

LEXINGTON INSURANCE COMPANY
(A DELAWARE CORPORATION)
(A STOCK INSURANCE COMPANY)
Administrative Office 100 Summer Street, Boston, Massachusetts 02110-2103
COMMERCIAL PROPERTY POLICY
DECLARATIONS

POLICY NUMBER: 8755632 **RENEWAL OF:** 8754611

ITEM 1. **Named Insured:** MCALESTER FUEL COMPANY INC. AND
HIGHPLAINS GAS SYSTEMS, INC.
Address: 2243 San Felipe
Houston, TX 77019

ITEM 2. **Policy Period:**
From: December 19, 2006 **To:** December 19, 2007
At 12:01 A.M. Standard Time at the address of the Named Insured shown above.

ITEM 3. **Limit of Insurance:** \$3,000,000 (100%) any one occurrence Sections A, B and
C Combined, \$1,000,000 (100%) any one occurrence in respect of Care,
Custody & Control.

ITEM 4. **Insured's Retention:** EEEE Form Sections A, B, C - \$50,000 (100%) Area I
any one occurrence each Section. All other areas to be agreed. \$50,000 (100%)
any one occurrence in respect of Care, Custody & Control.

ITEM 5. **Premium/Tax:**

Producing Premium (in full):	\$	
Drilling Minimum and Deposit:	\$	17,835.00
Policy Fee (Deemed Fully Earned at Inception):	\$	1,000.00
Total Premium/Policy Fee Due At Inception:	\$	18,835.00
Pre-Underwriting Engineering Fee:	\$	
Surplus Lines Tax:	\$	913.50
Surplus Lines Stamping Office Fee:	\$	18.84
Total Due at Inception:	\$	19,767.34

ITEM 6. **Description of Property Covered:**
Wells As Per Schedule On File With This Company

ITEM 7. **Mortgagee Clause:** Loss, if any shall be payable to:

ITEM 8. **Forms Attached:**
Energy Exploration Extra Expense
Errors & Omissions
Property (Defined Peril) Millennium Endorsement
Endorsement A – Property Endorsement
War Risk and Terrorist Exclusion
Coverage Territory Endorsement
Additional Conditions
Premium Worksheet

RECEIVED
FEB - 6 2007

Carter & Company LLP

Authorized Representative OR
Countersignature (In states where applicable)

Macleam, Oddy & Associates
1201 Elm Street, Suite 4900
Dallas, TX 75270-2104
DATE ISSUED: 1/19/07

TEXAS REQUIRED NOTICE

THIS INSURANCE CONTRACT IS WITH AN INSURER NOT LICENSED TO TRANSACT INSURANCE IN THIS STATE AND IS ISSUED AND DELIVERED AS A SURPLUS LINE COVERAGE PURSUANT TO THE TEXAS INSURANCE STATUTES. THE STATE BOARD OF INSURANCE DOES NOT AUDIT THE FINANCES OR REVIEW THE SOLVENCY OF THE SURPLUS LINES INSURER PROVIDING THIS COVERAGE, AND THIS INSURER IS NOT A MEMBER OF THE PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION CREATED UNDER ARTICLE 21.28-C, INSURANCE CODE. ARTICLE 1.14-2, INSURANCE CODE, REQUIRES PAYMENT OF 4.85% ON GROSS PREMIUM.

IMPORTANT NOTICE

To obtain information or make a complaint

You may contact the Texas Department of Insurance to obtain information on companies, coverages, rights or make complaints at:

1-800-252-3439

You may write the Texas Department of Insurance at:

**P.O. Box 149104
Austin, Texas 78717-9104
Fax: 1-512-475-1771**

**PREMIUM OR CLAIM
DISPUTES**

Should you have a dispute concerning your premium or about a claim, you should contact the agent first. If the dispute is not resolved, you may contact the Texas Department of Insurance.

**ATTACH THIS NOTE TO YOUR
POLICY**

This notice is for information only and does not become a part or condition of the attached document.

AYISO IMPORTANTE

Para obtener informacion o para someter una queja

Puede comunicarse con el Departamento de Seguros de Texas para obtener informacion acerca de companies, coberturas, derechos o quejas al:

1-800-252-3439

Puede escribir al Departamento de Seguros de Texas al:

**P.O. Box 149104
Austin, Texas 78717-9104
Fax: 1-512-475-1771**

**DISPUTAS SOBRE PRIMAS O
RECLAMOS**

Si tiene una disputa concerniente a su prima o a un reclamo, debe comunicarse con el agente primero. Si no se resuelve la disputa, puede entonces comunicarse con el departamento (TDI).

UNA ESTE AVISO A SU POLIZA

Este aviso es solo para proposito de informacion y no se convierte en parte o condicion del documento adjunto.

POLICYHOLDER NOTICE

Thank you for purchasing insurance from a member company of American International Group, Inc. (AIG). The AIG member companies generally pay compensation to brokers and independent agents, and may have paid compensation in connection with your policy. You can review and obtain information about the nature and range of compensation paid by AIG member companies to brokers and independent agents in the United States by visiting our website at www.aigproducercompensation.com or by calling AIG at 1-800-706-3102.

ENERGY EXPLORATION EXTRA EXPENSE

INSURING AGREEMENT

All notices to the Insured, be they one or more, shall be effective upon mailing to the Insured named on the Declarations at the address shown.

1. **COVERAGE:**

Subject always to the General Conditions herein, and as provided for in the Declarations. This policy provides coverage to:

- A. Control of Well Insurance (as per Section A attached hereto).
- B. Redrilling/Extra Expense Insurance (as per Section B attached hereto).
- C. Seepage and Pollution, Cleanup and Contamination Insurance (as per Section C attached hereto).

2. **COMBINED SINGLE LIMIT OF LIABILITY:**

This policy provides to the Insured (be they one or more) insurance coverage only up to but not exceeding the Combined Single Limit of Liability for 100% interest as set forth in Item 3 of the Declarations, including defense costs, which is the total combined single limit of the Underwriters' liability to the Insured for any one occurrence and over all of Sections A, B and/or C herein, subject always to applicable underlying retention(s).

3. **INSURED'S RETENTION:**

The Combined Single Limit of Liability specified in Item 3 of the Declarations is excess of the Insured's Retention(s) of:

- a. \$ as per Item 4 of the Declarations as respects Section A;
- b. \$ as per Item 4 of the Declarations as respects Section B;
- c. \$ as per Item 4 of the Declarations as respects Section C;

any one occurrence, in respect of 100% interest, as respects all coverages as set forth in the Declarations and General Conditions and in Sections A, B and/or C as may be purchased in connection herewith.

4. **REPORTING CLAUSE:**

This policy is issued in consideration of a minimum and deposit premium as stated in Item 5 of the Declarations and the Insured shall report to Maclean, Oddy & Associates for transmittal to Underwriters within thirty (30) days after the end of each quarter during the period of this policy the status of all wells insured hereunder during the preceding reporting period and further agrees to pay premium at the rates provided herein.

Premiums accruing from reports as required herein are due and payable as the reports are made.

5. **SERVICE OF SUIT:**

Service of process upon Underwriters in accordance with Clause 19 of the General Conditions herein may be made upon Counsel, Legal Dept., Lexington Insurance Company, 100 Summer St., Boston, MA 02110-2103 and/or his or her representative.

