereby designated the operator of the subject well and of the Unit.

7. After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including **unleased** mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of re-entering, completing and equipping the subject well ("well costs").

8. Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs and charges for supervision but shall not be liable for risk charges authorized by paragraph 14 of this order. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

9. Within 5 days after the issuance of this order, Yates shall furnish the Division and Pride an itemized schedule of actual well costs incurred by Yates in conducting re-entry operations on the subject well after August 25, 2003 and prior to October 7, 2004, the time when Yates voluntarily ceased operations on the subject well. If no objection to such actual costs is received by the Division, and the Division has not objected on or before December 31, 2004, such costs shall be deemed to be the reasonable well costs. If there is an objection to the reasonableness of such costs within the time allowed by this order, the Division will determine the amount thereof that constitutes reasonable well costs after notice and hearing.

10. If Yates elects to pay in advance its share of costs of the re-entry of the subject well pursuant to this order, Yates may deduct the amount of such actual costs from its share of estimated well costs to be paid pursuant to ordering paragraph 8. If the amount to be paid by Yates pursuant to this provision is less than the amount paid by Yates to Pride at the time of its election pursuant to Order No. R-12108-A, Pride shall refund such excess to Yates within 45 days after receiving notice of Yates' election pursuant to this Order No. R-12108-C. If the Division subsequently determines that any amount of actual costs for which Yates claims reimbursement does not constitute reasonable well costs, Yates shall, within 60 days after such determination, pay to Pride the amount that such actual costs previously reimbursed to Yates exceed the amount thereof that the Division determines to be reasonable.

11. If Yates elects not to pay in advance its share of costs of the re-entry of the subject well pursuant to this order, Pride shall refund all amounts paid by Yates at the time of its election pursuant to Order No. R-12108-A, and shall pay to Yates the amount of actual costs incurred by Yates, within 45 days after the later of (a) receipt of the schedule of such costs as required by ordering paragraph 9 or (b) the expiration of the time provided by ordering paragraph 8 within which Yates could elect to pay its share of well costs in advance. If, however, Pride files an objection to the reasonableness of such actual costs, Pride shall, in lieu of paying actual costs claimed by Yates at the time provided in the preceding sentence, pay to Yates the amount thereof that the Division determines to be reasonable within 60 days after such determination.

12. The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after notice and hearing.

13. Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

14. The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

15. The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

16. Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,000.00 per month while drilling and \$600.00 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

17. Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

18. The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

19. Pride's APD for the State "X" Well No. 1 dated July 10, 2003 is hereby re-instated, and shall continue in effect for one year from the date of this order, unless this order sooner terminates.

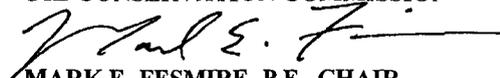
20. Yates Petroleum Corporation's APD for the State "X" Well No. 1 dated August 25, 2003 is hereby cancelled *ab initio*.

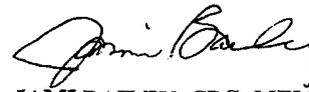
21. Order No. R-12108-A is hereby rescinded in its entirety, and this Order No. R-12108-C is substituted therefor.

22. Jurisdiction of this case is retained for the entry of such further orders as the Commission may deem necessary.

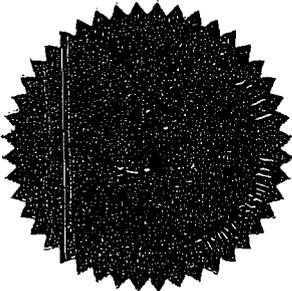
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


MARK E. FESMIRE, P.E., CHAIR


JAMI BAILEY, CPG, MEMBER


FRANK T. CHAVEZ, MEMBER



SEAL

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 13690
ORDER NO. R-12555**

**APPLICATION OF PRIDE ENERGY COMPANY FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 11, 2006, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 25th day of May, 2006, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Pride Energy Company ("Pride" or "applicant"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Mississippian formation underlying the W/2 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico, to form a standard 320-acre gas spacing and proration unit for all formations and/or pools spaced on 320 acres within this vertical extent, which presently include but are not necessarily limited to the Undesignated Four Lakes-Mississippian Gas Pool.

(3) The above-described spacing and proration unit (the "Unit") is to be dedicated to the existing State "X" Well No. 1 (API No. 30-025-01838) located at a standard gas well location 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 12, which is to be re-entered by Pride to test the Mississippian formation.

(4) The applicant also seeks authority to drill an infill well within the Unit, the State "X" Well No. 2 (API No. 30-025-37800), to be located at a standard gas well location 660 feet from the South line and 1980 feet from the West line (Unit N) of Section 12.

(5) Yates Petroleum Corporation, an interest owner in the proposed Unit, appeared at the hearing in opposition to the application.

(6) The W/2 of Section 12 was previously pooled by Division Order No. R-12108-C dated December 9, 2004. In that action, the Division, upon the application of Pride, pooled the interest of Yates within the W/2 of Section 12, and authorized Pride to re-enter the State "X" Well No. 1 for the purpose of testing the Mississippian formation.

(7) The evidence presented in this case demonstrates that Pride re-entered the State "X" Well No. 1 in a timely fashion, but due to mechanical problems, was forced to move off of the well prior to the well being completed. Consequently, the pooling provisions of Division Order No. R-12108-C are no longer in effect.

(8) In the present case, Pride seeks again to pool the W/2 of Section 12 in order to make another attempt to re-enter and complete the State "X" Well No. 1, and also seeks authority to drill an infill well within the unit,

(9) Within the proposed Unit, Pride owns 50% of the working interest, and the remaining 50% is owned by Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation, and Myco Industries, Inc. (hereinafter referred to collectively as "Yates").

(10) On April 6, 2006, Yates filed a Motion to Dismiss Pride's Application in Case No. 13690. In its motion, Yates contends that:

- (a) Pride does not own an interest in the NW/4 of Section 12, and therefore does not have the right to re-enter the State "X" Well No. 1;
- (b) Pride failed to make a good faith effort to reach a voluntary agreement with Yates for the development of this acreage; and
- (c) no order should be entered in this case prior to resolution by the Division of certain outstanding monetary issues pending before the Division relating to Pride's first attempt to re-enter the State "X" Well No. 1. These issues are contained within Case No. 13531, which was heard by the Division on January 5, 2006.

(11) On April 12, 2006, Pride filed a Response in Opposition to Yates' Motion to Dismiss.

(12) The Division made no ruling on Yates' motion prior to the hearing on May 11, 2006. At the hearing, Yates renewed its motion to dismiss. The Examiner deferred ruling on the motion until such time as an order is entered in this case.

(13) The evidence presented at the hearing demonstrates that Pride, by virtue of owning a 50% working interest in the proposed Unit, will, if its application is granted, have the right to re-enter the State "X" Well No. 1. In addition, Pride has made a good faith effort to secure the voluntary participation of Yates in the proposed re-entry of the State "X" Well No. 1. Division records further show that Division Order No. R-12547 was issued in Case No. 13531 on May 8, 2006, therefore, there are no outstanding issues relating to Pride's first re-entry attempt on the State "X" Well No. 1. Consequently, Yates' Motion to Dismiss should be denied.

(14) Pride presented evidence and testimony that demonstrates that:

- (a) it seeks an expedited pooling order in this case due to the fact that its lease in the SW/4 of Section 12 will expire on May 31, 2006;
- (b) in December 2005, Pride contacted Yates regarding its desire to continue to develop the W/2 of Section 12. On February 24, 2006, Pride sent Yates an Authority for Expenditure ("AFE") for the re-entry of the State "X" Well No. 1. Subsequent to that time, Pride and Yates have had further discussion regarding the development of the W2 of Section 12, but have been unable to reach an agreement;
- (c) Pride first proposed the drilling of the State "X" Well No. 2 to Yates by letter dated May 4, 2006;
- (d) Pride proposes that it be allowed to drill the proposed State "X" Well No. 2 prior to re-entering the State "X" Well No. 1; and
- (e) re-entry costs for the State "X" Well No. 1 are estimated to be approximately \$1,973,700 for a completed well.

(15) Yates objects to the pooling of the W/2 of Section 12 for the drilling of the State "X" Well No. 2 for the following reasons:

- (a) Pride first proposed to Yates the drilling of the State "X" Well No. 2 on May 4, 2006, only days before the hearing in this matter; and
- (b) Pride filed a compulsory pooling application that included its proposal to drill the State "X" Well No. 2 prior to conducting good faith negotiations with Yates regarding the drilling of this well.

(16) The evidence presented demonstrates that Pride has conducted good faith negotiations with Yates regarding the re-entry of the State "X" Well No. 1, but has been unable to reach a voluntary agreement.

(17) The evidence further demonstrates that Pride has failed to conduct good faith negotiations with Yates regarding the drilling of the proposed State "X" Well No. 2. Consequently, any order that pools the interest within the W/2 of Section 12, at this time, should exclude authorization for Pride to drill the State "X" Well No. 2.

(18) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(19) There are interest owners in the proposed Unit that have not agreed to pool their interests.

(20) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(21) The applicant should be designated the operator of the State "X" Well No. 1 and of the Unit.

(22) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in re-entering the well.

(23) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,000.00 per month while drilling and \$600.00 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*"

IT IS THEREFORE ORDERED THAT:

(1) Yates Petroleum Corporation's Motion to Dismiss Case No. 13690 dated April 6, 2006 is hereby denied.

(2) Pursuant to the application of Pride Energy Company, all uncommitted mineral interests from the surface to the base of the Mississippian formation underlying the W/2 of Section 12, Township 12 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit for all formations and/or pools spaced on 320 acres within this vertical extent, which presently include but are not necessarily limited to the Undesignated Four Lakes-Mississippian Gas Pool.

(3) The above-described spacing and proration Unit shall be dedicated to the existing State "X" Well No. 1 (API No. 30-025-01838) located at a standard gas well location 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 12, which is to be re-entered by Pride to test the Mississippian formation.

(4) The operator of the Unit shall commence re-entry and drilling operations on the State "X" Well No. 1 on or before September 1, 2006, and shall thereafter continue drilling the well with due diligence to test the Mississippian formation.

(5) In the event the operator does not commence re-entry and drilling operations on the State "X" Well No. 1 on or before September 1, 2006, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(6) Should the State "X" Well No. 1 not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (2) shall be of no further effect, and the Unit created by this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to drill and complete the well for good cause demonstrated by satisfactory evidence.

(7) Upon final plugging and abandonment of the subject well, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) Pride Energy Company is hereby designated the operator of the subject well and of the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the

Unit an itemized schedule of estimated costs of re-entering, drilling, completing and equipping the subject well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the well. If no objection to the actual well costs is received by the Division, and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in re-entering and drilling the well, 200% of the above costs.

(14) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,000.00 per month while drilling and \$600.00 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III. 1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(16) Except as provided in Ordering Paragraphs (11) and (13) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(17) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(19) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(20) That portion of Pride Energy Company's application seeking authorization to drill the proposed State "X" Well No. 2 as an infill well within the W/2 of Section 12 is hereby denied. Any subsequent operations conducted on the pooled Unit shall only be authorized after notice and hearing.

(21) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, PE
Director

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION COMMISSION**

**IN THE MATTER OF THE APPLICATION
OF SAMSON RESOURCES COMPANY,
KAISER-FRANCIS OIL COMPANY AND
MEWBOURNE OIL COMPANY FOR
CANCELLATION OF A DRILLING PERMIT
AND APPROVAL OF A DRILLING PERMIT,
LEA COUNTY, NEW MEXICO**

**CASE NO. 13492
ORDER NO. R-12343-B
DE NOVO**

APPLICANTS' JOINT HEARING MEMORANDUM

Samson Resources Company, ("Samson"), Kaiser-Francis Oil Company, ("Kaiser-Francis"), and Mewbourne Oil Company ("Mewbourne") submit this memorandum of law in connection with the Commission's hearing on the merits in this matter.

SUMMARY

On April 27, 2004, Chesapeake Operating, Inc. trespassed onto Kaiser-Francis's oil and gas lease on the SE/4 of Section 4, T -21-S, R-35-E and, without notice, commenced drilling the KF "4" State Well No. 1. Chesapeake cites as its authority to do so incomplete C-101 and C-102 forms purporting to establish a 320-acre lay-down gas spacing and proration unit comprised of the SW/4 and SE/4 of irregular Section 4. However, Kaiser-Francis's lease covering the SE/4 of Section 4 is the subject of an operating agreement and a Communitization Agreement approved by the Commissioner of Public Lands establishing a 320-acre stand-up unit comprised of the SE/4 and Lots 9, 10, 15 and 16.

Chesapeake's APD was improvidently issued and should be cancelled for the following reasons:

- (1) Chesapeake's claim to title to the SE/4 has no good faith basis.
- (2) Chesapeake Operating, Inc.'s conduct constitutes trespass.

BACKGROUND FACTS

1. Kaiser-Francis, Samson Resources Company and Mewbourne Oil Company are the working interest owners in Lots 9, 10, 15, 16, and the SE/4 of Irregular Section 4, T. 21 S., R. 35 E., NMPM, Lea County, New Mexico (the "Subject Lands"). The mineral interests under the Subject Lands are owned entirely by the State of New Mexico and are subject to State Oil and Gas Lease Nos. V-7054 and B-1481-14.

2. Under that Communitization Agreement approved by the Commissioner of Public Lands on April 27, 2005, effective April 1, 2005, and pursuant to that Joint Operating Agreement dated March 24, 2005, the subject lands were consolidated to form a standard 320-acre stand-up gas spacing and proration unit comprised of Lots 9, 10, 15, 16 and the SE/4 of Section 4. Further, pursuant to the Joint Operating Agreement the parties designated Mewbourne as operator and agreed to drill the Osudo "4" State Com Well No. 1 at a standard gas well location 660 feet from the south line and 1,650 feet from the east line of said Section 4, near the current bottom-hole location of the KF State 4 Well No. 1. The parties subsequently designated Samson as operator of the well.

3. On March 30, 2005 Mewbourne filed with the Division's Hobbs District Office its Request for Approval of its Application for Permit to Drill ("APD") for the Osudo "4" State Comm Well No. 1. The APD was returned to Mewbourne by the Hobbs District Office without approval for the reason that the District Office had previously approved an APD submitted on behalf of Chesapeake Operating, Inc. on March 11, 2005 for Chesapeake's KF State "4" No. 1 Well in said Section 4. The C-102 form that accompanied Chesapeake's APD purported to show

the dedication of a 320-acre lay-down gas spacing and proration unit consisting of the SW ¼ and SE ¼ equivalents of Section 4. The Chesapeake APD's were also incomplete: They failed to show the consolidation code as required by Rule 1102.

4. Chesapeake Operating, Inc. owns no interest in any portion of the Subject Lands. However, Chesapeake Permian, L.P., purports to own the lease outside the Subject Lands covering the SW/4 of Section 4.

5. On approximately April 27, 2005, without notice, Chesapeake moved a drilling rig onto the location for the KF State "4" No. 1 Well and commenced drilling operations that same day.

6. On April 28, 2005, Mewbourne filed the original Application in this case to cancel the APD for the KF "4" State Well No. 1.

POINTS AND AUTHORITIES

1. An Approved APD Is Not A Sufficient Claim To Title.

New Mexico Precedent

In its earlier filings, Chesapeake has made clear that it is basing its claim to title strictly on the incomplete C-101 and C-102 forms that were ministerially approved by the Division. Chesapeake claims this was sufficient authorization for it to enter onto the Kaiser Francis lease within the Communitized Unit area and to drill the KF "4" State Well No. 1.

Chesapeake is wrong. It must prove that it has a good faith claim of *title*.

In New Mexico, "title" to real property is evidenced by a conveyance "*which shall be subscribed by the person transferring his title or interest in said real estate, or by his legal agent or attorney.*" NMSA 1978 § 47-1-5. See *Kysar v. Amoco Production Company*, 135 N.M. 767, 93 P3d 1272 (2004). Likewise, NMSA 1978 § 37-1-21 requires a claimant to hold or claim "by

virtue of a deed or deeds [of] conveyance, ... purporting to convey an estate in fee simple.” See also Quarles v. Arcega, 114 N.M. 502 (N.M.App.,1992). Therefore a claim to title must be based on a written deed, with a legal description contained therein that is easily ascertainable on the ground. See Esquibel v. Hallmark, 92 N.M. 254 (1928); Cox v. Hanlen, 1998-NMSA-015; Ritter-Walker Co. v. Bell, 46 N.M. 125 (1942).

As the New Mexico Court of Appeals has pointed out, Black’s Law Dictionary defines “title” as: “*The union of all elements (as ownership, possession, and custody) constituting the legal right to control and dispose of property; the legal link between a person who owns property and the property itself.*” Santa Fe County Bd. Of County Com’rs v. Town of Edgewood, (2004-NMCA-111) (quoting Black’s Law Dictionary at 1493).

Chesapeake is unable to demonstrate any evidence of a claim to title here. Only Kaiser-Francis, as owner of the oil and gas lease on the SE/4 of Section 4 owned the right to occupy the lands and to explore for minerals by drilling. Moreover, Kaiser-Francis’s right, title and interest to the SE/4 are exclusive¹. See granting clause, State of New Mexico Oil and Gas Lease No. B-1481. See, also, Grynberg v. City of Northglenn, 739 P.2d 230 (Colo. 1987).

To justify its conduct in this case, Chesapeake has invoked the *Pride Energy* Order (Order R-12108-C) and the *TMBR/Sharp* Order (Order R-11700-B). Chesapeake misinterprets these authorities by its statement that, “*The Commission’s Order in Pride tells us, as a matter of administrative law, that Chesapeake can rely upon its valid and approved APD as the “good faith” basis for doing what it did and continues to do.*” (Pg. 2, Chesapeake’s Motion To Dismiss dated May 10, 2005, NMOCD Case No. 13492.)

¹ Subject to the rights of Samson and Mewbourne under the Communitization Agreement.

Contrary to Chesapeake's interpretation, a careful reading of Order No. R-12108-C from the *Pride Energy* case will show that the Commission did *not* say that an approved APD provides the "good faith" basis for entry onto the lands. Rather, the Commission in *Pride* said, citing to Order No. R-11700-B², "*That an applicant for permit to drill must have a good faith claim of title.*" This, then, is the controlling criteria in this case. Notably, however, Order No. R-12108-C in *Pride* states that an APD should not be regarded as "property":

"(f) Although the Division can and should cancel an APD when it properly determines that no such good faith claim exists, as the Commission determined, based on a District Court judgment, in Order No. R-11700-B', it should not make that determination, which necessarily cannot be made on the face of the APD or from Division records, without first giving the Applicant notice and an opportunity for a hearing. Although the Division doubts that the right conferred by an approval of an APD is properly characterized as "property," it nevertheless concludes that such approval confers rights that should not be revoked arbitrarily." (Order No. R-1208-C, ¶ 8.)

This same issue arose in the *TMBR/Sharp* case, where, after an administrative challenge to Arrington's APD's, TMBR/Sharp Drilling was able to prove that it had title to support the issuance of the APD's to it, while Arrington did not. The agency correspondingly rescinded Arrington's APD's.

Order No. R-11700-B in the *TMBR/Sharp* case set forth the two criteria under which the Division may make a determination of a properly or improperly approved APD: "*It is the responsibility of the operator filing an Application for a Permit to Drill to do so under a good faith claim to title and a good faith belief that it is authorized to drill the well applied for.*" Chesapeake is unable to satisfy the *TMBR/Sharp* criteria.

² Case No. 12731, *Application of TMBR/Sharp Drilling, Inc. For An Order Staying David H. Arrington Oil and Gas, Inc. From Commencing Operations, Lea County, New Mexico*; Case No. 12744, *Application of TMBR/Sharp Drilling, Inc. Appealing The Hobb's District Decision Approval Of Two Applications For A Permit To Drill filed by TMBR/Sharp Drilling, Inc., Lea County, New Mexico.*

The Division and the Commission have issued three principle cases interpreting an operator's entitlement to, and rights under, an approved drilling permit from the Division. They are Order No. R-12093-A (Case No. 13215; *Application of Valles Caldera Trust to Deny Application of Geo Products of New Mexico, Inc. for Permits to Re-enter Abandoned Geothermal Wells (APDs), Sandoval County, New Mexico*), Order No. R-11700-B (from the *TMBR/Sharp* case referenced above), and Order No. R-12108-C (from the *Pride Energy* case, Case No. 13153).

In Order No. R-12093-A, the Commission said,

"The Order granting the permit is a purely negative pronouncement. It grants no affirmative rights to the permittee to occupy the property ... it merely removes the conservation laws and regulations as a bar to drilling the well." Order No. R-12093-A, ¶ 11, citing to *Magnolia Petroleum Company v. Railroad Commission*, 170 Southwest 2d 189 (Tex. 1943).

The Commission went on to say,

"The Commission does not have jurisdiction to determine title or the rights of any party to occupy property. However, prudence dictates that the Commission ought not to issue a permit where the party applicant for the permit clearly does not have the right to conduct the contemplated activity. As stated by the Texas Supreme Court, "The Railroad Commission should not do the useless thing of granting a permit to one who does not claim the property in good faith." Order No. R-12093-A ¶ 16.

Texas Precedent

A series of cases originating from the Texas Railroad Commission involving drilling permits are instructive. These precedent Railroad Commission cases make clear that APD's do not authorize a permittee without title to drill.

Magnolia Petroleum Company v. Railroad Commission, 170 S.W. 2d 189 (Tex., 1943) states the general rule that a permit issued by the Railroad Commission does not authorize the

permittee to take possession of the land if there is a dispute regarding title to such land. It explains,

“The function of the Railroad Commission in this connection is to administer the conservation laws. When it grants a permit to drill a well it does not undertake to adjudicate questions of title or rights of possession. These questions must be settled in the courts.... The permit may be perfectly valid, so far as the conservation laws are concerned, and yet the permittee’s right to drill under it may depend upon his establishing title in a suit at law.” *Magnolia Petroleum* at 99-100.

Since a permit does not grant the permittee any affirmative right to occupy the property, it does not cloud the adversary’s title. *Id.* at 100; See also *Sun Oil Co. v. Railroad Commission*, 390 S.W.2d 803 (Tex. Civ. App., 1965). In other words, an APD does not effect a transfer of title and consequently cannot constitute a “claim of title”.

If a person who is not in possession of the land obtains a permit to drill on that land from the Railroad Commission, that person may not drill until his or her title has been established by the court, and the persons who are in possession of the land may defend their possession by self-help or injunction proceedings. *Magnolia Petroleum* at 100. If the holder of the permit to drill brings suit to determine title to the land, the fact that a permit has been granted is not admissible in support of the permittee’s title. *Id.*

Later cases in the Texas Court of Appeals and Supreme Court echoed *Magnolia Petroleum’s* holding that a drilling permit does not constitute a claim to title. *Nale v. Carroll*, 289 S.W. 2d 743 (Tex., 1956) states that the Railroad Commission’s rules and regulations for drilling do not effect the transfer of property right. A claim to title cannot be based on a permit to drill. *Id.* at 559; See also *Miller v. Sutherland*, 179 S.W.2d 801 (Tex. Civ. App., 1943) (denying title where claim was only based on the rules of Railroad Commission and stating “*It is thought to be fundamental that the rules and regulations of the Railroad Commission cannot have the result of effecting a change or transference of property rights.*”).

Oklahoma Precedent

The authority from Oklahoma supports the same conclusion that a drilling permit does not establish claim to title or a right to drill without such a claim, while strongly reiterating Oklahoma's reliance on the law of capture. The Oklahoma Supreme Court in *Frost v. Ponca City*, 541 P.2d 1321 (Okla. 1975), ruled that the state, acting pursuant to its police power, may establish regulations which have 'the effect of regulating or abrogating in a measure the law of capture. However, these regulations only restrict the landowner's right to capture minerals that underlie his property, and they do not authorize third persons to enter the land and capture these minerals without compensating the landowner. The *Frost* court reasoned that to authorize a third person to exercise such rights on a landowner's property would constitute a taking of the landowner's property.

In *Van Meter v. Wallace*, 170 Okla. 638, 41 P.2d 839 (Okla. 1935), the court reviewed the record for a drilling permit that had already been issued. It surmised that the applicant had not been in possession of the land for which he sought the permit. Therefore, the court ruled that the permit was issued erroneously and the APD was thus rescinded. This case further supports the position that in Oklahoma as well as in Texas, no claim to title or right to drill is extended to someone who does not own the land simply because a drilling permit was issued to that person.

