



**OXY USA WTP LIMITED PARTNERSHIP**

6 Desta Drive, Suite 600, Midland, Texas 79705  
P.O. Box 50250, Midland, Texas 79710

David R. Evans  
Land Negotiator

432/685-5769  
FAX 432/685-5905

August 9, 2006

**CERTIFIED MAIL – RETURN RECEIPT REQUESTED**

**WORKING INTEREST OWNERS**

RE: OXY Flameskimmer State #1  
S/2 of Section 9, T17S-R29E  
Eddy County, New Mexico

Gentlemen:

OXY USA WTP Limited Partnership ("OXY") does hereby propose the drilling of the referenced well to test the Morrow formation at a location of 1650' FSL and 1980' FWL of Section 9, T17S-R29E, Eddy County, New Mexico.

The enclosed Authorization for Expenditure (AFE) has been prepared for the drilling and completing of this well and should you be interested in participating in this well it would be appreciated if you would please sign and return a copy of the enclosed AFE.

If you are not interested in participating in this test well, then we would be interested in a farmout of your leasehold interest under mutually agreeable terms.

Should you have any questions, please advise.

Very truly yours,

OXY USA WTP Limited Partnership

David R. Evans

WORKING INTEREST OWNERS:

Conoco Phillips Company  
Attention: Linda Hicks  
P.O. Box 2197  
Houston, Texas 77251-2197

Marbob Energy Corporation  
Attention: Ray Miller  
P.O. Box 227  
Artesia, New Mexico 88211-0227

Pitch Energy Corporation  
Attention: Ray Miller  
P.O. Box 304  
Artesia, New Mexico 88211-0304

Chevron U.S.A. Inc.  
Attention: Mr. Robert Nunmaker  
11111 South Wilcrest  
Houston, Texas 77099

**Oxy USA WTP LP**  
**Authorization for Expenditure Form**

DATE PREPARED: 08/09/2006

LOCATION (RMT/PMT)

Frontier

Control No. 8748

PROJECT NAME:

Drill & Equip OXY Flameskimmer State #1

LEASE/UNIT:

OXY Flameskimmer State #1

OPERATOR:

Oxy USA WTP LP

LEGAL LOCATION:

1650' FSL & 1980' FWL Section 9, 17S 29E (or legal Morrow location in NE/4 SW/4)

BUDGET CATEGORY: Exploitation

**PROJECT DESCRIPTION:**

This AFE is to request funds to drill the OXY Flameskimmer #1 well as a Morrow producer in Eddy County, NM. Your approval is requested.

**ACCOUNTING USE ONLY:**

Lse/Pit Name: OXY Flameskimmer State #1

AFE Type: D&E O&G WELL

Production Coordinator No.: 14201441

State/County: NM/Eddy

Operator Name: Oxy USA WTP LP

Lease/Plant CC:

Company/Division No.: 24177

Oxy Wt: (%) 25.00

AFE Category: Original

Project AFE No. 99104064

Organization Rollup Key: NRC

Overhead Type: Drilling

Well Category: Eddy Co. Trend (>10,000)

**OSI INPUT ONLY:**

Oracle AFE No.:

**COMPLETE FOR NEW WELLS:**

☒ PRODUCER ☐ INJECTOR ☐ WATER DISPOSAL

☐ OIL WELL

☒ GAS WELL

☒ DEVELOPMENT WELL

☐ EXPLORATORY WELL

☐ SINGLE COMPLETION

☐ DUAL COMPLETION

Regulatory Horizon Name:

Regulatory District Number:

PROJECT QUALIFIED FOR EOR TAX CREDITS?

☐ YES

☒ NO

IF YES, WHAT % QUALIFIES?

EXPENSE/CAPITAL/ PXA	DESCRIPTION	ESTIMATED COST	
		100%	OXY NET
Capital	Tangibles	\$398,700	\$99,675
Capital	Intangibles	\$1,853,000	\$463,250
TOTAL PROJECT COST		\$2,251,700	\$562,925

**PROJECT CONTACTS:**

NAME

TITLE

PHONE NUMBER

David Evans

Landman

432-685-5825

Bob Doty

Geologist

432-685-5769

Scott Gengler

Production Engineer

432-685-5825

**PROJECT APPROVED BY:**

(signature)

Tom Menges

NOTICE TO NONOPERATOR: Costs shown on this form are estimates only. Nonoperators should not consider these estimates as establishing any limit on the monies which will be required to perform the proposed operation.

APPROVAL: YES \_\_\_\_\_ NO \_\_\_\_\_

Company Name: \_\_\_\_\_

BY: \_\_\_\_\_ DATE \_\_\_\_\_

(print name)

BY: \_\_\_\_\_  
(signature)

WRITTEN/VERBAL APPROVAL RECEIVED ON \_\_\_\_\_

Requested By: Bob Doty  
Prepared By: Joe Fleming

**OXY USA INC.**  
**DETAILED WELL ESTIMATE**

LEASE - WELL NO. Oxy Flame Skimmer State #1 DATE: 09-Aug-06  
LOCATION 1650' FSL & 1980' FWL or legal location in NE/4 SW/4 DEPTH: 11000'  
S 9 T 17S R 29E COUNTY Eddy STATE New Mexico AFE NO.

DESCRIPTION	GRADE	\$/FT	QUAN.	W	ESTIMATE PRODUCER	ESTIMATE DRY HOLE	ACTUAL COST
<b>TANGIBLES</b>							
<b>Casing</b>							
Surface: 13-3/8", 48#, H-40	A	30.00	450		13,500	10,906	
Intermediate: 9-5/8", 36#, K-55	A	24.50	3000		73,500	47,700	
Production: 5-1/2", 17#, P-110/S	A	13.50	11000		148,500		
<b>Wellhead Connections</b>					25,000		
Tubing 2-7/8", 6.5#, N-80	A	5.25	10800		56,700		
Line Pipe & Fittings					7,500		
Packer and Accessories					9,000		
<b>TANK BATTERY</b>							
Stock Tanks 2 500 bbl	A				15,000		
Separator, Heater Treater, Dehydrator	A				25,000		
Meter Run & Housing	A				5,000		
Labor & Transportation					20,000		
<b>Total Tangibles</b>					<b>398,700</b>	<b>58,606</b>	
<b>INTANGIBLES</b>							
Contract Drilling Labor					855,000	855,000	
Drilling Consultants					54,000	54,000	
Mobilization					45,000	45,000	
Service Rig Work					24,000		
Subsurface Casing Equipment					10,000	6,500	
D.S.T., Electric, Radioactivity Logs, etc.					30,000	30,000	
Acidizing, Fracing					135,000		
Perforating					20,000		
Misc. Company & Contract Labor					75,000	50,000	
Road Building, Location					25,000	25,000	
Cement & Cementing Services					55,000	35,000	
Cement Squeeze Jobs							
Drilling Mud, Chemicals					50,000	50,000	
Diamond Coring & Analyses, Bits, Reamers					45,000	45,000	
Mud Logging Unit					20,000	20,000	
Rental of Miscellaneous Equipment					92,000	75,000	
Contract Hauling					35,000	25,000	
Water, Fuel					130,000	130,000	
Miscellaneous Incidentals					150,000	150,000	
Archeological Services					3,000	3,000	
<b>Total Intangibles</b>					<b>1,853,000</b>	<b>1,598,500</b>	
<b>Total Estimated Cost - 100%</b>					<b>2,251,700</b>	<b>1,657,106</b>	

## **Evans, David (Midland, Texas)**

---

**From:** Fuzzell, Greg D [Greg.D.Fuzzell@conocophillips.com]  
**To:** Evans, David (Midland, Texas)  
**Sent:** Tuesday, September 26, 2006 10:41 AM  
**Subject:** Read: AFE for Flameskimmer

Your message

**To:** Greg.D.Fuzzell@conocophillips.com  
**Subject:**

was read on 09/26/2006 10:41 AM.

**Evans, David (Midland, Texas)**

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Tuesday, September 26, 2006 9:58 AM  
**To:** 'greg.d.fuzzell@conocophillips.com'  
**Subject:** AFE for Flameskimmer  
**Importance:** High  
**Attachments:** flameskimmer.tif

Greg, we are looking to file for force pooling in about 10 days. Chevron is granting us a T/A. Would you please let me know what Conoco/Phillips wants to do here. I really don't need another trip to Santa Fe....Thanks, David

11/06/2006



**OXY USA WTP LIMITED PARTNERSHIP**

6 Desta Drive, Suite 600, Midland, Texas 79705  
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Land Negotiator

432/685-5769  
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S/2 of Section 9, T17S-R29E  
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Gentlemen:

OXY USA WTP Limited Partnership ("OXY") does hereby propose the drilling of the referenced well to test the Morrow formation at a location of 1650' FSL and 1980' FWL of Section 9, T17S-R29E, or a legal Morrow location in the NE/4SW/4, Eddy County, New Mexico.

The enclosed Authorization for Expenditure (AFE) has been prepared for the drilling and completing of this well and should you be interested in participating in this well it would be appreciated if you would please sign and return a copy of the enclosed AFE.

If you are not interested in participating in this test well, then we would be interested in a farmout of your leasehold interest under mutually agreeable terms.

Should you have any questions, please advise.

Very truly yours,

OXY USA WTP Limited Partnership

A handwritten signature in black ink, appearing to read "David R. Evans", written over the printed name.

David R. Evans

**Oxy USA WTP LP**  
**Authorization for Expenditure Form**

DATE PREPARED: 08/09/2006

LOCATION (RMT/PMT)

Frontier

Control No. 8748

PROJECT NAME:

Drill & Equip OXY Flameskimmer State #1

LEASE/UNIT:

OXY Flameskimmer State #1

OPERATOR:

Oxy USA WTP LP

LEGAL LOCATION:

1650' FSL & 1980' FWL Section 9, 17S 29E (or legal Morrow location in NE/4 SW/4)

BUDGET CATEGORY: Exploitation

PROJECT DESCRIPTION:

This AFE is to request funds to drill the OXY Flameskimmer #1 well as a Morrow producer in Eddy County, NM. Your approval is requested.

**ACCOUNTING USE ONLY:**

Lse/Pit Name: OXY Flameskimmer State #1

AFE Type: D&E O&G WELL

Production Coordinator No.: 14201441

State/Country: NM/Eddy

Operator Name: Oxy USA WTP LP

Lease/Plant CC:

Company/Division No.: 24177

Oxy Wt: (%) 25.00

AFE Category: Original

Project AFE No. 99104064

Organization Rollup Key: NRC

Overhead Type: Drilling

Well Category: Eddy Co. Trend (>10,000)

**OSI INPUT ONLY:**

Oracle AFE No.:

**COMPLETE FOR NEW WELLS:**

☒ PRODUCER ☐ INJECTOR ☐ WATER DISPOSAL

☐ OIL WELL ☒ GAS WELL

☒ DEVELOPMENT WELL ☐ EXPLORATORY WELL

☐ SINGLE COMPLETION ☐ DUAL COMPLETION

Regulatory Horizon Name:

Regulatory District Number:

PROJECT QUALIFIED FOR EOR TAX CREDITS?

☐ YES

☒ NO

IF YES, WHAT % QUALIFIES?

EXPENSE/CAPITAL/ PXA	DESCRIPTION	ESTIMATED COST	
		100%	OXY NET
Capital	Tangibles	\$398,700	\$99,675
Capital	Intangibles	\$1,853,000	\$463,250
TOTAL PROJECT COST		\$2,251,700	\$562,925

PROJECT CONTACTS:

NAME

TITLE

PHONE NUMBER

David Evans

Landman

432-685-5825

Bob Doty

Geologist

432-685-5769

Scott Gengler

Production Engineer

432-685-5825

PROJECT APPROVED BY:

(signature)

Tom Menges

APPROVAL: YES NO

Company Name:

BY: DATE  
(print name)

BY: (signature)

WRITTEN/VERBAL APPROVAL RECEIVED ON



Requested By: Bob Doty  
Prepared By: Joe Fleming

**OXY USA INC.**  
**DETAILED WELL ESTIMATE**

LEASE - WELL NO. Oxy Flame Skimmer State #1 DATE: 09-Aug-06  
LOCATION 1650' FSL & 1980' FWL or legal location in NE/4 SW/4 DEPTH: 11000'  
S 9 T 17S R 29E COUNTY Eddy STATE New Mexico AFE NO.

