

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (this “MOU”) is made and entered into this 7th day of November, 2012 (“Effective Date”) by and between the Town of Hudson, a Colorado municipal corporation (“Hudson” or “Town”), whose address is 557 Ash, Hudson, Colorado, 80642-0351, and Kerr-McGee Oil & Gas Onshore LP, a Delaware corporation (“KMG”), whose address is 1099 18th Street, Suite 1800, Denver, Colorado 80202. KMG and Hudson may be referred to individually as a “Party” or collectively as the “Parties.”

BACKGROUND and RECITALS:

A. KMG is the owner of oil and gas leasehold and mineral interests both within and outside Hudson’s town limits. KMG currently operates oil and gas wells within and outside Hudson’s town limits and has the right, subject to applicable laws, to develop its current and future oil and gas leasehold and mineral interests by drilling additional wells both within and outside Hudson’s town limits.

B. On August 17, 2012, KMG was issued a Use by Special Review Permit for eight (8) horizontal wells, the Hudson 14N-35HZ and the Hudson 14N-35HZ pads (“Hudson Wells”). As part of the conditions of approval, KMG agreed to a Road Impact Study to be performed by Weston Solutions at the expense of KMG. This study consists of two phases of study – an assessment of the road conditions before the KMG operations commence and then again at the conclusion of the drilling activities, approximately one year after the operations commence. At the conclusion of KMG’s operations, KMG agrees to pay the actual cost of repair to Town owned roads caused by KMG’s impact to such roads, if any.

C. KMG proposed 25 additional wells outside the Hudson town limits but utilizing Town owned roads as part of its access. These wells consist of the Sparboe 27N-26HZ pad, the Sparboe 1-34HZ pad, The Sparboe 27-34HZ pad and the Colfer 28-34HZ (hereinafter the “Sparboe / Colfer Wells”). On September 5, 2012, KMG informed the Town of these planned operations at a meeting held at Hudson Town Hall.

D. On September 19, 2012 KMG agreed to have, at its own expense, Weston perform a second road impact study conducted concerning the Sparboe/Colfer Wells.

E. The Town has within its Municipal Code, Section 8-31, an ordinance precluding overweight vehicles on Town roads. The Town and KMG have met several times to discuss waivers/variances in order for KMG to commence and continue with its operations and to utilize the Town roads for oil and gas operations within and outside Town limits.

F. In addition to concerns of road damage and overweight trucks, the Town expressed to KMG concerns of Town traffic and KMG’s use of Town roads exacerbating existing traffic. In order to address the concerns of the Town concerning traffic within the Town, KMG retained Felsburg Holt & Ullevig, a traffic engineering firm, to conduct a traffic study at four (4) interchanges where KMG originally anticipated to have heavy traffic. Only three (3) of these interchanges fall within the Town limits.

G. Hudson and KMG have agreed to enter into this MOU in order to memorialize the Parties agreement concerning KMG's operations and particularly KMG's use of the Hudson roads. To that end, in order to achieve such goals in a cooperative manner, Hudson and KMG also enter into this MOU to identify best management practices for KMG's operations relative to the roads within Hudson's town limits ("BMPs").

H. KMG has Colorado Oil and Gas Conservation Commission ("COGCC") approved permits for the Hudson Wells and for the Sparboe/Colfer Wells.

AGREEMENT:

NOW THEREFORE, the Parties agree as follows:

1. **Road Impact Studies.** The Town and KMG have determined that oil and gas operations by KMG on Hudson roads may create impacts on Town roads and that mitigation in the form of road maintenance and improvements may be proper and necessary depending on the outcome of the above referenced Road Impact Studies. KMG agrees to provide the Town the final Road Impact Studies, and to perform reclamation work that may be recommended by the Road Impact Studies. The Parties understand that except for repairs of damage caused by KMG, any other damage or excessive wear caused by others to Hudson roads shall not be the responsibility of KMG to remedy and shall not be borne by KMG.

2. **Municipal Code Ordinance Concerning Overweight Trucks.** The Parties agree that the Town is in the process of considering an amendment to revise its Municipal Code to provide all necessary waivers and approvals for KMG to utilize Town roads for its operations for the Hudson, Sparboe and Powers Wells so long as KMG has met the provisions set forth in this MOU. Regardless of whether such amendments are adopted by the Town, upon the Effective Date of this Agreement, the Parties agree that KMG has the rights to utilize the Town's roads for the drilling, producing and completion of any wells either within or outside the Town's limits as set forth herein.

3. **Intent to Supplement Commission Rules and Regulations.** The Parties recognize that pursuant to the Colorado Oil and Gas Conservation Act, Colo. Rev. Stat. §34-60-101 et seq. (the "Act"), the COGCC regulates the development and production of oil and gas resources in Colorado, and the Act authorizes the Commission to adopt statewide rules and regulations, which the Commission has done. The BMPs identified in this MOU are intended to supplement and are in addition to Commission rules and regulations.