2. *Chesapeake's Conduct Constitutes Trespass.*

Trespass in New Mexico is defined as a direct infringement on another's right of possession, which may be committed on or beneath the surface of the earth. *Schwartzman, Inc. v. Atchison, Topeka & Santa Fe Railroad Co.*, 857 F. Supp. 838 (D.N.M., 1994); See also *Padilla v. Lawrence*, 101 N.M. 556 (App. 1984); Restatement, Second, of Torts § 159. Any unauthorized entry upon the owner's land is trespass that entitles the owner to a verdict for damages. *North v.*

Public Service Co. of New Mexico, 94 N.M. 246 (N.M. App., 1980). Trespass contemplates actual physical entry or invasion, as differentiated from nuisance liability, which arises because of activity that falls short of tangible, concrete invasion. *Schwartzman*.

The initial burden of proof in an action of trespass, like in all actions, rests on the party who initiated the suit. See AmJur Trespass § 216. In an action of trespass, the plaintiff must show that he was in rightful possession of the land at the time of the trespass, and that the defendant made an unauthorized entry onto this land. *Pacheco v. Martinez*, 97 N.M. 37 (N.M. App. 1981). Actual exclusive possession of the land is sufficient proof. *Harrington v. Chavez*, 27 N.M. 67 (1921). Proof of constructive possession is also sufficient. *Pacheco*. Possession is presumed to accompany ownership until the contrary is proven. *First Nat. Bank of Albuquerque v. Town of Tome*, 23 N.M. 255 (1917). Therefore, possession unsupported by evidence of title can be sufficient to maintain an action of trespass. *Probst v. Trustees of the Bd. of Domestic Missions of the General Assembly of the Presbyterian Church in the USA*, 5 P. 702 (N.M. Terr., 1885) (reversed on other grounds in *Probst v. Trustees of Board of Domestic Missions, Etc.*, 129 U.S. 182 (1889)).

Chesapeake's trespass here was also clearly intentional. On April 5, 2005, Chesapeake threatened to move a drilling rig onto the SE/4 of Section 4. Chesapeake knew that Kaiser-Francis had already entered into an agreement with Mewbourne and Samson to drill their own well. In this regard, See *Archibeque v. Miera*, 1 N.M. 419 (N.M. Terr., 1869). The evidence in this case establishes that Chesapeake had the actual purpose of interfering on the land or the knowledge that the disturbance would occur. *Id.* When a party claiming trespass introduces evidence that shows possession of the land as well as an intent to trespass, the burden of proving a right to the land that is superior to that of the party claiming trespass then shifts to the

trespasser. See AmJur Trespass § 216. The defendant must then prove consent or license as a defense against the claim of trespass. Id. Chesapeake can prove neither one. Further, in the context of this Agency's precedential rulings, Chesapeake is unable to establish that its conduct in obtaining an APD and going onto the lands constitutes a good faith claim to title.

The Commission and the New Mexico Supreme Court have touched on this issue before. In *Snyder Ranches, Inc. v. Oil Conservation Commission, et al.*, 110 N.M. 637, 798 P.2d 587 (1990), a mineral interest owner in an adjoining section opposed Mobil's application for an injection permit for its disposal well on its own lease. The mineral owner opposed the technical justification for the permit, as well as the issuance of the permit itself, contending that the Division's permit was being used to authorize a trespass. The New Mexico Supreme Court made clear that the Division's permit does not authorize the trespass or occupancy. The Court said:

"Having found substantial evidence to support the Commission and district court's conclusions, our analysis should end. However, in order to avoid future error, we take the opportunity to answer Snyder Ranches' assertion that the granting of Mobil's application to inject salt water into the disposal well authorizes trespass against Snyder Ranches' property. We do not agree.

*The State of New Mexico may be said to have licensed the injection of salt water into the disposal well; however, such license does not authorize trespass. The issuance of a license by the State does not authorize trespass or other tortious conduct by the licensee, nor does such license immunize the licensee from liability for negligence or nuisance which flows from the licensed activity. See *Lummis v. Lilly*, 385 Mass. 41, ..., 429 N.E.2d 1146, 1150 (1982); *Summer v. Township of Teaneck*, 53 N.J. 548, 556, 251 A.2d 761, 765 (1969)." (emphasis added).*

Certificate of Service

I hereby certify that a true and correct copy of the foregoing was hand-delivered to counsel of record at the time of the hearing on the merits in this matter as follows:

Earl DeBrine, Jr., Esq.
Modrall Sperling
Post Office Box 2168
Albuquerque, New Mexico 87103-2168

Cheryl Bada, Esq.
New Mexico Oil Conservation Commission
1220 South St. Francis Drive
Santa Fe, New Mexico 87504

Thomas Kellahin, Esq.
Post Office Box 2265
Santa Fe, New Mexico 87504

J. Scott Hall

J. Scott Hall

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

CASE NO. 13492

**APPLICATION OF SAMSON RESOURCES
COMPANY, KAISER-FRANCIS OIL COMPANY,
AND MEWBOURNE OIL COMPANY FOR
CANCELLATION OF TWO PERMITS AND
APPROVAL OF A DRILLING PERMIT, LEA
COUNTY, NEW MEXICO.**

CASE NO. 13493

**APPLICATION OF CHESAPEAKE PERMIAN, L.P.
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.**

ORDER NO. R-12343-B

**STIPULATION BY THE PARTIES AS TO UNDISPUTED
EVIDENCE TO BE CONSIDERED BY THE COMMISSION**

The parties hereto, Samson Resources Company, Kaiser-Francis Oil Company and Chesapeake Operating, Inc., join in stipulating that the following facts and exhibits represent evidence that is not in dispute, that they ask to be made part of the record in this *de novo* proceeding before the Oil Conservation Commission and be considered by the Commission as with other evidence.

A. Section 4 of Township 21 South, Ranch 35 East, NMPM, in Lea County, is an irregular section consisting of approximately 950.8 acres, more or less, and is approximately one mile wide from east to west, and one and one-half miles long from north to south. The subdivisions of Section 4 are as follows:

(1) the southeast quarter (geographically, the east half of the south one-third), consisting of lots 17, 18, 23 and 24;

(2) the southwest quarter (geographically, the west half of the south one-third), consisting of lots 19 through 22;

(3) lots 9, 10, 15 and 16, being the quarter section immediately north of the southeast quarter, hereinafter called "the east half of the middle one-third;" and

Joint Exhibit 1

(4) lots 11 through 14, being the quarter section immediately north of the southwest quarter, hereinafter called "the west half of the middle one-third."

(5) lots 1 through 5, consisting of 310.8 acres, more or less, being the two northern most quarter sections.

B. Oil and gas minerals within the entire Section 4 (as well as the surface) are owned by the State of New Mexico, and all acres have been leased. Lease status and ownership are as follows:

(1) The southeast quarter is leased under State of New Mexico Lease No. B-1481. Kaiser-Francis, Samson, and Mewbourne own all the working interest.

(2) The southwest quarter is leased under State of New Mexico Lease No. VO-7063. Chesapeake Permian LP owns all the working interest.

(3) The middle one-third of Section 4 is leased under State of New Mexico Lease No. VO-7054. Samson owns all the working interest.

(4) The northern one-third of Section 4 is leased under State of New Mexico Lease No. VO-7062. Chesapeake Permian LP owns all the working interest.

(5) Chesapeake does not own any interest in the southeast quarter of Section 4, and has not owned any such interest at any time relevant to this case. Chesapeake has no contractual right with respect to the mineral estate in the southeast quarter of Section 4 unless such right arises by virtue of approval by Samson of an AFE (authorization for expenditures) issued by Chesapeake for the KF 4 well, under circumstances detailed below.

C. On February 27, 2005, Mewbourne ran electric logs showing over 40 feet of Morrow porosity on its Osudo 9 State Com. Well No. 1 (API No. 30-025-36828) (the "Osudo 9 well") located in the southeast quarter of the northeast quarter of Section 9, Township 21 South, Range 35 East, NMPM, being the quarter section immediately south of the southeast quarter of Section 4. On March 8, 2005, Mewbourne placed that well on line and began selling natural gas. The Osudo 9 well is a prolific producer of natural gas from the Morrow formation and is owned by Mewbourne, Chesapeake, and Finley Resources.

D. On March 10, 2005 Chesapeake Operating, Inc. filed an APD for the KF 4 well, designating a lay-down spacing unit consisting of the southeast and southwest quarters of Section 4. The Division approved Chesapeake's APD on March 11, 2005.

E. On March 9, 2005, Chesapeake sent a letter to Samson (received on March 11, 2005) proposing the drilling of the KF 4 well "in the south half of Section 4" and requesting the recipient to elect whether or not to participate. The letter also invited Samson to enter into negotiations for sale of their interest to Chesapeake, but stated, "be advised that entering into negotiations to sell Samson's interest does not excuse or allow Samson to delay the required

election under this well proposal.” Chesapeake also sent a similar proposal letter to Kaiser-Francis. Chesapeake did not send a proposal letter to Mewbourne because Mewbourne had not yet obtained an interest in the proposed spacing unit.

F. There was no operating agreement between Chesapeake and Samson or Kaiser-Francis that would require an election, and Chesapeake knew that there was no such agreement.

G. On March 22, 2005 Samson signed and returned Chesapeake’s election letter and AFE, indicating that it elected to participate in the proposed KF 4 well, but did not send its portion in of the dry hole costs as requested in the letter.

H. On March 28, 2005 Mewbourne, as operator on behalf of Samson et al., filed an APD for its proposed Osudo 4 State Com. No. 1. The Mewbourne APD proposed a location in the southeast quarter and the east half of the middle third of Section 4. The Division rejected Mewbourne’s APD on March 30, 2005, by reason of the earlier approval of Chesapeake’s APD.

I. On March 30, 2005 Samson sent a letter and fax to Chesapeake stating that, “Samson hereby rescinds and revokes its invalid election to participate in [the KF 4 well].”

J. On April 15, 2005 Chesapeake began site construction for the KF 4 well.

K. On April 20, 2005 Mewbourne, as the last of the designated parties (Kaiser-Francis, Samson, and Mewbourne), signed a communitization agreement providing for a communitized unit in the Morrow consisting of the southeast quarter and the east half of the middle third of Section 4.

L. On April 26, 2005 the applications in these cases were filed with the Division.

M. On April 27, 2005, the New Mexico State Land Office approved the Communitization Agreement described above, noting that, “[t]he effective date of this approval is April 1, 2005.”

N. On April 27, 2005 Chesapeake spudded the KF 4 well.

O. The well was completed and placed on production on January 2006.

P. As of April 2006, the well had produced 270,279 Mcf of gas and 2,286 barrels of oil.

The following stipulated Exhibits are attached and incorporated herein:

Stip. Ex. 1: Plat of Section 4-21S-35E showing well locations

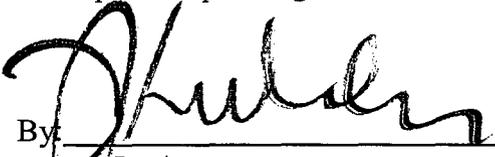
Stip. Ex. 2: Plat of Section 4-21S-35E showing lease ownership as of 3-10-05.

Stip. Ex. 3; Plat of Section 4-21S-35E showing Communitization Agreement acreage

Stip Ex. 4: Chesapeake APD, March 10, 2005, Form C-101 KF 4 State

- Stip. Ex. 5: Chesapeake Well Location Plat, March 10, 2005, Form C-102 KF 4 State
- Stip. Ex. 6: Chesapeake Sundry Notice, March 10, 2005, Form C-103 KF 4 State
- Stip. Ex. 7: Oil Conservation Division Rule – Rules 19.15.13.1102 (Form C-102) and 19.15.13.1103 (Form C-103)
- Stip. Ex. 8: Oil Conservation Division C-102 Instructions
- Stip. Ex. 9: Commissioner of Public Lands, Communitization Approval, April 27, 2005
- Stip. Ex. 10: Chesapeake Pooling Application
- Stip. Ex. 11: March 9, 2005 letter from Chesapeake to Samson re Well Proposal for KF 4 State No.1 with election by Samson
- Stip. Ex. 12: March 30, 2005 letter from Samson re Withdrawal of Election
- Stip. Ex. 13: April 4, 2005 letters from Chesapeake to Kaiser Francis and Samson enclosing Joint Operating Agreement
- Stip. Ex. 14: April 5, 2005 letter from Samson to Chesapeake re JOA

Chesapeake Operating Inc.

By: 
 Its Attorney

Earl E. DeBrine, Jr.
 Modrall, Sperling, Roehl, Harris
 & Sisk, P.A.
 P.O. Box 2168
 Albuquerque, NM 87103-2168
 Telephone: (505) 848-1800
 Facsimile: (505) 848-1891

W. Thomas Kellahin
 Kellahin & Kellahin
 P.O. Box 2265
 Santa Fe, NM 87504-2265

Samson Resources Company and
 Kaiser-Francis Oil Company

By: 
 Their Attorney

J.E. Gallegos
 Gallegos Law Firm, P.C.
 460 St. Michael's Drive, Bldg. 300
 Santa Fe, NM 87505
 Telephone: (505) 983-6686
 Facsimile: (505) 986-1367

Scott Hall
 Miller Stratvert P.A.
 P.O. Box 1986
 Santa Fe, NM 87504-1986

Lease No. 4

V-7062

Chesapeake Exploration Limited Partnership - 75%

Rubicon Oil & Gas I, LP - 25%

Lease No. 3

V-7054

Samson Resources Co. - 100%

Lease No. 2

V-7063

Chesapeake Exploration
Limited Partnership - 75%

Rubicon Oil & Gas I, LP - 25%

Lease No. 1

B-1481

Samson Resources Co. - 12.5%

Kaiser-Francis
Oil Company - 87.5%

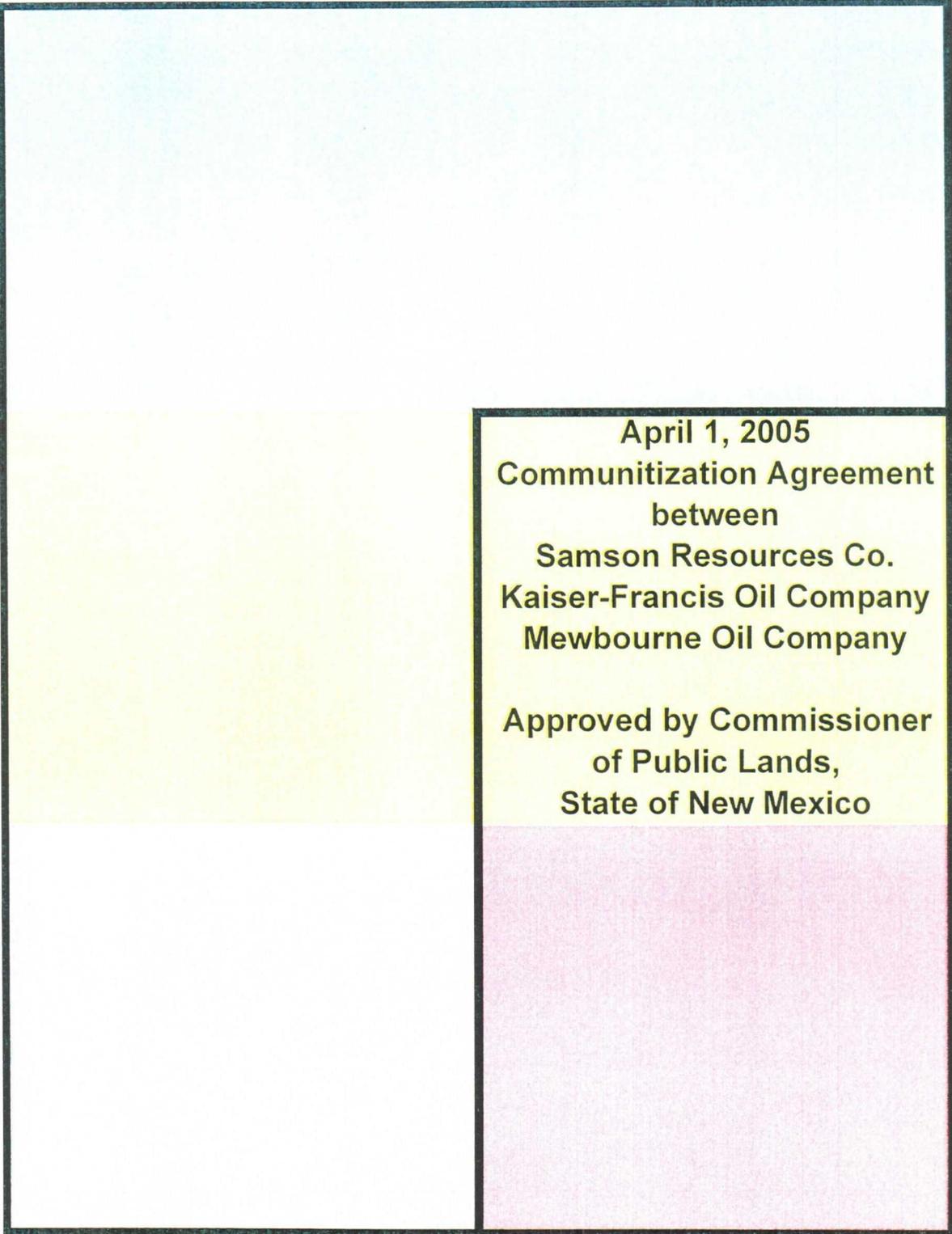
SECTION 4-21S-35E

OWNERSHIP AS OF 3/10/05

Stipulated Exhibit

2

NMOCD Case Nos. 13492 / 13493



April 1, 2005

Communitization Agreement
between
Samson Resources Co.
Kaiser-Francis Oil Company
Mewbourne Oil Company

Approved by Commissioner
of Public Lands,
State of New Mexico

SECTION 4-21S-35E

COMMUNITIZATION AGREEMENT

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

District II
1301 W. Grand Ave., Artesia, NM 88210

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

District IV
1220 S. St Francis Dr., Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

Form C-101
Permit 8104

APPLICATION FOR PERMIT TO DRILL

Operator Name and Address CHESAPEAKE OPERATING, INC. PO Box 11050 Midland, TX 79702-8050		OGRID Number 147179
		API Number 30-025-37129
Property Code 34679	Property Name KF 4 STATE	Well No. 001

Surface Location

UL or Lot	Section	Township	Range	Lot Idn	Feet From	N/S Line	Feet From	E/W Line	County
X	4	21S	35E		660	S	990	E	Lea

Proposed Pools

OSUDO, MORROW, SOUTH (GAS) 82200

Work Type New Well	Well Type GAS	Cable/Rotary	Lease Type State	Ground Level Elevation 3621
Multiple N	Proposed Depth 12100	Formation Morrow	Contractor	Spud Date 03/18/2005

Proposed Casing and Cement Program

Type	Hole Size	Casing Size	Casing Weight/ft	Setting Depth	Sacks of Cement	Estimated TOC
Surf	17.5	13.375	48	450	500	0
Intl	12.25	9.625	40	5350	1300	0
Prod	8.75	5.5	17	12100	1350	4000

Casing/Cement Program: Additional Comments

13 3/8 csg: Lead 295 sx 35.65 Poz C + additives, Tail 205 sx Cl C + additives, circ to surface; 9 5/8 cmt: 1,150 sx 50.50 Poz Cl C + additives, Tail 150 sx Cl C + additives circ. to surface; 5 1/2 Prod Csg. 1st Stage Lead 275 sx 50.50 Poz Cl H + additives, 1st Stage Tail 470 sx 50.50 Poz Cl H + additives; 2nd stage 555 sx 50.50 Poz Cl H + additives, 2nd stage Tail 50 sx 50.50 Poz Cl H + additives.

Proposed Blowout Prevention Program

Type	Working Pressure	Test Pressure	Manufacturer
Annular	5000	5000	
Double Ram	5000	5000	

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Electronically Signed By: Brenda Coffman

Title: Regulatory Analyst

Date: 03/10/2005 Phone: 432-685-4310

OIL CONSERVATION DIVISION	
Electronically Approved By: Paul Kautz	
Title: Geologist	
Approval Date: 03/11/2005	Expiration Date: 03/11/2006
Conditions of Approval: There are conditions. See Attached.	

Stipulated Exhibit 4
NMOCD Case Nos. 13492 / 13493

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

District II
1301 W. Grand Ave., Artesia, NM 88210

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

District IV
1220 S. St Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

Form C-102
Permit 8104

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-37129	Pool Name OSUDO;MORROW, SOUTH (GAS)	Pool Code 82200
Property Code 34679	Property Name KF 4 STATE	Well No. 001
OGRID No. 147179	Operator Name CHESAPEAKE OPERATING, INC.	Elevation 3621

Surface And Bottom Hole Location

UL or Lot X	Section 4	Township 21S	Range 35E	Lot Lin	Feet From 660	N/S Line S	Feet From 990	E/W Line E	County Lea
Dedicated Acres 320	Joint or Infill	Consolidation Code	Order No.						

OPERATOR CERTIFICATION	SURVEYOR CERTIFICATION
<i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</i>	<i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i>
Electronically Signed By: Brenda Coffman	Electronically Signed By: Gary L Jones
Title: Regulatory Analyst	Date of Survey: 03/10/2005
Date: 03/10/2005	Certificate Number: 7977

Permit Conditions Of Approval

C-101, Permit 8104

Operator: CHESAPEAKE OPERATING, INC. , 147179

Well: KF 4 STATE #001

OCD Reviewer	Condition
PKAUTZ	Re-seeding mixture will must be approved or authorized by surface owner
PKAUTZ	Notice is to be given to the OCD prior to construction of the pit(s)
PKAUTZ	Pit construction and closure must satisfy all requirements of O.C.D. Rule 19.15.2.50, and the Pit and Below-Grade Tank Guidelines

DISTRICT I
2525 N. French Dr., Hobbs, NM 88240

DISTRICT II
611 South First, Artesia, NM 88210

DISTRICT III
1908 N. Main St., Lordsburg, NM 87840

DISTRICT IV
2044 South Parkhurst, Santa Fe, NM 87504

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised March 17, 1989

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

OIL CONSERVATION DIVISION
2040 South Parkhurst
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-37129	Pool Code 82200	Pool Name Osuda, S. Marnew (GAS)
Property Code 34079	Property Name KF "4" STATE	Well Number 1
DIBER No. 147179	Operator Name CHESAPEAKE OPERATING INC.	Elevation 3621'

Surface Location

UL or Lot No.	Section	Township	Range	Lot Ltn	Feet from the	North/South line	Feet from the	East/West line	County
X	4	21 S	35 E		660	SOUTH	990	EAST	LEA

Bottom Hole Location if Different From Surface

UL or Lot No.	Section	Township	Range	Lot Ltn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres 820	Joint or InRR	Consolidation Code	Order No.
-------------------------------	---------------	--------------------	-----------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

LOT 12 - 40 AC.	LOT 11 - 40 AC.	LOT 10 - 40 AC.	LOT 9 - 40 AC.
LOT 13 - 40 AC.	LOT 14 - 40 AC.	LOT 15 - 40 AC.	LOT 16 - 40 AC.

OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Brenda Coffman
Signature
Brenda Coffman
Printed Name
Reg. Analyst
Title
3-10-05
Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same are true and correct to the best of my belief.

MARCH 10, 2005
Date Surveyed
Signature & Seal of Professional Surveyor
Certificate No. 7977
JAMES JONES

BASIN SURVEYS

Lat.: N32.5025°
Long.: W103.3657°
(NAD 27)

990'
990'

Stipulated Exhibit 5
NMOCD Case Nos. 13492 / 13493

Submit 3 Copies To Appropriate District Office
 District I
 1625 N. French Dr., Hobbs, NM 88240
 District II
 1301 W. Grand Ave., Artesia, NM 88210
 District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 District IV
 1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
 Energy, Minerals and Natural Resources

Form C-103
 May 27, 2004

OIL CONSERVATION DIVISION
 1220 South St. Francis Dr.
 Santa Fe, NM 87505

WELL API NO. 30-025-37129
5. Indicate Type of Lease STATE <input checked="" type="checkbox"/> FEE <input type="checkbox"/>
6. State Oil & Gas Lease No.
7. Lease Name or Unit Agreement Name KF 4 State
8. Well Number 001
9. OGRID Number 147179 82200
10. Pool name or Wildcat Osudo, & Morrow, South (gas)

SUNDRY NOTICES AND REPORTS ON WELLS
 (DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)

1. Type of Well: Oil Well Gas Well Other

2. Name of Operator
Chesapeake Operating, Inc.

3. Address of Operator P. O. Box 11050
Midland, TX 79702-8050

4. Well Location
 Unit Letter **X/P** : 660 feet from the South line and 990 feet from the East line
 Section 4 Township 21S Range 35E NMPM County Lea

11. Elevation (Show whether DR, RKB, RT, GR, etc.)
3621

Pit or Below-grade Tank Application or Closure

Pit type Drilling Depth to Groundwater 150 Distance from nearest fresh water well 1000 Distance from nearest surface water 1000

Pit Liner Thickness: 12 mil Below-Grade Tank: Volume 12139 bbls; Construction Material

12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

NOTICE OF INTENTION TO:		SUBSEQUENT REPORT OF:	
PERFORM REMEDIAL WORK <input type="checkbox"/>	PLUG AND ABANDON <input type="checkbox"/>	REMEDIAL WORK <input type="checkbox"/>	ALTERING CASING <input type="checkbox"/>
TEMPORARILY ABANDON <input type="checkbox"/>	CHANGE PLANS <input type="checkbox"/>	COMMENCE DRILLING OPNS. <input type="checkbox"/>	P AND A <input type="checkbox"/>
PULL OR ALTER CASING <input type="checkbox"/>	MULTIPLE COMPL <input type="checkbox"/>	CASING/CEMENT JOB <input type="checkbox"/>	
OTHER: Close Pit <input checked="" type="checkbox"/>		OTHER: <input type="checkbox"/>	

13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.