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Casing							
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Wellhead Connections					25,000		
Tubing 2-7/8", 6.5#, N-80	A	5.25	10800		56,700		
Line Pipe & Fittings					7,500		
Packer and Accessories					9,000		
<b>TANK BATTERY</b>							
Stock Tanks 2 500 bbl	A				15,000		
Separator, Heater Treater, Dehydrator	A				25,000		
Meter Run & Housing	A				5,000		
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<b>Total Tangibles</b>					<b>398,700</b>	<b>58,606</b>	
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Subsurface Casing Equipment					10,000	6,500	
D.S.T., Electric, Radioactivity Logs, etc.					30,000	30,000	
Acidizing, Fracing					135,000		
Perforating					20,000		
Misc. Company & Contract Labor					75,000	50,000	
Road Building, Location					25,000	25,000	
Cement & Cementing Services					55,000	35,000	
Cement Squeeze Jobs							
Drilling Mud, Chemicals					50,000	50,000	
Diamond Coring & Analyses, Bits, Reamers					45,000	45,000	
Mud Logging Unit					20,000	20,000	
Rental of Miscellaneous Equipment					92,000	75,000	
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<b>Total Estimated Cost - 100%</b>					<b>2,251,700</b>	<b>1,657,106</b>	

**Evans, David (Midland, Texas)**

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Wednesday, October 04, 2006 10:34 AM  
**To:** 'Nunmaker, Robert A'  
**Subject:** Flameskimmer request

Rob, where do we stand? Also what is the State lease number for this lease? David

11/06/2006

**Evans, David (Midland, Texas)**

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Wednesday, October 04, 2006 10:45 AM  
**To:** 'Nunmaker, Robert A'  
**Subject:** RE: Flameskimmer request

Thanks Rob. Going to miss working with you. David

---

**From:** Nunmaker, Robert A [mailto:RobertNunmaker@chevron.com]  
**Sent:** Wednesday, October 04, 2006 10:40 AM  
**To:** Emery, Steve E.; Evans, David (Midland, Texas)  
**Subject:** FW: Flameskimmer request

David,  
I have changed jobs and am now working Chevron's Wyoming Assets. Steve Emery has taken over my NM area and will be better equipped to answer your question as he has been handling this proposal. Steve's # is 281-561-3890. Thanks and if you ever need me for anything, please do not hesitate to shoot an email or call.  
Thanks,  
Rob

**Robert A. Nunmaker III**  
Land Representative

**Midcontinent SBU**  
Chevron U.S.A. Inc.  
11111 S Wilcrest  
Houston, Texas 77099  
Tel (281) 561-4767  
robertnunmaker@chevron.com

---

**From:** David\_Evans@oxy.com [mailto:David\_Evans@oxy.com]  
**Sent:** Wednesday, October 04, 2006 10:34 AM  
**To:** RobertNunmaker@chevron.com  
**Subject:** Flameskimmer request

Rob, where do we stand? Also what is the State lease number for this lease? David

**Evans, David (Midland, Texas)**

---

**From:** Nunmaker, Robert A [RobertNunmaker@chevron.com]  
**To:** Evans, David (Midland, Texas)  
**Sent:** Wednesday, October 04, 2006 10:38 AM  
**Subject:** Read: Flameskimmer request

Your message

**To:** RobertNunmaker@chevrontexaco.net  
**Subject:**

was read on 10/04/2006 10:38 AM.

**Evans, David (Midland, Texas)**

---

**From:** Nunmaker, Robert A [RobertNunmaker@chevron.com]  
**Sent:** Wednesday, October 04, 2006 10:40 AM  
**To:** Emery, Steve E.; Evans, David (Midland, Texas)  
**Subject:** FW: Flameskimmer request

David,

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**Robert A. Nunmaker III**  
Land Representative

**Midcontinent SBU**  
Chevron U.S.A. Inc.  
11111 S Wilcrest  
Houston, Texas 77099  
Tel (281) 561-4767  
robertnunmaker@chevron.com

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**From:** David\_Evans@oxy.com [mailto:David\_Evans@oxy.com]  
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**To:** RobertNunmaker@chevron.com  
**Subject:** Flameskimmer request

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**Evans, David (Midland, Texas)**

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Wednesday, October 04, 2006 11:13 AM  
**To:** 'greg.d.fuzzell@conocophillips.com'  
**Cc:** Doty, Bob; Chatwell, Betty  
**Subject:** RE: AFE for Flameskimmer  
**Importance:** High

<b>Tracking:</b>	<b>Recipient</b>	<b>Read</b>
	'greg.d.fuzzell@conocophillips.com'	
	Doty, Bob	Read: 10/04/2006 11:30 AM
	Chatwell, Betty	Read: 10/04/2006 11:31 AM

Greg, any word as to this well? We are on a deadline and I need to know if your going to T/A or join. David

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Tuesday, September 26, 2006 9:58 AM  
**To:** 'greg.d.fuzzell@conocophillips.com'  
**Subject:** AFE for Flameskimmer  
**Importance:** High

Greg, we are looking to file for force pooling in about 10 days. Chevron is granting us a T/A. Would you please let me know what Conoco/Phillips wants to do here. I really don't need another trip to Santa Fe....Thanks, David

**Evans, David (Midland, Texas)**

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Thursday, October 05, 2006 10:44 AM  
**To:** 'Fuzzell, Greg D'  
**Subject:** RE: AFE for Flameskimmer

Any word? We have to start force pooling by Monday but we would rather not...David

---

**From:** Fuzzell, Greg D [mailto:Greg.D.Fuzzell@conocophillips.com]  
**Sent:** Wednesday, October 04, 2006 11:14 AM  
**To:** Evans, David (Midland, Texas)  
**Subject:** RE: AFE for Flameskimmer

David - I'll check on this right now - I'll get back with you this afternoon, hopefully.

Regards,  
Gregory D. Fuzzell, CPL  
Staff Landman

ConocoPhillips Company  
Westlake 3 - Room 14058  
P. O. Box 2197  
Houston, TX 77252-2197

E-Mail: greg.d.fuzzell@conocophillips.com  
Voice: 832.486.2311  
Fax: 832.486.2674

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

**From:** David\_Evans@oxy.com [mailto:David\_Evans@oxy.com]  
**Sent:** Wednesday, October 04, 2006 11:13 AM  
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11/06/2006

**Evans, David (Midland, Texas)**

**From:** Evans, David (Midland, Texas)  
**Sent:** Friday, October 06, 2006 9:28 AM  
**To:** 'Fuzzell, Greg D'  
**Cc:** Doty, Bob  
**Subject:** RE: AFE for Flameskimmer  
**Importance:** High

**Tracking:**    **Recipient**    **Read**  
                  'Fuzzell, Greg D'  
                  Doty, Bob       Read: 10/06/2006 9:43 AM

Greg, any word? When you hear would you let Bob and me know by responding to the e-mail addresses listed above. Thanks, David

---

**From:** Fuzzell, Greg D [mailto:Greg.D.Fuzzell@conocophillips.com]  
**Sent:** Wednesday, October 04, 2006 11:14 AM  
**To:** Evans, David (Midland, Texas)  
**Subject:** RE: AFE for Flameskimmer

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**Sent:** Wednesday, October 04, 2006 11:13 AM  
**To:** Fuzzell, Greg D  
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11/06/2006

## Evans, David (Midland, Texas)

---

**From:** Fuzzell, Greg D [Greg.D.Fuzzell@conocophillips.com]  
**To:** Evans, David (Midland, Texas)  
**Sent:** Monday, October 09, 2006 10:17 AM  
**Subject:** Read: RE: AFE for Flameskimmer

Your message

**To:** Greg.D.Fuzzell@conocophillips.com  
**Subject:**

was read on 10/09/2006 10:17 AM.

**Evans, David (Midland, Texas)**

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Staff Landman

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11/06/2006

**Evans, David (Midland, Texas)**

---

**From:** Fuzzell, Greg D [Greg.D.Fuzzell@conocophillips.com]  
**Sent:** Friday, October 06, 2006 2:54 PM  
**To:** Evans, David (Midland, Texas)  
**Cc:** Doty, Bob  
**Subject:** RE: AFE for Flameskimmer

David - Our Hobbs team has advised me that we're not interested in joining, but we would like to discuss a trade with you. Could you give me a call so we can discuss how you're working this with Chevron - I'm not sure if we'll want to do a term assignment or a farmout. Either way, it looks like you don't have to make a trip to Santa Fe after all. I can think of worse places to be this time of year, though.

Regards,  
Gregory D. Fuzzell, CPL  
Staff Landman

ConocoPhillips Company  
Westlake 3 - Room 14058  
P. O. Box 2197  
Houston, TX 77252-2197

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

**From:** David\_Evans@oxy.com [mailto:David\_Evans@oxy.com]  
**Sent:** Friday, October 06, 2006 9:28 AM  
**To:** Fuzzell, Greg D  
**Cc:** Bob\_Doty@oxy.com  
**Subject:** RE: AFE for Flameskimmer  
**Importance:** High

Greg, any word? When you hear would you let Bob and me know by responding to the e-mail addresses listed above. Thanks, David

---

**From:** Fuzzell, Greg D [mailto:Greg.D.Fuzzell@conocophillips.com]  
**Sent:** Wednesday, October 04, 2006 11:14 AM  
**To:** Evans, David (Midland, Texas)  
**Subject:** RE: AFE for Flameskimmer

David - I'll check on this right now - I'll get back with you this afternoon, hopefully.

Regards,  
Gregory D. Fuzzell, CPL  
Staff Landman

11/06/2006

ConocoPhillips Company  
Westlake 3 - Room 14058  
P. O. Box 2197  
Houston, TX 77252-2197

E-Mail: greg.d.fuzzell@conocophillips.com  
Voice: 832.486.2311  
Fax: 832.486.2674

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

**From:** David\_Evans@oxy.com [mailto:David\_Evans@oxy.com]  
**Sent:** Wednesday, October 04, 2006 11:13 AM  
**To:** Fuzzell, Greg D  
**Cc:** Bob\_Doty@oxy.com; Betty\_Chatwell@oxy.com  
**Subject:** RE: AFE for Flameskimmer  
**Importance:** High

Greg, any word as to this well? We are on a deadline and I need to know if your going to T/A or join. David

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Tuesday, September 26, 2006 9:58 AM  
**To:** 'greg.d.fuzzell@conocophillips.com'  
**Subject:** AFE for Flameskimmer  
**Importance:** High

Greg, we are looking to file for force pooling in about 10 days. Chevron is granting us a T/A. Would you please let me know what Conoco/Phillips wants to do here. I really don't need another trip to Santa Fe....Thanks, David

11/06/2006

**Evans, David (Midland, Texas)**

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**From:** Evans, David (Midland, Texas)  
**Sent:** Monday, October 09, 2006 10:16 AM  
**To:** 'Fuzzell, Greg D'  
**Subject:** RE: AFE for Flameskimmer  
**Importance:** High

Greg, Chevron is granting us a 1 year Term assignment and a 75% NRI. Give me a call as soon as you can. Cell number is 432-634-4402. David

---

**From:** Fuzzell, Greg D [mailto:Greg.D.Fuzzell@conocophillips.com]  
**Sent:** Friday, October 06, 2006 2:54 PM  
**To:** Evans, David (Midland, Texas)  
**Cc:** Doty, Bob  
**Subject:** RE: AFE for Flameskimmer

David - Our Hobbs team has advised me that we're not interested in joining, but we would like to discuss a trade with you. Could you give me a call so we can discuss how you're working this with Chevron - I'm not sure if we'll want to do a term assignment or a farmout. Either way, it looks like you don't have to make a trip to Santa Fe after all. I can think of worse places to be this time of year, though.

