CASE 6612: GULF OIL CORPORATION FOR COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION, LEA COUNTY, NEW MEXICO.

CASE NO.

6612

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

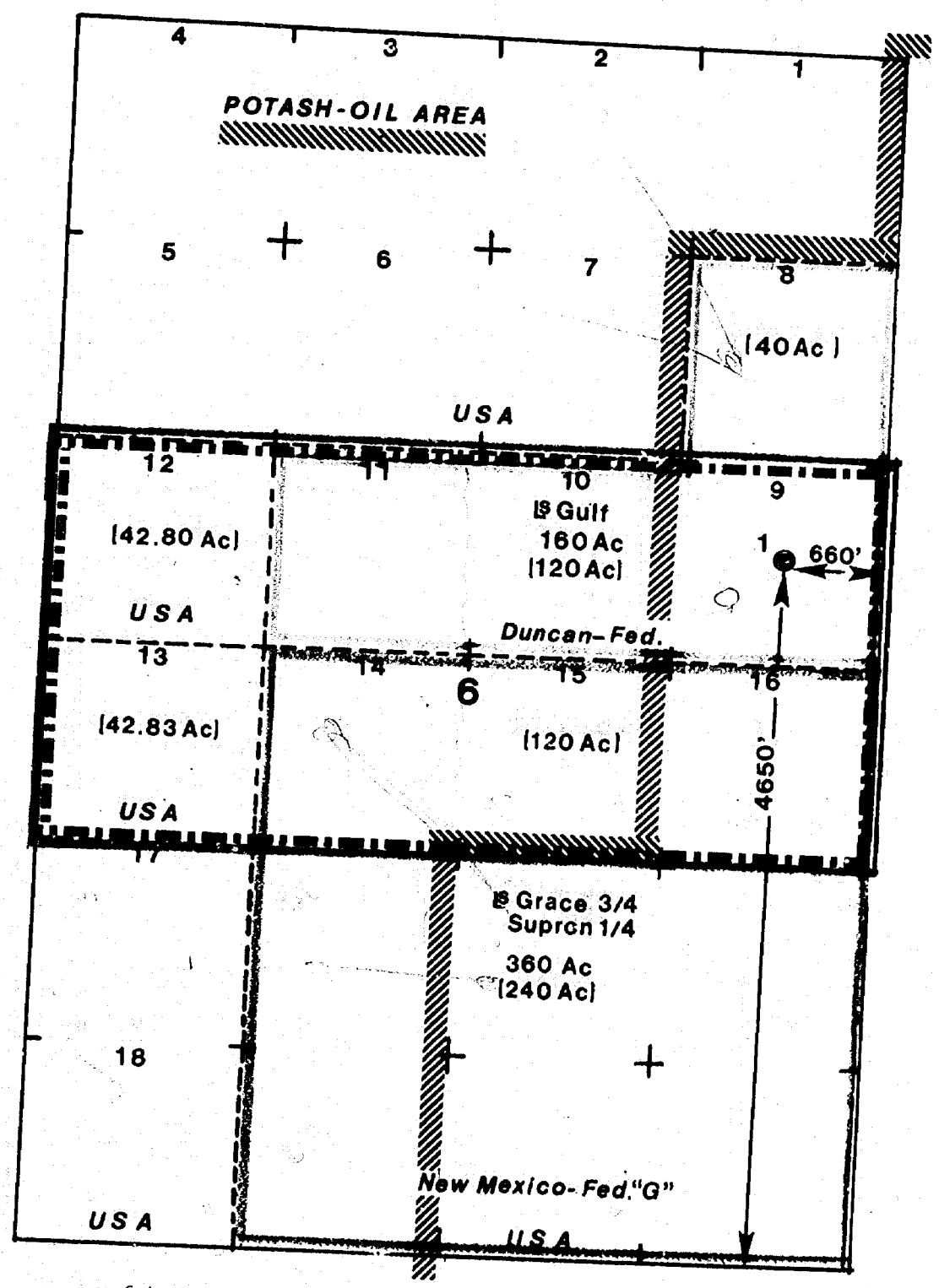
ETC.

# GULF OIL CORPORATION
# PROPOSED DUNCAN FEDERAL COM. UNIT

Lots 9,10,11,12,13,14,15 & 16

Sec. 6 T-21-S, R-32-E

Lea County, New Mexico




905.86

Scale: 1" = 1000'

| Owner | Acres | Percentage |
|---|---|---|
| Gulf | 120.00 | 36.85164 |
| Grace & Supron | 120.00 | 36.85164 |
| USA - Unleased | 85.63 | 26.29672 |
| | 325.63 | 100.00000 |

Exhibit: 1
Case: 6612
August 7, 1979

GULF OIL EXPLORATION & PRODUCTION COMPANY

COST ESTIMATE

DATE: 7-27-79

AREA: Hobbs

DRILL & COMPLETE: Duncan Federal Com #1

LOCATION: 3300 FNL + 660 FEL Sec 6 T-21-S R-32-E Eddy Co. New Mexico

## I N T A N G I B L E S

| ITEM | DESCRIPTION | DRILLING | COMPLETION | AFE AMOUNT |
|---|---|---|---|---|
| 101 | LOCATION & ACCESS | 12,000 | 1,000 | 13,000 |
| 102 | RIG CONTRACT - RIG UP & TEAR DOWN | | | |
| | RIG CONTRACT - DAY RATE $ 4500 /DAY | 18,000 | 20,000 | 38,000 |
| | RIG CONTRACT - FOOTAGE $ 24.00 /FT | 348,000 | | 348,000 |
| 106 | DRILLING FLUIDS | 45,000 | 1,000 | 46,000 |
| | CORROSION INHIBITOR | 15,000 | 1,000 | 16,000 |
| | BRINE WATER | 22,000 | 12,000 | 34,000 |
| 108 | CEMENT & CEMENT SERVICES | 2,000 | 3,000 | 5,000 |
| 112 | RENTAL - SURFACE TOOLS | | 2,000 | 2,000 |
| 113 | RENTAL - DOWNHOLE TOOLS | | | |
| 114 | RENTAL - $H_2S$ & SAFETY EQUIPMENT | 10,000 | | 10,000 |
| 115 | RENTAL - CORING | 31,000 | | 31,000 |
| 130 | DRILL STEM TESTING | | 10,000 | 10,000 |
| 131 | ELECTRIC LOGS & SURVEYS | | 10,000 | 10,000 |
| 132 | MUD LOGGING | | | |
| 133 | PERFORATING | | | |
| 134 | DIRECTIONAL CONTROL | | | |
| 140 | FORMATION TREATING (INCL. TOOLS) | | | |
| 150 | BITS (Rmrs, Cutters, etc.) | | | 1,000 |
| 151 | LUBRICANTS | 1,000 | 2,000 | 6,000 |
| 152 | FUEL (Incl. Trans & Laying Line) | 4,000 | 1,000 | 5,000 |
| 153 | ENVIRONMENTAL PROTECTION | 4,000 | | 10,000 |
| 154 | FRESH WATER (Trans, Trtg, Well, Lines) | 10,000 | | |
| 155 | OTHER SUPPLIES (Scrs, Cmt, Rtnrs, BP) | | 2,000 | 5,000 |
| 162 | OTHER CONTR SVCS (Csg Crws, Clean-up) | 3,000 | 1,000 | 3,000 |
| 163 | DRLG SUPERVISION (Incl. Engrs) | 2,000 | | |
| 164 | GEOLOGICAL SUPERVISION | | | |
| 170 | TRANS (Mixed Cargo - Lump Charge) | | | |
| 192 | ALLOCATION OF FOE | | | |
| 196 | TANGIBLE MATERIALS FOR TEMP USE | | | |
| | TAX ON TANGIBLE MATERIALS | | | |
| | SUB-TOTAL | 527,000 | 66,000 | 593,000 |
| | CONTINGENCY | | | |
| | GROSS TOTAL INTANGIBLES | | | |

14500'

Exhibit 2
Case 6612

COST ESTIMATE

Page 2

DRILL & COMPLETE: Duncan Fed. Com #1

## T A N G I B L E S

| ITEM | DESCRIPTION | DRILLING | COMPLETION | AFE AMOUNT |
|---|---|---|---|---|
| 21X | CASING (SURFACE & INTERMEDIATE) | | | |
| | 500' 13 3/8" 48 #H-40 ST & C csg | 10,000 | | 10,000 |
| | | | | |
| | 5200 8 5/8" 32 #K-55 ST & C csg | 62,000 | | 62,000 |
| 22X | CASING (OIL STRING) | | | |
| | 14,500' 5 1/2" 17 #S-95 & N80 LT &c csg | | 130,000 | 130,000 |
| 23X | OTHER SUBSURFACE PRODUCING EQPT: | | | |
| | TUBING: 14,000' 2 3/8" 4.7 #N-80 tbg | | 47,000 | 47,000 |
| | | | | |
| | OTHER: PKR | | 5,000 | 5,000 |
| 24X | SUBSURFACE ARTIFICIAL LIFT EQPT: | | | |
| | RODS: | | | |
| | OTHER: | | | |
| 25X | SURFACE PRODUCING EQPT: | | | |
| | PUMPING UNIT | | | |
| | ELECTRIC MOTOR | | | |
| | FLOW LINE | | | |
| | OTHER | | | |
| 26X | CHRISTMAS TREE (Single - Dual) | 8,000 | 11,000 | 19,000 |
| 29X | MISC. ITEMS (Transfers & Other Expense) | 1,000 | 1,000 | 2,000 |
| | SUBTOTAL | | | |
| | CONTINGENCY | | | |
| | GROSS TOTAL TANGIBLES | 81,000 | 194,000 | 275,000 |
| | GROSS TOTAL AFE | 608,000 | 260,000 | 868,000 |

PREPARED BY: R. L. Vaughn

DATE: 7-27-77

R. C. Anderson

AREA PRODUCTION MANAGER

*SCHEMATIC DIAGRAM*

# DUNCAN-FEDERAL COM. NO. 1

4650' FSL & 660' FEL
UNIT I, SEC. 6, T21S, R32E
SALT LAKE, SOUTH-MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO

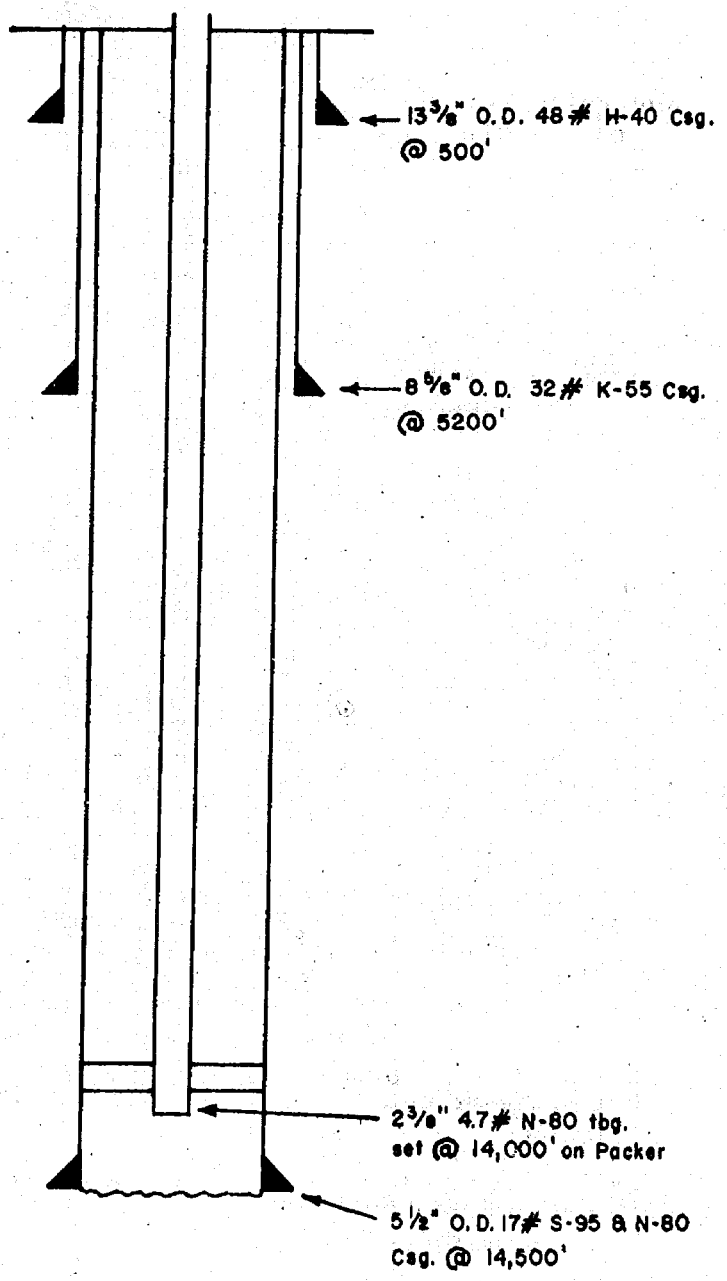
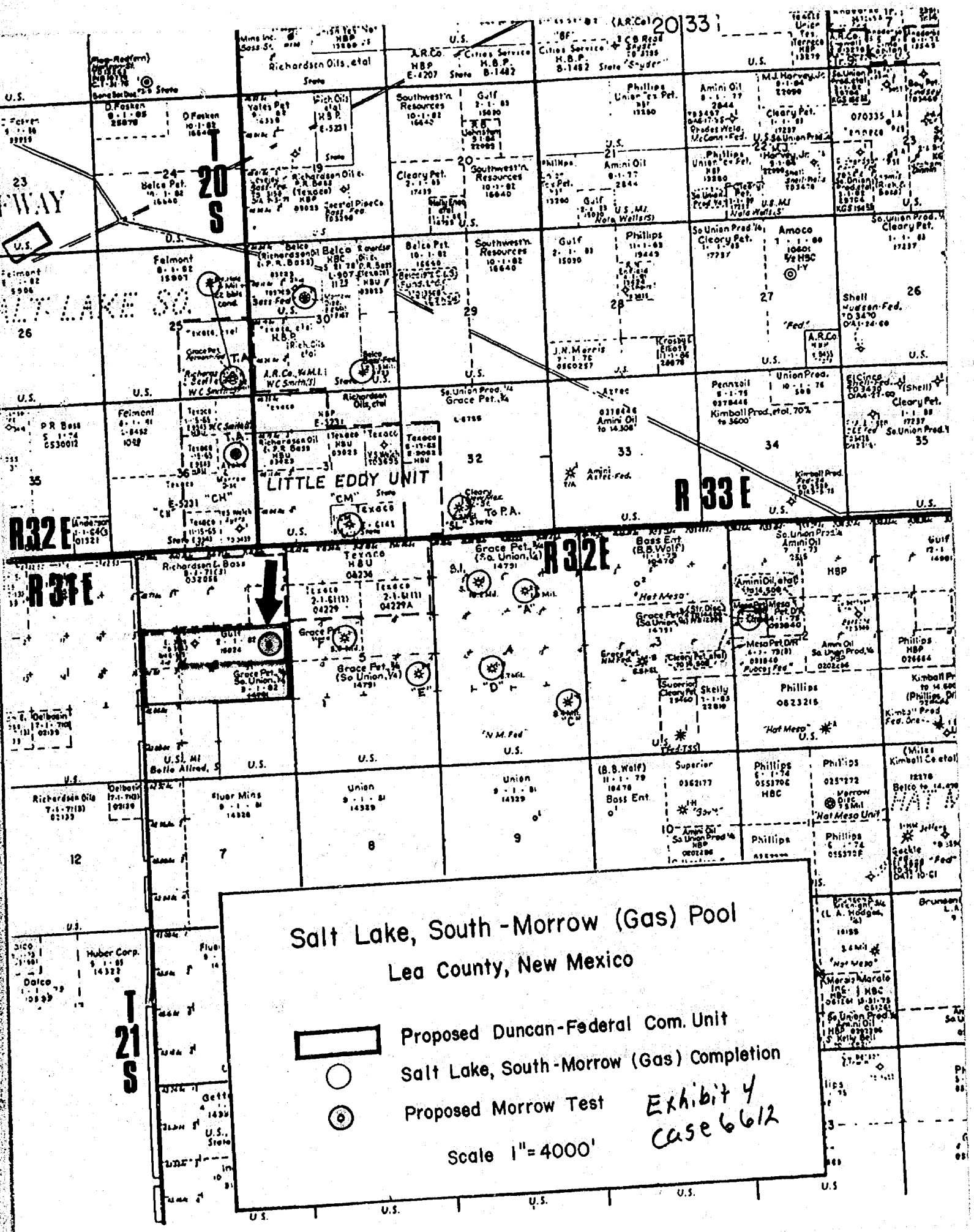



Exhibit 3
Case 6612
Date 8-7-79
Gulf Oil Corporation


T 20 S
T 21 S
R 32 E
R 33 E
R 31 E
LITTLE EDDY UNIT
SALT LAKE SO.
FWAY
Richardson Oils, etal
Belco Pet.
Felmont
Cleary Pet.
Southwestern Resources
Phillips
Amini Oil
Gulf
Amoco
Shell
Texaco
Grace Pet. (So. Union, 1/4)
Bass Ent. (B.B. Wolf)
Superior
Skelly
Union
Fluor Mins
Huber Corp.
Dalco
Richardson Oils
Meso Pet. Dev.
Kimball Prod.
Pennzoil
Union Prod.
Kirkpatrick (L.A. Hodges, Jr.)
Morale Inc.
Getty
Salt Lake, South-Morrow (Gas) Pool
Lea County, New Mexico
Proposed Duncan-Federal Com. Unit
Salt Lake, South-Morrow (Gas) Completion
Proposed Morrow Test
Scale 1"=4000'
Exhibit 4
case 6612

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH - MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT 5
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

| | GRACE PETROLEUM CORPORATION (RIAL OIL COMPANY) | | | TEXACO INCORPORATED | |
|---|---|---|---|---|---|
| | NEW MEXICO A FEDERAL<br>2G 421S32E<br>Gas Co. of N.M. | NEW MEXICO E FEDERAL COM.<br>1P 521S32E<br>Gas Co. of N.M. | PUBCO FEDERAL<br>1L221S32E<br>Gas Co. of N.M. | LITTLE EDDY UNIT<br>AUDIE RICHARDS<br>1P 2520S32E<br>Texaco | LITTL<br>CM ST<br>10 31<br>Texac |
| 1978 | | | | | |
| JAN | | 57,146 | 9,894 | 1,138 | 27 |
| FEB | | 84,378 | 8,270 | 1,482 | 1 |
| MAR | | 59,052 | 8,165 | - - - | 12 |
| APR | | 58,869 | 8,385 | 609 | 28 |
| MAY | | 21,430 | 7,991 | 245 | 34 |
| JUN | | 78,635 | 7,715 | 770 | 33 |
| JUL | | 603 | 7,691 | 241 | 20 |
| AUG | 34,044 | 60,632 | 7,253 | 599 | 24 |
| SEPT | 29,894 | 62,649 | 6,550 | 775 | 35 |
| OCT | 22,283 | 66,432 | 7,777 | - - - | 34 |
| NOV | 9,064 | 64,278 | 7,641 | 64 | 26 |
| DEC | 22,798 | 50,045 | 7,566 | - - - | 29 |
| ANNUAL | 118,083 | 664,149 | 94,918 | 5,923 | 309 |
| CUMULATIVE | 118,083 | 1,035,719 | 755,577 | 2,290,735 | 7,313 |
| 1979 | | | | | |
| JAN | 19,985 | 59,007 | 6,469 | - - - | 12 |
| FEB | 16,938 | 48,269 | 6,662 | - - - | 28 |
| MAR | 13,304 | 48,035 | 4,948 | - - - | 21 |
| APR | 10,501 | 41,114 | 4,875 | TA | 18 |
| YEAR TO DATE | 225,881 | 196,425 | 22,954 | - - - | 81 |
| DAILY AVERAGE | 2,236 | 1,889 | 261 | - - - | |
| CUMULATIVE (5-1-79) | 343,964 | 1,232,144 | 778,531 | 2,290,735 | 7,394 |

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH - MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT 5
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

| ETROLEUM CORPORATION (RIAL OIL COMPANY) | | | TEXACO INCORPORATED | |
|---|---|---|---|---|
| DERAL | NEW MEXICO E FEDERAL COM.<br>1P 521S32E<br>Gas Co. of N.M. | PUBCO FEDERAL<br>1L221S32E<br>Gas Co. of N.M. | LITTLE EDDY UNIT<br>AUDIE RICHARDS<br>1P 2520S32E<br>Texaco | LITTLE EDDY UNIT<br>CM STATE<br>1O 3120S33E<br>Texaco |
| | 57,146 | 9,894 | 1,138 | 27,516 |
| | 84,378 | 8,270 | 1,482 | 1,735 |
| | 59,052 | 8,165 | - - - | 12,750 |
| | 58,869 | 8,385 | 609 | 28,317 |
| | 21,430 | 7,991 | 245 | 34,610 |
| | 78,635 | 7,715 | 770 | 33,861 |
| | 603 | 7,691 | 241 | 20,461 |
| | 60,632 | 7,253 | 599 | 24,854 |
| | 62,649 | 6,550 | 775 | 35,138 |
| | 66,432 | 7,777 | - - - | 34,607 |
| | 64,278 | 7,641 | 64 | 26,776 |
| | 50,045 | 7,566 | - - - | 29,112 |
| | 664,149 | 94,918 | 5,923 | 309,737 |
| | 1,035,719 | 755,577 | 2,290,735 | 7,313,141 |
| | 59,007 | 6,469 | - - - | 12,418 |
| | 48,269 | 6,662 | - - - | 28,701 |
| | 48,035 | 4,948 | - - - | 21,729 |
| | 41,114 | 4,875 | TA | 18,205 |
| | 196,425 | 22,954 | - - - | 81,503 |
| | 1,889 | 261 | - - - | 679 |
| | 1,232,144 | 778,531 | 2,290,735 | 7,394,194 |