Chesapeake plans to close the drilling pit for this well according to current NMOCD guidelines Section B3b.

(320 AC. 5/2)

I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that any pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines a general permit or an (attached) alternative OCD-approved plan .

SIGNATURE Brenda Coffman TITLE Regulatory Analyst DATE 03/10/2005

Type or print name Brenda Coffman E-mail address: bcoffman@chmenergy.com Telephone No. (432)687-2992

APPROVED BY: [Signature] TITLE PETROLEUM ENGINEER DATE MAR 11 2005

Conditions of Approval (if any):

Submit 3 Copies To Appropriate District Office

District I 1625 N. French Dr., Hobbs, NM 88240
District II 1301 W. Grand Ave., Artesia, NM 88210
District III 1000 Rio Brazos Rd., Aztec, NM 87410
District IV 1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico Energy, Minerals and Natural Resources

Form C-103 May 27, 2004

OIL CONSERVATION DIVISION 1220 South St. Francis Dr. Santa Fe, NM 87505

WELL API NO. 30-025-37129
5. Indicate Type of Lease STATE [X] FEE []
6. State Oil & Gas Lease No.
7. Lease Name or Unit Agreement Name KF 4 State
8. Well Number 001
9. OGRID Number 147179
10. Pool name or Wildcat Osudo, & Morrow, South (gas)
11. Elevation (Show whether DR, RKB, RT, GR, etc.) 3621
12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data
NOTICE OF INTENTION TO:
PERFORM REMEDIAL WORK [] PLUG AND ABANDON []
TEMPORARILY ABANDON [] CHANGE PLANS []
PULL OR ALTER CASING [] MULTIPLE COMPL []
OTHER: Close Pit [X]
SUBSEQUENT REPORT OF:
REMEDIAL WORK [] ALTERING CASING []
COMMENCE DRILLING OPNS. [] P AND A []
CASING/CEMENT JOB []
OTHER: []

13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.
Chesapeake plans to close the drilling pit for this well according to current NMOCD guidelines Section B3b.

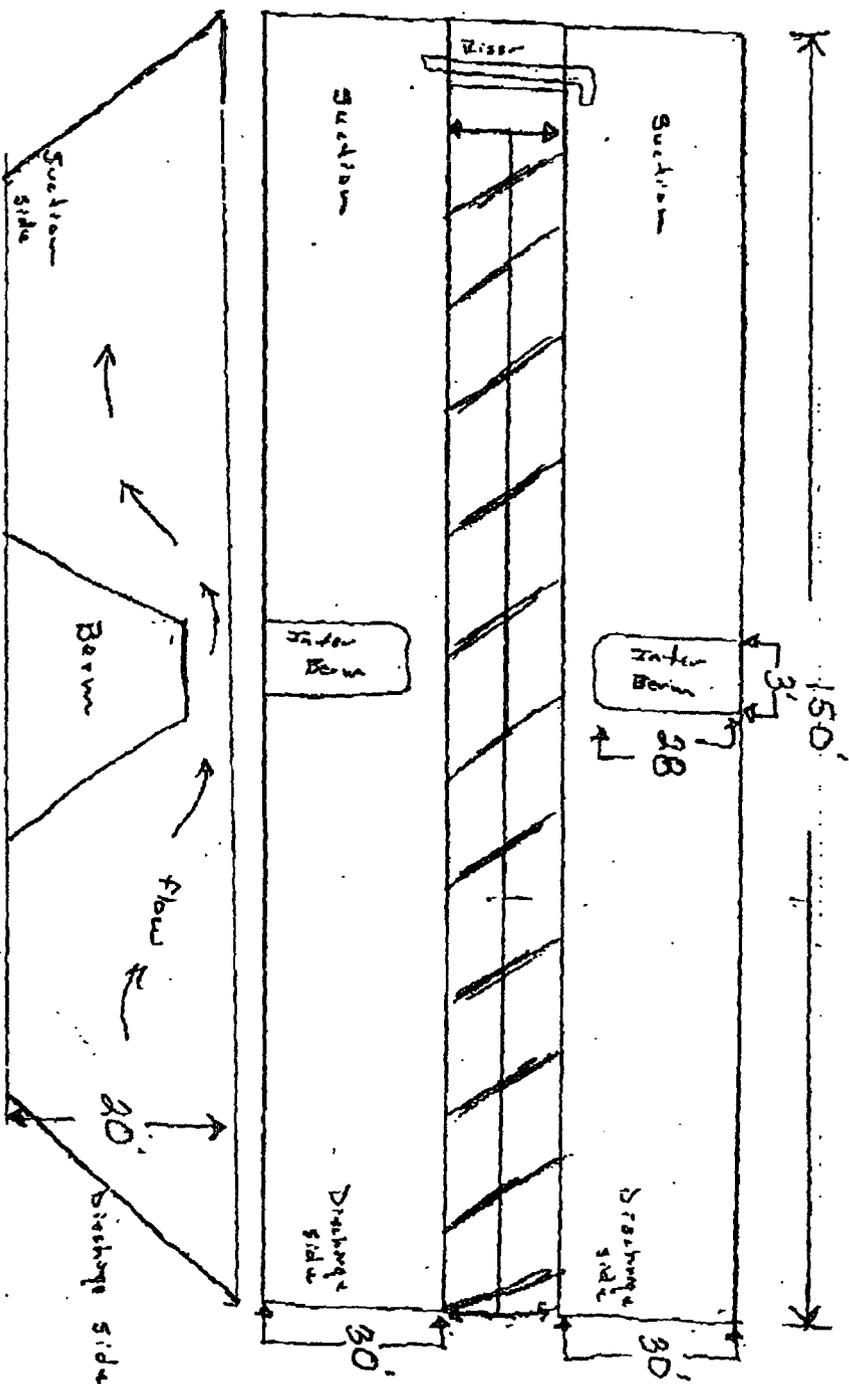
(320 AC. 5/2)

I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that any pit or below-grade tank has been or will be constructed or closed according to NMOCD guidelines [X], a general permit [] or an (attached) alternative OCD-approved plan [].

SIGNATURE Brenda Coffman TITLE Regulatory Analyst DATE 03/10/2005

Type or print name Brenda Coffman E-mail address: bcoffman@nmenergy.com Telephone No. (432)687-2992
For State Use Only

APPROVED BY: [Signature] TITLE PETROLEUM ENGINEER DATE MAR 11 2005
Conditions of Approval (if any):

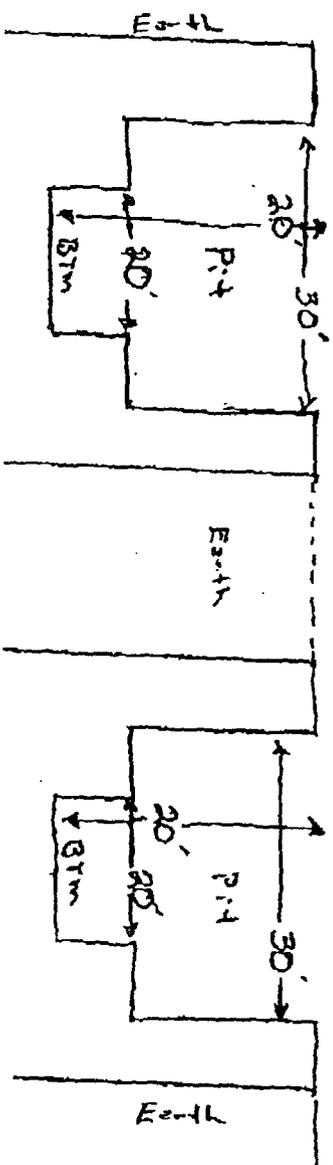


12mm plate
over all

Top View

Side View

$30' \times 140' = 75600 \text{ ft}^2$ S.L.I.C. = $13464.8 \text{ bbls} \times 2 = 26929.7 \text{ bbls}$, with 18' of fluid cuttings in pits.
 $30' \times 140' = 90000 \text{ ft}^2$ S.L.I.C. = $16029.6 \text{ bbls} \times 2 = 32059.2 \text{ bbls}$ with 20'



End
Cross section

DISTRICT I
1426 N. French Dr., Hobbs, NM 88240

DISTRICT II
511 South First, Artesia, NM 88210

DISTRICT III
1505 E. Herman Rd., Lordsburg, NM 87610

DISTRICT IV
2540 South Pacheco, Santa Fe, NM 87504

State of New Mexico
Bureau, Minerals and Natural Resources Department

Form C-162
Revised March 17, 1988

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

OIL CONSERVATION DIVISION
2540 South Pacheco
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-37129	Pool Code 82200	Pool Name Osuda, S. Marnew (GAS)
Property Code 34679	Property Name KF "4" STATE	Well Number 1
ORDER No. 147179	Operator Name CHESAPEAKE OPERATING INC.	Elevation 3621'

Surface Location

UL or lot No.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West line	County
X	4	21 S	35 E		660	SOUTH	990	EAST	LEA

Bottom Hole Location if Different From Surface

UL or lot No.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres 320	Joint or In-RR	Consolidation Code	Order No.
-------------------------------	----------------	--------------------	-----------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

LOT 12 - 40 AC.	LOT 11 - 40 AC.	LOT 10 - 40 AC.	LOT 9 - 40 AC.
LOT 13 - 40 AC.	LOT 14 - 40 AC.	LOT 15 - 40 AC.	LOT 16 - 40 AC.

OPERATOR CERTIFICATION

I hereby certify that the information furnished herein is true and complete to the best of my knowledge and belief.

Brenda Coffman
Signature
Brenda Coffman
Printed Name
Reg. Analyst
Title
3-10-05
Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.

MARCH 10, 2005
Date Surveyed

Signature
[Signature]
Professional Surveyor

7977
Certificate No.

BASIN SURVEYS

Lat.: N52.5025°
Long.: W103.3667°
(NAD 27)

990'

660'

Submit 3 Copies To Appropriate District Office

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Ave., Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources

Form C-103
May 27, 2004

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

WELL API NO.	30-025-37129
5. Indicate Type of Lease	STATE <input checked="" type="checkbox"/> FEE <input type="checkbox"/>
6. State Oil & Gas Lease No.	
7. Lease Name or Unit Agreement Name	KF 4 State
8. Well Number	001
9. OGRID Number	147179
10. Pool name or Wildcat	Osudo;Morrow,South (Gas)

SUNDRY NOTICES AND REPORTS ON WELLS
(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)

1. Type of Well: Oil Well Gas Well Other

2. Name of Operator
Chesapeake Operating, Inc.

3. Address of Operator P. O. Box 11050
Midland, TX 79702-8050

4. Well Location
Unit Letter X : 660 feet from the South line and 990 feet from the East line
Section 4 Township 21S Range 35E NMPM County Lea

11. Elevation (Show whether DR, RKB, RT, GR, etc.)
3621 GR

Pit or Below-grade Tank Application or Closure

Pit type _____ Depth to Groundwater _____ Distance from nearest fresh water well _____ Distance from nearest surface water _____

Pit Liner Thickness: _____ mil Below-Grade Tank: Volume _____ bbls; Construction Material _____

12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

NOTICE OF INTENTION TO:		SUBSEQUENT REPORT OF:	
PERFORM REMEDIAL WORK <input type="checkbox"/>	PLUG AND ABANDON <input type="checkbox"/>	REMEDIAL WORK <input type="checkbox"/>	ALTERING CASING <input type="checkbox"/>
TEMPORARILY ABANDON <input type="checkbox"/>	CHANGE PLANS <input type="checkbox"/>	COMMENCE DRILLING OPNS. <input checked="" type="checkbox"/>	P AND A <input type="checkbox"/>
PULL OR ALTER CASING <input type="checkbox"/>	MULTIPLE COMPL <input type="checkbox"/>	CASING/CEMENT JOB <input checked="" type="checkbox"/>	
OTHER: <input type="checkbox"/>		OTHER: <input type="checkbox"/>	

13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.

4-27-05 Spud 17 1/2" surface hole @ 10:30 p.m.
4-29-05 Ran 10 jts. 13 3/8" 48# H-40 STC csg. set @ 4:48. Cmt'd w/240 sx Premium Plus + additives; tail in w/225 sx Premium Plus + additives. Cmt. Circulated to ground surface. WOC 24 hrs.
4-30-05 Tested to 1000# - OK.



I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that any pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines , a general permit or an (attached) alternative OCD-approved plan .

SIGNATURE Brenda Coffman TITLE Regulatory Analyst DATE 05/02/2005

Type or print name Brenda Coffman E-mail address: bcoffman@chkenergy.com Telephone No. (432)687-2992
For State Use Only

APPROVED BY: [Signature] TITLE PETROLEUM ENGINEER DATE MAY 16 2005
Conditions of Approval (if any):

of Approval
(47) Form C-140 Application For Qualification of Well Workover Project and Certification of Approval

[1-1-50...2-1-96; 19.15.13.1100 NMAC - Rn, 19 NMAC 15.M.1100, 06/30/04]

19.15.13.1101 APPLICATION FOR PERMIT TO DRILL, DEEPEN OR PLUG BACK (Form C-101):

A. Before commencing drilling or deepening operations, or before plugging a well back to another zone, the operator of the well must obtain a permit to do so. To obtain such permit, the operator shall submit to the division five copies of form C-101, application for permit to drill, deepen or plug back, completely filled out. If the operator has an approved bond in accordance with 19.15.3.101 NMAC, one copy of the drilling permit will be returned to him on which will be noted the division's approval, with any modification deemed advisable. If the proposal cannot be approved for any reason, the forms C-101 will be returned with the cause for rejection stated thereon.

B. Form C-101 must be accompanied by three copies of form C-102, well location and acreage dedication plat. (See 19.15.13.1102 NMAC.)

C. If the well is to be drilled on state land, submit six copies of form C-101 and four copies of form C-102, the extra copy of each form being for the state land office.

[1-1-64...2-1-96; 19.15.13.1101 NMAC - Rn, 19 NMAC 15.M.1101, 06/30/04]

19.15.13.1102 WELL LOCATION AND ACREAGE DEDICATION PLAT (Form C-102):

A. Form C-102 is a dual purpose form used to show the exact location of the well and the acreage dedicated thereto. The form is also used to show the ownership and status of each lease contained within the dedicated acreage. When there is more than one working interest or royalty owner on a given lease, designation of the majority owner et al. will be sufficient.

B. All information required on form C-102 shall be filled out and certified by the operator of the well except the well location on the plat. This is to be plotted from the outer boundaries of the section and certified by a professional surveyor, registered in the state of New Mexico, or surveyor approved by the division.

C. Form C-102 shall be submitted in triplicate or quadruplicate as provided in 19.15.13.1101 NMAC.

D. Amended form C-102 (in triplicate or quadruplicate) shall be filed in the event there is a change in any of the information previously submitted. The well location need not be certified when filing amended form C-102.

[1-1-65...2-1-96; 19.15.13.1102 NMAC - Rn, 19 NMAC 15.M.1102, 06/30/04]

19.15.13.1103 SUNDRY NOTICES AND REPORTS ON WELLS (Form C-103):

Form C-103 is a dual purpose form to be filed with the appropriate district office of the division to obtain division approval prior to commencing certain operations and also to report various completed operations.

A. Form C-103 as a notice of intention

(1) Form C-103 shall be filed in triplicate by the operator and approval obtain from the division prior to:

(a) Effecting a change of plans from those previously approved on form C-101 or form C-103.

(b) Altering a drilling well's casing program or pulling casing or otherwise altering an existing well's casing installation.

(c) Temporarily abandoning a well.

(d) Plugging and abandoning a well.

(e) Performing remedial work on a well which, when completed, will affect the original status of the well. (This shall include making new perforations in existing wells or squeezing old perforations in existing wells, but is not applicable to new wells in the process of being completed nor to old wells being deepened or plugged back to another zone when such recompletion has been authorized by an approved form C-101, application for permit to drill, deepen or plug back, nor to acidizing, fracturing or cleaning out previously completed wells, nor to installing artificial lift equipment.)

New Mexico Oil Conservation Division
C-102 Instructions

IF THIS IS AN AMENDED REPORT, CHECK THE BOX LABELED "AMENDED REPORT" AT THE TOP OF THIS DOCUMENT.

Surveyors shall use the latest United States government survey or dependent resurvey. Well locations will be in reference to the New Mexico Principal Meridian. If the land is not surveyed contact the appropriate OCD district office. Independent subdivision surveys will not be acceptable.

1. The OCD assigned API number for this well.
2. The pool code for this (proposed) completion.
3. The pool name for this (proposed) completion.
4. The property code for this (proposed) completion.
5. The property name (well name) for this (proposed) completion.
6. The well number for this (proposed) completion.
7. Operator's OGRID number.
8. The operator's name.
9. The ground level elevation of this well.
10. The surveyed surface location of this well measured from the section lines. NOTE: If the United States government survey designates a Lot Number for this location use that number in the 'UL or lot no.' box. Otherwise use the OCD unit letter.
11. Proposed bottom hole location. If this is a horizontal hole indicate the location of the end of the hole.
12. The calculated acreage dedicated to this completion to the nearest hundredth of an acre.
13. Put a Y if more than one completion will be sharing this same acreage or N if this is the only completion on this acreage.
14. If more than one lease of different ownership has been dedicated to the well show the consolidation code from the following table:

C	Communitization
U	Unitization
F	Forced pooling
O	Other
P	Consolidation pending

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION!

15. Write in the OCD order(s) approving a non-standard location, non-standard spacing, or directional or horizontal drilling.
16. This grid represents a standard section. You may superimpose a non-standard section over this grid. Outline the dedicated acreage and the separate leases within that dedicated acreage. Show the well surface location and bottom hole location, if it is directionally drilled, with the dimensions from the section lines in the cardinal directions. (Note: A legal location is determined from the perpendicular distance to the edge of the tract.) If this is a high angle or horizontal hole, show that portion of the well bore that is open within this pool.

Show all lots, lot numbers, and their respective acreage.

If more than one lease has been dedicated to this completion, outline each one and identify the ownership as to both working interest and royalty.

17. The signature, printed name, e-mail address, and title of the person authorized to make this report, and the date this document was signed.
18. The registered surveyors certification. This section does not have to be completed if this form has been previously accepted by the OCD and is being filed for a change of pool or dedicated acreage.

Stipulated Exhibit 8
NMOCD Case Nos. 13492 / 13493



PATRICK H. LYONS
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

www.nmstatelands.org

April 27, 2005

Mewbourne Oil Company
Post Office Box 7698
Tyler, Texas 75711

Attn: Allen Brinson

Re: Communitization Agreement Approval (Pennsylvanian)
Osudo 4 State Com Well No. 1
Lots 9, 10, 15, 16, and SE4, Section 4, Township 21 South, Range 35 East
Lea County, New Mexico

Dear Mr. Brinson:

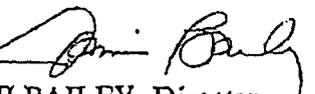
The Commissioner of Public Lands has this date approved the Osudo 4 State Com Well No. 1 Communitization Agreement for the Pennsylvanian formation for lots 9, 10, 15, 16, and SE4 of Section 4, Township 21 South, Range 35 East, Lea County, New Mexico.

The effective date of this approval is April 1, 2005 and the term of the agreement is for one year, and so long thereafter as communitized substances are produced from the communitized area in paying quantities. Enclosed are five Certificates of Approval.

If we may be of further service, please contact Jeff Albers at (505) 827-5759.

Sincerely,

PATRICK H. LYONS
COMMISSIONER OF PUBLIC LANDS

BY: 
JAMI BAILEY, Director
Oil, Gas & Minerals Division
(505) 827-5744
PHL/JB/ja

Stipulated Exhibit 9
NMOCD Case Nos. 13492 / 13493

-State Land Office Beneficiaries-

NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

Mawbourn Oil Company
 Osido 4 State Com Well No. 1
 Lea County, New Mexico

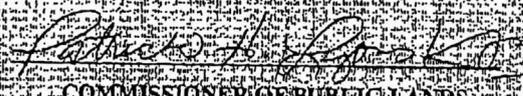
Lots 9, 10, 15, 16, and SE 4, Section 4, Township 21 South, Range 35 East,
 Pennsylvania

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination a Communization Agreement for the development and operation of a lease which is described within the referenced agreement, dated April 1, 2005, which has been executed, or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said agreement, the Commissioner finds

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the State with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, the undersigned Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof and shall remain in full force and effect according to the terms and conditions of said agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal annexed, this 27th day of April, 2005.



COMMISSIONER OF PUBLIC LANDS

of the State of New Mexico

COMMUNITIZATION AGREEMENT

STATE OF NEW MEXICO) KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF LEA)

THAT THIS AGREEMENT* is entered into as of the April 1, 2005, by and between the parties subscribing, ratifying or consenting hereto, such parties hereinafter being referred to as "Parties hereto";

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by the Legislature, as set forth in Sec. 19-10-53, New Mexico Statutes, Annotated, 1978, in the interest of conservation of oil & gas and the prevention of waste to consent to and approve the development or operation of State lands under agreements made by lessees of oil & gas leases thereon, jointly or severally with other oil & gas lessees of State Lands, or oil and gas lessees or mineral owners of privately owned or fee lands, for the purpose of pooling or communitizing such lands to form a proration unit or portion thereof, or well-spacing unit, pursuant to any order, rule or regulation of the New Mexico Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department where such agreement provides for the allocation of the production of oil or gas from such pools or communitized area on an acreage or other basis found by the Commissioner to be fair and equitable.

WHEREAS, the parties hereto, own working, royalty, or other leasehold interests or operating rights under the oil and gas leases and lands subject to this agreement, which leases are more particularly described in the schedule attached hereto, marked Exhibit "A" and made a part hereof, for all purposes; and

WHEREAS, said leases, insofar as they cover the Pennsylvanian formation (hereinafter referred to as "said formation") in and under the land hereinafter described cannot be independently developed and operated in conformity with the well spacing program established for such formation in and under said lands; and

WHEREAS, the parties hereto desire to communitize and pool their respective interests in said leases subject to this agreement for the purpose of developing, operating and producing hydrocarbons in the said formation in and under the land hereinafter described subject to the terms hereof.

NOW THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the undersigned as follows:

1. The lands covered by this agreement (hereinafter referred to as the "communitized area") are described as follows:

*This agreement not to be used for helium or carbon dioxide

Township 21 South, Range 35 East, N. M. P. M.

Section 4: Lots 9, 10, 15, 16 and SE/4

Lea County, New Mexico,

Containing 320.00 acres, more or less. It is the judgment of the parties hereto that the communitization, pooling and consolidation of the aforesaid land into a single unit for the development and production of hydrocarbons from the said formation in and under said land is necessary and advisable in order to properly develop and produce the hydrocarbons in the said formation beneath the said land in accordance with the well spacing rules of the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, and in order to promote the conservation of the hydrocarbons in and that may be produced from said formation in and under said lands, and would be in the public interest;

AND, for the purposes aforesaid, the parties hereto do hereby communitize for proration or spacing purposes only the leases described in Exhibit "A" hereto insofar as they cover hydrocarbons within and that may be produced from the said formation (hereinafter referred to as "Communitized Substances") beneath the above-described land, into a single communitization, for the development, production, operation and conservation of the hydrocarbons in said formation beneath said lands.

Attached hereto and made a part of this agreement for all purposes, is Exhibit "A" showing the acreage, and ownership (Lessees of Record) of all leases within the communitized area.