Regards,  
 Gregory D. Fuzzell, CPL  
 Staff Landman

ConocoPhillips Company  
 Westlake 3 - Room 14058  
 P. O. Box 2197  
 Houston, TX 77252-2197

E-Mail: greg.d.fuzzell@conocophillips.com  
 Voice: 832.486.2311  
 Fax: 832.486.2674

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**To:** Evans, David (Midland, Texas)

11/06/2006

**Subject:** RE: AFE for Flameskimmer

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Gregory D. Fuzzell, CPL  
Staff Landman

ConocoPhillips Company  
Westlake 3 - Room 14058  
P. O. Box 2197  
Houston, TX 77252-2197

E-Mail: greg.d.fuzzell@conocophillips.com  
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**Cc:** Bob\_Doty@oxy.com; Betty\_Chatwell@oxy.com  
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**Importance:** High

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**Subject:** AFE for Flameskimmer  
**Importance:** High

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11/06/2006



OCT 13 2006

Steven E. Emery, CPL  
Land Department  
Non-Op Joint Ventures

MidContinent SBU  
Chevron North America  
Exploration and Production Company  
P. O. Box 36366  
Houston, TX 77236  
Tel 281-561-3890  
Fax 281-561-3880  
Qf75see@chevron.com

October 10, 2006

312882: State of NM Lease (LG-6953)  
Eddy County, New Mexico  
Oxy-Flameskimmer State No. 1  
S/2 Sec. 9-17S-29E

Mr. David R. Evans  
OXY USA WTP Limited Partnership  
P.O. Box 50250  
Midland, TX 79710

Dear David:

With reference to our telephone conversation today, Chevron U.S.A. Inc. is agreeable to granting to OXY USA WTP Limited Partnership a term assignment for a bonus consideration of \$42,000.00 (\$350 per net acre X 120 net acres).

Please sign and notarize both enclosed counterparts of our Term Assignment and return both originals to my attention along with your check in the amount of \$42,000.00. Upon receipt, Chevron will sign and return to you one original and will record the other original in Eddy County. We will forward a copy of the recorded document when available. In addition, we ask that Chevron U.S.A. Inc. be excused from the scheduled pooling hearing for these lands.

Please contact me if you have any questions or need any further information.

Sincerely,

A handwritten signature in black ink, appearing to read "S. E. Emery", with a long horizontal stroke extending to the right.

Steven E. Emery  
Mid-Continent Business Unit - Land

SEE/  
Enclosures



## THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS

### TERM ASSIGNMENT

**Chevron U.S.A. Inc.**, a Pennsylvania corporation ("Assignor"), with an address at P.O. Box 36366, Houston, Texas 77236-6366, owns an interest in certain oil and gas leases more particularly described in Exhibit "A" (the "Leases") covering the lands and depths more particularly described in Exhibit "A" (the "Lands").

**Oxy USA WTP Limited Partnership** ("Assignee"), whose address is P.O. Box 50250, Midland, Texas 79710, desires to purchase an assignment of the Leases to the extent they cover the Lands.

In consideration of the undertakings of the parties and other good and valuable consideration, Assignor and Assignee agree as follows:

#### 1. CONVEYANCE OF LEASES

Assignor transfers, assigns and conveys to Assignee, without warranty of title, either express or implied, all of Assignor's right, title and interest in and to the Leases to the extent they cover the Lands, subject to all the provisions of this Term Assignment.

#### 2. OVERRIDING ROYALTY

Assignee agrees to pay Assignor the overriding royalty reserved in this Term Assignment on all oil, gas and other substances produced from or allocable to the Leases. In addition, Assignee agrees to pay all landowners' royalties, overriding royalties and other burdens on production reserved and/or conveyed under the terms of the Leases or transfers of interests in the leases executed prior to the execution date of this Term Assignment ("Lease Burdens"). Unless otherwise specifically provided in this Term Assignment, the overriding royalty reserved by Assignor will be without deduction for costs of exploration, production, development, treatment, separation, dehydration, gathering, compression, transportation, manufacturing, processing, marketing or any other costs or expenses of any kind, except Assignor's share of taxes on production. Assignee will not be obligated to pay the overriding royalty reserved by Assignor on oil and gas used in operations on the Leases or on lands pooled or communitized with the Leases.

If Assignee or any affiliate or related party secures an extension or renewal of any Lease prior to the termination of such Lease or within 1 year thereafter or if Assignee or any affiliate or related party secures a new lease covering any or all Lands described in a Lease prior to termination of such Lease or within 1 year thereafter, then the overriding royalty reserved by Assignor will attach to such extension, renewal or new lease and Assignee will execute and deliver to Assignor a recordable instrument, on a form acceptable to Assignor, which evidences Assignor's ownership of such overriding royalty interest in the extension, renewal or new lease. At Assignor's option, any such extension, renewal or new lease will be subject to all of the provisions of this Term Assignment as if it had been a Lease included on Exhibit "A".

The overriding royalty reserved to Assignor will be:

- A. On oil, including condensate, distillate, and all hydrocarbons produced in a liquid form at the mouth of the well or recovered from oil or gas run through a separator or other equipment, an amount equal to the difference between (i) 25% of the gross production or the market value of such production, at the option of Assignor, and (ii) the percentage total of all Lease Burdens.
- B. On gas (including casinghead gas and any other gaseous substances) not processed in a plant for the recovery of gasoline, liquid hydrocarbons, or other substances, an amount equal to the difference between (i) 25% of the gross production or the market value of such production, at the option of Assignor, and (ii) the percentage total of all Lease Burdens.
- C. On gas processed in a plant for the recovery of gasoline, liquid hydrocarbons, or other substances, an amount equal to the difference between (i) 25% of the residue gas, liquid hydrocarbons and other substances extracted or the market value of same, at the option of Assignor, and (ii) the percentage total of all Lease Burdens, which difference will then be multiplied by the applicable amounts set forth in (a) or (b) below:
  - (a) if the gas is processed under an arm's length processing agreement by a party not affiliated with or related to Assignee, the overriding royalty interest payable to Assignor on residue gas will be based on the percentage of residue gas payable to Assignee under the terms of its processing agreement after deduction of the processor's processing fee, and the overriding royalty payable to Assignor on liquid hydrocarbons and other substances extracted will be based on the percentage of liquid hydrocarbons and other substances payable to Assignee under the terms of its processing agreement after deduction of the processor's processing fee; or

## THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS

- (b) if the gas is processed in a plant in which Assignee or its parent, subsidiary or other affiliate or related party owns an interest, then the overriding royalty interest payable to Assignor will be based on 100% of the total plant production of residue gas attributable to gas produced from the Leases and on 50% of the total plant production of liquid hydrocarbons and other substances attributable to gas produced from the Leases, or the highest percentage accruing to a third party whose gas is processed at the plant under a processing agreement negotiated at arm's length, or if there is no such third party, the highest percentage being paid under processing agreements in the area at the time of processing, the quality of gas and the conditions of delivery considered, whichever is greater.
- D. If Assignee sells oil or gas produced from or allocable to the Leases, or products extracted from such oil or gas, on an arm's length basis to a purchaser not affiliated with or related to Assignee, the proceeds from such sale will be deemed to be market value for purposes of this article. If Assignee sells oil or gas produced from or allocable to the Leases, or products extracted from such oil or gas, to a purchaser affiliated with or related to Assignee, the proceeds from the resale of such production or products to the first purchaser not affiliated with or related to Assignee, will be deemed to be market value for purposes of this article. If oil or gas produced from or allocable to the Leases, or products extracted from such oil or gas, are used by Assignee off the Lands rather than sold, the market value of such production or products at the location where such production or products would first be marketable if sold rather than used, will be deemed to be market value for purposes of this article. Market value for purposes of this article will never be less than the amount realized by Assignee from the sale of its share of production or products extracted from such production.
- E. If the assigned Leases cover less than the entire estate in the oil and gas in the Leases and Lands, then the overriding royalty reserved by Assignor under this Term Assignment will be reduced proportionately.

If Assignee fails to properly pay Assignor's overriding royalty within 60 days after the month of production or such shorter period as may be required by law, past due payments will thereafter bear interest at the rate of 18% per year or the maximum rate permitted by the applicable laws of the state in which the Lands are located, whichever is the lesser, until proper payment has been made. Assignee will be obligated to reimburse Assignor's attorneys' fees, court costs, and other costs incurred in connection with the collection of unpaid amounts.

Assignor will have the right to audit and review all information (including without limitation all books, records, contracts, correspondence, run tickets, evidence of sales and shipments, reports and analyses, and electronically stored information and data) possessed by or available to Assignee, its affiliates and related parties, which may be pertinent to the determination of the payment of overriding royalty or other amounts due under this Term Assignment, at the office at which such information is maintained. Such information includes that submitted to third parties (including government entities) respecting production from the Lands or lands pooled or communitized with the Lands, or any tax based upon the value of production or products extracted from such production. In conjunction with any audit Assignee will assemble and present the information so that it is complete, and otherwise cooperate fully with Assignor in the conduct of the audit.

The provisions of this article will survive termination of this Term Assignment.

### 3. NO REPRESENTATIONS OR WARRANTY

All descriptions set forth in this Term Assignment and all information previously or hereafter furnished Assignee by Assignor concerning the Leases or Lands, any wells or personal property located on the Leases or Lands, or the operation of the Leases or Lands, have been and will be furnished solely for Assignee's convenience and have not constituted and will not constitute a representation or warranty of any kind by Assignor, and any reliance upon such descriptions and information by Assignee will be at Assignee's sole risk and liability.

THIS TERM ASSIGNMENT IS MADE ON AN "AS IS, WHERE IS" BASIS, "WITH ALL FAULTS," AND WITHOUT WARRANTY OF ANY KIND WITH RESPECT TO ANY INTEREST TRANSFERRED, EITHER EXPRESS OR IMPLIED, IT BEING EXPRESSLY AGREED THAT ASSIGNOR MAKES NO WARRANTIES OR REPRESENTATIONS WITH RESPECT TO ORIGIN, QUANTITY, QUALITY, CONDITION, MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE, SAFETY OF EQUIPMENT, COMPLIANCE WITH GOVERNMENTAL REGULATIONS, TITLE TO PERSONAL PROPERTY, TITLE TO REAL PROPERTY, THE QUANTITY, VALUE OR EXISTENCE OF RESERVES OF OIL, GAS OR OTHER MINERALS PRODUCIBLE OR RECOVERABLE FROM THE LEASES OR LANDS, OR OF TITLE TO OR CONDITION OF THE LEASES OR LANDS OR ANY WELLS OR PERSONAL PROPERTY ON THE LEASES OR LANDS.

**THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS**

**4. ASSIGNEE'S ENVIRONMENTAL INDEMNIFICATION**

ASSIGNEE HAS BEEN GIVEN THE OPPORTUNITY TO INSPECT THE LANDS, INCLUDING BUT NOT LIMITED TO THE PHYSICAL AND ENVIRONMENTAL CONDITION (BOTH SURFACE AND SUBSURFACE) OF SUCH LANDS. ASSIGNEE HAS BEEN GIVEN THE OPPORTUNITY TO TEST THE LANDS FOR THE PRESENCE OF NATURALLY OCCURRING RADIOACTIVE MATERIALS ("NORM"), ASBESTOS AND OTHER SUBSTANCES, POLLUTANTS OR CONTAMINANTS. ASSIGNEE ACKNOWLEDGES THAT THE LANDS MAY HAVE BEEN USED IN CONNECTION WITH OIL, GAS, AND/OR WATER PRODUCTION, TRANSPORTATION, TREATMENT, STORAGE, DISPOSAL OR OTHER OPERATIONS AND MAY CONTAIN NORM, ASBESTOS, AND OTHER SUBSTANCES, POLLUTANTS OR CONTAMINANTS AS A RESULT OF SUCH OPERATIONS. ASSIGNEE IS ACQUIRING THE LANDS IN AN "AS IS AND WHERE IS" CONDITION AND ASSUMES FULL RESPONSIBILITY FOR NORM, ASBESTOS, AND OTHER SUBSTANCES, POLLUTANTS OR CONTAMINANTS THAT MAY BE LOCATED ON THE LANDS.

EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED IN THIS TERM ASSIGNMENT, ASSIGNEE AGREES TO RELEASE, DISCHARGE, DEFEND, INDEMNIFY AND HOLD HARMLESS ASSIGNOR AND ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES, AGAINST ALL CLAIMS, DEMANDS, ACTIONS AND LAWSUITS ("CLAIMS"), AND ALL LIABILITIES, PENALTIES, FINES, PAYMENTS, JUDGMENTS, DAMAGES, LOSSES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION ATTORNEYS' FEES AND COURT COSTS, COSTS OF INVESTIGATING CLAIMS, SITE ASSESSMENTS, TESTING AND REMEDIAL ACTIONS) INCURRED AND/OR PAID IN CONNECTION WITH SUCH CLAIMS, RELATING TO THE PAST, PRESENT OR FUTURE PHYSICAL AND ENVIRONMENTAL CONDITION OF THE LANDS, INCLUDING BUT NOT LIMITED TO CLAIMS INVOLVING NORM, ASBESTOS, OR OTHER SUBSTANCES, POLLUTANTS OR CONTAMINANTS, AND CLAIMS ARISING UNDER ANY FEDERAL, STATE, TRIBAL, OR LOCAL LAW OR REGULATION ("LAWS"). THE LAWS INCLUDE, WITHOUT LIMITATION, THE COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION, AND LIABILITY ACT, THE RESOURCE CONSERVATION AND RECOVERY ACT, THE CLEAN WATER ACT, THE SAFE DRINKING WATER ACT, THE HAZARDOUS MATERIALS TRANSPORTATION ACT, THE TOXIC SUBSTANCE CONTROL ACT, AND ALL AMENDMENTS TO SUCH ACTS. ASSIGNEE'S RELEASE, DEFENSE AND INDEMNITY OBLIGATIONS APPLY WITHOUT LIMITATION TO ACTS AND OMISSIONS ON OR RELATING TO THE LANDS OF ASSIGNOR, ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES, BOTH PRIOR TO AND DURING THE TERM OF THIS TERM ASSIGNMENT, AND APPLY REGARDLESS OF THE NEGLIGENCE, BREACH OF CONTRACT, BREACH OF WARRANTY, STRICT LIABILITY, REGULATORY LIABILITY, STATUTORY LIABILITY, OR OTHER FAULT OR RESPONSIBILITY OF ASSIGNOR, ITS AFFILIATES, THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES, OR ANY OTHER PERSON OR PARTY, BUT DO NOT APPLY TO CLAIMS CAUSED SOLELY BY ASSIGNOR, ITS AFFILIATES, OR THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES, DURING OR AFTER THE TERM OF THIS TERM ASSIGNMENT, AS DETERMINED BY A FINAL, NONAPPEALABLE DECISION OF A COURT OF COMPETENT JURISDICTION.

The provisions of this article will survive termination of this Term Assignment.

Assignee agrees to comply with the environmental stipulations set forth in Exhibit "D".

**5. TERM**

Except as provided otherwise in this Term Assignment, this Term Assignment will be for a term of one (1) year from the effective date (the "Primary Term"), and as long thereafter as oil, gas or associated hydrocarbons are produced in paying quantities from the Lands or lands pooled or communitized with the Lands, or there is a shut-in gas well capable of producing gas in paying quantities on the Lands or on lands pooled or communitized with the Lands, but such gas is not being produced for lack of a market; provided, however, after the expiration of the Primary Term, this Term Assignment will not remain in force solely by virtue of the existence of a shut-in gas well for longer than 2 years, consecutively or cumulatively. Termination of this Term Assignment will not relieve Assignee from any liability, duty or obligation that accrued, attached or arose prior to the date of termination or that accrues, attaches or arises upon termination or that survives termination.

**6. POOLING**

Assignee is granted the right to pool or communitize one or more of the Leases with other Leases or leases, if such pooling or communitization is necessary in order to comply with the drilling, spacing, or proration rules or orders of the governmental authority having jurisdiction. Operations upon or production from any part of such unit will be considered as operations upon or production from the Leases and Lands and other leases and lands within such unit. The overriding royalty reserved in this Term Assignment will be paid on only that fractional part of unit production allocated to that portion of the Leases and Lands included in such unit.

## THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS

### 7. CONTINUOUS DEVELOPMENT

Notwithstanding anything to the contrary in this Term Assignment, this Term Assignment will not terminate in whole or in part, regardless of whether production of oil or gas has been established from the Lands by the expiration of the Primary Term, so long as Assignee is engaged in Continuous Drilling Operations. "Continuous Drilling Operations" means the drilling of wells in a good faith effort to produce oil and/or gas from the assigned Leases and Lands without more than 90 days elapsing between the completion of one well and the commencement of actual drilling of the next well, and without cessation of operations of more than 60 consecutive days on a single well; "completion" for purposes of this provision means the date the drilling rig is released. The commencement or continuation of Continuous Drilling Operations will be at Assignee's option and will not be considered an obligation or covenant of Assignee. If Continuous Drilling Operations are not in progress at the expiration of the Primary Term, or if, at any time after the expiration of the Primary Term, Continuous Drilling Operations cease, this Term Assignment will then terminate (a) as to all the Lands and Leases except those included within a drilling, spacing or proration unit established under rules and regulations of the governmental authority having jurisdiction for such wells as are then capable of producing oil or gas in paying quantities or on which Assignee is then engaged in bona fide operations to establish or restore production of oil or gas, and (b) as to depths within retained drilling, spacing or proration units except depths from the base of the San Andres formation down to the stratigraphic equivalent of total depth drilled, plus 100 feet, but in no event below the base of the deepest formation penetrated or the base of the deepest producing formation or 50 feet below the deepest commercially productive perforation, whichever is lesser. If this Term Assignment is continued in force under the immediately preceding sentence as to a drilling, spacing or proration unit on which operations are being conducted in an effort to establish or restore production but on which there is no well then capable of producing oil or gas in paying quantities, this Term Assignment will likewise terminate as to such retained drilling, spacing or proration unit upon cessation of such operations for a period of 60 consecutive days unless such operations (on the same or an additional well or wells in the same drilling, spacing or proration unit) result in the restoration or establishment of production of oil or gas in paying quantities on such drilling, spacing or proration unit. Retained drilling, spacing or proration units will be designated by Assignee and will be of such size and configuration as may be allowed by the rules and regulations of the governmental authority having jurisdiction; or if no size or configuration of drilling, spacing or proration units is specified by any governmental authority, such drilling, spacing or proration units will as nearly as practicable be in the form of a square and will contain 40 acres for each producing oil well and 160 acres for each producing gas well, with the producing wells situated as nearly as practicable in the centers. At any time production in paying quantities ceases from a retained drilling, spacing or proration unit, this Term Assignment will also terminate as to such drilling, spacing or proration unit unless Assignee commences operations for the repair or reworking of a well or for the drilling of an additional well on such drilling, spacing or proration unit within 60 days after cessation of production and diligently prosecute such operations on the same or an additional well or wells on such drilling, spacing or proration unit, with no cessation of more than 60 consecutive days during any operation or between such operations, until production of oil or gas in paying quantities is restored on the drilling, spacing or proration unit.

Within 30 days after termination of this Term Assignment as to any Leases and Lands, whether by reason of Assignee's failure to conduct Continuous Drilling Operations or for any other reason, Assignee will furnish Assignor with a reassignment of such Leases and Lands on the form attached as Exhibit "B", provided that Assignee will continue to have ingress and egress to the terminated acreage to the extent necessary to satisfy Assignee's plugging and abandonment and surface restoration obligations under the article titled "**RESPONSIBILITY FOR PLUGGING.**" Assignee warrants the terminated acreage will be free and clear of any mortgages, liens, encumbrances, overriding royalties, net profits interests and other burdens of any kind which may have been created by, through or under Assignee.

Notwithstanding partial termination of this Term Assignment under this article, Assignee may continue to use pipelines, tank batteries and other surface equipment previously installed on the terminated tracts in connection with Assignee's operations on the retained tracts, if any, and Assignee will continue to have ingress and egress across the terminated tracts in connection with its operations on the retained tracts, if any.

### 8. AGREEMENTS TO WHICH TERM ASSIGNMENT IS SUBJECT

This Term Assignment is subject to any and all agreements of record affecting the Leases and Lands

### 9. INDEMNIFICATION

EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED IN THIS TERM ASSIGNMENT, ASSIGNEE AGREES TO RELEASE, DISCHARGE, DEFEND, INDEMNIFY, AND HOLD HARMLESS ASSIGNOR, ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES, FROM AND AGAINST ALL CLAIMS, DEMANDS, ACTIONS, AND LAWSUITS ("CLAIMS"), AND ALL LIABILITIES, PENALTIES, FINES, JUDGMENTS, PAYMENTS, DAMAGES, LOSSES, COSTS AND EXPENSES (INCLUDING BUT NOT LIMITED TO COURT COSTS AND ATTORNEYS' FEES, COSTS OF INVESTIGATING CLAIMS, SITE

## THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS

ASSESSMENTS, TESTING AND REMEDIAL ACTIONS) INCURRED OR PAID IN CONNECTION WITH SUCH CLAIMS, ARISING FROM OR ASSOCIATED WITH ASSIGNEE'S OPERATIONS ON THE LEASES AND LANDS OR OPERATIONS ON THE LEASES AND LANDS FOR THE ACCOUNT OF ASSIGNEE. ASSIGNEE'S RELEASE, DEFENSE AND INDEMNITY OBLIGATIONS APPLY WITHOUT LIMITATION TO ACTS AND OMISSIONS OF ASSIGNOR AND ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES, BOTH PRIOR TO AND DURING THE TERM OF THIS TERM ASSIGNMENT, AND APPLY REGARDLESS OF THE NEGLIGENCE, BREACH OF CONTRACT, BREACH OF WARRANTY, STRICT LIABILITY, REGULATORY LIABILITY, STATUTORY LIABILITY, OR OTHER FAULT OR RESPONSIBILITY OF ASSIGNOR, ITS AFFILIATES, THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES, OR ANY OTHER PERSON OR PARTY, BUT DO NOT APPLY TO CLAIMS CAUSED SOLELY BY ASSIGNOR, ITS AFFILIATES, OR THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES, DURING OR AFTER THE TERM OF THIS TERM ASSIGNMENT, AS DETERMINED BY A FINAL, NONAPPEALABLE DECISION OF A COURT OF COMPETENT JURISDICTION.

IF ASSIGNEE FAILS TO PERFORM ANY ACT REQUIRED BY THIS TERM ASSIGNMENT OR OTHERWISE COMPLY WITH ANY OF ITS OBLIGATIONS UNDER THIS TERM ASSIGNMENT, ASSIGNOR WILL HAVE THE RIGHT BUT NOT THE OBLIGATION TO PERFORM THE ACT OR OBLIGATION THAT ASSIGNEE FAILED TO PERFORM, AND ASSIGNEE WILL FULLY DEFEND, INDEMNIFY AND HOLD ASSIGNOR HARMLESS AGAINST ALL COSTS AND EXPENSES INCURRED BY ASSIGNOR IN PERFORMING THE ACT OR OBLIGATION THAT ASSIGNEE FAILED TO PERFORM. IF ASSIGNEE FAILS TO FULLY COMPLY WITH THE PROVISIONS OF THIS TERM ASSIGNMENT, ASSIGNEE WILL BE OBLIGATED TO REIMBURSE ALL COSTS AND EXPENSES INCURRED BY ASSIGNOR IN ENFORCING THIS TERM ASSIGNMENT, INCLUDING BUT NOT LIMITED TO COURT COSTS AND ATTORNEYS' FEES.

