

Cimarex Energy Co.
5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



VIA CERTIFIED MAIL

February 15, 2006

Wadi Petroleum, Inc.
14405 Walters Rd., Suite 400
Houston, Texas 77014

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

Gentlemen:

Cimarex Energy Co. proposes to drill a 12,750' Atoka test at an approximate location 1250' FNL & 660' FEL of Section 8-15S-36E, Lea County, New Mexico. Enclosed is our detailed AFE reflecting estimated well costs.

If you intend to participate, please let me know as soon as possible, and I will send a joint operating agreement for your review and execution. If you do not wish to participate, we respectfully request your consideration of either option listed below:

1. Grant a Term Assignment to Cimarex for \$350/acre, with a one-year term, delivering an 80% net revenue interest, proportionately reduced; or
2. Grant a Farmout to Cimarex, with a one-year term, delivering a 75% net revenue interest, proportionately reduced.

Please contact me at your earliest convenience regarding your decision. My direct line is 972-443-6452.

Very truly yours,

CIMAREX ENERGY CO.

Anthony J. Cervi
Landman
Permian Basin Region

Enclosure

OIL CONSERVATION DIVISION
CASE NUMBER
EXHIBIT NUMBER 3

Cimarex Energy Co.
5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



VIA CERTIFIED MAIL

February 15, 2006

Pear Resources
P.O. Box 11044
Midland, Texas 79702

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

Gentlemen:

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Anthony J. Cervi
Landman
Permian Basin Region

Enclosure

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5215 N. O'Connor Blvd.
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VIA CERTIFIED MAIL

February 15, 2006

M. Wayne Luna
110 N. Marienfeld St., Suite 580
Midland, Texas 79701

**Re: Caudill West 8 Fee # 2
N $\frac{1}{2}$ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

Gentlemen:

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5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
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VIA CERTIFIED MAIL

February 15, 2006

J.M. Gahr
110 N. Marienfeld St., Suite 580
Midland, Texas 79701

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

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Anthony J. Cervi
Landman
Permian Basin Region

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5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



VIA CERTIFIED MAIL

February 15, 2006

Sandra K. Lawlis
110 N. Marienfeld St., Suite 580
Midland, Texas 79701

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

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5215 N. O'Connor Blvd.
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Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



VIA CERTIFIED MAIL

February 15, 2006

Posse Petroleum, Ltd.
100 N. Central Expressway, Suite 1204
Richardson, Texas 75080

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

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5215 N. O'Connor Blvd.
Suite 1500
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VIA CERTIFIED MAIL

February 15, 2006

Atahualpa Investments, N.V.
100 N. Central Expressway, Suite 1204
Richardson, Texas 75080

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

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Anthony J. Cervi
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5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
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FAX 972.401.3110



VIA CERTIFIED MAIL

February 15, 2006

Horsens, Inc.
100 N. Central Expressway, Suite 1204
Richardson, Texas 75080

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

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Anthony J. Cervi
Landman
Permian Basin Region

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5215 N. O'Connor Blvd.
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Irving, Texas 75039
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FAX 972.401.3110



VIA CERTIFIED MAIL

February 15, 2006

Mole Oil and Gas, Inc.
100 N. Central Expressway, Suite 1204
Richardson, Texas 75080

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N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

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Very truly yours,

CIMAREX ENERGY CO.

A handwritten signature in black ink, appearing to read "Anthony J. Cervi". The signature is fluid and cursive, with a prominent loop at the end.

Anthony J. Cervi
Landman
Permian Basin Region

Enclosure

Cimarex Energy Co.
5215 N. O'Connor Blvd.
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Irving, Texas 75039
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VIA CERTIFIED MAIL

February 15, 2006

Unit Petroleum Company
P.O. Box 70255
Tulsa, Oklahoma 74170

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Lea County, New Mexico**

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A handwritten signature in dark ink, appearing to read "Anthony J. Cervi", is written over the company name.

Anthony J. Cervi
Landman
Permian Basin Region

Enclosure

Cimarex Energy Co.
5215 N. O'Connor Blvd.
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VIA CERTIFIED MAIL

February 15, 2006

Chesapeake Energy Corporation
P.O. Box 18496
Oklahoma City, Oklahoma 73154-0496

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

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VIA CERTIFIED MAIL

February 15, 2006

Devon Energy Corporation
20 N. Broadway Avenue
Oklahoma City, Oklahoma 73102-8260

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

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CIMAREX ENERGY CO.

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Anthony J. Cervi
Landman
Permian Basin Region

Enclosure

Pear Resources

P. O. Box 11044
Midland, Texas 79702-8044
(432) 687-4499
Fax (432) 686-8400
Email: Pearresources@att.net

Offices Located At
Suite 449
600 N. Marienfeld

February 23, 2006

Cimarex Energy Co.
Attn: Anthony J. Cervi
5215 N O'Connor Blvd.
Suite 1500
Irving, Texas 75039

Re: Caudill West 8 Fee #2
N/2 Section 8, T15S, R36E
Lea County, New Mexico

Gentlemen:

Enclosed is Pear Resources executed AFE wherein Pear elects to participate in the drilling of the above-referenced well.

In accordance with your February 15, 2006 letter, please forward to Pear Resources a joint operating agreement for review and execution.

Sincerely,



Jo Ann Jackson
Office Manager

/

encl.1



Magnum Hunter Production, Inc. / Gruy Petroleum Management Co.
wholly owned subsidiaries of Cimarex Energy Co.
AUTHORIZATION FOR EXPENDITURE

COMPANY ENTITY Cimarex Energy Co.			DATE PREPARED 08-Feb-06		
REGION S.E. NM	WELL NAME Caudill West 8 Fee	WELL NO 2	PROSPECT OR FIELD NAME Star / Denton	PROPERTY NUMBER 309499-002	DRILLING AFE NO.
LOCATION: 1,650' FNL, 660' FEL, 8-T15S-R36E (same)			COUNTY Lea	STATE NM	TYPE WELL OIL _____ EXPL X GAS _____ PROD _____
ORIGINAL ESTIMATE _____ X		EST. START DATE 15-Apr-06	EST. COMP. DATE 15-Jun-06	FORMATION Atoka	EST. TD (TVD) 12,750'
REVISED ESTIMATE _____					
SUPPLEMENTAL ESTIMATE _____					

PROJECT DESCRIPTION:

Drill and complete Atoka well.

- Estimating 2 Fracture treatments in the Morrow zones.
- No hole problems are anticipated.
- Closed loop mud system.

<u>INTANGIBLES</u>	<u>DRY HOLE COST</u>	<u>AFTER CASING POINT</u>	<u>COMPLETED WELL COST</u>
Intangible Drilling Costs	<u>\$1,878,563</u>		<u>\$1,878,563</u>
Intangible Completion Costs		<u>564,250</u>	<u>564,250</u>
TOTAL INTANGIBLE COSTS	<u>1,878,563</u>	<u>564,250</u>	<u>2,442,813</u>
<u>TANGIBLES</u>			
Well Equipment	<u>178,500</u>	<u>336,500</u>	<u>515,000</u>
Lease Equipment		<u>41,000</u>	<u>41,000</u>
TOTAL TANGIBLE WELL COST	<u>178,500</u>	<u>377,500</u>	<u>556,000</u>
PLUG AND ABANDON COST	<u>75,000</u>	<u>(75,000)</u>	
TOTAL WELL COST:	<u>\$2,132,063</u>	<u>\$866,750</u>	<u>\$2,998,813</u>

Comments on Well Costs:

1. All tubulars, well or lease equipment is priced by COPAS and CEPS guidelines using the Historic Price Multiplier.

WELL CONTROL INSURANCE:

Unless otherwise indicated below, you, as a non-operating working interest owner, agree to be covered by Operator's well control insurance procured by Operator so long as Operator conducts operations hereunder and to pay your prorated share of the premiums therefore. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance acceptable to Operator, as to form and limits, at the time this AFE is returned, if available, but in no event later than commencement of drilling operations. You agree that failure to provide the certificate of insurance, as provided herein, will result in your being covered by insurance procured by Operator.

_____ I elect to purchase my own well control insurance policy.

Well control insurance procured by Operator, provides, among other terms, for \$1,000,000 (100% W.I.) of Combined Single Limit coverage for well control and related redrilling and clean-up/pollution expense covering drilling (through completion) with a \$1,000,000 (100% W.I.) deductible.

Comments on AFE

The above costs are estimates only and anticipate trouble free operations without any foreseeable change in plans. The actual costs may exceed the estimated costs without affecting the authorization for expenditure herein granted. By approval of this AFE, the working interest owner agrees to pay its proportionate share of actual legal, curative, regulatory and well costs under term of the joint operating agreement, regulatory order or other applicable agreement covering this well.

CIMAREX ENERGY CO. APPROVAL		
PREPARED BY Howard L. Miller, Sr. Drilling/Completion Engineer - Permian Basin	DRILLING DEPT. Doug Park, Mgr Drilling/Completion Operations Offshore and Permian Regions	REGIONAL MANAGER Roger Alexander, Regional Manager Permian Basin
PEAR RESOURCES Gardenia Investments, Ltd. General Partner		
INTEREST APPROVAL		
CO BY Nathan E. Byars, President of Gardenia Inc., General Partner of Gardenia Investments, Ltd.	BY 	DATE 2-23-06

**Tony Cervi**

From: Tony Cervi
Sent: Friday, February 24, 2006 10:30 AM
To: Jerry Gahr (vfmid@att.net)
Subject: NE/4 Section 8-15S-36E, Lea County, NM
Attachments: 20060224111941160.pdf

Jerry:

Please find attached an ownership report dated 11/30/04 which covers the E/2 of Section 8. I'm still waiting for Allen Harvey to complete the title opinion covering the NE/4, so I am relying on this takeoff for now. As we discussed, Wadi Petroleum should be sending me a copy of the existing JOA in this area. Hopefully I'll get it early next week so I can begin putting everything together. Since most of the contractual interest in this JOA seems to be V-F and/or its successors, I would appreciate any guidance you could provide.

As we discussed, we plan to spud the Caudill West 8 Fee # 2 sometime around mid-April. We have permitted a location in the NE/4 for a N/2 laydown unit. I think the easiest thing to do would be to amend the existing JOA to exclude the NE/4 of Section 8 and enter into a new JOA covering the N/2. Please let me know if this acceptable and how you and the others would prefer to structure the deal, or if you favor another course of action.

I'll touch base with you next week.

Tony

Anthony J. Cervi
Landman - Permian Basin Region
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, Texas 75039
972.443.6452 (direct)
972.443.6450 (fax)
972.953.5767 (cell)

3/30/2006

Cimarex Energy Co.
5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



VIA FEDERAL EXPRESS

March 10, 2006

Atahualpa Investments, N.V.
Attn: Land Manager
100 N. Central Expressway, Suite 1204
Richardson, Texas 75080

**Re: Caudill West 8 Fee # 2
N¹/₂ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

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Your prompt attention to this matter would be appreciated as we have a rig scheduled to spud this well on or about May 1. If you have any questions, please do not hesitate to contact me. My direct line is 972-443-6452.

Very truly yours,

CIMAREX ENERGY CO.

Anthony J. Cervi
Landman
Permian Basin Region

Enclosures

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VIA FEDERAL EXPRESS

March 10, 2006

Chesapeake Exploration Limited Partnership
Attn: Lynda Townsend
6100 N. Western Ave
Oklahoma City, Oklahoma 73118

**Re: Caudill West 8 Fee # 2
N $\frac{1}{2}$ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

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VIA FEDERAL EXPRESS

March 10, 2006

Compagnie Financiere Suisse, S.A.
51 de Ruyterkade, Williamstad
Curacao, Netherland Antilles

**Re: Caudill West 8 Fee # 2
N $\frac{1}{2}$ Section 8, Township 15 South, Range 36 East
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PHONE 972.401.0752
FAX 972.401.3110



VIA FEDERAL EXPRESS

March 10, 2006

Devon Louisiana Corporation
Attn: Chuck Lundeen
20 N. Broadway Avenue
Oklahoma City, Oklahoma 73102-8260

**Re: Caudill West 8 Fee # 2
N $\frac{1}{2}$ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

Gentlemen:

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1. Grant a Lease or Term Assignment to Cimarex for \$350/acre, with a one-year term, delivering an 80% net revenue interest, proportionately reduced; or
2. Grant a Farmout to Cimarex, with a one-year term, delivering a 75% net revenue interest, proportionately reduced.

Your prompt attention to this matter would be appreciated as we have a rig scheduled to spud this well on or about May 1. If you have any questions, please do not hesitate to contact me. My direct line is 972-443-6452.

Very truly yours,

CIMAREX ENERGY CO.

Anthony J. Cervi
Landman
Permian Basin Region

Enclosures

Cimarex Energy Co.
5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



VIA FEDERAL EXPRESS

March 10, 2006

Gahr Energy Company
110 N. Marienfeld St., Suite 580
Midland, Texas 79701

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

Gentlemen:

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Anthony J. Cervi
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Permian Basin Region

Enclosures

Cimarex Energy Co.

5215 N. O'Connor Blvd.

Suite 1500

Irving, Texas 75039

PHONE 972.401.0752

FAX 972.401.3110



VIA FEDERAL EXPRESS

March 10, 2006

Horsens, Inc.

Attn: Land Manager

100 N. Central Expressway, Suite 1204

Richardson, Texas 75080

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

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Anthony J. Cervi

Landman

Permian Basin Region

Enclosures

Cimarex Energy Co.

5215 N. O'Connor Blvd.

Suite 1500

Irving, Texas 75039

PHONE 972.401.0752

FAX 972.401.3110



VIA FEDERAL EXPRESS

March 10, 2006

M. Wayne Luna
110 N. Marienfeld St., Suite 580
Midland, Texas 79701

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

Gentlemen:

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Anthony J. Cervi
Landman
Permian Basin Region

Enclosures

Cimarex Energy Co.
5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



VIA FEDERAL EXPRESS

March 10, 2006

Pear Resources
110 N. Marienfeld St., Suite 580
Midland, Texas 79701

**Re: Caudill West 8 Fee # 2
N $\frac{1}{2}$ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico**

Gentlemen:

Cimarex Energy Co. proposes to drill a 12,750' Atoka test at an approximate location 1250' FNL & 660' FEL of Section 8-15S-36E, Lea County, New Mexico. If you intend to participate, please execute and return the enclosed Joint Operating Agreement and AFE to the attention of the undersigned as soon as possible. If you do not wish to participate, we respectfully request your consideration of either option listed below:

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Permian Basin Region

Enclosures

Cimarex Energy Co.
5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



VIA FEDERAL EXPRESS

March 10, 2006

Posse Energy, Ltd.
Attn: Land Manager
100 N. Central Expressway, Suite 1204
Richardson, Texas 75080

**Re: Caudill West 8 Fee # 2
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5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



VIA FEDERAL EXPRESS

March 10, 2006

Sandra K. Lawlis
110 N. Marienfeld St., Suite 580
Midland, Texas 79701

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PHONE 972.401.0752
FAX 972.401.3110



VIA FEDERAL EXPRESS

March 10, 2006

Ultramar Production Company
One Valero Way
San Antonio, Texas 78269-6000

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Anthony J. Cervi
Landman
Permian Basin Region

Enclosures

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5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



VIA FEDERAL EXPRESS

March 10, 2006

Unit Petroleum Company
Attn: Fred Schantz
407 N. Big Spring, Suite 101
Midland, Texas 79701

**Re: Caudill West 8 Fee # 2
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5215 N. O'Connor Blvd.
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PHONE 972.401.0752
FAX 972.401.3110



VIA FEDERAL EXPRESS

March 10, 2006

Wadi Petroleum, Inc.
Attn: Judy Farrar
14405 Walters Rd., Suite 400
Houston, Texas 77014

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Anthony J. Cervi
Landman
Permian Basin Region

Enclosures



Magnum Hunter Production, Inc. / Gruy Petroleum Management Co.
wholly owned subsidiaries of Cimarex Energy Co.
AUTHORIZATION FOR EXPENDITURE

COMPANY ENTITY Cimarex Energy Co.				DATE PREPARED 08-Feb-06	
REGION S.E. NM	WELL NAME Caudill West 8 Fee	WELL NO 2	PROSPECT OR FIELD NAME Star / Denton	PROPERTY NUMBER 309499-002	DRILLING AFE NO.
LOCATION: 1,250' FNL, 660' FEL, 8-T15S-R36E (same)			BHL SHL	COUNTY Lea	STATE NM
				OIL GAS	TYPE WELL EXPL X PROD
ORIGINAL ESTIMATE X		EST. START DATE 15-Apr-06		EST. COMP. DATE 15-Jun-06	FORMATION Atoka
REVISED ESTIMATE					EST. TD (TVD) 12,750'
SUPPLEMENTAL ESTIMATE					

PROJECT DESCRIPTION:

Drill and complete Atoka well.

- Estimating 2 Fracture treatments in the Morrow zones.
- No hole problems are anticipated.
- Closed loop mud system.

<u>INTANGIBLES</u>	<u>DRY HOLE COST</u>	<u>AFTER CASING POINT</u>	<u>COMPLETED WELL COST</u>
Intangible Drilling Costs	<u>\$1,878,563</u>		<u>\$1,878,563</u>
Intangible Completion Costs		<u>564,250</u>	<u>564,250</u>
TOTAL INTANGIBLE COSTS	<u>1,878,563</u>	<u>564,250</u>	<u>2,442,813</u>
<u>TANGIBLES</u>			
Well Equipment	<u>178,500</u>	<u>336,500</u>	<u>515,000</u>
Lease Equipment		<u>41,000</u>	<u>41,000</u>
TOTAL TANGIBLE WELL COST	<u>178,500</u>	<u>377,500</u>	<u>556,000</u>
PLUG AND ABANDON COST	<u>75,000</u>	<u>(75,000)</u>	
TOTAL WELL COST:	<u>\$2,132,063</u>	<u>\$866,750</u>	<u>\$2,998,813</u>

Comments on Well Costs:

1. All tubulars, well or lease equipment is priced by COPAS and CEPS guidelines using the Historic Price Multiplier.

WELL CONTROL INSURANCE:

Unless otherwise indicated below, you, as a non-operating working interest owner, agree to be covered by Operator's well control insurance procured by Operator so long as Operator conducts operations hereunder and to pay your prorated share of the premiums therefore. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance acceptable to Operator, as to form and limits, at the time this AFE is returned, if available, but in no event later than commencement of drilling operations. You agree that failure to provide the certificate of insurance, as provided herein, will result in your being covered by insurance procured by Operator.