- 2. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leases described in Exhibit "A" hereto in the proportion that the number of surface acres covered by each of such leases and included within the communitized area bears to the total number of acres contained in the communitized area.*
- 3. Subject to Paragraph 4, the royalties payable on communitized substances allocated to the individual leases and the rentals provided for in said leases shall be determined and paid in the manner and on the basis prescribed in each of said leases. Except as provided for under the terms and provisions of the leases described in Exhibit "A" hereto or as herein provided to the contrary, the payment of rentals under the terms of said leases shall not be affected by this agreement; and except as herein modified and changed or heretofore amended, the oil and gas leases subject to this agreement shall remain in full force and effect as originally issued and amended.*
- 4. The State of New Mexico hereafter is entitled to the right to take in kind its share for the communitized substances allocated to such tract, and Operator shall make deliveries of such royalty share taken in kind in conformity with applicable contracts, laws, and regulations.*

**This agreement not to be used for helium or carbon dioxide*

5. *There shall be no obligation upon the parties hereto to offset any well or wells situated on the tracts of land comprising the communitized area, nor shall the Operator be required to measure separately the communitized substances by reason of the diverse ownership of the separate tracts of land comprising the said communitized area; provided, however, that the parties hereto shall not be released from their obligation to protect the communitized area from drainage of communitized substances by wells which may be drilled within offset distance (as that term is defined) of the communitized area.*
6. *The commencement, completion, and continued operation or production of a well or wells for communitized substances on the communitized area shall be considered as the commencement, completion, continued operation or production as to each of the leases described in Exhibit "A" hereto.*
7. *The production of communitized substances and disposal thereof shall be in conformity with the allocations, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State laws. This agreement shall be subject to all applicable Federal and State laws, executive orders, rules and regulations affecting the performance of the provisions hereof, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if compliance is prevented by or if such failure results from compliance with any such laws, orders, rules and regulations.*
8. *Mewbourne Oil Company shall be the Operator of said communitized area and all matters of operation shall be determined and performed by Mewbourne Oil Company.*
9. *This agreement shall be effective as of the date hereinabove written upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Commissioner of Public Lands, shall remain in full force and effect for a period of one year from the date hereof and as long thereafter as communitized substances are produced from the communitized area in paying quantities; provided, that this agreement shall not expire if there is a well capable of producing gas in paying quantities located upon some part of the communitized area, if such a well is shut-in due to the inability of the operator to obtain a pipeline connection or to market the gas therefrom, and if either: (a) a shut-in royalty has been timely and properly paid pursuant to the provisions of one of the State of New Mexico oil and gas leases covering lands subject to this agreement so as to prevent the expiration of such lease; or (b) each of the State of New Mexico oil and gas leases covering lands subject to this agreement is in its primary term (if a five-year lease), or in its primary or secondary term (if a ten-year lease), or is held by production from another well. Provided further, however, that prior to production in paying quantities from the communitized area, and upon fulfillment of all requirements of the Commissioner of Public Lands with respect to any dry hole or abandoned well drilled upon the communitized area, this Agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production of communitized substances if,*

*This agreement not to be used for helium or carbon dioxide

within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence. As to lands owned by the State of New Mexico, written notice of intention to commence such operations shall be filed with the Commissioner within thirty (30) days after the cessation of such production, and a report of the status of such operations shall be made by the Operator to the Commissioner every thirty (30) days, and the cessation of such operations for more than twenty (20) consecutive days shall be considered as an abandonment of such operations as to any lease from the State of New Mexico included in this agreement.

10. *Operator will furnish the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, and the Commissioner of Public Lands of the State of New Mexico, with any and all reports, statements, notices and well logs and records which may be required under the laws and regulations of the State of New Mexico.*
11. *It is agreed between the parties hereto that the Commissioner of Public Lands, or his duly authorized representatives, shall have the right of supervision over all operations under the communitized area to the same extent and degree as provided in the oil and gas leases described in Exhibit "A" hereto and in the applicable oil and gas regulations of the State of New Mexico.*
12. *If any order of the Oil Conservation Division of the New Mexico Energy Minerals and Natural Resources Department, upon which this agreement is predicated or based is in anyway changed or modified, then in such event said agreement is likewise modified to conform thereto.*
13. *This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instruments, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.*
14. *This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.*

*This agreement not to be used for helium or carbon dioxide

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

OPERATOR: Mewbourne Oil Company

By: James Allen Brinson
James Allen Brinson
Attorney In Fact

LESSEES OF RECORD: Samson Resources Company

By: Marlin R. Garrett
Marlin R. Garrett
Vice President

Kaiser-Francis Oil Company

By: _____

By: _____

*This agreement not to be used for helium or carbon dioxide

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

OPERATOR: Mewbourne Oil Company

By: _____
James Allen Brinson
Attorney In Fact

LESSEES OF RECORD: Samson Resources Company

By: _____

Kaiser-Francis Oil Company

By: Wayne A. Fields
WAYNE A. FIELDS
ATTORNEY-IN-FACT

By: _____

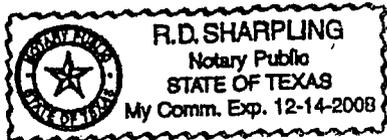
*This agreement not to be used for helium or carbon dioxide
5

STATE OF TEXAS)
COUNTY OF SMITH)ss

The foregoing instrument was acknowledged before me this 20th day of April, 2005 by James Allen Brinson, as Attorney in Fact for Mewbourne Oil Company, a Delaware Corporation, on behalf of said corporation.

R. A. Sharpling
Notary Public

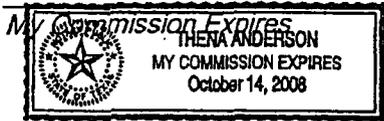
My Commission Expires



STATE OF Texas)
COUNTY OF Midland)ss

The foregoing instrument was acknowledged before me this 17th day of April, 2005 by Marlin R. Barrett, as Vice President off/for James Resources Company, on behalf of said corporation.

Thena Anderson
Notary Public



STATE OF _____)
COUNTY OF _____)ss

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____, as _____ off/for _____, on behalf of said _____.

My Commission Expires

Notary Public

*This agreement not to be used for helium or carbon dioxide

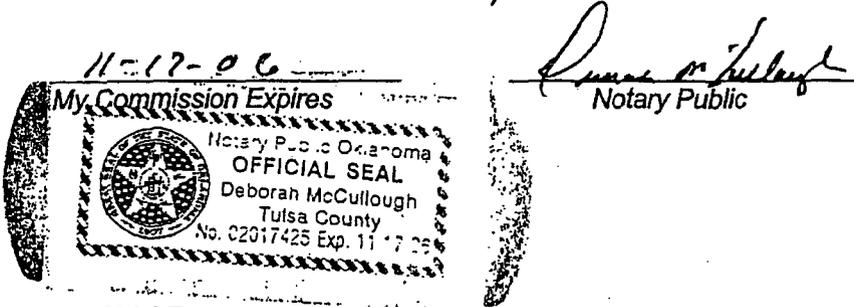
STATE OF _____)
)ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____ 2005 by James Allen Brinson, as Attorney in Fact for Mewbourne Oil Company, a Delaware Corporation, on behalf of said corporation.

My Commission Expires Notary Public

STATE OF oklahoma)
)ss
COUNTY OF Tulsa)

The foregoing instrument was acknowledged before me this 4th day of April, 2005 by Wayne A. Fields, as Attorney-in-Fact of/for Kaiser-Francis Oil Company, on behalf of said Corporation.



STATE OF _____)
)ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____, as _____ of/for _____, on behalf of said _____.

My Commission Expires Notary Public

*This agreement not to be used for helium or carbon dioxide
6

RECAPITULATION

TRACT NO.	NO. OF ACRES COMMITTED	PERCENTAGE OF INTEREST IN COMMUNITIZED AREA
Lease No. 1	160.00	50%
Lease No. 2	160.00	50%
	<u>320.0</u>	<u>100%</u>

05969

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

MAY 13 2005

at 10:37 o'clock A.M
and recorded in Book _____

Page _____

Melinda Hughes, Lea County Clerk
By [Signature] Deputy



*This agreement not to be used for helium or carbon dioxide
8

KELLAHIN & KELLAHIN
Attorney at Law

W. Thomas Kellahin
Recognized Specialist in the Area of
Natural Resources-oil and gas law-
New Mexico Board of Legal Specialization

P.O. Box 2265
Santa Fe, New Mexico 87504
117 North Guadalupe
Santa Fe, New Mexico 87501

Telephone 505-982-4285
Facsimile 505-982-2047
kellahin@earthlink.net

April 26, 2005

2005 APR 26 PM 1 43

HAND DELIVERED

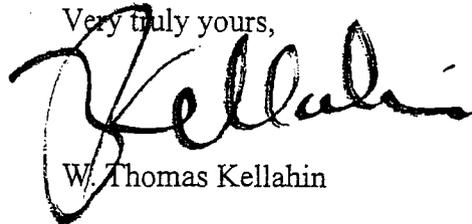
Mr. Mark E. Fesmire, Director
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: KF "4" State Well No. 1 (API #30-025-37129)
Location: Unit X
Dedication: S/2 of Irregular Section 4, T21S, R35E
Application of Chesapeake Permian, L.P.
for compulsory pooling,
Lea County, New Mexico

Dear Mr. Fesmire:

On behalf of Chesapeake Permian, L.P., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for May 19, 2005. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Chesapeake Operating, Inc.
Attn: Lynda Townsend

Stipulated Exhibit 10
NMOCD Case Nos. 13492 / 13493

BEFORE THE
OIL CONSERVATION DIVISION
Case # 13492&13493 Exhibit No. ___
Submitted By:
Chesapeake Inc.
Hearing Date: August 22, 2005
BEFORE THE

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION
OF CHESAPEAKE PERMIAN, L.P.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

CASE NO.

APPLICATION

CHESAPEAKE PERMIAN, L.P. ("Chesapeake") by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17.C NMSA (1978) seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying the S/2 of Irregular Section 4, T21S, R35E, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any production for any and all formations/pools developed on 320-acre gas spacing within that vertical extent, including but not limited to the South Osudo Morrow Pool. This unit is to be dedicated to its KF 4 State Well No. 1 (API#30-025-37129) that is being drilled at a standard well location in Unit X of this section. Also to be considered will be the costs of the drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Chesapeake Operating, Inc. as the operator of the well and, pursuant to Commission Order R-11992, a risk charge of 200% for the risk involved in this well.

In support of its application Chesapeake states:

- (1) Chesapeake is the current lessee of State of New Mexico Oil & Gas Lease #VO-7063-1, effective May 1, 2004, covering the SW/4 of Irregular Section 4.
- (2) The SE/4 of this section is subject to a State of New Mexico Oil & Gas Lease #B1481, effective December 19, 1932 that as of March 9, 2005 the working interest owners were: Kaiser Francis Oil Company with 43.75% interest and Samson Resources Company with 6.25% interest.
- (3) On March 9, 2005, Chesapeake, by letter including an AFE, proposed the drilling of its KF State 4 Well No. 1 for an estimated completed well costs of \$2,012,000.00 to be dedicated to a standard 320-acre gas spacing unit consisting of the S/2 of this irregular section to both Kaiser Francis Oil Company and Samson Resources Company.

- (4) On March 10, 2005 Chesapeake staked the subject well and on March 11, 2005, obtained Division approval of Chesapeake's application for permit to drill ("APD")
- (5) By letter dated March 16, 2005, Samson Resources Company, on its behalf and for all its related affiliates including Geodyne Nominee Corporation, **elected to participate** in Chesapeake's proposed well and spacing unit.
- (6) By letter dated March 30, 2005, Samson Resources Company **attempted to rescind** its March 16, 2005 election to participate contending that there was no JOA between the parties despite the fact that Chesapeake well proposal was not made pursuant to any JOA.
- (7) The validity of Samson Resources Company attempt to rescind its election is disputed by Chesapeake.
- (8) By letter dated April 4, 2005, Chesapeake sent its Joint Operating Agreement ("JOA") to Samson Resources Company and to Kaiser Francis Oil Company.
- (9) By letter dated April 5, 2005, Samson Resources Company, still assuming that it could rescind its prior election to participate, acknowledge receipt of Chesapeake's JOA and advised that its would not sign it.
- (10) On April 5, 2005, Jim Wakefield, on behalf of Kaiser Francis Oil Company, informed Chesapeake that he owed Mewbourne Oil Company and "big favor" and was assigning it what amounted to 7.1875% interest the SE/4 and therefore decline to participate in Chesapeake's proposal.
- (11) By its actions, Kaiser Francis Oil Company has apparently conspired with Mewbourne Oil Company in an attempt to avoid Chesapeake proposal for its well and spacing unit.
- (12) Because of Kaiser Francis Oil Company action, Chesapeake has concluded that it will be unable to reach a voluntary agreement with Kaiser Francis Oil Company.

- (13) As an alternative to litigation whether Samson Resources Company has validly rescinded its prior election to participate, Chesapeake seeks to have Samson Resources Company interest pooled by the Division.
- (14) Neither Kaiser Francis Oil Company nor Mewbourne Oil Company has provided Chesapeake with any document concerning any transfer of interest or if there are any such documents of record as of the date this application was filed.
- (15) But in the event that Mewbourne Oil Company may have an interest in the SE4 of this section, then Chesapeake seeks any order that pooled all interests in the SE/4 of this section including any held by Mewbourne Oil Company.
- (16) Pursuant to Commission Order R-11992, effective August 15, 2003, Chesapeake requests that the 200% risk charge be applied.
- (17) Pursuant to Section 70-2-17.C NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, Chesapeake needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.
- (18) In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "A" notifying each of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for May 19, 2005.

WHEREFORE, Chesapeake, as applicant, requests that this application be set for hearing on May 19, 2005 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in the appropriate spacing unit for this well at a standard well location upon terms and conditions which include:

- (1) Chesapeake Operating, Inc. be named operator;
- (2) Provisions for applicant and all working interest owners to participate in the costs of re-entering, completing, equipping and operating the well;

NMOCD Application
Chesapeake Operating, Inc.

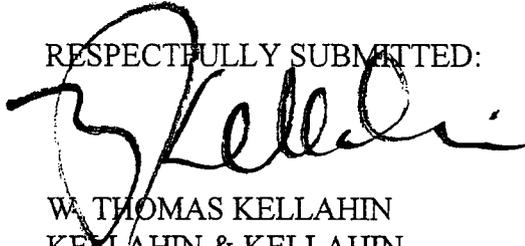
-Page 4-

(3) In the event a mineral interest or working interest owner fails to elect to participate, then provisions to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200%;

(4) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS

(5) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over the typed name.

W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN

P. O. Box 2265

Santa Fe, New Mexico 87504

Telephone: (505) 982-4285

Fax: (505) 982-2047

EXHIBIT "A"

Kaiser Francis Oil Company
P. O. Box 21468
Tulsa, Oklahoma 74121-1468
Attn: Jim Wakefield

Samson Resources Company
2 W. 2nd Street
Tulsa, Oklahoma 74103
Attn: Mono Ables

Mewbourne Oil Company
500 West Texas, Suite 1020
Midland, Texas 79707

CASE ____: Application of Chesapeake Permian, L.P. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying the S/2 of Irregular Section 4, T21S, R35E, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any production for any and all formations/pools developed on 320-acre gas spacing within that vertical extent, including but not limited to the South Osudo Morrow Pool. This unit is to be dedicated to its KF 4 State Well No. 1 (API #30-025-37129) that is being drilled at a standard well location in Unit X of this section. Also to be considered will be the costs of the drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Chesapeake Operating, Inc. as the operator of the well and, pursuant to Commission Order R-11992, a risk charge of 200% for the risk involved in this well. This unit is located approximately 6 miles west from Oil Center, New Mexico.



Lynda F. Townsend, CPL/ESA
Senior Landman

March 9, 2005

VIA FACSIMILE (918) 591-1796
& EXPRESS MAIL

Ms. Mona Ables
Samson Resources Company
2 W. 2nd St.
Tulsa, OK 74103

Re: Chesapeake's Proposed KF State 4 #1
S/2 Section 4-21S-35E
Lea County, New Mexico

Dear Sir or Madam:

Chesapeake Operating, Inc., on behalf of Chesapeake Permian, LP ("Chesapeake"), hereby proposes to drill the KF State 4 #1 well to an approximate depth of 12,100', or a depth sufficient to test the Morrow Formation and all other potentially productive formations encountered in the captioned well.

Please indicate the option of Samson Resources Company's ("Samson") choice below, sign and return this letter by facsimile, if available, to our office at (405) 767-4251, followed by a hard copy in the mail. If Samson elects to participate in the proposed operation, please also execute and return the enclosed AFE along with a check in the amount of \$76,812.50 (6.250000% WI X \$1,229,000.00), which represents Samson's share of the AFE dry hole costs. Please also include a Well Requirement Sheet containing a contact name, facsimile number and e-mail address, if available, to insure receipt of well information.

As an alternative to the above, Chesapeake would be interested in purchasing Samson's interest, including any producing well bores, subject to the negotiation of a mutually agreeable price and terms. If Samson is interested in pursuing this alternative, please so indicate in the space provided below and/or contact the undersigned. We will immediately forward this information to our Acquisitions and Divestitures Department for follow up. However, please be advised that entering into negotiations to sell Samson's interest does not excuse or allow Samson to delay the required election under this well proposal.

Chesapeake Energy Corporation
6100 N. Western Ave • Oklahoma City, OK 73118 • P.O. Box 13496 • Oklahoma City, OK 73154-0496
405.879.2414 • fax 405.767.4251 • lnw@centralchkenergy.com

24 RCVD AT 3/11/2005 2:00:59 PM [Central Standard Time] SVR:FAXSRVRR DNS:7156 CSD:Samson DURATION (mm-ss):00-00-11.18

Stipulated Exhibit 11
NMOCD Case Nos. 13492 / 13493

EXHIBIT
P8

Ms. Mona Ables
March 9, 2005
Page 2 of 2

Your early attention and response to this proposal will be greatly appreciated. Should you have any questions, please contact the undersigned.

Sincerely,

Chesapeake Operating, Inc.

Lynda F. Townsend
Lynda F. Townsend

- Samson Resources Company hereby elects to participate in the KF State 4 #1.
- Samson Resources Company hereby elects not to participate in the KF State 4 #1.

SAMSON RESOURCES COMPANY

By: *Marlin R. Garrett*
Name: Marlin R. Garrett
Title: Vice President
Date: 3/22/05

 Samson Resources Company is interested in selling its interest in this unit including any producing well bores. Please contact me to discuss.

CHESAPEAKE OPERATING, INC.

Project Area: Fawcett New Market
 Well Name: NP 1016 (#1)
 Operator: Chesapeake Operating, Inc
 AFE #: 18852
 Spring Unit: 5.0 Section 4-21E-30E

County, State: LeFlore, Oklahoma
 Date: 3/7/05
 Total Depth: 12,107
 Formation: 61829
 Property #: 81829

CODE	NTAWORL COSTS	WORK DESCRIPTION	QTY	UNIT PRICE	PRODUCER
233400	Location	Roads, Location, PIS	1	\$45,000.00	\$45,000.00
233401		Design	1	\$12,000.00	\$12,000.00
233402		Governmental Permits	1	\$2,000.00	\$2,000.00
233403		Subsite Core	1	\$0.00	\$0.00
233405		Relinquish	1	\$0.00	\$0.00
233406		Tap Drive	1	\$0.00	\$0.00
233409	Utility	Pipeline Construction	1	\$0.00	\$0.00
233409		Permit	1	\$0.00	\$0.00
233410		Cutting Contractor: 31000 days @ 12000 per day	1	\$20,000.00	\$13,000.00
233411		Directional Services	1	\$0.00	\$0.00
233412		Log Measurements/Correlation	1	\$100,000.00	\$100,000.00
233413		Control Logging Lines	1	\$10,000.00	\$10,000.00
233414		Log	1	\$0.00	\$0.00
233415		Analysis and Utilities	1	\$1,000.00	\$1,000.00
233416		Control Conductivity	1	\$0.00	\$0.00
233417		Control Surface Gravity	1	\$0.00	\$0.00
233418		Control Inductance Coring	1	\$0.00	\$0.00
233419		Control Production Coring	1	\$0.00	\$0.00
233420		Control Logging Lines	1	\$0.00	\$0.00
233421		Control Production Lines	1	\$0.00	\$0.00
233422		Well Logging	1	\$14,000.00	\$14,000.00
233423		Drilling Fluid, Mud, Chem.	1	\$10,000.00	\$10,000.00
233424		Oil Field Inspector	1	\$0.00	\$0.00
233425		Open Hole Logging	1	\$0.00	\$0.00
233426		Perforation	1	\$44,000.00	\$71,000.00
233427		Geomatics Survey Equipment	1	\$0.00	\$0.00
233428		Completion Mill	1	\$0.00	\$0.00
233429	Completion	Control Hole Services/Perforating	1	\$0.00	\$0.00
233430		Logging	1	\$0.00	\$0.00
233431		Production Services	1	\$0.00	\$0.00
233432		Surface Equipment Rental	1	\$0.00	\$0.00
233433	General	Transportation	1	\$0.00	\$0.00
233434		Production Material	1	\$0.00	\$0.00
233435		Services/Equipments	1	\$0.00	\$0.00
233436		Integration	1	\$11,000.00	\$12,000.00
233437		Production Lines	1	\$11,000.00	\$13,000.00
233438		Control Logging	1	\$0.00	\$0.00
233439		Control Logging	1	\$0.00	\$0.00
233440		Control Logging	1	\$0.00	\$0.00
233441		Control Logging	1	\$0.00	\$0.00
233442		Control Logging	1	\$0.00	\$0.00
233443		Control Logging	1	\$0.00	\$0.00
233444		Control Logging	1	\$0.00	\$0.00
233445		Control Logging	1	\$0.00	\$0.00
233446		Control Logging	1	\$0.00	\$0.00
233447		Control Logging	1	\$0.00	\$0.00
233448		Control Logging	1	\$0.00	\$0.00
TOTAL	NTAWORL COSTS	Total NTAWORL Costs		\$1,848,000.00	\$1,827,000.00

CODE	TANGIBLE COSTS	WORK DESCRIPTION	QTY	UNIT PRICE	PRODUCER
233408	Tools	Compressor	1	\$0.00	\$0.00
233409		Surface Gravity	1	\$14,000.00	\$14,000.00
233410		Inductance Coring	1	\$140,000.00	\$140,000.00
233411		Production Coring	1	\$0.00	\$0.00
233412		Control Logging	1	\$0.00	\$0.00
233413		Production Lines	1	\$0.00	\$0.00
233414		Production Lines	1	\$0.00	\$0.00
233415	Lease Equipment	Production Lines	1	\$0.00	\$0.00
233416		Production Lines	1	\$0.00	\$0.00
233417		Production Lines	1	\$0.00	\$0.00
233418		Production Lines	1	\$0.00	\$0.00
233419		Production Lines	1	\$0.00	\$0.00
233420		Production Lines	1	\$0.00	\$0.00
233421		Production Lines	1	\$0.00	\$0.00
233422		Production Lines	1	\$0.00	\$0.00
233423		Production Lines	1	\$0.00	\$0.00
233424		Production Lines	1	\$0.00	\$0.00
233425		Production Lines	1	\$0.00	\$0.00
233426		Production Lines	1	\$0.00	\$0.00
233427		Production Lines	1	\$0.00	\$0.00
233428		Production Lines	1	\$0.00	\$0.00
233429		Production Lines	1	\$0.00	\$0.00
233430		Production Lines	1	\$0.00	\$0.00
233431		Production Lines	1	\$0.00	\$0.00
233432		Production Lines	1	\$0.00	\$0.00
233433		Production Lines	1	\$0.00	\$0.00
233434		Production Lines	1	\$0.00	\$0.00
233435		Production Lines	1	\$0.00	\$0.00
233436		Production Lines	1	\$0.00	\$0.00
233437		Production Lines	1	\$0.00	\$0.00
233438		Production Lines	1	\$0.00	\$0.00
233439		Production Lines	1	\$0.00	\$0.00
233440		Production Lines	1	\$0.00	\$0.00
233441		Production Lines	1	\$0.00	\$0.00
233442		Production Lines	1	\$0.00	\$0.00
233443		Production Lines	1	\$0.00	\$0.00
233444		Production Lines	1	\$0.00	\$0.00
233445		Production Lines	1	\$0.00	\$0.00
233446		Production Lines	1	\$0.00	\$0.00
233447		Production Lines	1	\$0.00	\$0.00
233448		Production Lines	1	\$0.00	\$0.00
TOTAL	TANGIBLE COSTS	Total Tangible Costs		\$1,848,000.00	\$1,827,000.00

Prepared by: JD Approved by: Carl 2,012,000

OPERATOR'S APPROVAL: [Signature] DATE: _____

DIRECTOR'S APPROVAL: [Signature] DATE: 3/8/05

NON-OPERATOR'S APPROVAL: [Signature] DATE: 3/22/05

The costs on this AFE are estimates only and may not be considered as ceilings on any specific item or the total cost of the project. In executing this AFE, the participant agrees to pay for participation share of actual costs incurred, including legal, contract, regulatory, brokerage and well costs under the terms of the applicable joint operating agreement, regulatory order or other agreement covering this well. The Operator may contract with an affiliated entity to drill the well at prevailing rates in the area. Participant shall be covered by and hold proportionately for Operator's well control and general liability insurance unless participant provides Operator a certificate evidencing its own insurance in amounts acceptable to the Operator by the date of start.