The provisions of this article will survive termination of this Term Assignment.

### 10. COMPLIANCE WITH LEASES AND LAWS

Assignee will observe, perform and comply with all the terms, provisions, covenants and conditions, express or implied, of the Leases and with all laws and all rules, regulations and orders of regulatory authorities applicable to ownership and enjoyment of the rights assigned, including but not limited to any state or federal bond requirements.

### 11. RESPONSIBILITY FOR PLUGGING

Except as otherwise provided in this Term Assignment, within 60 days after termination of this Term Assignment as to any Leases or Lands, Assignee will (i) plug all wells drilled on the terminated acreage in full compliance with all laws and all rules, regulations and orders of all regulatory authorities having jurisdiction, (ii) remove from the terminated acreage all structures, facilities, foundations, wellheads, tanks, pipelines, flowlines, pumps, compressors, separators, heater treaters, valves, fittings and equipment and machinery of any nature, together with all substances or materials contained inside, which have been placed on the lands by or for the account of Assignee, (iii) remove all trash and debris from the terminated acreage, (iv) treat and backfill all pits on the terminated acreage, and (v) restore the surface of the terminated acreage as nearly as practicable to its original condition. If Assignee exercises its right to maintain equipment on terminated acreage in connection with operations on retained tracts pursuant to the article titled "CONTINUOUS DEVELOPMENT," then Assignee's obligations to remove such equipment and restore the surface on which the equipment is located will be postponed for so long as Assignee continues to use such equipment in its operations on the retained tracts. ASSIGNEE AGREES TO DEFEND, INDEMNIFY AND HOLD HARMLESS ASSIGNOR AND ITS AFFILIATES FROM ALL CLAIMS, DEMANDS, ACTIONS AND LAWSUITS ("CLAIMS"), AND ALL LIABILITIES, PENALTIES, FINES, PAYMENTS, JUDGMENTS, DAMAGES, LOSSES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION ATTORNEYS' FEES AND COURT COSTS, COSTS OF INVESTIGATING CLAIMS, SITE ASSESSMENTS, TESTING AND REMEDIAL ACTIONS) INCURRED AND/OR PAID IN CONNECTION WITH SUCH CLAIMS, ARISING FROM ASSIGNEE'S FAILURE TO PROPERLY PLUG AND ABANDON SUCH WELLS, REMOVE SUCH STRUCTURES AND EQUIPMENT, REMOVE SUCH TRASH AND DEBRIS, TREAT AND BACKFILL SUCH PITS, OR PERFORM SUCH SURFACE RESTORATION.

The provisions of this article will survive termination of this Term Assignment.

### 12. DELAY RENTALS, SHUT-IN PAYMENTS

During the term of this Term Assignment, Assignor will attempt to timely and properly pay any delay rentals accruing under the Leases to the extent they cover the Lands, and Assignee will promptly reimburse Assignor for the amount paid within 30 days after receipt of invoice; provided, however, Assignor will not be liable to Assignee for its failure to timely and properly make such payments. If any rental payment is applicable both to assigned Leases and Lands and to other leases and lands, such payment will be prorated on a surface acre basis.

## **THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS**

Assignee will be responsible for all shut-in gas well payments and minimum royalty payments required or permitted by the Leases. Within 30 days after Assignor's request, Assignee will furnish documentation that shut-in payments and minimum royalty payments have been properly paid.

### **13. SURRENDER**

Assignee will not surrender all or part of its interest in the Leases to the lessor(s) without first giving written notice to Assignor and offering to execute and deliver to Assignor a reassignment of all such rights Assignee proposes to surrender, except the right to salvage wells and equipment installed on the Leases by Assignee, which right Assignee will retain for its own benefit. Assignee will remain responsible for reimbursing Assignor for all delay rental payments paid on the Leases proposed to be surrendered within 45 days after Assignor's receipt of Assignee's surrender notice. If Assignor elects to receive a reassignment, the reassignment will be on the form attached as Exhibit "B", and will be delivered by Assignee within 30 days after receipt of Assignor's election. Upon the delivery of any surrender or reassignment, this Term Assignment will terminate with respect to the Leases and Lands surrendered or reassigned, but delivery of a surrender or reassignment will not relieve Assignee from any liability, duty or obligation that accrued, attached or arose prior to the date of termination or that accrues, attaches or arises upon termination or that survives termination.

The provisions of this article will survive termination of this Term Assignment.

### **14. RIGHTS RESERVED**

Assignor reserves the rights of access to and from the Leases and Lands and the right to use the Leases and Lands in connection with Assignor's retained rights under this Term Assignment and in connection with Assignor's operations on leases and lands not assigned.

### **15. INFORMATION**

Assignor and its representatives will have full access to all wells (including but not limited to the derrick floor) drilled by or for the account of Assignee on the Lands and on lands pooled or communitized with the Lands, and full access to all facilities installed by or for the account of Assignee on the Lands and on lands pooled or communitized with the Lands, including access to all records pertaining to such wells and facilities. Assignee will furnish Assignor, free of cost, the following data ("Data") as soon as it becomes available to Assignee: samples or copies of all cores, cuttings, logs, drilling data, testing and completing data, and all other information obtained by Assignee pertaining to all wells drilled on the Lands and on lands pooled or communitized with the Lands, including but not limited to the information set forth on Exhibit "C". If Assignee commences operations for the drilling or re-entry of any well within ½ mile of the Lands within 12 months of the execution date of this Term Assignment, Assignee will furnish Assignor with all Data in connection with the drilling or re-entry of such well, as soon as it becomes available to Assignee.

### **16. RELATIONSHIP OF THE PARTIES**

This Term Assignment is not intended to create, and nothing will be construed to create, a trust, association, joint venture, mining partnership, or other partnership or entity of any kind.

### **17. INSURANCE**

Assignee will maintain or caused to be maintained the following insurance in connection with all operations on the Lands or lands pooled or communitized with the Lands:

- A. worker's compensation and employer's liability insurance, as prescribed by applicable law. The limit of liability for employer's liability insurance will not be less than \$2,000,000.00 per occurrence;
- B. commercial general liability (bodily injury and property damage) insurance, including contractual liability to cover the liabilities assumed under this Term Assignment, products and completed operations coverage, sudden and accidental pollution coverage, and coverage for explosion, collapse and underground hazards. The limits of such insurance will not be less than \$2,000,000.00 combined single limit per occurrence;
- C. automobile public liability and property damage insurance covering all owned, non-owned, and hired vehicles used in operations on the Lands. The limits of such insurance will not be less than \$2,000,000.00 per occurrence;
- D. Operator's extra expense insurance including, but not limited to: coverage for control of well (including underground control of well); re-drill and extra expense; extended and unlimited re-drill; seepage, pollution, clean-up and contamination; evacuation expense; making wells safe; and care, custody and control. The limits for such insurance will not be less than \$5,000,000.00 combined single limit per occurrence.

## THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS

Except where prohibited by applicable law, the insurance in B, C and D will name Assignor and its affiliates as additional insureds **(THE ADDITIONAL INSURED ENDORSEMENT WILL INCLUDE COVERAGE FOR THE NEGLIGENCE OF ASSIGNOR AND ITS AFFILIATES)** and the insurance in A, B, C and D will contain a waiver of subrogation in favor of Assignor and its affiliates. The insurance will contain a requirement that the insurer provide Assignor with at least 10 days' prior written notice of any material change or cancellation in coverage, and will be endorsed to be primary to any insurance carried by Assignor or its affiliates. Prior to beginning any operations on the Lands, Assignee will furnish Assignor a certificate of insurance evidencing the required coverages and/or at Assignor's request, copies of the insurance policies. Assignor's acceptance of such certificates will not constitute a waiver, release or modification of any of the insurance coverages required under this Term Assignment, if the certificates are inconsistent with any of the required coverages.

Assignee will not be required to carry the insurance coverages required in this Term Assignment to the extent such coverages conflict with, or are void or otherwise unenforceable under, applicable laws or regulations.

### 18. RIGHT TO ASSIGN

Assignee will not assign this Term Assignment or the Leases, in whole or in part, without Assignor's prior written consent, which consent will not unreasonably be withheld. If Assignor consents to an assignment, the assignment will be made subject to all the provisions of this Term Assignment, and Assignee and its assign(s) will be jointly and severally liable for the performance of all obligations imposed upon Assignee under this Term Assignment. Any permitted assignment will not be binding upon or recognized by Assignor in any way unless and until a certified copy has been furnished to Assignor. Any attempted assignment made in violation of this article will be, in Assignor's sole discretion (and in addition to any other remedy available to Assignor at law or in equity), voidable and of no force. The granting of Assignor's consent to any assignment will be effective only as to the specific assignment then the express subject of such consent, and any subsequent assignment that may be proposed or attempted will be ineffective without Assignor's prior written consent.

### 19. DISCLOSURE OF ROYALTY VALUATION CLAIMS, DEMANDS, LAWSUITS

The Leases may be the subject of various claims, demands or lawsuits alleging underpayment of royalties or severance taxes based upon Assignor's use of the posted price of crude oil in calculation and payment of royalties or severance taxes on oil. If the Leases are the subject of any such claims, demands or lawsuits, Assignor will retain liability for same with respect to events occurring prior to the effective date of this Term Assignment. Settlement agreements and/or judgments entered in such lawsuits may affect the manner in which royalties or severance taxes on oil produced from the Leases are paid after effective date of this Term Assignment, and Assignee agrees to comply fully with the terms of such settlement agreements and/or judgments to the extent they affect the Leases and Lands.

### 20. TAXES

Assignor will render and pay any ad valorem taxes on the Leases and Lands for the year in which this Term Assignment becomes effective. Assignee will, upon billing by Assignor, reimburse Assignor for the amount of taxes so paid. Thereafter, Assignee will render and pay all ad valorem taxes assessed against the Leases and Lands for the tax years during which this Term Assignment remains in force. The provisions of this article will survive termination of this Term Assignment.

### 21. LIENS

Assignee will pay all claims for labor and materials that may be furnished to or for the account of Assignee. ASSIGNEE WILL DEFEND, INDEMNIFY AND HOLD ASSIGNOR HARMLESS AGAINST ALL LIENS, ENCUMBRANCES AND CLAIMS THAT MAY BE FILED AGAINST THE LEASES OR LANDS AND ALL LIABILITIES, PENALTIES, FINES, PAYMENTS, JUDGMENTS, DAMAGES, LOSSES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION ATTORNEYS' FEES AND COURT COSTS) INCURRED AND/OR PAID IN CONNECTION WITH SUCH LIENS, ENCUMBRANCES AND CLAIMS.

The provisions of this article will survive termination of this Term Assignment.

### 22. CONFLICTS OF INTEREST

No director, employee or agent of either party will give or receive any commission, fee, rebate, gift or entertainment of significant cost or value in connection with this Term Assignment. During the continuation of this Term Assignment and for 2 years thereafter, any mutually agreeable representatives authorized by either party may audit the applicable records of the other party solely for the purpose of determining whether there has been compliance with this article.

The provisions of this article will survive termination of this Term Assignment.



## **THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS**

### **23. SEVERABILITY**

If any provision of this Term Assignment is held to be invalid or unenforceable by a court of competent jurisdiction, such provision will be deemed omitted to the extent and only to the extent of the invalidity or unenforceability, and the remaining provisions will remain in full force and effect.