_____ I elect to purchase my own well control insurance policy.

Well control insurance procured by Operator, provides, among other terms, for \$1,000,000 (100% W.I.) of Combined Single Limit coverage for well control and related redrilling and clean-up/pollution expense covering drilling (through completion) with a \$1,000,000 (100% W.I.) deductible.

Comments on AFE

The above costs are estimates only and anticipate trouble free operations without any foreseeable change in plans. The actual costs may exceed the estimated costs without affecting the authorization for expenditure herein granted. By approval of this AFE, the working interest owner agrees to pay its proportionate share of actual legal, curative, regulatory and well costs under term of the joint operating agreement, regulatory order or other applicable agreement covering this well.

CIMAREX ENERGY CO. APPROVAL		
PREPARED BY Howard L. Miller, Sr. Drilling/Completion Engineer - Permian Basin	DRILLING DEPT. Doug Park, Mgr Drilling/Completion Operations Offshore and Permian Regions	REGIONAL MANAGER Roger Alexander, Regional Manager Permian Basin
JOINT INTEREST APPROVAL		
COMPANY	BY	DATE



Magnum Hunter Production, Inc. / Gruy Petroleum Management Co.
wholly owned subsidiaries of Cimarex Energy Co.

AUTHORIZATION FOR EXPENDITURE

COMPANY ENTITY Cimarex Energy Co.			DATE PREPARED 08-Feb-06		
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LOCATION: 1,250' FNL, 660' FEL, 8-T15S-R36E (same)			BHL SHL	COUNTY Lea	STATE NM
				OIL GAS	TYPE WELL EXPL X PROD
ORIGINAL ESTIMATE X		EST. START DATE 15-Apr-06	EST. COMP. DATE 15-Jun-06	FORMATION Atoka	EST. TD (TVD) 12,750'
REVISED ESTIMATE					
SUPPLEMENTAL ESTIMATE					

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PREPARED BY Howard L. Miller, Sr. Drilling/Completion Engineer - Permian Basin	DRILLING DEPT. Doug Park, Mgr Drilling/Completion Operations Offshore and Permian Regions	REGIONAL MANAGER Roger Alexander, Regional Manager Permian Basin
--------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------	------------------------------------------------------------------------

JOINT INTEREST APPROVAL

COMPANY	BY	DATE
---------	----	------

Tony Cervi

From: Tony Cervi
Sent: Tuesday, March 21, 2006 4:11 PM
To: James Bruce (jamesbruc@aol.com)
Subject: RE: Caudill West 8 Fee # 2 (pooling respondent list)
Attachments: Pooling respondent list.doc

Jim

I have attached a revised list. Please use this instead. Thanks.

Tony

From: Tony Cervi
Sent: Friday, March 10, 2006 3:25 PM
To: James Bruce (jamesbruc@aol.com)
Subject: Caudill West 8 Fee # 2 (pooling respondent list)

Jim:

Attached is a list of the people we need to pool. Disregard the phone numbers. Please let me know if you need anything else. Thanks.

Tony

Anthony J. Cervi
Landman - Permian Basin Region
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, Texas 75039
972.443.6452 (direct)
972.443.6450 (fax)
972.953.5767 (cell)

3/30/2006

Wadi Petroleum, Inc.
Attn: Judy Farrar
14405 Walters Rd., Suite 400
Houston, Texas 77014

Pear Resources
P.O. Box 1889
Midland, TX 79702

M. Wayne Luna
P.O. Box 1889
Midland, TX 79702

J.M. Gahr
P.O. Box 1889
Midland, TX 79702

Sandra K. Lawlis
P.O. Box 1889
Midland, TX 79702

Posse Energy, Ltd.
Attn: Land Manager
1221 McKinney, Suite 3700
Houston, Texas 77010

Atahualpa Investments, N.V.
Attn: Jorgen Christiansen
7920 Belt Line Road, Suite 280
Dallas, Texas 75254

Horsens, Inc.
Attn: Jorgen Christiansen
7920 Belt Line Road, Suite 280
Dallas, Texas 75254

Unit Petroleum Company
Attn: Fred Schantz
407 N. Big Spring, Suite 101
Midland, TX 79701

Chesapeake Exploration Limited Partnership
Attn: Lynda Townsend
6100 N. Western Ave.
Oklahoma City, Oklahoma 73118

Devon Louisiana Corporation
Attn: Chuck Lundeen
20 N. Broadway Avenue
Oklahoma City, Oklahoma 73102-8260

Ultramar Production Company
Attn: Land Manager
One Valero Way
San Antonio, Texas 78269-6000

Gahr Energy Company
P.O. Box 1889
Midland, TX 79702

Compagnie Financiere Suisse, S.A.
Attn: Jorgen Christiansen
7920 Belt Line Road, Suite 280
Dallas, Texas 75254

Cordry Oil & Gas
10990 Quivira Road, Suite 130
Overland Park, KS 66210

Bessero Oil Company
P.O. Box 10948
Midland, TX 79702


Garry M. Porter
10990 Quivira Road, Suite 130
Overland Park, KS 66210

V-F Petroleum, Inc.
P.O. Box 1889
Midland, TX 79702

Unleased Mineral Owners

W.H. West
(no address available)

Shirley Burney
210 E. Seventh St.
Covington, Kentucky 41011



Delores Thomas
P.O. Box 747
Cascaldia, Oregon 97329

Billy Jean West
(no address available)

Azariah Lasater
(no address available)

Audy M. Pearce
(no address available)

George C. Lasater
(no address available)

Izorah Lasater Black
(no address available)

Orren Beaty
(no address available)

Orren Beaty, Jr.
(no address available)

Estate of L.L. Cain
(no address available)

Peggy Jean Cain
(no address available)

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)
(505) 660-6612 (Cell)
(505) 982-2151 (Fax)

jamesbruc@aol.com

March 11, 2006

Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed for filing, on behalf of Cimarex Energy Co., are an original and one copy of an application for compulsory pooling, together with a proposed advertisement. The advertisement has also been e-mailed to the Division. Please set this matter for the April 13, 2006 Examiner hearing. Thank you.

Very truly yours,


James Bruce

Attorney for Cimarex Energy Co.

POOLING LIST

Wadi Petroleum, Inc.
Attn: Judy Farrar
Suite 400
14405 Walters Rd.
Houston, Texas 77014

Pear Resources
Suite 580
110 N. Marienfeld St.
Midland, Texas 79701

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Suite 101
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Midland, TX 79701

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Compagnie Financiere Suisse, S.A.
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George C. Lasater
(no address available)

Izorah Lasater Black
(no address available)

Orren Beaty
(no address available)

Orren Beaty, Jr.
(no address available)

Estate of L.L. Cain
(no address available)

Peggy Jean Cain
(no address available)

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

**APPLICATION OF CIMAREX ENERGY
CO. FOR COMPULSORY POOLING, LEA
COUNTY, NEW MEXICO.**

Case No. _____

APPLICATION

Cimarex Energy Co. applies for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the N½ of Section 8, Township 15 South, Range 36 East, N.M.P.M., Lea County, New Mexico, and in support thereof, states:

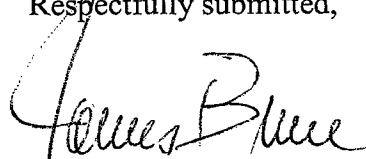
1. Applicant is an interest owner in the N½ of Section 8, and has the right to drill a well thereon.
2. Applicant proposes to drill its Caudill West "8" Fee Well No. 2, at an orthodox gas well location in the NE¼NE¼ Section 8, to a depth sufficient to test the Atoka formation, and seeks to dedicate the N½ of Section 8 to the well to form a standard 320 acre gas and spacing and proration unit for any formations and/or pools developed on 320 acre spacing within that vertical extent, including the Undesignated Caudill-Atoka Gas Pool.
3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the N½ of Section 8 for the purposes set forth herein.
4. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the N½ of Section 8, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the N½ of Section 8 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

WHEREFORE, applicant requests that, after notice and hearing, the Division enter its order:

- A. Pooling all mineral interests in the N½ of Section 8, from the surface to the base of the Atoka formation;
- B. Designating applicant as operator of the well;
- C. Considering the cost of drilling and completing the well, and allocating the cost among the well's working interest owners;
- D. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and
- E. Setting a 200% charge for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,



James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Cimarex Energy Co.

NOTICE

To: W.H. West, Shirley Burney, Delores Thomas, Billy Jean West, Azariah Lasater, Audy M. Pearce, George C. Lasater, Izorah Lasater Black, Orren Beaty, Orren Beaty, Jr., L.L. Cain Estate, Peggy Jean Cain, Compagnie Fianaciere Suisse, S.A., and Ultramar Production Company: Cimarex Energy Co. has filed an application with the New Mexico Oil Conservation Division seeking an order pooling all mineral interests from the surface to the base of the Atoka formation underlying the N/2 of Section 8, Township 15 South, Range 36 East, NMPM, Lea County, New Mexico, to form a standard 320-acre gas spacing and proration unit. The unit is to be dedicated to the Caudill West "8" Fee Well No. 2, to be located in the NE/4NE/4 of Section 8. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The application is scheduled to be heard at 8:15 a.m. on Thursday, April 13, 2006 at the Division's offices at 1220 South St. Francis Drive, Santa Fe, New Mexico 87505. As an interest owner in the well unit, you have the right to enter an appearance and participate in the case. Failure to appear will preclude you from contesting this matter at a later date. The unit is located approximately 3-1/2 miles south-southwest of Hilburn City, New Mexico.



PROPOSED ADVERTISEMENT

Case No. _____ : Application of Cimarex Energy Co. for compulsory pooling, Lea County, New Mexico. Cimarex Energy Co. seeks an order pooling all mineral interests from the surface to the base of the Atoka formation underlying the N/2 of Section 8, Township 15 South, Range 36 East, NMPM, to form a standard 320-acre gas spacing and proration unit for any and all formations or pools developed on 320-acre spacing within that vertical extent, including the Undesignated Caudill-Atoka Gas Pool. The unit is to be dedicated to the Caudill West "8" Fee Well No. 2, to be located at an orthodox gas well location in the NE/4NE/4 of Section 8. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The unit is located approximately 3-1/2 miles south-southwest of Hillburn City, New Mexico.



Wadi Petroleum, Inc.
4355 Sylvanfield Drive, Suite 200
Houston, Texas 77014
281-583-2888
281-583-0504 Facsimile

Fax Transmittal

TO: Mr. Anthony Cervi
Cimarex Energy

FAX: 972-401-3110

FROM: Judy Farrar

DATE: March 21, 2006

RE: Joint Operating Agreement
Section 8: N/2
T15S R36E
Lea County, New Mexico

PAGES: 11 pages (including cover)

NOTES:



WADI PETROLEUM, INC.

4355 Sylvanfield Drive, Suite 200
Houston, Texas 77014
281-583-2888 Fax 281-583-0504

March 21, 2006

VIA FACSIMILE

Mr. Anthony Cervi
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, Texas 75039

RE: Caudill West 8 Fee #2
T15S R36E
Section 8: N/2
Lea County, New Mexico

Dear Mr. Cervi:

Wadi Petroleum, Inc. received the proposed Joint Operating Agreement and Authority for Expenditure on the referenced well on March 13, 2006 along with your letter proposing the Caudill West 8 Fee #2 well. Please be advised that as provided in the Joint Operating Agreement dated April 23, 1979 Wadi has 30 days from receipt of the well proposal to respond. However, since we are in the process of negotiating a new Joint Operating Agreement for the Caudill West 8 Fee #2 well, the time frame for a response to the well proposal should start upon approval of the Joint Operating Agreement.

In furtherance to the above, Wadi has reviewed the Joint Operating Agreement dated March 10, 2006 and has the following comments:

- ✓ Page 1 Line 51: Delete.
- ✓ Page 2 Lines 4-8: Delete.
- Page 7 Line 67: Add - Each party shall *"have the right to"*.
- ✓ Page 8 & 8 Alternate: Why are there 2 pages here? Which one is applicable.
- ✓ Exhibit "A": Ultramar's interest of 1.836548% is now owned by Wadi. Our attorney will provide a Stipulation of Interest regarding this interest. Ultramar and its subsidiaries sold all right, title and interest to this property to Wadi Petroleum, Inc. effective July 1, 1992.
- ✓ Exhibit "A" Participating Parties: Change the address for Wadi Petroleum, Inc. to 4355 Sylvanfield Drive, Suite 200, Houston, Texas 77014.
- Exhibit "C" Page 5 Lines 31-37: Delete from "The adjustment shall be minus the computed adjustment". Add to first sentence "by the percent of increase or decrease published by COPAS".
- Exhibit "C" Page 6 Line 1: A number is needed here. Wadi suggests \$50,000. Wadi would also prefer a ratio 3%, 2%, 1% instead of 5%, 3%, 2% in lines 3, 5, 7, 21, 23, 25.
- Exhibit "D": Why is Well Control Insurance not provided within this Exhibit?
- Exhibit "D" Item 6: This paragraph needs further explanation.
- Exhibit "E" Item 3.5: Replace 300% with 100%.



Page 2

Letter dated March 21, 2006

- Exhibit "E" Item 4.1: Replace 30 days/25% with 10 days 50%.
- Exhibit "E" item 5.1: Replace 45 days with 60 days.
- Exhibit "E" Item 8: Replace 30 days and 72 hrs with 5 days and 24 hrs.
- Exhibit "E" Item 12.7 & 12.8: Delete one as they are the same paragraph.
- Exhibit "E" Item 13.2: Why is the word "Optional" used here. There does not appear to be another paragraph to choose.

In order to lessen any confusion that you may have in regards to my comments above, I have attached revised pages where appropriate.

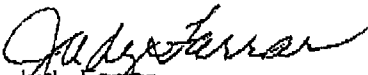
Upon our review of the Authority for Expenditure we noted that the Well Control Insurance was substantially less than that recommended by our insurance carrier for a well of this depth. The recommended insurance for a well drilled to 12,750' is \$5,000,000 coverage. Since the AFE provides for only \$1,000,000 coverage please provide Wadi with an explanation as to the reason for the small coverage.

Should Cimarex be agreeable to the revisions suggested by Wadi, we ask that you initial each revision as it appears on the attached pages along with a copy of this letter in the space provided below and return by fax the initialed pages and an executed copy of this page.

Upon agreement of a mutually acceptable Joint Operating Agreement Wadi will provide our election to the well proposal.

Thank you and should you have any questions, please give me a call.

Yours truly,


Judy Farrar
Land Manager

Attachment

Cimarex Energy Co. agrees with the above revisions to the Joint Operating Agreement dated March 10, 2006.

Cimarex Energy Co.

By: _____

Its: _____

Date: _____

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Cinmarx Energy Co.

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.

☒ G. Exhibit "G", Tax Partnership Memorandum of Operating Agreement and Notice of Lien and Mortgage

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.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

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 ~~all existing royalties and other burdens which are not subsequently created interests~~ 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 Examinations:

Title examination shall be made on the ~~Contract Area~~ ^{Contract Area} of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. 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.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE VI
continued

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VI.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well 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 production, ceases to produce in paying quantities.

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

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

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

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

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and 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 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party'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 instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:
have the right to

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

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT
DATED MARCH 10, 2006,
BY AND BETWEEN CIMAREX ENERGY CO., AS OPERATOR,
AND DEVON LOUISIANA CORPORATION, ET AL, AS NON-OPERATORS

LANDS SUBJECT TO CONTRACT:

N/2 of Section 8, Township 15 South, Range 36 East, Lea County, New Mexico.

LIMITATIONS:

None.

PARTICIPATING PARTIES:

Atahualpa Investments, N.V.	0.078523%	
Chesapeake Exploration LP	1.475694%	
Cimarex Energy Co.	21.953125%	
Compagnie Financiere Suisse, S.A.	4.591370%	
Devon Louisiana Corporation	20.993750%	
Gahr Energy Company	0.850001%	
Horsens, Inc.	0.306091%	
M. Wayne Luna	0.600001%	
Pear Resources	16.865476%	
Posse Energy, Ltd.	1.147842%	
Sandra K. Lawlis	0.050000%	
Ultramar Production Company	1.836548%	Wadi Petroleum, Inc.
Unit Petroleum Company	6.121828%	
Unleased Mineral Interest	6.602821%	
Wadi Petroleum, Inc.	16.528931%	

100.000000%

Atahualpa Investments, N.V.
Attn: Land Manager
100 N. Central Expressway, Suite 1204
Richardson, Texas 75080

Chesapeake Exploration Limited Partnership
Attn: Lynda Townsend
6100 N. Western Ave.
Oklahoma City, Oklahoma 73118

Cimarex Energy Co.
Attn: Land Manager
5215 N. O'Connor Blvd., Suite 1500
Irving, Texas 75039

Compagnie Financiere Suisse, S.A.
51 de Kuyterkade, Willemstad
Curacao, Netherlands Antilles

Devon Louisiana Corporation
Attn: Chuck Lundeen
20 N. Broadway Avenue
Oklahoma City, Oklahoma 73102-8260

Gahr Energy Company
110 N. Maricfield St., Suite 580
Midland, Texas 79701

Horsens, Inc.
Attn: Land Manager
100 N. Central Expressway, Suite 1204
Richardson, Texas 75080

M. Wayne Luna
110 N. Maricfield St., Suite 580
Midland, Texas 79701

Pear Resources
110 N. Maricfield St., Suite 580
Midland, Texas 79701

Posse Energy, Ltd.
Attn: Land Manager
100 N. Central Expressway, Suite 1204
Richardson, Texas 75080

Sandra K. Lawlis
110 N. Maricfield St., Suite 580
Midland, Texas 79701

Ultramar Production Company
One Valero Way
San Antonio, Texas 78269-6000

Unit Petroleum Company
Attn: Fred Schantz
407 N. Big Spring, Suite 101
Midland, TX 79701

Wadi Petroleum, Inc.
Attn: Judy Farrar
14485 Walters Rd., Suite 400- 4355 Sylvanfield Drive, Suite 200
Houston, Texas 77014 Houston, Texas 77014

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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.