Centennial Tower
200 N. Lorraine, Suite 1010
Midland, TX 79701
USA
432/683-7063
Fax 432/683-6647

March 30, 2005

Chesapeake Permian, L. P.
Attn. Lynda F. Townsend
P. O. Box 18496
Oklahoma City, OK 73154-0496

VIA Facsimile 405-767-4251

Re: Chesapeake's Proposed KF State 4 #1
S/2 Section 4-21S-35E
Lea County, New Mexico

Gentlemen:

Reference is made to Samson Resources Company's letter of March 16, 2005 in response to your letter dated March 9, 2005. Upon reviewing Samson's records we have determined that there is actually no JOA between the parties which would support an election for this well. In addition, the timeframe for the purported election has not yet expired. Accordingly, please be advised the Samson hereby rescinds and revokes its invalid election to participate in Chesapeake's proposed KF State 4#1 well.

If you have any questions please call me at 432-686-6312.

Sincerely,


Tim C. Reece
Senior Landman

TCR:

Stipulated Exhibit 12
NMOC Case Nos. 13492 / 13493



Centennial Tower
200 N. Lorraine, Suite 1010
Midland, TX 79701
USA
432/683-7063
Fax 432/683-6847

March 30, 2005

Chesapeake Permian, L. P.
Attn. Lynda F. Townsend
P. O. Box 18496
Oklahoma City, OK 73154-0496

VIA Facsimile 405-767-4251

Re: Chesapeake's Proposed KF State 4 #1
S/2 Section 4-21S-35E
Lea County, New Mexico

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If you have any questions please call me at 432-686-6312.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tim C. Reece', written over a horizontal line.

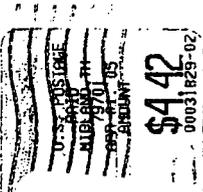
Tim C. Reece
Senior Landman

TCR:



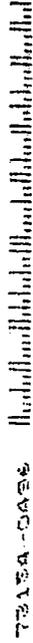
Centennial Tower
200 N. Lorraine, Suite 1010
Midland, TX 79701
USA

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APR 04 2005
MAILROOM



7003 3660 0006 6364 6376 9264

Chesapeake Permian, L. P.
Attn. Lynda F. Townsend
P. O. Box 18496
Oklahoma City, OK 73154-0496





Lynda F. Townsend, CPL/ESA
Senior Landman

April 4, 2005

VIA UNITED PARCEL SERVICE

Mr. Jim Wakefield
Kaiser Francis Oil Company
6733 South Yale Avenue
Tulsa, OK 74136

Re: Chesapeake's Proposed KF State 4 #1
S/2 Section 4-21S-35E
Lea County, New Mexico

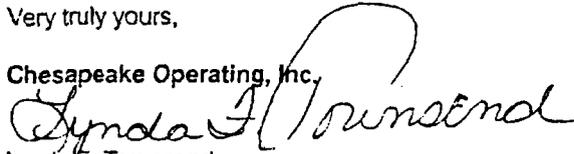
Dear Mr. Wakefield:

Pursuant to Chesapeake Operating, Inc.'s proposal on behalf of Chesapeake Exploration Limited Partnership ("Chesapeake") dated March 9, 2005, enclosed is Chesapeake's standard operating agreement. Please sign and return the signature pages to my attention and the address below.

Should you have any questions please give me a call.

Very truly yours,

Chesapeake Operating, Inc.



Lynda F. Townsend

Enclosures

W:\Permian\Operated Wells\KF State 4 #1\UCAITransmittal Letters.doc

Chesapeake Energy Corporation
6100 N. Western Ave. • Oklahoma City, OK 73118 • P.O. Box 18496 • Oklahoma City, OK 73154-0496
405.879.9414 • fax 405.267.4251 • ltownsend@chkenergy.com

Stipulated Exhibit 13
NMOCDCase Nos. 13492 / 13493

BEFORE THE
OIL CONSERVATION DIVISION
Case # 13492&13493 Exhibit No. ___
Submitted By:
Chesapeake Inc.
Hearing Date: August 22, 2005

CHK 000166

4/4/05

CUSTOMER ID (IF NECESSARY) Wakefield, Jim

COMPANY NAME Mr. Jim Wakefield

ATTENTION Kaiser Francis Oil Company

ADDRESS (STREET ADDRESS ONLY - NO P.O. BOX)

6733 South Yale Avenue

CITY Tulsa STATE OK ZIP 74136

PHONE # (918) 491-4510 RESIDENTIAL DELIVERY Y N

SERVICE TYPE (PLEASE CHECK ONE)

DOMESTIC SERVICES:

- NEXT BUSINESS DAY BY 10:30 AM
- NEXT BUSINESS DAY BY END OF DAY
- NEXT BUSINESS DAY **BY 8 AM**
- **ADD'L \$25.00 CHARGE**
- TWO DAY DELIVERY - AM
- TWO DAY DELIVERY - PM
- UPS GROUND (3-5 DAY)
- *SATURDAY DELIVERY*
- *ADDITIONAL \$10.00 CHARGE*
- USPS EXPRESS MAIL (P.O. BOX ONLY)
- \$ INSURANCE (IF VALUE EXCEEDS \$100)

INTERNATIONAL SERVICES:

- WORLDWIDE EXPRESS PLUS **BY 8:30 AM NEXT DAY**
- **TO CANADA - ADD'L \$40.00 CHARGE**
- WORLDWIDE EXPRESS BY 10:30 AM NEXT DAY
- WORLDWIDE EXPEDITED WITHIN 3 DAYS
- STANDARD GROUND ECONOMY
- *SATURDAY DELIVERY*
- *ADDITIONAL \$10.00 CHARGE*
- USPS EXPRESS MAIL (P.O. BOX ONLY)
- \$ INSURANCE (IF VALUE EXCEEDS \$100)

IF YOU HAVE ANY QUESTIONS ABOUT DELIVERY SERVICES AND TIMES, PLEASE CONTACT THE MAILROOM FOR SPECIFICS

ALL SERVICE TYPES ARE SUBJECT TO AVAILABILITY
PER AREA OF DELIVERY

SENDER Sara Caldwell

APPROVED BY *Synda A. Townsend*

CONTENTS: KF State 4 #1 JOA



Lynda F. Townsend, CPL/ESA
Senior Landman

April 4, 2005

VIA UNITED PARCEL SERVICE

Mr. Tim Reece
Samson Resources Company
Centennial Tower
200 N Loraine, Suite 1010
Midland, TX 79701

Re: Chesapeake's Proposed KF State 4 #1
S/2 Section 4-21S-35E
Lea County, New Mexico

Dear Mr. Reece:

Pursuant to Chesapeake Operating, Inc.'s proposal on behalf of Chesapeake Exploration Limited Partnership ("Chesapeake") dated March 9, 2005, enclosed is Chesapeake's standard operating agreement. Please sign and return the signature pages to my attention and the address below.

Should you have any questions please give me a call.

Very truly yours,

Chesapeake Operating, Inc.

Lynda F. Townsend

Enclosures

W:\Permian\Operated Wells\KF State 4 #1\JOA\Transmittal Letters.doc

Chesapeake Energy Corporation
6100 N. Western Ave. • Oklahoma City, OK 73116 • P.O. Box 18496 • Oklahoma City, OK 73154-0496
405.879.9414 • fax 405.767.4251 • ltownsend@chkenergy.com

CHK 000168

4/4/05

CUSTOMER ID (IF NECESSARY) Reece, Tim

COMPANY NAME Mr. Tim Reece

ATTENTION Samson Resources Company

ADDRESS (STREET ADDRESS ONLY - NO P.O. BOX)

200 N Lorraine, Suite 1010

CITY Midland STATE TX ZIP 79701

PHONE # (432) 686-6312 RESIDENTIAL DELIVERY Y N

SERVICE TYPE (PLEASE CHECK ONE)

DOMESTIC SERVICES:

- NEXT BUSINESS DAY BY 10:30 AM
- NEXT BUSINESS DAY BY END OF DAY
- NEXT BUSINESS DAY **BY 8 AM**
- **ADD'L \$25.00 CHARGE**
- TWO DAY DELIVERY - AM
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ALL SERVICE TYPES ARE SUBJECT TO AVAILABILITY
PER AREA OF DELIVERY

SENDER Sara Caldwell

APPROVED BY *Synda J. Townsend*

CONTENTS: KF State 4 #1 JOA

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

March 9 , 2005 ,

OPERATOR Chesapeake Exploration Limited Partnership

CONTRACT AREA SW/4 & SE/4 (AKA Units Q, R, S, T, U, V, W AND X), Section 4,

Township 21 South, Range 35 East, Containing 320 acres, more or less, NMPM

COUNTY OR PARISH OF Lea County STATE OF New Mexico

Well Name: **KF 4 State #1**

COPYRIGHT 1982 - ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD., FORT
WORTH, TEXAS, 76137-2791, APPROVED
FORM. A.A.P.L. NO. 610 - 1982 REVISED

CHK 000176

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OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

- A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.
- B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
- C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.
- D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.
- F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.
- G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
- H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

ARTICLE II.
EXHIBITS

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

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

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

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

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

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

~~C. Excess Royalties, Overriding Royalties and Other Payments~~

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

D. Subsequently Created Interests:

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

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

ARTICLE IV
continued

1 Opinion No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys / for title examination
2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties
3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-
4 hibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
5 functions.
6

7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.
10 This shall not prevent any party from appearing on its own behalf at any such hearing. / Costs incurred by Operator in procuring
11 spacing and Pooling orders including fees paid outside attorneys shall be borne by the Drilling Parties.
12

13 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above
14 provided; and (2) ~~the title has been approved by the examining attorney or title has been accepted by all of the parties who are to partici-~~
15 ~~participate in the drilling of the well.~~
16

B. Loss of Title:

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18 1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a
19 reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days
20 from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition
21 will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil
22 and gas leases and interests; and,
23

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

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

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

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

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

40 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest
41 claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in
42 connection therewith.
43

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

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

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

61 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest
62 lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.
63

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

A. Designation and Responsibilities of Operator:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 2005, Operator shall commence the drilling of a well for oil and gas at the following location:

660' FSL & 990' FEL Section 4, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 12,100 feet or a depth sufficient, in Operator's sole opinion, to adequately test the Morrow formation

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

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

ARTICLE VI
continued

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

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6 B. Subsequent Operations:

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

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

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

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47 * Nothing contained herein shall prohibit Operator or the participating parties from actually commencing the proposed
48 operation before the expiration of the notice period nor shall the timing of such commencement affect in any way the validity of a
49 party's election or deemed election.

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

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

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

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

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16 The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.
17 except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well
18 after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for pro-
19 duction, ceases to produce in paying quantities; or (c) Operator proposes to recumplete additional zones in any producing well drilled
20 under the terms of this Agreement.

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

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

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

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

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53
54
55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period
56 shall be limited to forty-eight (48) hours, ^{inclusive} exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and
57 receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-
60 ty's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other in-
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

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65 C. TAKING PRODUCTION IN KIND:

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

ARTICLE VI
continued

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

2

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

6

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

15

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

20

21 D. Access to Contract Area and Information:

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23 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books
25 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with
26 governmental agencies, daily drilling reports, well logs, / ^{and actual monthly oil and gas production and sales volumes} ~~/ tank tables, daily gauge and run tickets and reports of stock on hand at the first of~~
27 ~~each month,~~ and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of
28 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-
29 quests the information. / Non-consenting parties shall be denied access to the well location and well information until the non-consent
30 period has expired.

31 E. Abandonment of Wells:

32

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

41

42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
44 producer shall not be plugged and abandoned without the consent of all parties. / ^{who participated in the cost of drilling the well} If all parties consent to such abandonment, the well shall
45 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
46 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
47 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other
48 parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of
49 ^{Failure of a party to make written election within thirty (30) days} ~~Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. / Each abandoning party shall assign~~
50 ^{will be deemed to be a consent to the abandonment of the well,} material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the in-
51 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and
52 gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or in-
53 tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-
54 duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit
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ARTICLE VI
continued

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

5
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-
8 quest, ^{At its election,} Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-
12 visions hereof.

13
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article
18 VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

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22
23 **A. Liability of Parties:**

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

29
30 **B. Liens and Payment Defaults:**

31
32 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

42
43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement thereof by
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that
45 the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

47
48 **C. Payments and Accounting:**

49
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,
53 showing expenses incurred and charges and credits made and received.

54
55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within
60 fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-
62 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

63
64 **D. Limitation of Expenditures:**

65
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

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ARTICLE VII
continued

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

3
4 Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof ^{made available} furnished to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight
7 (48) hours ^{INCLUSIVE} of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. herof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

14
15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage
18 and/or surface facilities.

19
20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
21 to require an expenditure in excess of Fifty Thousand Dollars (\$50,000.00)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting
27 an information copy thereof for any single project costing in excess of Fifty Thousand
28 Dollars (\$50,000.00) but less than the amount first set forth above in this paragraph. / An AFE is an estimate only of costs and
29 in no way shall the execution of an AFE limit the liability of any party.

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

31
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
33 party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have con-
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on
35 behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-
38 visions of Article IV.B.2.

39
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
42 circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45
46 F. Taxes:

47
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in
58 the manner provided in Exhibit "C".

59
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as
65 provided in Exhibit "C".

66
67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect
68 to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

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ARTICLE VII
continued

1 G. Insurance:

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

9

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

12

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

13

14 A. Surrender of Leases:

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16 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
17 or in part unless all parties consent thereto; ~~however, no consent shall be necessary to release~~
18 ~~a lease which has expired or otherwise terminated.~~

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

35

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

40

41 B. Renewal or Extension of Leases:

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

48

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

53

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

56

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

62

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

64

65 ~~C. Acreage or Cash Contributions:~~

66

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

ARTICLE VIII
continued

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

5
6 ~~— If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.~~

8
9 D. Maintenance of Uniform Interests:

10
11 ~~— For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no
12 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,
13 equipment and production unless such disposition covers either:~~

14
15 ~~1. the entire interest of the party in all leases and equipment and production; or~~

16
17 ~~2. an equal undivided interest in all leases and equipment and production in the Contract Area.~~

18
19 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
20 and shall be made without prejudice to the right of the other parties.

21
22 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may
23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
24 and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such
25 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter
26 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract
27 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

28
29 E. Waiver of Rights to Partition:

30
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
32 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided
33 interest therein.

34
35 F. ~~Preferential Right to Purchase:~~

36
37 ~~— Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract
38 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the
39 name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms
40 of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase
41 on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-
42 ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-
43 ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to
44 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-
45 pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

46
47 ARTICLE IX.

48 INTERNAL REVENUE CODE ELECTION

49
50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as per-
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
63 Subtitle "A", of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is per-
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
66 computation of partnership taxable income.

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ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifty Thousand Dollars (\$50,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

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ARTICLE XI.
FORCE MAJEURE

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

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

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

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ARTICLE XII.
NOTICES

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

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ARTICLE XIII.
TERM OF AGREEMENT

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

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

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

4 A. Laws, Regulations and Orders:

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

10 B. Governing Law:

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

17 C. Regulatory Agencies:

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

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

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

ARTICLE XV.
OTHER PROVISIONS

41 A. CONFLICTS

42 Notwithstanding anything herein contained to the contrary, it is understood and agreed that if there is any conflict
43 between any part of or all of the terms and provisions of Article XV and any other terms and provisions of this agreement,
44 the terms and provisions of this Article XV shall prevail and control.

46 B. PRIORITY OF OPERATIONS

47 If at any time there is more than one operation proposed in connection with any well subject to this agreement and if the
48 Consenting Parties do not agree on the sequence of proposed operations, such proposed operations shall be conducted in the
49 following sequence:

- 51 First - testing, coring or logging
- 52 Second - completion attempts without plugging back in ascending order from
53 deepest to shallowest depths;
- 54 Third - sidetracking in the order of least deviation from the original bottomhole
55 location to the greatest deviation;
- 56 Fourth - deepening of a well below the authorized depth in descending order
57 from shallowest to deepest depths;
- 58 Fifth - plugging back and completion attempts in ascending order from
59 deepest to shallowest depths.

C. MISCELLANEOUS COSTS

The following expenses shall be a direct charge, borne by the Joint Account as provided in Exhibit "C", and shall not be included as administrative overhead as set forth in Part III of Exhibit "C".

1. All reasonable costs incurred by Operator, and necessary in its sole judgment, in obtaining spacing, pooling or other orders or rulings from state regulatory bodies or courts regarding the Contract Area.
2. All reasonable costs incurred by Operator in complying with the Natural Gas Policy Act of 1978, or in complying with federal, state or local law for the obtaining and monitoring of any well classifications required in the Natural Gas Policy Act of 1978; or in complying with any laws administered by, or any rules or regulations promulgated by, through, or under the United States Department of Energy regarding the Contract Area.

D. MULTIPLE BILLING

In no event shall Operator be required to make more than three billings for the entire interest credited to each Non-operator on Exhibit "A". If any Non-Operator to this Agreement disposes of any part or all of the interest credited to it on Exhibit "A", hereinafter referred to as "Selling Party", such Selling Party shall be solely responsible for billing its assignee or assignees and shall remain primarily liable to the other Parties for the interest or interests assigned until such time as Selling Party has 1) designated and qualified the assignees to receive the billing for its interest, 2) designated assignees have been approved and accepted by Operator, and 3) has furnished to Operator written notice of the conveyance and photocopy of the recorded assignments by which the transfer is made. The sale or other disposition of any interest in the leases covered by this agreement shall be made specifically subject to the provisions of this Article. Operator's approval will not be unreasonably withheld.

E. PAYMENT OF CERTAIN ROYALTIES

If at any time a portion or all of the Contract Area is subject to a valid drilling and spacing unit order entered by the New Mexico Oil Conservation Division and notwithstanding the provision of Article III.B. and Article III.C. hereof with respect to payment of royalties, the Operator is hereby authorized to receive all royalty proceeds from the sale of gas production from each such drilling and spacing unit within the Contract Area and to remit such proceeds to the parties entitled thereto. Non-Operators agree to direct their gas purchasers to remit all royalty proceeds to Operator for distribution to royalty owners. If any gas purchaser refuses to remit directly to the Operator for any or all of Non-Operator's share of such proceeds, then such Non-Operator shall within ten (10) days of receipt thereof, remit such portion to Operator, less that portion of such Non-Operator's share of such proceeds attributable to its net revenue interest in each such drilling and spacing unit. Such proceeds shall be net after taxes and shall not include any portion of the value of gas sold which in the opinion of a party hereto selling such gas, is subject to refund by virtue of an order of the Federal Energy Regulatory Commission. Upon approval by the Federal Energy Regulatory Commission of any portion of such rate subject to refund obligation, a Non-Operator shall, if increased royalties result, remit to Operator such increased royalty amount, which shall be distributed over the unit on the basis of royalty ownership at the time of accrual. Each Non-Operator shall furnish to Operator the names, addresses, tax identification or Social Security numbers, and fractional interests of all owners of royalty in the leasehold and oil and gas interests contributed to the unit by each Non-Operator and shall immediately advise Operator of any change in such data of which Non-Operator subsequently becomes aware. If division order title opinions are not otherwise provided for herein, Non-Operator shall, upon Operator's request, furnish Operator with copies of division order title opinions prepared by a reputable attorney covering the land subject to Non-Operator's leaseholds or oil and gas interests in each drilling and spacing unit. Operator shall have no liability to Non-operator for losses sustained or liabilities incurred except as may otherwise be provided herein. Each Non-Operator agrees to indemnify, hold and save Operator harmless from any claims, losses, demands and causes of action which may be asserted by reason of an error in the ownership information furnished to Operator and each Non-Operator shall indemnify operator against loss resulting from Operator's actions taken in reliance upon any information furnished by Non-Operator to Operator or by reason of Non-Operator withholding payment of any sums which it believes are subject to refund as hereinabove provided. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

F. PREPAYMENT OF COSTS AND EXPENSES

Notwithstanding any other provisions of this agreement, and without prejudice to any other rights of the Operator, Operator will have the right to request and receive from each Non-Operator payment in advance of its respective share of (i) lease acreage acquisition costs to the extent the Non-Operator is acquiring its leasehold interest from the Operator and all or part of the completed well cost for the initial well to be drilled under Article VI.A. or any other well to be drilled hereunder to which such Non-Operator has consented, and (ii) the cost of any completion, reworking, recompletion, sidetracking, deepening, plugging back operation or any other operation hereunder to which such Non-Operator has consented (any such operation under clause (i) or (ii) being herein called a "Drilling Operation"). Such request for advance payment may be made on all Non-Operators or on any one Non-Operator in writing and may be either mailed, hand-delivered or transmitted by facsimile machine.

A Non-Operator receiving a request for advance payment will, within two (2) days of the receipt of such request if a drilling rig is on location and within fifteen (15) days of the receipt of such request in all other cases, pay to Operator in cash the full amount of such request. Operator will credit the amount to the Non-Operator's account for the payment of such Non-Operator's share of costs of such Drilling Operation and, following the end of each month, Operator will charge such account with such Non-Operator's share of actual costs incurred during such month.

Payment of an advance will not relieve a Non-Operator of the obligation to pay such Non-Operator's share of the actual cost of a Drilling Operation and, when the actual costs have been determined, Operator will adjust the accounts of the parties by refunding any net amounts due or invoicing the parties for additional sums owing, which additional sums shall be paid in accordance with the Accounting Procedure.

In the event a Non-Operator to which a request for advance payment was made does not, within the time and manner above provided, fully satisfy the request for advance payment as provided in this paragraph F, then Operator may, in the Operator's sole discretion at any time prior to actual payment, exercise any one or more of the following rights and remedies: (a) if the advance was requested for leasehold acreage acquisition or the drilling of the initial well under Article VI.A., Operator may rescind and terminate this agreement as to such Non-Operator by written notice to such Non-Operator, and upon sending such notice, Non-Operator will be deemed to have relinquished all of its leasehold and contract rights in the Contract Area; (b) if the advance was requested for any Drilling Operation, including, without limitation, the initial well drilled pursuant to Article VI.A., Operator may notify such Non-Operator that such Non-Operator is deemed to have relinquished its interest in the well to which the Drilling Operation relates and to have elected to go non-consent on such Drilling Operation under Article VI.B.2; (c) sue the Non-Operator who failed to pay as provided above for its proportionate share of expenses plus interest; or (d) exercise any and all other rights and remedies available to the Operator under this agreement and applicable law. Each of the parties to this agreement hereby agrees to execute and deliver to the other parties hereto any and all documents, agreements and acknowledgments necessary to evidence any actions taken by the Operator pursuant to the provisions of this paragraph F. All remedies herein provided are cumulative and not alternative, and no failure to exercise or delay in exercising any such right will operate as a waiver thereof.

G. DISTRIBUTION OF REVENUE

Notwithstanding anything to the contrary contained herein, and without prejudice to any other rights possessed by Operator, Operator at its sole discretion, may receive the proceeds from all oil and/or gas production attributable to any Non-Operator's ownership in the Contract Area and distribute those proceeds to said Non-Operator during the next calendar month ensuing following receipt of the proceeds by Operator from the purchaser.

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 9th day of March, (year) 2005.

Sara Caldwell who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Article ~~_____~~ have been made to the form, other than as shown by ~~_____~~ and/or bold type.

OPERATOR

CHESAPEAKE EXPLORATION LIMITED
PARTNERSHIP by Chesapeake Operating, Inc.,
General Partner

Henry J. Hood, Senior Vice President - Land and Legal

NON-OPERATORS

KAISER FRANCIS OIL COMPANY

BY: _____
TITLE: _____

SAMSON RESOURCES COMPANY

BY: _____
TITLE: _____

EXHIBIT "A"

EXHIBIT A TO THAT CERTAIN JOINT OPERATING AGREEMENT DATED MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON RESOURCES COMPANY AS NON-OPERATORS

1. Contract Area: SW/4 & SE/4 (AKA Units Q, R, S, T, U, V, W AND X), Section 4, Township 21 South, Range 35 East, Containing 320 acres, more or less, NMPM, Lea County, New Mexico

2. Restrictions as to depths and formations: None.

3. Interests of Parties:

<u>Owner</u>	<u>Working Interest</u>
Chesapeake Exploration Limited Partnership P. O. Box 18496 Oklahoma City, Oklahoma 73154-0496 Attention: Henry J. Hood	50.000000%
Kaiser Francis Oil Company P.O. Box 21468 Tulsa, Oklahoma 74121-1468	43.750000%
Samson Resources Company Centennial Tower 200 N Loraine, Suite 1010 Midland, TX 79701	<u>6.250000%</u>
TOTAL	100.000000%

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EXHIBIT "A-1"

ATTACHED TO AND MADE A PART OF THAT CERTAIN JOINT OPERATING AGREEMENT MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON RESOURCES COMPANY, AS NON-OPERATORS

INSOFAR AND ONLY INSOFAR as the following described Oil and Gas Leases cover the SW/4 & SE/4 (AKA Units Q, R, S, T, U, V, W AND X), Section 4, Township 21 South, Range 35 East, Containing 320 acres, more or less, NMPM, Lea County, New Mexico.