ENERGY EXPLORATION EXTRA EXPENSE

GENERAL CONDITIONS

(TO APPLY TO ALL SECTIONS)

1. CO-VENTURERS:

It is understood and agreed that, subject to the provisions of Clause 8 of these General Conditions, this insurance may insure the interests of co-venturers (defined as co-owners, partners and/or other party(ies) having a financial and insurable interest in the wells insured hereunder), all of whom individually and collectively are non-operators (all hereinafter referred to as "Co-Venturers"), and provided the agreement to include such Co-Venturers is executed in writing between and/or among the parties prior to any occurrence giving rise to a claim.

Such Co-Venturers who comply with the above paragraph shall be deemed to be named as additional Insured hereunder only in respect of wells insured hereunder and only for the period(s) of time operations in respect of said wells are insured hereunder as determined by Clause 17 of these General Conditions.

Any cover granted hereunder to Co-Venturers shall be limited to operations in which a Co-Venturer has a common interest with the Named Insured and shall be subject in all respects to the terms, conditions and rates and Combined Single Limit of Liability specified herein.

If the Named Insured is not the operator of a well, then this insurance shall not cover the operator without Underwriters' prior approval.

2. RATING PROVISIONS:

a. Rates - per Energy Exploration Extra Expense Declarations:

- (1) Drilling Rates apply for the period (a) during which any well is being drilled and/or deepened and/or completed, and (b) during any remaining period of this policy, if any, during which (i) such well is in its subsequent Producing and/or Shut-In and/or Plugged and Abandoned condition and (ii) the Insured is purchasing coverage hereunder for its other Producing and/or Shut-In and/or Plugged and Abandoned wells, if any;
- (2) Workover Rates cover for the period during which any well is being serviced and/or worked over and/or reconditioned;
- (3) Producing and/or Shut-In and/or Plugged and Abandoned Rates are annual but shall not apply to Producing and/or Shut-In and/or Plugged and Abandoned wells for which premium at Drilling Rates

under Paragraph 2a(1) of these General Conditions has been paid under this policy;

- (4) Wells drilled under Turnkey contracts are subject to the following conditions:

Wells drilled under a turnkey to completion contract, defined as a contract in which the Insured assumes risk of loss only during the completion phase, shall be charged at 65% of the applicable rate.

Wells drilled under a full turnkey contract, which is defined as a contract in which the Insured assumes no risk of loss during both drilling and completion phases, shall be charged at 20% of the applicable rate.

Wells drilled under a turnkey contract that are plugged and abandoned with no completion shall be charged at 20% of the applicable rate.

Wells drilled under a turnkey price contract, defined as a contract in which the Insured assumed those risks standard under a "footage" or "daywork" contract shall be charged at 100% of the applicable rate.

Any wells which, during the course of drilling operations, cease to be under a turnkey contract automatically revert to 100% of the applicable rate for the entire depth of the well.

- b. It is understood and agreed that the rate per foot shall be applied to the total footage drilled, measured through the hole from the surface of the ground or water bottom to the bottom of the well.
- c. Premium applicable to deepening of wells and multiple completions shall be charged at 75% of the applicable drilling rate per foot and such rate shall apply to the final completed depth of the well measured through the hole from the surface of the ground or water bottom to the bottom of the well.

3. **RATING AREAS:**

Area 1: Land areas in the United States of America and Canada but excluding wells in excess of 10,000 feet measured through the hole from the surface of the ground to the bottom of the well located in the following areas:

- (a) Alabama, Alaska, Arizona, Colorado, Florida, Louisiana, Mississippi, Montana, New Mexico, Oklahoma, Texas Railroad Commission Districts 1 through 4 inclusive, Utah, Wyoming;

- (b) North of 60° North Latitude, South of 24° North Latitude, West of 140° West Longitude, and East of 52° West Longitude;

Area 2: All land areas worldwide, excluding:
(Land)

- (a) Area 1 as defined above; and
- (b) North of the Arctic Circle and South of the Antarctic Circle.

Area 2: Locations within the U. S. State Lease Blocks, U.S. bays, marshes, sounds, lakes and streams (including natural and man-made islands within same) not beyond the beginning of the Federal Lease Blocks and Lake Maracaibo.
(Wet)

Area 3: The Gulf of Mexico, Venezuelan waters and the Gulf of Paria, excluding Area 2 (Wet) as defined above.

Area 4: Waters worldwide, excluding:

- (a) Areas 2 (Wet) and 3 as defined above; and
- (b) North of the Arctic Circle and South of the Antarctic Circle.

Area 5: North of the Arctic Circle and South of the Antarctic Circle.

4. **EXCLUSIONS:**

There shall be no indemnity or liability under this policy for:

- a. Any fines or penalties imposed under the laws of any State or Nation or other Government entity, or any agency or subdivision thereof;
- b. Any claims whatsoever arising directly or indirectly from any occurrence caused, in whole or in part, by any breach of any of the warranties set forth in Clause 16 of these General Conditions or by any breach of any of the conditions set forth in Clause 6 of these General Conditions;
- c. Loss, damage or expense resulting from:
 - (1) war, hostile or warlike action in time of peace or war, including action in hindering, combating or defending against an actual, impending or expected attack (a) by any government or sovereign power (de jure or de facto) or by any other authority maintaining or using military, naval or air forces; or (b) by military, naval or air forces; or (c) by an agent of any such government, power, authority or forces;
 - (2) any weapon(s) of war employing atomic fission or radioactive force whether in time of peace or war;

- (3) insurrection, rebellion, revolution, civil war, usurped power, or action by governmental authority in hindering combating or defending against such an occurrence, seizure or destruction under quarantine or customs regulations, confiscation by order of government or public authority or risks of contraband or illegal transportation or trade;
- d. Any loss, damage or expense caused by or attributable to earthquake or volcanic eruption; or fire, explosion or tidal wave consequent upon earthquake or volcanic eruption; but

This exclusion does not apply to the following areas:

- (1) The Gulf of Mexico not East of 82° West Longitude and not South of 24° North Latitude, (the general term Gulf of Mexico shall be deemed to include tributary waters and the Gulf Intracoastal Waterway);
 - (2) The North Sea;
 - (3) The United States of America East of the States of Arizona, Utah and Idaho, including the territorial waters of the Eastern Seaboard; and
 - (4) Canada South of 60° North Latitude;
- e. Loss, damage or expense caused by the infidelity of the Insured or any other person or organization acting for or on behalf of the Insured;
 - f. Loss, damage or expense as respects any well in the course of being drilled, deepened, serviced, worked over, completed and/or reconditioned at the inception of this insurance, until final termination of said drilling, deepening, servicing, working over, completing and/or reconditioning, unless specifically agreed to by Underwriters.

5. **EVACUATION EXPENSES:**

This insurance covers the evacuation of people (other than employees of the Insured, additional Insureds, operator or joint venture partners or those of contractors or subcontractors of the Insured), animals and/or property (other than the property of the Insured, additional Insureds, operator or joint venture partners or that of contractors or subcontractors of the Insured), but only where and to the extent that the evacuation has taken place by order of any local, state or federal government or regulatory authority or public emergency service.

Costs and expenses covered hereunder shall include but not be limited to all reasonable costs of transportation, storage, lodging and/or maintaining evacuated people, animals and/or property but shall not include liability of the Insured for loss of use of such property or loss of earnings/income of evacuated persons.