### **24. BREACH**

If Assignee defaults in the performance of any of its obligations under this Term Assignment, Assignor may enforce the performance of this Term Assignment in any manner provided by law. This Term Assignment may be terminated at Assignor's discretion if such default continues for a period of 30 days after Assignor notifies Assignee of such default and Assignor's intention to terminate this Term Assignment, and Assignee has not cured the default within such 30-day period or has not undertaken actions reasonably calculated to cure the default within such period and thereafter pursued such actions with reasonable diligence. Thereafter, Assignor will have the right, without further notice or demand, to enter the Lands, remove any or all of Assignee's personal property that may be located on the Lands, and restore the Lands to their original condition, without waiving any other remedies to which Assignor may be entitled. If, within 90 days from the date of termination of this Term Assignment, Assignee does not fully reimburse the costs Assignor incurs in removing and storing Assignee's personal property and restoring the Lands to their original condition, then in addition to Assignor's other rights under this Term Assignment, Assignor may dispose of the stored property, retain any proceeds from sale, and maintain an action against Assignee for any deficiency.

### **25. NO WAIVER**

Assignor's failure to enforce a remedy for any particular violation of the provisions of this Term Assignment will not constitute a waiver of such provisions nor will same prevent the exercise by Assignor of any remedy or remedies for any other violation or for the same violation occurring at any other time or times.

### **26. TIME OF THE ESSENCE**

Time is of the essence in carrying out Assignee's obligations under this Term Assignment.

### **27. ENTIRE AGREEMENT**

This Term Assignment represents the full understanding between the parties concerning the matters set forth in this Term Assignment, and all prior agreements, understandings and representations pertaining to such matters, whether oral or written, are terminated and superseded.

### **28. FORCE MAJEURE**

Whenever as a result of any cause beyond Assignee's reasonable control (such as fire, flood, storm, or other act of God, governmental law, order, or regulation, labor dispute, war, or inability to secure men, materials, permits, or transportation, but excluding lack of funds) Assignee is prevented from carrying out any of its obligations under this Term Assignment, the obligations that Assignee is prevented from complying with will be suspended during the period of such prevention. If such cause prevents Assignee from exercising any of its rights under this Term Assignment and such prevention occurs during the Primary Term of this Term Assignment, the Primary Term will be extended for a period of time equal to the period that Assignee is prevented from exercising its rights, and this Term Assignment will remain in full force and effect during such period of prevention and during any such extension of the Primary Term.

Notwithstanding anything to the contrary in this article, Assignee will not have the right to claim force majeure as to any event unless it delivers written notice of such event to Assignor no later than 5 business days after obtaining knowledge of the occurrence.

### **29. LATE PAYMENTS**

Past due payments under this Term Assignment will bear interest at the rate of 18% per year or the maximum rate permitted by law, whichever is lesser.

### **30. INDEMNITIES APPLY TO LESSOR'S NEGLIGENCE**

**EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED IN THIS TERM ASSIGNMENT, ALL RELEASE, DEFENSE AND INDEMNITY PROVISIONS OF THIS TERM ASSIGNMENT APPLY WITHOUT REGARD TO THE CAUSE OR CAUSES OF THE UNDERLYING CLAIM, INCLUDING BUT NOT LIMITED TO (I) THE NEGLIGENCE (WHETHER SOLE, CONTRIBUTORY, COMPARATIVE, CONCURRENT, ACTIVE, PASSIVE, SIMPLE, OR GROSS) OF ASSIGNOR, ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES, (II) THE LIABILITY WITHOUT FAULT OF ASSIGNOR, ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES, AND (III) THE NEGLIGENCE (WHETHER SOLE, CONTRIBUTORY, COMPARATIVE,**



## **THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS**

**CONCURRENT, ACTIVE, PASSIVE, SIMPLE, OR GROSS) OR LIABILITY WITHOUT FAULT OF ASSIGNEE OR ANY THIRD PARTY. IF ANY RELEASE, DEFENSE OR INDEMNITY PROVISION OF THIS TERM ASSIGNMENT IS JUDGED INVALID OR UNENFORCEABLE BY A COURT OF COMPETENT JURISDICTION OR BY OPERATION OF ANY APPLICABLE LAW, SUCH PROVISION WILL BE DEEMED OMITTED TO THE EXTENT AND ONLY TO THE EXTENT OF THE INVALIDITY OR UNENFORCEABILITY, AND THE REMAINING RELEASE, DEFENSE AND INDEMNITY PROVISIONS WILL REMAIN IN FULL FORCE AND EFFECT.**

The provisions of this article will survive termination of this Lease.

### **31. CODE OF FEDERAL REGULATIONS**

Unless this Term Assignment is exempted by law, rule, regulation or order, Assignee will comply with the following clauses contained in the United States Code of Federal Regulations (including any revisions or re-designations), which are incorporated herein by reference:

48 C.F.R. §52.203-6 (Subcontractor Sales to Government);  
48 C.F.R. §52.203-7 (Anti-Kickback Procedures);  
48 C.F.R. §52.222-35 and §52.222-37 and 41 C.F.R. §60-250.4 (Disabled and Vietnam Veterans);  
48 C.F.R. §52.222-36 and 41 C.F.R. §60-741.5 (Handicapped Workers);  
48 C.F.R. §22.804-1 and §52.222-26 and 41 C.F.R. §60-1.4 (Equal Opportunity);  
48 C.F.R. §52.219-8 and §52.219-9 (Small, Small Disadvantaged and Women-Owned Small Business Subcontracting Plan);  
48 C.F.R. §52.223-3 (Hazardous Material Identification and Material Safety Data);  
48 C.F.R. §52.223-14 (Toxic Chemical Release Reporting);  
48 C.F.R. §52.225-11 (Restrictions on Certain Foreign Purchases);  
48 C.F.R. §52.227-1 and §52.227-2 (Patent Authorization and Infringement).

Where required by law and unless previously provided to Assignor, Assignee will provide a Certificate of Non-Segregated Facilities to Assignor and Assignee will require its contractors and subcontractors to provide the same to Assignee. Assignee agrees and covenants that none of its employees or employees of its contractors or subcontractors who provide services on the Leases and Lands is an unauthorized alien as defined in the Immigration Reform and Control Act of 1986.

### **32. UNDERGROUND FACILITIES**

Unless Assignor otherwise agrees in writing, Assignee will register all underground facilities it installs on the Lands for use in connection with the production, storage, conveyance, transmission or distribution of oil, gas, water, sewage, telecommunications, electricity, hazardous liquids or other substances, including but not limited to pipelines, conduits, cables, valves, wires and attachments, under any applicable state law that establishes a registration system and/or notification center for underground facilities, and Assignee will fully comply with the requirements imposed by state law on the owners of underground facilities, even if such facilities are otherwise entitled to an exemption from registration under state law. Even if Assignor waives this requirement in writing, Assignee agrees to provide full information as to the nature, size, location, function and depth of all underground facilities installed by Assignee on the Lands, no later than two (2) business days after Assignor's request for such information. IF ASSIGNEE FAILS TO COMPLY WITH THE REQUIREMENTS OF THIS ARTICLE, THEN IN ADDITION TO ANY OTHER REMEDY AVAILABLE TO ASSIGNOR AT LAW OR IN EQUITY, ASSIGNEE AGREES TO RELEASE, DISCHARGE, DEFEND, INDEMNIFY AND HOLD HARMLESS ASSIGNOR AND ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES, AGAINST ALL CLAIMS, DEMANDS, ACTIONS AND LAWSUITS ("CLAIMS"), AND ALL LIABILITIES, PENALTIES, FINES, PAYMENTS, JUDGMENTS, DAMAGES, LOSSES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION ATTORNEYS' FEES AND COURT COSTS, COSTS OF INVESTIGATING CLAIMS, SITE ASSESSMENTS, TESTING AND REMEDIAL ACTIONS) INCURRED AND/OR PAID IN CONNECTION WITH SUCH CLAIMS, RELATING IN ANY WAY TO ASSIGNEE'S UNDERGROUND FACILITIES, EXCEPT CLAIMS RESULTING FROM THE NEGLIGENCE OF ASSIGNOR AND ITS AFFILIATES, AND THE EMPLOYEES AND AGENTS OF ASSIGNOR AND ITS AFFILIATES.

### **33. CALL ON PRODUCTION**

Assignor reserves the option (referred to as Assignor's call on production) to purchase or designate the purchaser of all or any part of Assignee's share of the oil and gas, or either of them separately, which may be produced from the assigned premises or attributed or allocated to the assigned premises under any unitization, pooling, or similar agreement (the "Callable Production," also sometimes referred to as "Callable Gas Production" or "Callable Oil Production"). Assignor will have the right to exercise its call on production at any time and from time to time during the life of the assigned Leases or renewals or extensions of same or new leases covering all or part of the Lands covered by the assigned Leases. As to Callable Gas Production, Assignor or its designee will have the right to purchase the full stream of gas at or near the wellhead, if the gas is not processed, or the residue gas at the tailgate of the applicable processing plant, if the gas is to be processed. During any period when Assignor is exercising its right to purchase or designate the purchaser of Assignee's Callable Oil Production, Assignor also reserves the right to designate the transporter of such Callable Oil Production.

**THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS**

Assignor's call on production will not apply to any oil or gas production that is covered by an existing production sale contract that Assignee is obligated to assume under this Term Assignment or that Assignee was required by Assignor to execute prior to or contemporaneously with this Term Assignment (a "Pre-Existing Contract Obligation"). Upon expiration of the original term or upon early termination of any such Pre-Existing Contract Obligation, Assignor's call on production will become fully applicable.

Assignee will notify Assignor as soon as possible following a determination by Assignee that Assignee will have Callable Production available for sale. Such notice will include Assignee's best estimate as to the quantity and quality of Callable Production that will be available and the location at which Assignee proposes to sell such production. Notices pertaining to Assignor's call on production will be addressed as follows, unless Assignor has provided Assignee written notice of a change of address for call on production notices:

For Natural Gas Production	For Oil Production
Chevron U.S.A. Inc. Attention: Call On Production Notices Attention: Bailey Blakemore Call on Production Notices P.O. Box 36366 Houston, Texas 77236 Facsimile: 1-866-629-3119	Chevron U.S.A. Inc. Crude Marketing Division Attention: Call On Production Notices 1500 Louisiana, Room 04713C Houston, Texas 77002 Facsimile: (832) 854-4866  With a copy to:  Chevron U.S.A. Inc. Attention: Call On Production Notices P.O. Box 36366 Houston, Texas 77236 Facsimile: 281-561-3880

Assignee may include in its notice of the availability of Callable Gas Production a request for an offer by Assignor or Assignor's designee to purchase the Callable Gas Production, or Assignee may submit a bona fide offer from a third party that Assignee is willing to accept and offer Assignor or Assignor's designee an opportunity to match such bona fide third party offer and purchase the Callable Gas Production on the same terms.

If Assignee requests a purchase offer from Assignor, Assignee may in its notice establish a reasonable deadline (not less than 21 days from delivery of Assignee's notice) for Assignor or its designee to make a purchase offer. If Assignor or its designee elects not to submit an offer or fails to do so within the deadline so established, or if an offer submitted by Assignor or Assignor's designee is unacceptable to Assignee, Assignee may proceed to seek third party offers, in which case the right of first refusal procedure described below will apply.

If Assignee receives a bona fide third party offer to purchase the Callable Gas Production, either before or after requesting an offer from Assignor, which third party offer Assignee is willing to accept, Assignee will submit a copy of the third party offer to Assignor and Assignor or Assignor's designee will have the right, by written notice to Assignee within 21 days after Assignor's receipt of Assignee's submission of such offer, to purchase the Callable Gas Production on the same terms as are contained in the third party offer. Should Assignor or Assignor's designee elect not to match the third party offer or fail to respond within the allotted time, then Assignee will be free to sell the Callable Gas Production under the third party offer for the original term of such offer. Upon expiration of that original term, Assignor's rights under this call on production will be reinstated and the procedure set forth herein will be followed prior to any subsequent sale of the Callable Gas Production.