4. **KMG's Best Management Practices within Hudson Town Limits and for Hudson Roads.** KMG shall include the BMPs listed in Appendix A on all Forms 2, Application for Permit to Drill and Forms 2A, Oil and Gas Location Assessment (for new wellsites only) submitted to the Commission for new wells KMG drills after the Effective Date within Hudson's town limits and for wells wherein KMG must utilize Town roads. For purposes of this MOU, Hudson's "town limits" shall mean the legal corporate limits of Hudson as of the Effective Date. If, after the Effective Date, Hudson annexes into its town limits lands on which KMG has then-existing operations, then this MOU shall also apply to new wells KMG drills on such lands after annexation is completed.

5. **Applicability.** This MOU shall apply only to the wells identified in this Agreement, within Hudson's town limits or for wells which KMG must utilize Town roads. This MOU shall not apply to any wells or operations: (i) not within Hudson's town limits, but only where no Town roads are utilized, (ii) in which KMG may have an interest but for which KMG is not the operator, or (iii) drilled by KMG prior to the Effective Date.

6. **Term.** This MOU is effective upon the Effective Date and shall remain in effect for three (3) years from the Effective Date, at which time this MOU shall terminate. Portions of this MOU directly affected shall immediately terminate if (i) the COGCC implements any rules, regulations, ordinances or best management practice guidelines regarding oil and gas development specifically in Hudson town limits or in an area that includes Hudson town limits which provide for higher standards than the BMPs or (ii) Hudson and the COGCC enter into any agreements binding on KMG regarding oil and gas development specifically in Hudson town limits or in an area that includes Hudson town limits. Those portions of this MOU not directly affected by such COGCC actions or agreements shall remain in effect. Notwithstanding the foregoing, the terms of Sections 1 and 2 of this MOU shall not terminate and shall continue to apply and remain in effect even if directly affected by such COGCC actions or agreements. Moreover, notwithstanding any other provision herein, and even in the event of termination of this MOU, KMG shall retain all rights and benefits it has under approved Town issued USR's and COGCC approved permits and they shall remain in full force and effect.

7. **No Waiver of Rights.** KMG does not waive the rights it has pursuant to its current and future oil and gas interests to explore for, drill and produce the oil and gas underlying or outside Hudson's town limits. Except as set forth in this MOU, Hudson does not waive the rights it has pursuant to the laws of the State of Colorado or the Town of Hudson Municipal Code.

8. **Force Majeure.** Neither Party will be liable for any delay or failure in performing under this MOU in the event and to the extent that the delay or failure arises out of causes beyond a Party's reasonable control, including, without limitation, war, civil commotion, act of God, strike or other stoppage (whether partial or total) of labor, or any law, decree, regulation or order of any government or governmental body (including any court or tribunal).

9. **Authority to Execute MOU.** Each Party represents that it has the full right and authority to enter into this MOU.

10. **Governing Law.** This MOU shall be governed and construed in accordance with the laws of the State of Colorado without reference to its conflicts of laws provisions.

11. **No Third Party Beneficiaries.** Except for the rights of enforcement by the Commission with respect to the BMPs, this MOU is not intended to, and does not, create any right, benefit, responsibility or obligation that may be enforced by any non-party. Additionally, nothing in this MOU shall entitle any third party to any claims, rights or remedies of any kind.

12. **Notices.** All notices and other correspondence related to this MOU shall be in writing and shall be delivered by: (i) certified mail with return receipt, (ii) hand delivery with signature or delivery receipt provided by a third party courier service (such as FedEx, UPS, etc.),

(iii) fax transmission if verification of receipt is obtained, or (iv) email with return receipt, to the designated representative of the Party as indicated below. A Party may change its designated representative for notice purposes at any time by written notice to the other Party. The initial representatives of the Parties are as follows:

Hudson: Town of Hudson
 557 Ash St.
 Hudson, Colorado 80642-0351
 Attn: Town Administrator
 Telephone: 303-536-9311
 Fax: 303-536-4753
 Email: manager@hudsoncolorado.org

With copy to: Hayes, Phillips, Hoffmann & Carberry, P.C.
 1530 16th Street, Suite 200
 Denver, CO 80202
 Attn: Corey Y. Hoffmann, Town Attorney
 Fax: 303-825-1269
 Email: cyhoffmann@hphclaw.com

KMG: Kerr-McGee Oil & Gas Onshore LP
 1099 18th Street, Suite 1800
 Denver, CO 80202
 Attn: Wattenberg Land, USR Group

With copy to: Kerr-McGee Oil & Gas Onshore LP
 1099 18th Street, Suite 600
 Denver, CO 80202
 Attn: Counsel
 Fax: 720-929-7505

13. Default. If a Party defaults in the performance under this MOU, the defaulting Party shall have thirty (30) days to cure the default after receipt of written notice of such default from the non-defaulting Party, provided the defaulting Party shall be entitled to a longer cure period if the default cannot reasonably be cured within thirty (30) days and the defaulting Party commences the cure within such thirty (30) day period and diligently pursues its completion. If the defaulting Party fails to cure the default within the applicable cure period, then the non-defaulting Party shall have the right to immediately terminate this MOU upon written notice to the defaulting Party.

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IN WITNESS WHEREOF, the Parties have caused this MOU to be executed by a duly authorized representative on the day and year first above written.