6. **DUE DILIGENCE CLAUSE:**

It is a condition of this insurance that the Insured shall exercise due care and diligence in the conduct of all operations covered hereunder, utilizing all safety practices and equipment generally considered prudent for such operations, and in the event any hazardous condition develops with respect to an insured well, the Insured shall at their sole expense make all reasonable efforts to prevent the occurrence of a loss insured hereunder.

7. **SUBROGATION:**

- a. Underwriters shall upon payment of a loss hereunder be subrogated to all the Insured's rights of recovery against any other person, firm or corporation who may be legally or contractually liable for such loss, damage or expense so paid by the Underwriters.
- b. It is agreed that the Underwriters may make claim upon and institute legal proceedings against any parties believed responsible for loss, damage or expense reimbursed hereunder in the name of the Insured, and the Insured shall provide Underwriters their full cooperation in pursuing such claim or legal proceedings.
- c. Permission is expressly granted to the Insured to waive Underwriters' rights of subrogation against any individual, firm or corporation who or which is under contract or otherwise performing work for the Insured or for whom or which the Insured is performing work or rendering services, provided always such waiver is executed in writing prior to any occurrence giving rise to claims hereunder.
- d. Except as specifically provided or permitted by this Policy, the Insured shall not waive, release or diminish rights of recovery or subrogation with respect to any claim, which, upon payment thereof by Underwriters, would otherwise belong or accrue to Underwriters, and insofar as and to the extent that any action by the Insured waives, releases or diminishes the rights of recovery or subrogation in respect of such claim, Underwriters shall have no liability under this Policy.

8. **PARTIAL INTEREST CLAUSE:**

The Combined Single Limit of Liability over all sections hereof, the Insured's Retention(s), any separate limit of liability set forth in any endorsement hereto, and the rates expressed herein are for a 100% interest. In the event that the interest of the Insured in any one well insured hereunder does not amount to 100%, then said Combined Single Limit of Liability over all sections hereof, the Insured's Retention(s), any separate limit of liability set forth in any endorsement hereto, and the rate(s) applicable to that well, shall be reduced proportionately and shall apply in the same proportion as the total interest of the Insured in said well insured hereunder bears to 100%. In the event of an occurrence giving rise to a claim(s)

recoverable hereunder, Underwriters shall in no event be liable under any section hereof or endorsement hereto for a greater percentage interest in any such claim than the Insured's percentage interest in the well in respect to which, and at the time that, such occurrence took place.

It is also agreed that if the Insured's percentage interest in a well(s) or responsibility for costs and expenses changes for any reason, then the limit of liability of Underwriters and the retention herein shall be amended to the Insured's percentage interest or responsibility for costs and expenses less any insurances which inures to the benefit of the Insured. Subject always to the limit of liability stated in Item 3 of the Declarations and subject to adjustment in premium for such increased percentage.

9. **OTHER INSURANCE:**

In the event there is other insurance which inures to the "Insured's" benefit covering any loss, damage, liability or expense covered hereunder, this insurance shall not respond until such other insurance is exhausted. However, in the event of seepage, pollution and/or contamination and/or clean up and containment of such seepage, pollution and/or contamination which is caused by a "well(s) insured" becoming a "well out of control", this paragraph shall not apply.

10. **COLLECTION FROM OTHERS:**

No loss shall be paid by Underwriters to the extent that the Insured has (have) collected the same from any other party(ies).

11. **NOTICE AND PROOF OF LOSS:**

The Insured shall give to Underwriters, as soon as practicable, notice of any occurrence which may result in a claim hereunder, stating the time, place, cause and circumstances of each occurrence. The Insured shall also file with Underwriters as soon as practicable, a detailed, sworn Proof of Loss and Payment Order. The Insured shall, if requested by the Underwriters, make available to the underwriters or their representatives all records agreements, contracts or other documents needed to determine or substantiate a claim.

12. **RESIDUAL VALUE:**

In the event of an occurrence giving rise to a claim recoverable within the terms and conditions of this policy, the residual value of any equipment and/or materials used or purchased by the Insured in respect of such occurrence will inure to the benefit of Underwriters in the adjustment of such claim.

13. **DISCOVERY OF RECORDS:**

It is understood and agreed that

- a. during the currency of this insurance, or
- b. any time thereafter within the period of time provided for bringing suit against Underwriters, or
- c. within the period of time following the bringing of suit against Underwriters until final adjudication of suit including all appeals, if any,

Underwriters shall have the right of inspecting the Insured's records pertaining to all matters of costs and expenditures of whatsoever nature relating to the wells insured hereunder, such records to be open to a representative of Underwriters at all reasonable times.

14. **CANCELLATION:**

In the event of nonpayment of premium or the first installment thereof within 30 days after attachment, or of any additional premium or any other installment as and when due, Underwriters may cancel this policy upon 10 days written or telegraphic notice sent to the Insured at his or its address shown herein. Such proportion of the premium, however, as shall have been earned up to the time of cancellation for nonpayment of premium shall be payable. In the event of an occurrence giving rise to a claim recoverable within the terms and conditions of this policy occurring prior to any such cancellation for nonpayment of premium, then the full minimum and deposit premium or the premium earned in accordance with the Rating Provisions in Clause 2 of the General Conditions, whichever is greater, shall be considered earned and payable.

This policy may be canceled by the Insured at any time by written notice or by surrender of this policy to Underwriters. This policy may also be canceled by Underwriters, with or without the return or tender of the unearned premium, by delivering to the Insured, by telegraph, or by sending by mail to the Insured's address shown herein not less than thirty (30) days prior notice stating when the cancellation shall be effective. Should this policy be canceled by the Insured, the earned premium shall be either the premium earned in accordance with the rating provisions of this policy (with Underwriters retaining the customary short rate proportion of the premium for Producing and/or Shut-In and/or Plugged and Abandoned wells) or the minimum premium, if any, due in accordance with policy provisions, whichever is greater. Should this policy be canceled by Underwriters, the earned premium shall be the premium earned in accordance with the rating provisions of this policy (with Underwriters retaining the pro rata proportion of the premium for Producing and/or Shut-In and/or Plugged and Abandoned wells) and no minimum premium shall be applied.

Notwithstanding the foregoing, this policy may be canceled by Underwriters in respect of perils of strikers, locked out workers or persons taking part in labor disturbances or riots or civil commotion activities upon seven (7) days written or telegraphic notice sent to the Insured at the Insured's address shown herein, without return of premium. Underwriters agree to automatically reinstate coverage hereunder subject to agreement between the Underwriters and the Insured prior to the expiry of such notice of cancellation as to new rate of premium and/or conditions and/or warranties.

15. **DEFINITIONS:**

a. (i) The term "Well(s) Insured" shall be defined as oil and/or gas and/or thermal energy wells:

(1) while being drilled, deepened, serviced, *worked over, completed and/or reconditioned until completion or abandonment as set forth in Clause 17 of these General Conditions;

* The terms **Workover** and/or **"Working Over"** and/or **"Reworking"** and/or **"Reworked"** and/or **"Reconditioning"** and/or **"Reconditioned"** shall be defined as Those operations that require the use of an appropriate workover rig and filling the tubing or casing with fluid for hydrostatic pressure control and the use of well control apparatus (Blowout Preventers) or use of a coiled tubing unit with well control apparatus, to perform operations carried out on or in any Well that is either **Producing, Shut-In or Plugged and Abandoned**, with the object to restoring, recompleting, enhancing, increasing, or stopping production of oil and/or gas and/or sulfur and/or thermal energy resources or deposits.