- (4) 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 date 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 each 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.* ~~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 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.~~ *by the percent of increase or decrease published by COPAS.

B. Overhead - Percentage Basis

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

(a) ~~Development~~

~~Percent () of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section III and oil 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, oil 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.~~

2. 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. ~~3~~ 3 % of first \$100,000 or total cost if less, plus
B. ~~2~~ 2 % of costs in excess of \$100,000 but less than \$1,000,000, plus
C. ~~1~~ 1 % 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. ~~3~~ 3 % of total costs through \$100,000; plus
B. ~~2~~ 2 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
C. ~~1~~ 1 % 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

- 3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the right of the other Parties to make up for Underproduction as provided herein) the other Parties shall be entitled to take any Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the Balancing Area bear to the total Percentage Interests of such Parties.
- 3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking Party.
- 3.5 Notwithstanding the provision of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any Gas in excess of ~~three hundred percent (300%)~~ ^{one hundred percent (100%)} of its Percentage Interest of the Balancing Area's then-current Maximum Monthly Availability; provided, however, that this limitation shall not apply to the extent that it would preclude production that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency, mode of operation, production facility capabilities and pipeline pressures.
- 3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of times as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken from the account of such Party.

4. IN-KIND BALANCING

ten (10)

- 4.1 Effective the first day of any calendar month following at least ~~thirty (30)~~ ^{thirty-five (35)} days prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 to this Agreement, a share of current production determined by multiplying ~~twenty-five percent (25%)~~ ^{thirty-five percent (35%)} of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than ~~twenty-five percent (25%)~~ ^{thirty-five percent (35%)} of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas. (See "Section 14" for Additional Provisions)
- 4.2 Seasonal Limitation of Makeup - Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than ten percent (10%) of its Full Share of Current Production for Makeup Gas during the Winter Period.
- 4.3 Notwithstanding any other provision of this agreement, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Make-up Gas, upon demand of Operator or any Underproduced Party, up to one hundred percent (100%) of such Overproduced Party's Full Share of Current Production.

5. STATEMENT OF GAS BALANCES

- 5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is ~~entitled to receive~~ ^{actually received} and the volumes of Gas actually taken or sold for each Party's account. Within ~~forty-five (45)~~ ^{thirty-five (35)} days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party and each Party taking Gas will promptly provide to the Operator any data required by the Operator for Preparation of the statements required hereunder.
- 5.2 If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting party to provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the required data.

6. PAYMENTS ON PRODUCTION

- 6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas actually taken by such Party.

7.10 (Interim Cash Balancing) At any time during the term of this Agreement, any Overproduced Party may, in its sole discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas imbalance, provided that such settlements must be made with all Underproduced Parties proportionately based on the relative imbalance of the Underproduced Parties, and provided further that such settlements may not be made more often than once every twelve (12) months. Such settlements will be calculated in the same manner provided above for final cash settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30) days after the settlement is made.

8. TESTING

Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only after ^{five} ~~thirty~~ (30) days prior written notice to the Operator and shall last no longer than ^{twenty-four} ~~seventy-two~~ (24) hours.

9. OPERATING COSTS

Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales or use are in proportion to its Percentage Interest in the Balancing Area.

10. LIQUIDS

The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated for the joint account in accordance with their Percentage Interests in the Balancing Area.

11. AUDIT RIGHTS

Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not limited to information regarding Btu-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such audit shall be conducted at the expense of the Party of Parties desiring such audit, and shall be conducted, after reasonable notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

12. MISCELLANEOUS

12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of any gas sales contract, or in the event of any conflict between the provisions of the Agreement and the provisions of the Operating Agreement, the provisions of this Agreement shall govern.

12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party (other than Operator) to pay any amounts owed pursuant to the terms hereof.

12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

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

- 12.6 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any such person or entity.
- 12.7 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the Balancing Area.
- 12.8 ~~If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the Balancing Area.~~

13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

- 13.1 Subject to the provisions of Sections 13.2 and 13.3 hereof, and notwithstanding anything in this Agreement or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or the act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall cause its assignee or other transferee to assume its obligations hereunder.
- 13.2 ~~(Optional - Cash Settlement Upon Assignment)~~ Notwithstanding anything in this Agreement (including but not limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are Parties hereto in such Balancing Area of such fact at least thirty (30) days prior to closing the transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within fifteen (15) days after receipt of the Overproduced Party's notice, a cash settlement of its Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement pursuant to this Section 13 and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60) days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in Section 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its underproduction for the Balancing Area, such Underproduced party shall look exclusively to the assignee or other successor in interest of the Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance with the provisions of Section 13.1 hereof.
- 13.3 The provisions of this Section 13 shall not be applicable in the event any Party disposes of its interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

14. OTHER PROVISIONS

- 14.1 The election of an Underproduced Party to commence taking makeup gas under the provisions of this paragraph shall remain in effect until such Underproduced Party gives Operator thirty (30) days' notice of its election to cease taking makeup gas, or until such party's Underproduction is eliminated, whichever first occurs. In the event an Underproduced Party provides notice to Operator of its intent to cease taking makeup gas, such Underproduced Party shall not thereafter be allowed to request makeup gas again until one (1) year from the last day of the month in which they last took makeup gas. This section does not apply to permanent overproduction situations. Please see Section 4.3 regarding situations where an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area.

END OF EXHIBIT "E"



Sara L. Caldwell
Assistant Landman

March 24, 2006

VIA FACSIMILE (972) 401-3110
AND U.S. MAIL

Mr. Anthony J. Cervi
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, TX 75039

Re: Caudill West 8 Fee #2
N/2 Section 8-15S-36E
Lea County, New Mexico

Dear Mr. Cervi:

Pursuant to Cimarex Energy Co.'s proposal letter dated February 15, 2006, Chesapeake Operating, Inc. on behalf of Chesapeake Exploration Limited Partnership ("Chesapeake") hereby elects to participate in the drilling of the captioned well. An executed copy of the AFE will be sent under separate cover.

Please furnish Chesapeake with daily drilling reports and all other well information in accordance with the enclosed Well Data Requirements sheet. Chesapeake will provide its own insurance with respect to its share of liabilities incurred in the drilling, completion and operation of the captioned well. A copy of Chesapeake's insurance certificate will be provided upon request.

Should you have any questions, give me a call at the number below.

Sincerely,

Chesapeake Operating, Inc.

Sara L. Caldwell

Enclosure

W:\Permian_North\Non-Operated Wells\Caudill West 8 Fee #2\Election Letter without AFE-20060304.doc

Chesapeake Energy Corporation
6100 N. Western Ave. • Oklahoma City, OK 73118 • P.O. Box 18496 • Oklahoma City, OK 73154-0496
405.879.9374 • fax 405.879.1450 • scaldwell@chkenergy.com


GEOLOGY DEPARTMENT
WELL DATA REQUIREMENTS
CHESAPEAKE OPERATING, INC.
P. O. BOX 18496 Oklahoma City, OK 73154

OPERATOR: Cimarex Energy Co.
WELL NAME: Caudill West 8 Fee #2

LOCATION: N/2 Section 8-15S-36E
COUNTY/STATE: Lea County, New Mexico

SPECIFIC INFORMATION REQUESTED PRIOR TO SPUD:

1. Name, address and phone numbers of landman, geologist and engineer who will service the well, and one (1) copy of each: final AFE, Survey Plat, Regulatory Permit, Geological Prognosis, Drilling Prognosis, and Directional Plan.

DAILY REQUIREMENTS: - DRILLING & COMPLETION REPORTS:

1. **PRIMARY** E-Mail or Fax to **CHK Non-Ops Reports** ASAP each day.
Voice #: 405/879-9115 **Fax #:** 405/879-9534 **E-mail:** NonOpsRpts@CHKEnergy.com
2. **SECONDARY** E-Mail or Fax to **David Godsey** ASAP each day.
Voice #: 405/879-7995 **Fax#:** 405/879-9577 **E-mail:** dgodsey@chkenergy.com

Also to include:

Daily Electric and Mud Logs, and E-Mail any field reports pertaining to operations or Daily Directional Survey when applicable.

NOTICES:

1. Notify the following 24 hour notice of intention to SPUD, LOG, CORE, FORMATION TESTING, COMPLETION, SIDETRACK OR ABANDON:

Primary Geologist: David Godsey

Office Phone: 405/879-7995
Office Fax: 405/879-9577
Home Phone: 405/340-0119
E-mail: dgodsey@chkenergy.com

Secondary Geologist: Mike Brown

Office Phone: 405/879-9223
Office Fax: 405/879-9577
Home Phone: 405/216-0817
E-mail: Mbrown2@chkenergy.com

LOGS AND DATA:

Mail to 6100 N. Western, Oklahoma City, OK 73118

Attention: Erin Allen

E-Mail to: LogData@chkenergy.com as LAS and Tiff (raster) files w/ all open hole log data.
and dgodsey@chkenergy.com

1. All open hole and cased hole logs..... Final Prints 6
-includes Dipmeter, FMS, etc.-
2. Mud Logs..... Final Prints 6
3. Oil, gas and water analysis..... Final Print 1
4. Directional Survey..... Final Print 1
5. Bottom hole pressure surveys and reports.... Final Print 1
6. Geological & Paleontological Reports..... Copies 1
7. **PRODUCTION DATA:** E-Mail or fax monthly for the first ninety (90) days to productionnonop@chkenergy.com, Fax 405/879-7860 and David Godsey E-mail: dgodsey@chkenergy.com, Fax 405/879-9577. Production data includes all information, specifically, but not limited to, choke size, FTP, flow rates, gas mcf/d, bopd, bwpd, method of production (free flow, rod pumping, etc.)

For notification, or if we could offer some assistance, please call David Godsey, geologist 405/879-7995, Lynda Townsend, landman 405/879-9414, Andrew McCalmont, engineer 405/879-7852.

Thank you.

P:\Forms\Well Data Requirement Sheet (Godsey-Townsend).doc

POSSE ENERGY, LTD.

1 HOUSTON CENTER
1221 MCKINNEY, SUITE 3700
HOUSTON, TEXAS 77010

(713) 209-1111 ♦ FAX: (713) 951-0207

March 27, 2006

Mr. Anthony J. Cervi
Cimarex Energy Co.
5215 N. O'Connor Blvd, Suite 1500
Irving, TX 75039

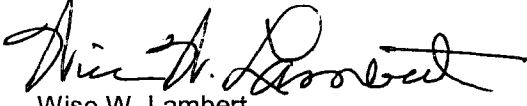
Re: Caudill West 8 Fee #2
N/2 Section 8-15S-36E
Lea County, New Mexico

Dear Sir:

Posse Energy, Ltd. elects to participate in drilling of the referenced well. We have executed and enclose the AFE and the signature page of the Operating Agreement covering the well. We are also sending our Well Data Requirement sheet for you use in providing us with well information and data.

If there are other issues relating to this well please do not hesitate to contact us.

Yours truly,


Wise W. Lambert
Landman



WELL DATA REQUIREMENTS

Posse Energy, Ltd.

1 HOUSTON CENTER

1221 MCKINNEY, SUITE 3700

HOUSTON, TEXAS 77010

(713) 209-1110 ♦ FAX: (713) 951-0207

OPERATOR: Cimarex Energy Co.
WELL NAME: Caudill West 8 Fee #2
LOCATION: N/2 Sec. 8-15S-36E
COUNTY, STATE: Lea/New Mexico

SPECIFIC INFORMATION REQUESTED PRIOR TO SPUD:

1. Name, address, and phone numbers of landman, geologist, and engineer who will service the well.
2. One (1) copy of final AFE and Survey Plat.
3. One (1) copy of all permits.
4. One (1) copy of Geological Prognosis, Drilling Prognosis and Directional Plan.

DAILY REQUIREMENTS:

Drilling Reports

1. Email to: GregM@PPPCo.com and SandraC@PPPCo.com
(If unable to email, fax daily report to the attention of Greg Mitschke at (713) 951-0207)
2. Mail Daily Reports to Greg Mitschke at address listed above.
3. Daily reports should begin with date actual work is commenced at the location and continue until initial daily potential has been established or the well has been plugged and abandoned.
4. Include in final report all initial potential, completion data, and final disposition of gas. Mail Complete well chronological after well is on production.

Specific Information while Drilling

1. Daily Mudlog (include sample and gas shows)
2. Latest 24-hour directional surveys
3. Latest 24-hour Gamma Ray Log from MWD and pump-down Gamma Ray Log.
4. 24-hour notice by phone or fax prior to formation testing or coring, then send any field reports pertaining to operations.
5. Notification by fax and mail of any decision that would omit any AFE item (mudlogger, Gamma Ray MWD, etc.)

NOTICES:

1. Notify the following of intention to SPUD, LOG, CORE, TEST, COMPLETE, SIDETRACK, or ABANDON:

Greg Mitschke
Office Phone: (713) 209-1111 ext. 212
Office Fax: (713) 951-0207
Home Phone: (281) 579-1597

(If unable to contact Greg Mitschke, please call Sandra Cornelius at ext. 213)

LOGS AND DATA:

Mail to above address, attention Greg Mitschke.

1. All open hole and cased hole logs (includes Dipmeter, FMS, etc.).....Final Prints (1)
2. Mud Logs.....Final Prints (1)
3. Oil, gas, and water analysis.....Final Prints (1)
4. Bottomhole pressure surveys and reports.....Final Prints (1)
5. Formation tests and core analysis.....Final Prints (1)
6. Directional Surveys & MWD/GR.....Final Prints (1)
7. Geological & Paleotological Reports.....Copies
8. LAS diskette w/all open hole log data.....3.5" diskette
9. LAS diskette w/all MWD and GR data.....3.5" diskette

WORKING INTEREST OWNERS

DEVON LOUISIANA CORPORATION

By: _____
Title: _____

WADI PETROLEUM, INC

By: _____
Title: _____

PEAR RESOURCES

By: _____
Title: _____

M. WAYNE LUNA

By: _____
Title: _____

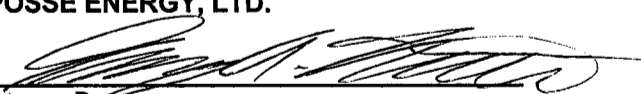
GAHR ENERGY COMPANY

By: _____
Title: _____

SANDRA K. LAWLIS

By: _____
Title: _____

POSSE ENERGY, LTD.


By: _____
Title: _____

ATAHUALPA INVESTMENTS, N.V.

By: _____
Title: _____



Magnum Hunter Production, Inc. / Gruy Petroleum Management Co.
wholly owned subsidiaries of Cimarex Energy Co.
AUTHORIZATION FOR EXPENDITURE

COMPANY ENTITY Cimarex Energy Co.			DATE PREPARED 08-Feb-06		
REGION S.E. NM	WELL NAME Caudill West 8 Fee	WELL NO 2	PROSPECT OR FIELD NAME Star / Denton	PROPERTY NUMBER 309499-002	DRILLING AFE NO.
LOCATION: 1,250' FNL, 660' FEL, 8-T15S-R36E (same)			BHL SHL	COUNTY Lea	STATE NM
			OIL X		TYPE WELL EXPL X PROD
ORIGINAL ESTIMATE X			EST. START DATE 15-Apr-06	EST. COMP. DATE 15-Jun-06	FORMATION Atoka
REVISED ESTIMATE			EST. TD (TVD) 12,750'		
SUPPLEMENTAL ESTIMATE					

PROJECT DESCRIPTION:

Drill and complete Atoka well.

- Estimating 2 Fracture treatments in the Morrow zones.
- No hole problems are anticipated.
- Closed loop mud system.

<u>INTANGIBLES</u>	<u>DRY HOLE COST</u>	<u>AFTER CASING POINT</u>	<u>COMPLETED WELL COST</u>
Intangible Drilling Costs	<u>\$1,878,563</u>		<u>\$1,878,563</u>
Intangible Completion Costs		<u>564,250</u>	<u>564,250</u>
TOTAL INTANGIBLE COSTS	<u>1,878,563</u>	<u>564,250</u>	<u>2,442,813</u>
<u>TANGIBLES</u>			
Well Equipment	<u>178,500</u>	<u>336,500</u>	<u>515,000</u>
Lease Equipment		<u>41,000</u>	<u>41,000</u>
TOTAL TANGIBLE WELL COST	<u>178,500</u>	<u>377,500</u>	<u>556,000</u>
PLUG AND ABANDON COST	<u>75,000</u>	<u>(75,000)</u>	
TOTAL WELL COST:	<u>\$2,132,063</u>	<u>\$866,750</u>	<u>\$2,998,813</u>

Comments on Well Costs:

1. All tubulars, well or lease equipment is priced by COPAS and CEPS guidelines using the Historic Price Multiplier.

WELL CONTROL INSURANCE:

Unless otherwise indicated below, you, as a non-operating working interest owner, agree to be covered by Operator's well control insurance procured by Operator so long as Operator conducts operations hereunder and to pay your prorated share of the premiums therefore. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance acceptable to Operator, as to form and limits, at the time this AFE is returned, if available, but in no event later than commencement of drilling operations. You agree that failure to provide the certificate of insurance, as provided herein, will result in your being covered by insurance procured by Operator.