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH-MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT _____
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

| | BELCO PETROLEUM | | GRACE PETROLEUM CORP. (RIAL OIL COMPANY) | | | |
|---|---|---|---|---|---|---|
| | Bass | Bass Federal Com. | Federal C | Federal D | Felmont Federal | New Me |
| | 1F3020S33E | 2P3020S33E | 1Q421S32E | 1N421S32E | 1P2520S32E | 1K521S |
| | Llano, El Paso Nat'l | Llano, El Paso Nat'l | Gas Co. of N.M. | Gas Co. of N.M. | Gas Co. of N.M. | Gas Co |
| 1978 | | | | | | |
| JAN | 90,550 | 18,019 | 89,317 | 30,562 | | |
| FEB | 78,204 | 9,930 | 102,992 | 40,539 | | |
| MAR | 90,602 | 12,480 | 75,274 | 56,196 | | |
| APR | 85,884 | 13,739 | 90,085 | 61,613 | | |
| MAY | 85,174 | 8,300 | 33,851 | 21,237 | | |
| JUN | 76,495 | 11,930 | 75,033 | 49,976 | | |
| JUL | 83,042 | 11,197 | 78,683 | 58,677 | | |
| AUG | 93,225 | 15,441 | 77,004 | 5 ,110 | | |
| SEPT | 92,323 | 13,660 | 76,952 | 47,840 | 87,457 | |
| OCT | 97,450 | 13,756 | 49,422 | 31,656 | 149,943 | |
| NOV | 89,991 | 12,472 | 15,379 | 3,132 | 3,080 | |
| DEC | 82,108 | 11,586 | 110,930 | 28,541 | 143,490 | |
| ANNUAL | 1,045,048 | 152,510 | 874,992 | 481,079 | 453,970 | |
| CUMULATIVE | 6,078,812 | 972,855 | 1,789,150 | 773,838 | 453,970 | |
| 1979 | | | | | | |
| JAN | 79,326 | 11,458 | 114,277 | 33,739 | 136,140 | |
| FEB | 70,710 | 8,761 | 109,209 | 31,725 | 126,827 | |
| MAR | 88,213 | 11,989 | 62,470 | 30,076 | 100,275 | |
| APR | 83,019 | 13,201 | 9,388 | 14,002 | 87,489 | |
| YEAR TO DATE | 321,268 | 45,409 | 295,344 | 109,542 | 450,731 | 1 |
| DAILY AVERAGE | 2,723 | 388 | 3,558 | 1,085 | 4,212 | |
| CUMULATIVE (5-1-79) | 6,400,080 | 1,018,264 | 2,084,494 | 883,380 | 904,701 | 1 |

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH-MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT _____
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

| PETROLEUM | GRACE PETROLEUM CORP. (RIAL OIL COMPANY) | | | |
|---|---|---|---|---|
| Bass Federal Com. 2P3020S33E | Federal C 1Q421S32E | Federal D 1N421S32E | Felmont Federal 1P2520S32E | New Mexico Federal F Com. 1K521S32E |
| 1 Llano, El Paso Nat'l | Gas Co. of N.M. | Gas Co. of N.M. | Gas Co. of N.M. | Gas Co. of N.M. |
| 18,019 | 89,317 | 30,562 | | |
| 9,930 | 102,992 | 40,539 | | |
| 12,480 | 75,274 | 56,196 | | |
| 13,739 | 90,085 | 61,613 | | |
| 8,300 | 33,851 | 21,237 | | |
| 11,930 | 75,033 | 49,976 | | |
| 11,197 | 78,683 | 58,677 | | |
| 15,441 | 77,004 | 5 ,110 | | |
| 13,660 | 76,952 | 47,840 | | |
| 13,756 | 49,422 | 31,656 | 87,457 | |
| 12,472 | 15,379 | 3,132 | 149,943 | |
| 11,586 | 110,930 | 28,541 | 73,080 | |
| | | | 143,490 | |
| 152,510 | 874,992 | 481,079 | 453,970 | |
| 972,855 | 1,789,150 | 773,838 | 453,970 | |
| 11,458 | 114,277 | 33,739 | 136,140 | 48 |
| 8,761 | 109,209 | 31,725 | 126,827 | 80,001 |
| 11,989 | 62,470 | 30,076 | 100,275 | 57,259 |
| 13,201 | 9,388 | 14,002 | 87,489 | 27,845 |
| 45,409 | 295,344 | 109,542 | 450,731 | 165,153 |
| 388 | 3,558 | 1,085 | 4,212 | 2,202 |
| 1,018,264 | 2,084,494 | 883,380 | 904,701 | 165,153 |

CASE 6612
EXHIBIT 7

GULF OIL CORPORATION
SALT LAKE MORROW, SOUTH (GAS) POOL
LEA COUNTY, NEW MEXICO

STRUCTURE: TOP MID-MORROW SHALE
C.I. 100'
MAP SCALE: 1"=4000'

MORROW PRODUCERS

GULF LEASE

T-21-S R-32-E

May 11, 1965 (Potash)

Docket No. 29-79

Dockets Nos. 32-79 and 33-79 are tentatively set for hearing on August 22 and September 5, 1979. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - TUESDAY - AUGUST 7, 1979

OIL CONSERVATION COMMISSION - 9 A.M. - ROOM 205
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

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CASE 6590: (Continued from July 25, 1979, Examiner Hearing)

Application of Grace Petroleum Corporation for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying Lots 9, 10, 15, and 16 and the SE/4 of Section 6, Township 21 South, Range 32 East, to be dedicated to a well to be drilled at an unorthodox location 4650 feet from the South line and 660 feet from the East line of said Section 6. Also to be considered will be the cost of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6612: Application of Gulf Oil Corporation for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying Lots 9 thru 16 of Section 6, Township 21 South, Range 32 East, to be dedicated to a well to be drilled at an unorthodox location 4650 feet from the South line and 660 feet from the East line of said Section 6. Also to be considered will be the cost of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6555: (DE NOVO)

Application of Jake L. Hamon for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox location 660 feet from the North line and 560 feet from the East line of Section 30, Township 20 South, Range 36 East, North Osudo-Morrow Gas Pool, all of said Section 30 to be dedicated to the well.

Upon application of Texas Oil & Gas Corp. this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 6596: (Continued from July 24, 1979, Commission Hearing)

Application of Harvey E. Yates Company for pool creation and special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Upper Pennsylvanian gas pool to be designated as the Southeast Indian Basin-Upper Pennsylvanian Gas Pool for its Southeast Indian Basin Well No. 1 located in Unit A of Section 23, Township 22 South, Range 23 East, and special pool rules therefor including 320-acre gas well spacing.

CASE 6597: (Continued from July 24, 1979, Commission Hearing)

Application of Harvey E. Yates Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Southeast Indian Basin Well No. 2, an Upper Pennsylvanian well to be drilled 660 feet from the North and West lines of Section 24, Township 22 South, Range 23 East, with the N/2 or all of said Section 24 to be dedicated to the well, depending on the outcome of Case No. 6596.

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 8, 1979

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

CASE 6613: Application of Grace Petroleum Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Smith Ranch Unit Area, comprising 1,600 acres, more or less, of State and federal lands in Township 20 South, Range 33 East.

CASE 6602: (Continued from July 25, 1979, Examiner Hearing)

Application of Tenneco Oil Company for an unorthdox well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Federal 33 C No. 2 Well 1010 feet from the North line and 1710 feet from the West line of Section 33, Township 17 South, Range 29 East, South Empire-Wolfcamp Pool, the E/2 NW/4 of said Section 33 to be dedicated to the well.

CASE 6611: (Continued from July 25, 1979, Examiner Hearing)

Application of Cabot Corp. for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the disposal of produced salt water in the Devonian formation through the perforated interval from 12,156 feet to 12,574 feet in its Reed Well No. 1 located in Unit H of Section 35, Township 13 South, Range 37 East, King Field.

CASE 6614: Application of Texaco Inc. for the amendment of Order No. R-4442, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-4442 to remove the top unit allowable restriction from producing wells in the Vacuum Grayburg San Andres Unit which are offset by "lease line" injection wells.

CASE 6615: Application of Southland Royalty Company for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Kutz-Gallup and Basin-Dakota production in the wellbore of its Frontier "E" Well No. 1 located in Unit O of Section 4, Township 27 North, Range 11 West.

CASE 6616: Application of Watson Treating Plant for an oil treating plant permit, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks authority for the construction and operation of an oil treating plant for the purpose of treating and reclaiming sediment oil at a site in the SE/4 NW/4 of Section 34, Township 8 South, Range 35 East.

CASE 6617: Application of El Paso Natural Gas Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Basin-Dakota and Otero-Gallup production in the wellbore of its Jicarilla 67 Well No. 10 located in Unit M of Section 30, Township 25 North, Range 5 West.

CASE 6618: Application of Harvey E. Yates Company for pool creation and special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Yates gas pool for its DEPCO Federal Well No. 1 located in Unit D of Section 19, Township 18 South, Range 29 East, and special rules therefor, including 80-acre gas well spacing.

CASE 6619: Application of Harvey E. Yates Company for an unorthodox well location and a non-standard proration unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 62.75-acre non-standard Yates gas proration unit comprising Lots 1 and 2 of Section 19, Township 18 South, Range 29 East, to be dedicated to its DEPCO Federal Well No. 1 drilled 330 feet from the North line and 660 feet from the West line of said Section 19.

CASE 6620: Application of Harvey E. Yates Company for an NGPA determination, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its Austin Monteith Well No. 1 located in Unit K of Section 8, Township 14 South, Range 36 East.

CASE 6621: Application of Harvey E. Yates Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp-Penn formations underlying the S/2 of Section 4, Township 18 South, Range 29 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well. (This case will be dismissed.)

CASE 6601: (Continued from July 25, 1979, Examiner Hearing)

Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp through Mississippian formations underlying the E/2 of Section 8, Township 14 South, Range 36 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6622: Application of Adams Exploration Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp-Penn formations underlying the N/2 of Section 15, Township 24 South, Range 28 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6623: Application of Penroc Oil Corporation for approval of infill drilling and simultaneous dedication, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a waiver of existing well spacing requirements and a finding that the recompletion in the Morrow formation of its Dero "A" Federal Well No. 1 located in Unit N of Section 35, Township 19 South, Range 28 East, is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing well.

CASE 6624: Application of Belco Petroleum Corporation for approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a waiver of existing well spacing requirements and a finding that the drilling of a well to be located in Unit K of Section 31, Township 9 South, Range 33 East, Flying "M"-San Andres Pool, is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing well.

CASE 6625: Application of Mewbourne Oil Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Morrow test well to be located 660 feet from the North line and 1315 feet from the East line of Section 30, Township 20 South, Range 27 East, the E/2 of said Section 30 to be dedicated to the well.

CASE 6603: (Continued from July 25, 1979, Examiner Hearing)

Application of Conoco Inc. for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Penrose Skelly and Eumont production in the wellbore of its Hawk B-1 Well No. 12 located in Unit O of Section 8, Township 21 South, Range 37 East.

CASE 6587: (Continued and Readvertised)

Application of Caribou Four Corners, Inc., for an unorthodox well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Kirtland Well No. 4 located 1450 feet from the North line and 595 feet from the West line of Section 18, Township 29 North, Range 14 West.

**********

Docket No. 31-79

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 15, 1979

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

ALLOWABLE: (1) Consideration of the allowable production of gas for September, 1979, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

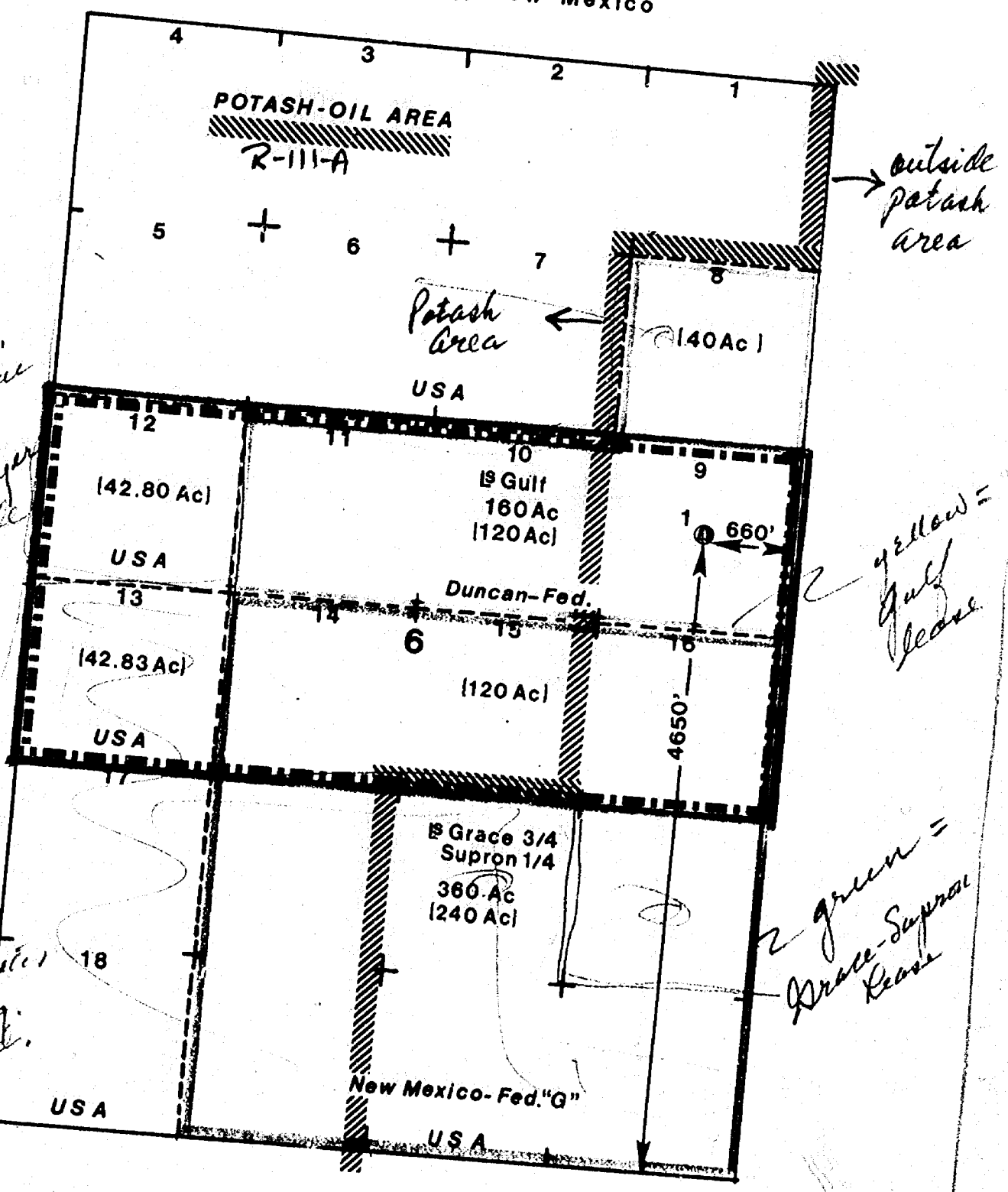
(2) Consideration of the allowable production of gas for September, 1979, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

# GULF OIL CORPORATION
# PROPOSED DUNCAN FEDERAL COM. UNIT

Lots 9,10,11,12,13,14,15 & 16

Sec. 6 T-21-S, R-32-E

Lea County, New Mexico




Gulf: Tom Kellahin, Chas. Kaltwyer, Doug LaGorce, Neal Hos

2 yellow = Gulf Lease

Lots 1 thru 7 & 12, 13, 17, & 18 unleased

comb fed acct 3300 drlg. 330 prod.

2 green = Grace-Supron Lease

Scale: 1" = 1000'

| Owner | Acres | Percentage |
|---|---|---|
| Gulf | 120.00 | 36.85164 |
| Grace & Supron | 120.00 | 36.85164 |
| USA - Unleased | 85.63 | 26.29672 |
| | 325.63 | 100.00000 |

Exhibit: 1
Case: 6612
August 7, 1979

GULF OIL EXPLORATION & PRODUCTION COMPANY

AREA: Hobbs COST ESTIMATE DATE: 7-27-79

DRILL & COMPLETE: Duncan Federal Com #1

LOCATION: 3300 FNL + 660 FEL Sec 6 T-21-S R-32-E Eddy Co. New Mexico

14,500'

## INTANGIBLES

| ITEM | DESCRIPTION | DRILLING | COMPLETION | AFE AMOUNT |
|---|---|---|---|---|
| 101 | LOCATION & ACCESS | 12,000 | 1,000 | 13,000 |
| 102 | RIG CONTRACT - RIG UP & TEAR DOWN | | | |
| | RIG CONTRACT - DAY RATE $ 4500 /DAY4 | 18,000 | 20,000 | 38,000 |
| | RIG CONTRACT - FOOTAGE $ 24.00 /FT | 348,000 | | 348,000 |
| 106 | DRILLING FLUIDS | 45,000 | 1,000 | 46,000 |
| | CORROSION INHIBITOR | | | |
| | BRINE WATER | 15,000 | 1,000 | 16,000 |
| 108 | CEMENT & CEMENT SERVICES | 22,000 | 12,000 | 34,000 |
| 112 | RENTAL - SURFACE TOOLS | 2,000 | 3,000 | 5,000 |
| 113 | RENTAL - DOWNHOLE TOOLS | | 2,000 | 2,000 |
| 114 | RENTAL - $H_2S$ & SAFETY EQUIPMENT | | | |
| 115 | RENTAL - CORING | | | |
| 130 | DRILL STEM TESTING | 10,000 | | 10,000 |
| 131 | ELECTRIC LOGS & SURVEYS | 31,000 | | 31,000 |
| 132 | MUD LOGGING | | | |
| 133 | PERFORATING | | 10,000 | 10,000 |
| 134 | DIRECTIONAL CONTROL | | | |
| 140 | FORMATION TREATING (INCL. TOOLS) | | 10,000 | 10,000 |
| 150 | BITS (Rmrs, Cutters, etc.) | | | |
| 151 | LUBRICANTS | | | |
| 152 | FUEL (Incl. Trans & Laying Line) | | | |
| 153 | ENVIRONMENTAL PROTECTION | | | |
| 154 | FRESH WATER (Trans, Trtg, Well, Lines) | 1,000 | | 1,000 |
| 155 | OTHER SUPPLIES (Scrs, Cmt, Rtnrs, BP) | 4,000 | 2,000 | 6,000 |
| 162 | OTHER CONTR SVCS (Csg Crws, Clean-up) | 4,000 | 1,000 | 5,000 |
| 163 | DRLG SUPERVISION (Incl. Engrs) | 10,000 | | 10,000 |
| 164 | GEOLOGICAL SUPERVISION | | | |
| 170 | TRANS (Mixed Cargo - Lump Charge) | 3,000 | 2,000 | 5,000 |
| 192 | ALLOCATION OF FOE | 2,000 | 1,000 | 3,000 |
| 196 | TANGIBLE MATERIALS FOR TEMP USE | | | |
| | TAX ON TANGIBLE MATERIALS | | | |
| | SUB-TOTAL | | | |
| | CONTINGENCY | | | |
| | GROSS TOTAL INTANGIBLES | 527,000 | 66,000 | 593,000 |