"Well Servicing Operations"

The terms **"Well Servicing Operations"** shall be defined as those operations carried out on or in any Well that is either **Producing, Shut-In or Plugged and Abandoned**, with the object of maintaining the condition of a well and/or restoring, enhancing, increasing, or stopping production of oil through operations that do not require the use of well control apparatus. This includes the removal and replacement of tubing in "pumper wells" (wells subject to artificial lift techniques).

(2) while producing;

(3) while shut-in;

(4) while plugged and abandoned;

for the account of the Insured and as may be included within the areas and types of wells insured as set forth in the Declarations hereto.

(ii) Wells being drilled in areas and or depth categories not advised prior to inception shall not be covered herein unless such wells are declared and agreed prior to spud and premium adjusted accordingly.

b. The term "Occurrence" shall be defined as one loss, disaster or casualty or series of losses, disasters or casualties arising out of one event.

(1) As respects windstorm, all tornados, cyclones, hurricanes, similar storms and systems or winds of a violent and destructive nature, arising out of the same atmospheric disturbance within any period of seventy-two (72) consecutive hours commencing during the period of this insurance, shall be considered one event.

(2) Each earthquake shock or volcanic eruption, unless excluded by Paragraph 4d of these General Conditions, shall constitute one event hereunder, provided that, if more than one earthquake shock or volcanic eruption shall occur within any period of seventy-two (72) consecutive hours commencing during the period of this insurance, such earthquake shocks or volcanic eruptions shall be deemed to be one event within the meaning hereof.

c. The term "Defense Costs" shall be defined as investigation, adjustment, settlement, litigation and legal expenses, premiums on attachment or appeal bonds, and pre and post judgment interest and shall exclude all expenses for salaried employees, general retainer fees normally paid by the Insured and office expenses of the Insured.

16. **WARRANTIES:**

a. It is warranted that where the Insured is the operator or joint operator on any insured well being drilled, deepened, serviced, worked over, completed and/or reconditioned, a blowout preventer(s) of standard make will, when in accordance with all regulations, requirements and normal and customary practices in the industry, be set on surface casing or on the wellhead and installed and tested in accordance with usual practice.

When the Insured is a non-operator on any insured well, he will endeavor to see that the operator complies with the conditions set out in this paragraph 16a.

b. It is further warranted that the Insured will use every endeavor to ensure that they and/or their contractors comply with all regulations and

requirements in respect of fitting storm chokes and other equipment to minimize damage or pollution, and that all equipment (including drilling and/or workover rigs) will be manned by properly certified personnel where required by regulatory authorities.

- c. It is further warranted that in the event of a well becoming out of control or other escape or flow of drilling fluid, oil, gas or water, the Insured will use every endeavor to control the well or stop the escape or flow.
- d. It is understood and agreed that all wells insured hereunder as defined in Paragraph 15a of these General Conditions for which the Named Insured is the Operator, or where the Named Insured has a nonoperating interest but is responsible for its own insurance, shall be insured hereunder for not less than the Named Insured's percentage interest therein.
- e. It is further warranted that all drilling plans for wells with targeted depths > 12,500' and wells with proposed mud weight \geq 13 pounds are required to be reviewed by an independent petroleum engineer approved by Underwriters and all their recommendations complied with prior to spud at the Insured's expense.

17. **ATTACHMENT AND TERMINATION OF COVERAGE:**

a. Attachment of Coverage:

- (1) In respect of any well(s) insured hereunder, coverage shall attach when the Insured acquires an interest in such well(s) unless coverage attaches later by operation of any of Paragraphs 17a (2) or (3) below;
- (2) In respect of any well(s) insured hereunder spudded in during the period of this policy, coverage shall attach at the time of "spudding in";
- (3) In respect of any well(s) in the course of being drilled, deepened, serviced, worked over, completed and/or reconditioned at the inception of this insurance, and which would have been insured hereunder at inception in the absence of Exclusion 4f of these General Conditions, coverage shall attach upon final termination of said drilling, deepening, servicing, working over, completing and/or reconditioning, unless such well(s) being drilled completed or worked over at the inception date of this policy is specifically endorsed hereon and premium paid.
- (4) In respect of any other well(s) insured hereunder, coverage shall attach at inception of this policy.

b. **Termination of Coverage:**

- (1) In respect of any well(s) insured hereunder, coverage shall terminate when the Insured ceases to have an interest in such well(s) unless coverage is terminated sooner by operation of any of Paragraphs 17b (2), (3) or (4) below;
- (2) In respect of any well(s) which are insured hereunder during drilling only, by virtue of the Insured's electing not to purchase coverage for Producing and/or Shut-in and/or Plugged and Abandoned wells, coverage shall terminate upon either total and/or complete abandonment or completion of such well(s), which shall include the setting of the "Christmas Tree", pumping equipment or well head equipment or the dismantling or removal of the drilling equipment from the drill site, or the termination of the Insured's responsibility under contract, whichever shall first occur, except that, if removal of the drilling equipment from the drill site occurs first, then the period of time between complete removal of such equipment and the commencement of completion operations shall not exceed thirty (30) days in order for said completion operations to be covered hereunder;
- (3) In respect of any well(s) insured hereunder in the course of being drilled, deepened, serviced, worked over, completed and/or reconditioned at the expiry or cancellation of this policy, coverage shall terminate upon final termination of said drilling, deepening, servicing, working over, completing and/or reconditioning, notwithstanding the fact that said final termination may occur later than said expiry or cancellation;
- (4) In respect of any other well(s) insured hereunder, coverage shall terminate at the expiry or cancellation of this policy or (if plugged and abandoned wells are not insured hereunder) upon total and/or complete abandonment of such well(s), whichever shall first occur.

18. **SCHEDULE:**

A schedule of Producing and/or Shut-In and/or Plugged and Abandoned wells at risk at inception is as per schedule on file with this Company.

19. **SUIT AGAINST UNDERWRITERS:**

It is a condition of this insurance that no suit, action or proceeding for the recovery of any claim hereunder shall be maintainable in any court of law or equity unless the same be commenced (a) within two years and one day after the time a cause of action accrues or (b) if by the laws of the state or nation of the address of the Insured shown herein such limitation is invalid, then within the shortest limit of time permitted by the laws of such state or nation.

If the Underwriters fail to pay the Insured, the named loss payee(s), if any, or their successor(s) in interest (the "claimant(s)"), any amount claimed to be due under this policy, the Underwriters will submit their dispute with the claimant(s) to any court of competent jurisdiction within the United States (the "court"). Service of process in such suit may be made upon the person or firm named in Clause 5 of the Insuring Agreement, who are authorized and directed to accept service of process on behalf of the Underwriters. The persons named above are authorized and directed, upon the request of the claimant(s), to give a written undertaking to the claimant(s) that they will enter a general appearance upon Underwriters' behalf if the claimant(s) institute such a suit.