Lease No.: NM7930001-002
Lessor: State of New Mexico V0-7063
Lessee: Rubicon Oil & Gas I, LP
Lease Date: May 1, 2004
Legal Desc: SW/4 Section 4, Township 21 South, Range 35 East, Containing 160 acres, more or less, NMPM, Lea County, New Mexico

Lessor: State of New Mexico B1481
Lessee: Empire Gas and Fuel Company
Lease Date: December 19, 1932
Legal Desc: SE/4 Section 4, Township 21 South, Range 35 East, Containing 160 acres, more or less, NMPM, Lea County, New Mexico

END OF EXHIBIT "A-1"

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THERE IS NO EXHIBIT "B"

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EXHIBIT " C "

1 Attached to and made a part of that certain Operating Agreement dated March 9, 2005 by and between Chesapeake
2 Exploration Limited Partnership, as Operator and Kaiser Francis Oil Company and Samson Resources Company, as Non-Operators
3
4

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

23 "Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

48 B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made
49 within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Bank One of Oklahoma, N.A. +2%
50 on the first day of the month in which delinquency occurs plus 1% or the
51 maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located,
52 whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid
53 amounts.

54 Operator may, at its option, choose to substitute other penalties described elsewhere in this Agreement for failure to pay bills within the thirty
55 (30) day time frame described above.

4. Adjustments

58 Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof;
59 provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall
60 conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar
61 year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes
62 claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same
63 prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of
64 Controllable Material as provided for in Section V.

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1 5. Audits

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3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit
4 Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four
5 (24) month period following the end of such calendar year, provided, however, the making of an audit shall not
6 extend the time for the taking of written exception to and the adjustments of accounts as provided for in
7 Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make
8 every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience
9 to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this
10 paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year
11 without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made
12 at the expense of those Non-Operators approving such audit.

13
14 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.
15
16 6. Approval By Non-Operators

17
18 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this
19 Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no
20 contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the
21 agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.
22

23
24 II. DIRECT CHARGES

25 Operator shall charge the Joint Account with the following items:

26
27 1. Ecological and Environmental

28
29 Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy
30 environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or
31 archaeological nature and pollution control procedures as required by applicable laws and regulations.
32

33
34 2. Rentals and Royalties

35
36 Lease rentals and royalties paid by Operator for the Joint Operations.
37

38
39 3. Labor

- 40 A. (1) Salaries and wages of Operator's field employees ^{and/or consultants} directly employed on the Joint Property in the conduct of
41 Joint Operations.
42
43 (2) Salaries of First level Supervisors in the field. ^{and/or consultants}
44
45 (3) Salaries and wages of Technical Employees ^{and/or consultants} directly employed on the Joint Property if such charges are
46 excluded from the overhead rates.
47
48 (4) Salaries and wages of Technical Employees ^{and/or consultants} either temporarily or permanently assigned to and directly
49 employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
50
51 B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to
52 employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.
53 Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment"
54 on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If
55 percentage assessment is used, the rate shall be based on the Operator's cost experience.
56
57 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are
58 applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
59
60 D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under
61 Paragraphs 3A and 3B of this Section II.

62
63 4. Employee Benefits

64
65 Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement,
66 stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the
67 Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent
68 most recently recommended by the Council of Petroleum Accountants Societies.
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1 5. Material

2
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such
4 Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is
5 reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be
6 avoided.

7
8 6. Transportation

9
10 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

11
12 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

15
16 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the
20 Parties.

21
22 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is
23 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the
24 amount most recently recommended by the Council of Petroleum Accountants Societies.

25
26 7. Services

27
28 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph
29 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract
30 services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead
31 rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the
32 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

33
34 8. Equipment and Facilities Furnished By Operator

35
36 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to
39 exceed ten percent (10%) per annum. Such rates shall not exceed average commercial
40 rates currently prevailing in the immediate area of the Joint Property.

41
42 B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the
43 immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates
44 published by the Petroleum Motor Transport Association.

45
46 9. Damages and Losses to Joint Property

47
48 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or
49 losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross
50 negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as
51 soon as practicable after a report thereof has been received by Operator.

52
53 10. Legal Expense

54
55 Expense of handling, investigating and settling litigation or claims, ^{title and regulatory work,} discharging of liens, payment of judgments and
56 amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to
57 protect or recover the Joint Property, ~~except that no charge for services of Operator's legal staff or fees or expense of~~
58 ~~outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be~~
59 ~~covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section~~
60 ~~I, Paragraph 3.~~

61
62 11. Taxes

63
64 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,
65 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad
66 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then
67 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties
68 hereto in accordance with the tax value generated by each party's working interest.

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1 12. Insurance

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3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the
4 event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation
5 and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-
6 insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

7
8 13. Abandonment and Reclamation

9
10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory
11 authority.

12
13 14. Communications

14
15 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and
16 microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint
17 Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

18
19 15. Other Expenditures

20 The cost of Operator's Field Offices not covered in Section III, or any
21 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which
22 is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint
23 Operations.

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28 III. OVERHEAD

29
30 1. Overhead - Drilling and Producing Operations

31 i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge
32 drilling and producing operations on either:

- 33 (X) Fixed Rate Basis, Paragraph 1A, or
34 () Percentage Basis, Paragraph 1B

35
36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under
38 Paragraph 3A, Section II. ~~The cost and expense of services from outside sources in connection with matters of~~
39 ~~taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in~~
40 ~~the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are~~
41 ~~agreed to by the Parties as a direct charge to the Joint Account.~~

42
43 ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant
44 services and contract services of technical personnel directly employed on the Joint Property:

- 45
46 () shall be covered by the overhead rates, or
47 (X) shall not be covered by the overhead rates.

48
49 iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services
50 and contract services of technical personnel either temporarily or permanently assigned to and directly employed in
51 the operation of the Joint Property:

- 52
53 () shall be covered by the overhead rates, or
54 (X) shall not be covered by the overhead rates.

55
56 A. Overhead - Fixed Rate Basis

57
58 (1) Operator shall charge the Joint Account at the following rates per well per month:

59
60 Drilling Well Rate \$ 8,136.10
61 (Prorated for less than a full month)

62
63 Producing Well Rate \$ 813.61

64
65 (2) Application of Overhead - Fixed Rate Basis shall be as follows:

66
67 (a) Drilling Well Rate

68 (:) Charges for drilling wells shall begin on the date ^{location work begins} ~~the well is spudded~~ and terminate on the date
69 the drilling rig, completion rig, or other units used in completion of the well is released, whichever
70

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1 is later, except that no charge shall be made during suspension of drilling or completion operations
2 for fifteen (15) or more consecutive calendar days.

- 3
4 (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5)
5 consecutive work days or more shall be made at the drilling well rate. Such charges shall be
6 applied for the period from date workover operations, with rig or other units used in workover,
7 commence through date of rig or other unit release, except that no charge shall be made during
8 suspension of operations for fifteen (15) or more consecutive calendar days.

9
10 (b) Producing Well Rates

- 11
12 (1) An active well either produced or injected into for any portion of the month shall be considered as
13 a one-well charge for the entire month.
- 14
15 (2) ~~Each active completion in a multi-completed well in which production is not commingled down~~
16 ~~hole shall be considered as a one-well charge providing such completion is considered a separate~~
17 ~~well by the governing regulatory authority.~~
- 18
19 (3) ~~An inactive gas well shut in because of overproduction or failure of purchaser to take the~~
20 ~~production shall be considered as a one-well charge providing the gas well is directly connected to~~
21 ~~a permanent sales outlet.~~
- 22
23 (4) A one-well charge shall be made for the month in which plugging and abandonment operations
24 are completed on any well. This one-well charge shall be made whether or not the well has
25 produced except when drilling well rate applies.
- 26
27 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease
28 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- 29
30 (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the
31 agreement to which this Accounting Procedure is attached ^{by the percent increase or decrease published by COPAS}. ~~The adjustment shall be computed by multiplying~~
32 ~~the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude~~
33 ~~Petroleum and Gas Production Workers for the last calendar year compared to the calendar year proceeding as~~
34 ~~shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as approved and recorded by COPAS,~~
35 ~~published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as~~
36 ~~published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or~~
37 ~~minus the computed adjustment.~~

38
39 ~~B. Overhead - Percentage Basis~~

- 40
41 (1) ~~Operator shall charge the Joint Account at the following rates:~~

42
43 (a) ~~Development~~

44
45 ~~_____ Percent (_____%) of the cost of development of the Joint Property exclusive of costs~~
46 ~~provided under Paragraph 10 of Section II and all salvage credits.~~

47
48 (b) ~~Operating~~

49
50 ~~_____ Percent (_____%) of the cost of operating the Joint Property exclusive of costs provided~~
51 ~~under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased~~
52 ~~for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the~~
53 ~~mineral interest in and to the Joint Property.~~

- 54
55 (2) ~~Application of Overhead - Percentage Basis shall be as follows:~~

56
57 ~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III,~~
58 ~~development shall include all costs in connection with drilling, re-drilling, deepening, or any remedial~~
59 ~~operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing~~
60 ~~interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and~~
61 ~~expenditures incurred in abandoning when the well is not completed as a producer, and original cost of~~
62 ~~construction or installation of fixed assets, the expansion of fixed assets and any other project clearly~~
63 ~~discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other~~
64 ~~costs shall be considered as operating.~~

65
66 ~~3. Overhead - Major Construction~~

67
68 ~~To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of~~
69 ~~fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the~~
70 ~~Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint~~

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Account for overhead based on the following rates for any Major Construction project in excess of \$ ~~50,000.00~~

A. ~~4.0~~ % of first \$100,000 or total cost if less, plus

B. ~~2.0~~ % of costs in excess of \$100,000 but less than \$1,000,000, plus

C. ~~1.0~~ % of costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3. ~~Catastrophe Overhead~~

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

A. % of total costs through \$100,000, plus

B. % of total costs in excess of \$100,000 but less than \$1,000,000, plus

C. % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. ~~Amendment of Rates~~

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. ~~Purchases~~

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. ~~Transfers and Dispositions~~

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. ~~New Material (Condition A)~~

(1) ~~Tubular Goods Other than Line Pipe~~

(a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

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1 pound Oil Field Haulers Association interstate truck rate shall be used.

2
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,
5 to the railway receiving point nearest the Joint Property.

6
7 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10
11 (2) Line Pipe

12
13 (a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.
15 Freight charges shall be calculated from Lorain, Ohio.

16
17 (b) Line Pipe movements (except size 24 inch OD) and larger with walls 3/4 inch and over) less than 30,000
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,
19 plus the percent most recently recommended by COPAS
20 plus transportation costs based on freight rates as set forth under provisions of tubular
21 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,
22 Ohio.

23 (c) Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f.o.b. the point of
24 manufacture at current new published prices plus transportation cost to the railway receiving point
25 nearest the Joint Property.

26
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at
29 prices agreed to by the Parties.

30
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the
33 railway receiving point nearest the Joint Property.

34
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39
40 B. Good Used Material (Condition B)

41
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:

43
44 (1) Material moved to the Joint Property

45
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47
48 (2) Material used on and moved from the Joint Property

49
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was
51 originally charged to the Joint Account as new Material or

52
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was
54 originally charged to the Joint Account as used Material

55
56 (3) Material not used on and moved from the Joint Property

57
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.

59
60 The cost of reconditioning, if any, shall be absorbed by the transferring property.

61
62 C. Other Used Material

63
64 (1) Condition C

65
66 Material which is not in sound and serviceable condition and not suitable for its original function until
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition
69 C value plus cost of reconditioning does not exceed Condition B value.

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(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operator.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph I.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. ~~Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.~~

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

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1 overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.
2

3 3. Special Inventories
4

5 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint
6 Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of
7 interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases
8 involving a change of Operator, all Parties shall be governed by such inventory.
9

10 4. Expense of Conducting Inventories
11

12 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the
13 Parties.
14

15 B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except
16 inventories required due to change of Operator shall be charged to the Joint Account.
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EXHIBIT "D"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT
MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED
PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON
RESOURCES COMPANY, AS NON-OPERATORS

1. Operator shall procure and maintain, at all times while conducting operations under this Agreement, the following insurance coverages with limits not less than those specified below:

A.	Worker's Compensation	Statutory
	Employer's Liability	\$100,000 each accident
B.	Comprehensive General Liability including:	
	(a) property damage and bodily injury liability including, but not limited to, losses resulting from explosion, collapse, underground damage; and	
	(b) contractual liability assumed under this Agreement.	\$1,000,000 Combined single limit
C.	Comprehensive Automobile Liability covering owned, non-owned and hired vehicles.	\$1,000,000 Combined single limit
D.	Umbrella Liability in excess of A (except Worker's Compensation), B, and C above.	\$20,000,000 Combined single limit
E.	Cost of Well Control and Operator's Extra Expense, including Care, Well Control Custody, and Control Coverage	\$5,000,000 OEE and \$250,000 CCC

2. The insurance described in 1. above shall be carried at the joint expense of the parties hereto and all premiums and other costs and expenses related thereto shall be charged to the Joint Account in accordance with the Accounting Procedure attached as Exhibit "C" to this Agreement, unless prior to spud a Non-Operator who desires to provide its own insurance provides Operator with a certificate of insurance evidencing such individual coverage.

3. Operator shall use every reasonable effort to have its contractors and subcontractors comply with applicable Worker's Compensation laws, rules and regulations and carry such insurance as Operator may deem necessary.

4. Operator shall not be liable to Non-Operator for loss suffered because of insufficiency of the insurance procured and maintained for the Joint Account nor shall Operator be liable to Non-Operator for any loss occurring by reason of Operator's inability to procure or maintain the insurance provided for herein. If at any time during the term of this Agreement, Operator is unable to procure or maintain said insurance, Operator shall promptly so notify Non-Operator in writing.

5. In the event of loss not covered by the insurance provided for herein, such loss shall be charged to the Joint Account and borne by the parties in accordance with their respective percentage of participation as determined by this Agreement.

6. Any party hereto may individually and at its own expense procure such additional insurance as it desires; provided, however, such party shall provide Operator with a certificate of insurance evidencing such coverage before spud of the well and such coverage includes waivers by the insurer of all right of subrogation in favor of the other parties.

EXHIBIT "E"

ATTACHED TO AND MADE A PARTY OF THAT CERTAIN OPERATING AGREEMENT DATED MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON RESOURCES COMPANY, AS NON-OPERATORS

GAS STORAGE AND BALANCING AGREEMENT

The parties to the Operating Agreement to which this gas storage agreement is attached own the working interest in the gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto is not able to market its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this storage agreement shall automatically become effective.

During the period or periods when any party hereto is not selling or otherwise disposing of its share of gas produced from the Contract Area, or its purchaser is unable to take its share of gas produced from the Contract Area, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such Contract Area and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this gas storage agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser. Each party not selling or otherwise disposing of its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced and metered under this Agreement. A nonconsenting party pursuant to Article VI of this Operating Agreement shall be credited with only its proportionate share of gas against its nonconsent penalties regardless of what share such owner's purchaser is taking at any given time.

Each party taking gas shall furnish the Operator a monthly statement of gas taken. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statement showing the total quantity of gas taken and/or sold by each party and the monthly and accumulative over and under delivered of each party.

Each party producing and/or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

At all times while gas is produced from the Contract Area, each party hereto will make settlement with all royalty owners for said unit as required by applicable regulations. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from the Contract Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to twenty-five percent (25%) of the overproduced party or parties' share of gas produced from the Contract Area. If two or more parties are entitled to twenty-five percent (25%) of the overproduced party or parties' share of gas produced, they shall divide such twenty-five percent (25%) in accordance with their percentage of participation in the Contract Area.

Should production of gas be discontinued before the gas account is balanced, a monetary settlement will be made between the underproduced and overproduced parties. In making such settlement, each overproduced party shall remit to the Operator an amount of money that such party received for its overproduction, less taxes theretofore paid, for a volume of gas equal to its overproduction.

Each party to the Joint Operating Agreement, whether underproduced or overproduced, is responsible for its share of lease operating expenses.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON RESOURCES COMPANY, AS NON-OPERATORS

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA) SS:

WHEREAS, Chesapeake Exploration Limited Partnership, as Operator, having a notice address of P.O. Box 18496, Oklahoma City, Oklahoma 73154-0496 and Kaiser Francis Oil Company, having a notice address of P.O. Box 21468, Tulsa, Oklahoma 74121-1468 and Samson Resources Company having a notice address of Centennial Tower 200 N Loraine, Suite 1010 Midland, TX 79701, as Non-Operators have entered into that certain Operating Agreement dated effective on March 9, 2005, covering oil and gas operations being conducted on those certain lands described in Exhibit "A" (the "Contract Area"), attached hereto and made a part hereof, as said Exhibit may be amended from time to time; and

WHEREAS, Operator and Non-Operators desire to give third parties record notice of the existence of said Operating Agreement and of the rights and obligations of Operator and Non-Operators thereunder.

NOW, THEREFORE, for and in consideration of One Dollar (\$1.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Operator and Non-Operators hereby stipulate and agree as follows:

I.

The Operating Agreement is on an A.A.P.L. form 610-1982 Model Form Operating Agreement, as amended by the parties, plus attachments.

II.

Article VI.C. grants each party to the Operating Agreement the right to take in kind its proportionate share of all oil and gas produced from the Contract Area. Additionally, the parties have agreed to be bound by a volumetric Gas Balancing Agreement which is attached as Exhibit "E" to the Operating Agreement.

III.

Pursuant to Article VII.B., each Non-Operator mortgages to Operator, and grants to Operator a lien upon, its oil and gas leasehold estates and "oil and gas interests", as that term is defined in Article I.C. thereof, in the Contract Area, and grants to Operator a security interest in its share of oil or gas when extracted from the Contract Area and its interest in all equipment located thereon to secure payment of its share of expense under the Operating Agreement (including costs of investigation, defenses and payment of any final judgment or settlement for damages arising out of operations thereunder), together with interest thereon in accordance with the Operating Agreement, in addition to any other remedies available to Operator in law or pursuant to the Operating Agreement. Upon default by a Non-Operator in the payment of its share of expense, without prejudice to any other rights and remedies, Operator shall have the right to collect from the purchaser of production from the Contract Area the proceeds from the sale of such Non-Operator's share of oil or gas produced and sold from the Contract Area until the amount owed by Non-Operator, including interest, has been paid. Each purchaser of oil and gas produced from the Contract Area shall be entitled to rely upon Operator's written statement

concerning the amount of any default. Operator grants a like mortgage, lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If Operator pays a defaulting party's share of any costs or expenses pursuant to Article VII. B.4 of the Operating Agreement, all other parties to the Operating Agreement, including Non-Operators shall, upon being billed by Operator, contribute their proportionate share of all sums advanced by Operator for and on behalf of the defaulting party. Such contributing parties shall in addition to any other right they may have hereunder receive a share of any interest in the Contract Area forfeited by the defaulting party as well as any percentage penalty recoupment from such defaulting party. The share for each such contributing party shall be in proportion to its contribution.

IV.

This Memorandum shall constitute a Financing Statement covering oil and gas extracted from the Contract Area to the extent that such oil and gas is owned by a defaulting party under the Operating Agreement. This Mortgage and Financing Statement shall be filed for record in the real estate records of any county or parish in which the contract Area is situated and/or the Secretary of State and shall be filed by Operator upon its own motion or upon the request of any Non-Operator. Each of the undersigned Non-Operators shall be considered as both a debtor, to the extent that such party has failed to pay his or its share of expense, and as a secured party mortgagee.

V.

In addition to the lien contained in Article VII.B. of the Operating Agreement, the Gas Balancing Agreement attached as Exhibit "E" to the Operating Agreement provides that each overproduced party grants a lien to each Underproduced Party upon its leasehold interest and upon its interest in gas production and the proceeds therefrom, and upon its interest in material and equipment, to the extent and so long as the Overproduced Party is overproduced, to secure its balancing obligations, both in kind and in cash, which lien shall be inferior and subject to the Operator's lien as provided in Article VII.B. of the parties Operating Agreement.

VI.

Operator may, on behalf of all parties, terminate the effect of this Memorandum as to all or any portion of the Contract Area by recording a full or partial release hereof.

VII.

Any party requiring additional information concerning the rights and obligations of the parties under the Operating Agreement may contact the Operator at the following address:

OPERATOR: Chesapeake Exploration Limited Partnership by its
General Partner, Chesapeake Operating, Inc.
P.O. Box 18496
Oklahoma City, Oklahoma 73154
Attn: Henry J. Hood

VIII.

This Memorandum may be executed in any number of counterparts, each of which shall be considered an original for all purposes and shall be binding upon the heirs, successors and assigns of the parties. The Operator is hereby authorized to compile the signature and notary pages from each of the counterparts in order to have one instrument containing signature and notarial acknowledgments for all parties for recording purposes.

MEMORANDUM OF OPERATING AGREEMENT

STATE OF OKLAHOMA)
) SS:
COUNTY OF OKLAHOMA)

WHEREAS, Chesapeake Exploration Limited Partnership, as Operator, having a notice address of P.O. Box 18496, Oklahoma City, Oklahoma 73154-0496 and Kaiser Francis Oil Company, having a notice address of P.O. Box 21468, Tulsa, Oklahoma 74121-1468 and Samson Resources Company having a notice address of Centennial Tower 200 N Loraine, Suite 1010 Midland, TX 79701, as Non-Operators have entered into that certain Operating Agreement dated effective on March 9, 2005, covering oil and gas operations being conducted on those certain lands described in Exhibit "A" (the "Contract Area"), attached hereto and made a part hereof, as said Exhibit may be amended from time to time; and

WHEREAS, Operator and Non-Operators desire to give third parties record notice of the existence of said Operating Agreement and of the rights and obligations of Operator and Non-Operators thereunder.

NOW, THEREFORE, for and in consideration of One Dollar (\$1.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Operator and Non-Operators hereby stipulate and agree as follows:

I.

The Operating Agreement is on an A.A.P.L. form 610-1982 Model Form Operating Agreement, as amended by the parties, plus attachments.

II.

Article VI.C. grants each party to the Operating Agreement the right to take in kind its proportionate share of all oil and gas produced from the Contract Area. Additionally, the parties have agreed to be bound by a volumetric Gas Balancing Agreement which is attached as Exhibit "E" to the Operating Agreement.

III.

Pursuant to Article VII.B., each Non-Operator mortgages to Operator, and grants to Operator a lien upon, its oil and gas leasehold estates and "oil and gas interests", as that term is defined in Article I.C. thereof, in the Contract Area, and grants to Operator a security interest in its share of oil or gas when extracted from the Contract Area and its interest in all equipment located thereon to secure payment of its share of expense under the Operating Agreement (including costs of investigation, defenses and payment of any final judgment or settlement for damages arising out of operations thereunder), together with interest thereon in accordance with the Operating Agreement, in addition to any other remedies available to Operator in law or pursuant to the Operating Agreement. Upon default by a Non-Operator in the payment of its share of expense, without prejudice to any other rights and remedies, Operator shall have the right to collect from the purchaser of production from the Contract Area the proceeds from the sale of such Non-Operator's share of oil or gas produced and sold from the Contract Area until the amount owed by Non-Operator, including interest, has been paid. Each purchaser of oil and gas produced from the Contract Area shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like mortgage, lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If Operator pays a defaulting party's share of any costs or expenses pursuant to Article VII. B.4 of the Operating Agreement, all other parties to the Operating Agreement, including Non-Operators shall, upon being billed by Operator, contribute their proportionate share of all sums advanced by Operator for and on behalf of the defaulting party. Such contributing parties shall in addition to any other right they may have hereunder receive a share of any interest in the Contract Area forfeited by the defaulting party as well as any percentage penalty recoupment from such defaulting party. The share for each such contributing party shall be in proportion to its contribution.

IV.

This Memorandum shall constitute a Financing Statement covering oil and gas extracted from the Contract Area to the extent that such oil and gas is owned by a defaulting party under the Operating Agreement. This Mortgage and Financing Statement shall be filed for record in the real estate records of any county or parish in which the contract Area is situated and/or the Secretary of State and shall be filed by Operator upon its own motion or upon the request of any Non-Operator. Each of the undersigned Non-Operators shall be considered as both a debtor, to the extent that such party has failed to pay his or its share of expense, and as a secured party mortgagee.

V.

In addition to the lien contained in Article VII.B. of the Operating Agreement, the Gas Balancing Agreement attached as Exhibit "E" to the Operating Agreement provides that each overproduced party grants a lien to each Underproduced Party upon its leasehold interest and upon its interest in gas production and the proceeds therefrom, and upon its interest in material and equipment, to the extent and so long as the Overproduced Party is overproduced, to secure its balancing obligations, both in kind and in cash, which lien shall be inferior and subject to the Operator's lien as provided in Article VII.B. of the parties Operating Agreement.