Dec of Ex 2

COST ESTIMATE

Page 2

DRILL & COMPLETE: Duncan Fed. Com #1

## T A N G I B L E S

| ITEM | DESCRIPTION | DRILLING | COMPLETION | AFE AMOUNT |
|---|---|---|---|---|
| 21X | CASING (SURFACE & INTERMEDIATE) | | | |
| | 500' 13 3/8" 48 #H-40 ST & C csg | 10,000 | | 10,000 |
| | 5200 8 5/8" 32 #K-55 ST & C csg | 62,000 | | 62,000 |
| 22X | CASING (OIL STRING) | | | |
| | 14,500' 5 1/2" 17 #S-95 & N80 LT &c csg | | 130,000 | 130,000 |
| 23X | OTHER SUBSURFACE PRODUCING EQPT: | | | |
| | TUBING: 14,000' 2 3/8" 4.7 #N-80 tbg | | 47,000 | 47,000 |
| | OTHER: PKR | | 5,000 | 5,000 |
| 24X | SUBSURFACE ARTIFICIAL LIFT EQPT: | | | |
| | RODS: | | | |
| | OTHER: | | | |
| 25X | SURFACE PRODUCING EQPT: | | | |
| | PUMPING UNIT | | | |
| | ELECTRIC MOTOR | | | |
| | FLOW LINE | | | |
| | OTHER | | | |
| 26X | CHRISTMAS TREE (Single - Dual) | 8,000 | 11,000 | 19,000 |
| 29X | MISC. ITEMS (Transfers & Other Expense) | 1,000 | 1,000 | 2,000 |
| | SUBTOTAL | | | |
| | CONTINGENCY | | | |
| | GROSS TOTAL TANGIBLES | 81,000 | 194,000 | 275,000 |
| | GROSS TOTAL AFE | 608,000 | 260,000 | 868,000 |

surf eqpt (tbg side) ~~50000~~ 918000

PREPARED BY: R. L. Vaughn

DATE: 7-27-77

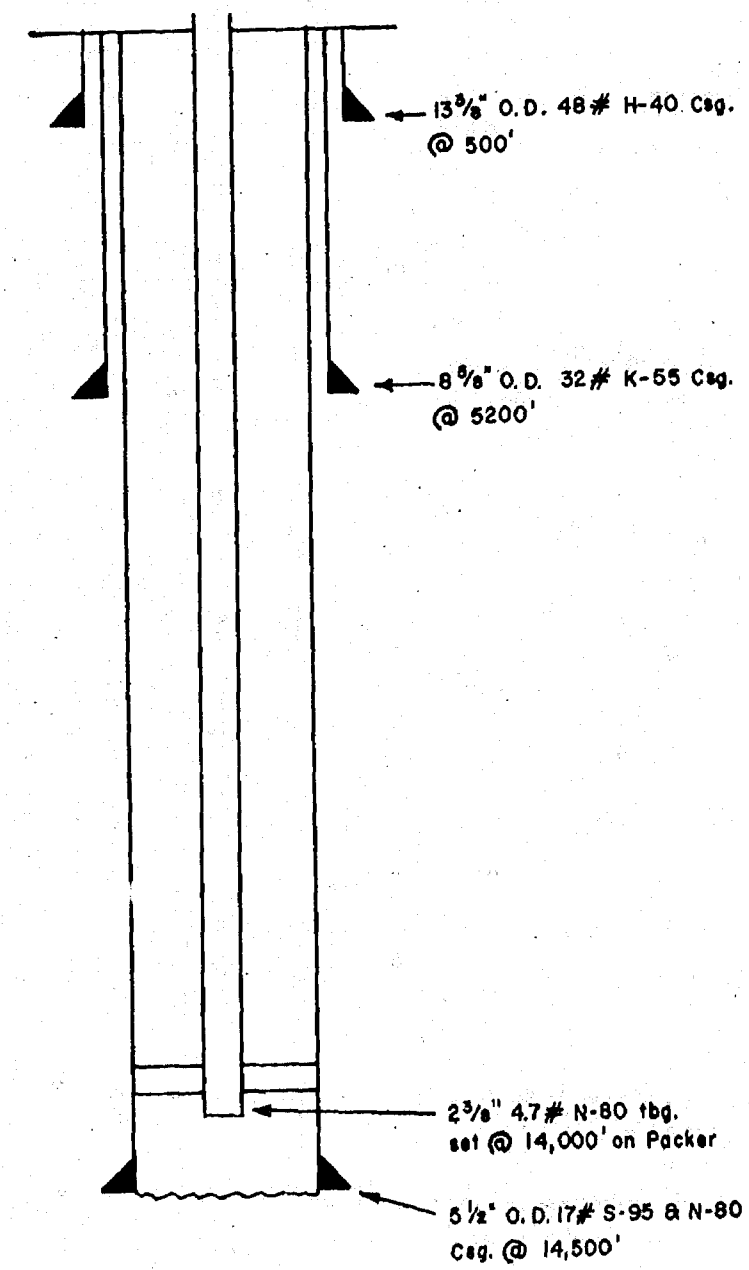
R. C. Anderson

AREA PRODUCTION MANAGER

*SCHEMATIC DIAGRAM*

# DUNCAN-FEDERAL COM. NO. 1

4650' FSL & 660' FEL
UNIT I, SEC. 6, T21S, R32E
SALT LAKE, SOUTH-MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO




Gulf Exhibit 3
Case 6612
Date 8-7-79
Gulf Oil Corporation

cum for pool 26.49 BCF

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH-MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT _____
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

| | BELCO PETROLEUM | | GRACE PETROLEUM CORP. (RIAL OIL COMPANY) | | | |
|---|---|---|---|---|---|---|
| | Bass | Bass Federal Com. | Federal C | Federal D | Felmont Federal | New Mexi |
| | 1F3020S33E | 2P3020S33E | 1Q421S32E | 1N421S32E | 1P2520S32E | 1K521S32 |
| | Llano, El Paso Nat'l | Llano, El Paso Nat'l | Gas Co. of N.M. | Gas Co. of N.M. | Gas Co. of N.M. | Gas Co. |
| 1978 | | | | | | |
| JAN | 90,550 | 18,019 | 89,317 | 30,562 | | |
| FEB | 78,204 | 9,930 | 102,992 | 40,539 | | |
| MAR | 90,602 | 12,480 | 75,274 | 56,196 | | |
| APR | 85,884 | 13,739 | 90,085 | 61,613 | | |
| MAY | 85,174 | 8,300 | 33,851 | 21,237 | | |
| JUN | 76,495 | 11,930 | 75,033 | 49,976 | | |
| JUL | 83,042 | 11,197 | 78,683 | 58,677 | | |
| AUG | 93,225 | 15,441 | 77,004 | 5 ,110 | | |
| SEPT | 92,323 | 13,660 | 76,952 | 47,840 | 87,457 | |
| OCT | 97,450 | 13,756 | 49,422 | 31,656 | 149,943 | |
| NOV | 89,991 | 12,472 | 15,379 | 3,132 | 73,080 | |
| DEC | 82,108 | 11,586 | 110,930 | 28,541 | 143,490 | |
| ANNUAL | 1,045,048 | 152,510 | 874,992 | 481,079 | 453,970 | |
| CUMULATIVE | 6,078,812 | 972,855 | 1,789,150 | 773,838 | 453,970 | |
| 1979 | | | | | | |
| JAN | 79,326 | 11,458 | 114,277 | 33,739 | 136,140 | |
| FEB | 70,710 | 8,761 | 109,209 | 31,725 | 126,827 | 8 |
| MAR | 88,213 | 11,989 | 62,470 | 30,076 | 100,275 | 5 |
| APR | 83,019 | 13,201 | 9,388 | 14,002 | 87,489 | 2 |
| YEAR TO DATE | 321,268 | 45,409 | 295,344 | 109,542 | 450,731 | 16 |
| DAILY AVERAGE | 2,723 | 388 | 3,558 | 1,085 | 4,212 | |
| CUMULATIVE (5-1-79) | 6,400,080 | 1,018,264 | 2,084,494 | 883,380 | 904,701 | 16 |

Gulf Ex 4

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH-MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT _____
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

cum for pool
26.49 BCF

| CO PETROLEUM | | GRACE PETROLEUM CORP. (RIAL OIL COMPANY) | | | |
|---|---|---|---|---|---|
| | Bass Federal Com. 2P3020S33E | Federal C 1Q421S32E | Federal D 1N421S32E | Felmont Federal 1P2520S32E | New Mexico Federal F Com. 1K521S32E |
| Nat'l | Llano, El Paso Nat'l | Gas Co. of N.M. | Gas Co. of N.M. | Gas Co. of N.M. | Gas Co. of N.M. |
| | 18,019 | 89,317 | 30,562 | | |
| | 9,930 | 102,992 | 40,539 | | |
| | 12,480 | 75,274 | 56,196 | | |
| | 13,739 | 90,085 | 61,613 | | |
| | 8,300 | 33,851 | 21,237 | | |
| | 11,930 | 75,033 | 49,976 | | |
| | 11,197 | 78,683 | 58,677 | | |
| | 15,441 | 77,004 | 5 ,110 | | |
| | 13,660 | 76,952 | 47,840 | 87,457 | |
| | 13,756 | 49,422 | 31,656 | 149,943 | |
| | 12,472 | 15,379 | 3,132 | 73,080 | |
| | 11,586 | 110,930 | 28,541 | 143,490 | |
| | 152,510 | 874,992 | 481,079 | 453,970 | |
| | 972,855 | 1,789,150 | 773,838 | 453,970 | |
| | 11,458 | 114,277 | 33,739 | 136,140 | 48 |
| | 8,761 | 109,209 | 31,725 | 126,827 | 80,001 |
| | 11,989 | 62,470 | 30,076 | 100,275 | 57,259 |
| | 13,201 | 9,388 | 14,002 | 87,489 | 27,845 |
| | 45,409 | 295,344 | 109,542 | 450,731 | 165,153 |
| | 388 | 3,558 | 1,085 | 4,212 | 2,202 |
| | 1,018,264 | 2,084,494 | 883,380 | 904,701 | 165,153 |

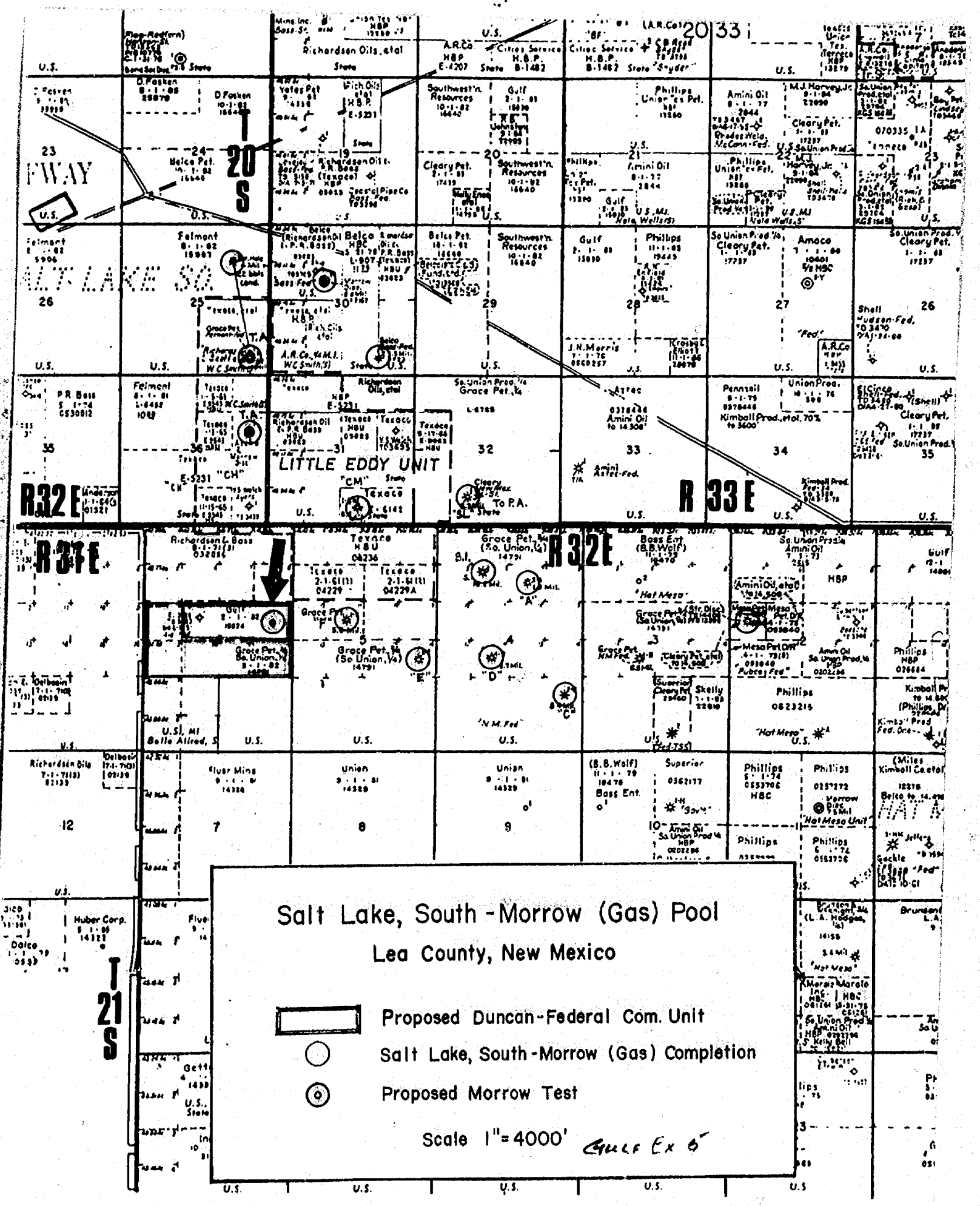
Gulf Ex 4

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH - MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT _____
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

| | GRACE PETROLEUM CORPORATION (RIAL OIL COMPANY) | | | TEXACO INCORPOR |
|---|---|---|---|---|
| | NEW MEXICO A FEDERAL<br>2G 421S32E<br>Gas Co. of N.M. | NEW MEXICO E FEDERAL COM.<br>1P 521S32E<br>Gas Co. of N.M. | PUBCO FEDERAL<br>1L221S32E<br>Gas Co. of N.M. | LITTLE EDDY UNIT<br>AUDIE RICHARDS<br>1P 2520S32E<br>Texaco |
| 1978 | | | | |
| JAN | | 57,146 | 9,894 | 1,138 |
| FEB | | 84,378 | 8,270 | 1,482 |
| MAR | | 59,052 | 8,165 | - - - |
| APR | | 58,869 | 8,385 | 609 |
| MAY | | 21,430 | 7,991 | 245 |
| JUN | | 78,635 | 7,715 | 770 |
| JUL | | 603 | 7,691 | 241 |
| AUG | 34,044 | 60,632 | 7,253 | 599 |
| SEPT | 29,894 | 62,649 | 6,550 | 775 |
| OCT | 22,283 | 66,432 | 7,777 | - - - |
| NOV | 9,064 | 64,278 | 7,641 | 64 |
| DEC | 22,798 | 50,045 | 7,566 | - - - |
| ANNUAL | 118,083 | 664,149 | 94,918 | 5,923 |
| CUMULATIVE | 118,083 | 1,035,719 | 755,577 | 2,290,735 |
| 1979 | | | | |
| JAN | 19,985 | 59,007 | 6,469 | - - - |
| FEB | 16,938 | 48,269 | 6,662 | - - - |
| MAR | 13,304 | 48,035 | 4,948 | - - - |
| APR | 10,501 | 41,114 | 4,875 | TA |
| YEAR TO DATE | 225,881 | 196,425 | 22,954 | - - - |
| DAILY AVERAGE | 2,236 | 1,889 | 261 | - - - |
| CUMULATIVE (5-1-79) | 343,964 | 1,232,144 | 778,531 | 2,290,735 |

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH - MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT _____
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

| RACE PETROLEUM CORPORATION (RIAL OIL COMPANY) | | | TEXACO INCORPORATED | |
|---|---|---|---|---|
| A FEDERAL | NEW MEXICO E FEDERAL COM. | PUBCO FEDERAL | LITTLE EDDY UNIT | LITTLE EDDY UNIT |
| | 1P 521S32E | 1L221S32E | AUDIE RICHARDS | CM STATE |
| N.M. | Gas Co. of N.M. | Gas Co. of N.M. | 1P 2520S32E | 10 3120S33E |
| | | | Texaco | Texaco |
| 57,146 | 9,894 | 1,138 | 27,516 | |
| 84,378 | 8,270 | 1,482 | 1,735 | |
| 59,052 | 8,165 | - - - | 12,750 | |
| 58,869 | 8,385 | 609 | 28,317 | |
| 21,430 | 7,991 | 245 | 34,610 | |
| 78,635 | 7,715 | 770 | 33,861 | |
| 603 | 7,691 | 241 | 20,461 | |
| 4 60,632 | 7,253 | 599 | 24,854 | |
| 4 62,649 | 6,550 | 775 | 35,138 | |
| 3 66,432 | 7,777 | - - - | 34,607 | |
| 4 64,278 | 7,641 | 64 | 26,776 | |
| 8 50,045 | 7,566 | - - - | 29,112 | |
| 3 664,149 | 94,918 | 5,923 | 309,737 | |
| 3 1,035,719 | 755,577 | 2,290,735 | 7,313,141 | |
| 59,007 | 6,469 | - - - | 12,418 | |
| 48,269 | 6,662 | - - - | 28,701 | |
| 48,035 | 4,948 | - - - | 21,729 | |
| 41,114 | 4,875 | TA | 18,205 | |
| 196,425 | 22,954 | - - - | 81,503 | |
| 1,889 | 261 | - - - | 679 | |
| 1,232,144 | 778,531 | 2,290,735 | 7,394,194 | |


T 20 S
T 21 S
R 32 E
R 33 E
R 31 E
LITTLE EDDY UNIT
"CH"
"CM"
Salt Lake, South - Morrow (Gas) Pool
Lea County, New Mexico
Proposed Duncan-Federal Com. Unit
Salt Lake, South-Morrow (Gas) Completion
Proposed Morrow Test
Scale 1"=4000'
GULF Ex 6

CASE 6612
Gulf EXHIBIT 7

GULF OIL CORPORATION
SALT LAKE MORROW, SOUTH (GAS) POOL
LEA COUNTY, NEW MEXICO

STRUCTURE: TOP MID-MORROW SHALE
C.I. 100'
MAP SCALE: 1"=4000'

MORROW PRODUCERS

GULF LEASE

T-21-S — R-32-E

Jason Kellahin
W. Thomas Kellahin
Karen Aubrey

KELLAHIN and KELLAHIN
*Attorneys at Law*
500 Don Gaspar Avenue
Post Office Box 1769
Santa Fe, New Mexico 87501

RECEIVED
JUL 12 1979
OIL CONSERVATION DIVISION
SANTA FE

July 10, 1979

Telephone 982-4285
Area Code 505

Mr. Joe Ramey
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Gulf Compulsory Pooling Application

Dear Joe:

In accordance with our conversation on July 9, 1979, please find enclosed Gulf's Application for a full Commission hearing for compulsory pooling of a portion of Section 6, T21S, R32E, NMPM, Lea County, New Mexico.

We would require that this application be consolidated with that of Grace Petroleum Corporation and that both cases be heard on the same date.

Very truly yours,

W. Thomas Kellahin

CC: Mr. Terry Cross
Mr. Conrad Coffield

WTK:kfm

Enclosure

RECEIVED
JUL 12 1979
OIL CONSERVATION DIVISION
SANTA FE

STATE OF NEW MEXICO

DEPARTMENT OF ENERGY AND MINERALS

OIL CONSERVATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF GULF OIL CORPORATION FOR
COMPULSORY POOLING AND AN UNORTHODOX
WELL LOCATION, LEA COUNTY NEW MEXICO

Case 6612

## APPLICATION FOR COMMISSION HEARING

Comes now, Gulf Oil Corporation, by and through their attorneys, Kellahin & Kellahin, and apply to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interest in and under Lots 9 through 16, Section 6, T21S, R32E, N.M.P.M., Lea County, New Mexico for an unrothodox well location 4650 feet from the South line and 660 feet from the East line of said Section and in support thereof would show the Commission:

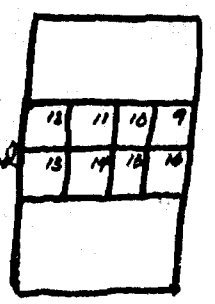
1. Applicant is an owner of a right to drill and develop Lots 9, 10, and 11, Section 6, T21S, R32E, NMPM.

2. That said Section 6 contains some 960 acres, more or less and is all federal acreage.

3. Applicant desires to drill a Morrow test 4650 feet from the South Line and 660 feet from the East Line of said Section.

4. Applicant proposes to dedicate the above described acreage which consists of 320 acres, more or less and would be the center proration unit if the subject section is divided into three equal proration units, rectangular in shape with the long side of the rectangle running East and West.

Lots 14,15, & 16: Brace & Superon
Lot 12: Walter Duncan (may have expired and now be unleased Fed land
Lot 13: Unleased Fed land
Lots 9,10, & 11: Gulf



5. A certain portion of Section 6 is in an area declared to be known potash. The proposed location would avoid the drilling of a well within the potash area boundary.

6. Applicant believes that this matter will be contested and that a Full Commission Hearing will be sought by either party in this case.

7. To the best of Applicant's knowledge the ownership of the subject proration unit is as follows:

| | | |
|---|---|---|
| (a) | Grace Petroleum Corporation<br>Supron | Lots 14, 15 & 16 |
| (b) | * Walter Duncan | Lot 12 |
| | *The Duncan lease of this tract may have expired and now be unleased federal acreage. | |
| (c) | United States<br>Unleased federal acreage | Lot 13 |
| (d) | Gulf | Lots 9, 10 & 11 |

8. The pooling of all interest in Lots 9 through 16 of Sec. 6 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

WHEREFORE, Applicant respectfully requests that the Commission set this matter for hearing before the Full Commission and that after notice and hearing as required by law, the Commission enter its order pooling all interest underlying the proration described above, designating the Applicant to recover its costs out of production including a risk factor to be determined by the Commission and with provision for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear and for approval of the

unorthodox well location as described.

Respectfully submitted,

GULF OIL CORPORATION

By _____

Kellahin & Kellahin
P. O. Box 1769
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

RECEIVED
JUL 12 1979
OIL CONSERVATION DIVISION
SANTA FE

STATE OF NEW MEXICO

DEPARTMENT OF ENERGY AND MINERALS

OIL CONSERVATION COMMISSION

Case 6612

IN THE MATTER OF THE APPLICATION
OF GULF OIL CORPORATION FOR
COMPULSORY POOLING AND AN UNORTHODOX
WELL LOCATION, LEA COUNTY NEW MEXICO

APPLICATION FOR COMMISSION HEARING

Comes now, Gulf Oil Corporation, by and through their attorneys, Kellahin & Kellahin, and apply to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interest in and under Lots 9 through 16, Section 6, T21S, R32E, N.M.P.M., Lea County, New Mexico for an unrothodox well location 4650 feet from the South line and 660 feet from the East line of said Section and in support thereof would show the Commission:

1. Applicant is an owner of a right to drill and develop Lots 9, 10, and 11, Section 6, T21S, R32E, NMPM.

2. That said Section 6 contains some 960 acres, more or less and is all federal acreage.

3. Applicant desires to drill a Morrow test 4650 feet from the South Line and 660 feet from the East Line of said Section.

4. Applicant proposes to dedicate the above described acreage which consists of 320 acres, more or less and would be the center proration unit if the subject section is divided into three equal proration units, rectangular in shape with the long side of the rectangle running East and West.