If any statute of any state, territory or district of the United States so provides, the Underwriters hereby designate the superintendent, commissioner or director of insurance, or other officer specified for that purpose in the statute, or his successor or successors in office (the "officer"), as their true and lawful attorney upon whom the claimant(s) may serve any lawful process in any action, suit or proceeding instituted by them or on behalf of them arising out of this policy and hereby designate the person(s) named above to whom the officer is authorized to mail such process or a true copy thereof.

20. **RECOVERY AND SALVAGE:**

Any salvage or other recovery, including recovery through subrogation proceedings, after expenses incurred are deducted, shall accrue entirely to the benefit of the Underwriters until the sum paid by the Underwriters has been recovered.

21. **EXTENDED EXPIRATION:**

If this policy should expire or be canceled while an occurrence giving rise to a loss recoverable under this policy is in progress, it is understood and agreed that said loss, subject to all other terms and conditions and Combined Single Limit of Liability of this insurance, will be covered under this policy as if the entire loss had occurred prior to the expiration or cancellation.

22. **DEFENSE:**

Underwriters will pay those sums that the Insured becomes legally obligated to pay as damages because of a peril to which this insurance applies. Underwriters will have the right and duty to defend the Insured against any suit seeking those damages. However, Underwriters will have no duty to defend the Insured against any suit seeking damages to which this insurance does not apply. Underwriters may, at their discretion, investigate any occurrence and settle any claim or suit that may result, but Underwriters right and duty to defend ends when they have used up the applicable limits provided by this policy in the payment of judgements or settlements - including defense costs.

23. **OIL POLLUTION ACT:**

This policy does not constitute evidence of financial responsibility under the Oil Pollution Act of 1990 or any similar Federal, State or Local law. Offering this policy as evidence of insurance shall not constitute underwriters consent to act as guarantors or to be sued directly in any jurisdiction whatsoever.

24. **DELIBERATE DAMAGE/POLLUTION HAZARD CLAUSE:**

It is understood and agreed that if, by order or direction of any governmental or regulatory body, it is necessary to cause or inflict or suffer any damage to the Insured's property and/or subject matter insured, insurance against the perils stated herein is extended to cover the loss, damage or expense incurred, provided that such order or direction has not resulted from the want of due diligence by any corporate Officers or Director of the Insured to prevent or mitigate such loss.

It is further understood and agreed that if governmental or regulatory personnel are unavailable, the operator may act without order or direction for safety reasons to prevent bodily injury and/or property damage to third parties.

ENERGY EXPLORATION EXTRA EXPENSE

SECTION A

CONTROL OF WELL INSURANCE

1. COVERAGE:

Underwriters agree, subject to the Combined Single Limit of Liability, terms and conditions of this policy, to indemnify the Insured for actual costs and/or expenses incurred by the Insured (a) in regaining or attempting to regain control of any and all well(s) insured hereunder which get(s) out of control, including any other well that gets out of control as a direct result of a well insured hereunder getting out of control, but only such costs and/or expenses incurred until the well(s) is (are) brought under control as defined in Paragraph 2b of this Section A; and (b) in extinguishing or attempting to extinguish (i) fire above the surface of the ground or water bottom from well(s) insured hereunder or from any other well(s) which are burning as a direct result of well(s) insured hereunder getting out of control or (ii) fire above the surface of the ground or water bottom which may endanger the well(s) insured hereunder.

Underwriters shall also pay for actual costs and expenses incurred in preventing the occurrence of a loss insured hereunder when the drilling and/or workover and/or production equipment has been directly lost or damaged by lightning; fire; explosion or implosion; collision with land, sea or air conveyance or vehicle; or impact of anchors, chains, trawl boards or fishing nets; windstorm; flood; collapse of derrick or mast; strikes; riots; civil commotions or malicious damage; earthquake (unless excluded hereunder); volcanic eruption or tidal wave; but only when, in accordance with all regulations, requirements and normal and customary practices in the industry, it is necessary to re-enter the original well in order to continue operations or restore production from or plug and abandon such well. Underwriters liability for costs and expenses incurred by reason of this paragraph shall cease at the time that operations or production can be safely resumed or the well is or can be safely plugged and abandoned, whichever shall first occur.

Relief Wells are automatically held covered under this section subject to notice to Underwriters as soon as possible and rates to be established by Underwriters.

2. DEFINITIONS:

a. Well Out of Control:

For the purposes of this insurance, a well(s) shall be deemed to be out of control when there is an unintended flow from the well(s) of drilling fluid, oil, gas or water above or below the surface of the ground or water bottom,

- (1) which flow cannot be:
 - (a) stopped by use of the equipment on site and/or the blowout preventer, storm chokes or other equipment required by the Due Diligence Clause and Conditions herein; or
 - (b) stopped by increasing the weight by volume of drilling fluid or by the use of other conditioning materials in the well(s).

or

- (2) which flow is declared to be out of control by the appropriate regulatory authority.

Nevertheless and for the purposes of this insurance, a well shall not be deemed out of control solely because of the existence or occurrence of a flow of oil, gas or water into the well bore which can, within a reasonable period of time, be circulated out or bled off through the surface controls.

b. Well Brought under Control:

A well(s) deemed out of control in accordance with Paragraph 2a of this Section A shall, for the purposes of this insurance, be deemed to be brought under control at the time that:

- (1) the flow giving rise to a claim hereunder stops, is stopped or can be safely stopped; or
- (2) the drilling, deepening, servicing, working over, completing, reconditioning or other similar operation(s) taking place in the well(s) immediately prior to the occurrence giving rise to the claim hereunder is (are) resumed or can be resumed; or
- (3) the well(s) is (are) or can be returned to the same producing, shut-in or other similar status that existed immediately prior to the occurrence giving rise to a claim hereunder;

whichever shall last occur, unless the well(s) continues at that time to be declared out of control by the appropriate regulatory authority, in which case, for the purposes of this insurance, the well(s) shall be deemed to be brought under control when such authority ceases to designate the well(s) as being out of control.

c. **Expenses:**

Expenses recoverable hereunder shall include costs of materials and supplies required, the services of individuals or firms specializing in controlling wells, and directional drilling and similar operations necessary to bring the well(s) under control, including costs and expenses incurred at the direction of regulatory authorities to bring the well(s) under control, and other expenses included within Clause 1 of this Section A.

3. **TERMINATION OF EXPENSES:**

In any circumstances and subject always to the Combined Single Limit of Liability of this policy, Underwriters' liability for costs and/or expenses incurred in regaining or attempting to regain control of a well(s) shall cease when the well(s) is (are) brought under control as defined in Paragraph 2b of this Section A.

4. **EXCLUSIONS:**

There shall be no indemnity or liability under this section for:

- a. any loss of or damage to any drilling or production equipment;
- b. any loss of or damage to any well or wells, or hole or holes;
- c. any loss, damage or expense caused by or arising out of delay (including delayed and/or deferred production) and/or loss of use and/or loss of or damage to production (including that due to loss of reservoir pressure) and/or loss of or damage to any reservoir or reservoir pressure.