 I elect to purchase my own well control insurance policy.

Well control insurance procured by Operator, provides, among other terms, for \$1,000,000 (100% W.I.) of Combined Single Limit coverage for well control and related redrilling and clean-up/pollution expense covering drilling (through completion) with a \$1,000,000 (100% W.I.) deductible.

Comments on AFE

The above costs are estimates only and anticipate trouble free operations without any foreseeable change in plans. The actual costs may exceed the estimated costs without affecting the authorization for expenditure herein granted. By approval of this AFE, the working interest owner agrees to pay its proportionate share of actual legal, curative, regulatory and well costs under term of the joint operating agreement, regulatory order or other applicable agreement covering this well.

CIMAREX ENERGY CO. APPROVAL

PREPARED BY Howard L. Miller, Sr. Drilling/Completion Engineer - Permian Basin	DRILLING DEPT. Doug Park, Mgr Drilling/Completion Operations Offshore and Permian Regions	REGIONAL MANAGER Roger Alexander, Regional Manager Permian Basin
---------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------

JOINT INTEREST APPROVAL

COMPANY <i>Posse Energy, LTD.</i>	BY <i>Gregory A. Mischke</i>	DATE <i>3/17/06</i>
--------------------------------------	---------------------------------	------------------------

Vice President

3/17/2006 2:21 PM



Sara L. Caldwell
Assistant Landman

March 29, 2006

VIA FACSIMILE (972) 401-3110
AND U.S. MAIL

Mr. Anthony J. Cervi
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, TX 75039

Re: Caudill West 8 Fee #2
N/2 Section 8-15S-36E
Lea County, New Mexico

Dear Mr. Cervi:

Enclosed is an executed copy of Cimarex Energy Co.'s AFE for the captioned well. This is to follow up the election of Chesapeake Operating, Inc. on behalf of Chesapeake Exploration Limited Partnership by letter dated March 24, 2006.

Please call me if you have any questions.

Sincerely,

Chesapeake Operating, Inc.

Sara L. Caldwell

Enclosure

W:\Permian_North\Non-Operated Wells\Caudill West 8 Fee #2\AFE Transmittal-20060329.doc



Magnum Hunter Production, Inc. / Gruy Petroleum Management Co.
wholly owned subsidiaries of Cimarex Energy Co.
AUTHORIZATION FOR EXPENDITURE

COMPANY ENTITY Cimarex Energy Co.				DATE PREPARED 08-Feb-06	
REGION S.E. NM	WELL NAME Caudill West 8 Fee	WELL NO 2	PROSPECT OR FIELD NAME Star / Denton	PROPERTY NUMBER 309499-002	DRILLING AFE NO.
LOCATION: 1,650' FNL, 660' FEL, 8-T15S-R36E (same)			BHL SHL	COUNTY Lea	STATE NM
			OIL X	TYPE WELL EXPL X PROD	
ORIGINAL ESTIMATE X			EST. START DATE 15-Apr-06	EST. COMP. DATE 15-Jun-06	FORMATION Atoka
REVISED ESTIMATE			EST. TD (TVD) 12,750'		
SUPPLEMENTAL ESTIMATE					

PROJECT DESCRIPTION:

Drill and complete Atoka well.

- Estimating 2 Fracture treatments in the Morrow zones.
- No hole problems are anticipated.
- Closed loop mud system.

INTANGIBLES	DRY HOLE COST	AFTER CASING POINT	COMPLETED WELL COST
Intangible Drilling Costs	\$1,878,563		\$1,878,563
Intangible Completion Costs		564,250	564,250
TOTAL INTANGIBLE COSTS	1,878,563	564,250	2,442,813
TANGIBLES			
Well Equipment	178,500	336,500	515,000
Lease Equipment		41,000	41,000
TOTAL TANGIBLE WELL COST	178,500	377,500	556,000
PLUG AND ABANDON COST	75,000	(75,000)	
TOTAL WELL COST:	\$2,132,063	\$866,750	\$2,998,813

Comments on Well Costs:

1. All tubulars, well or lease equipment is priced by COPAS and CEPS guidelines using the Historic Price Multiplier.

WELL CONTROL INSURANCE:

Unless otherwise indicated below, you, as a non-operating working interest owner, agree to be covered by Operator's well control insurance procured by Operator so long as Operator conducts operations hereunder and to pay your prorated share of the premiums therefore. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance acceptable to Operator, as to form and limits, at the time this AFE is returned, if available, but in no event later than commencement of drilling operations. You agree that failure to provide the certificate of insurance, as provided herein, will result in your being covered by insurance procured by Operator.

I elect to purchase my own well control insurance policy.

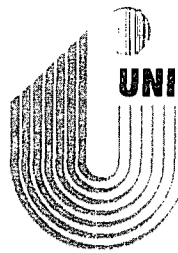
Well control insurance procured by Operator, provides, among other terms, for \$1,000,000 (100% W.I.) of Combined Single Limit coverage for well control and related redrilling and clean-up/pollution expense covering drilling (through completion) with a \$1,000,000 (100% W.I.) deductible.

Comments on AFE

The above costs are estimates only and anticipate trouble free operations without any foreseeable change in plans. The actual costs may exceed the estimated costs without affecting the authorization for expenditure herein granted. By approval of this AFE, the working interest owner agrees to pay its proportionate share of actual legal, curative, regulatory and well costs under term of the joint operating agreement, regulatory order or other applicable agreement covering this well.

CIMAREX ENERGY CO. APPROVAL		
PREPARED BY Howard L. Miller, Sr. Drilling/Completion Engineer - Permian Basin	DRILLING DEPT. Doug Park, Mgr Drilling/Completion Operations Offshore and Permian Regions	REGIONAL MANAGER Roger Alexander, Regional Manager Permian Basin

JOINT INTEREST APPROVAL		DATE
COMPANY Chesapeake Exploration Limited Partnership an Oklahoma limited partnership by Chesapeake Operating, Inc. General Partner	BY Abbey K. McCendon	3/28/06



UNIT PETROLEUM COMPANY

A Subsidiary of Unit Corporation

March 30, 2006

Cimarex Energy Company
Attn: Anthony J. Cervi
5215 N. O'Connor Blvd, Ste. 1500
Irving, Texas 75039

Re: Caudill West 8 Fee #2
N½ Sec8, T15S, R36E
Lea County, New Mexico
Caudill Prospect

Anthony,

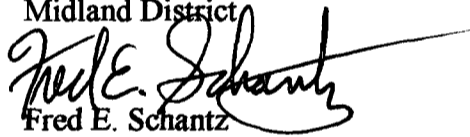
In accordance with your letter dated February 15, 2006, please find enclosed an executed AFE signed by Unit Petroleum Company for the referenced project. Also enclosed is Unit's "Well Information Requirements" sheet.

We are currently reviewing the JOA you submitted to us and will respond to you regarding the JOA in the very near future.

If you have any questions please contact me at 432-685-9020.

Sincerely,

UNIT PETROLEUM COMPANY
Midland District


Fred E. Schantz
District Landman

FES/cm
Enclosure



Magnum Hunter Production, Inc. / Gruy Petroleum Management Co.
wholly owned subsidiaries of Cimarex Energy Co.
AUTHORIZATION FOR EXPENDITURE

COMPANY ENTITY Cimarex Energy Co.				DATE PREPARED 08-Feb-06	
REGION S.E. NM	WELL NAME Caudill West 8 Fee	WELL NO 2	PROSPECT OR FIELD NAME Star / Denton	PROPERTY NUMBER 309499-002	DRILLING AFE NO.
LOCATION: 1,650' FNL, 660' FEL, 8-T15S-R36E (same)			BHL SHL	COUNTY Lea	STATE NM
			OIL GAS		TYPE WELL EXPL X PROD
ORIGINAL ESTIMATE X		EST. START DATE 15-Apr-06		EST. COMP. DATE 15-Jun-06	FORMATION Atoka
REVISED ESTIMATE					EST. TD (TVD) 12,750'
SUPPLEMENTAL ESTIMATE					

PROJECT DESCRIPTION:

Drill and complete Atoka well.

- Estimating 2 Fracture treatments in the Morrow zones.
- No hole problems are anticipated.
- Closed loop mud system.

<u>INTANGIBLES</u>	<u>DRY HOLE COST</u>	<u>AFTER CASING POINT</u>	<u>COMPLETED WELL COST</u>
Intangible Drilling Costs	<u>\$1,878,563</u>		<u>\$1,878,563</u>
Intangible Completion Costs		<u>564,250</u>	<u>564,250</u>
TOTAL INTANGIBLE COSTS	<u>1,878,563</u>	<u>564,250</u>	<u>2,442,813</u>
<u>TANGIBLES</u>			
Well Equipment	<u>178,500</u>	<u>336,500</u>	<u>515,000</u>
Lease Equipment		<u>41,000</u>	<u>41,000</u>
TOTAL TANGIBLE WELL COST	<u>178,500</u>	<u>377,500</u>	<u>556,000</u>
PLUG AND ABANDON COST	<u>75,000</u>	<u>(75,000)</u>	
TOTAL WELL COST:	<u>\$2,132,063</u>	<u>\$866,750</u>	<u>\$2,998,813</u>

Comments on Well Costs:

1. All tubulars, well or lease equipment is priced by COPAS and CEPS guidelines using the Historic Price Multiplier.

WELL CONTROL INSURANCE:

Unless otherwise indicated below, you, as a non-operating working interest owner, agree to be covered by Operator's well control insurance procured by Operator so long as Operator conducts operations hereunder and to pay your prorated share of the premiums therefore. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance acceptable to Operator, as to form and limits, at the time this AFE is returned, if available, but in no event later than commencement of drilling operations. You agree that failure to provide the certificate of insurance, as provided herein, will result in your being covered by insurance procured by Operator.

_____ I elect to purchase my own well control insurance policy.

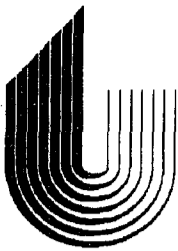
Well control insurance procured by Operator, provides, among other terms, for \$1,000,000 (100% W.I.) of Combined Single Limit coverage for well control and related redrilling and clean-up/pollution expense covering drilling (through completion) with a \$1,000,000 (100% W.I.) deductible.

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The above costs are estimates only and anticipate trouble free operations without any foreseeable change in plans. The actual costs may exceed the estimated costs without affecting the authorization for expenditure herein granted. By approval of this AFE, the working interest owner agrees to pay its proportionate share of actual legal, curative, regulatory and well costs under term of the joint operating agreement, regulatory order or other applicable agreement covering this well.

CIMAREX ENERGY CO. APPROVAL		
PREPARED BY Howard L. Miller, Sr. Drilling/Completion Engineer - Permian Basin	DRILLING DEPT. Doug Park, Mgr Drilling/Completion Operations Offshore and Permian Regions	REGIONAL MANAGER Roger Alexander, Regional Manager Permian Basin

JOINT INTEREST APPROVAL		
COMPANY UNIT PETROLEUM COMPANY	BY 	DATE 03/27/06



UNIT PETROLEUM COMPANY
WELL INFORMATION REQUIREMENTS

TO: Cimarex Energy Company
5215 N. O'Connor Rd., Ste. 1500
Irving, TX 75039

RE: Caudill West 8 Fee #2
1250' FNL & 660' FEL
N½ Sec 8, T15S, R36E
Lea County, New Mexico

Unit Petroleum Company requests the following information and notices to be forwarded to:

Unit Petroleum Company
407 North Big Spring St., Suite 101
Midland, Texas 79701
Phone: 432-685-9020 Fax: 432-685-9088

All Federal, State or Railroad Commission Forms	1
Drill stem test pressure charts	1
Initial core analysis	1
Final core analysis	1
Daily mud logs	1
Final mud logs	2
LAS File e-mailed to scott.cramer@unitcorp.com	1
Electrical log final prints	1 color, 2 B&W
Drillers logs	1
Geological reports, sample logs	1
Well completion reports	1
Plugging reports	1

In addition Unit requests the following:

- A daily e-mail (preferred) or fax report on drilling progress to Carla Manning.
carla.manning@unitcorp.com fax 432-685-9088
- 24 hour prior notice to drillstem testing, coring, logging and and plugging operations.

Unit personnel available for call:

Scott Cramer - Geologist	Office: 432-685-9020	Home: 432-697-2425
George Ulmo - Geologist	Office: 432-685-9020	Home: 432-697-0828

ALL NOTICES OR PROPOSALS REQUIRED BY CONTRACT OR OTHERWISE SHOULD BE FORWARDED TO THE ABOVE ADDRESS TO THE ATTENTION OF FRED SCHANTZ.

Cimarex Energy Co.
5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



March 31, 2006

Atahualpa Investments, N.V.
Compagnie Financiere Suisse, S.A.
Horsens, Inc.
7920 Belt Line Road, Suite 280
Dallas, Texas 75254

Attn: Jorgen Christiansen

Re: **Section 8, Township 15 South, Range 36 East**
Lea County, New Mexico

Dear Mr. Christiansen:

Cimarex Energy Co. ("Cimarex") wishes to purchase all of the right, title, and interest of **Atahualpa Investments, N.V., Compagnie Financiere Suisse, S.A., and Horsens, Inc.** (collectively referred to hereinafter as "Seller"), in all oil and gas leases, governmental orders or other instruments through which it derives title, in the section listed above, including, but not limited to, all existing wells (hereinafter the "Property"). Cimarex offers to purchase the Property for the cash sum of \$6,500. This offer and any obligation of Cimarex to purchase the Properties are expressly made subject to and conditional upon the following terms:

1. The Property shall be deemed to include all non-developed leases and working (including any mineral interests) and net revenue (including any overriding royalty) interests in and to the Properties, including, but not limited to, the working and net revenue interests as described on Exhibit "A" attached hereto.
2. The sale shall include all of your right, title, and interest in and to all agreements, contracts and rights covering and affecting the Property, together with all equipment, fixtures, and personal property located on the Property, and includes any gas makeup rights under any gas balancing agreement or arrangement in all existing wells.
3. This offer is subject to Cimarex's review, approval, and acceptance, in its sole discretion, of all leases, assignments, farmout agreements, gas purchase contracts, operating agreements, marketing arrangements, production data, gas balancing statements (including, but not limited to, a finding that gas balancing for all



existing wells is determined on a well-by-well basis), division orders, title opinions, revenue expense data, and all other contracts and documents relating to the Property. This offer is also subject to a review, results of which are reasonably satisfactory to Cimarex, of all legal and financial information relating to the Properties and a physical inspection of the Properties.

4. All revenue, gas balancing, tax expense, and other adjustments shall be made to the purchase price as of the effective date of the purchase.
5. The Effective Date of Cimarex's purchase of the Properties shall be 7:00 a.m. Central Standard Time, April 1, 2006.
6. Seller represents that the interest to be conveyed to Cimarex in and to the Properties is an undivided working interest in all the lands within the producing unit and is not limited in depth. In connection with this requirement, you agree to provide to Cimarex all necessary information reflecting your ownership of the Properties. Should such information indicate that your interest in the Properties differs from that specified on the attached Exhibit "A", or if your interest is materially out of gas balance, then this offer will be adjusted accordingly or withdrawn.
7. The Properties shall be free and clear of all liens, mortgages, and encumbrances of every nature and kind. Seller represents that there are no outstanding preferential rights to purchase or consents to assign and that production from the Properties is not subject to a call on production.
8. With respect to existing or potential environmental liabilities affecting the Property, the parties agree that Seller will indemnify and hold Cimarex harmless from all existing claims which have currently been asserted or are the subject of any pending litigation. With respect to other claims, Seller will indemnify Cimarex for all liability resulting from activities prior to April 1, 2006. Cimarex will indemnify Seller from all claims resulting from activities on or after April 1, 2006. These cross-indemnities shall indemnify against all costs, including, but not limited to, attorney's fees, expert fees, costs incurred in connection with investigation of conditions on the Property or any other cost or expense of any kind.
9. Cimarex shall be entitled to Seller's original files at closing.
10. This offer is further subject to the negotiation, execution and delivery of a form of assignment acceptable to Cimarex.



11. The parties shall agree on a closing date which shall be no later than thirty (30) days after the date on which this letter is accepted by Seller.

Absent your response, we must terminate our offer at the close of business April 10, 2006.

Very truly yours,

CIMAREX ENERGY CO.

A handwritten signature in cursive script, appearing to read "Anthony J. Cervi".

Anthony J. Cervi
Landman

AGREED TO AND ACCEPTED THIS _____ DAY OF APRIL, 2006.

ATAHUALPA INVESTMENTS, N.V.

Name:
Title:

AGREED TO AND ACCEPTED THIS _____ DAY OF APRIL, 2006.

COMPAGNIE FINANCIERE SUISSE, S.A.

Name:
Title:

AGREED TO AND ACCEPTED THIS _____ DAY OF APRIL, 2006.

HORSENS, INC.

Name:
Title:



EXHIBIT "A"

To Letter Agreement dated March 31, 2006,
Between Cimarex Energy Co. ("Cimarex") and Atahualpa Investments, N.V., Compagnie
Financiere Suisse, S.A., and Horsens, Inc. ("Seller")

The Properties shall include, but not be limited to, the following:

The unit rights vested in Seller as listed below, in **Section 8-15S-36E, Lea County, New Mexico**, including all right, title and interest in and to all Oil and Gas Leases, governmental orders or other instruments through which Seller is vested with an interest insofar as such leases, orders and/or instruments cover interests in **Section 8-15S-36E, Lea County, New Mexico**.