5. A certain portion of Section 6 is in an area declared to be known potash. The proposed location would avoid the drilling of a well within the potash area boundary.

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| | | |
|---|---|---|
| (a) | Grace Petroleum Corporation<br>Supron | Lots 14, 15 & 16 |
| (b) | * Walter Duncan | Lot 12 |
| | *The Duncan lease of this tract may have expired and now be unleased federal acreage. | |
| (c) | United States<br>Unleased federal acreage | Lot 13 |
| (d) | Gulf | Lots 9, 10 & 11 |

8. The pooling of all interest in Lots 9 through 16 of Sec. 6 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

WHEREFORE, Applicant respectfully requests that the Commission set this matter for hearing before the Full Commission and that after notice and hearing as required by law, the Commission enter its order pooling all interest underlying the proration described above, designating the Applicant to recover its costs out of production including a risk factor to be determined by the Commission and with provision for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear and for approval of the

unorthodox well location as described.

Respectfully submitted,

GULF OIL CORPORATION

By _____
Kellahin & Kellahin
P. O. Box 1769
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

RECEIVED
JUL 12 1979
OIL CONSERVATION DIVISION
SANTA FE

STATE OF NEW MEXICO

DEPARTMENT OF ENERGY AND MINERALS

OIL CONSERVATION COMMISSION

Case 6612

IN THE MATTER OF THE APPLICATION
OF GULF OIL CORPORATION FOR
COMPULSORY POOLING AND AN UNORTHODOX
WELL LOCATION, LEA COUNTY NEW MEXICO

## APPLICATION FOR COMMISSION HEARING

Comes now, Gulf Oil Corporation, by and through their attorneys, Kellahin & Kellahin, and apply to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interest in and under Lots 9 through 16, Section 6, T21S, R32E, N.M.P.M., Lea County, New Mexico for an unrothodox well location 4650 feet from the South line and 660 feet from the East line of said Section and in support thereof would show the Commission:

1. Applicant is an owner of a right to drill and develop Lots 9, 10, and 11, Section 6, T21S, R32E, NMPM.

2. That said Section 6 contains some 960 acres, more or less and is all federal acreage.

3. Applicant desires to drill a Morrow test 4650 feet from the South Line and 660 feet from the East Line of said Section.

4. Applicant proposes to dedicate the above described acreage which consists of 320 acres, more or less and would be the center proration unit if the subject section is divided into three equal proration units, rectangular in shape with the long side of the rectangle running East and West.

5. A certain portion of Section 6 is in an area declared to be known potash. The proposed location would avoid the drilling of a well within the potash area boundary.

6. Applicant believes that this matter will be contested and that a Full Commission Hearing will be sought by either party in this case.

7. To the best of Applicant's knowledge the ownership of the subject proration unit is as follows:

| | | |
|---|---|---|
| (a) | Grace Petroleum Corporation<br>Supron | Lots 14, 15 & 16 |
| (b) | * Walter Duncan | Lot 12 |
| | *The Duncan lease of this tract may have expired and now be unleased federal acreage. | |
| (c) | United States<br>Unleased federal acreage | Lot 13 |
| (d) | Gulf | Lots 9, 10 & 11 |

8. The pooling of all interest in Lots 9 through 16 of Sec. 6 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

WHEREFORE, Applicant respectfully requests that the Commission set this matter for hearing before the Full Commission and that after notice and hearing as required by law, the Commission enter its order pooling all interest underlying the proration described above, designating the Applicant to recover its costs out of production including a risk factor to be determined by the Commission and with provision for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear and for approval of the

unorthodox well location as described.

Respectfully submitted,

GULF OIL CORPORATION

By _____
Kellahin & Kellahin
P. O. Box 1769
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASES NOS. 6590 AND 6612
Order No. R-6158

APPLICATION OF GRACE PETROLEUM CORPORATION
FOR COMPULSORY POOLING AND AN UNORTHODOX
GAS WELL LOCATION, LEA COUNTY, NEW MEXICO.

APPLICATION OF GULF OIL CORPORATION FOR
COMPULSORY POOLING AND AN UNORTHODOX GAS
WELL LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 7, 1979, at Santa Fe, New Mexico, before the New Mexico Oil Conservation Commission, hereinafter referred to as the "Commission."

NOW, on this 26th day of October, 1979, the Commission, a quorum being present, having considered the testimony, the record, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That in Case No. 6590, the applicant, Grace Petroleum Corporation, seeks an order pooling all mineral interests in the Morrow formation underlying Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico.

(3) That in Case No. 6612, the applicant, Gulf Oil Corporation, seeks an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico.

(4) That each applicant, Grace Petroleum Corporation and Gulf Oil Corporation, seeks to be named the operator of the unit each seeks to have pooled.

(5) That each applicant further seeks authority to drill a well at an unorthodox gas well location 4650 feet from the South line and 660 feet from the East line of said Section 6.

(6) That Cases Nos. 6590 and 6612 were consolidated for purpose of hearing and should be consolidated for purpose of issuing an order inasmuch as the cases involve certain common acreage and the granting of one application would necessarily require the concomitant denial of the other.

(7) That there was no objection to the unorthodox location proposed by both applicants, and said location should be approved.

(8) That Grace Petroleum Corporation has the right to drill and proposes to drill a well on its proposed unit to test the Morrow formation underlying said unit.

(9) That Gulf Oil Corporation has the right to drill and proposes to drill a well on its proposed unit to test the Morrow formation underlying said unit.

(10) That there are interest owners in both proposed proration units who have not agreed to pool their interests.

(11) That the approval of the proration unit proposed to be pooled by Grace would include only lands which are presently under lease, and would result in a unit with the following working interest ownership:

| | Acres | Percentage |
|---|---|---|
| Grace et al | 240.00 | 75.00 |
| Gulf | 80.00 | 25.00 |
| Total | 320.00 | 100.00 |

(12) That the approval of the proration unit proposed to be pooled by Gulf would include two unleased Federally-owned lots, being Lots 12 and 13 of Section 6, and would result in a unit with the following present working interest ownership:

| | Acres | Percentage |
|---|---|---|
| Gulf | 120.00 | 36.85164 |
| Grace et al | 120.00 | 36.85164 |
| Unleased | 85.63 | 26.29672 |
| Total | 325.63 | 100.00000 |

(13) That according to the testimony, there would be no appreciable delay in which the unit well would be drilled, should the proposed Grace unit be approved.

(14) That according to the testimony, considerable uncertainty exists as to the time frame in which the unit well would be drilled, should the proposed Gulf unit be approved.

(15) That under the circumstances, it would appear appropriate for the Commission to consider, among other things, the three following factors in deciding which of the two applicants should prevail in this cause:

(1) precedence of application

(2) immediacy of drilling plans for the unit well

(3) experience in drilling operations and well completions in the immediate area

(16) That the Grace application for compulsory pooling was received by the Division on June 11, 1979, and the Gulf application for compulsory pooling was received by the Division on July 12, 1979.

(17) That Grace has immediate plans for drilling the proposed unit well, whereas Gulf has no immediate plans for drilling the proposed unit well.

(18) That Grace has successfully drilled about ten wells in the immediate area, whereas Gulf has drilled no wells in the immediate area.

(19) That the evidence indicates that Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, can be efficiently and economically drained and developed by a well drilled at the unorthodox location described in Finding No. (5) above.

(20) That considering all aspects of the subject cause, it appears to the Commission that the application of Grace Petroleum Corporation in Case No. 6590 should have preference over the application of Gulf Oil Corporation in Case No. 6612.

(21) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas

in said pool, the application of Grace Petroleum Corporation should be approved by pooling all mineral interests, whatever they may be, in the Morrow formation underlying Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at the proposed unorthodox location for said unit.

(22) That the application of Gulf Oil Corporation for an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, Lea County, New Mexico, should be denied.

(23) That the applicant, Grace Petroleum Corporation, should be designated the operator of the subject well and unit.

(24) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(25) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(26) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(27) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(28) That $2672.00 per month while drilling and $373.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(29) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(30) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That Cases Nos. 6590 and 6612 are hereby consolidated into one cause for entry of order.

(2) That all mineral interests, whatever they may be, in the Morrow formation underlying Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 4650 feet from the South line and 660 feet from the East line of said Section 6.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of February, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of February, 1980, Order (2) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (2) of this order should not be rescinded.

(3) That Grace Petroleum Corporation is hereby designated the operator of the subject well and unit.

(4) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that 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 said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of

estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(9) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(10) That $2672.00 per month while drilling and $373.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) That any unsevered 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 the terms of this order.

(12) That any well costs or charges which 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.

(13) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

IT IS FURTHER ORDERED:

(1) That the application of Gulf Oil Corporation for an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at a point 4650 feet from the South line and 660 feet from the East line of said Section 6 is hereby denied.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

ALEX J. ARMIJO, Member

EMERY C. ARNOLD, Member

JOE D. RAMEY, Member & Secretary

S E A L

fd/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico
7 August 1979

COMMISSION HEARING

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| | | |
|---|---|---|
| IN THE MATTER OF: | ) | |
| Application of Grace Petroleum Corporation for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico. | ) | CASE 6590 |
| and | ) | |
| Application of Gulf Oil Corporation for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico. | ) | CASE 6612 |

---

BEFORE: Commissioner Ramey
Commissioner Arnold

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Commission: Ernest L. Padilla, Esq.
Legal Counsel for the Commission
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Santa Fe, New Mexico 87503

For the Grace Petroleum Corporation: Conrad E. Coffield, Esq.
HINKLE, COX, EATON, COFFIELD & HENSLEY
Midland, Texas

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A P P E A R A N C E S

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NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date AUGUST 7, 1979 Time: 9:00 A.M.

| NAME | REPRESENTING | LOCATION |
|---|---|---|
| Conrad E. Coffield | Amerada Hess Corp | Midland |
| William F. Kenny | Grace Petr Corp | Midland |
| Charles F. Kalteyer | Gulf Oil Corp | Midland |
| J. D. LaGarde | " " " | Hobbs |
| Don W. Erickson | Sinclair Petroleum Corp | OKC, OK |
| William M. Brown | Superior Oil Corp. | Dallas, Tx. |
| Mary Douglas | Grace Pet. Corp. | Midland, Texas |
| W. Kellahin | Kellahin & Kellahin | Santa Fe |
| R. Huber | Capitol Observer | Santa Fe |
| Nancy Kearns | Cactus Four Corners Inc | Farmington |
| Les Clements | N.M.O.C.D. | HOBBS, N.M. |

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MR. RAMEY: Call Case 6590.

MR. COFFIELD: Conrad Coffield, with the Hinkle Law Firm in Midland, Texas, appearing on behalf of the applicant, and I have two witnesses.

MR. RAMEY: Let us get the case called first, Conrad.

MR. COFFIELD: Excuse me.

MR. PADILLA: This is the application of Grace Petroleum Corporation for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico.

MR. RAMEY: Is there any objection to combining these two cases, 6590 and 6612?

MR. KELLAHIN: No objection.

MR. COFFIELD: No objection.

MR. RAMEY: We'll call Case 6612.

MR. PADILLA: Application of Gulf Oil Corporation for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico.

MR. RAMEY: Now I'll ask for appearances.

MR. COFFIELD: Conrad Coffield with the Hinkle Law Firm of Midland, Texas, appearing on behalf of the applicant in Case 6590. I have two witnesses.

MR. RAMEY: Okay.

MR. KELLAHIN: Tom Kellahin of Santa Fe, New Mexico, appearing on behalf of Gulf Oil Corporation, and

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I have two witnesses.

MR. RAMEY: Any other appearances? Ask that all the witnesses stand at this time and be sworn.

(Witnesses sworn.)

MR. RAMEY: Mr. Coffield, you may proceed.

MR. COFFIELD: All right.

DON W. ERICKSON

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. COFFIELD:

Q. Mr. Erickson, would you please state your name, occupation, address, and employer?

A. My name is Don Erickson. I'm a District Landman for Grace Petroleum in Oklahoma City, and they're located at 6501 North Broadway.

Q. Mr. Erickson, have you previously testified before the Oil Conservation Commission as a landman?

A. No, I have not.

Q. And would you please give the Commission a brief resume of your educational background and your work

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experience as a landman?

A. All right. I graduated from the University of Tulsa with a Bachelor of Science in Business Administration and with a Masters degree in Business Administration.

I also attended the University of Tulsa Law School for sixteen hours of law.

I am presently a District Landman with Grace Petroleum; have been a landman, a district landman two years for them this August. I handle the western part of Texas and the southeastern part of New Mexico, Michigan, and miscellaneous states when we have activity in those states.

Prior to that I was in Houston, Texas. I was a landman for Ada Resources, a staff landman for McCormick Oil and Gas Corporation and a landman for Trans-Ocean Oil, and prior to that I was in Tulsa, Oklahoma with Amerada Hess Corporation and I spent approximately eight years in the land department in the Tulsa office.

Q. All right, Mr. Erickson, are you familiar with Grace's application in this case, 6590?

A. Yes, I am.

Q. Are you familiar with the land ownership and the history of negotiations on the drilling of the well proposed in this project?

A. Yes, sir, I am.

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MR. COFFIELD: Mr. Chairman, is the witness considered qualified?

MR. RAMEY: We consider the witness qualified.

Q. (Mr. Coffield continuing.) Mr. Erickson, would you please state briefly what Grace Petroleum Corporation seeks in this application?

A. Yes, sir. Well, Grace seeks to compulsory pool and also we request an unorthodox gas well location for Lots 9, 10, 15, and 16 in the southeast quarter of Section 6, 21 South, 32 East, and that acreage is to be dedicated to the well to be drilled at the unorthodox location of 4650 feet from the south line and 660 feet from the east line of Section 6.

We also would like to have considered the cost of drilling and completing said well and the allocation of the cost thereof, as well as actual operating costs and charges of supervision.

Also, we would like a designation as operator of the well and a charge for risk involved in drilling said well.

Q. All right, Mr. Erickson, please refer to what we've marked as Grace's Exhibit Number One, and explain this to the Commission.

A. Number One is the 320-acre communitized

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area. The well is located in Lot 9; that's a red circle, and next to it is Lot 10; below that is 15 and 16 and then the southeast quarter of Section 6, 21 South, 32 East, NMPM, Lea County, New Mexico.

Q. And is this a land plat of the general area?

A. This is a land plat of the general area, yes, it is.

It was prepared by Mr. Bill Henry, Grace's consultant.

Q. Okay. Would you go on now to what has been marked as Exhibit Two and explain that to the Commission?

A. Exhibit Two is the presentation of the proposed unit to Gulf, as well as Supron Energy, the important correspondence which I've had with both companies, their replies, decisions which have been made. It also contains the title opinion, the communitized agreement, operating agreement, and the AFE, and some miscellaneous information which shows the interest of the prospective partners in the unit.

Q. All right, Mr. Erickson, with reference both to Exhibit One in connection with ownership of the land, and with reference, also, to Exhibit Two, as needed, would you please give a general discussion of the history of negotiations in this connection?

A. Well, I first -- Grace first proposed the

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well July 17th, 1978, or the unit, and at that time when I first sent a letter to Gulf and Supron Energy, we had suggested that the "G" unit be comprised of Lots 8, 9, 15, and 16 in the southeast quarter of Section 6, 21 South, 32 East.

But that was changed immediately by our District Manager in Midland, Mr. Max Douglas, and I sent another letter July 21st, 1978, to Gulf Energy and Supron Energy Corporation proposing that the unit be comprised of Lots 9, 10, 15 and 16 in the southeast quarter of Section 6, 21 South, 32 East, Lea County, New Mexico.

On July 28th I sent both Gulf and Supron the first AFE and Supron replied July 26, '78 and said that they would like to see production from our "F" well, which is in Section 5 in the same -- on the same lease and they have the same ownership as they have in the proposed "G".

On August 10th I received Gulf's first reply, and this was in 1978, and it was from Mr. R. E. Griffith, and they also stated that they wanted to see the outcome of our New Mexico Federal F-1 Well before making a decision.

On October 19th, 1978 I furnished Supron Energy and Gulf Oil Exploration with the operating agreement and another copy of the AFE.

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On October 19th, 1978, I had previously sent before this date the communitization agreement to the U. S. Geological Survey for preliminary approval, and in October, 1978 they returned it to me with their cover letter stating that, except for one small insertion, that it appeared to agree with their records and their ownership.

On November 3rd, after I'd received this preliminarily approved copy from the USGS, I sent a copy to Supron and Gulf Oil Exploration. This was in 1978.

In December 8, 1978 Bill Curtis, Manager of Land for Supron Energy, returned an executed copy of Grace's AFE.

January 4th, 1979 Mr. William Brown, the landman with Supron Energy, suggested that they would possibly execute the operating agreement, but they would like to have certain minor changes made.

MR. NUTTER: Mr. Erickson, excuse me.

A. Yes.

MR. NUTTER: We're talking about Lots 9, 10, 15, 16, and the southeast quarter --

A. Southeast quarter.

MR. NUTTER: -- of the section. Now, would you explain what interest Gulf has in that and --

A. All right.

MR. NUTTER: -- what interest Supron has,

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and also --

A. Okay.

MR. NUTTER: -- Grace?

A. Okay. Gulf has 100 percent interest in Lots 9 and 10.

MR. NUTTER: Okay.

A. And Supron Energy has an undivided 25 percent interest and Grace has an undivided 75 percent interest in Lots 15, 16, and the southeast quarter.

MR. NUTTER: So Supron has a 25 percent interest in the lands that are shaded yellow on Exhibit One. Grace has a 75 percent interest in those lands.

A. That's right.

MR. NUTTER: And Gulf has a 100 percent working interest ownership --

A. That's right, in the --

MR. NUTTER: -- in the white acreage.

A. In the white, that's right.

MR. NUTTER: Okay, thank you.

A. On January 15th, 1979 Supron Energy returned to Grace Petroleum the executed communitization agreement.

On March 7th, 1979 I recontacted Gulf, and I might say that I've had a number of phone conversations with them, also, which I have not recorded the dates

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of my conversations, but this letter of March 7, '79 I asked them to consider executing or joining in the unit.

March 28th, 1979 our reservoir engineer, Mike Rice, supplied Gulf with production information from our "F" Well, which they had previously requested.

April 19th, 1979 Gulf, Mr. Griffith, proposed an irregularly shaped unit comprised of -- to include Gulf's Lot 8 and to admit the southwest quarter southeast quarter of Section 6 of our acreage.

I countered with the letter of May 16th, 1979, stating that Grace did not agree to that but suggested that possibly we could add Lot 8 and keep the Lots 9, 10, 15, 16, and the southeast quarter. That would make a 360-acre irregular unit, also.

I replied June 4th, 1979 to Supron concerning the changes in the operating agreement, stating that I did not want to make any change until I heard from Gulf because I felt possibly that Gulf would make some changes if they joined the unit.

On June 15th I submitted to Supron Energy Corporation Gulf's suggestion that, or my suggestion, that we'd have a 360-acre nonstandard unit, and I also suggested that Gulf would assign all of its interest in Lot 8 and that we would assign additional acreage out of our interest to bring their interest up to 33-1/3 percent from a 25 percent.

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It was going to be an exchange. This letter basically concerns an exchange of acreage, so Gulf would have a greater interest and our interest would be slightly decreased.

Grace would have a total of 50 percent instead of 56.25 percent and Supron would have 16.67 percent instead of 18.75 percent and Gulf, instead of 25 percent would have 33.33 percent.

Gulf agreed to the swap by Mr. Griffith's letter of June 28th, 1979.

I had talked to Mr. William Brown of Supron about the acreage swap, and Supron called me on July 3rd, 1979 to say that Supron does not want to swap acreage with Gulf in order to give Gulf the greater interest in the captioned unit and that Supron wants Grace to proceed with the forced pooling action that we had talked about.

And that's where we stand today.

Q And so far as you can tell from your contacts with Gulf, Mr. Erickson, the matter has come to a standstill, or is it your opinion that the chances are slim or nil of being able to agree with Gulf in --

A. I don't think we could reach an agreement.

Q Mr. Erickson, go on to what we've marked as Exhibit Three and identify that, please, and tell us what that --

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A. Exhibit Three is concerned with five overriding royalty interests under Gulf's lots 9 and 10. This is the Duncan family and there's five of them, and they own a total of five percent among them.

They were assigned this overriding royalty interest and it did not give permission that their override could be pooled. So I had to either request that they execute the com agreement or that they execute ratifications.

They decided to Mr. Johnson, I talked to him on the phone, and he said that they would rather actually execute a copy of the signature page instead of ratifications, and they returned their executed pages. Four of the Duncans out of the five signed on July 9th, 1979. That's when the executions were returned to me.

Now Walter Duncan the third has been incapacitated for about a year with a severe illness, and he is not able to execute anything, so that is the one overriding royalty owner which we have that has not executed this com agreement.

And they were all under Gulf's acreage.

Q. Mr. Erickson, are you familiar with the land ownership in the proration spacing configuration for which Gulf has applied?

A. Gulf has requested that Lots 9, 10, 11, 12, 13, 14, 15, and 16, Section 6, 21 South, 32 East, NMPM,

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Lea County, New Mexico, be the unit.

Lots 9, 10, and 11, I believe, are owned by Gulf. Lots 12 and 13 are unleased; they're Federal acreage, and they are in the potash area. Lots 13, 14 -- 14, 15, and 16, Supron has an undivided 25 percent interest and Grace an undivided 75 percent interest.

Q. Have you discussed the possibility of leasing the currently unleased Federal acreage with --

A. I called this last month, in July, I called the USGS in Roswell, and I called the BLM in Santa Fe, and Lois Gonzales of the BLM stated that her records indicate that 12 and 13 are unleased and that they had a notation that at present the acreage was not to be leased.