ENERGY EXPLORATION EXTRA EXPENSE

SECTION B

REDRILLING/EXTRA EXPENSE

1. COVERAGE:

Underwriters agree, subject to the Combined Single Limit of Liability, terms and conditions of this policy, to indemnify the Insured for actual costs and/or expenses (including necessary betterments and improvements) reasonably incurred to restore or redrill a well insured hereunder, or any part thereof, which has been lost or otherwise damaged as a result of an occurrence giving rise to a claim which would be recoverable under Section A of this policy if the Insured's Retention applicable to Section A were nil or which has been lost or damaged as a direct result of physical loss or damage to the drilling and/or workover and/or production equipment and/or platform by lightning; fire; explosion or implosion; collision with land, sea or air conveyance or vehicle; or impact of anchors, chains, trawl boards or fishing nets; windstorm; flood; collapse of derrick or mast; strikes; riots; civil commotions, malicious damage or vandalism; earthquake (unless excluded hereunder); volcanic eruption or tidal wave.

Subject to the following conditions:

- a. Underwriters shall reimburse the Insured only for such costs and expenses as would have been incurred to restore or redrill a well had the most prudent and economical methods been employed.
- b. There shall be no coverage under this Section B for restoration or redrilling of any well whose flow can be safely diverted into production, including by completing through drill stem left in the well insured hereunder, or which can be completed through a relief well(s) drilled for the purpose of controlling a well.
- c. In no event shall Underwriters be liable for costs and/or expenses incurred (a) with respect to drilling wells, to drill below the depth reached when the well became out of control as defined in Clause 2 of Section A of this policy and (b) with respect to producing or shut-in wells, to drill below the geological zone or zones from which said well(s) was (were) producing or capable of producing.

- d. In any circumstances, Underwriters' liability under this Section B for costs and expenses shall cease (1) if actual restoration or redrilling has not commenced within 3 years after (a) the date of the accident or occurrence giving rise to coverage under this Section B or (b) the date of cancellation or expiry of this policy, whichever shall later occur; and (2) in any event when the depths set forth in Paragraph 1c of this Section B have been reached and the well restored to a condition comparable to that existing prior to the occurrence giving rise to the claim, or so far as possible utilizing generally available equipment and technology.

2. **EXCLUSIONS:**

There shall be no indemnity or liability under this section for:

- a. any loss of or damage to any drilling or production equipment;
- b. any loss, damage or expense caused by or arising out of delay (including delayed and/or deferred production) and/or loss of use and/or loss of or damage to production (including that due to loss of reservoir pressure) and/or loss of or damage to any reservoir or reservoir pressure;
- c. costs and/or expenses incurred to restore or redrill any relief well, or any part thereof;
- d. redrilling and/or recompletion or for in-hole equipment in respect of any well that was plugged and abandoned prior to loss or damage covered under Section A hereof and that remained plugged and abandoned at the time of such loss or damage.

ENERGY EXPLORATION EXTRA EXPENSE

SECTION C

SEEPAGE AND POLLUTION, CLEANUP AND CONTAMINATION

1. INSURING AGREEMENTS:

Underwriters, subject to the Combined Single Limit of Liability, terms and conditions of this policy, agree to indemnify the Insured for:

- a. all sums which the Insured shall by law or under the terms of any oil and/or gas and/or thermal energy lease and/or license be liable to pay for the cost of remedial measures and/or as damages for bodily injury (fatal or nonfatal) and/or loss of, damage to or loss of use of property caused directly by seepage, pollution or contamination arising from wells insured herein;
- b. the cost of, or of any attempt at, removing, nullifying or cleaning up seeping, polluting or contaminating substances emanating from wells insured herein, including the cost of containing and/or diverting the substances and/or preventing the substances reaching the shore;
- c. costs and expenses incurred in the defense of any claim or claims resulting from actual or alleged seepage, pollution or contamination arising from wells insured herein, including Defense Costs and costs and expenses of litigation awarded to any claimant against the Insured, provided, however, that the inclusion of the above costs and expenses shall in no way extend the Combined Single Limit of Liability of Underwriters over all sections of this policy;

Provided always that such seepage, pollution or contamination results from both (1) an accident or occurrence taking place during the period of this insurance (including any continuation thereof provided for by Clause 17 of the General Conditions) and of which notice has been given in accordance with Clause 11 of the General Conditions hereto and (2) an occurrence giving rise to a claim which would be recoverable under Section A of this policy if the Insured's Retention applicable to Section A were nil.

2. INSURED:

As respects this Section C only, but subject always to the Combined Single Limit of Liability over all sections of this policy, the unqualified word "Insured" includes the Named Insured, and any principal, officer, director or stockholder or employee thereof while acting within the scope of his duties as such.

3. **COST AND APPEALS CLAUSE:**

In the event of any claim and/or series of claims arising out of one occurrence where the Insured's final gross claim is likely to exceed the retention of the Insured, no costs shall be incurred on behalf of Underwriters without the consent of Underwriters, and if such consent is given, Underwriters shall consider such costs as part of the final claim hereunder. No settlement of losses by agreement shall be effected by the Insured without the consent of Underwriters where the Insured's final gross claim will exceed the retention of the Insured.

In the event that the Insured elects not to appeal against a judgment in excess of the retention of the Insured, Underwriters may elect to conduct such appeal at their own cost and expense, and shall be liable for the taxable cost and interest, incidental thereto, but in no event shall the liability of Underwriters exceed the Combined Single Limit of Liability over all sections of this policy.

4. **EXCLUSIONS:**

There shall be no indemnity or liability under this section for:

- a. any loss or damage to any drilling or production equipment at the site of any well insured herein;
- b. loss or damage resulting from seepage and pollution below the surface of the ground or waterbottom;
- c. any claim arising directly or indirectly from seepage, pollution or contamination if such seepage, pollution or contamination:
 - (1) is deliberate from the standpoint of the Insured or any other person or organization acting for or on behalf of the Insured; or
 - (2) results directly from any condition which is in willful or intentional violation of or noncompliance with any governmental rule, regulation or law applicable thereto; notwithstanding the foregoing, this exclusion does not apply with respect to any such condition which at the time of loss is in the process of being corrected by a schedule or program sanctioned and approved by the appropriate governmental authority with jurisdiction over such rule, regulation or law, to the extent that the Insured is in compliance with such schedule or program;
- d. any claim for mental injury, anguish or shock unless same results from physical injury to the claimant.

ENERGY EXPLORATION EXTRA EXPENSE

CARE, CUSTODY AND CONTROL ENDORSEMENT

1. In consideration of the premium paid and subject to the Declarations, Insuring Agreement and General Conditions, this policy is endorsed to cover the Insured's legal or contractual liability as oil lease operator(s) (or Co-Venturer(s) where applicable) for physical loss or damage to, or expenses of salvage of, oil field equipment, including but not limited to drill pipe, drill collars, subs, drill bits and core barrels, leased or rented by the Insured or in its care, custody and control at the site of any well insured under Section A of this policy.
2. Underwriters' liability in respect of claims is limited to the amount stated in Item 3 of the Declarations in respect of 100% interest, any one occurrence, which shall be separate from and in addition to the Combined Single Limit of Liability set forth in Item 3 of the Declarations in respect of sections A, B & C herein.
3. Underwriters limit of liability specified in Clause 2 above shall be excess of the Insured's Retention as stated in Item 4 of the Declarations in respect of 100% interest, any one occurrence, which shall be separate from and in addition to the Insured's Retention(s) set forth in Item 4 of the Declarations in respect of sections A, B & C herein.
4. In the event that in-hole salvage expenses or fishing costs are incurred in respect of equipment for which the Insured has assumed responsibility and which is lost or damaged as a result of a peril insured against in this endorsement, the maximum amount recoverable for such salvage expenses or fishing costs shall be 25% of the value of the lost or damaged equipment in the hole at the time of loss and which is the object of salvage or fishing efforts, always subject to the overall limit of liability specified in this endorsement.
5. Notwithstanding anything contained herein to the contrary, Underwriters shall not be liable for claims in respect of loss of or damage to:
 - a. equipment owned by the Insured or in which the Insured has a financial interest;
 - b. drilling or workover rigs or any component thereof;
 - c. diamond bits and/or diamond bit core barrels;
 - d. mud, chemicals, cement, the well or casing installed therein;

