

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

NMOCD – ACO- 269

IN THE MATTER OF GIANT OPERATING LLC,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act") and OCD Rule 19.15.5.10(E) NMAC, the Director of the Oil Conservation Division ("OCD") and Giant Operating LLC ("Giant" or "Operator") enter into this Agreed Compliance Order ("Order").

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Giant is a limited liability company doing business in the state of New Mexico.
3. On September 28, 2009, the Securities and Exchange Commission (the "SEC") initiated a lawsuit titled SEC v. George Wesley Harris, Giant, et. al. 3:09-CV-1809-B in the United States District Court for the Northern District of Texas, Dallas Division (the "Federal Court") and, in connection therewith, requested the appointment of a Receiver for Giant.
4. The following day, the Federal Court entered an Order Appointing Receiver and named Karen L. Cook as the Receiver for Giant.
5. After the appointment of the Receiver, Giant became operator of record of the following wells in New Mexico:

Property	Well Name	Lease Type	ULSTR	OCD UL	API	Well Type	Last Prod/Inj
307220	GIANT SUPERIOR STATE #001	S	H-8 -25S-30E	H	30-015-37077	O	
307213	GULF FEDERAL #003	F	C-13-26S-29E	C	30-015-25265	O	3/2007
307214	HANAGAN STATE #001	S	G-8 -25S-30E	G	30-015-04746	O	5/2010
307215	MALAGA UNIT #001	P	F-7 -24S-29E	F	30-015-03701	O	10/2005
	MALAGA UNIT #002	P	4-7 -24S-29E	M	30-015-03702	I	10/2005
	MALAGA UNIT #002	F	G-7 -24S-29E	G	30-015-03699	O	10/2005
	MALAGA UNIT #003	P	K-7 -24S-29E	K	30-015-03695	O	5/2010
307216	R AND B FEDERAL #001Y	F	D-17-25S-30E	D	30-015-04753	O	3/2007
307217	SUPERIOR STATE #001	S	H-8 -25S-30E	H	30-015-04745	O	5/2010
	SUPERIOR STATE #002	S	I-8 -25S-30E	I	30-015-10181	O	5/2010

6. The prior operator of record for the Giant Superior State #1 well was Carter County Operating, LLC, OGRID 262436 ("Carter County"), who operated the well as a contract operator for Giant. According to the Application for Permission to Drill ("APD") in the well file for the Giant Superior Well, Carter County received approval to drill the well on May 20, 2009. According to Giant, the well has been drilled and has produced. At the time Giant became operator of record for the well, the well file did not contain the completion report, logs, a deviation survey, a request for allowable and authorization to transport, or any sundries reporting the completed work on the well. OCD records showed no production reports for the well.
7. The prior operator of record for the remaining wells was Calvin F. Tennison, OGRID 3604. Carter County operated the wells for some time as a contract operator for Giant without becoming operator of record for the wells. The Tennison wells are subject to compliance Order R-13003, issued in Case No. 14137 on October 8, 2008. The order found Mr. Tennison to be in violation of OCD rules on financial assurances, production reporting, and well inactivity, and found two unregistered pits on the location of the Hanagan State #1 well with hydrocarbon contamination, in violation of the pit rule (19.15.17 NMAC). Order R-13003 required Mr. Tennison to return the wells to compliance by January 1, 2009, and authorized the OCD to plug the wells if Mr. Tennison failed to meet that deadline. At the time Giant became operator of record of the Tennison wells, the wells remained out of compliance.

8. As an operator of between 4 and 100 wells, for Giant to be in compliance with 19.15.5.9 NMAC ("Part 5.9") it may have no more than 2 wells out of compliance with the inactive well rule (19.15.25.8 NMAC) that are not subject to an agreed compliance order setting a schedule for bringing the wells into compliance with the inactive well rule and imposing sanctions if the schedule is not met. See 19.15.5.9.A(4)(b) NMAC.
9. The inactive well rule requires an operator to either properly plug and abandon a well or place the well in approved temporary abandonment status within 90 days after a period of one year in which a well has been continuously inactive. 19.15.25.8(B)(3) NMAC.
10. According to the inactive well list kept pursuant to Part 5.9, the following 5 wells operated by Giant are currently out of compliance with the inactive well rule because they are not plugged or on approved temporary abandonment status, and they have been continuously inactive for a period in excess of one year plus 90 days:

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	TA Exp Date
2	30-015-25265	GULF FEDERAL #003	C-13-26S-29E	C	271769	GIANT OPERATING LLC	F	O	03/2007			
2	30-015-03701	MALAGA UNIT #001	F-7 -24S-29E	F	271769	GIANT OPERATING LLC	P	O	10/2005			
2	30-015-03702	MALAGA UNIT #002	4-7 -24S-29E	M	271769	GIANT OPERATING LLC	P	I	10/2005			
2	30-015-03699	MALAGA UNIT #002	G-7 -24S-29E	G	271769	GIANT OPERATING LLC	F	O	10/2005			
2	30-015-04753	R AND B FEDERAL #001Y	D-17-25S-30E	D	271769	GIANT OPERATING LLC	F	O	03/2007			

11. When an operator is out of compliance with Part 5.9, the OCD may deny an application from that operator to become operator of record for additional wells (see 19.15.9.9.C NMAC); may deny an application for a permit to drill (see 19.15.14.10.A NMAC); must deny an application for injection permit (see 19.15.26.8.A NMAC); and must deny a request for allowable and authorization to transport (see 19.15.16.19 NMAC).
12. Giant has made some of the regulatory filings required to return the Superior State #1 to compliance, and has requested an allowable and authorization to transport so the well can be produced in compliance with OCD rules.
13. The OCD has denied Giant's request for an allowable for the Superior State #1 because Giant is out of compliance with Part 5.9.