Sellers	Net Acres
Atahualpa Investments, N.V.	0.244873
Compagnie Financiere Suisse, S.A.	14.692383
Horsens, Inc.	0.979492

Cimarex Energy Co.
5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



VIA FEDERAL EXPRESS

April 3, 2006

TO ALL WORKING INTEREST OWNERS
(Addressee List Attached)

Re: Caudill West 8 Fee # 2
N $\frac{1}{2}$ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico
1250' FNL & 660' FEL

Gentlemen:

Pursuant to our letter dated March 10, 2006, proposing to drill the above captioned well, please find enclosed a revised joint operating agreement. If you intend to participate, please execute and return the appropriate signature page to the attention of the undersigned as soon as possible. Also, please return an executed AFE indicating your well control insurance preference if you have not already done so. If you do not wish to participate, we respectfully request your consideration of either option listed below:

1. Grant a Lease or Term Assignment to Cimarex for \$350/acre, with a one-year term, delivering an 80% net revenue interest, proportionately reduced; or
2. Grant a Farmout to Cimarex, with a one-year term, delivering a 75% net revenue interest, proportionately reduced.

Your prompt attention to this matter is appreciated. If you have any questions, please do not hesitate to contact me at 972-443-6452.

Very truly yours,

CIMAREX ENERGY CO.

Anthony J. Cervi
Landman
Permian Basin Region

Enclosures

Caudill West 8 Fee # 2
Working Interest Owners

Atahualpa Investments, N.V.
Attn: Jorgen Christiansen
7920 Belt Line Road, Suite 280
Dallas, Texas 75254

Chesapeake Exploration Limited Partnership
Attn: Lynda Townsend
6100 N. Western Ave.
Oklahoma City, Oklahoma 73118

Compagnie Financiere Suisse, S.A.
Attn: Jorgen Christiansen
7920 Belt Line Road, Suite 280
Dallas, Texas 75254

Devon Louisiana Corporation
Attn: Chuck Lundeen
20 N. Broadway Avenue
Oklahoma City, Oklahoma 73102-8260

Gahr Energy Company
P.O. Box 1889
Midland, TX 79702

Horsens, Inc.
Attn: Jorgen Christiansen
7920 Belt Line Road, Suite 280
Dallas, Texas 75254

M. Wayne Luna
P.O. Box 1889
Midland, TX 79702

Pear Resources
P.O. Box 1889
Midland, TX 79702

Posse Energy, Ltd.
Attn: Land Manager
1221 McKinney, Suite 3700
Houston, Texas 77010

Sandra K. Lawlis
P.O. Box 1889
Midland, TX 79702

Unit Petroleum Company
Attn: Fred Schantz
407 N. Big Spring, Suite 101
Midland, TX 79701

Wadi Petroleum, Inc.
Attn: Judy Farrar
4355 Sylvanfield Drive, Suite 200
Houston, Texas 77014

**Tony Cervi**

From: Tony Cervi
Sent: Tuesday, April 04, 2006 3:06 PM
To: 'Hudson, Brett'
Cc: 'Lundeen, Chuck'
Subject: RE: Compulsory Pooling

Brett,

You are correct. Jim Bruce (who is also our attorney) contacted me this morning about it, and I will have him dismiss Devon as a respondent. I apologize for the mistake as we were in quite a rush to get that filed. Also, I sent another JOA to Chuck yesterday. Please have it executed and return to me at your earliest convenience. Please let me know if you have any questions.

Tony

From: Hudson, Brett [mailto:Brett.Hudson@dvn.com]
Sent: Tuesday, April 04, 2006 2:45 PM
To: Tony Cervi
Subject: Compulsory Pooling

Tony,

We are in receipt of an application for compulsory pooling regarding the N/2 of Sec. 8-T15S-R36E, Lea County, New Mexico. Devon Louisiana Corporation has been named as a respondent in this application.

Please be advised that Devon Louisiana Corporation was merged into Devon Energy Production Company, LP earlier this year.

Since Devon and Cimarex are subject to that certain Exploration and Development Agreement dated 12/1/2004, any well proposal election will be made pursuant to said agreement. We believe that we should not be named as a respondent in your pooling application. We have requested that our attorney enter an appearance on behalf of Devon at your hearing and seek to be removed as a respondent.

Thanks,

Brett A. Hudson

Petroleum Landman

Western Division

Devon Energy Production Company, L.P.

20 North Broadway

Oklahoma City, OK 73102-8260

Phone: 405-228-8589

Alternative Work Schedule "A"

4/7/2006

**Tony Cervi**

From: Tony Cervi
Sent: Thursday, April 06, 2006 9:30 AM
To: 'j.christiansen@bentley-yates.com'
Subject: Lea County, New Mexico
Attachments: 20060406093926986.pdf

Mr. Christiansen:

I understand you are on vacation for a couple of weeks, so I am attaching a letter I FedEx'd to your office last week. We had spoken about Cimarex purchasing your interest in these properties a couple of weeks ago. Please do not hesitate to contact me via email or telephone if you wish to further discuss. Thank you.

Tony

Anthony J. Cervi
Landman - Permian Basin Region
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, Texas 75039
972.443.6452 (direct)
972.443.6450 (fax)
972.953.5767 (cell)

4/7/2006

Cimarex Energy Co.
5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



March 31, 2006

Atahualpa Investments, N.V.
Compagnie Financiere Suisse, S.A.
Horsens, Inc.
7920 Belt Line Road, Suite 280
Dallas, Texas 75254

Attn: Jorgen Christiansen

Re: **Section 8, Township 15 South, Range 36 East**
Lea County, New Mexico

Dear Mr. Christiansen:

Cimarex Energy Co. ("Cimarex") wishes to purchase all of the right, title, and interest of **Atahualpa Investments, N.V., Compagnie Financiere Suisse, S.A., and Horsens, Inc.** (collectively referred to hereinafter as "Seller"), in all oil and gas leases, governmental orders or other instruments through which it derives title, in the section listed above, including, but not limited to, all existing wells (hereinafter the "Property"). Cimarex offers to purchase the Property for the cash sum of \$6,500. This offer and any obligation of Cimarex to purchase the Properties are expressly made subject to and conditional upon the following terms:

1. The Property shall be deemed to include all non-developed leases and working (including any mineral interests) and net revenue (including any overriding royalty) interests in and to the Properties, including, but not limited to, the working and net revenue interests as described on Exhibit "A" attached hereto.
2. The sale shall include all of your right, title, and interest in and to all agreements, contracts and rights covering and affecting the Property, together with all equipment, fixtures, and personal property located on the Property, and includes any gas makeup rights under any gas balancing agreement or arrangement in all existing wells.
3. This offer is subject to Cimarex's review, approval, and acceptance, in its sole discretion, of all leases, assignments, farmout agreements, gas purchase contracts, operating agreements, marketing arrangements, production data, gas balancing statements (including, but not limited to, a finding that gas balancing for all



existing wells is determined on a well-by-well basis), division orders, title opinions, revenue expense data, and all other contracts and documents relating to the Property. This offer is also subject to a review, results of which are reasonably satisfactory to Cimarex, of all legal and financial information relating to the Properties and a physical inspection of the Properties.

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5. The Effective Date of Cimarex's purchase of the Properties shall be 7:00 a.m. Central Standard Time, April 1, 2006.
6. Seller represents that the interest to be conveyed to Cimarex in and to the Properties is an undivided working interest in all the lands within the producing unit and is not limited in depth. In connection with this requirement, you agree to provide to Cimarex all necessary information reflecting your ownership of the Properties. Should such information indicate that your interest in the Properties differs from that specified on the attached Exhibit "A", or if your interest is materially out of gas balance, then this offer will be adjusted accordingly or withdrawn.
7. The Properties shall be free and clear of all liens, mortgages, and encumbrances of every nature and kind. Seller represents that there are no outstanding preferential rights to purchase or consents to assign and that production from the Properties is not subject to a call on production.
8. With respect to existing or potential environmental liabilities affecting the Property, the parties agree that Seller will indemnify and hold Cimarex harmless from all existing claims which have currently been asserted or are the subject of any pending litigation. With respect to other claims, Seller will indemnify Cimarex for all liability resulting from activities prior to April 1, 2006. Cimarex will indemnify Seller from all claims resulting from activities on or after April 1, 2006. These cross-indemnities shall indemnify against all costs, including, but not limited to, attorney's fees, expert fees, costs incurred in connection with investigation of conditions on the Property or any other cost or expense of any kind.
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Atahualpa Investments, N.V.
Compagnie Financiere Suisse, S.A.
Horsens, Inc.
March 31, 2006
Page 3



11. The parties shall agree on a closing date which shall be no later than thirty (30) days after the date on which this letter is accepted by Seller.

Absent your response, we must terminate our offer at the close of business April 10, 2006.

Very truly yours,

CIMAREX ENERGY CO.

A handwritten signature in cursive script, appearing to read "Anthony J. Cervi".

Anthony J. Cervi
Landman

AGREED TO AND ACCEPTED THIS _____ DAY OF APRIL, 2006.

ATAHUALPA INVESTMENTS, N.V.

Name:
Title:

AGREED TO AND ACCEPTED THIS _____ DAY OF APRIL, 2006.

COMPAGNIE FINANCIERE SUISSE, S.A.

Name:
Title:

AGREED TO AND ACCEPTED THIS _____ DAY OF APRIL, 2006.

HORSENS, INC.

Name:
Title:



EXHIBIT "A"

To Letter Agreement dated March 31, 2006,
Between Cimarex Energy Co. ("Cimarex") and Atahualpa Investments, N.V., Compagnie
Financiere Suisse, S.A., and Horsens, Inc. ("Seller")

The Properties shall include, but not be limited to, the following:

The unit rights vested in Seller as listed below, in Section 8-15S-36E, Lea County, New Mexico, including all right, title and interest in and to all Oil and Gas Leases, governmental orders or other instruments through which Seller is vested with an interest insofar as such leases, orders and/or instruments cover interests in Section 8-15S-36E, Lea County, New Mexico.

Sellers	Net Acres
Atahualpa Investments, N.V.	0.244873
Compagnie Financiere Suisse, S.A.	14.692383
Horsens, Inc.	0.979492

**Tony Cervi**

From: Tony Cervi
Sent: Friday, April 07, 2006 10:34 AM
Subject: Caudill West 8 Fee # 2 - Operating Agreement
Attachments: Caudill West 8 Fee # 2_JOA_Article XV (FINAL).pdf; Caudill West 8 Fee # 2_JOA_Article XV (with revisions shown).pdf

Ladies and Gentlemen:

I have attached a revised Article XV to the subject Operating Agreement. As we have discussed, this JOA is attached to an Exploration Agreement to which Cimarex is a party. Unfortunately, I did not realize until after I sent out the JOA that there were many typographical, grammatical, and spelling errors contained in the original Article XV. Therefore, I have corrected these errors and attached a FINAL version. I have also attached a file highlighting the changes that were made.

Please let me know if you have any questions. I am sorry for the inconvenience.

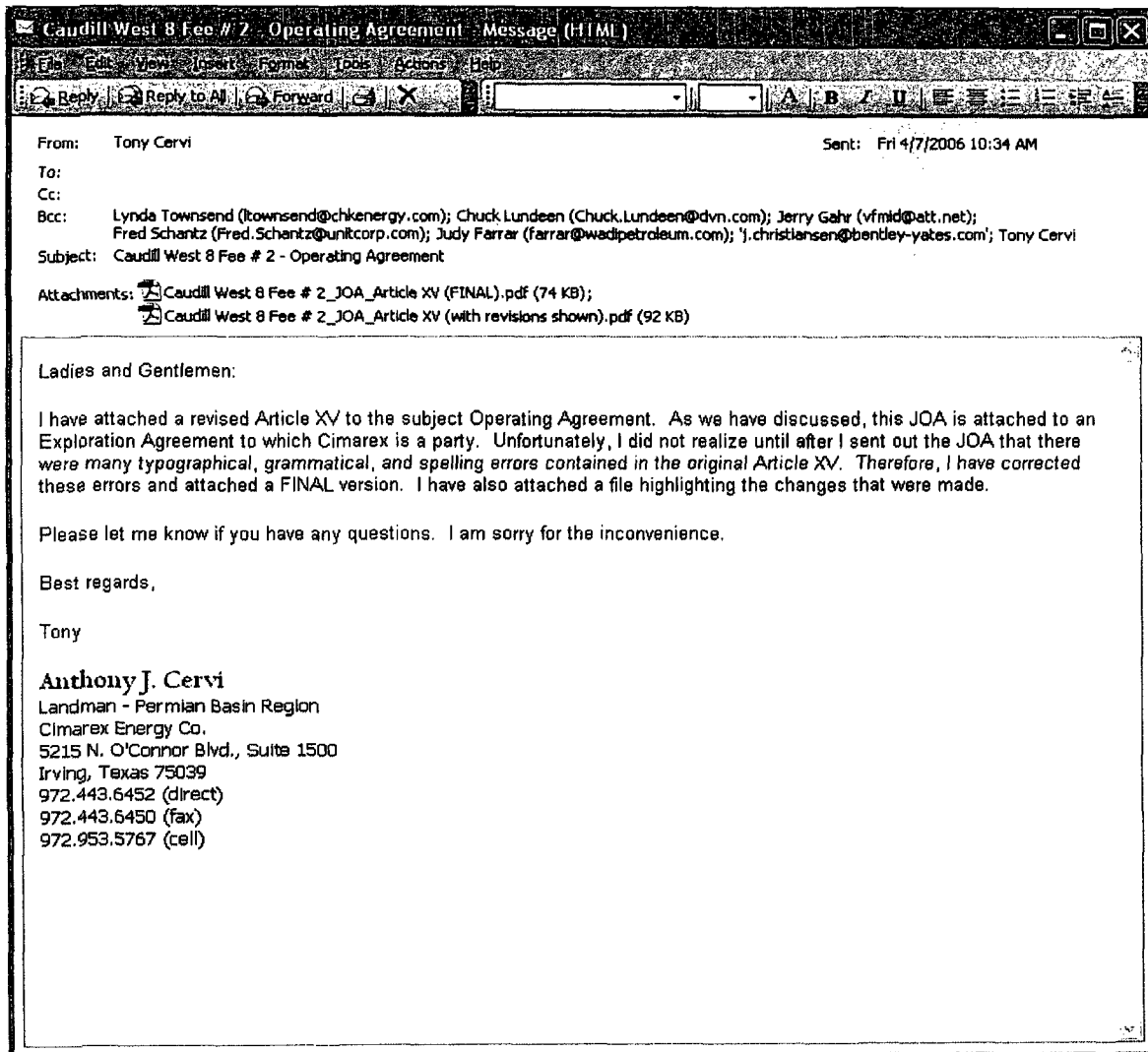
Best regards,

Tony

Anthony J. Cervi

Landman - Permian Basin Region
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, Texas 75039
972.443.6452 (direct)
972.443.6450 (fax)
972.953.5767 (cell)

4/7/2006



Tony Cervi

From: Terry Read
Sent: Friday, April 07, 2006 10:34 AM
To: Tony Cervi
Subject: Delivery Status Notification (Relay)

Attachments: ATT3400310.txt; Caudill West 8 Fee # 2 - Operating Agreement



ATT3400310.txt Caudill West 8 Fee
(454 B) # 2 - Opera...

This is an automatically generated Delivery Status Notification.

Your message has been successfully relayed to the following recipients, but the requested delivery status notifications may not be generated by the destination.

farrar@wadipetroleum.com

Tony Cervi

From: Terry Read
Sent: Friday, April 07, 2006 10:34 AM
To: Tony Cervi
Subject: Delivery Status Notification (Relay)

Attachments: ATT3400300.txt; Caudill West 8 Fee # 2 - Operating Agreement



ATT3400300.txt Caudill West 8 Fee
(450 B) # 2 - Opera...

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Chuck.Lundeen@dvn.com

Tony Cervi

From: Terry Read
Sent: Friday, April 07, 2006 10:34 AM
To: Tony Cervi
Subject: Delivery Status Notification (Relay)

Attachments: ATT3400290.txt; Caudill West 8 Fee # 2 - Operating Agreement



ATT3400290.txt Caudill West 8 Fee
(455 B) # 2 - Opera...

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ltownsend@chkenenergy.com

Tony Cervi

From: Postmaster [postmaster@worldnet.att.net]
Sent: Friday, April 07, 2006 10:34 AM
To: Tony Cervi
Subject: Delivery Notification

Attachments: ATT3400284.txt; ATT3400285.txt



ATT3400284.txt ATT3400285.txt (1
(379 B) KB)

Your message was successfully delivered to:

vfmid@att.net

Tony Cervi

From: Terry Read
Sent: Friday, April 07, 2006 10:35 AM
To: Tony Cervi
Subject: Delivery Status Notification (Relay)

Attachments: ATT3400273.txt; Caudill West 8 Fee # 2 - Operating Agreement



ATT3400273.txt Caudill West 8 Fee
(457 B) # 2 - Opera...

This is an automatically generated Delivery Status Notification.

Your message has been successfully relayed to the following recipients, but the requested delivery status notifications may not be generated by the destination.

Fred.Schantz@unitcorp.com

ARTICLE XV
OTHER PROVISIONS

A. With respect to a well drilled or deepened pursuant to Article VI.B.2. for which the Consenting Parties have not been fully reimbursed for the amounts provided in Article VI.B. ("Non-Consent Well"), the right to propose and to participate in further operations under Article VI.B. for such Non-Consent Well shall be limited as follows:

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1. Only a party which participated in the Non-Consent Well shall have the right to propose a reworking, plugging back or completion operation for such Non-Consent Well, and only those parties which elected to participate in such Non-Consent Well shall be entitled to receive such notice and to participate in such operation pursuant to Article VI.B.
2. Only a party which participated in the Non-Consent Well shall have the right to propose a deepening or sidetracking operation for such Well, but all parties (including parties which did not participate in such Well) shall be entitled to receive notice and shall have the right to participate pursuant to Article VI.B. in such sidetracking or deepening operation except as to a well covered by Article XV, Paragraph H. hereof. However, those parties which did not participate in the Non-Consent Well shall reimburse the Consenting Parties the unrecouped portion of the amount allowed by Article VI.B. to be recouped with respect to such Non-Consent Well.