- e. in hole equipment whilst in the hole, unless the Insured's liability has resulted from physical loss or damage to such equipment as a result of (1) an occurrence giving rise to a claims which would be recoverable under Section A of this policy if the Insured's Retention applicable to Section A were nil, or (2) fire, windstorm, or total loss of drilling or workover rig.
6. This extension shall not cover or contribute to any loss, damage or expense caused by or resulting from delay; loss of use; wear; tear; gradual deterioration; mysterious disappearance; inventory shortage(s); explosion, rupture or bursting of engines, pumps, piping, tanks or any pressure container from internal pressure; electrical injury or disturbance to electrical appliances or wiring resulting from artificial or natural causes (unless fire ensues, and then from loss or damage by fire only); latent defect; faulty design; mechanical failure or breakdown of equipment leased or rented by the Insured or in the Insured's care, custody and control.
7. Underwriters shall not be liable for loss of or damage to equipment beyond the actual sound value of such equipment at the time of loss, ascertained with proper deductions for depreciation, wear, tear and obsolescence. As respects leased or rented equipment, Underwriters shall not be liable for any sum greater than that assumed by the Insured under the terms of the rental or lease agreement less any trade or volume discount allowed by the leasing or rental company, nor shall Underwriters' liability exceed what it would cost to repair or replace any equipment involved in any loss recoverable hereunder with other equipment of like kind and quality.
8. This extension shall not afford coverage with respect to any drilling operations performed for the Insured, or for the account of the Insured by another operator, upon which a written contract with the drilling contractor has not been executed in advance of commencing drilling operations, or within 48 hours thereafter, incorporating all the provisions and conditions to be effective as respects such drilling operations. Further, coverage shall not extend to any oral agreements prior or subsequent to or simultaneously with the execution of the written contract on such operations or to any written agreement or rider to the original contract, other than to deepen any well below the specified total depth of the original contract, affecting the assumption of liability by the well owner for contractor's equipment.

Underwriters shall have no liability for loss of or damage to equipment if the drilling contract is negotiated on a turnkey or completed well basis.

ERRORS AND OMISSIONS

It is agreed that this insurance shall not be prejudiced by an unintentional delay, error, or omission in reporting hereunder with respect to non-operated wells only, provided prompt notice be given to Underwriters as soon as said delay, error, or omission becomes known to the Insured. Any Additional or Return Premium shall be paid as applicable.

PROPERTY (DEFINED PERIL) MILLENNIUM ENDORSEMENT

It is noted and agreed this policy is hereby amended as follows:

- A. The Insurer will not pay for Damage or Consequential Loss directly or indirectly caused by, consisting of, or arising from, the failure of any other computer, data processing equipment or media microchip, operating systems, microprocessors (computer chip), integrated circuit or similar device, or any computer software, whether the property of the insured or not, and whether occurring before, during or after the year 2000 that results from the inability to:
1. correctly recognize any date as its true calendar date;
 2. capture, save, or retain and/or correctly manipulate, interpret or process any data or information or command or instruction as a result of treating any date otherwise than as its true calendar date; and/or
 3. capture, save, retain or correctly process any data as a result of the operation of any command which had been programmed into any computer software, being a command which causes the loss of data or the inability to capture, save, retain or correctly process such data on or after any date.
- B. It is further understood that the Insurer will not pay for the repair or modification of any part of an electronic data processing system or its related equipment, to correct deficiencies or features of logic or operation.
- C. It is further understood that the Insurer will not pay for Damages or Consequential Loss arising from the failure, inadequacy, or malfunction of any advice, consultation, design evaluation, inspection, installation, maintenance, repair or supervision done by the Insured or for the Insured or by or for others to determine, rectify or test any potential or actual failure, malfunction, or inadequacy described in A. above.

Such damage or Consequential Loss described in A, B, or C above, is excluded regardless of any other cause that contributed concurrently or in any other sequence.

This endorsement shall not exclude subsequent Damage or Consequential Loss not otherwise excluded, which itself results from a Defined Peril. Defined Peril shall mean: fire, lightning, explosion, aircraft or vehicle impact, falling objects, windstorm, hail, tornado, hurricane, earthquake, volcano, tsunami, freeze or weight of snow.

In consequence of all the foregoing the Annual Premium remains unaltered.

All other terms, conditions and exclusion of this policy remain unchanged.

MX (09/98) r2

ENDORSEMENT – A

PROPERTY ENDORSEMENT

It is noted and agreed that this policy is hereby amended as follows:

The Insurer will not pay for Damage or Consequential loss directly or indirectly caused by, consisting of, or arising from:

1. Any functioning or malfunctioning of the internet or similar facility, or of any intranet or private network or similar facility,
2. Any corruption, destruction, distortion, erasure or other loss or damage to data, software, or any kind of programming or instruction set,
3. Loss of use or functionality whether partial or entire of data, coding, program, software, any computer or computer system or other device dependent upon any microchip or embedded logic, and any ensuing liability or failure of the Insured to conduct business.

This Endorsement shall not exclude subsequent damage or Consequential loss, not otherwise excluded, which itself results from a Defined Peril. Defined Peril shall mean: Fire, Lightning, Earthquake, Explosion, Falling Aircraft, Flood, Smoke, Vehicle Impact, Windstorm or Tempest.

Such Damage or Consequential loss described in 1, 2, or 3 above is excluded regardless of any other cause that contributed concurrently or in any other sequence.

All other terms, conditions and exclusions of this policy remain unchanged.

WAR RISK AND TERRORIST EXCLUSION

It is hereby understood and agreed, that notwithstanding any other war risk or terrorist exclusion that may be in the policy or any clause limiting or attempting to limit the application of any endorsements to the policy, this policy is amended as follows:

The policy does not cover loss or damage to property caused by, resulting from, contributed to or aggravated by any of the following perils, whether such loss or damage is accidental or intentional, intended or unintended, direct or indirect, proximate or remote or in whole or in part caused by, contributed to or aggravated by any perils insured by the policy:

- (1) war, hostile or warlike action in time of peace or war, whether or not declared, including action in hindering, combating or defending against an actual, impending or expected attack:
 - (a) by government or sovereign power (de jure or de facto) or by any authority maintaining or using military, naval or air forces; or
 - (b) by military, naval or air forces; or
 - (c) by an agent of any such government, power, authority or force.
- (2) any weapon of war employing atomic fission or radioactive force whether in time of peace or war, whether or not its discharge was accidental;

- (3) insurrection, rebellion, revolution, civil war, usurped power, or action taken by government authority in hindering, combating, or defending against such an occurrence, seizure or destruction;
- (4) any act of one or more persons, whether known or unknown and whether or not agents of a sovereign power, for Terrorist purposes;
- (5) hijacking or any unlawful seizure or wrongful exercise or control of any mode of transportation, including but not limited to aircraft, watercraft, truck(s), train(s) or automobile(s), including any attempted seizure of control, made by any person or persons.

