

Brooks

OGXResources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

Certified Mail #7011 0110 0001 3284 0650

May 17, 2011

Chesapeake Exploration LLC
P.O. Box 18496
Oklahoma City, Oklahoma 73154-0496

Attn: Permian Land Manager

Re: Compulsory Pooling Order R-13396
Diamondback "22" State Com #1H Well
T-26-S, R-28-E, N.M.P.M.
Section 22: W $\frac{1}{2}$ E $\frac{1}{2}$
Eddy County, New Mexico

Gentlemen:

Pursuant to the State of New Mexico, Oil Conservation Division's Compulsory Pooling Order No. R-13396, Case No. 14638 (a copy of which is enclosed), please find enclosed an AFE (in duplicate) for the drilling and completion of OGX Resources LLC's ("OGX") Diamondback "22" State Com #1H Well.

In the event your company desires to participate in the drilling and completion of the subject well, please sign both copies of the AFE and return to the undersigned, along with your share of the estimated drilling and completion costs. By our letter to you dated February 2, 2011 we proposed the subject well to you with the option of either joining in the well or granting us a one (1) year term assignment covering your leasehold interest in the SE/4 NW/4 and SW/4 NE/4 of said section 22. According to our title opinion covering the SW/4 NE/4 of section 22, your company owns an 84.91% leasehold interest or 33.964 net acres; therefore, your working interest in the proposed well would be 33.964/160 or 21.2275%. The estimated cost to drill and complete the subject well as reflected on the enclosed AFE is \$5,090,750.00; therefore, your share of the drilling and completion costs is estimated to be \$1,080,638.96.

According to the above order, if the AFE and your estimated share of the drilling and completion costs are not received within thirty (30) days of your receipt of this letter, you will be considered a "non-consenting working interest owner" and will be subject to the penalties as stated in the order.

In the event you do not wish to participate, OGX is willing to acquire a term assignment under the terms set forth in our letter to you dated February 2, 2011.

chesapeakeexplorationllcdiamondback22statecom#1hwellproposal_051711

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2011 MAY 20 P 12:30

Chesapeake Exploration LLC Well Proposal
Diamondback "22" State Com #1H Well
May 17, 2011
Page 2

If you have any questions, please contact the undersigned.

Sincerely,

OGX Resources LLC

Garland H. Lang III
Land Manager

Enclosures

cc: State of New Mexico
Attention: Ms. Jami Bailey
Oil Conservation Division
1220 South Francis Drive
Santa Fe, New Mexico 87505

Mr. James C. Bruce
Attorney At Law
P.O. Box 1056
Santa Fe, New Mexico 87504-1056

C. S. H. P.

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

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

CASE NO. 14638
ORDER NO. R-13396

APPLICATION OF OGX RESOURCES LLC FOR A NON-STANDARD OIL
SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 28, 2011 at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 10th day of May, 2011, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

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

(2) OGX Resources LLC ("Applicant"), seeks approval of a non-standard 160-acre oil spacing and proration unit and project area ("the Unit") in the Bone Spring formation consisting of the W/2 of the E/2 of Section 22, Township 26 South, Range 28 East, NMPM, in Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit in the Bone Spring formation.

(3) The Unit is to be dedicated to Applicant's Diamondback 22 State Com. Well No. 1H ("the proposed well"), a horizontal well to be drilled from a standard surface location 480 feet from the North line and 1960 feet from the East line (Unit B) of Section 22. The well will penetrate the Bone Spring formation at a standard oil well location approximately 650 feet from the North line and 1968 feet from the East line (Unit B) of Section 22 and continue horizontally in the Bone Spring to a standard terminus, or bottomhole location, 330 feet from the South line and 2125 feet from the East line (Unit O) of Section 22.

(4) This is a wildcat area for oil production from the Bone Spring formation. Accordingly, spacing is governed by statewide Rule 15.9.A, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The Unit consists of four adjacent quarter-quarter sections.

(5) Applicant appeared at the hearing through counsel and presented geologic evidence to the effect that:

(a) this area is suitable for development by horizontal drilling; and

(b) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring, so that formation of the Unit as requested will not impair correlative rights.