I also called the -- Mr. Bryan, who's a cartographer with the USGS in Roswell, and he looked on his plats and he also stated that it was unleased but he did not know why.

Q. Mr. Erickson, does Grace have a recommendation to make to the Commission as to administrative overhead charges which should be awarded to Grace for -- in connection with the well that Grace proposes?

A. Yes. Our present drilling rate for this depth well, of approximately 14,100 feet, would be $2,672, and our producing well rate is $373.

MR. KELLAHIN: I'm sorry, what was the

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first figure?

A. $2,672.

Q. Mr. Erickson, are these figures consistent with figures shown in the joint operating agreement reproduced in Exhibit Two?

A. No, they are not.

Q. What difference?

A. Our previous rates were $2,407 for a drilling well and for a producing well for this depth it was $336.

Q. Why have they increased?

A. Because of inflation. They were revised by memo June 11th, 1979.

Q. Are these rates then consistent with the others that you are proposing in connection with other joint operations?

A. Yes.

Q. Generally at this time?

A. Yes, sir, they are.

Q. Okay, Mr. Erickson, were these exhibits Two and Three prepared by you or under your supervision or assembled by you?

A. They were assemblied by me and my secretary.

Q. They're taken from the files --

A. The original -- the original file that I

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have --

Q. For which you're responsible.

A. -- here.

Q. And Exhibit One, would you please tell me, you said Mr. --

A. Mr. Bill Henry, who is our consultant prepared Exhibit One, but I concur with it, Exhibit One.

Q. And in your opinion is the approval of the application by Grace in this case in the interest of conservation, the protection of correlative rights, and the prevention of waste?

A. Yes, sir, it is.

MR. COFFIELD: I move the admission of Exhibits One, Two, and Three.

MR. RAMEY: Exhibits One, Two, and Three will be admitted.

MR. COFFIELD: And I have no further questions of Mr. Erickson on direct examination.

MR. RAMEY: Any questions of the witness, Mr. Kellahin?

MR. KELLAHIN: Yes, sir.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Erickson, what is the relationship

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between Cleary, I believe it's Cleary Petroleum Corporation and Grace Petroleum Corporation?

A. Grace Petroleum Corporation was formerly Cleary Petroleum Corporation. We are owned by W. R. Grace and Company, headquartered in New York City.

Q. When did that change take place?

A. Approximately a year ago. When we merged Teal Petroleum, also owned by W. R. Grace and Company in Houston, and Columbus in Denver, who was also -- which was also owned by Grace Petroleum. Three companies were -- were merged and we were the surviving corporation and our name changed to Grace Petroleum Corporation.

Q. Did you work as a landman for Cleary Petroleum Corporation?

A. Yes, sir, I did.

Q. And then when it was acquired by Grace Petroleum Corporation you continued as a landman?

A. Yes, sir, I did.

Q. For Grace Petroleum.

A. Yes.

Q. Are you aware of the R-111A area, the potash/oil area that crosses through Section 6?

A. Yes, sir, I am.

Q. Would you refer to your notes and describe for us where the boundary of the R-111A area is?

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A. Well, I think the potash area is Lots 1, 2, 3, 4, 5, 6, 7, 12, 13, 17, and 18. That is the Federal acreage.

Q. Would the potash area also include the -- what appears to be the east half of the southwest quarter, that 80-acre tract between the southeast quarter and Lots 17 and 18?

A. East half of the southeast quarter.

Q. Southwest quarter?

A. Yes, some potash acreage is in there.

Q. We've got a section consisting of 960 acres.

A. 960 acres, yes.

Q. And it appears as if this is all Federal acreage.

A. Our lease is Federal, yes, and Gulf's acreage is Federal from our title opinion.

Q. And that the section has been divided into a number of lots ---

A. Yes.

Q. -- commencing in the upper righthand corner of the section with Lot Number 1.

A. One, yes.

Q. And continuing down through Lot Number 17, which would be in the northwest quarter of the southwest

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quarter of a normal size section.

You see Lot Number 17?

A. 14, 15, 16, no, I do not see it on this plat.

Q. You've indicated that Lot 17 and 18 were in the R-111A area. Could you tell me where those lots are?

A. Okay. I have a better plat here. Okay. Lots 1 to 4 go across the top from right to left.

Q. All those are in the potash area, aren't they?

A. According to the information that I have in my file that I gathered over a year ago.

Q. Right below Lot Number 4 there is numbered the next Lot 5.

A. There's 5 --

Q. And then it goes left to right.

A. And then there's 6, 7, and 8, and then down below --

Q. All right, just a moment, let me stop you at that point.

Lots 5, 6, and 7 are in the potash area, are they not?

A. I think they are, yes, sir.

Q. And Lot Number 8 would be outside the R-111A area.

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A. I think it is, sir.

Q. All right, sir. Now, the numbering continues by dropping below Lot Number 8 with Number 9 --

A. Nine below that, yes.

Q. -- and going left to right, 9, 10, 11, and 12.

A. 10, 11, and 12.

Q. Do your records reflect that Lots 10, 11, and 12 are in the R-111A area?

A. I think that Lot -- I know that Lot 12 is.

Q. Lot Number 9 is outside the area, is it not?

A. I think it is, sir, yes.

Q. And do you have any information on Lots 10 and 11?

A. I know it's leased by Gulf Petroleum Corporation.

Q. Yes, sir, but do you know if that's inside or outside the R-111A area?

A. I think it is outside, but I cannot swear to it.

Q. All right. Now, right below Lot Number 12 they've numbered 13 and it goes --

A. 13.

Q. -- left to right, 13, 14, 15, 16.

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A. 13, 14, 15, 16, and then we drop down to the last two 40 acres, 17 and 18.

Q. All right, just a moment before you drop down.

A. Okay.

Q. Lots 13 through 16, which of those tracts are in the R-111A area?

A. 13 I know of.

Q. How about 14 and 15?

A. 15 and 16, 14 and 15, that is under lease to -- 14 and 15 is under lease to Grace Petroleum and Supron and I'm not sure whether they're in the potash area or not.

Q. Is Lot 16 in or out of the R-111A area?

A. I think it's outside of it.

Q. Now, Lot 17 is numbered below --

A. Right, Lot 13, right.

Q. -- Lot 13.

A. That's right.

Q. All right, and Lot 18 is numbered below Lot 17.

A. Lot 17, yes.

Q. Okay. Lots 17 and 18 are unleased Federal acreage.

A. Yes, that's what my records show.

Q. And both of those tracts are in the R-111A

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area?

A. I would think they would be, sir.

Q. All right.

Please look at the 80-acre tract to the east of Lots 17 and 18 and tell me who the lessee of those two tracts is.

A. The lessee is -- to the west of 17 and 18, did you say?

Q. To the east.

A. To the east of 17 and 18. The lessee is the US -- is the USA. It's a Federal lease.

Q. And who have they leased that tract to?

A. To Supron and to Grace Petroleum, who now has the interest.

Q. All right, is that 80-acre tract in or outside the R-111A area?

A. I'm not certain.

Q. Okay. Now, there is a 160-acre tract that is designated as the southeast quarter of Section 6.

A. That's correct.

Q. All that is under lease to either Grace or Supron.

A. Both of us, undivided interest.

Q. And that 160 acres is outside the R-111A area.

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A. I think it is, sir, yes.

Q. Are you familiar with the R-111A orders?

A. I have seen a few of them but I have not gone into them deeply.

Q. Do you have any knowledge of what the significance of the R-111A area is with regards to drilling of a Morrow test within that area?

A. Well, the location of the well usually cannot be located on the surface. Possibly a well could be directionally drilled.

Q. So it would appear that the specific location of the R-111A area is critically important to the location of a proration unit and the drilling of a well in the area of the R-111A.

A. Yes, sir.

Q. You mentioned that back, I believe, about October 19th of '78 in your correspondence to Gulf, you submitted them with a proposed operating agreement -- I'm sorry, I've got the date wrong. It's July 28th of '78.

A. July 28 of '78 was just a letter -- oh, July 28, I'm sorry, that's not the -- July 28th I supplied the AFE to Gulf and to Supron.

Q. Okay. The July 28th letter had attached to it Grace Petroleum Corporation's proposed AFE?

A. At that time, yes.

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Q And which AFE was that, Mr. Erickson?

A That was the AFE that was for completion costs of -- or a dry hole of $670, completion $326, for a total of $996.

Q That's the proposed AFE dated 7-10-78.

A That's correct.

Q You did not compile or prepare that?

A No, I did not. The engineering department prepared that.

Q Your exhibits show a second AFE dated 8-1-79.

A Yes, sir.

Q When did you submit that to Gulf?

A That has not been submitted to Gulf.

Q All right. I may have missed it, Mr. Erickson, but in reviewing your exhibit here, I don't see any correspondence that indicates that you advised Gulf that you were going to seek forced pooling in this case.

A I think that might have come out in one of our conversations with Mr. Griffith. I'm not sure.

Q Are you willing to swear under oath today that you advised Mr. Griffith that Grace Petroleum Corporation was in fact going to force pool this acreage?

A I think they were notified by the usual channels. I did not notify them myself.

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Q. What do you mean by the usual channels?

A. They were notified of the Examiner's Hearing on July 11th, which they requested an extension to today's date.

Q. But prior to filing the application for forced pooling, Grace Petroleum Corporation did not advise Gulf Oil Corporation that Grace was going to force pool this acreage.

A. Not to my knowledge.

Q. Mr. Erickson, I'd like to show you what I've marked as Gulf Exhibit Number Ten and ask you if you can identify -- I'm sorry, Exhibits Ten and Eleven, and ask you if you can identify that correspondence?

A. Okay. Please refer to my letter of July 17th, '78 concerning proposed captioned unit.

Yes, that's one I wrote July 21st, 1978.

Q. That letter reflects that a revised plat is attached and that is Exhibit Number Eleven is that plat?

A. To the best of my knowledge it is, yes. 9, 10, 15, and 16, yes.

MR. KELLAHIN: Move the introduction of Gulf Exhibit Number Ten.

MR. RAMEY: Gulf Exhibit Number Ten will be admitted.

Q. (Mr. Kellahin continuing.) I believe you

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told me, Mr. Erickson, that you don't have any knowledge of the preparation or changes made in the two different AFE's.

A. No, I do not do that. That's done by the production department.

Q. To your knowledge do you have a witness here today that will testify as to those costs and the preparation of the --

A. Yes, sir, we do.

Q. Now would you turn to the third document from the bottom on the righthand side of your Exhibit Number Two?

A. Well, my -- my exhibit is slightly different from that, but we'll --

Q. It is a plat, Mr. Erickson, that's attached to and been introduced.

A. Okay, is it this one right here?

Q. It's got a structure map on it. I'll be happy to show you my copy.

MR. COFFIELD: I can give him this one, Tom.

A. Yeah. Yes, I have this one here.

Q. That structure map that's attached in your Exhibit Number Two appears to be the same structure map that we introduced as Exhibit Number Eleven, is it not, Mr. Erickson?

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MR. RAMEY: Ten or Eleven, Tom?

MR. KELLAHIN: Exhibit Ten is the letter. Exhibit Eleven is the plat that was attached to the letter.

MR. RAMEY: Thank you.

A. Yes, that appears very similar.

Q. Do you have any explanation for the entry on your exhibit of that plat saying "this shape no longer considered", and a date?

A. That is for my purpose, to write a letter to Supron and to Gulf, stating that we would like to, instead of having Lot 8, that we would rather have a regular shaped unit comprised of Lots 9, 10, 15, and 16, and the southeast quarter.

Q. The DER is your initials?

A. That's mine, DWE, DE.

Q. And that makes reference simply to configuration of the proration unit?

A. That is correct.

Q. It has nothing to do with the structure map itself?

A. No, no. No, no.

Q. Mr. Erickson, did you make the selection of what acreage would ultimately be assigned to the requested proration unit?

A. No, sir, I did not.

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Q. Who made that decision?

A. Mr. Max Douglas, our geologist, in Midland, Texas.

Q. Is Mr. Douglas here available to testify today?

A. Yes, he is here today.

Q. Did you make any recommendations to Grace Petroleum Corporation about what configuration the proration unit should take in this section?

A. No, sir, I did not. I left that up to the geologists.

Q. On direct examination, Mr. Erickson, you made reference to what Grace proposes as a drilling and producing rate if the forced pooling is approved. As part of your responsibilities as a landman, Mr. Erickson, do you in the normal course of your business make those recommendations?

A. No, I do not.

This is made with accounting and engineering. They revise the rates.

Q. So you don't have any knowledge about what those figures are based?

A. No, sir, I do not.

Q. You said you indicated you talked to personnel, I think a Mrs. Lordes (sic) at the BLM in Santa Fe --

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A. Yes.

Q. -- and a gentleman in Roswell with USGS --

A. Yes, Mr. Bryan.

Q. -- in July --

A. Yes.

Q. -- with regards to the unleased Federal acreage?

A. Yes, I wanted to recheck.

Q. All right. Have you made a request of the BLM or the USGS to put up any of the unleased Federal acreage in Section 6?

A. No, sir, I have not.

Q. Did you prepare for Grace Petroleum Corporation any recommendations with regards to Gulf Oil Corporation's proposed compulsory pooling in Section 6?

A. No, sir, I did not.

MR. KELLAHIN: I have nothing else.

MR. RAMEY: Any other questions? Mr. Nutter.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Erickson, I believe you stated that you were seeking $2,672 a month fixed rate for combined fixed charges?

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A. Yes, that's our drilling -- that's our drilling amount.

Q. And what's your producing rate?

A. Producing rate is $373 as of July 11th, 1979.

Q. Well, didn't you, in your letter of June the 4th, 1979 advise Supron that the overhead rates would not be changed?

A. Yes, sir, I did.

Q. And that $2,407 and $336 were fair charges?

A. I thought since we had already put out the operating agreement I would leave it at that.

Q. Well, are you proposing that these new rates --

A. I am now proposing that the new rates be effective.

Q. Would they be applicable to Supron also?

A. Yes, sir, they would.

Q. After you told them that you wouldn't raise the rates?

A. Yes, sir.

Q. What's been their response to -- have you advised them that you were raising the rates?

A. I advised Mr. William Brown this morning.

Q. This morning?

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A Yes, sir.

MR. NUTTER: That's all. Thank you.

MR. RAMEY: Any other questions of the witness? He may be excused.

WILLIAM J. HENRY

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. COFFIELD:

Q Mr. Henry, would you please state your occupation -- your name, occupation, address, and employer?

A My name is William J. Henry. I'm a consulting geologist and I'm representing Grace Petroleum Corporation. I live in Midland, Texas.

Q Mr. Henry, have you previously testified before the Oil Conservation Commission as a geologist?

A Yes, I have.

Q And were your qualifications made a matter of record and accepted by the Commission?

A I believe so.

Q Mr. Henry, are you familiar with Grace's application in this case?

A Yes, sir, I am.

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Q. And are you familiar with the geology of the area generally and the proposed Grace well location?

A. Yes, sir, I am.

MR. COFFIELD: Mr. Chairman, is the witness considered qualified?

MR. RAMEY: He's to be considered qualified.

Q. (Mr. Coffield continiuing.) Mr. Henry, would you please refer to what's been marked as Exhibit Number Four and discuss that for the Commission, please.

A. Exhibit Four is a structure map contoured on the top of the Lower Morrow, which is a shale marker, which we feel in essence represents the structural configuration at Morrow level also.

On this map I have -- there's an Isopach, besides the contours, there's a gross Morrow sand Isopach, which I feel are reservoir quality sands. Those figures are by the well datum on each well.

This map also shows the acreage that is controlled by Grace and Supron. It also shows the R-111A potash area, as mapped by the USGS, which shows that the southwest quarter, or those two lots 17 and 18, and then the 80-acres to the east there, is in the potash area.

This -- I'll have to work with my land map, those lots get me confused. But that is the outline

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furnished by the USGS as R-111A.

Lot 8 and then I believe Lot 9 and then 15 is in the potash area, and then what's in the southwest quarter is in R-111A.

Okay, I'd like to reminisce just a little bit and go back. I started work for Teal in 1974 and have handled the development of this acreage and fields, which the Hat Mesa and South Salt Lake, as you can see, are joined.

We started out with the first well was the TSS Federal in 3, and we used subsurface information, and I'd like to also comment that we had geophysics and we've just about thrown the geophysics out on the going for Morrow gas on geophysics, so everything that we have done has been from sample examination and subsurface information.

We drilled the TSS Federal, the B-1 in 3 to the north of it. Moving west in 4 --

MR. KELLAHIN: Excuse me, Mr. Henry, I've lost track of the first well.

A. In Section 3, the TSS Federal. Move northwest of it the B-1. Then we moved to the C-1 over in 4, and we drilled the D-1 and the 2-A in 4 after the No. 1 Grace Federal was plugged and abandoned. And then we drilled the"E"to the west of that in 5, and our last well is the"F"in 5, and then we're moving to our "G" location

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over to the west of that, and we have just recently, the last year, or a year ago, completed a whipstock well to the north up in 20, 32, in Section 25, which is the Felmont Federal 1, and we are presently drilling about 3000 feet whipstock -- not in the whipstock hole yet, but to whipstock in the Felmont Federal No. 2 in Section 25, all based, wellbore based at the Texaco Audie Richards location.

Q Okay, Mr. Henry, let's go now then to Exhibit -- what we've marked as Exhibit Five, unless you have something else here.

A No, sir. I'd like to make one comment.

We ran a dipmeter in the E-1 and established that there is 6 degrees southwest dip in this particular well, and that's the only well that we have a dipmeter.

Seismic, there is a fault between our -- as shown. I don't agree that it's in the Morrow but the Devonian level possibly, and probably is, between the Audie Richards and the Texaco State in 36, drawing a line between the "D" and the "E" and just to the east of the Union Halfway Federal in 9, and where it goes from there, I don't know. It carries on probably southward and dies out, I don't know.

But we have mapped this as draping, or just dip, not faulting in the Morrow, and this is the way -- and this is our interpretation of structure of these two fields.

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Q Okay, go on now to what we've marked as Exhibit Five, Henry, and explain that exhibit to the Commission, please.

A. These are diagrammatic cross sections hung on the subsea datum of -10,000 --

MR. RAMEY: Would you start over again, Henry?

A. All right. It's a structural cross section hung on a -10,000 subsea datum, and as you notice up at the top, we've got an oolitic lime marker, which is a subsurface sample marker that I can tell where I am in the section as I drill these wells and decide how we're running, and what have you, and it is the best thing that you could -- for a geologist to find him a sample.

And then the lower structure, Lower Morrow structure marker, which I mapped on is this lower line there which is lettered.

The perforations are marked in red, and the completions, or what they would calculate open flow, are beneath each set of perforations.

And I think you can readily see the stratigraphic nature of the Morrow sands on the west flank of this structure.

I would also like to point out the erratic nature of the sand in the "E" -- the "F" well, as you can

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see by gamma ray radiation, if you're familiar with logs, the well to the left of the cross section.

That is a rule of thumb criteria that we use for thinness of sands; sometimes it works and sometimes it doesn't.

Q. Do you have anything further to add on this exhibit right now?

A. Not unless they ask me some questions.

Q. Mr. Henry, let's go on now to Exhibit Six and would you please identify that exhibit?

A. Exhibit Six is a well costs up-to-date that we have requested, by me, from Grace's Production Department in Oklahoma City, and it's got a total cost there of $1,281,000 as of this date, and they told me that, I think there are still costs coming up and this could change within two weeks or so, but this is the estimate as of today.

Q. Would this be the AFE dated August 1, 1979 --

A. Right.

Q. -- that Kellahin referred to in his prior questions?

A. I assume it is. I didn't see that.

Q. Does -- does Grace propose to be the operator of this well?

A. Yes, they do.

Q. And do you have a recommendation to make to

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the Commission relative to the risk factor to be awarded in favor of Grace in connection with this well?

A. Yes. I think that it is, as we move to the west, referring back to figure four, Exhibit Four, we have no subsurface control to the west, and every well, more or less, even development wells, are wildcats as you drill development wells in the Morrow, as most people know, and the risk of the "G" with the deterioration of the clearness of sands in the F-1, increased the risk as you move to the west.

Q. And so would you -- did you state your recommendation?

A. 200 percent penalty.

Q. The full -- you're asking for the full penalty authorized by the New Mexico statutes?

A. Right, yes, sir.

Q. Would a 200 percent penalty, then, be consistent with a 300 percent non-consent clause, which is --

A. I believe it would, yes, sir.

Q. -- found in a joint operating agreement.

A. Right.

Q. You were outlining a few minutes ago, Mr. Henry, the number of wells that have been drilled by Grace in this area, and now how many wells have been drilled by Grace?

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A. I believe there's eight completed, the ninth is drilling, and if we operate the -- we have eight completed producing wells and the ninth is the Felmont 2, which is a whipstock, and I believe this well will be the tenth, if we operate this one.

Q. How many dry holes?

A. We haven't drilled any as yet, thank God.

Q. Grace has drilled no dry holes in this particular area?

A. Not yet.

Q. This is quite a remarkable success ratio, Mr. Henry. Do you attribute this to the fact then that it's so easy to drill wells in this area and complete them as producers or --

A. No, it's not that easy. We've had a lot of luck. Of course, we look at the samples in these wells very, very critically and use a lot of expertise in where we think is the better location, where the better sands are developed, and that's where we try to drill our wells.

Q. Are you informed generally as to who the operators are in this general area?

A. Yes, sir. Yes, sir.

Q. To your knowledge does Gulf operate any of this?

A. As far as I know, Gulf does not operate

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any wells in this -- either of these two fields.

Q Now, Mr. Henry, are you familiar with the configuration of the proration spacing area which has been proposed by Gulf?