Such loss or damage is excluded regardless of any other cause, event or intervention that contributes concurrently or in any sequence to the loss or damage.

Terrorist purpose means the use or threatened use of any unlawful means, including the use of force or violence against any person(s) or property (ies), for the actual or apparent purpose of intimidating, coercing, punishing or affecting society or some portion of society or government.

All other terms, conditions and exclusions of the policy remain unchanged.

War Risk Terrorist – 09/26/2001

COVERAGE TERRITORY ENDORSEMENT

This endorsement modifies insurance provided under the following:

Payment of loss under this policy shall only be made in full compliance with all United States of America economic or trade sanction laws or regulations, including, but not limited to, sanctions, laws and regulations administered and enforced by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC").

ADDITIONAL CONDITIONS

1. It is hereby understood and agreed that Producing, Shut-in, Salt Water Disposal, and Plugged & Abandoned Wells are excluded from coverage herein.
2. It is hereby understood and agreed that in the General Conditions – Warranties – Item 16.e – Applies to Operator Wells Only.

McAlester Fuel Company

PREMIUM WORKSHEET - ENERGY EXPLORATION EXTRA EXPENSE (EEEE)

LIMITS

EEEE Form Sections A,B, C \$ 3,000,000 (100%) any one occurrence all Sections Combined
 Care, Custody and Control \$ 1,000,000 (100%) any one occurrence

RETENTION

EEEE Form Sections A,B, C \$50,000 Area I, To Be Agreed All Other Areas (100%)
 any one occurrence each Section
 Care, Custody and Control \$50,000 (100%) any one occurrence

RATES \$'s PER FOOT DRILLED

	AREA I	AREA II	AREA IIW	AREA III	AREA IV
0 - 5,000	0.557	0.000	0.000	0.000	0.000
5,001 - 7,500	0.743	0.000	0.000	0.000	0.000
7,501-10,000	0.929	0.000	0.000	0.000	0.000
10,001-17,500	1.394	0.000	0.000	0.000	0.000
17,501 - 20,000	2.091	0.000	0.000	0.000	0.000
20,001 +	TBA	TBA	TBA	TBA	TBA

PRODUCING, etc. RATES

	AREA I	AREA II	AREA IIW	AREA III	AREA IV
0 - 5,000	0.000	0.000	0.000	0.000	0.000
5,001 - 7,500	0.000	0.000	0.000	0.000	0.000
7,501-10,000	0.000	0.000	0.000	0.000	0.000
10,001-17,500	0.000	0.000	0.000	0.000	0.000
17,501 - 20,000	0.000	0.000	0.000	0.000	0.000
20,001 +	TBA	TBA	TBA	TBA	TBA

WORKOVER RATES

	AREA I	AREA II	AREA IIW	AREA III	AREA IV
0 - 5,000	0.279	0.000	0.000	0.000	0.000
5,001 - 7,500	0.372	0.000	0.000	0.000	0.000
7,501-10,000	0.465	0.000	0.000	0.000	0.000
10,001-17,500	0.697	0.000	0.000	0.000	0.000
17,501 - 20,000	1.046	0.000	0.000	0.000	0.000
20,001 +	TBA	TBA	TBA	TBA	TBA

Note: If No Entry or "0" above, then rate is to be determined

Turnkey Wells 65/20/100

Deepening Wells based on 75% of full depth Drilling Rate

Horizontal Wells at 125% of applicable drilling rate; but 150% if underbalanced

Workover Wells at above rates; but where AFE is less than \$50,000 no additional premium

Producing / Shut-In/ Salt Water Disposal / Plugged & Abandoned Excluded

INSURED:

McAlester Fuel Company

PREMIUM

PRODUCING	AREA I	AREA II	AREA IIW	AREA III	AREA IV
0 - 5,000	-	-	-	-	-
5,001 - 7,500	-	-	-	-	-
7,501-10,000	-	-	-	-	-
10,001-17,500	-	-	-	-	-
17,501 - 20,000	-	-	-	-	-
20,001 +	TBA	TBA	TBA	TBA	TBA

TOTAL PRODUCING: \$ -

ESTIMATED DRILLING	AREA I	AREA II	AREA IIW	AREA III	AREA IV
0 - 5,000	4,456	-	-	-	-
5,001 - 7,500	-	-	-	-	-
7,501 - 10,000	31,214	-	-	-	-
10,001 - 17,500	-	-	-	-	-
17,501 - 20,000	-	-	-	-	-
20,001 +	TBA	TBA	TBA	TBA	TBA

TOTAL ESTIMATED DRILLING: 35,670
DRILLING MINIMUM & DEPOSIT: \$ 17,835

ESTIMATED WORKOVER	AREA I	AREA II	AREA IIW	AREA III	AREA IV
0 - 5,000	-	-	-	-	-
5,001 - 7,500	-	-	-	-	-
7,501 - 10,000	-	-	-	-	-
10,001 - 17,500	-	-	-	-	-
17,501 - 20,000	-	-	-	-	-
20,001 +	TBA	TBA	TBA	TBA	TBA

TOTAL ESTIMATED WORKOVER: -
WORKOVER MINIMUM & DEPOSIT: \$ -

DRILLING/WORKOVER MINIMUM & DEPOSIT: \$ 17,835

TOTAL PREMIUM PAYABLE AT INCEPTION: \$ 17,835.00

(PRODUCING [IN FULL] & DRILLING/W/O M&D)

PLUS POLICY FEE WHICH DEEMED FULLY EARNED AT INCEPTION \$ 1,000.00

PRE-UNDERWRITING ENGINEERING FEE: \$ -

TEXAS SURPLUS LINES TAX: \$ 913.50 4.85%

TEXAS STAMPING OFFICE FEE: \$ 18.84 0.10%

TOTAL DUE: \$ 19,767.34



MACLEAN, ODDY & ASSOCIATES, INC.

1201 Elm Street, Suite 4900 • Dallas, Texas 75270-2104 • (214) 855-7700 • FAX (214) 855-7794 • www.macleannotdy.com

January 31, 2007

John Carter
CARTER & COMPANY
P.O. Box 672
Luling, TX 78648

RE: MCALESTER FUEL COMPANY, INC.
COW # 8755632

Dear John:

We enclose the documents noted below which we trust you will find to be satisfactory.

XXX Original and one copy of the policy issued on the above insured.

If this policy covers operations domiciled outside the State of Texas, and;

1. If placed with a non-admitted company, your agency is responsible for filing and payment of Surplus Lines Taxes in accordance with applicable state regulations;
2. If placed with an admitted company and your agency is not an authorized agent of the company for countersigning purposes, your agency will be responsible for all countersignature fees.
3. Illinois based risk placed with non-admitted companies are subject to a stamping fee of .1%.

WE ASK THAT YOU REVIEW THE ENCLOSED DOCUMENT(S) CAREFULLY AND IF FOR ANY REASON IT IS INCORRECT, PLEASE CONTACT US IMMEDIATELY.

Best regards,

MACLEAN, ODDY & ASSOCIATES OF TEXAS


Debbie Maddox
Vice President

//

RECEIVED

FEB - 6 2007

Carter & Company LLP