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B. If Operator is not successful with its initial completion attempt in any well drilled pursuant to this Agreement, and recommends a subsequent completion attempt in another zone and if less than all parties elect to attempt such completion, the provisions of Article VI.B.2. shall apply. Provided, however, that Article VI.B.2 shall apply separately to each separate completion or recompletion attempt undertaken hereunder, and an election to become a Non-Consenting Party as to one completion or recompletion attempt shall not prevent a party from becoming a Consenting Party in subsequent completion or recompletion attempts regardless of whether the Consenting Parties, as to earlier completions or recompletions, have recouped their costs pursuant to Article VI.B.2., provided further, that any recoupment of costs by a Consenting Party shall be made solely from the production attributable to the zone in which the completion attempt is made. Election by a previous Non-Consenting Party to participate in a subsequent completion or recompletion attempt shall require such party to pay its proportionate share of the costs of salvable materials and equipment installed in the well pursuant to the previous completion or recompletion attempt, insofar and only insofar as such materials and equipment benefit the zone in which such party participates in a completion attempt. Notwithstanding the foregoing, to be entitled to the benefits of this Article a party must have participated in all operations prior to the initial completion attempt.

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C. Priority of Proposals:

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If at any time there is more than one operation proposed in connection with any well subject to this Agreement, and the parties participating in the well cannot agree upon the sequence and timing of further operations regarding the well, the following elections shall control in the order enumerated, as follows:

1. Prior to Reaching the Objective Depth

- a. Drilling a well to its Objective Depth shall have first priority over all other operations and proposals.
- b. In the event that impenetrable conditions or mechanical difficulties prevent reaching the Objective Depth, a proposal to sidetrack in an effort to reach the Objective Depth shall have priority over a proposal to attempt a completion in a formation already reached.

2. After the Objective Depth Has Been Reached

- a. An election to add additional logging, coring or testing.
- b. An election to attempt to complete the well at either the Objective Depth or objective formation.
- c. An election to deepen said well, in descending order.
- d. An election to plug back and attempt to complete said well, in ascending order.
- e. An election to sidetrack the well.
- f. An election to plug and abandon.

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It is provided, however, that if at the time said participating parties are considering any of the above elections the hole is in such a condition that a reasonable, prudent operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole in jeopardy or losing the same prior to completing the well in the Objective Depth or objective formation, such election shall not be given the priority hereinabove set forth.

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D. If any party is required under this Agreement to assign or relinquish to any other party or parties all or a portion of its working interest or production attributable thereto, the interest or production so assigned or relinquished shall be free and clear, not only of "subsequently created interest" as defined in Article III.D., but also of all mortgages, liens or other similar burdens placed thereon by the assigning party or resulting from its ownership and operation of such lease or interest on and after the date of this Agreement, but otherwise without warranty of title, express or implied, except against those parties claiming by, through and under but not otherwise, and assignee shall have the right of subrogation as to any warranties to which it may be entitled.

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E. Each party hereto covenants and agrees for itself, its successors and assigns, that any sales, assignment, sublease, mortgage, pledge or other instrument affecting the lease and lands subject to this instrument (whether of an operating or non-operating interest or a mortgage, pledge or other security interest) will be made and accepted subject to this instrument and the party acquiring the interest or security shall expressly agree to be bound by all its terms and provisions. Any party hereto who executes any instrument in favor of any party without complying with the provisions of this paragraph shall indemnify, defend and hold the other parties hereto harmless from and against any and all claims or causes of action by any person whomsoever and for any expenses and losses sustained as a result of the failure of such party to comply with these provisions.

F. The lien and security interest granted by each Non-Operator to Operator and by Operator to the Non-Operator under Article VII.B. shall extend not only to such party's oil and gas rights in the Contract Area (which for greater certainty shall include all of each party's leasehold interest and leasehold estate in the Contract Area), the oil and/or gas when extracted and equipment (as mentioned in said Article) but also to all accounts, contract rights, inventory and general intangibles constituting a part of, relating or arising out of said oil and gas rights, extracted oil and gas and said equipment or which are otherwise owned or held by any such party in the Contract Area. Further, the lien and security interest of each of said parties shall extend to all proceeds and products of all of the property and collateral described in this paragraph and in Article VII.B. as being subject to said lien and security interest. Any party, to the extent it deems necessary to perfect the lien and security interest provided herein, may file this Operating Agreement as a lien or mortgage in the applicable real estate records and as a financing statement with the property officer under the Uniform Commercial Code.

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G. If, following the granting of relief under the Bankruptcy Code to any party hereto as debtor thereunder, this Agreement should be held to be an executory contract within the meaning of 11 U.S.C. 365, then the Operator, or (if the Operator is the debtor in bankruptcy) any other party, shall be entitled to determination by debtor or any trustee for debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code as to the rejection or assumption of this Operating Agreement. In the event of an assumption, Operator or said other party shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties.

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H. If any party receiving a notice proposing to drill a well as provided in Article VI.B.1. elects not to participate in the proposed operation, then in order to be entitled to the benefits of this Article, the party or parties giving the notice and other parties who elect to participate in the operation shall within ninety (90) days after the expiration of the thirty (30) day notice period (or as promptly as possible after the expiration of the forty-eight (48) hour notice period when a drilling rig is on location, as the case may be) actually commence the proposed drilling operation and complete it with due diligence. Operator shall perform all 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 Non-Consenting Party, the Consenting Parties shall either: (1) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (2) designate one of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article, shall comply with all the terms and conditions of this Agreement.

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If less than all parties approve, any proposed drilling operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown of Exhibit "A"; or (b) carry its proportionate part of non-Consenting Parties' interest, and 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 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, as its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such drilling operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. 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 sole cost, risk and expense. If any well drilled under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and expense and the wells shall be turned over to the 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 of any well by the Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have farmed out to Consenting Parties, in proportion to Consenting Parties' respective interest, all of the Non-Consenting Party's right, title and interest in and to the wellbore and share of production therefrom, but shall reserve and retain an overriding royalty interest in all oil, gas and other mineral produced, saved and sold from the well equal to the difference between twenty-five percent (25.00%) and the base lease royalties and all other burdens of record as of the date of this Agreement. Such overriding royalty interest shall be in addition to presently effective royalties, overriding royalties, production payments, if any, and shall be free and clear of all costs except ad valorem, production and severance taxes assessed thereon. Said overriding royalty interest shall be proportionately reduced and shall be payable in the proportion that the Non-Consenting Party's interest in the leases covering the lands contained within the spacing unit for the producing well bears to the entire mineral interest.



After the well has been drilled to the proposed depth and completed as a well capable of commercial production, upon receipt of a written request from Consenting Parties, each Non-Consenting Party shall execute and deliver to the Consenting Parties an assignment conveying to the Consenting Parties all of each Non-Consenting Party's right, title and interest in and to the wellbore and share of production therefrom, from the surface of the ground down to one hundred (100) feet below the stratigraphic equivalent of the total depth drilled in the well. Each Non-Consenting Party shall except from such assignment and reserve and retain unto themselves its overriding royalty interest.

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This Paragraph H applies only to drilling wells and not to subsequent operations such as a rework, deepen, recomplete, or sidetrack operation of an existing well.

- I. At the request of any party, all of the parties hereto shall execute a recordable Memorandum and Financing Statement referring to this Agreement, the Contract Area of this Agreement, and the rights and obligations of the parties under this Agreement.
- J. This Agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations and orders of any duly constituted regulatory body of said state, and to all other applicable Federal, state and local laws, ordinances, rules, regulations and orders.
- K. In the event of a conflict between the provisions of this Article XV, and any other provision of this Operating Agreement, the provisions of this Article XV shall control and prevail.

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- Deleted: And
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- Deleted: Shall

**Tony Cervi**

From: Judy Farrar [farrar@wadipetroleum.com]
Sent: Friday, April 07, 2006 10:49 AM
To: Tony Cervi
Subject: Re: Caudill West 8 Fee # 2 - Operating Agreement

Tony, I was in the process of faxing you our revised pages to the JOA when I received your email. Some of our revisions may be what you have sent to Wadi. Once you get our revisions and have reviewed them give me a call. There are some provisions that Wadi has a real problem with. Thanks.

----- Original Message -----

From: Tony Cervi
Sent: Friday, April 07, 2006 10:34 AM
Subject: Caudill West 8 Fee # 2 - Operating Agreement

Ladies and Gentlemen:

I have attached a revised Article XV to the subject Operating Agreement. As we have discussed, this JOA is attached to an Exploration Agreement to which Cimarex is a party. Unfortunately, I did not realize until after I sent out the JOA that there were many typographical, grammatical, and spelling errors contained in the original Article XV. Therefore, I have corrected these errors and attached a FINAL version. I have also attached a file highlighting the changes that were made.

Please let me know if you have any questions. I am sorry for the inconvenience.

Best regards,

Tony

Anthony J. Cervi
Landman - Permian Basin Region
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, Texas 75039
972.443.6452 (direct)
972.443.6450 (fax)
972.953.5767 (cell)

4/10/2006



WADI PETROLEUM, INC.

4355 Sylvanfield Drive, Suite 200
Houston, Texas 77014
281-583-2888 Fax 281-583-0504

April 7, 2006

VIA FACSIMILE

Mr. Anthony Cervi
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, Texas 75039

RE: Caudill West 8 Fee #2
T15S R36E
Section 8: N/2
Lea County, New Mexico

Dear Mr. Cervi:

Wadi Petroleum, Inc. received the revised Joint Operating Agreement dated April 3, 2006 (JOA) on the referenced well. Upon review of the JOA Wadi requests the following revisions:

- 1) Article II. Page 1. Line 56. This exhibit should not be lined out.
- 2) Article III.A. Page 2. Lines 4-8. Delete, there is no Exhibit B.
- 3) Article VI.C. Page 7. Line 67. Add after "Each party shall *have the right to*".
- 4) Article VI E.2. Page 8. Line 44. Add at the end of first sentence "*who participated in the cost of drilling the well*".
- 5) Article VI. Page 8. Line 57. Delete, this is a duplicate line.
- 6) Article VI. Page 8. Lines 64 thru 67. Wadi will not agree to this paragraph as worded.
- 7) Article XV. Item H. Page 2. 4th & 5th paragraphs. Will not agree to rewarding non-consent partners with an ORRI.
- 8) Article XVI. Page 15. Line 11. Need name.
- 9) Exhibit A. Interest of parties.
The Unleased Mineral Interest needs to be addressed within the JOA. Who is going to pay for the Unleased Mineral Interests share of the costs of the well? Is it going to be proportionately distributed among the working interest owners, etc.?
- 10) Exhibit B. A page needs to be inserted that states there is no Exhibit B to this Contract.
- 11) Exhibit C. COPAS. Article III.A.3. Page 5. Line 31 thru Line 37 delete. Add to first sentence "*by the percent of increase or decrease as published by COPAS.*"
- 12) Exhibit C. Page 6. Line 1. A number needs to be added here.
- 13) Exhibit E. Page 1. Line 62. 1.16 needs to be checked and add *October, November, December*. Line 63 needs the addition of *Jan, Feb, Mar*.
- 14) Exhibit E. Page 1. Line 67. Alternate 1 Mcfs should be checked.
- 15) Exhibit E. Page 2. Line 45. 4.2 should be checked and add to line 48 six (6).
- 16) Exhibit E. Page 3. Line 25. Delete check at 7.3 and add check to line 29 - 7.3.
- 17) Exhibit E. Page 4. Line 17. 7.9. Delete check.

18) Exhibit E. Page 4. Line 35. Replace 30 with five (5).

Page 2

Letter dated April 7, 2006

18) Exhibit E. Page 4. Line 35. Replace 30 with *five (5)*.

19) Exhibit E. Page 4. Line 36. Replace 7 with *twenty-four (24)*.

20) Exhibit E. Page 5. Line 39. Check 13.2.

21) Exhibit E. Page 5. Lines 43 & 45. Add *"thirty (30)"*.

22) Exhibit E. Page 5a. Item 14.1. Delete this item.

23) Exhibit E. Page 5a. Item 14.2. Revise last line to read "Costs incurred by the independent engineer shall be borne by *"only the imbalanced parties"*."

24) Exhibit F. Item 6. Delete. The JOA should not be cancelled because of Operator's non-compliance.

In order to lessen any confusion that you may have in regards to my comments above, I have attached revised pages where appropriate with the corresponding number per revision or comment.

Should Cimarex be agreeable to the revisions suggested by Wadi, we ask that you initial each revision as it appears on the attached pages along with a copy of this letter in the space provided below and return by fax the initialed pages and an executed copy of this page.

Upon agreement of a mutually acceptable Joint Operating Agreement Wadi will provide our election to the well proposal.

Thank you and should you like to discuss our revisions or comments, please give me a call.

Yours truly,


Judy Farrar
Land Manager

Attachment

Cimarex Energy Co. agrees with the above revisions to the Joint Operating Agreement dated April 3, 2006.

Cimarex Energy Co.

By: _____

Its: _____

Date: _____

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Cimarex Energy Co.

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 "drill site" 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.

☐ 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.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

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 lesser 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 all existing royalties and other burdens which are not subsequently created interests 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 Contract Area ~~on the / before of any proposed well prior to commencement of drilling operations on the~~ the Drilling Parties as request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around each well. 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 reduced 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.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE VI
continued

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VII.A. 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 after it has been drilled to the depth specified in Article VII.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

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

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

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

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

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and 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 costs incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party'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 instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

have the right to

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

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

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 VII.B., shall be entitled to receive payment directly from the purchaser thereof for
5 its share of all 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 produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning the share of
9 the obligation to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party, to
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 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, ^{which} 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, tank tables, daily gauge and run tickets and reports of stock on hand at the test 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.

30 31 E. Abandonment of Wells:

32
33 1. Abandonment of Dry Holes: Except for any well drilled ^{sidetracked} ~~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 and 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 WHO PARTICIPATED IN THE COST OF DRILLING 43 THE WELL.

44 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
45 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
46 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
47 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
48 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,
49 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
50 parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of
51 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
52 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
53 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-
54 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
55 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-
56 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-
57 duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

58 * In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate
59 share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party
60 owning it, but not the obligation to purchase such oil or sell it to others in an arms length transaction at any time and from
61 time to time, for the account of the non-taking party and Operator will use its best efforts to market Non-operator's share of the oil
62 and/or gas on the same terms that Operator marketed its own share of such production. Any such purchase or sale by Operator shall
63 be subject always to the right of the owner of the production upon thirty (30) days written notice to exercise its right to take in kind
64 or separately dispose of its share of oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any
65 other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the
66 industry under the particular circumstances, but in no event for a period in excess of one (1) year.

67 ** Each party desiring to take in kind or separately dispose of its proportionate share of the production from the Contract Area
68 shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Upon request, Operator shall
69 furnish operator with true and complete copies of the records required to be kept hereunder whenever, under the
70 terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information.
Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its obligations
Operator and shall otherwise be kept confidential.

parties hereto harmless from and against any and all claims or causes of action by any person whomsoever and for any expenses and losses sustained as a result of the failure of such party to comply with these provisions.

- F. The lien and security interest granted by each Non-Operator to Operator and by Operator to the Non-Operator under Article VII.B. shall extend not only to such party's oil and gas rights in the Contract Area (which for greater certainty shall include all of each party's leasehold interest and leasehold estate in the Contract Area), the oil and/or gas when extracted and equipment (as mentioned in said Article) but also to all accounts, contract rights, inventory and general intangibles constituting a part of, relating or arising out of said oil and gas rights, extracted oil and gas and said equipment or which are otherwise owned or held by any such party in the Contract Area. Further, the lien and security interest of each of said parties shall extend to all proceeds and products of all of the property and collateral described in this paragraph and in Article VII.B. as being subject to said lien and security interest. Any party, to the extent it deems necessary to perfect the lien and security interest provided herein, may file this Operating Agreement as a lien or mortgage in the applicable real estate records and as a financing statement with the property officer under the Uniform Commercial code.
- G. If, following the granting of relief under the Bankruptcy Code to any party hereto as debtor thereunder, this Agreement should be held to be an executory contract within the meaning of 11 U.S.C. 365, then the Operator, or (if the Operator is the debtor in bankruptcy) any other party, shall be entitled to determination by debtor or any trustee for debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code as to the rejection or assumption of this Operating Agreement. In the event of an assumption, Operator or said other party shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties.
- H. If any party receiving a notice proposing to drill a well as provided in Article VI.B.1. elects not to participate in the proposed operation, then in order to be entitled to the benefits of this Article, the party or parties giving the notice and other parties as shall elect to participate in the operation shall within ninety (90) days after the expiration of the thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed drilling operation and complete it with due diligence. Operator shall perform all 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 non-consenting party, the consenting parties shall either: (1) request Operator to perform the work required by such proposed operation for the account of the consenting parties, or (2) designate one of the consenting parties as Operator to perform such work. Consenting parties, when conducting operations on the Contract area pursuant to this Article, shall comply with all the terms and conditions of this Agreement.