A Yes, I am.

Q In your opinion would that configuration have any effect on the correlative rights or upon waste, as to Grace's position in the area?

A Yes, sir, I believe it is. I believe it will.

Q Would you explain that, please?

A All right. By laying the proration units north and south there is room for another proration unit to the north similar to the one that we are asking for, and as I stated before, this has been discussed, that if the "G" is successful, Grace is considering whipstocking another well, probably asking permission for a location at the "G", similar as we did up to the north, and which would be a short distance to whipstock a well to the west.

Q Let me make sure I understand that. You're saying if the proration spacing in the area --

A If Gulf's proration unit is laid down in the 360-acre proration to the south, we feel we'll be eliminated from drilling.

The risk, besides looking at the subsurface

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control in the Skelly Well at 21, which is a -769 and is a water well or a dry hole; Union of Cal at -10,703, which their geologists tell me that they will be -- or don't think they will be successful. They have done quite a bit of work on this well and they have been unsuccessful..

So therefore, if the proration is -- if the proration unit is laid down like Gulf, then this eliminates 320 acres to the south which could be productive if the proration units are stood up, because we feel like the location would be maybe slightly lower than the proposed location and that it would be a valid location here.

Q. But if you went to -- into the south 320 acres it would not be drillable in your opinion?

A. With the information I have right now, I wouldn't recommend drilling a well down there. I think it would be wasteful.

Q. Again, as a matter of clarification, Mr. Henry, did I understand you to say that if Grace's proration spacing area is approved, being the configuration --

A. East-west.

Q. -- yeah, stand-up 320, that you propose the likelihood that Grace would seek to whipstock from that location to the west, to the 320 acres immediately to the west?

A. Yes, sir, that's what I would recommend.

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But if the proration unit lays down, as Gulf has proposed, then we would not be able to drill a second well in that proration unit to the south.

Q If necessary -- well, back up a minute.

The top 320 acres currently, of course, is not drilled, not producing. If it were necessary in order to obtain production from that top 320 acres, would it be feasible to whipstock from the proposed location of the Grace well here in this location?

A Well, there is a straight hole location in this Lot 8 that's not in the potash area that could be drilled. But you could move up to the north and whipstock anywhere in the north 320 acres of that proration unit if you so desired. You may want to drill a straight hole. I don't know.

A lot of this is based on information we gather from the "G", as you well know, because we're drilling a step out to the west.

I'd also like to point out production data of these three wells that are on the cross section. I failed to tell you this, but the New Mexico Federal "D", these are June 1st, '79 productions, and these are in -- billion
is 885,072 Mcfg. In other words, that's .8-million cubic feet of gas.

The "E" as of June the 1st is 883,627 Mcfg,

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or .8.

And the "F" well, which was the last well completed, is 227,209 Mcfg, and the monthly rate in July was 42,000, so that well is making a little over a million cubic feet of gas a day.

And I just wanted to bring you up to date on the production data.

And I'd also point out that the production performance of the "D" Well, we are beginning to make quite a bit of water in that well, which is a very high well and it's not understandable or explainable, but we are.

Q. Relative, then, to prospective production from the proposed Grace well, would you anticipate the production could be expected to be basically in line with that of the other wells?

A. Yes, similar to that, yes, or could be better.

MR. COFFIELD: Mr. Chairman, I propose that the Commission take administrative notice of the Oil Conservation Division Order R-5826, which was issued in connection with Case Number 6334, heard before the Oil Conservation Division on September 27, 1978.

This particular order related to the approval of the unorthodox location of this precise well.

MR. KELLAHIN: I'm going to object to that,

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Mr. Ramey.

I don't know that it's relevant. I'm not aware that Gulf was a party to that hearing. We didn't have an opportunity to appear in that case, to the best of my knowledge, and we did not appear in that case, and I think it's irrelevant.

If Mr. Coffield has evidence out of that record that he wants to produce, he's got witnesses here that could do that.

MR. COFFIELD: Mr. Chairman, I believe it's relevant in the sense that our application appears -- I mean the way this matter was advertised appears to call for approval of an unorthodox well location, as does Gulf's application, and I submit it has already been considered and approved.

MR. RAMEY: R-5826 approved an unorthodox location at?

MR. COFFIELD: This precise location.

MR. RAMEY: At the precise location of this hearing here today?

MR. COFFIELD: Yes, sir.

MR. RAMEY: We will take administrative notice of this order, insofar as what is relevant to this case.

Anything further, Mr. Coffield?

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Q. (Mr. Coffield continuing.) Let me ask, Mr. Henry, were you involved in that particular case?

A. Yes, sir.

Q. Did you testify in that particular case?

A. Yes, sir.

Q. Was your testimony relative to that particular case and the recommendation as to the well being located at that spot --

A. Yes, I used these same maps, very similar maps. They're on record or on file with the Commission.

Q. And again the reason for it was the same reasons you've just given?

A. Just discussed, yes.

Q. Mr. Henry, is the configuration of the spacing area proposed by Grace and the general matters which have been presented here and requested by Grace in the interest of conservation, the protection of correlative rights, and the prevention of waste?

A. I believe it is, yes, sir.

Q. Were these exhibits Four, Five, and Six prepared by you or under your supervision?

A. Four, Five, and then Six was prepared at my request by our engineering department.

Q. You prepared Four and Five?

A. Right.

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Q. And Six was prepared at your request?

A. Right.

Q. And you concur in the matters as set out there?

A. Sure.

Q. And did you prepare Exhibit One, as well, Mr. Henry?

A. Yes, I prepared Exhibit One.

MR. COFFIELD: We move the admission of Exhibits Four, Five and Six.

MR. RAMEY: Without objection they will be admitted.

MR. COFFIELD: I have no other questions of Mr. Henry on direct examination.

MR. RAMEY: Any questions of the witness?

MR. KELLAHIN: Yes, sir, Mr. Ramey.

MR. RAMEY: Mr. Kellahin.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Henry, I'd like you to go back to your Exhibit Number Four with me.

A. All right.

Q. And in direct examination you made reference to certain portions of the map that identified reservoir

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quality Morrow sands.

A. Right.

Q. Would you show me again in Section 6 where I'm going to find the reservoir quality Morrow sands?

A. Yes, sir, if you'll look up to the left of your map, look way out to the left, the last 50 feet, you see that with a foot there?

Q. Yes, sir.

A. Follow that line down. As you pass the location to the south and move up to the 100 foot contour, up to the north, and follow that to the southeast and you'll find the well in between.

Q. Tell me how you arrived at that 50-foot contour line, especially in the west half of Section 6, when you don't have any control out there, Mr. Henry.

A. That's what geologists do. We map from the known to the unknown, but this is interpretation.

Q. Yes, sir. At what point have you left the known and commenced into the unknown when you cross Section 6?

A. Where I have information I space my contours the way I think they go.

Q. Yes, sir. At what point in Section 6?

A. Well, you can see the contour goes halfway between the south proration unit. It may be faded there,

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it doesn't print, if you're looking at it.

Does that answer your question?

Q. No, sir. I want to know at what point that 50-foot contour line becomes speculative.

A. When it becomes speculative? Well, I don't think it's speculative. This is my interpretation of the way the sand --

Q. Do you believe we're going to find that 50-foot contour line in Section 35 at that location?

A. You won't find that contour line, no, sir.

Q. All right, sir. How about in Section 6, where are we going to find it?

A. You'll find thickness of sand. The contour line doesn't fall beneath the subsurface. It's just on the map. That's a thickness.

Q. All right. Would I expect to find Morrow production below that 50-foot contour line?

A. The thickness map does not have anything to do with the production. We feel like the sub -- excuse me, the subsurface information structure -10,700 is the one that we are referring to, because we have information from Union, and the Halfway in 9, the Skelly in 21, and you move over to the southeast side of the Hat Mesa Field, you've got a Phillips well over there that's a -10,800 and they're water.

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Q. All right.

A. So we feel that you have to be above that line to have a commercial well. That doesn't mean that I could be wrong, but this is my interpretation.

Q. You have to help me, Mr. Henry.

A. I will.

Q. I'm not a geologist and I'm going to ask you enough questions to --

A. All right.

Q. -- figure it out.

A. Okay.

Q. Are you telling me below the 10,700 foot contour line, that in your opinion we would not find Morrow production?

A. I didn't say that. I said with the information, the subsurface information that we have, it is reasonable to expect that to risk a well at this expense, to drill a well up there, that you want to move up dip from that 10,700 contour.

Q. I believe in response to Mr. Coffield's question you said the south half of Section 6 was not drillable, and to do so would be wasteful action.

A. I did not say it was not drillable. I said if the Gulf proration unit were laid down, then the proration unit on the south end of Section 6 would be ap-

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proximately below the 10,700 contour and the risk would be very great and I doubt that I would, at this time, without the information, I would not recommend a well down there.

Q. All right. That's with regards to the 10,700 foot contour line of structure.

A. Right. Right.

Q. Now let's go back to the 50-foot.

A. All right.

Q. Line. If you look at -- all right, let's assume that we laid the proration units down like Gulf has suggested.

A. Right.

Q. Stacked one on top of the other?

A. Right.

Q. The center proration unit --

A. Right.

Q. -- look on the west half of that proration unit.

A. All right.

Q. We've got the 50-foot contour line cutting through that west half.

A. Right.

Q. Can we expect that anything west of that 50-foot contour line in the center proration unit would be productive from the Morrow?

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A. I have no subsurface control and those contours are just dangled out there dead. Like I say, when information from the "G" when it is drilled, and this is the interpretation and what I have done for Grace in the last five years, subsurface information is available, we update the map, and this map, you may -- there is, with a Morrow type deposition you could have 100 feet of sand at the "G" location and that would change my contours to the west.

So therefore, if that were to happen, then the west location would be good.

Q. All right. So based upon what you know now, Mr. Henry, if the Commission approves the proration unit as requested by Gulf, then we can assume that the west half of that proration unit would be reasonably productive.

A. Right.

Q. Okay. If the Commission approves the proration unit as requested by Grace and stands up that unit --

A. Right.

Q. -- it appears as if approximately 50 percent of that proration unit would be nonproductive.

A. We would ask for a location same as we're asking for the "G" without having the information from the "G"; therefore the north -- that proration unit would be productive the same as the "G". We, as the "G" there, we,

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like I say, we moved to the north to gain the best structural advantage and the possibility, I'm not saying that it is, but there is a possibility that there is a portion, but I'm not going to tell you what portion of the south half of the proration unit that's asked now may or may not. We just don't have the information over on this side of the structure.

You've got one well. We've got a structural trend established from the present subsurface information. We show that sands are present. We have a -10,700 contour, which we feel pretty good at the present time, so therefore, that west 320 acres is a standard unit and we could have a well in it.

Q. We don't have any dispute about the north proration unit. That's the one that lays down in the north.

A. Which one? Oh, yes, you're right. No, I don't have any objection there.

Q. The best location to drill within that unit would be somewhere in Tract Number 8, Lot 8.

A. Yes, that would -- you have to be according to USGS. They're not going to let you get inside R-111, according to the USGS in Hobbs.

Q. Right. If we lay the units down, as Gulf has requested, then each of those units, regardless of the geology, each of those units is going to have a location

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within that unit that is outside the R-111-A area.

A. You're saying if you laid all three units down.

Q. Yes, sir.

A. Disregarding geology, yes, you would have a location there.

Q. And if we stand up the two bottom units, as Grace wants, there will be the west proration unit entirely contained within the R-111-A area.

A. It can be whipstock, yes.

Q. That's right.

What is the difference in cost between directional drilling and whipstocking in this area?

A. I don't have the exact figures. I watched the well up here and I believe we had a fishing job, but it is about maybe 50 or 60 percent excess. That's without any trouble.

Q. 50 or 60 percent more to whipstock the well.

A. Right. That figure is subject to change every time you start one of these because they are very hard to control.

And that is my estimation, not an engineer's, too.

Q. You've selected a location in Lot Number 9.

A. Yes, sir, I believe that's right.

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Q In your opinion is that the first choice for drilling a well in Section 6?

A Yes, it is mine.

Q How about a well located in Section 8? I mean in Lot 8, that would be perhaps a second choice? It gets a little farther away from the F-1 Well.

A We have tried to develop this field, and as everybody else, in an orderly, standard proration unit to fully develop it, so therefore, my original location, which I have not changed and which I recommended to Grace, is there in Lot 9, as I have shown on this map. I haven't changed my opinion.

Q Okay. How would you fully develop Section 6?

A Well, I'd drill the "G" and with information from the "G" move to the west, which would, if my contours stand up, would still be very close to the -10,500 contour line.

In this "F" we are 10,404 and the "E" Well is 10,468, which according to our engineer has been a fairly good well.

So move one location, proration unit to the west and then, depending on the outcome of those two wells, drill a well in Section 6, if you can control the acreage and whipstock to where you think your best location

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is.

Q If you do that, Mr. Henry, and stand up those two proration units in the south as Grace requests, and in each of those instances the Commission is going to approve proration units in which at least approximately 50 percent of the proration units are nonproductive.

A. Well, I can't -- that is not an accurate statement, and let me refer that. I cannot tell you with no subsurface information that that proration unit standing up, either one of them, that the bottom part is no good because we moved up structurally because we have two dry holes at about the same subsurface depth. Therefore I think it would be wasteful to move down to the south at a 10,700 with two dry holes over here at 10,700, to drill another one here at 10,700; therefore we asked the Commission for an unorthodox location to move up to the north. In other words, to take a lot of the risk out of drilling the well.

Q. The proration units in this pool are based on 320 acres, are they not?

A. That's right.

Q. And that assumes that one well can drain 320 acres, does it not?

A. That is what is assumed at the present time, yes; not by me particularly, but I mean other people.

Q. You nor Grace neither one have applied to

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the Commission to change the spacing in this pool, have you?

A. No. I'd like to point out one thing, the 2-A Well was an experiment because of a dry hole there. As you can see in Four, we have different sands producing in this particular well but the well is not performing like Grace would like for it to, but there is a lot of ramifications for opinions on what to do in the Morrow, and I certainly don't have the answer, I'll tell you for sure, because I've been in it twenty-five years and I'm still learning every time we drill a well out here.

Q. Mr. Henry, what are the odds and percentages of drilling a producing -- commercial producing Morrow well in Lot 9 as you propose?

A. Well, I think it's above 50 percent. We've got a better chance there. We've got a little information there, but as I pointed out from the cross section, there is considerable risk there because the other wells that we looked at the sands in, they were cleaner. The "F", the "E", the "D", the "C" had very clean sand, and as you can look from the gamma ray which we used, this cutoff as a rule of thump, 50 API units; anything less than that tends to -- we think, myself personally, not anybody else involved -- to be clean sand, and if you'll notice, there are very few sands in the "F" that approach that criteria.

So therefore, in my opinion, the risk is

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greater of having the -- sands may be present out here, but they may be dirty, and if they are, you're dead.

Q. You participated in the geology for all the wells in this --

A. All that Grace is operator, yes, sir.

Q. All the nine wells that they've drilled?

A. Yes, sir, from Teal to Cleary to Grace, yes, sir, I have, and I have done all the subsurface information and on my recommendations the wells have been drilled.

Q. And out of nine wells you've drilled only one dry hole.

A. I haven't drilled a dry hole.

Q. Somebody else drilled a dry hole.

A. Right.

Q. You're 100 percent.

A. Right.

Q. All right.

A. I'm not bragging.

Q. Well, I think that's worth bragging about, Mr. Henry. I think that's remarkable.

A. But I'd like to point out, we changed all of the name's to Grace's and K. K. Amini was a predecessor, and he drilled a dry hole, Aztec Federal, the New Mexico SL State, and the New Mexico Federal Well in 4, but the names

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have all been changed to Grace for clarity without having a lot of different operators, and what have you, so I've referred to them all as Grace, and that is the No. 1 New Mexico Federal there in that Four, which is the dry hole, which made -- well, was calculated for 8, and I think it made a little over 2-billion cubic feet.

The Aztec Federal, as you can see, on that side is low, made quite a bit of water with the gas.

SL State is high --

Q. Just a minute, Mr. Henry. I'm having trouble finding the Aztec Federal, in Section 33?

A. Okay, Aztec Federal in Section 33, and then move to the SL State, all the Morrow sands were wet in that particular well, and that is unexplainable at the present time.

So this tells you how stratigraphic in nature and what the Morrow can do for you.

Q. But you encountered the same Morrow sands in each of these wells?

A. I want to clarify that not the same sands. They are lenticular and I can't tell one from the other, other than they're Morrow sands and they're within a zone, yes, but the same sands, I don't think that I can tell you that they are the same sands, even as close as some of these wells are, because they perform different, pressure-

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wise and different things.

Q. Mr. Henry, you mentioned a dip up here somewhere in Section --

A. The E-1. We ran a dipmeter in E-1.

Q. Yeah, and somebody thought it might be a fault but you thought it was simply a dip in the structure.

A. No, I didn't say that.

Q. All right.

A. I said -- let me go back and bring you up to date. I started work, oh, years ago for the Pure Oil Company and we had seismic maps on this. Then I proceeded to Union of California and while and while I was with Union of California looked at their seismic, which I handled this area, and we participated, Union did, in the Phillips Hat Mesa with a seismic map, and also in the TSS Federal in Section 3, Skelly participated with us and they furnished us with a seismic map, and no, of all the companies I've mentioned did the seismic maps agree. There is some strong dip and I suspect -- now the seismic recently, Union, definitely says that they have mapped a fault at seismic Devonian level between the Texas Audi Richards, the Texas State there in 36 -- you see that CH?

Q. Yes, sir.

A. Between the "D" and the "E" and the Union, to the northeast of the Union Halfway Federal there in 9.

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I do not interpret nor do I see geological information that there is a fault there at Morrow time. There possibly could be. I could see that our dipmeter did not cut a fault at Morrow level or anything or show anything.

Now there is, granted, I think there is steep dip, but I can explain it easily with draping over this structure, and that's my interpretation.

And I'll also point out that the C-1 location there in 4 would never have been drilled if we had gone by seismic because that had a fault there and it is barely logged on seismic, Devonian seismic. But as you can see, it ran high to the TSS Federal, which shows the broad nosing, and this nosing can be mapped for miles in southeast New Mexico, not a lot of subsurface information, but it can be carried as a structural ridge down through southeast New Mexico.

Q Let's turn for a moment to the proposed AFE, Mr. Henry.

A All right.

Q I'd like you to compare that '79 AFE with the one in '78. Do you have both of them?

A I don't know anything about the '78. I had nothing to do with the '78.

Q Here's a copy of Grace Petroleum Corpora-

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tion's AFE for 1978. It's contained in Exhibit Number Two.

A. I see it.

Q. See the total intangible drilling costs in '78 were $578,000 and on your AFE in '79 it's $726,000.

A. Wait a minute, let me follow you where you're reading. Okay, up to the top, all right, go ahead. I can't validate any of these figures because I didn't do it. I requested this be brought up to date, but go ahead.

Q. You cannot validate any of the figures on the 1979 AFE?

A. I did not do it, no. I requested Grace's, as I testified before, Grace's Engineering Department furnished me with an up-to-date AFE and this is what they sent.

I can't validate anything on this and I'm just presenting this as made by STuart Henderson and signed by Jack Hill, Vice President of Production and Drilling in Oklahoma City, and that's all I know about it. I had nothing to do with the preparation or costs of anything.

Q. All right, sir.

MR. KELLAHIN: I have nothing further. Thank you.

MR. RAMEY: Any other questions of the witness? He may be excused.

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MR. COFFIELD: Mr. Henry, do you have a comment?

A. I'd like to point out one thing for the Commission's information, which I noted in the subsurface and in the logs on this "F" Federal.

We developed in that particular well a good 10-foot Atoka sand that kicked and we had to weight the well up, which looks like there is some Atoka being developed on the west side of the structure. We had about three feet in the E-1 and about two feet in the D-1.

So the Atoka is as erratic as the Morrow, but we did have -- looked like we did have some reserves but it was not tested in this F-1, which that is another potential reservoir horizon over on this west side.

MR. KALTEYER: It was 10-foot in the F-1?

A. I believe that's right.

MR. RAMEY: Any other questions of the witness? Mr. Nutter?

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Miller, the Commission here today is --

A. Henry.

Q. Mr. Henry.

A. Excuse me.

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Q. Excuse me. Mr. Henry, the Commission here today is considering two different proration units with the well to be drilled at the same location.

A. Yes, sir.

Q. Now, in your opinion, why should the Commission approve the application of Grace? What benefit to the State, that is the ultimate -- the increased ultimate recovery, or whatever might be considered, would accrue from the approval of your location and your proration unit over the one that's proposed by Gulf?

A. Well, as I'm going to state off the cuff, I believe that --

Q. No, you're on the record.

A. Okay, all right. Well, "G" location, like I said, we have no subsurface information to the south, and I'm not one to tell you that it looks great, but if that proration unit there, if one well would drain 320 acres, then there is a possibility that by standing the proration units up, then there is another location to the north -- to the west, plus another unit to the north of that, which will fully develop it with a standard 320-acre spacing.

But if it laid down, then you would only have two wells in this -- if they were laying down, the north 320 laying down, the middle one laying down, and the

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south, and the chances are that you would not drill, or you couldn't drill with the present 320-acre spacing, but two wells in that proration unit.

So therefore, we feel like having three wells in there, which I feel and other people feel, that the Morrow at some time will be asked or requested to consider drilling these wells on 160-acre proration units.

Q. In other words, what it boils down to, if you dedicate the east 320 there and later on dedicate the west 320 --

A. Right, sir.

Q. -- then you have two 320's even though the productivity of the south half of each may be somewhat questionable.

A. That's right.

Q. But if you dedicated the lay-down 320 that Gulf is talking about, the south half would be so questionable that no one would drill a well, is that it?