(6) Russell Family LLC entered an appearance in this case, but did not oppose the application. No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(7) Approval of the proposed non-standard unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

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

(9) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(10) There are interest owners in the Unit that have not agreed to pool their interests. There are no unlocated owners in the Unit, and there is no evidence of a title dispute.

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

(12) OGX Resources LLC should be designated the operator of the proposed well and of the Unit.

(13) Any pooled working interest owner who does not pay its share of

estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$600 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 160-acre wildcat oil spacing and proration unit (the Unit) is hereby established in the Bone Spring formation, consisting of the W/2 of the E/2 of Section 22, Township 26 South, Range 28 East, NMPM, in Eddy County, New Mexico.

(2) Pursuant to the application of OGX Resources LLC, all uncommitted interests, whatever they may be, in the oil and gas in the Bone Spring formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Diamondback 22 State Com. Well No. 1H ("the proposed well"), a horizontal well to be drilled from a standard surface location 480 feet from the North line and 1960 feet from the East line (Unit B) of Section 22. The well will penetrate the Bone Spring formation at a standard oil well location approximately 650 feet from the North line and 1968 feet from the East line (Unit B) of Section 22 and continue horizontally in the Bone Spring to a standard terminus, or bottomhole location, 330 feet from the South line and 2125 feet from the East line (Unit O) of Section 22.

(4) The operator of the Unit shall commence drilling the proposed well on or before May 15, 2012, and shall thereafter continue drilling the well with due diligence to test the Bone Spring formation.

(5) In the event the operator does not commence drilling the proposed well on or before May 15, 2012, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed in all of the quarter-quarter sections included in the proposed unit within 120 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which the well is completed.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 13.9, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) OGX Resources LLC is hereby designated the operator of the well and of the Unit.

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

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

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

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

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

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and

(b) as a charge for the risk involved in drilling the well, 200% of the above costs.

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

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month while drilling and \$600 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

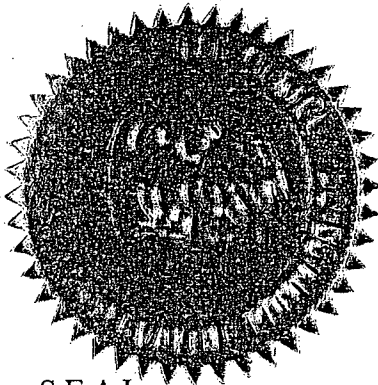
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

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

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

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

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, reading "Jami Bailey".

JAMI BAILEY
Director

OGX RESOURCES LLC
AUTHORIZATION FOR EXPENDITURE

DATE: 1/31/11

OGX AFE No.:
AFE Title: Avalon Horizontal
Well Name & No.: DIAMONDBACK 22 STATE COM #1H

Field: DELAWARE RIVER SOUTH - BONE SPRING
County: EDDY

State: NEW MEXICO

Exploratory XX Development:
Proposed Formation: AVALON
Descriptor SHL: 480'FNL & 1960'FEL / SEC.22-T26S-R28E
BHL: 330' FSL & 2125' FEL, SEC. 22, T26S, R28E