If less than all parties approved any proposed drilling operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the consenting parties of the total interest of the parties approving such operation and its recommendation as to whether the consenting parties should proceed with the operation as proposed. Each consenting party, within forty-eight (48) hours after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown of Exhibit "A" or (b) carry its proportionate part of non-consenting parties' interest, and 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 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, as its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such drilling operations shall be borne by the consenting parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the consenting parties. 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 sole cost, risk and expense. If any well drilled under provisions of this Article results in a producer of oil and/or gas in paying quantities, the consenting parties shall complete and equip the well to produce at their sole cost and expense and the well shall be turned over to the 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 of any well by the consenting parties, in accordance with the provisions of this Article, each non-consenting party shall be deemed to have parted out to consenting parties, in proportion to consenting parties' respective interest, all of the non-consenting party's right, title and interest in and to the wellbore and share of production therefrom, but shall reserve and retain an overriding royalty interest in all oil, gas and other mineral produced, saved and sold from the well equal to the difference between twenty five (25.00%) percent and the base lease royalties and all other burdens of royalty as of the date of this agreement. Such overriding royalty interest shall be in addition to presently effective royalties, overriding royalties, production payments, if any, and shall be free and clear of all costs, charges and valorem, production and severance taxes assessed thereon. Said overriding royalty interest shall be proportionately reduced and shall be payable in the proportion that the non-consenting party's interest in the leases covering the lands contained within the spacing unit for the producing well bears to the entire relevant interest.

After the well has been drilled to the proposed depth and completed as a well capable of commercial production, upon receipt of a written request from consenting parties, each non-consenting party shall execute and deliver to the consenting parties an assignment conveying to the consenting parties all of each non-consenting party's right, title and interest in non-consenting party's right, title and interest in and to the wellbore and share of production therefrom, from the surface of the ground down to one hundred (100) feet below the stratigraphic equivalent of the total depth drilled in the well. Each non-consenting party shall except from such assignment and reserve and retain unto themselves its overriding royalty interest.

This paragraph H. applies only to drilling wells and not to subsequent operations such as a rework, deepen, recompleat, or sidetrack operation of an existing well.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

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 as original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of April day of 3rd, (year) 2006.

8
NAME

who has prepared and circulated this form for execution, represents and warrants that the form was printed from and ~~with the exception noted 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 Articles~~ have been made to the form.

OPERATOR

CIMAREX ENERGY CO.

By: Roger Alexander
Its: Attorney-in-Fact

NON-OPERATORS

DEVON LOUISIANA CORPORATION

By: D. D. DeCarlo
Its: Vice President

Exhibit "A" to that certain Operating Agreement dated April 3, 2006
Page 2

Sandra K. Lawlis 0.050000%
P.O. Box 1889
Midland, TX 79702

Unit Petroleum Company 6.121826%
Attn: Fred Schantz
407 N. Big Spring, Suite 101
Midland, TX 79701

Wadi Petroleum, Inc. 18.365479%
Attn: Judy Farrar
4355 Sylvanfield Drive, Suite 200
Houston, Texas 77014

Unleased Mineral Interest 6.602821% 9

OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT

Lessor: Brandon D. Lee.
Lessee: Clay Johnson.
Lands Covered: N/2 NW/4 of Section 8, T15S - R36E
Date: February 12, 2005.
Recorded: Book 1364, page 495, Lea County records.

Lessor: Linda K. O'Rear.
Lessee: Clay Johnson.
Land Covered: N/2 NW/4 of Section 8, T15S - R36E
Date: February 7, 2005.
Recorded: Book 1364, page 511, Lea County Records.

Lessor: L. G. Caudill, Jr., Personal Representative of the Estate of Leslie Graydon Caudill.
Lessee: Clay Johnson.
Land Covered: N/2 NW/4 of Section 8, T15S - R36E
Date: February 25, 2005.
Recorded: Book 1372, page 480, Lea County Records.

Lessor: Elvis Pearl Caudill and wife, Eva Pauline Caudill.
Lessee: Clay Johnson.
Land Covered: N/2 NW/4 of Section 8, T15S - R36E, containing 400 acres, more or less.
Date: January 3, 2005.
Recorded: Book 1355, page 340, Lea County Records.

Lessor: Hershel V. Caudill, Jr.
Lessee: Clay Johnson.
Land Covered: N/2 NW/4 of Section 8, T15S - R36E
Date: February 25, 2005.
Recorded: Book 1372, page 483, Lea County Records.

Lessor: Ila M. Caudill Gilliam.
Lessee: Clay Johnson.
Land Covered: N/2 NW/4 of Section 8, T15S - R36E
Date: February 25, 2005.
Recorded: Book 1373, page 14, Lea County Records.

Lessor: Barbara A. Caudill Heine.
Lessee: Clay Johnson.
Land Covered: N/2 NW/4 of Section 8, T15S - R36E
Date: February 25, 2005.
Recorded: Book 1373, page 36, Lea County Records.

COPAS

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 date 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 each 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.* 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 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. *by the percent of increase or decrease published by COPAS.

B. Overhead - Percentage Basis

- (1) Operator shall charge the Joint Account at 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 oil 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 similar 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 logging 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.

2. 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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Societies

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12

Account for overhead based on the following rates for any Major Construction project in excess of \$_____

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2 % 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. 5 % of total costs through \$100,000; plus
- B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2 % 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 Lima, 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, use 80,000

A.A.P.L. FORM 610-E - GAS BALANCING AGREEMENT - 1992

AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM AAPL NO. 6

- 1 NOTE: Instructions For Use of Gas Balancing
2 Agreement MUST be reviewed before finalizing
3 this document.

EXHIBIT "E"

GAS BALANCING AGREEMENT ("AGREEMENT")

ATTACHED TO AND MADE PART OF THAT CERTAIN

OPERATING AGREEMENT DATED April 3, 2005BY AND BETWEEN Cintra Energy Co. as OperatorAND Decon Louisiana Corporation, et al. as Non-Operators

("OPERATING AGREEMENT")

RELATING TO THE N/2 Sec. 8-T155-R36F

AREA,

La

COUNTY/PARISH, STATE OF

New Mexico

1. DEFINITIONS

The following definitions shall apply to this Agreement:

1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are representative of prices and delivery conditions existing under other similar agreements in the area between unaffiliated parties at the same time for natural gas of comparable quality and quantity.

1.02 "Balancing Area" shall mean (select one):

☒ each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a single well is completed in two or more producing intervals, each producing interval from which the Gas production is not commingled in the wellbore shall be considered a separate well.

☐ all of the acreage and depths subject to the Operating Agreement.

☐

1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced from the Balancing Area during each month.

1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel, recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.

1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic foot of space at a standard pressure base and at a standard temperature base.

1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute.

1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the event this Agreement is not employed in connection with an operating agreement, the individual or entity designated as the operator of the well(s) located in the Balancing Area.

1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors, transferees and assigns.

1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the Balancing Area pursuant to the Operating Agreement covering the Balancing Area.

1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding royalties, production payments or similar interests.

1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

1.16 ☒ (Optional) "Winter Period" shall mean the month(s) of October, November, December in one calendar year and the month(s) of January, February, March in the succeeding calendar year.

2. BALANCING AREA

2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in (Alternative 1) ☒ Mcfs or (Alternative 2) ☐ MMBtus.

2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

3. RIGHT OF PARTIES TO TAKE GAS

3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes or other identifying description nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter location, relating to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other

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1 requirements. Operator is authorized to deliver the volumes so nominated / and confirmed (if confirmation is required) to the
2 transporting pipeline in accordance with the terms of this Agreement, provided however, the Well is capable of delivering the nominated volume for the
3 applicable Party or Parties.

3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the
4 extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to
5 preserve correlative rights, or to maintain oil production.

3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the
6 right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any
7 Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced
8 Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all
9 Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not
10 taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the
11 Balancing Area bear to the total Percentage Interests of such Parties.

3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is
12 underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being to such taking
13 Party.

3.5 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any
14 Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum
15 Monthly Availability; ^{unless agreed to by all Parties hereto} provided, however, that this limitation shall not apply to the extent that it would preclude production
16 that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative
17 rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of
18 production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum
19 efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency,
20 mode of operation, production facility capabilities and pipeline pressures.

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be
21 produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or
22 to maintain oil production, the Operator may sell / ^{if it elects} any part of such Party's Full Share of Current Production for such Party fails
23 to take for the account of such Party and tender to such Party, on a current basis, the full proceeds of the sale, less any
24 reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of
25 such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain
26 such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to place any of its
27 markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent
28 with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one
29 year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall
30 be deemed to be Gas taken for the account of such Party.

31 **4. IN-KIND BALANCING**

4.1 Effective the first day of any calendar month following / ^{reasonable notice of} thirty ^{if required by Operator,} 31 days' prior
32 written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current
33 Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined
34 by multiplying thirty-five percent (35 %) of the Full Shares of Current Production of all Overproduced Parties by
35 a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which
36 is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In the event will an
37 Overproduced Party be required to provide more than thirty-five percent (35 %) of its Full Share of Current
38 Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced
39 Party to begin taking Makeup Gas.

4.2 ☒ (Optional - Seasonal Limitation on Makeup - Option 1) Notwithstanding the provisions of Section 4.1, the
40 average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1
41 shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the
42 six (6) months immediately preceding the Winter Period.

4.3 ☐ (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, no
44 Overproduced Party will be required to provide more than _____ percent (____ %) of its Full Share
45 of Current Production for Makeup Gas during the Winter Period.

4.4 ☒ (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or
46 (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced
47 Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may
48 be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to
49 one hundred percent (100 %) of such Overproduced Party's Full Share of Current Production.

50 **5. STATEMENT OF GAS BALANCES**

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volume of Gas that each
51 Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within ^{Party's} 7 ~~45~~ days
52 after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of
53 Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between
54 the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or
55 Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum
56 Accountants Societies Bulletin No.24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to
57 the Operator any data required by the Operator for preparation of the statements required hereunder.

5.2 If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or
58 where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation
59 volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and
60 during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit
61 will be charged to the account of the Party failing to provide the required data.

62 **6. PAYMENTS ON PRODUCTION**

6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas
63 actually taken by such Party.

6.2 ☐ (Alternative 1 - Entitlements) Each Party shall pay or cause to be paid all Royalty due with respect to Royalty

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1 owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of
2 Current Production.

3 6.2.1 ☐ (Optional - For use only with Section 6.2 - Alternative 1 - Entitlement) Upon written request of a Party
4 taking less than its Full Share of Current Production in a given month ("Current Underproducer"), any Party taking more than
5 its Full Share of Current Production in such month ("Current Overproducer") will pay to such Current Underproducer an
6 amount each month equal to the Royalty percentage of the proceeds received by the Current Overproducer for that portion of
7 the Current Underproducer's Full Share of Current Production taken by the Current Overproducer, provided, however, that
8 such payment will not exceed the Royalty percentage that is common to all Royalty burdens in the Balancing Area. Payments
9 made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners for purposes of
10 Section 7.5.

11 6.2 ☒ (Alternative 2 - Sales) Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to
12 whom it is accountable based on the volume of Gas actually taken for its account.

13 6.3 In the event that any governmental authority requires that Royalty payments be made on any other basis than that
14 provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date
15 required by such governmental authority, and the method provided for herein shall be thereby superseded.

16 7. CASH SETTLEMENTS

17 7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination
18 of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken
19 from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash
20 settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

21 7.2 Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each
22 Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each
23 Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the methodology
24 set out in Section 7.4.

25 7.3 ☒ (Alternative 1 - Direct Party-to-Party Settlement) Within sixty (60) days after receipt of the Final Gas Settlement
26 Statement, each Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash
27 settlement, accompanied by appropriate accounting detail. At the time of payment, the Overproduced Party will notify the
28 Operator of the Gas imbalance settled by the Overproduced Party's payment.

29 7.3 ☒ (Alternative 2 - Settlement Through Operator) Within sixty (60) days after receipt of the Final Gas Settlement
30 Statement, each Overproduced Party will send its cash settlement, accompanied by appropriate accounting detail, to the
31 Operator. The Operator will distribute the monies so received, along with any settlement owed by the Operator as an
32 Overproduced Party, to each Underproduced Party to whom settlement is due within ninety (90) days after issuance of the
33 Final Gas Settlement Statement. In the event that any Overproduced Party fails to pay any settlement due hereunder, the
34 Operator may turn over responsibility for the collection of such settlement to the Party to whom it is owed, and the Operator
35 will have no further responsibility with regard to such settlement.

36 7.3.1 ☒ (Optional - For use only with Section 7.3, Alternative 2 - Settlement Through Operator) Any Party shall have
37 the right at any time upon thirty (30) days' prior written notice to all other Parties to demand that any settlements due such
38 Party for Overproduction be paid directly to such Party by the Overproduced Party, rather than being paid through the
39 Operator. In the event that an Overproduced Party pays the Operator any sums due to an Underproduced Party at any time
40 after thirty (30) days following the receipt of the notice provided for herein, the Overproduced Party will continue to be liable
41 to such Underproduced Party for any sums so paid, until payment is actually received by the Underproduced Party.

42 7.4 ☒ (Alternative 1 - Historical Sales Basis) The amount of the cash settlement will be based on the proceeds
43 received by the Overproduced Party under an Arm's Length Agreement for the Gas taken from time to time by the
44 Overproduced Party in excess of the Overproduced Party's Full Share of Current Production. Any Makeup Gas taken by the
45 Underproduced Party prior to monetary settlement hereunder will be applied to offset Overproduction chronologically in the
46 order of accrual.

47 7.4 ☐ (Alternative 2 - Most Recent Sales Basis) The amount of the cash settlement will be based on the proceeds
48 received by the Overproduced Party under an Arm's Length Agreement for the volume of Gas that constituted Overproduction
49 by the Overproduced Party from the Balancing Area. For the purpose of implementing the cash settlement provision of the
50 Section 7, an Overproduced Party will not be considered to have produced any of an Underproduced Party's share of Gas until
51 the Overproduced Party has produced cumulatively all of its Percentage Interest share of the Gas ultimately produced from the
52 Balancing Area.

53 7.5 The values used for calculating the cash settlement under Section 7.4 will include all proceeds received for the sale of the
54 Gas by the Overproduced Party calculated at the Balancing Area, after deducting any production or severance taxes paid and any
55 Royalty actually paid by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments
56 amounted to a discharge of said Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression,
57 treating, gathering or transportation costs incurred directly in connection with the sale of the Overproduction.

58 7.5.1 ☒ (Optional - For Valuation Under Percentage of Proceeds Contracts) For Overproduction sold under a gas
59 purchase contract providing for payment based on a percentage of the proceeds obtained by the purchaser from resale of
60 residue gas and liquid hydrocarbons extracted at a gas processing plant, the values used for calculating cash settlement will
61 include proceeds received by the Overproduced Party for both the liquid hydrocarbons and the residue gas attributable to the
62 Overproduction.

63 7.5.2 ☐ (Optional - Valuation for Processed Gas - Option 1) For Overproduction processed for the account of the
64 Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the full quantity of the Overproduction
65 will be valued for purposes of cash settlement at the prices received by the Overproduced Party for the sale of the residue gas
66 attributable to the Overproduction without regard to proceeds attributable to liquid hydrocarbons which may have been
67 extracted from the Overproduction.

68 7.5.2 ☒ (Optional - Valuation for Processed Gas - Option 2) For Overproduction processed for the account of the
69 Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash
70 settlement will include the proceeds received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from
71 the Overproduction, less the actual reasonable costs incurred by the Overproduced Party to process the Overproduction and to
72 transport, fractionate and handle the liquid hydrocarbons extracted therefrom prior to sale.

73 7.6 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash
74 settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the

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1 Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event
2 that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be
3 based on the spot sales prices published for the applicable geographic area during such month in a mutually acceptable pricing
4 bulletin.

5 Prime rate in effect at Bank of America, Denver, Colorado
6 7.7 Interest compounded at the ~~rate of~~ percent () per annum or its maximum lawful
7 rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1 beginning
8 the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any
9 Overproduced Party in the proportion that their respective delays beyond the deadline set out in Sections 7.2 and 7.3
10 contributed to the accrual of the interest. The Operator shall also be required to pay such interest if it has received payments from an Overproduced
11 Party but failed to timely pay the Underproduced Party.

12 7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party
13 an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the
14 Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be
15 furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by
16 agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an
17 in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement until the Parties
18 fail to reach agreement on an in-kind settlement.

19 7.9 ☒ (Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an
20 Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or
21 other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such
22 governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced
23 Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental
24 authority.

25 7.10 ☐ (Optional - Interim Cash Balancing) At any time during the term of this Agreement, any Overproduced Party
26 may, in its sole discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas
27 imbalance, provided that such settlements must be made with all Underproduced Parties proportionately based on the relative
28 imbalances of the Underproduced Parties, and provided further that such settlements may not be made more often than once
29 every twenty-four (24) months. Such settlements will be calculated in the same manner provided above for final cash
30 settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30)
31 days after the settlement is made.

32 8. TESTING

33 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to
34 produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s)
35 required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to
36 conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only
37 after thirty five (50) days' prior written notice to the Operator and shall have no longer than
38 thirty five (24) hours' days including prior shut-in time.

39 9. OPERATING COSTS

40 Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and
41 liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating
42 Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales and uses are in
43 proportion to its Percentage Interest in the Balancing Area.

44 10. LIQUIDS

45 The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated
46 for the joint account in accordance with their Percentage Interests in the Balancing Area.

47 11. AUDIT RIGHTS

48 Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further
49 notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar
50 year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit
51 the records of any other Party regarding quantity, including but not limited to information regarding Blue-cream
52 Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any
53 cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning
54 values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such
55 audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted under reasonable
56 notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to
57 maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations,
58 along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this
59 Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

60 12. MISCELLANEOUS

61 12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of
62 any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the
63 Operating Agreement, the provisions of this Agreement shall govern.

64 12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for
65 any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such
66 indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under
67 the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages
68 sustained and costs incurred in connection therewith.

69 12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this
70 Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in
71 connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or
72 willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party, (other
73 than Operator) to pay any amounts owed pursuant to the terms hereof.

74 12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and
75 effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall have to
76 the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives

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1 and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of
2 any such Party and to provide that any such successor shall be bound by this Agreement, and shall further note any transfer of
3 any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

4 12.5 Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the
5 singular, and the neuter gender includes the masculine and the feminine.