A. That's right, yes, sir. That's my feeling.

Q. Okay.

A. In other words, this way we feel like that we can orderly develop this 640 acres and like I say, this has been discussed with Grace that they are not afraid to whipstock. We've had some real good success, but we may not have success on this second well, but right now they

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are contemplating success whipstock hole, but that remains to be seen.

Q. Now the Felmont Federal whipstock has been completed as a --

A. The No. 1, yes, sir.

Q. And the No. 2 is in the process of being drilled at the present?

A. Well, when I left there they were drilling, I believe, 3000 -- no, they weren't. About 2100 feet; they were getting ready to set another string of pipe.

Q. It's just now starting.

A. It's just now started, yes, sir.

Q. Okay. Thank you.

A. Okay.

MR. RAMEY: Any other questions for Mr. Henry? He may be excused.

We'll have a ten minute recess.

(Thereupon a recess was taken.)

MR. RAMEY: I assume you're through, Mr. Coffield?

MR. COFFIELD: Yes, sir.

MR. RAMEY: Mr, Kellahin, you may proceed.

MR. KELLAHIN: Thank you.

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CHARLES KALTEYER

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Would you please state your name, by whom you're employed, and in what capacity?

A. My name is Charles F. Kalteyer. I'm employed by Gulf Oil Corporation in Midland. I'm classified as Chief Proration Engineer, of the Midland District.

Q. Mr. Kalteyer, have you previously testified before the Oil Conservation Commission and had your qualifications as an expert engineer accepted and made a matter of record?

A. Yes, sir.

Q. Have you made a study of and are you familiar with the facts surrounding this particular application?

A. Yes, sir.

MR. KELLAHIN: We tender Mr. Kalteyer as an expert witness.

MR. RAMEY: He's considered qualified.

Q. (Mr. Kellahin continuing.) Would you please refer to what we've marked as Gulf Exhibit Number

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One and identify that for us?

A. Gulf Exhibit Number One is a plat outlining the entire Section 6 of Township 21 South, Range 32 East.

Q. What does Gulf propose by its application?

A. Gulf is seeking an order pooling all mineral interests under Lots 9 through 16 of Section 6 to be dedicated to a well drilled at an unorthodox location 4650 feet from the south line and 660 feet from the east line of Section 6.

Gulf is seeking allocation of well costs, charges for supervision, designation of Gulf as operator of the well, and a charge for risk involved in drilling.

Q. Is the proposed location by Gulf Oil Corporation the same location as requested by Grace Petroleum Corporation in Case 6590?

A. Yes, sir, it is.

Q. What is the area of disagreement, if any, with Grace Petroleum Corporation?

A. Gulf feels that its acreage in this area as outlined in yellow is probably the most desireable for a well at this time and Grace is attempting to dilute our interest in this prospect to 25 percent, where we are proposing in our application that Gulf should be entitled to an interest of some 36.85 percent.

Q. What's indicated by the dashed line com-

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mencing at the northeast corner of the plat? It's indicated potash - oil area. What is that?

A. Under R-111 the potash - oil area is to the west of the hachured line. Section 6 consists of some 985.86 acres and of that 705.06 are considered inside the potash - oil area, with 280 acres outside the area.

Q. You indicated that the yellow outline identifies the Gulf leased acreage. What does the green outlined area indicate?

A. The green outlines the Grace and Supron acreage, some 360 acres in total in the section.

Gulf's acreage in yellow totals 160 acres.

Q. The balance of Section 6 is held how, Mr. Kalteyer?

A. Unleased Federal lands consisting of 465.06 acres.

Q. Sir, would you refer to what has been marked as Gulf Exhibit Number Two and identify it?

A. Gulf's Exhibit Number Two is a cost estimate of Gulf's proposed Duncan Federal Com Unit Well No. 1 which was prepared by our Hobbs Area Office personnel.

Q. What is the proposed total depth for the well?

A. 14,500 feet.

Q. Would you summarize the information con-

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tained for us on Exhibit Number Two?

A. Yes, sir. The -- basically the gross cost of the AFE to drill and complete is $868,000. In addition to this there would be surface producing equipment of some $50,000, to give a total cost of a producing well with battery of $918,000.

Q. In general terms, Mr. Kalteyer, how does Gulf's AFE compare to that of Grace Petroleum Corporation? Their latest proposed AFE in '79?

A. I'll have to look at their exhibit.

Grace's Exhibit Number Six indicates an estimated cost of $1,281,800 as a total cost for a producing well, complete with battery.

Q. Grace Petroleum Corporation's AFE has an entry, I believe, on coded line number 28 showing miscellaneous and unforeseen costs?

A. Yes, sir.

Q. What does that mean?

A. For dry hole, $66,000; for completion, $15,200; and total of $81,200.

Q. What, if any, similar entries do you have on your proposed AFE and where would we find it if it appears?

A. Let's see. The only miscellaneous item that I see on this Gulf's estimate is item 29-X, miscel-

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laneous items on the second page of $1000 drilling, $1000 completing, for a total of $2000.

Q. What has been Gulf's experience in drilling Morrow wells in the southern part of New Mexico?

A. Gulf currently operates approximately 45 Morrow wells and have some 5 other wells either drilling or planned.

Q. Based upon your knowledge of the Gulf's operation in obtaining Morrow production and your review of the proposed AFE by Gulf, do you have an opinion with regards to whether the anticipated well costs proposed by Gulf are fair and reasonable?

A. Yes, sir, I believe they are. We have an experienced staff and maintain a large office in Hobbs, and it's a competent drilling group.

Q. I notice one other entry on Grace Petroleum's AFE with regards to insurance costs. What, if any, insurance costs does Gulf have proposed in their AFE?

A. Gulf does not enter any insurance costs. They are their own carrier.

Q. Say again?

A. They are their own carrier, as I understand it.

Q. In your comparison of the proposed AFE and the exhibits presented by Grace, what do the records

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they introduced reflect as to the total depth of their proposed well?

A. Theirs indicates that they are drilling to 14,100 and Gulf has proposed the drilling to 14,500.

Q. What in your opinion is the reason for the difference in the depth of the well?

A. I have no way of knowing why Grace set their target at 14,100 because I believe the completion intervals of surrounding wells are deeper than that.

Q. In your opinion will a well to the depth of 1450 feet as Gulf proposed be of sufficient depth to test all the Morrow horizons?

A. 14,500?

Q. 500?

A. Yes, sir.

Q. Would you refer to Exhibit Number Three and identify that for us?

A. Gulf's Exhibit Number Three is a schematic diagram of the pipe and setting which they would propose for the Duncan Federal Com Well No. 1.

Q. Does Gulf desire to be designated the operator of the proposed proration unit?

A. Yes, sir.

Q. And do you have a recommendation to the Commission with regards to charges to be assessed against

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nonconsenting working interest owners while drilling and after completion?

A. Yes, sir. Gulf proposes that as operator the accounting procedures would conform to the Counsel of Petroleum Accountants Society of North America, or COPAS, 1974, and for indirect overhead Gulf proposes a fixed rate basis of $3300 per month during the drilling and completion operations and $330 per month while the well is producing. These are currently Gulf's standard charges under joint operations.

Q. Sir, would you turn to Exhibit Number Four and identify that for us?

A. Yes, sir. Exhibit Number Four is a plat of the area showing the wells which have been completed in the Salt Lake Morrow South Pool.

The wells which have produced from the field are carried on the production records of the Commission of the Division, are circled in yellow, and the proposed Duncan Federal Com Unit is outlined in red or orange.

Q. Would you refer to Exhibit Number Five and identify that?

A. Exhibit Number Five is a tabulation of gas production data for those Salt Lake Morrow Gas Pool wells which produced in 1978 and 1979. Each well's monthly production is tabulated together with the 1978 annual and

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the cumulative as of 1-1-79. Also listed on the exhibit is the 1979 year to date production as we were able to establish from the records, showing the 1979 daily average production rate of each well, based on the reported days of production.

The cumulative production of each well is indicated as of 5-1-79.

You'll note that the production has a wide range from a low of 261 Mcf per day from Grace's Pubco Federal on the second page, and this well is located in Unit L of Section 2, T21 South, Range 32 East, to a high of 4,212 Mcf per day in Grace's Felmont Federal No. 1 in Unit P of Section 25, Township 20 South, Range 32 East.

Based on this data, the ten wells in the Salt Lake Morrow South Gas Pool have produced at a daily rate of some 19,000 Mcf a day during the first four months of the year, or an average of a little over 1900 Mcf per day per well.

Cumulative for the pool as I was able to establish was as of May 1st, '79, was some 26.49 Bcf.

Q. Were you present at the hearing today when Mr. Henry testified that in his opinion there was a 50-50 chance of drilling a Morrow well at this proposed location and obtaining a commercial producer?

A. Yes sir.

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Q. Do you agree or disagree with that?

A. I think it is the opinion of all operators in the state that are involved with drilling in the Morrow in southeast New Mexico, it is a high risk venture, and for me to place a 50 percent risk factor on it, I just -- I couldn't go along with that.

Q. Do you have an opinion with regards to the risk involved in drilling any Morrow well, and particularly with this Morrow well?

A. Well, I think it's a 200 percent risk factor over the cost of the drilling of the well, is a reasonable charge for the risk involved in drilling the Morrow in this area; however, the proposed location 660 from the east line and 4650 from the south line probably is the most desireable location with the information to date, especially due to the proximity of the two favorable producing wells to the east.

Q. I refer you to what has been marked as Gulf Exhibits Six-A through Six-M and ask you to summarize what those documents reflect.

A. I think most of this was gone over in detail by the Grace witness, but our file, which I obtained from our land office, goes through those same letters which initiated or were initiated with the July 17th, 1978 letter from Grace Petroleum, formerly Cleary Petroleum, and it at

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that time proposed a 320-acre unit with Lots 8 and 9, which are under lease to Gulf to be communitized with Lots 15 and 16 and the southeast quarter of Section 6.

And then four days later they revised the proposal to include Lots 9 and 10 under Gulf lease, together with their Lots 15 and 16.

Q Would you summarize for me, and give me your opinions and reasons why, Mr. Kalteyer, Gulf Petroleum Corporation is seeking to have the Commission dedicate the proposed proration unit as requested and why, in your opinion is that a better way to assign a proration unit than as suggested by Grace Petroleum?

A. Well, basically, Gulf has 160 acres in that Section 6, and Grace has proposed a well at the most favorable location, which is on Gulf acreage, and seeks to limit our interest in this well to 25 percent.

We think that this, that there is an optimum way to divide this unit into three lay-down approximately 325-acre units and still offer equitable development of the property.

Q Why do you think that's an optimum way to locate the proration units?

A. We believe that -- that a well under the proposed plan by Gulf of three lay-down units, we could envision the drilling of a straight hole in the southern

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320 to 325-acre unit; one drilled in Lot 9 or in Lot 16, a straight hole, and then a well either drilled straight hole in 8 or directionally drilled to the west or northwest from Lot 8.

Q. In your opinion will the approval of the proposed application by Gulf and a corresponding denial of Grace's application prevent waste?

A. Yes, sir, I believe it will.

Q. How so?

A. I believe it will prevent the -- we will be able to recover the producable reserves under the -- under the section by drilling our developing that section with two straight holes and possibly one directional hole, as against their proposal which would require the drilling of two additional directional holes -- two directional holes and one straight hole.

Q. Show me where you would believe the directional hole would be drilled under Gulf's proposal.

A. Under Gulf's proposal a directional hole would be drilled from Lot 8 to the northwest or west, and a straight hole in Lot 9 and then a straight hole could be drilled in the southeast quarter of Section 6, and still the surface locations be outside of the potash - oil area.

Q. Do you have an opinion as to whether or not the approval of Gulf's application and the corresponding

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denial of Grace's application would appropriately protect correlative rights?

A. The approval of Gulf's application? Yes, sir, I believe that based on the testimony of the Grace geological witness the risk is high for a well drilled in the south unit. We think that by Gulf's proposal two wells would be drilled favorably to recover reserves under Section 6 and the plans would then have to be made whether to drill a well in the south half or the south 320-acre unit.

Under Grace's proposal, or tentative proposal, they would drill -- be drilling three wells in the north approximately 640-acre portion of the tract, and that would constitute the drilling of unnecessary wells, and the additional expense and the additional risk.

Gulf would participate, be participating in such drilling of those three wells in all probability, but have to go to that extra expense and extra risk as would Grace.

Q. Do you concur in Mr. Henry's opinion that the south half of Section 6 is a very high risk Morrow area?

A. Yes, sir. I have not made a study of the geology, but apparently from the area producing wells this would be a very high risk.

Q. If the Commission was to approve the Grace application for that particular configuration of proration

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unit, do you have an opinion as to whether or not approval of that proration unit would thereby dedicate nonproductive acreage to the unit?

A. It would appear that based on the, and I'm not qualified to testify on the geology, but based on information presented this morning, there would be a strong possibility that they would be dedicating half of that unit -- dedicating to that unit approximately 160 acres of nonproductive area.

Q. Does Gulf have a geological witness here?

A. Yes, sir.

Q. Except for the correspondence in Exhibit Number Six, Mr. Kalteyer, were Exhibits One through Five prepared by you or compiled under your direction and supervision?

A. Yes, sir, they were compiled by me or at my request.

MR. KELLAHIN: Move the introduction of Exhibits One through Six.

MR. RAMEY: They will be admitted.

MR. KELLAHIN: That concludes my direct examination of Mr. Kalteyer.

MR. RAMEY: Any questions of Mr. Kalteyer?

MR. COFFIELD: Yes.

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CROSS EXAMINATION

BY MR. COFFIELD:

Q. Mr. Kalteyer, first of all, is Gulf going to have anyone as a land witness? Are you familiar with the contacts and the responses?

A. No, sir, just my personal contact with Mr. Griffith and one of his staff and the record.

Q. Mr. Kalteyer, do you know at what point you notified Grace of the fact that you were seeking to dedicate the middle 320 acres of this section to a well?

A. Did I notify Grace?

Q. Yes, did Gulf notify Grace? Do you know?

A. No, sir, I do not.

Q. In fact, do you know whether or not Gulf did notify Grace?

A. No, sir, I do not.

Q. Do you know when or whether Grace was notified that you were going to seek to force pool this configuration, the middle 320 acres?

A. No, sir, I do not. That would have been handled through Mr. Griffith.

Q. Are you aware, Mr. Kalteyer, of the fact -- in fact you've heard testimony earlier relative to the fact there is certain unleased acreage in this section. Are you

familiar with that fact that there is unleased Federal acreage in the area?

A. It's my understanding, yes, sir.

Q. Has Gulf requested that this unleased Federal acreage be put up for lease?

A. Yes, sir, we have.

Q. Mr. Kalteyer, did you select the proration spacing area that's being sought by Gulf?

A. I was a party to it. It's not, as I recall, it was not my original work.

Q. What was the basis, basically, for selecting this -- your basis for selecting this proration spacing? Configuration?

A. Well, we felt this would give an option to drill, drill that section up with three locations and only require one directional hole or possibly could be drilled with three straight holes.

Q. Are you -- do you recommend that a well be drilled in the south 320 to which that south 320 acres would be dedicated?

A. Would I recommend to Grace and Supron?

Q. Do you recommend -- is it your recommendation that a well be drilled in the south 320 acres?

A. That would be something for them to decide but we are, with our configuration it gives an option to

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drill a straight hole there.

Q. Is it your opinion that it would be productive?

A. That I couldn't say.

Q. Mr. Kalteyer, do you recall your testimony previously that you did in fact state as much that you recommended this location, the south 320?

A. That I recommended a location?

Q. Do you recall your testimony to that effect?

A. This would allow the opportunity for a location, yes.

Q. Have you studied the geology?

A. No, sir, I'm not a geologist.

Q. Also, a point of clarification, Mr. Kalteyer, you were talking a little while ago about one of the reasons or one of your principal reasons for recommending this particular configuration was the fact that this would result in unnecessary wells being drilled, and is it my understanding that you're not recommending three wells in this section?

A. I was -- at that time I was referring to the possibility of having -- or of drilling three wells in the north 640-acres of this Section 6, when the spacing is --

Q. No, sir, you're recommending the drilling of three wells in the north, is that right?

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A. That had reference to the possibility as proposed by Grace to develop the north 640 acres with three wells when the normal proration unit size is 320.

And that would constitute drilling one extra well if we drilled three wells in the north half. Excuse me, in the north 640 acres, when it should require only two wells to develop it.

Unless there's a move to change the proration unit size for this field to 160 acres, and that would be something else.

Q. But when you're stating it would be drilling unnecessary wells, you're just limiting that to considering only the 640 acres at the top of the section?

A. Yes, sir.

Q. In fact, under the proration spacing rules and regulations as they now apply to this section, there would, however, be three wells which would be allocable to the entire section if the section itself were fully developed, is that so?

A. It could be, yes, sir.

Q. Mr. Kalteyer, is this -- is this location that you have proposed Gulf's first choice location?

A. I did not have a part in choosing the location. This was directed by our geological department. I think that Gulf would be -- that probably is the first

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choice. It's very close to first choice of Lot 8 and Gulf would probably place second -- I mean place third a location in Lot 16.

But our geological witness could speak for that.

Q. Mr. Kaleyer, I believe you said earlier that one of the objections Gulf has to the proposal by Grace is the fact that Gulf is in effect being short changed that wasn't your word, but that Gulf is entitled to a larger participation than has been proposed by Grace, is that true?

A. Yes, sir. It's their implication that they were sticking in high risk and possibly nonproductive acreage to the 320-acre unit, limiting Gulf to 80 acres participation in the unit and then drilling the well on Gulf's most favorable, or more favorable acreage in -- in the section.

Q. Has Grace ver suggested to you that Grace was not fully -- was not willing to fully account for or have Gulf accounted to for all of its proportionate acreage within the section?

A. I'm not familiar with that, but I do know from this morning's testimony that Grace did propose the formation of a 360-acre unit with a cross-assignment of acreage to give Gulf a 33-1/3 percent interest in this well, rather than a 25 percent.

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Q. Well, then Gulf was willing to participate if Gulf was awarded a disproportionate share based on its ownership of the acreage --

A. We would then put our 40 acres, our 40 acres in 8 would be assigned to Grace and Supron in order to acquire that; we would sacrifice that to gain --

Q. So you wanted a disproportionate share of your --

A. Not disproportionate. We would be putting that in the unit.

Q. Okay. Mr. Kalteyer, what -- what is -- you've testified that the administrative costs, cost figures would be $3300, and that is strictly for a drilling well?

A. Yes, sir.

Q. And $330 for a producing well?

A. Right, yes, sir.

Q. How did you reach these figures?

A. Those come from our accounting department. That's our Gulf standard for joint operations at this time, and they're adjusted from year to year under the COPAS formula.

Q. How do these compare then with your -- how do these figures compare with your other wells that you say you have been -- had some experience with?

A. Well, this is our normal overhead charge

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that's carried for our operations in the Midland District.

Q Okay. In this immediate area, Mr. Kalteyer, what has Gulf's experience been?

A We have no wells drilling in this immediate area. Our operating, Gulf does have operations within a radius of, say, fifteen miles where they have production.

Of course, Gulf maintains a Hobbs Area Office with a considerable staff and we have been in New Mexico for many years.

Q But you have not participated as far as having operations in this immediate field.

A No, sir.

Q Mr. Kalteyer, you have noted the differences and distinctions between Gulf's AFE for what you call your Duncan Well, and Grace's AFE. Is Gulf's AFE a firm commitment by Gulf to drill this well based on those figures?

A This has not been approved by our manager as yet, but this is a recommendation by our area manager, and I couldn't say for sure whether this is within his full authority to be final.

Q So all you could say is that that is tentative.

A That's his proposal.

Q Tentative.

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A. Tentative proposal, yes, sir.

Q. Mr. Kalteyer, in that AFE, has there been any contingency put in there for possible blowouts?

A. No, not to my knowledge.

Q. Were you aware, Mr. Kalteyer, that the "F" Well drilled by Grace kicked and they had to control it?

A. No, sir, I was not aware of that.

Q. Would such en event as that possibly raise costs?

A. I'm sure it would.

MR. COFFIELD: We have no more questions of Mr. Kalteyer at this time.

CROSS EXAMINATION

BY MR. RAMEY:

Q. Mr. Kalteyer, going to the two AFE's, Grace Exhibit Six and your Exhibit Two, I notice that Grace lists some $65,000 for fuel, and you don't have anything.

A. Yes. I believe if you'll examine first that their estimate on drilling is on day work and ours is on a footage rate, basically.

Our footage rate would include their estimate for fuel.

Q. And the contractor would furnish the fuel.

A. Yes, sir.

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Q. And the same on bits?

A. In that rate, and I assume that Grace would they've accounted for it through their day work. I mean in the difference between that with their day work contract.

Q. And the same on bits?

A. Yes, sir.

Q. They show some $80,000 and you don't show anything.

A. That is correct.

MR. RAMEY: Any other questions of the witness? Mr. Nutter?

CROSS EXAMINATION

BY MR. NUTTER:

Q. While we're on the AFE's, Mr. Kalteyer, you mentioned that the Grace AFE showed a total of $81,200 for miscellaneous and unforeseen, and you said, looking at your AFE, that the nearest thing you could find to that would be item number 29X, miscellaneous items of $2000.

That would compare with miscellaneous on line 28 of their AFE, but the unforeseen would, I presume, include contingencies, and your AFE has left contingencies blank, so really those combined items of unforeseen and miscellaneous on that one line would compare with two lines on your AFE, one of which is blank, isn't that correct?

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A. Right.