VI.

Operator may, on behalf of all parties, terminate the effect of this Memorandum as to all or any portion of the Contract Area by recording a full or partial release hereof.

VII.

Any party requiring additional information concerning the rights and obligations of the parties under the Operating Agreement may contact the Operator at the following address:

OPERATOR: Chesapeake Exploration Limited Partnership by its
General Partner, Chesapeake Operating, Inc.
P.O. Box 18496
Oklahoma City, Oklahoma 73154
Attn: Henry J. Hood

VIII.

This Memorandum may be executed in any number of counterparts, each of which shall be considered an original for all purposes and shall be binding upon the heirs, successors and assigns of the parties. The Operator is hereby authorized to compile the signature and notary pages from each of the counterparts in order to have one instrument containing signature and notarial acknowledgments for all parties for recording purposes.

OPERATOR:

CHESAPEAKE EXPLORATION
LIMITED PARTNERSHIP

By: _____
Henry J. Hood,
Senior Vice President-Land and Legal
of Chesapeake Operating, Inc.,
General Partner

NON-OPERATOR:

KAISER FRANCIS OIL COMPANY

By: _____
Its: _____

SAMSON RESOURCES COMPANY

By: _____
Its: _____

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA)

This instrument was acknowledged before me on _____, 2005,
by Henry J. Hood, Senior Vice President-Land and Legal of Chesapeake Operating, Inc.,
General Partner of Chesapeake Exploration Limited Partnership, an Oklahoma limited
partnership.

Notary Public
Name: Sandra L. Mathis
My Commission Expires: May 5, 2006
Commission Number: 02007791

STATE OF _____)
)
COUNTY OF _____)

This instrument was acknowledged before me on _____, 2005
by _____ of Kaiser
Francis Oil Company, a(n) _____ company, on behalf of the company.

Notary Public
Name (Print) _____
My Commission Expires: _____

EXHIBIT "A"

EXHIBIT A TO THAT CERTAIN MEMORANDUM OF JOINT OPERATING AGREEMENT DATED MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON RESOURCES COMPANY AS NON-OPERATORS

1. Contract Area: SW/4 & SE/4 (AKA Units Q, R, S, T, U, V, W AND X), Section 4, Township 21 South, Range 35 East, Containing 320 acres, more or less, NMPM, Lea County, New Mexico

2. Restrictions as to depths and formations: None.

3. Interests of Parties:

<u>Owner</u>	<u>Working Interest</u>
Chesapeake Exploration Limited Partnership P. O. Box 18496 Oklahoma City, Oklahoma 73154-0496 Attention: Henry J. Hood	50.000000%
Kaiser Francis Oil Company P.O. Box 21468 Tulsa, Oklahoma 74121-1468	43.750000%
Samson Resources Company Centennial Tower 200 N Loraine, Suite 1010 Midland, TX 79701	<u>6.250000%</u>
TOTAL	100.000000%

W:\Permian\Operated Wells\KF State 4 #1\JOA\Memorandum Exhibit A.doc

EXHIBIT "A-1"

ATTACHED TO AND MADE A PART OF THAT CERTAIN MEMORANDUM OF JOINT OPERATING AGREEMENT MARCH 9, 2005 BY AND BETWEEN CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, AS OPERATOR AND KAISER FRANCIS OIL COMPANY AND SAMSON RESOURCES COMPANY, AS NON-OPERATORS

INSOFAR AND ONLY INSOFAR as the following described Oil and Gas Leases cover the SW/4 & SE/4 (AKA Units Q, R, S, T, U, V, W AND X), Section 4, Township 21 South, Range 35 East, Containing 320 acres, more or less, NMPM, Lea County, New Mexico.

Lease No.: NM7930001-002
Lessor: State of New Mexico V0-7063
Lessee: Rubicon Oil & Gas I, LP
Lease Date: May 1, 2004
Legal Desc: SW/4 Section 4, Township 21 South, Range 35 East, Containing 160 acres, more or less, NMPM, Lea County, New Mexico

Lessor: State of New Mexico B1481
Lessee: Empire Gas and Fuel Company
Lease Date: December 19, 1932
Legal Desc: SE/4 Section 4, Township 21 South, Range 35 East, Containing 160 acres, more or less, NMPM, Lea County, New Mexico

END OF EXHIBIT "A-1"

W:\Permian\Operated Wells\KF State 4 #1\JOA\Memorandum Exhibit A-1 Leases.doc



Centennial Tower
200 N. Loraine, Suite 1010
Midland, TX 79701
USA
432/683-7063
Fax 432/683-6847

RECEIVED
APR 08 2005
MAILROOM

April 5, 2005

Chesapeake Operating, Inc.
Attn: Lynda F. Townsend
P. O. Box 18496
Oklahoma City, OK 73154-0496

Re: Operating Agreement
Proposed KF State 4 #1
S/2 Section 4, T-21-S, R-35-E
Lea County, New Mexico

Gentlemen:

Samson is in receipt of the Operating Agreement for the referenced well. However, please be advised that by letter dated March 30, 2005 (copy attached) Samson rescinded its election to participate in the well and, therefore, will not be executing the Operating Agreement.

Should you have any questions regarding this matter, please contact the undersigned at (432) 686-6312.

Sincerely,

Tim Reece
Senior Landman

BEFORE THE
OIL CONSERVATION DIVISION
Case # 13492&13493 Exhibit No. _
Submitted By:
Chesapeake Inc.
Hearing Date: August 22, 2005

Stipulated Exhibit 14
NMOCD Case Nos. 13492 / 13493

CHK 000153



Centennial Tower
200 N. Lorraine, Suite 1010
Midland, TX 79701
USA
432/683-7063
Fax 432/683-6847

March 30, 2005

Chesapeake Permian, L. P.
Attn. Lynda F. Townsend
P. O. Box 18496
Oklahoma City, OK 73154-0496

VIA Facsimile 405-767-4251

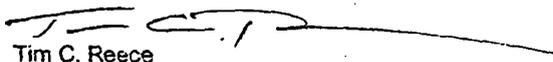
Re: Chesapeake's Proposed KF State 4 #1
S/2 Section 4-21S-35E
Lea County, New Mexico

Gentlemen:

Reference is made to Samson Resources Company's letter of March 16, 2005 in response to your letter dated March 9, 2005. Upon reviewing Samson's records we have determined that there is actually no JOA between the parties which would support an election for this well. In addition, the timeframe for the purported election has not yet expired. Accordingly, please be advised the Samson hereby rescinds and revokes its invalid election to participate in Chesapeake's proposed KF State 4#1 well.

If you have any questions please call me at 432-686-6312.

Sincerely,


Tim C. Reece
Senior Landman

TCR:

05-0523

CHK 000154

ADMITTED

PATRICK H. LYONS
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

www.nmstatelands.org

Mr. Michael Hazlip
Chesapeake Energy Corporation
Post Office Box 18496
Oklahoma City, Oklahoma 79154-0496

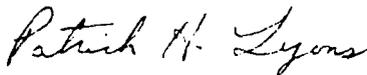
RE: State Trust Land, Section 4, T-21-S, R-35-E

Dear Mr. Hazlip:

Thank you for meeting with representatives of the State Land Office ("SLO") to discuss issues pertaining to the entry by Chesapeake Operating Inc. on the above referenced trust land to drill the KF "4" State Com No. 1 well on behalf of the State's oil and gas lessee on the adjacent quarter section, Chesapeake Permian, L.P. The SLO has high regard for both of its lessees in the south half of Section 4, and its paramount interest is ensuring that state trust land generate the highest possible level of sustainable revenue for trust beneficiaries, consistent with protection of the environment. We appreciate Chesapeake's contributions over the years to New Mexico's trust revenue and recognize Chesapeake's responsible operation on trust lands in the State.

Based on the discussions presented, the SLO's does not believe that this entry onto State Trust Lands by Chesapeake was in bad faith and understands that issues pertaining to the configuration for the spacing unit for this well will be resolved by the proceedings pending in the Oil Conservation Division. As expressed in our meeting the Land Office believes that geology should solely dictate the correct spacing and all the parties will have their opportunity to be heard at the Oil Commission proceeding.

Sincerely,



Patrick H. Lyons
Commissioner of Public Lands

cc: Mark E. Fesmire, P.E.

K:\dax client 23254\116 W\0492695 DOC

BEFORE THE
OIL CONSERVATION COMMISSION
Case # 13492 & 13493
Exhibit No. CHK-L 000015
Submitted By: Chesapeake Operating Inc.
Hearing Date: August 10, 2006

-State Land Office Beneficiaries -

Carne Tinsley Hospital • Charitable Penal & Reform • Common Schools • Eastern NM University • Rio Grande Improvement • Miners' Hospital of NM • NM Boys School • NM Highlands University • NM Institute of Mining & Technology • New Mexico Military Institute • NM School for the Deaf • NM School for the Visually Handicapped • NM State Hospital • New Mexico State University • Northern NM University • Southern NM University • Western NM University

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

District II
1301 W. Grand Ave., Artesia, NM 88210

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

District IV
1220 S. St Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

Form C-101
Permit 8547

APPLICATION FOR PERMIT TO DRILL

Operator Name and Address CHESAPEAKE OPERATING, INC. PO Box 11030 Midland, TX 79702-8050		OGRID Number 147179
		ADI Number 30-025-37150
Property Code 34698	Property Name CATTLEMAN 4 STATE COM	Well No. 001

Surface Location

UL or Lot	Section	Township	Range	Lot Idn.	Feet From	N/S Line	Feet From	E/W Line	County
H	4	21S	35E	16	3300	S	990	E	Lea

Proposed Pools

OSUDO MORROW, SOUTH (GAS) 82200

Well Type New Well	Well Type GAS	Cable/Rotary	Lease Type State	Ground Level Elevation 3612
Multiple N	Proposed Depth 11900	Formation Morrow	Contractor	Spud Date 04/01/2005

Proposed Casing and Cement Program

Type	Hole Size	Casing Size	Casing Weight/ft	Setting Depth	Sacks of Cement	Estimated TOC
Surf	17.5	13.375	48	450	500	0
Intl	12.25	9.625	40	5400	1295	0
Prod	8.75	5.5	17	11900	1265	4000

Casing/Cement Program: Additional Comments

13 3/8 csg. cmtd w/Lead 295 ex 35:65 Poz Cl C + additives; Tail 205 ex Cl C + 2% CaCl2; 9 5/8 csg. Cmtd w/Lead 1160 ex 50:50 Poz Cl C + additives; Tail 135 ex Cl C + 5% CaCl2; 5 1/2 Csg. 1st Stage Lead; 250 ex 50:50 Poz Cl H + additives; Tail 470 ex 50:50 Poz Cl H + additives; 2nd Stage Lead; 495 ex 50:50 Poz Cl H + additives; 2nd Stage Tail 50 ex 50:50 Poz Cl H + additives. TOC @ 4000

Proposed Blowout Prevention Program

Type	Working Pressure	Test Pressure	Manufacturer
Annular	5000	5000	
Double Ram	5000	5000	

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Electronically Signed By: Brenda Coffman
Title: Regulatory Analyst
Date: 03/18/2005 Phone: 432-685-4310

OIL CONSERVATION DIVISION	
Electronically Approved By: Paul Kautz	
Title: Geologist	
Approval Date: 03/21/2005	Expiration Date: 03/21/2006
Conditions of Approval: There are conditions. See Attached.	

Samson Exhibit 58
NMOCD Case Nos. 13492/13493
Submitted 8/10/06

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

District II
1301 W. Grand Ave., Artesia, NM 88210

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

District IV
1220 S. St Francis Dr., Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

Form C-102
Permit 8547

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-37150	Pool Name OSUDO;MORROW, SOUTH (GAS)	Pool Code 82200
Property Code 34698	Property Name CATTLEMAN 4 STATE COM	Well No. 001
OGRID No. 147179	Operator Name CHESAPEAKE OPERATING, INC.	Elevation 3612

Surface And Bottom Hole Location

UL or Lot H	Section 4	Township 21S	Range 35E	Lot In 16	Feet From 3300	N/S Line S	Feet From 990	E/W Line E	County Lea
Dedicated Acres 320		Joint or Infill		Consolidation Code		Order No.			

OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Electronically Signed By: Brenda Coffman
Title: Regulatory Analyst
Date: 03/18/2005

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Electronically Signed By: Gary G Eidson
Date of Survey: 03/17/2005
Certificate Number: 12641

Permit Conditions Of Approval
C-101, Permit 8547

Operator: CHESAPEAKE OPERATING, INC. , 147179
Well: CATILEMAN 4 STATE COM #001

OCD Reviewer	Condition
PKAUTZ	Re-seeding mixture will must be approved or authorized by surface owner
PKAUTZ	Notice is to be given to the OCD prior to construction of the pit(s)
PKAUTZ	Pit construction and closure must satisfy all requirements of O.C.D. Rule 19.15.2.50, and the Pit and Below-Grade Tank Guidelines

05/09/2005 09:05 FAX 432 887 4112

CHK MIDLAND

003/003

DISTRICT I

LEASE N. FRANCIS DR., SANTA FE, NM 87505

DISTRICT II

LEASE W. GRAND AVENUE, SANTA FE, NM 87505

DISTRICT III

1000 Rio Arriba Rd., Aztec, NM 87410

DISTRICT IV

LEASE N. FRANCIS DR., SANTA FE, NM 87505

State of New Mexico

Geology, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION
 1220 SOUTH ST. FRANCIS DR.
 Santa Fe, New Mexico 87505

Form C-102

Revised JUNE 10, 2003

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 4 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

APN Number 30-025-37150	Pool Code 82200	Pool Name Osudo;Morrow, South (Gas)
Property Code 34698	Property Name CATTLEMAN 4 STATE COM	Well Number 1
QQED No. 147179	Operator Name CHESAPEAKE OPERATING, INC.	Elevation 3612'

Surface Location

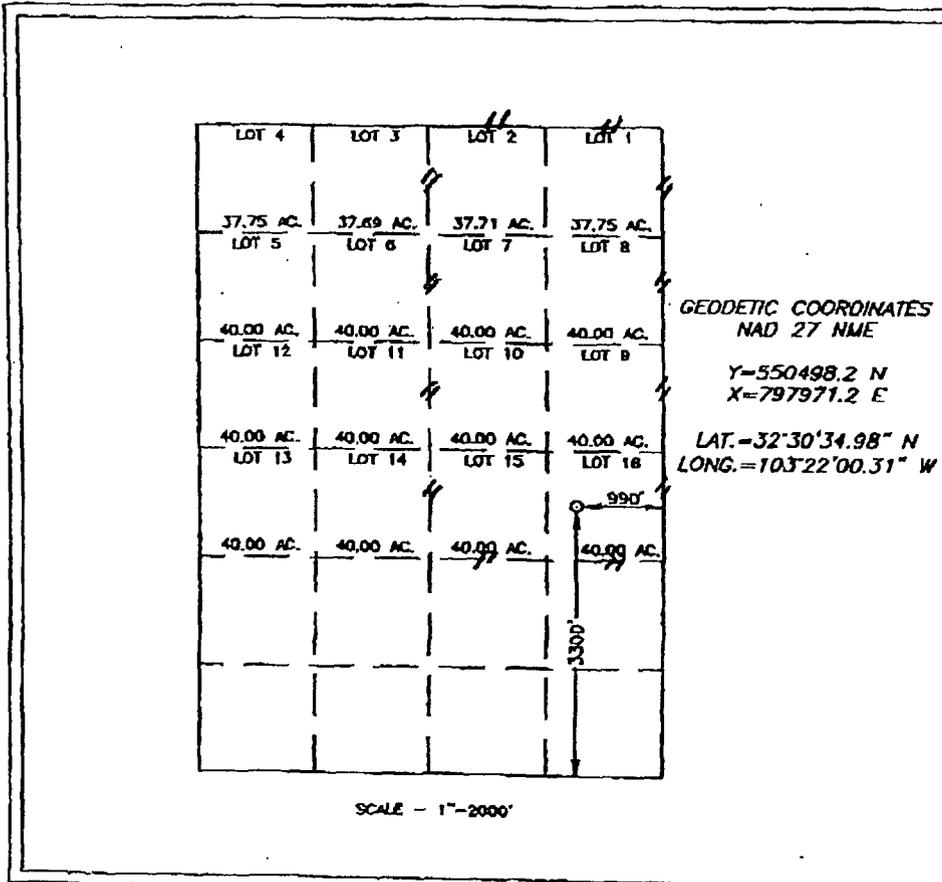
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
16	4	21-S	35-E		3300	SOUTH	990	EAST	LEA

Bottom Hole Location if Different From Surface

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

Dedicated Acres 320	Joint or InDR	Consolidation Code	Order No.
-------------------------------	---------------	--------------------	-----------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



SCALE - 1"=2000'

OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Brenda Coffman
 Signature

Brenda Coffman
 Printed Name

Regulatory Analyst

Date
 May 03, 2005

Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.

MARCH 17, 2005

Date Surveyed
 Signature
 Professional Surveyor

LA

Mark A. Edson
 05 11 04 58

NEW MEXICO
 PROFESSIONAL SURVEYOR

12041

KE

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Ave., Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. St Francis Dr., Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

Form C-101
Permit 8549

APPLICATION FOR PERMIT TO DRILL

Operator Name and Address CHESAPEAKE OPERATING, INC. PO Box 11050 Midland, TX 79702-8050		OODID Number 147179
Property Code 34698		API Number 30-025-37149
Property Name CATTLEMAN 4 STATE COM		Well No. 002

Surface Location

UL or Lot	Section	Township	Range	Lot Idn	Feet From	N/S Line	Feet From	E/W Line	County
D	4	21S	35E	4	990	N	990	W	Lea

Proposed Pools

OSUDO MORROW, SOUTH (GAS) 82200

Well Type New Well	Well Type GAS	Cable/Rotary	Lease Type State	Ground Level Elevation 3632
Sample N	Proposed Depth 11900	Formation Morrow	Contractor	Spud Date 04/15/2005

Proposed Casing and Cement Program

Type	Hole Size	Casing Size	Casing Weight/ft	Setting Depth	Sacks of Cement	Estimated TOC
Surf	17.5	13.375	48	450	500	0
Intl	12.25	9.625	40	5400	1295	0
Prod	8.75	5.5	17	11900	1265	4000

Casing/Cement Program: Additional Comments

13 3/8 csg. Cmt'd w/Lead 295 sx 35:65 Poz Cl C + additives, Tail 205 sx Cl C + 2% CaCl2; 9 5/8 csg. Cmt'd w/1160 sx 50:50 Poz Cl C Tail 135 sx Cl C; 5 1/2 csg. cmt'd w/1st stg lead 230 sx 50:50 Poz Cl H, Tail 470 sx 50:50 Poz Cl H; 2nd Stage Lead 495 sx 50:50 Poz Cl H, 2nd Stage Tail 50 sx 50:50 Poz Cl H + additives

Proposed Blowout Prevention Program

Type	Working Pressure	Test Pressure	Manufacturer
Annular	5000	5000	
Double Ram.	5000	5000	

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.
Electronically Signed By: Brenda Coffman
Title: Regulatory Analyst
Date: 03/18/2005 Phone: 432-685-4310

OIL CONSERVATION DIVISION
Electronically Approved By: Paul Kautz
Title: Geologist
Approval Date: 03/21/2005 Expiration Date: 03/21/2006
Conditions of Approval:
No Conditions

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

District II
1301 W. Grand Ave., Artesia, NM 88210

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

District IV
1220 S. St Francis Dr., Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

Form C-102
Permit 8549

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-37149	Pool Name OSUDO, MORROW, SOUTH (GAS)	Pool Code 82200
Property Code 34698	Property Name CATTLEMAN 4 STATE COM	Well No. 002
OGRID No. 147179	Operator Name CHESAPEAKE OPERATING, INC.	Elevation 3632

Surface And Bottom Hole Location

UL or Lot	Section	Township	Range	Lot. Ltn	Feet From	N/S Line	Feet From	E/W Line	County
D	4	21S	35E	4	990	N	990	W	Lea
Dedicated Acre 310.8		Joint or Infill		Consolidation Code		Order No.			

OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Electronically Signed By: Brenda Coffman

Title: Regulatory Analyst

Date: 03/18/2005

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Electronically Signed By: Gary Eidson

Date of Survey: 03/17/2005

Certificate Number: 12641

05/09/2005 09:05 FAX 432 687 4112

CHK MIDLAND

002/003

DISTRICT I
4040 S. FRANCIS DR., SANTA FE, NM 87505

DISTRICT II
1201 W. GRAND AVENUE, SANTA FE, NM 87505

DISTRICT III
1000 Elia Rendon Rd., Santa Fe, NM 87505

DISTRICT IV
1201 W. GRAND AVENUE, SANTA FE, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

Form C-102
Revised JUNE 10, 2003
Submit to Appropriate District Office
State License - 4 Copies
Fee License - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

APN Number 30-025-37149	Pool Code 82200	Pool Name Osudo;Morrow,South (Gas)
Property Code 34698	Property Name CATTLEMAN 4 STATE COM	Well Number 2
OCED No. 147179	Operator Name CHESAPEAKE OPERATING, INC.	Elevation 3632'

Surface Location

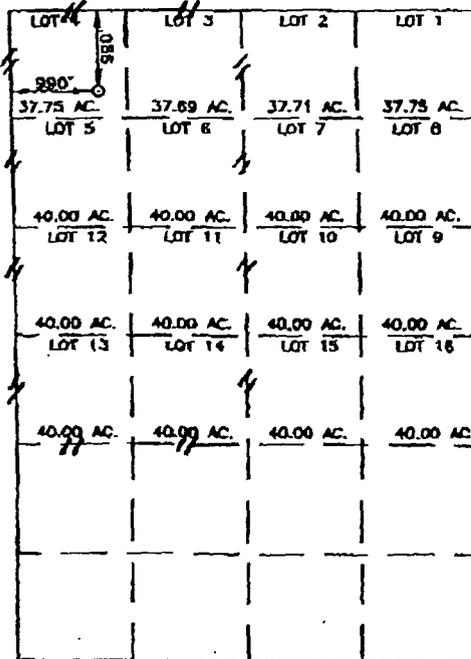
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
4	4	21-S	35-E		990	NORTH	990	WEST	LEA

Bottom Hole Location If Different From Surface

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

Redeveloped Acres 320	Joint or Infill	Consolidation Code	Order No.
--------------------------	-----------------	--------------------	-----------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



GEODETIC COORDINATES
NAD 27 NME
Y=554033.4 N
X=794635.2 E
LAT.=32°31'10.25" N
LONG.=105°22'38.90" W

SCALE - 1"=2000'

OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Brenda Coffman
Signature

Brenda Coffman

Printed Name
Regulatory Analyst

Title
May 3, 2005

Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.

MARCH 17, 2005

Date Signed
Signature
Professional Address

Brenda Coffman
5/7/05
05-11-0435
CERTIFIED PROFESSIONAL SURVEYOR
12041

Kz

Basin surveys
P. O. Box 1786
Hobbs, NM 88241

Invoice

DATE	INVOICE NO.
3/10/2005	5206

BILL TO
Chesapeake Operating P.O. Box 548806 Oklahoma City, OK 73154-8806

CLIENT INFO
Cecil

ITEM	DESCRIPTION	QTY	RATE	AMOUNT
	Survey the K F 4 State #1 well location in Sec. 4, T-21-S, R-35-E, Lea Co., NM			
Crew Time	Field Survey	4	80.00	320.00T
Mileage	Travel for crew	30	0.50	15.00T
Drafting	Draftsman	3	50.00	150.00T
GPS	GPS	3	50.00	150.00T
	NM sales tax		5.375%	34.13

We appreciate your business!! Thank you.	Total <i>Chesapeake</i> \$669.13 7382
--	---

THIS IS NOT AN INVOICE
SUNBELT OILFIELD SUPPLY, INC.

TX-7529

2301 S. Ote
P.O. Box 82488 / Oklahoma City, OK 73148
Phone (405) 632-3444 Fax (405) 632-1471
fax 4-27

04/19/05
DATE _____

SOLD TO: **Chesapeake Operating**

SHIP TO: **K F State 4 #1
County, NM**

CUSTOMER'S ORDER NO.	OUR ORDER NO.	DATE SHIPPED	SHIPPED VIA Sunbelt	COLLECT	PREPAID	TERMS	SALESMAN Joe
ITEM NUMBER	QUANTITY	DESCRIPTION			PRICE	DISC	NET PRICE
1	1	Casing Head, FIP, C-22, 13-5/8" 3M x 13-3/8" SOW w/2" LPO MRC# SBT-1156-29 (N)					2175.00
2	1	Bull Plug, 2" LP XXH, solid					14.95
3	1	Nipple, 2" LP XXH, 6" long					15.03
4	1	Ball Valve, AOP, 2" LP 2M					91.85
5	1	Ring Gasket, R-57, C/S					36.26
Sub Total							2333.09

DELIVERY TICKET

RECEIVED BY *Johnny R. Stone* DATE RECEIVED _____

RAT HOLE
 MOUSE HOLE
 SURFACE HOLE
 FOUNDATION HOLE

Abbott Bros. Rat Hole Service Co.