If Assignor or its designated oil purchaser fails to respond within 21 days after Assignor's receipt of a notice from Assignee that Callable Oil Production is available for purchase, then Assignee will have the right to market such oil to a purchaser of Assignee's choice, subject to Assignor's right to subsequently exercise its call on production at any time following at least 30 days' notice to Assignee.

If Assignor elects to purchase or designate the purchaser of the Callable Oil Production, the price will be determined using the first of the following methods that is available on the date the oil is purchased: (1) Assignor's posted price for oil of like gravity and quality in the field where the oil is produced, (2) the average of the prices posted by others in the same field for oil of like gravity and quality, or (3) a price specified by Assignor or its designated purchaser that represents the reasonable value of the oil in question.

Notwithstanding the foregoing, if at any time while Assignor is not exercising its call on oil production Assignee receives a bona fide third party offer, which Assignee is willing to accept, to purchase Assignee's Callable Oil Production from the assigned premises for a term longer than 1 month, Assignee may submit such offer to Assignor and request that Assignor either match such offer or waive its call on oil production for the term necessary to allow Assignee to accept such

THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS

offer. Assignor will exercise its right to match such an offer within 30 days after receipt of the offer from Assignee or Assignor will be deemed to have waived its right as to that particular offer. If Assignor waives its right to match an offer and Assignee does not enter into a contract based on that offer, then Assignor's call on production will remain in effect and Assignor will have the same rights as to any subsequent offer received by Assignee.

This Term Assignment is executed the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ ("execution date"), but is effective as of the 1st day of October, 2006 ("effective date").

CHEVRON U.S.A. INC.,  
a Pennsylvania corporation

By: \_\_\_\_\_

Title: \_\_\_\_\_

OXY USA WTP LIMITED PARTNERSHIP

By: \_\_\_\_\_

Title: \_\_\_\_\_

STATE OF TEXAS §

COUNTY OF HARRIS §

This instrument was acknowledged before me on \_\_\_\_\_, by \_\_\_\_\_, Attorney-in-Fact for Chevron U.S.A. Inc., a Pennsylvania corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of Texas  
My Commission Expires \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me on \_\_\_\_\_, 20\_\_, by \_\_\_\_\_ for \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public

\_\_\_\_\_  
Notary Public, State of \_\_\_\_\_  
My Commission Expires \_\_\_\_\_

**THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS**

**EXHIBIT "A"**

Attached to and made a part of that certain Term Assignment dated effective October 1, 2006, by and between Chevron U.S.A. Inc., as Assignor, and Oxy USA WTP Limited Partnership, as Assignee

**OIL AND GAS LEASES ASSIGNED**

LAND FILE #: 312882

LEASE DATE: September 1, 1979

LESSOR: State of New Mexico (Lse No. LG-6953)

LESSEE: Gulf Oil Corporation

RECORDED: (None)

DESCRIPTION: N/2 SW/4 and SW/4SW/4 of Section 9, T-17-S, R-29-E, Eddy County, New Mexico

limited to depths from the base of the San Andres formation down to the base of the Morrow formation

THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS

EXHIBIT "B"

Attached to and made a part of that certain Term Assignment dated effective October 1, 2006, by and between Chevron U.S.A. Inc., as Assignor, and Oxy USA WTP Limited Partnership, as Assignee

REASSIGNMENT OF OIL AND GAS LEASES

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

For \$10.00 and other valuable consideration, \_\_\_\_\_ ("Assignor"), whose address is \_\_\_\_\_, transfers and assigns to \_\_\_\_\_ ("Assignee"), whose address is \_\_\_\_\_, the following oil and gas leases, subject to the provisions set out below:

\*ONLY TO THE EXTENT such leases cover \_\_\_\_\_

Reference is made to such leases for all purposes.

The interest assigned was previously assigned by \_\_\_\_\_ to \_\_\_\_\_ in that certain Term Assignment effective \_\_\_\_\_, 20\_\_\_\_, recorded in Volume \_\_\_\_\_ at Page \_\_\_\_\_ of the \_\_\_\_\_ Records of \_\_\_\_\_ County, \_\_\_\_\_.

Assignor warrants and agrees to defend the title to such leases by, through and under Assignor, only. Assignor further represents and warrants that this assignment is made free and clear of any liens, mortgages, liabilities, overriding royalty interests, production payments, encumbrances and other burdens on the leases except those that appear of record in \_\_\_\_\_ County, \_\_\_\_\_, prior to \_\_\_\_\_, the execution date of the above described Term Assignment.

This instrument is executed this \_\_\_\_ day of \_\_\_\_\_, 200\_\_ but is effective as of \_\_\_\_\_, 20\_\_.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

\*To be used only if a portion of the assigned leases is to be retained.

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

On this \_\_\_\_ day of \_\_\_\_\_ 200\_\_\_\_, before me, the undersigned, a Notary Public in and for said County and State, personally appeared \_\_\_\_\_ known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that (s)he executed same in her/his capacity as \_\_\_\_\_ of \_\_\_\_\_.

My Commission expires:

Witness my hand and official seal.

Notary Public in and for the State of \_\_\_\_\_

THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS

EXHIBIT "C"

Attached to and made a part of that certain Term Assignment  
dated effective October 1, 2006, by and between  
Chevron U.S.A. Inc., as Assignor,  
And Oxy USA WTP Limited Partnership, as Assignee

DRILLING, TECHNICAL AND GEOLOGICAL REQUIREMENTS

OFFICE "A"

MAILING ADDRESS: SHIPPING ADDRESS:  
NOJV MANAGER NOJV MANAGER  
CHEVRON USA, INC CHEVRON USA, INC  
P.O. BOX 36366 11111 S. WILCREST  
HOUSTON, TX 77236 HOUSTON, TX 77099

OFFICE "B"

ADDRESS  
CENTRAL RECORDS  
CHEVRON USA, INC  
15 SMITH ROAD  
MIDLAND, TX 79705

FAX NO. 281-561-3880

OPERATOR: OXY USA WTP Limited Partnership  
WELL NAME: Flameskimmer #1  
LOCATION: S/2 of Sec 9-T17S-R29E  
COUNTY & STATE: Eddy Co., NM

1. DRILLING & COMPLETION REPORTS: Prefer reports emailed to:  
**nojvmcbu@chevron.com and SMIN@chevron.com**

2. DATA (Office "A" and "B"):

	COPIES		COPIES
WELL PROGRAM	1	CORE DESCRIPTION & ANALYSES	1
STATE & FEDERAL FORMS	1	OIL, GAS & WATER ANALYSES	1
SURVEY PLAT	1	TESTING & COMPLETION REPORTS	1
DST & RFT DATA	1	GEOLOGICAL & FINAL WELL RPTS.	1

3. LOGS (Office "A" and "B"):

A. MUDLOGS

FAXED DAILY

E-MAILED DAILY  
MAILED WEEKLY  
FINAL PRINTS

\_\_\_\_\_  
\_\_\_\_\_  
1

B. WIRELINE and/or LWD LOGS

Email LAS to Yes  
**nojvmcbu@chevron.com**  
**SMIN@chevron.com**

FIELD PRINTS 1  
FINAL PRINTS 1  
LAS file on CD or diskette Yes\*  
\*Unless emailed

4. PLEASE PROVIDE TEST AND PRODUCTION REPORTS FOR A PERIOD OF THIRTY (30) DAYS FOLLOWING COMPLETION OF THE WELL.

Prior to Drilling:

Send Notice of Staking, regulatory agency hearing and all regulatory filings and reports to Office "A" and Office "B"

Send Notification of Intention to Spud (24 hours prior to spudding) and telephone number for rig and mudlogging trailer to Chevron U.S.A. Inc., Attn: NOJV Manager, P. O. Box 36366, Houston, Texas 77236.

**THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS**

**Well Site Access and Adequate Testing**

Assignee shall give Assignor and its representatives full and free access to the rig floor and to the well drill site, with the right to receive all information obtained concerning Assignee's operations and the formations and substances encountered for each well.

Assignee shall promptly provide to Assignor all information pertaining to or obtained from operations, whether obtained directly from the well or reissued in any form, including but not limited to the information specifically named herein.

Assignee shall conduct such coring, logging, testing, fracturing, acidizing, completion, plugging and abandonment and other operations and tests as would be done by a reasonable and prudent operator under the same or similar circumstances. Assignee shall keep an accurate, complete and detailed log of each well.

**THIS AGREEMENT CONTAINS DEFENSE AND INDEMNITY PROVISIONS**

**EXHIBIT "D"**

Attached to and made a part of that certain Term Assignment dated effective October 1, 2006, by and between Chevron U.S.A. Inc., as Assignor, and Oxy USA WTP Limited Partnership, as Assignee

**ENVIRONMENTAL STIPULATIONS**

Assignee will use, and will require its contractors, employees and agents to use environmentally sound materials and practices in its operations on the Lands so as to minimize or eliminate wastes, hazards and impacts on the environment. These practices include but are not limited to the following:

- A. Assignee will assess the material available for a given purpose and will select the least toxic option available. Affected materials include, but are not limited to, solvents, paints, paint thinners, boiler chemicals, thread compounds, cleaners and mud products. Material Safety Data Sheets for each product provide information to determine its relative toxicity.
- B. Pipe dope containing lead or zinc will be applied in such a manner to minimize the total volume required. Low toxicity compounds will be used on drill pipe. No muds or pipe dope containing chrome will be brought onto the Lands.
- C. Assignee will participate in a recycling program for all wastes generated where recycling is an option. The recycling program will include all used oils, solvents, drums, etc.
- D. Assignee will remove any unused products from the Lands. Unused commercial products will not be mixed with domestic or oilfield wastes. No waste materials will be put in any reserve pits or flare pits (except drilling and workover fluids where allowed by law).
- E. All trash will be removed from the Lands and all pits on the drilling location will be properly closed in accordance with applicable regulations, as soon as possible following the drilling of any well.
- F. Assignee will practice water conservation measures, including the use of high pressure washdown guns and restrictor nozzles on water hoses.
- G. Assignee will provide dikes, ditches, or other methods of containment for all fuel and oil containers. Any leakage or spillage will be promptly reported to the appropriate authorities as required by statute, rule or regulation, and to the appropriate representative of Assignor. Assignee will have a Spill Prevention, Control and Countermeasure Plan in effect as required by the Code of Federal Regulations Title 40, Part 112.
- H. Assignee will adopt practices for minimization of volume and toxicity of wastes for all waste streams.
- I. Assignee will handle and dispose of any and all solid waste, including hazardous waste, as defined in Code of Federal Regulations Title 40, Parts 261.2 and 261.3, resulting from the performance of its operations on the Lands in accordance with all applicable federal, state and local statutes, regulations, ordinances and requirements. Assignee will own all waste generated in connection with Assignee's operations on the Lands. Upon request, Assignee will furnish proof to Assignor of proper handling and disposal of wastes generated by Assignee.
- J. Assignee will dispose of or discharge any wastes generated in its operations on the Lands (including but not limited to produced water, drilling fluids and other associated wastes) in accordance with applicable local, state, tribal and federal laws and regulations. Assignee will keep accurate records of the types, amounts and location of wastes that are disposed of on-site and off-site. Upon termination of this Term Assignment as to all or any portion of the Lands, Assignee will take whatever additional remedial action on the Lands may be necessary to meet all local, state, tribal and federal requirements directed at protecting human health and the environment in effect at that time. Assignee will provide Assignor with access to the records of the types, amounts and location of wastes that are disposed of on-site and off-site. The provisions of this article will survive termination of this Term Assignment.
- K. Failure to comply with the provisions of this Exhibit will be considered a breach of the Term Assignment and may result in termination of the Term Assignment and Assignee's expulsion from the Lands as well as any other remedies allowed by law.