Oil: XX GAS
Proposed Depth: 7160 TVD / 11,450' MD

	MAJ	SUB	DRY HOLE	MAJ	COMPLETION	TOTAL
DEVELOPMENTAL DRILLING:						
Turnkey	725	470	\$0	726	\$0	\$0
Mobilization/Demob.		471	\$65,000		\$0	\$65,000
Location, Pits, Roads		472	\$65,000		\$10,000	\$75,000
Cement and Cementing Services		473	\$75,000		\$50,000	\$125,000
Mud Logging		474	\$35,000		\$0	\$35,000
Mud Materials, Chemical & Water		475	\$65,000		\$175,000	\$240,000
Logging and Sidewall Coring		478	\$35,000		\$5,000	\$40,000
Perforating		479	\$0		\$0	\$0
Stimulation		480	\$0		\$1,850,000	\$1,850,000
Formation Testing		482	\$0		\$42,000	\$42,000
Testing Tubular Goods		484	\$0		\$5,500	\$5,500
Tool Rental DOWNHOLE		488	\$40,000		\$3,500	\$43,500
Tool Rental INCLUDES CLOSED MUD SYSTEM		488	\$162,500			\$162,500
Drilling Footage		489	\$0		\$0	\$0
Drilling Day Work 24 days		490	\$262,500		\$37,500	\$300,000
Float Equipment		491	\$6,500		\$15,000	\$21,500
Bits, Core Barrells, etc.		492	\$70,000		\$15,000	\$85,000
Other Special Well Services		494	\$18,000		\$355,000	\$373,000
Contract Services & Equip		510	\$12,000		\$55,000	\$67,000
Directional Drilling		511	\$130,000		\$0	\$130,000
Completion Unit		528	\$0		\$56,000	\$56,000
Fuel & Power		539	\$72,000		\$0	\$72,000
Auto & Truck Expense		545	\$15,000		\$2,500	\$17,500
Company Supervision 60 @ 1200		501	\$42,000		\$30,000	\$72,000
Miscellaneous & Contingencies	8%	599	\$93,640		\$216,560	\$310,200
Subtotal			\$1,264,140		\$2,923,560	\$4,187,700

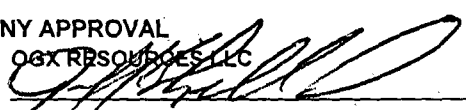
DEVELOPMENTAL LWE "DRILLING"						
Surface Casing 13 3/8 @ 425'	727	441	\$16,750	727	\$0	\$16,750
Conductor Pipe		442	\$9,500		\$0	\$9,500
Intermediate Casing 8 5/8" @ 2525'		443	\$58,300		\$0	\$58,300
Production Casing 5 1/2" @ 11,450'		443	\$0		\$220,000	\$220,000
Drilling Liner		450	\$0		\$0	\$0
Production Liner		460	\$0		\$0	\$0
Casing Head		445	\$34,000		\$30,000	\$64,000
X-Mas Tree		446	\$0		\$16,000	\$16,000
Completion Equipment		447	\$0		\$5,000	\$5,000
Retrievable Packers		448	\$0		\$5,000	\$5,000
Tubing		449	\$0		\$55,000	\$55,000
Other Material & Equipment		469	\$1,000		\$1,500	\$2,500
Subtotal			\$119,550		\$332,500	\$452,050

ONSHORE FACILITIES						
Location, Pits, Roads	745	472			\$45,000	\$45,000
Contract Services & Equip		510			\$25,000	\$25,000
Engineering Surveys		516			\$4,500	\$4,500
Auto & Truck Expense		545			\$1,000	\$1,000
Welding Services		566			\$7,500	\$7,500
Instal Elect/Pneu System		567			\$0	\$0
Painting Service		568			\$0	\$0
Miscellaneous & Contingencies		599			\$1,500	\$1,500
Subtotal					\$84,500	\$84,500

ONSHORE FACILITIES						
Misc Valves & Fittings	746	153			\$35,000	\$35,000
Corrosion or Chemical Treating Equip		438			\$0	\$0
Pumping Equipment		451			\$135,000	\$135,000
Gas Engines & Electric Motors		452			\$15,000	\$15,000
Electric Lines, Poles, Transformers, etc.		453			\$35,000	\$35,000
Bottom Hole Pump		454			\$8,000	\$8,000
Field Lines		456			\$7,500	\$7,500
Tanks, Stairs, Walkways, etc.		457			\$38,000	\$38,000
Separator & Fittings		458			\$10,500	\$10,500
Heaters, Treaters & Connections		459			\$12,000	\$12,000
Power & Circulating Pumps		460			\$2,500	\$2,500
Meters		463			\$23,000	\$23,000
Other Material & Equipment		469			\$45,000	\$45,000
Subtotal					\$366,500	\$366,500

TOTAL WELL COST:	1,383,690	3,707,060	5,090,750
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COMPANY APPROVAL

NAME: OGX RESOURCES LLC
By: 
Title: ENGINEERING MANAGER
Date: 31-Jan-11

PARTICIPANT APPROVAL

NAME: _____
By: _____
Title: _____
Date: _____
Wf%: _____