6 12.6 In the event that any "Optional" provision of this Agreement is not adopted by the Parties to this Agreement by a
7 typed, printed or handwritten indication, such provision shall not form a part of this Agreement, and no provision shall be
8 made concerning the intent of the Parties in such event. In the event that any "Alternative" provision of this Agreement is not
9 so adopted by the Parties, Alternative 1 in each such instance shall be deemed to have been adopted by the Parties as a result
10 of any such omission. In those cases where it is indicated that an Optional provision may be used only if a specific Alternative
11 is selected: (i) an election to include said Optional provision shall not be effective unless the Alternative in question is selected;
12 and (ii) the election to include said Optional provision must be expressly indicated herein, it being understood that the
13 selection of an Alternative either expressly or by default as provided herein shall not, in and of itself, constitute an election to
14 include an associated Optional provision.

15 12.7 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed
16 or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any
17 such person or entity.

18 12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party
19 execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and
20 submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such
21 request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request
22 shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the
23 Balancing Area.

24 ~~12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all~~
25 ~~Parties, each Party agrees to compute and report income to the Internal Revenue Service (solely one) as if such Party were~~
26 ~~taking its Full Share of Current Production during each relevant tax period in accordance with such regulations, insofar as same~~
27 ~~relate to entitlement method tax computations, or as based on the quantity of Gas taken for its account and production with~~
28 ~~such regulations, insofar as same relate to sales method tax computations; See 14.3 on Page 5a.~~

29 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

30 13.1 Subject to the provisions of Sections 13.2 (if elected) and 13.3 hereof, and notwithstanding anything in this Agreement
31 or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its
32 working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other
33 act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in its
34 Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any
35 monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall
36 thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other
37 transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall
38 cause its assignee or other transferee to assume its obligations hereunder.

39 13.2 20 (Optional - Cash Settlement Upon Assignment) Notwithstanding anything in this Agreement including but not
40 limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions
41 of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its
42 interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are
43 Parties hereto in such Balancing Area of such fact at least 21 thirty days prior to closing the
44 transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within
45 21 thirty 30 days after receipt of the Overproduced Party's notice, a cash settlement of its

46 Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement
47 pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash
48 settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60)
49 days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced
50 Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in
51 Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days
52 after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not
53 paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the
54 Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the
55 Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance
56 with the provisions of Section 13.1 hereof.

57 13.3 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or conveys of its
58 interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to
59 any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

60 14. OTHER PROVISIONS

61
62 See Attachment.



14. OTHER PROVISIONS

- 22 14.1 ~~Any Underproduced Party can require cash settlement from the Overproduced Parties in January of each even numbered year by providing written notice to the Operator. Section 7 of this Gas Balancing Agreement shall govern cash settlement under this provision.~~
- 14.2 In the event any Party feels a Party has produced more than its share of recoverable reserves and wants to prohibit said Party from selling additional Gas, the Party shall notify the Operator, including its estimate of remaining recoverable reserves. The Operator shall notify all other Parties. If Parties concur with the recoverable reserve estimate, said Overproduced Party shall be prohibited from selling Gas until the Overproduced Party is back in balance. If the Parties cannot agree on the remaining recoverable reserves, the Operator shall retain an independent reservoir engineer, experienced and competent in the geographical areas of the well(s) in question, to compute the reserves. Its decision shall be final. Costs incurred by the independent engineer shall be borne by the Parties hereto. ~~only imbalanced parties.~~
- 23 14.3 The Parties to this Agreement agree to abide by Regulation 1.761-2(d)(2) as promulgated by the Internal Revenue Service. Regulation 1.761-2(d)(2) requires that all co-producers of natural gas operating under the same joint operating agreement must use the cumulative gas balancing method, as described under this regulation, to report gas balancing for tax purposes. In the event of a conflict between the provisions of this Section and any other provisions of this Agreement, the provisions of this Section shall control.



EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated April 1, 1966, between Cimarex Energy Co., as Operator, and Devon Louisiana Corporation, et al, as Non-Operators.

Non-Discrimination and Certification of Non-Segregated Facilities

A. Equal Opportunity Clause (41 CFR 60-1.4)

During the Performance of this contract, Operator agrees as follows:

(1) Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex, age or national origin. Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, age or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this nondiscrimination clause.

(2) Operator will, in all solicitations or advertisements for employees placed by or on behalf of Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

(3) Operator will send to each labor union or representative of workers with which Operator has a collective bargaining agreement or other contract or understanding, notice advising the labor union or workers' representative of Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the Secretary of Labor and his representatives for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

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(6) ~~In the event of Operator's noncompliance with the nondiscrimination clause of this contract or with any such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and penalties invoked as provided by law.~~

(7) Operator will include the provisions of paragraph (1) through (5) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; provided, however, that in the event Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, Operator may request the United States to enter into such litigation to protect the interests of the United States.

Tony Cervi

From: Tony Cervi
Sent: Monday, April 10, 2006 9:41 AM
To: Judy Farrar (farrar@wadipetroleum.com)
Subject: Caudill West 8 Fee # 2 JOA
Importance: High

Judy,

Per your letter dated 4/7/06 regarding the captioned JOA dated 4/3/06, in which you requested various revisions thereto, please see below for Cimarex's response to each:

1. Cimarex will not agree to this change. We are going to remove Exhibit "G".
2. OK
3. OK
4. Cimarex will not agree to this change. It is my understanding that Article VI.E.3 addresses your concern here.
5. OK
6. As it stands, Cimarex will not agree to this change. Do you have a problem with the content, or just the way it is worded?
7. OK. We will remove this language and make non-consent drilling elections* subject to non-consent penalties. *However, please be advised that any election by Cimarex or Devon to go non-consent in drilling operations will be subject to our Exploration Agreement dated 12/1/04, which provides for the farmout in lieu of non-consent.
8. OK
9. Cimarex is going to absorb and pay the proportionate share of costs for all unleased mineral interest that is force pooled.
10. OK
11. OK
12. OK. We will insert \$50,000.
13. Cimarex will not agree to this change.
14. OK
15. Cimarex will not agree to this change.
16. Cimarex will not agree to this change.
17. Cimarex will not agree to this change.
18. Cimarex will not agree to this change.
19. OK
20. OK
21. OK
22. Cimarex will not agree to this change.
23. OK
24. Cimarex will not agree to this change.

Please let me know if the above is acceptable to Wadi, and I will revise the JOA accordingly. If you have any questions or would like to discuss further, please give me a call.

Best regards,
Tony

Anthony J. Cervi

4/12/2006



Landman - Permian Basin Region
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, Texas 75039
972.443.6452 (direct)
972.443.6450 (fax)
972.953.5767 (cell)

4/12/2006

**Tony Cervi**

From: Lynda Townsend [ltownsend@chkenergy.com]
Sent: Monday, April 10, 2006 5:04 PM
To: Tony Cervi
Subject: RE: Caudill West 8 Fee # 2 - Operating Agreement

Tony,

Per our telephone conversation of this morning, Chesapeake would like to make the following changes:

1. D. Maintenance of Uniform Interests: page 12, strike first paragraph and 1. & 2.,
2. Article XIII, Term of Agreement: page 13, leave option 1 blank, check option 2 and use 90 days.;
3. Article XV, Other Provisions: page 2, strike paragraph F., strike the last paragraph - Upon commencement....;
4. Chesapeake is self-insured and will provide Cimerex with a Certificate of Insurance;
5. Strike Exhibit "G", Tax Partnership Provisions.

As soon as I get your ok on the above, I will send the JOA for signature and e-mail a signed copy to you.

THANKS,

Lynda F. Townsend
Chesapeake Energy Corporation
Land Bldg.-251, Ext. 9414
Senior Landman-Permian Basin
405-879-9414
405-767-4251 (fax)
ltownsend@chkenergy.com

From: Tony Cervi [mailto:TCervi@cimarex.com]
Sent: Friday, April 07, 2006 10:34 AM
Subject: Caudill West 8 Fee # 2 - Operating Agreement

Ladies and Gentlemen:

I have attached a revised Article XV to the subject Operating Agreement. As we have discussed, this JOA is attached to an Exploration Agreement to which Cimarex is a party. Unfortunately, I did not realize until after I sent out the JOA that there were many typographical, grammatical, and spelling errors contained in the original Article XV. Therefore, I have corrected these errors and attached a FINAL version. I have also attached a file highlighting the changes that were made.

Please let me know if you have any questions. I am sorry for the inconvenience.

Best regards,

Tony

4/11/2006

Anthony J. Cervi

Landman - Permian Basin Region

Cimarex Energy Co.

5215 N. O'Connor Blvd., Suite 1500

Irving, Texas 75039

972.443.6452 (direct)

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4/11/2006

Tony Cervi

From: Tony Cervi
Sent: Tuesday, April 11, 2006 1:26 PM
To: 'Fred.Schantz@unitcorp.com'
Subject: Caudill West 8 Fee # 2
Attachments: Caudill West 8 Fee # 2.pdf

Fred,

Attached is a copy of the letter I plan to send later on this afternoon highlighting the revisions to the JOA. Please let me know if you have any comments. I am really sorry for all of the changes!!! I'll be glad when this is behind me!

Tony

Anthony J. Cervi

Landman - Permian Basin Region
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, Texas 75039
972.443.6452 (direct)
972.443.6450 (fax)
972.953.5767 (cell)

4/12/2006

Tony Cervi

From: Tony Cervi
Sent: Wednesday, April 12, 2006 9:04 AM
To: 'Lynda Townsend'
Subject: RE: Caudill West 8 Fee # 2 - Operating Agreement
Attachments: Caudill West 8 Fee # 2.pdf

Linda,

We are able to agree on everything except striking Paragraph F on Article XV. I have attached a letter highlighting the changes we are going to make. I will email a final copy of this letter with the JOA attached later today. We are going to proceed with our pooling as scheduled tomorrow, but as soon as I receive your executed signature page, I will dismiss Chesapeake. Please let me know if you have any questions.

Tony

From: Lynda Townsend [mailto:ltownsend@chkenenergy.com]
Sent: Monday, April 10, 2006 5:04 PM
To: Tony Cervi
Subject: RE: Caudill West 8 Fee # 2 - Operating Agreement

Tony,

Per our telephone conversation of this morning, Chesapeake would like to make the following changes:

1. D. Maintenance of Uniform Interests: page 12, strike first paragraph and 1. & 2.,
2. Article XIII, Term of Agreement: page 13, leave option 1 blank, check option 2 and use 90 days.;
3. Article XV, Other Provisions: page 2, strike paragraph F., strike the last paragraph - Upon commencement....;
4. Chesapeake is self-insured and will provide Cimerex with a Certificate of Insurance;
5. Strike Exhibit "G", Tax Partnership Provisions.

As soon as I get your ok on the above, I will send the JOA for signature and e-mail a signed copy to you.

THANKS,

Lynda F. Townsend
 Chesapeake Energy Corporation
 Land Bldg.-251, Ext. 9414
 Senior Landman-Permian Basin
 405-879-9414
 405-767-4251 (fax)
 ltownsend@chkenenergy.com

From: Tony Cervi [mailto:TCervi@cimarex.com]
Sent: Friday, April 07, 2006 10:34 AM
Subject: Caudill West 8 Fee # 2 - Operating Agreement

4/12/2006

Tony Cervi

From: Tony Cervi
Sent: Wednesday, April 12, 2006 12:06 PM
To: Tony Cervi
Subject: Caudill West 8 Fee # 2 - Operating Agreement dated April 3, 2006
Importance: High
Attachments: Caudill 8-2_Cover Letter.pdf; Caudill West 8 Fee # 2 - Operating Agreement.zip

Ladies and Gentlemen:

Please find attached the Operating Agreement covering the N/2 of Section 8-15S-36E, Lea County, NM. I have also attached a cover letter highlighting changes that were made to the previous version you have. Please execute the appropriate signature pages and return to my attention as soon as possible via fax or email, followed by a hard original in the mail.

The attachments contain PDF files of the following:

- Cover letter
- JOA
- Article XV to JOA
- Exhibit "A"
- Exhibit "B"
- Exhibit "C"
- Exhibit "D"
- Exhibit "E"
- Exhibit "E" other provisions
- Exhibit "F"
- Exhibit "G"

With the exception of the cover letter (which was scanned), all files were converted from Microsoft Word; therefore, minimal disk space is required. However, please let me know if you have trouble opening any of the attachments.

I apologize for the inconvenience this may cause, and I truly appreciate your cooperation and patience throughout this process.

Please do not hesitate to contact me with any questions.

Best regards,
Tony

Anthony J. Cervi
Landman - Permian Basin Region
Cimarex Energy Co.
5215 N. O'Connor Blvd., Suite 1500
Irving, Texas 75039
972.443.6452 (direct)
972.443.6450 (fax)
972.953.5767 (cell)

4/12/2006

Cimarex Energy Co.
5215 N. O'Connor Blvd.
Suite 1500
Irving, Texas 75039
PHONE 972.401.0752
FAX 972.401.3110



April 12, 2006

TO ALL WORKING INTEREST OWNERS

**Re: Caudill West 8 Fee # 2
N½ Section 8, Township 15 South, Range 36 East
Lea County, New Mexico
1250' FNL & 660' FEL**

Gentlemen:

Pursuant to our letter dated April 3, 2006, to which a Joint Operating Agreement covering the captioned lands was attached, please find attached the same JOA, but with the following revisions:

Article III

- Page 2, Lines 4-8: Stricken

Article VI

- Page 7, Line 67: "Each party shall **have the right to** take in kind..."
- Page 8, Line 57: Stricken (duplicate line)
- Page 8, Line 64: This paragraph was moved to Exhibit "E" as Item 14.4.

Article VIII

- Page 12, Lines 11-17: Stricken

Article XIII

- Page 13, Line 50: Unchecked Option 1
- Page 13, Line 53: Checked Option 2
- Page 13, Lines 55 & 61: Added **ninety (90)**

Article XV, Item H

- 4th and 5th paragraphs: Stricken
- Added the following language: **Notwithstanding anything to the contrary, any party receiving a notice proposing to drill a well as provided in Article VI.B.1 who elects not to participate in the proposed drilling operation shall be subject to the provisions of Article VI.B.2.**

Article XVI

- Page 15, Line 11: Added **Anthony J. Cervi**

Exhibit "B"

- A page was inserted stating that there is no Exhibit "B"



Exhibit "C"

- Page 5, Lines 31-37: Stricken
- Page 5, Line 31: Added to the first sentence, "... by the percent of increase or decrease as published by COPAS"
- Page 6, Line 1: Added \$50,000

Exhibit "E"

- Page 1, Line 67: Checked "Alternative 1"
- Page 4, Line 36: Replaced seven (7) days with twenty-four (24) hours
- Page 5, Line 39: Checked 13.2
- Page 5, Lines 43 & 45: Added thirty (30)
- Page 5a, Item 14.2: Revised last sentence to read Costs incurred by the independent engineer shall be borne by only the imbalanced parties.

Exhibit "F"

- Replaced with another form of Exhibit "F"

Exhibit "G"

- Has been removed; A page was inserted stating that there is no Exhibit "G"

If you intend to participate, please execute and return the appropriate signature pages to the attention of the undersigned as soon as possible. Also, please return an executed AFE indicating your well control insurance preference if you have not already done so. If you do not wish to participate, we respectfully request your consideration of either option listed below:

1. Grant a Lease or Term Assignment to Cimarex for \$350/acre, with a one-year term, delivering an 80% net revenue interest, proportionately reduced; or
2. Grant a Farmout to Cimarex, with a one-year term, delivering a 75% net revenue interest, proportionately reduced.

Your prompt attention to this matter is appreciated. If you have any questions, please do not hesitate to contact me at 972-443-6452.

Very truly yours,

CIMAREX ENERGY CO.

Anthony J. Cervi
Landman
Permian Basin Region

Attachments

Tony Cervi

From: Terry Read
Sent: Wednesday, April 12, 2006 12:11 PM
To: Tony Cervi
Subject: Delivery Status Notification (Relay)

Attachments: ATT1043913.txt; Caudill West 8 Fee # 2 - Operating Agreement dated April 3, 2006



ATT1043913.txt Caudill West 8 Fee
(457 B) # 2 - Opera...

This is an automatically generated Delivery Status Notification.

Your message has been successfully relayed to the following recipients, but the requested delivery status notifications may not be generated by the destination.

Fred.Schantz@unitcorp.com

Tony Cervi

From: Terry Read
Sent: Wednesday, April 12, 2006 12:06 PM
To: Tony Cervi
Subject: Delivery Status Notification (Relay)

Attachments: ATT1031255.txt; Caudill West 8 Fee # 2 - Operating Agreement dated April 3, 2006



ATT1031255.txt Caudill West 8 Fee
(455 B) # 2 - Opera...

This is an automatically generated Delivery Status Notification.

Your message has been successfully relayed to the following recipients, but the requested delivery status notifications may not be generated by the destination.

ltownsend@chkenergy.com

Tony Cervi

From: Postmaster [postmaster@worldnet.att.net]
Sent: Wednesday, April 12, 2006 12:06 PM
To: Tony Cervi
Subject: Delivery Notification

Attachments: ATT1031267.txt; ATT1031268.txt



ATT1031267.txt
(379 B)



ATT1031268.txt (1
KB)

Your message was successfully delivered to:

vfmid@att.net

Tony Cervi

From: Terry Read
Sent: Wednesday, April 12, 2006 12:06 PM
To: Tony Cervi
Subject: Delivery Status Notification (Relay)

Attachments: ATT1031272.txt; Caudill West 8 Fee # 2 - Operating Agreement dated April 3, 2006



ATT1031272.txt Caudill West 8 Fee
(454 B) # 2 - Opera...

This is an automatically generated Delivery Status Notification.

Your message has been successfully relayed to the following recipients, but the requested delivery status notifications may not be generated by the destination.

farrar@wadipetroleum.com