14. Giant has or may in the future apply for an injection permit for the Malaga Unit #002. If Giant is out of compliance with Part 5.9 at that time, the OCD must deny the injection permit.
15. Giant has returned four of the Tonnison wells to compliance with the inactive well rule by returning them to production, and has begun work to remediate the site of the Hanagan State #001.
16. On July 20, 2010, the Bureau of Land Management (BLM) approved a notice of intent to plug the Gulf Federal #3 well filed by "Giant Operating LLC c/o Chevron USA Inc." Chevron is the federal lessee of the property. The BLM granted the notice of intent with conditions, including the condition that plugging operations commence within 90 days and that if the operator is unable to plug the well by the 90th day, the operator is to provide the BLM with the reason for not meeting that deadline and a date when BLM can expect the well to be plugged.
17. Giant is currently engaged in further discussions with the BLM and Chevron USA Inc. regarding the actions to be taken with regard to the Gulf Federal #3 well. Giant proposes to return the well to production or transfer it to another operator.

CONCLUSIONS

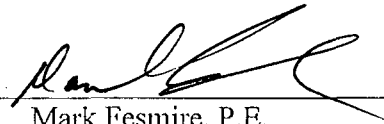
1. The OCD is the state entity responsible for issuing allowables and authorizations to transport, and is the state entity responsible for issuing injection permits.
2. Giant needs an allowable and authorization to transport for the Giant Superior State #1 well in order to put the well into production.
3. Pursuant to 19.15.16.19 NMAC, the OCD may not issue an allowable and authorization to transport to Giant if Giant is out of compliance with Part 5.9.
4. Giant needs an injection permit in order to return the Malaga Unit #002 to injection.
5. Pursuant to 19.15.26.8.A NMAC, the OCD shall issue a permit for injection only to an operator who is in compliance with Part 5.9.
4. Giant is out of compliance with Part 5.9 because it operates more than two wells that are out of compliance with the inactive well rule that are not subject to an agreed compliance order setting a schedule for returning the wells to compliance and imposing a sanction if that schedule is not met.
5. The OCD and Giant enter into this Order to set a schedule for returning inactive wells to compliance and imposing a sanction if that schedule is not met, so that Giant can obtain an allowable and authorization to transport for the Giant Superior State #1, and may seek an injection permit for the Malaga Unit #002.

ORDER

1. By December 31, 2010, Giant shall transfer the Gulf Federal #003 well to another operator of record with the OCD through the process set out in 19.15.9.9 NMAC or return the well to compliance with 19.15.25.8 NMAC by performing one of the following actions:
 - Returning the well to production and providing the OCD with documentation demonstrating production;
 - Placing the well on approved temporary abandonment status, and providing the OCD with a copy of the federal sundry indicating that the BLM has placed the well on approved temporary abandonment status; or
 - Plugging the wellbore of the well and providing the OCD with a federal sundry "accepted for record" by the BLM reporting that the wellbore has been plugged.
2. Execution of this Order will not remove inactive wells from the inactive well list kept pursuant to 19.15.5.9 NMAC. However, until December 31, 2010, the OCD will consider the wells covered by this order as subject to an inactive well agreed compliance order solely for the purpose of allowing Giant to apply for an allowable and authorization to transport for the ^{Perm} Superior State #001 and allowing Giant to seek authority to inject into the Malaga Unit #002. *9/11/11* **Giant should provide a copy of this order to the appropriate district office with its application for the allowable and authorization to transport and should provide a copy of this order to the engineering bureau to support its application for an injection permit for the Malaga Unit #002.**
3. If Giant transfers operations of the Gulf Federal #003 well to another operator of record with the OCD pursuant to 19.15.9.9 NMAC or returns the well to compliance with 19.15.25.8 NMAC by December 31, 2010, the OCD shall amend this Order to provide that the OCD will consider the wells covered by this Order as subject to an inactive well agreed compliance order until December 31, 2011 solely for the purpose of allowing Giant to apply for a permit allowing Giant to seek authority to inject into the Malaga Unit #002.
4. If Giant fails to transfer operations of the Gulf Federal #003 well to another operator of record with the OCD pursuant to 19.15.9.9 NMAC or return the well to compliance with 19.15.25.8 NMAC by December 31, 2010, the OCD shall not enter into any further agreements to allow Giant to obtain allowable and authorizations to transport, or injection permits, while Giant remains in violation of Part 5.9.
4. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order; and

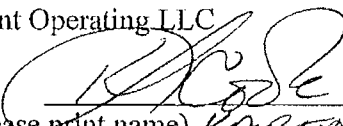
- (b) waives any right, pursuant to the Oil and Gas Act or otherwise, to an appeal from this Order, or to a hearing either prior to or subsequent to the entry of this Order.
5. The OCD reserves the right under the Oil and Gas Act and the rules issued pursuant to that Act to file an application for hearing to obtain authority to plug any well and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

Done at Santa Fe, New Mexico this 24th day of August 2010.

By: 
2 Mark Fesmire, P.E.
Acting Director, Oil Conservation
Division

ACCEPTANCE

Giant Operating LLC hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Giant Operating LLC
By: 
(Please print name) KAREN COOK
Title: Receiver
Date: 9/24/10