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SETTLEMENT AGREEMENT

This agreement is entered into between and among the OIL CONSERVATION Division DIVISION of the NEW MEXICO ENERGY MINERALS AND NATURAL RESOURCES DEPARTMENT ("OCD"), CHAPARRAL ENERGY, L.L.C. ("Chaparral") and SMITH & MARRS, INC. ("Smith & Marrs").

WHEREAS:

1. In January of 1999, OCD began an investigation of salt contamination of soils from a produced-water-line leak within the South Langlie Jal Unit, located in Sections 7, 8, 17 and 18, Township 25 South, Range 37 East, Lea County, New Mexico. The surface owner, Mr. Clay Osborn, reported that the drinking water well at his residence was contaminated with salts. Additional soil and ground water contamination investigations were conducted through March 20, 2000. As a result of these investigations, OCD developed evidence that it believes indicates the presence of contamination that most likely originated from operations in the South Langlie Jal Unit.

2. Bristol Resources Corporation (Bristol) was the operator of the South Langlie Jal Unit when the investigations commenced in 1999. Pursuant to OCD Rule 19.C, on August 2, 2000, the OCD required that Bristol submit an "Abatement Plan" for the South Langlie Jal Unit to investigate and abate ground water pollution.

3. On September 15, 2000, Chaparral purchased Bristol's assets at a bankruptcy auction and assumed operation of the South Langlie Jal Unit. On October 31, 2000, the OCD notified Chaparral that, as the current operator, Chaparral was required to submit an "Abatement Plan" for the South Langlie Jal Unit to investigate and abate ground water pollution.

4. Chaparral submitted a Stage 1 Abatement Plan Proposal pursuant to OCD's notification, and subsequently modified and supplemented the same to comply with additional OCD requirements. On April 25, 2002, OCD administratively approved the Stage 1 Abatement Plan Proposal. At Chaparral's request, in order to allow Chaparral time to negotiate access to conduct the required investigations, OCD issued an extension of the deadline for submission of the Stage 1 Investigation Report from July 31, 2002 to October 31, 2002. Chaparral did not submit the Stage 1 Investigation Report prior to October 31, 2002, nor subsequently.

6. On November 7, 2002, Chaparral notified the OCD that the South Langlie Jal Unit had been sold to Ricky Smith Oil & Gas Corporation. The unit was actually conveyed to Smith & Marrs, which is an affiliate of Ricky Smith Oil & Gas Corporation, and Smith & Marrs assumed operation of the unit. On January 13, 2003, OCD notified both Chaparral and Smith & Marrs to submit a Stage 1 Investigation Report by February

17, 2003. Neither Chaparral nor Smith & Marrs complied within such time or subsequently.

7. On March 20, 2003, OCD filed its administrative application in Case No. 13061, citing both Chaparral and Smith & Marrs, asking that either or both be found to be responsible parties with respect to pollution found to have originated from the South Langlie Jal Unit, and seeking civil penalties against both Chaparral and Smith & Marrs, Inc., for failure to file a Stage 1 Investigation Report pursuant to the previously-approved Abatement Plan.

8. Following several continuances, a hearing was scheduled on OCD's administrative application before a Division Hearing Examiner on July 15, 2003. Prior to commencement of the hearing, the parties agreed to compromise and settle the matters at issue in the hearing upon the following terms and provisions.

IT IS THEREFORE NOW AGREED AS FOLLOWS:

A. All parties have entered into this compromise and settlement agreement solely for the purpose of avoiding further adversarial proceedings or litigation. Chaparral and Smith & Marrs do not admit, but rather each expressly denies, that any action or omission on its part caused any pollution that may have resulted from operations on the South Langlie Jal Unit, if any did so result, which neither admits. OCD reserves the right, in the event of any future adversarial proceedings, to assert any claim or position that it could have asserted at the hearing on July 15, 2003, and Chaparral and Smith & Marrs each reserve the right, in the event of any future adversarial proceedings, to assert any defense that either could have asserted on July 15, 2003, except that each agrees to perform the obligations which it expressly undertakes in this agreement.

B. Smith & Marrs agrees to fully perform the approved Stage 1 Abatement Plan as submitted by Chaparral and approved by OCD, and to file the Stage 1 Investigative Report not later than ninety (90) days after the execution of this Agreement by the last party to execute same.

C. Smith & Marrs shall make a good faith effort to negotiate an access agreement with the surface landowner(s) as necessary for implementation of the Stage 1 Abatement Plan. In the event that Smith & Marrs is unable to obtain an access agreement from the surface owner(s) and institutes legal proceedings to secure an injunction authorizing such access for the purpose of performing the Stage 1 Abatement Plan, Smith & Marrs will notify OCD of such filing and of the date, time and place of any hearing. OCD will use its best efforts to have a representative available at the hearing to explain to the court, if necessary or requested, the nature of the administrative proceedings conducted by OCD in this matter.

D. In the event that the Stage 1 investigation reveals the existence of contamination of which the South Langlie Jal Unit is determined to be the probable source, Smith & Marrs will submit a Stage 2 Abatement Plan as is required of a


responsible party under OCD Rule 19 [19.15.1.19 NMAC], and upon approval thereof, will fully perform such abatement plan, including any conditions imposed thereon by OCD. Smith & Marrs reserves the right to contest any such conditions by administrative process and appeals allowed therefrom, but will perform the plan as finally approved.

E. OCD will not look to Chaparral for further filings or performance in connection with either the Stage 1 Abatement Plan or any future Stage 2 Abatement Plan regarding the contamination that is the subject of Case No. 13061, unless, and except to the extent that, Smith & Marrs fails to perform its obligations hereunder. Prior to demanding performance hereunder from Chaparral, OCD will issue a notice of violation, and secure a compliance order directed to Smith & Marrs, after notice and hearing.


F. Case No. 13061 will be dismissed without prejudice. However, OCD will not, in any future proceeding, seek any civil penalties against either Chaparral or Smith & Marrs for any act or omission of either with respect to the subject matter of its application in Case No. 13061, that occurred prior to July 15, 2003. OCD reserves the right to seek civil penalties against Smith & Marrs for any breach of this Agreement. OCD will not seek civil penalties against Chaparral in connection with any matter that was the subject of Case No. 13061 unless OCD has first notified Chaparral that Smith & Marrs has failed to perform hereunder and demanded performance by Chaparral within a definite time after such notice. Penalties may thereafter be sought against Chaparral if Chaparral fails to comply with such demand within the time provided.

IN WITNESS WHEREOF, all parties have signed below on the respective dates shown beside their signatures. The effective date of this agreement shall be the date of the last signature.


NEW MEXICO ENERGY MINERALS
AND NATURAL RESOURCES DEPARTMENT
(Oil Conservation Division)

By 
Its ADMINISTRATIVE SERVICES DIRECTOR
Date 11/17/03

CHAPARRAL ENERGY, L.L.C.

By 
Its Sylvia P. Smith - General Counsel
Date 10-27-03

SMITH & MARRS, INC.

By 
Its President
Date 11-3-03