HUDSON:

THE TOWN OF HUDSON

By: 

Name: Neal Pontius

Title: Mayor

KMG:

KERR-McGEE OIL & GAS ONSHORE LP

By: 

Name: Tommy W. Thompson

Title: DIRECTOR - ROCKIES DRILLING

APPENDIX A

BEST MANAGEMENT PRACTICES FOR LOCATIONS WITHIN HUDSON TOWN LIMITS or USE OF TOWN ROADS

Pursuant to the terms of this MOU, KMG shall include the best management practices listed below on all Form 2s, Application for Permit to Drill, and Form 2As, Oil and Gas Location Assessment (for new wellsites only), submitted to the Commission for new wells KMG drills after the Effective Date within Hudson's town limits or for wells in which KMG must use Hudson Town roads.

Due to the significant number of horizontal wells to be developed in close proximity to the Town of Hudson and the fact that several of these wells will be drilled at the same time, KMG will work with the Town of Hudson to ensure many of the issues brought up by the Town Administrator are addressed in a manner agreeable to both KMG and the Town of Hudson. This will include the following:

1. KMG will perform a road impact study for all roads belonging to the Town of Hudson prior to operations and then a second road impact study subsequent to drilling and completion operations. Findings from the study will be submitted to the Town prior to KMG commencing operations or use of Town roads.
2. KMG will pay for all required repairs to ensure any damaged roads are promptly brought back to their condition prior to operations.
3. KMG will take appropriate steps to adequately protect water and wastewater valve boxes and manholes located along any of its access roads.
4. As appropriate, in conjunction with the Town of Hudson, Anadarko will develop and Anadarko and its subcontractors shall comply with a site specific traffic management plan that will address the following: (1) expected traffic route and timing of such traffic, (2) how traffic in busy or sensitive intersections will be managed and mitigated, and (3) what truck traffic restrictions will be put in place, if any. This plan will be included in Appendix B to this MOU, and shall be amended, as necessary, from time to time. Nothing herein shall prevent KMG from using traffic route (s) not identified herein in the event of emergency or other due to any other lack of access. KMG will act in good faith and communicate any change in access to the Town, to the extent such revised access includes Town Roads.
5. Anadarko will provide the Town of Hudson an emergency response plan prior to commencing operations.

APPENDIX B

TRAFFIC MANAGEMENT PLAN:

(1) Expected traffic and timing of such traffic:

A. Traffic Route:

All traffic will be entering from WCR 22 and traveling South through Section 14. Traffic will then cross Section 23 for approximately 100'-200' in Section 23 and continue South through Section 22 until it intersects E. 35th Ave. All wells except what is known as the 2 Powers pads will be traveling on E. 35th Ave., N. Juniper Street, E. 30th Ave., WCR 16, and N. Oak Street. The Powers pads will access from private property leaving Section 22 and continue Southwest into Section 27. This proposed route eliminates main access off of HWY 52 and the I-76 interchange of concern to the Town.

With respect to the Hudson Wells, traffic will traveling through private property from WCR 22 South through Section 14, 23, and 22 where we it will intersect E. 35th Ave.

E. 35th Ave. will be the only Hudson road traveled on for operations.

With respect to the Colfer Wells, traffic will travel through private property from WCR 22 South through Section 14, 23, and 22 where it will intersect E. 35th Ave. E. 35th Ave., N. Juniper Street, E. 30th Ave, N. Oak Street, and WCR 16 will be the Hudson roads used for operations.

With respect to Sparboe Section 35 pads, traffic will travel through private property from WCR 22 South through Section 14, 23, and 22 where it will intersect E. 35th Ave. E. 35th Ave., N. Juniper Street, E. 30th Ave, and N. Oak Street will be the Hudson roads used for operations.

B. Type of Trucks and Timing During Each Operation Phase:

Vehicle Type	Pipeline	Construction	Drilling	Completion Prep	Completion	Production	Reclamation
Pickup	15%	12%	63%	9%	9%	50%	18%
3-axle bobtail	15%	58%	12%	80%	61%	50%	62%
Semi and Trailer	70%	25%	10%	10%	30%	0%	15%
Over-sized load	0%	5%	15%	1%	0%	0%	5%
Working Hours	12	12	24	24	24	12	12
Shift Start	6AM	6AM	24 HOUR	24 HOUR	24 HOUR	7AM	6AM
Total Trips	3220	4620	3206	3080	18480	3360	1169

(2) How traffic in busy or sensitive intersections will be managed and mitigated:

At this time, KMG does not anticipate traffic in busy or sensitive intersections. If this arises, KMG will work with Hudson and Felsburg, Holt & Ullevig to identify best management strategies.

(3) What truck traffic restrictions will be put in place, if any?

Upon payment of the applicable overweight permit fee, this Memorandum of Understanding shall constitute overweight vehicle approval for the Hudson, Sparboe and Colfer wells. The Parties agree that KMG will seek overweight permits for any other wells subject to this Memorandum of Understanding, and the Town will provide approval so long as KMG is in compliance with this Memorandum of Understanding.