**Evans, David (Midland, Texas)**

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**From:** Evans, David (Midland, Texas)  
**Sent:** Wednesday, October 25, 2006 1:58 PM  
**To:** 'Fuzzell, Greg D'  
**Subject:** RE: AFE for Flameskimmer

Greg, are you going to term assign like Chevron has? Please let me know we are running out of time. David

---

**From:** Fuzzell, Greg D [mailto:Greg.D.Fuzzell@conocophillips.com]  
**Sent:** Friday, October 06, 2006 2:54 PM  
**To:** Evans, David (Midland, Texas)  
**Cc:** Doty, Bob  
**Subject:** RE: AFE for Flameskimmer

David - Our Hobbs team has advised me that we're not interested in joining, but we would like to discuss a trade with you. Could you give me a call so we can discuss how you're working this with Chevron - I'm not sure if we'll want to do a term assignment or a farmout. Either way, it looks like you don't have to make a trip to Santa Fe after all. I can think of worse places to be this time of year, though.

Regards,  
Gregory D. Fuzzell, CPL  
Staff Landman

ConocoPhillips Company  
Westlake 3 - Room 14058  
P. O. Box 2197  
Houston, TX 77252-2197

E-Mail: greg.d.fuzzell@conocophillips.com  
Voice: 832.486.2311  
Fax: 832.486.2674

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

**From:** David\_Evans@oxy.com [mailto:David\_Evans@oxy.com]  
**Sent:** Friday, October 06, 2006 9:28 AM  
**To:** Fuzzell, Greg D  
**Cc:** Bob\_Doty@oxy.com  
**Subject:** RE: AFE for Flameskimmer  
**Importance:** High

Greg, any word? When you hear would you let Bob and me know by responding to the e-mail addresses listed above. Thanks, David

---

**From:** Fuzzell, Greg D [mailto:Greg.D.Fuzzell@conocophillips.com]  
**Sent:** Wednesday, October 04, 2006 11:14 AM  
**To:** Evans, David (Midland, Texas)  
**Subject:** RE: AFE for Flameskimmer

11/06/2006

David - I'll check on this right now - I'll get back with you this afternoon, hopefully.

Regards,  
Gregory D. Fuzzell, CPL  
Staff Landman

ConocoPhillips Company  
Westlake 3 - Room 14058  
P. O. Box 2197  
Houston, TX 77252-2197

E-Mail: greg.d.fuzzell@conocophillips.com  
Voice: 832.486.2311  
Fax: 832.486.2674

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

**From:** David\_Evans@oxy.com [mailto:David\_Evans@oxy.com]  
**Sent:** Wednesday, October 04, 2006 11:13 AM  
**To:** Fuzzell, Greg D  
**Cc:** Bob\_Doty@oxy.com; Betty\_Chatwell@oxy.com  
**Subject:** RE: AFE for Flameskimmer  
**Importance:** High

Greg, any word as to this well? We are on a deadline and I need to know if your going to T/A or join. David

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Tuesday, September 26, 2006 9:58 AM  
**To:** 'greg.d.fuzzell@conocophillips.com'  
**Subject:** AFE for Flameskimmer  
**Importance:** High

Greg, we are looking to file for force pooling in about 10 days. Chevron is granting us a T/A. Would you please let me know what Conoco/Phillips wants to do here. I really don't need another trip to Santa Fe....Thanks, David

11/06/2006

**Evans, David (Midland, Texas)**

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Thursday, October 26, 2006 9:04 AM  
**To:** 'QF75see@chevron.com'  
**Subject:** OXY Flameskimmer/Chevron Lease  
**Importance:** High

Steve,

We have reviewed your form as to the Flameskimmer and compared it to the last Term Assignment we agreed to with Rob and we need to request the following changes:

1. Paragraphs 4 and 9- BOLD LANGUAGE- in both delete the words "both prior to and"
2. Paragraph 17- Add as the last grammatical paragraph-"Notwithstanding the above OXY may self insure consistent with the rates and limits listed herein. OXY's successors and assigns shall not be allowed to self insure unless Assignor in its sole discretion consents thereto"
3. Delete the call on production-it is highly unlikely we could comply with this provision.

FYI, Steve we got these changes from both Rob Nunmaker and with Tommy Morris. I appreciate your help. David Evans

**Evans, David (Midland, Texas)**

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Monday, October 30, 2006 11:06 AM  
**To:** 'Nunmaker, Robert A'  
**Subject:** FW: OXY Flameskimmer/Chevron Lease  
**Importance:** High

Rob, who do I send this too? No wonder he didn't respond! David

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Thursday, October 26, 2006 9:04 AM  
**To:** 'QF75see@chevron.com'  
**Subject:** OXY Flameskimmer/Chevron Lease  
**Importance:** High

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FYI, Steve we got these changes from both Rob Nunmaker and with Tommy Morris. I appreciate your help. David Evans

**Evans, David (Midland, Texas)**

**From:** Nunmaker, Robert A [RobertNunmaker@chevron.com]  
**Sent:** Monday, October 30, 2006 2:57 PM  
**To:** Evans, David (Midland, Texas)  
**Subject:** RE: OXY Flameskimmer/Chevron Lease

David,

We had a big reorg about two months ago and both James and I were moved. I got Wyoming and he is now working our South Texas assets. I just spoke with him and he is going to be in the field for the next couple of days. Do you work west Texas too? If so, I would possibly like to introduce you to our new landman handling Chevron's non-op west Texas assets. Let me know.

Rob

**Robert A. Nunmaker III**  
Land Representative

**Midcontinent SBU**  
Chevron U.S.A. Inc.  
11111 S Wilcrest  
Houston, Texas 77099  
Tel (281) 561-4767  
robertnunmaker@chevron.com

**From:** David\_Evans@oxy.com [mailto:David\_Evans@oxy.com]  
**Sent:** Monday, October 30, 2006 2:48 PM  
**To:** Nunmaker, Robert A  
**Subject:** RE: OXY Flameskimmer/Chevron Lease

How about you and James Baca for lunch Tuesday?

**From:** Nunmaker, Robert A [mailto:RobertNunmaker@chevron.com]  
**Sent:** Monday, October 30, 2006 11:12 AM  
**To:** Evans, David (Midland, Texas)  
**Subject:** RE: OXY Flameskimmer/Chevron Lease

Actually I believe he is working on this today. I will ask him to give you a call or email.  
Rob

**From:** David\_Evans@oxy.com [mailto:David\_Evans@oxy.com]  
**Sent:** Monday, October 30, 2006 11:06 AM  
**To:** Nunmaker, Robert A  
**Subject:** FW: OXY Flameskimmer/Chevron Lease  
**Importance:** High

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11/06/2006

**From:** Evans, David (Midland, Texas)  
**Sent:** Thursday, October 26, 2006 9:04 AM  
**To:** 'QF75see@chevron.com'  
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11/06/2006



## Evans, David (Midland, Texas)

---

**From:** Emery, Steve E. [qf75see@chevron.com]  
**To:** Evans, David (Midland, Texas)  
**Sent:** Monday, October 30, 2006 9:27 AM  
**Subject:** Read: OXY Flameskimmer/Chevron Lease

Your message

**To:** qf75see@mssite01.ion.chevron.com  
**Subject:**

was read on 10/30/2006 9:27 AM.

**Evans, David (Midland, Texas)**

---

**From:** Emery, Steve E. [qf75see@chevron.com]  
**Sent:** Monday, October 30, 2006 1:41 PM  
**To:** Evans, David (Midland, Texas)  
**Subject:** RE: OXY Flameskimmer/Chevron Lease

David,

I'm checking on these requests and will let you know once I hear from the various groups within Chevron.

Thanks,  
**Steve Emery**  
Land Dept.

**Midcontinent SBU**  
Chevron North America  
Exploration and Production Company  
11111 S. Wilcrest, Room N-1009  
Houston, TX 77099  
Tel 281 561 3890  
Fax 281 561 3880  
QF75see@chevron.com

---

**From:** David\_Evans@oxy.com [mailto:David\_Evans@oxy.com]  
**Sent:** Thursday, October 26, 2006 9:04 AM  
**To:** Emery, Steve E.  
**Subject:** OXY Flameskimmer/Chevron Lease  
**Importance:** High

Steve,

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11/06/2006



**Evans, David (Midland, Texas)**

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**From:** Nunmaker, Robert A [RobertNunmaker@chevron.com]  
**Sent:** Monday, October 30, 2006 11:12 AM  
**To:** Evans, David (Midland, Texas)  
**Subject:** RE: OXY Flameskimmer/Chevron Lease

Actually I believe he is working on this today. I will ask him to give you a call or email.  
Rob

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**To:** Nunmaker, Robert A  
**Subject:** FW: OXY Flameskimmer/Chevron Lease  
**Importance:** High

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11/06/2006

**Evans, David (Midland, Texas)**

---

**From:** Nunmaker, Robert A [RobertNunmaker@chevron.com]  
**Sent:** Monday, October 30, 2006 4:15 PM  
**To:** Evans, David (Midland, Texas)  
**Cc:** AUFFANT, ABIGALE M; McNally, Kevin (KMcNally)  
**Subject:** RE: OXY Flameskimmer/Chevron Lease

David,

I am also going to bring Kevin McNally. He is working Chevron's company operated SE NM assets. I am sure you two will be talking at some point if you have not already. There will be 3 Chevroids attending, myself, Abby Auffant, and Kevin McNally. We will meet ya'll at Maggiano's in the Galleria area at 11:30. I think the restaurant is on Post Oak Blvd.

Looking forward to it,

Rob

**Robert A. Nunmaker III**

Land Representative

**Midcontinent SBU**

Chevron U.S.A. Inc.

11111 S Wilcrest

Houston, Texas 77099

Tel (281) 561-4767

robertnunmaker@chevron.com

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**From:** David\_Evans@oxy.com [mailto:David\_Evans@oxy.com]  
**Sent:** Monday, October 30, 2006 3:03 PM  
**To:** Nunmaker, Robert A  
**Subject:** RE: OXY Flameskimmer/Chevron Lease

Yes, I work Ector County also....David

---

**From:** Nunmaker, Robert A [mailto:RobertNunmaker@chevron.com]  
**Sent:** Monday, October 30, 2006 2:57 PM  
**To:** Evans, David (Midland, Texas)  
**Subject:** RE: OXY Flameskimmer/Chevron Lease

David,

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Rob

**Robert A. Nunmaker III**

Land Representative

11/06/2006

**Midcontinent SBU**

Chevron U.S.A. Inc.  
11111 S Wilcrest  
Houston, Texas 77099  
Tel (281) 561-4767  
robertnunmaker@chevron.com

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11/06/2006

**Evans, David (Midland, Texas)**

---

**From:** Evans, David (Midland, Texas)  
**Sent:** Monday, October 30, 2006 10:49 AM  
**To:** 'LAWRENCE, DAVID P.'; Emily Beard; Furtwangler, Thomas M  
**Subject:** RE: Greg Fuzzell

OK, count me in....

---

**From:** LAWRENCE, DAVID P. [mailto:DAVID.LAWRENCE2@bp.com]  
**Sent:** Monday, October 30, 2006 10:35 AM  
**To:** Evans, David (Midland, Texas); Emily Beard; Furtwangler, Thomas M  
**Subject:** Greg Fuzzell

David, I just spoke with Greg Fuzzell and he is not available for lunch tomorrow. We have made plans for Thursday November 2, 2006 if anyone would like to join us.

***David P. Lawrence***

Land Negotiator Permian Asset  
North America Gas SPU  
BP America Production Company  
501 Westlake Park Blvd (77079)  
P O Box 3092  
Houston, Texas 77253-3092  
Office: (281) 366-0702  
Fax: (281) 366-7067