Division of ABBOTT BROS. COMPANY

P.O. BOX 305
 HOBBS, NEW MEXICO 88241-0305

W. C. and P. L. & P. D.
 INSURANCE

PHONE: (505) 393-8228

OR: (800) 781-8228

FAX: (505) 397-4814

FED. ID # 85-0181951

Chesapeake Production
 PO Box 548806
 Oklahoma City OK 73154-8806

Rig No. Patterson #504
 State NY-Joe

INVOICE No 16194
 Date 4/22/05
 Acct # 175
 Lease KP State 4 #1
 Ordered By Johnny

Drill rat & mouse holes
 38"x24" conductor hole @ 31.00/ft.
 Rig time - 7 hrs @ 150.00/hr.
 42"x20" conductor pipe @ 46.00/ft.
 Set, level and cement conductor pipe
 3.75 yds Mallach #64940
 Mileage - 64 ml @ 2.50/ml
 Delivering pipe to location - 32 ml @ 3.00/ml.

Vendor # 20150000 A: Y (N)

QTY	UNIT	SYD DATE	AMOUNT	TAX	DIST
233400	8191029				

REC'D MAY 09 2005 ACCTS PAY

Jessc. Drill rat / mouse hole
 Issc. _____
 Preparer: RM Reviewer: _____

ITEM NO	DESCRIPTION	QTY	UNIT	PRICE	TOTAL
148532	KF 4 5404 #1	330	lbs		1178.00
	EXPENSE W/O				1050.00
	PARA				1932.00
	SURFACE RIG				150.00
	DOWNHOLE RIG				315.00
					160.00
					96.00

Total Invoice Amount 5,681.00
 Sales Tax 305.36
5,986.35

B & L EQUIPMENT, INC.

No. 42135

Delivery Ticket

10915 MCR 140
P.O. BOX 80478 • MIDLAND, TEXAS 79711-0478
1-800-563-1330

Your Order No.

SOLD TO CHESAPEAKE

DATE APRIL 25, 2005

ADDRESS _____

CITY _____

LOCATION KF STATE 4 # 1

RIG NO. PATTERSON # 504

Quantity	Description of Material	Unit	Amount
28,800	SQUARE FEET OF 12 MIL WOVEN USED TO LINE RESERVE PIT.	.18	5184 00
7200	SQUARE FEET OF 20 MIL WOVEN USED TO APRON RESERVE PIT.	.25	1800 00
500	LINEAR FEET, LABOR AND MATERIALS TO RESERVE RESERVE PIT.	1 50	750 00
			<u>4934 00</u>
			5% TAX
			386 70
			TOTAL
			<u>\$ 5120 70</u>

Received by

[Signature]

DATE 4-25-05

A & B TRANSPORT, INC.

TRUCK #40

P.O. DRAWER 1265
JAL, NEW MEXICO 88252

TIME OUT _____ TIME IN _____

505-396-3502

TICKET
No 74026

HAULED FOR Chesapeake

MATERIAL HAULED	FROM	TO	HOURS	AMOUNT
1308885 B/W	ATB B. in station	K.F. 4 5th St		
<u>Port a Pit liner</u>				
			\$2.17	
			1.50	288.10
				TAX 18.87
				TOTAL 300.97

HELPER _____
DRIVER [Signature]

RECEIVED BY [Signature]
A.F.F. 1810522

Superior Piling Service, Inc.

DATE 4-25-05
 TRUCK 407
 TIME OUT _____ TIME IN _____

A & B TRANSPORT, INC.
 P.O. DRAWER 1265
 JAL, NEW MEXICO 88252
 505-986-3502

TICKET
 No **75182**

HAULED FOR ChesaPeake

MATERIAL HAULED	FROM	TO	HOURS	AMOUNT
<u>Bobbi's %</u>	<u>Beary 12/3</u>	<u>K.F. 4 State #1</u>		
			<u>130</u>	<u>191.10</u>
				<u>\$1.47</u>
				<u>TAX 18.78</u>
				<u>TOTAL 803.88</u>

HELPER Richard Smith
 DRIVER Richard Smith

RECEIVED BY AFB 140588
Richard Smith

P & D PETROLEUM, INC.
 602 TATUM HIGHWAY
 LOVINGTON NM 88260

Phone : (505) 396-4822

Fax : (505) 396-6276

INVOICE

Date : 04/25/05
 Due Date: 05/25/05

No. : 66959
 Page: 1

CHESAPEAKE OPERATING, INC.
 ATT; ACCT. PAYABLE
 P O BOX 548806
 OKLAHOMA CITY OK 73154-8806

Ship To/Remarks
 KF 4 STATE #1
 WATER WELL-600-0-2637
 BOOSTER-700-244759

Via	FOB	Terms	Your#	Our#	Rep.
		0/ 0/ N30		27838	HH
Description	Item Number	Ordered Measure	Shipped Backordered	Unit Price Discount %	Extended
PROPANE - LPG		0.0	1300.0	1.4900	1937.00

Vendor	Invoice #	Invoice Date	Invoice Amt	Due Date	Payment Amt	Balance Amt
3006	1088	04/25	1937.00	05/25		1937.00

HB

REC'D JUN 11 11:44 AM ACCTS PAY

CHESAPEAKE OPERATING	Propane
AGE-LOE	
DRILLING <input type="checkbox"/>	ART LIFT <input type="checkbox"/>
C&P W/O <input type="checkbox"/>	EXPENSE W/O <input type="checkbox"/>
FACILITIES <input type="checkbox"/>	P&A <input type="checkbox"/>
OPERATING EXP <input type="checkbox"/>	SURFACE R&M <input type="checkbox"/>
	DOWNHOLE R&M <input type="checkbox"/>
AGE NO <u>140527</u>	
WELL <u>KF 4 State #1</u>	
LINE ITEM <u>233-409</u>	
FOREMAN <u>[Signature]</u>	DATE <u>4/16/05</u>
SUPT _____	DATE _____
MGR _____	DATE _____

PAST DUE BALANCES WILL BE CHARGED INTEREST OF 1.5% PER MONTH.

"THANK YOU FOR YOUR BUSINESS....."

Sub-Total : 1937.00
 TAX : 128.33
 TOTAL : 2065.33

Net To Pay: 2065.33

Mark Lauer

From: Rita Buress
Sent: Tuesday, April 26, 2005 2:40 PM
To: Mark Lauer
Subject: FW: Chesapeake's KF St. -4- #1

Mark,

Please call me back about this. I've reviewed the files and talked to our attorneys and we'd like to go ahead here.

Rita

From: Leo Gallegos
Sent: Tuesday, April 26, 2005 1:57 PM
To: Rita Buress; Tim Reece
Cc: Marlin Garrett
Subject: Chesapeake's KF St. -4- #1

Floyd Steed, our foreman in the Osudo area, inspected the subject location today and reported that the location is built, reserve pit is built and being filled w/ water, conductor pipe is set. It looks like they can move a rig in anytime. He checked the sheet on the well stake to make sure it is the well we are talking about.

It looks like we need to hurry and get some sort of injunction against Cheseapeake.

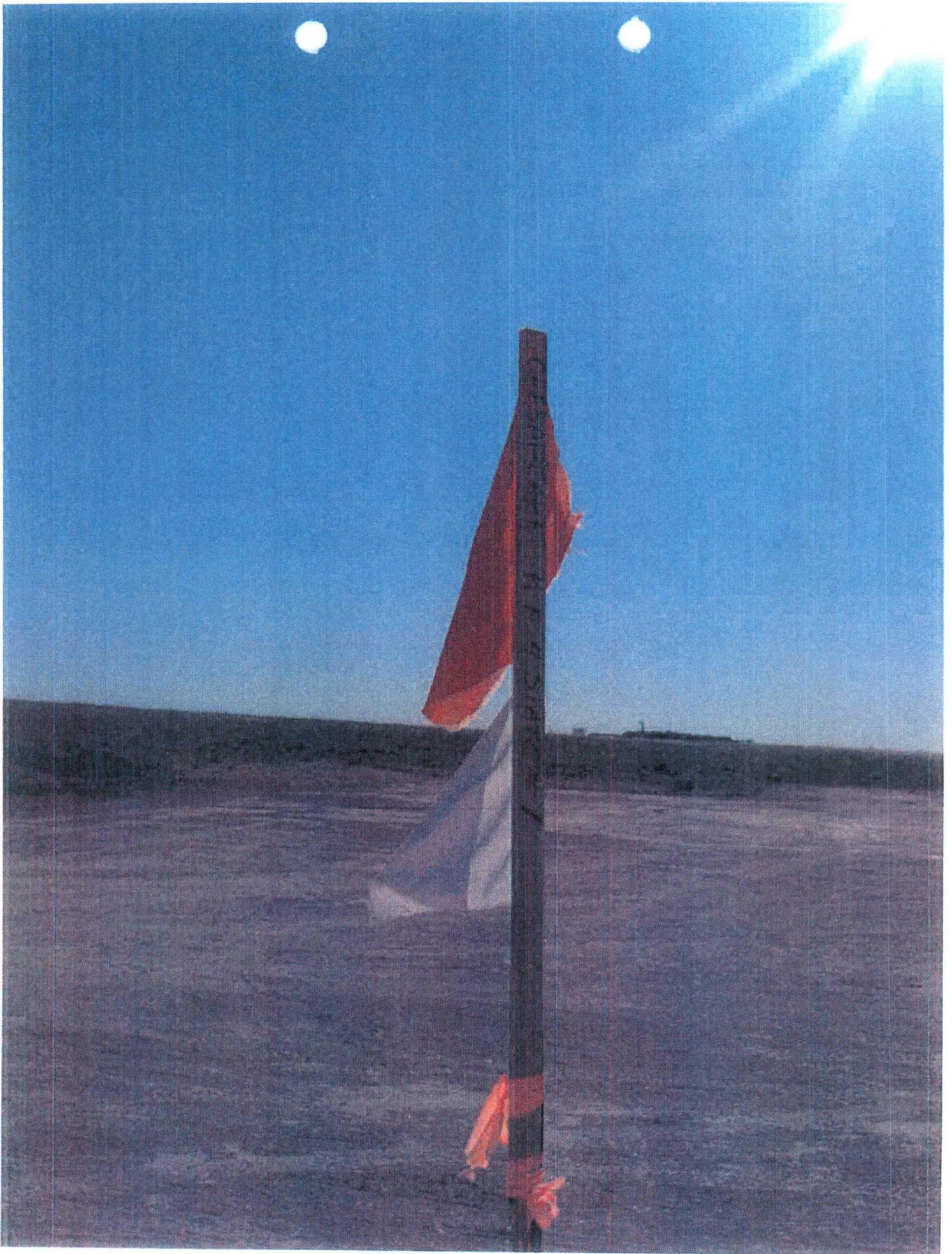
Leo Gallegos
Samson Resources

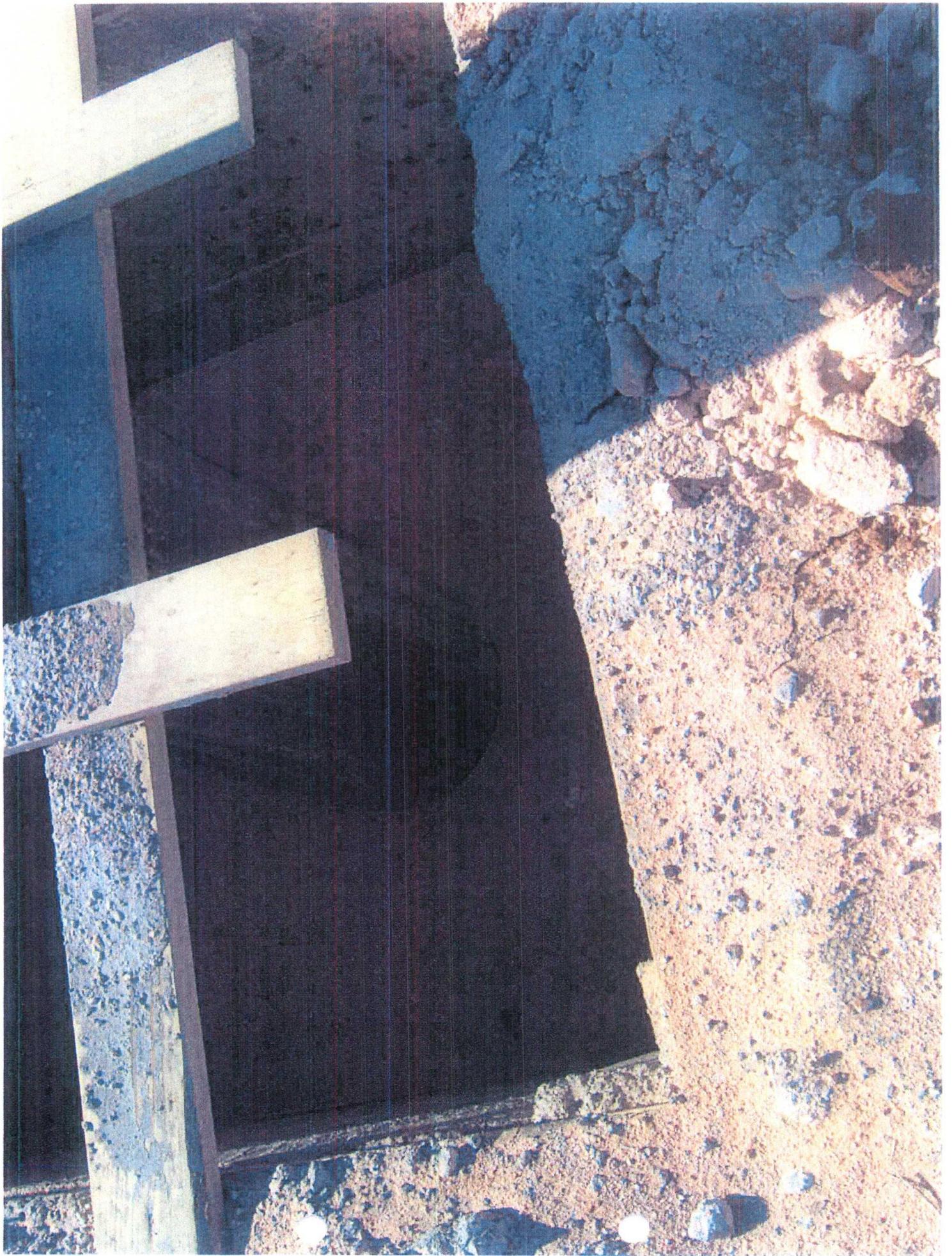
Office (432) 686-6309
Cell (432) 661-6868
Home (432) 684-6149

Samson Exhibit 160
NMOCD Case Nos. 13492/13493
Submitted 8/10/06

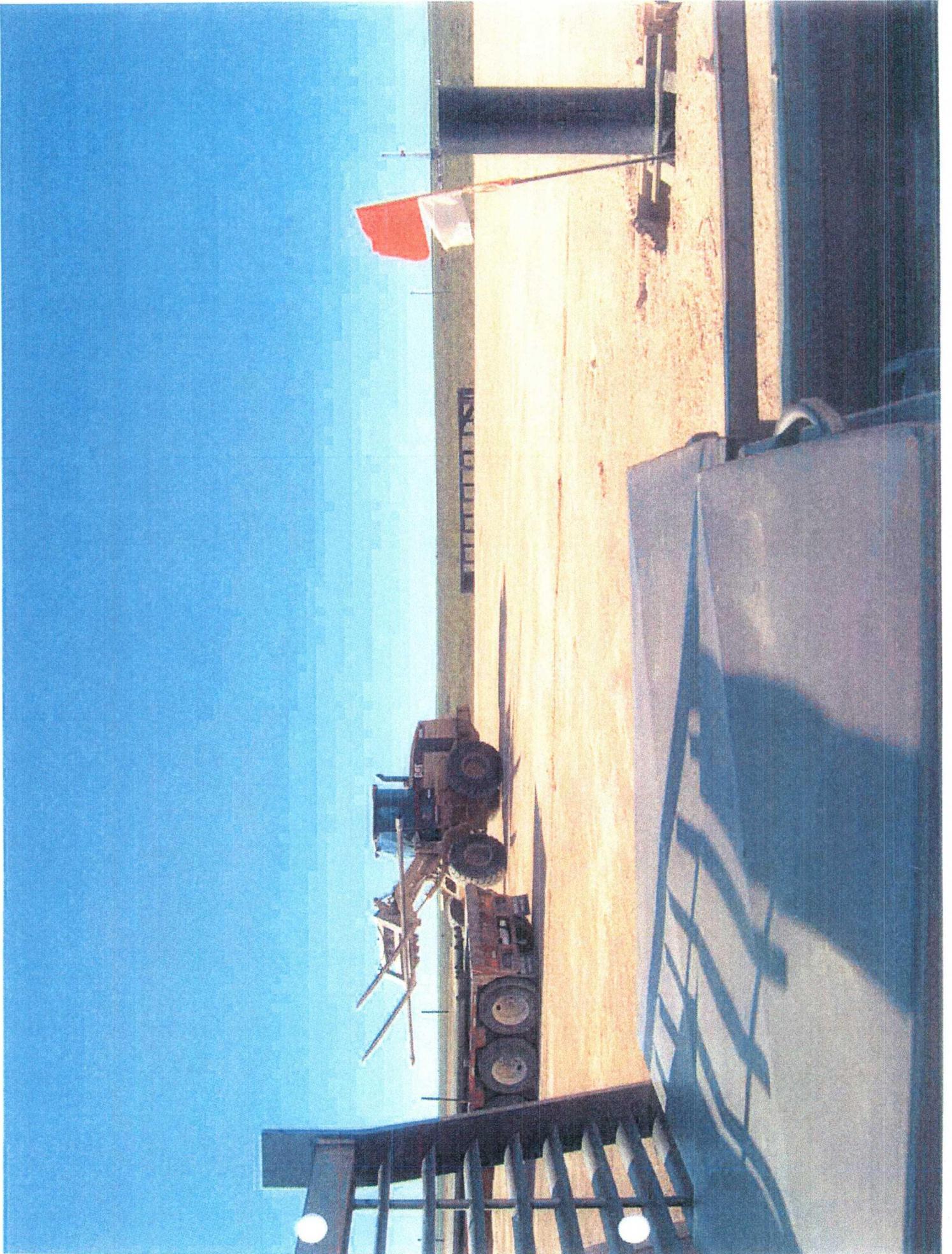
4/26/2005

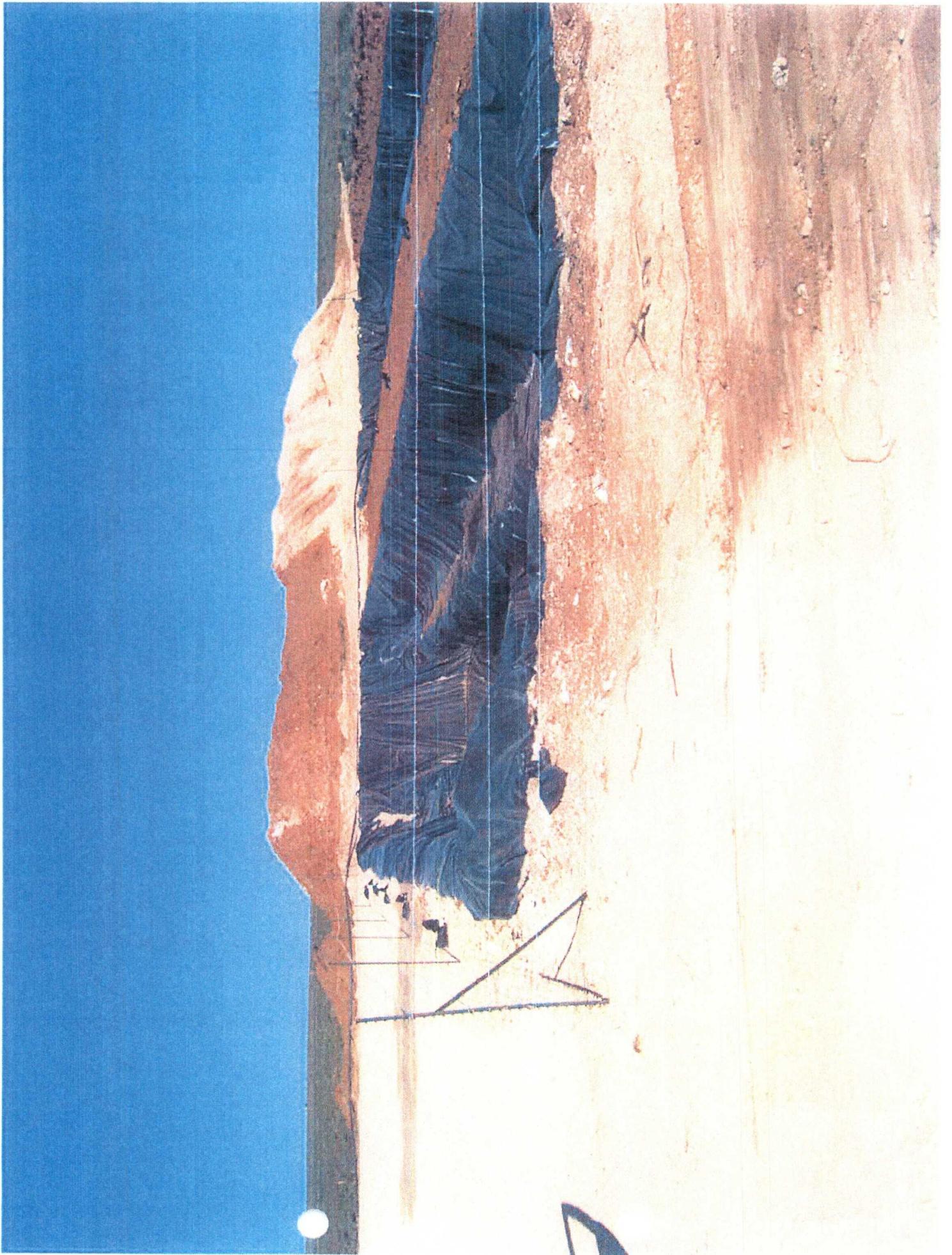














-----Original Message-----

From: Mike Hazlip

Sent: Thursday, April 14, 2005 8:35 AM

To: Tom Ward

Subject: Kaiser Francis and our KF 4 State #1 well, Section 4-21S-35E, Lea County, New Mexico

Tom, just thought you should be made aware of a situation in Lea County where Kaiser Francis, Samson and Mewbourne are involved. The captioned section is an elongated correction section and Chesapeake has an interest in what would be plat units A through H and T, S, U and V. We have wells staked and permitted in a laydown 320 on plat units Q, R, S, T, U, V, W and X. We also have wells staked and permitted on standup 320s in plat units A, B, G, H, J, I, O and P and on plat units C, D, E, F, L, K, M and N.

Chesapeake proposed the KF 4 State #1 well 660' FSL & 990' FEL on the unit platted Q through X (the laydown 320) to Kaiser-Francis who would have a 43.75% working interest in the proposed unit and to Samson who would have a 6.25% interest. When Lynda called Kaiser-Francis to discuss their election, Kaiser told her that Mewbourne had proposed a well in a standup 320 consisting of I, J, O, P, R, Q, W and X. Their well was not permitted but they obviously intend to hook up with Mewbourne and do battle with us here.

A well desperately needs to be drilled here quickly as Mewbourne's Osudo 9 State Com #1 well (in which we own 50%), located directly south of our proposed KF 4 State #1 well, is producing 252 BO and 16.95 MMCFG @ 2100# FTP. It seems odd to me that Kaiser would take the position that they have here because all this will do is delay an offsetting well from getting drilled and that is primarily at the expense of Kaiser-Francis since we and Mewbourne are already in that well 50/50. I guess Mewbourne gains from having Kaiser hook up with them so that we have to go to pooling at the NMOCD in order to get this well drilled, which delays us considerably. I understand why Mewbourne is pulling this delay tactic, but I don't understand why Kaiser-Francis would slit their own throat here in order to do a favor for Mewbourne. Their landman said that they owed Mewbourne a favor, but seems odd they would sacrifice their own offset interest to do Mewbourne a favor.

We should prevail in a fight for the unit and for operations because we first filed the permit in the unit and we have standing to do so. I'll be surprised if we lose this one, but we are being delayed by K-F and Mewbourne and with the delay, we and Kaiser Francis both lose production.

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BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
EXHIBIT No. H-1
CASE 13497