Q. Which would make a difference of approximately --

A. We normally don't attempt to throw in a contingency for a blowout. We anticipate we will control --

Q. Well, there are other contingencies besides blowouts on wells, aren't there?

A. That we would --

Q. You never put a contingency in your estimate?

A. No, sir, apparently --

Q. What do you have the line on here for, then?

A. Well, excuse me, I'll take it back.

Our -- we depend on our drilling department to make up their estimate based on their knowledge of the area and on this AFE obviously they didn't put one in. I cannot verify as to why or why not, but based on this AFE was submitted by our area drilling engineer.

Q. Well, if the $81,200 were left off of the Grace AFE, or if $79,200, leaving $2000 for miscellaneous nuts and bolts were left off, the two AFE's would be more comparable, would they not?

A. Yes, sir. If we took $81,000 off of Grace's $1,281,000, is that -- is that what you're suggesting?

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Q. Yes, uh-huh.

A. Then we'd have $1,200,000 for their well versus $819,000 for Gulf's.

Q. Right, they would be more comparable. I'm not saying they would be equal by any means.

MR. NUTTER: That's all. Thank you.

MR. COFFIELD: I have one more --

A. That would be $282,000 difference.

MR. COFFIELD: I have one more point on this AFE, if I may, Mr. Kalteyer.

RECROSS EXAMINATION

BY MR. COFFIELD:

Q. The line item number 152, excuse me, where it's fuel on Gulf's AFE, which is blank, and it's line item number 05 on the Grace AFE of August 1st, which is the fuel, water, and power, $60,000.

Since you show it blank, would it be your opinion that the contractors are furnishing this fuel when you drill a --

A. That it would be included in the rate, is my interpretation of this. Mr. Vaught (sic) calculated this and he included it in the contract day rate figure.

MR. KELLAHIN: I have a question.

MR. RAMEY: Mr. Kellahin.

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REDIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Kalteyer, who would be the drilling contractor for Gulf?

A. This would have to be -- this would be bid. They do not let a contract --

Q. This would be put out to bid?

A. Yes, sir.

MR. RAMEY: Any other questions of the witness? He may be excused.

I think we should recess until 1:30.

(Thereupon the noon recess was taken.)

MR. RAMEY: The hearing will come to order. You may proceed with your next witness, Mr. Kellahin.

MR. KELLAHIN: Thank you.

DOUG LaGARDE

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

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BY MR. KELLAHIN:

Q. Would you please state your name, by whom you are employed, and in what capacity?

A. My name is Doug LaGarde, with Gulf Oil Corporation, and I'm a production geologist in Hobbs.

MR. NUTTER: Would you please spell your last name?

A. L-a-G-A-R-D-E.

MR. NUTTER: Thank you.

Q. Mr. LaGarde, have you previously testified before the Oil Conservation Commission?

A. No, I haven't.

Q. Would you please tell us where you obtained your degree and in what year?

A. I have a BS in geology from Lousiana State University and I received that degree in 1975.

Q. Subsequent to graduation, where have you been employed in the capacity of a geologist?

A. Only with Gulf, and that was two years ago.

Q. As a geologist have you made a study of and are you familiar with the facts surrounding this particular application and the application of Grace Petroleum Corporation?

A. Yes, I am.

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MR. KELLAHIN: We tender Mr. LaGarde as an expert witness.

MR. RAMEY: He is so qualified.

Q (Mr. Kellahin continuing.) Would you please refer to Exhibit Number Seven, Gulf Exhibit Number Seven, and identify that for us?

A. Okay, this is a structure map on the Mid-Morrow shale. It's a point that is similar to Mr. Henry's point except he did it on the base of the shale and I did it on the top of the shale.

So we're mapping almost the same point. The maps are somewhat similar with a few differences for elevation and he has a closed structure in Section 3, I believe 3 and 10, if I recall without the map in front of me, that is different from what I have here, but basically it's the same map.

Q. Would you describe generally what your exhibit and study shows as with regards to the Morrow production in Section 6?

A. Okay. The Morrow production in Section 6 will be risky at best and the fact of the nature of the Morrow sands throughout southeast New Mexico are the same. It is very risky.

I believe that this location will be along strike with the "D" Well and the "E" Well and the "F" Well.

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And Exhibits, let's see, Eight and Nine, are these logs, which are also in the cross section.

Q. Describe for me Exhibit Eight and then Exhibit Nine.

A. Okay. Exhibit Eight is the "E" Well. On it I have marked the perforations and the point that I mapped on.

Exhibit Nine is the "F" Well and it has these same points marked on it, the mapping point and the perforations. On this well I've marked the perforations in red. We had a gross interval for the upper set of perforations and checked with the Commission there in Hobbs and got the exact intervals perforated.

Q. In looking at Section 6 for the sake of discussion, let's assume proposed proration units as requested by Gulf, in other words, three proration units a long side of which runs east to west, each one stacked upon the other. With regards to the center proration unit do you have an opinion with regards to the potential productivity of that proration unit from the Morrow formation?

A. I believe it will be productive but there again, you're dealing with the Morrow formation and it is risky.

Q. How would you compare the potential productivity of the center proration unit to the southern pro-

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ration unit in the south half of Section 6?

A. From what information I have, the south half of Section 6 would be very risky. It would be more risky than this location. As far as productivity, I could not really tell you right now. I'd have to wait till this well is drilled, the Duncan Federal.

Q. In the entire Section 6 where you would propose to locate the first test of the Morrow formation?

A. In Lot 9.

Q. What would be your second choice?

A. More than likely Lot 8, and then possibly Lot 16.

Q. The contour line on your structure map at 10,500 feet, what is the significance, if any, of that particular contour line?

A. Well, from the study I've made, I did not see any productive intervals, or any production, I'll put it that way, in the Morrow below this point.

Q. Do you have an opinion with regards to why the proposed Gulf proration unit is preferable to the one proposed by Grace Petroleum Company?

A. It is a more equitable distribution of the acreage.

Q. In what way?

A. In the fact that the percentages held by

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the companies would be divided more equally since the location is proposed on Gulf acreage and the drainage set-up here would be draining Gulf acreage moreso in this interval than if we used Grace Petroleum's set-up of the proration unit for the -- with the southern half not providing anything, essentially.

Q. Other than simple acreage ownership, how would you compare the two proposed proration units with regards to potentially productive Morrow sands?

A. Okay, as far as the productive intervals of the Morrow sand, I'm not exactly sure what your question -- what you're trying to say there.

Q. I would like you to compare the proposed proration unit proposed by Gulf --

A. Uh-huh.

Q. -- to that proposed by Grace Petroleum Corporation and in terms of potentially productive Morrow sand, based upon your geological study, which one has more and which one has less potentially productive Morrow sands in it?

A. Well, the way the units set up, since we're both going for the same location, they're both going to have the same amount of Morrow sands.

If you're talking about a proration unit in the eastern half and a proration unit in the western half

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for further development, that has yet to be seen. We'd have to wait till you get this well down and look at the logs and evaluate it and re-contour your map, if that's needed.

Q. You're familiar with Grace's proposed proration unit that would consist of a substantial portion of the east part of Section 6 as outlined on their plat?

A. Yes.

Q. You understand what that proposal is?

A. Yes.

Q. All right. In relation to the 10,500 foot contour line in your structure map, what portion of that unit would be above or below that line?

A. All right, the way I have this contoured, and they way they have their proration units set up, they would effectively be draining just the northern half.

Q. Approximately how many acres, Mr. LaGarde?

A. 160 acres of their unit.

Q. Now, in relation to Gulf's proposed proration unit, that area in the center of Section 6.

A. Yes.

Q. You're familiar with that proposal?

A. Yes.

Q. What -- what percentage of that area, in your opinion, is potentially productive in the Morrow zone

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as you know it now?

A. As I know it now, I --

Q. Yes, based upon present information without drilling that additional well?

A. Okay. As far as drainage is concerned, I would say that you would be draining more from the east to the west than you would from the north to the south, if that's what you're getting at.

Q. Do you have an opinion with regards to the number of productive acres contained under the Gulf proposed unit?

A. Productive acres under Gulf's unit? I would probably say, now this is just a guess, probably about 240.

Q. All right, and do you have an opinion with regards to the numbers of productive acres underlying the proposed application of Grace?

A. Well, like I said, 160 acres. That would be my guess.

This would also extend, I think the drainage would be into Section 5 and the northern half of Section 6, also, because of the unorthodox location.

I'm not fighting that. I think that is the best location.

Q. Now, the numbers you gave me for the Gulf

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unit are 240 acres. Is that the potential number of productive acres or is that the number of acres you anticipate that a well at the proposed unorthodox location will drain?

A. That would probably be drainage, more than likely. There again, this is just a guess. I wouldn't want to be held to these figures.

Q. You've indicated to me that the number of acres you anticipate that the Gulf -- the unorthodox location will drill in the Gulf acreage is 240. Do you have an opinion with regards to the number of acres that are potentially productive in that proration unit?

A. All I could say now would be that 160 acres, actually.

Q. In the Gulf tract or in the Grace tract?

A. Well, they would be in both tracts. It would be Lots 9, 10, 15, and 16.

Q. Say again, 9, 10, and what?

A. 15 and 16.

Q. All right. Do you have an opinion with regards to whether Lot Number 11 is reasonably productive in the Morrow?

A. I would think possibly but I wouldn't say for sure. There again you're dealing with the Morrow structure, or the Morrow sands.

Q. Okay. And what is your opinion with re-

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gards to Lot Number 8?

A. I think Number 8 would be a good location.

Q. Do you have an opinion, Mr. LaGarde, whether or not the approval of the Gulf application and concurrently the denial of the Grace application would be in the best interests of protection of correlative rights, prevention of waste?

A. Yes.

Q. And what is that opinion?

A. I believe if it's set up in the form in which Grace wishes to set it up, that you will be draining acreage to the east and to the west. I meant mainly to the west, which is not in a proration unit; namely Lots 11 and 14, whereas with our set-up you would be draining these acres and alloting them to this well.

Q. Were Exhibits Seven, Eight, and Nine prepared by you or compiled under your direction and supervision?

A. Yes, they were.

MR. KELLAHIN: We move the introduction of Exhibits Seven, Eight, and Nine.

MR. RAMEY: Exhibits Seven, Eight, and Nine will be admitted.

MR. KELLAHIN: That concludes my examination.

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MR. RAMEY: Any questions of the witness?

MR. COFFIELD: Yes, we do have some.

CROSS EXAMINATION

BY MR. COFFIELD:

A. May I say something before he questions me?

MR. RAMEY: Surely.

A. All right. These acreage figures I'm giving you are just a guesstimate. I'm not a reservoir engineer and don't claim to be. This is what I feel that it will drain.

Q. Okay. First, Mr. LaGarde, let's refer to your, let's see, what is this, Exhibit Seven, the structure map.

Are there any datum control points on this structure map?

A. What do you mean by datum control points?

Q. Well, compare Mr. Henry's structure map and you'll see what I'm talking about.

A. No, are they listed on the map itself?

Q. Yes.

A. No, they are not.

Q. Where -- where are they? Where would be -- where would we find them?

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A. I have them on a rough draft in here if you wish to see them.

Q. Well, Mr. LaGarde, how do you contour without these datum points located on the structure map?

A. Just take an overlay, trace over it. I drew my data on one map, my datum points, as you call them, contoured that, and then this map is contoured off of that, just a tracing, in effect.

Q. Now, looking at your structure map here, it doesn't appear that you have used as a control the Union Well log from the Halfway Federal Well in Section 9.

A. I don't have that log. That's the reason it was not used.

Q. Are you aware of the fact that the log is available?

A. No, I'm not.

Q. You say you do have this rough draft available for us to review?

A. Yes, I do.

Q. May I see it, please?

A. As you'll note, it's a very rough draft.

MR. NUTTER: Mr. LaGarde, what is on that rough draft, the top of the Mid-Morrow shale, is that depicted on your map there?

A. Yes, sir.

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MR. NUTTER: Why don't you just read those into the record and then we can put them down on our copies?

A. Okay.

MR. NUTTER: Of the exhibit.

MR. COFFIELD: I think what we will need, I presume, Mr. Nutter, will be for each of these spots colored yellow to have the control data points.

MR. NUTTER: That's what I was thinking of.

MR. COFFIELD: Okay.

MR. NUTTER: Is get started with the well, say, in Section 25, Mr. LaGarde. What figure do you have for that well?

A. Okay, the well in Section 25 I do not have.

The well in Section 36 I do have and that is -9791.

MR. NUTTER: Okay.

A. Okay, the wells in Section 30 of Township 20, 33, I have them for the Bass Federal No. 1. I have a -9714.

MR. NUTTER: Is that the northernmost well?

A. Yes, sir, it is.

MR. NUTTER: Okay.

A. The southern well is -9811.

Okay, the well that is the "CM", I believe, the "CM" I do not have. I didn't have until this map was

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drawn before I got that log, so I just --

MR. NUTTER: Is that the well in Section 31?

A. Yes, it is.

MR. NUTTER: So you didn't have data available when you drew this map?

A. No, sir, I did not, but it falls within control of this map.

MR. NUTTER: How about in Section 32?

A. 32, I have a -9960 and in 33 I have a -10,403.

Okay, in Section 3 --

MR. NUTTER: Okay.

A. I have for the "B" Federal, which is the northern well, I have a -10,248.

MR. NUTTER: In Section 3?

A. Yes. Of 21, 32.

MR. NUTTER: The northernmost well, I guess that's the one in Lot 14?

A. Lot 14, right.

MR. NUTTER: And that's a 10 -248 -- or -10,248?

A. Right.

MR. NUTTER: And then do you have a point for that Teal well in --

A. Yes, I do, a -10,232.

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Okay, moving into Section 4, for the "C" Federal Com I have a -10,209.

MR. NUTTER: Now which well is that?

A. It's the one below Lot 16.

MR. HENRY: Southeast corner.

MR. NUTTER: And that's a -10,269?

A. 209. The one in Lot 14 a -10,108.

And the well in Lot 6, a -10.008.

I do not have a log on the 2-A, which is in Lot 7.

MR. NUTTER: Okay, in Section 5?

A. Section 5, the well in Lot 11 is a -10,349. In Lot 16 a -10,375.

Okay, moving into Section 10, I have a -10,292.

MR. HENRY: Would you read that again?

A. -10,292.

MR. NUTTER: Which well is that, Mr. La Garde?

A. That is the Superior H, right.

In Section 11 the Hat Mesa Unit No. 1, I have a -10,304, and the No. 2, I have a -10,316.

And that is all the wells that I have.

Q. (Mr. Coffield continuing.) Okay, Mr. LaGarde, was it then on the basis of these figures that

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you've just given us that you define the limits of this -- of the field, or what -- what criteria did you use to define the limits?

A. Okay. The area I was mainly interested in, now the whole field is important, I'll take that into effect, but the area I was interested mainly was the area of Sections 5 and 6, 36, and Section 4.

Q. So you weren't particularly concerned with the entire field in your analysis?

A. I was concerned with it but it was not of extreme ultimate importance.

Q. Now, Grace's structure map, again I'll refer you to that, it shows -- it shows an Isopach. Do you have anything similar?

A. No, I do not.

Q. Also here on this -- on your structure map, are you aware that the Teal "SL" State Well in Section 32, do you find that one?

A. Yes, sir.

Q. Produced only in the Atoka, not in the Morrow?

A. I am aware of that, yes, sir.

Q. Okay, it does appear to be colored as a Morrow Well, does it not?

A. Yes, it is. It is colored as a Morrow Well.

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Q. So that is in error.

A. Right.

Q. Where would you say, Mr. LaGarde, are the best Morrow sands from your review of this geological --

A. Are you talking about which wells or which locations?

Q. Where would you go in this area here to find the best Morrow sands? How would you show it on your map? Where would you locate it on your map?

A. Basically in Sections 3 and 4.

Q. And what are you basing that on?

A. Well, on the production history, for one thing.

Q. How much sand do you expect in this -- in this well location that Gulf proposes?

A. Are you talking about gross sands or net sands? Do you want to qualify that?

Q. Well, tell me both of them.

A. Okay. Gross sands, I don't believe that Mr. Henry's map is wrong. I'll go along with that.

Net sands, I would probably cut that figure in half. Where he has 50 I'd say probably 25 feet of net sand at best.

Q. On what are you basing this?

A. ON the offset wells.

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Q. The offset wells entirely?

A. There is one thing that may come into effect here. I'm sure he is aware of it, too.

I've divided the clastic section into two zones, which I'm sure he does too. I don't know for sure. I'm just conjecturing. As an Upper Morrow and a Lower Morrow. Since you have your map on a Lower Morrow, there are sand developments in the "F" Federal, appear to be on the logs, better than in the "F" Federal, and the "E" Federal is structurally lower, but the zone was tested in the "F" Federal and was not productive, and as far as my information tells, it was never tested in the "E" Federal. The porosity is low, I'll grant that.

Q. Does this -- does this approach, Mr. LaGarde, reflect the usual approach to the geological analysis normally utilized by Gulf Oil Corporation when they're going to spend a million dollars for a well?

A. No, it does not. The time I had to put in on this was very minimal. I was notified about this at a very short notice.

The man who would normally do this is on vacation and he was not aware that the hearing was coming up, apparently, and since I do work the Morrow in southeast New Mexico, I was thrown in on this.

Q. Let me direct your attention, then, to

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the south 320 acres of Section 6.

A. Okay.

Q. What location do you think could be drilled if that were a proration spacing area allocable to a well?

A. I couldn't give you an answer on that now. There is no way of telling until you see what this other well will do, the one that we're talking about here.

Q. Generally relative to all of Section 6, first of all, you're aware of the configurations that are recommended by Grace, being the two stand-ups in the lower part and the one lay-down at the top, if the entire section were developed, how would Grace be damaged if this procedure were followed?

A. The way Gulf has proposed?

Q. I mean how would Gulf be damaged, instead, the way that Grace has it proposed, how would Gulf be damaged on that configuration?

A. Okay, on that configuration, we would not be getting our fair share of the well in Lot 9.

Q. Maybe you misunderstood me. I said if the entire section were --

A. Were developed?

Q. -- developed, uh-huh.

A. Well, that's entirely speculative. There

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is no way of saying that this well would be any good, much less any other wells.

Q. But Gulf would have its fair share, I trust would be your opinion, if it were developed. There is no reason to expect it would not, is that true?

A. Well, I can't say that because we don't know how the wells are going -- if there is going to be production in all three proration units, no matter how it's set up.

Q. Okay. You have heard Mr. Kalteyer indicate that Gulf has asked for the currently unleased Federal acreage to be put up for leasing at the earliest possible time, I presume. Do you know whether Gulf would be willing to pay a going rate of around $2500 an acre, which is -- for this type of acreage?

A. I have no idea what they'd be willing to pay. That is not determined by production geology in Hobbs.

We can only make recommendations as to acreage to buy that we think ought to be bid on, and we would bid on it, I know that much. As far as what they would bid, I have no idea.

Q. If this well is drilled, Mr. LaGarde, at its location now proposed, would it not prove up in effect two possible offset locations, direct -- direct offsets, one being a possible offset location in -- relative to

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Section 11, perhaps, and the other being a location relative to Section 8?

A. And you could also add one possibly in the southeast quarter.

Q. Wouldn't the southeast quarter be further away from the control that would be available from the drilling of this current well that we're proposing?

A. Not at an unorthodox location, it wouldn't be.

Q. But at an orthodox location it certainly would, would it not?

A. Wait a minute, wait, let me look at this again.

Possibly. I'll say possibly. I won't say categorically no.

Q. Well, on your structure map here, wouldn't a location there in the south half be below 10,500, which you stated was potentially nonproductive?

A. It's potentially not productive, but you don't know if it's going to do that or not. You don't have a control there. This is just my interpretation of it.

Q. Okay, Mr. LaGarde, you've testified earlier that a well at this location would potentially prove 160 -- drain, rather, 160 acre --

A. Which location are you talking about?

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The proposed location? Okay.

Q. The location proposed by both parties. How would you prove this?

A. It would be very hard to prove.

Q. How did you come to this conclusion?

A. It's just my general feeling that that's the way it is. Now, I know that Morrow sands are not continuous and they are lenticular, as Mr. Henry said, and I agree with that.

320-acre spacing in the Morrow is something in our office, and I'm sure in many other offices, that everyone has batted around, doesn't believe that there is 320-acre drainage. I say 160 acres because I believe that would actually be fair drainage for any Morrow well.

Q. This was your opinion if the configuration were along a line being asked for by Grace, is that your opinion?

A. Along -- well, yes, uh-huh.

Q. Whereas if it's the configuration asked for by Gulf, running east and west, what was your opinion there?

A. Possibility, possibility of draining any reserves. Now this again, possibility, in Lots 11 and Lot 14, also.

Q. Now what basis do you have for that? Do

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you have any geological information on that point?

A. No, I do not. Here again, this is opinion.

Q. I believe in response to Mr. Kellahin's question you said that the well, as drilled by Gulf -- well, as to the well as drilled by Gulf, the Lot 11 would possibly be productive, is that correct?

A. That's what I said, uh-huh.

Q. And also I believe you said that Lot 8 would be a good location.

A. Yes.

Q. Will this "G" location sufficiently drain Lot 8 so there wouldn't be any need for another well?

A. It could. And Lot 8, I was talking in Lot 8 of the surface location.

Q. All right. In fact you're saying, however, you really are not sure, is that right?

A. In what way do you mean I'm not sure?

Q. Not sure that it will or will not drain.

A. It will drain, yes.

Q. So would then there be no need for another well in that northern tier, is that correct?

A. I see what you're leading to. Possibly no. It depends on the nature of the Morrow sands.

Q. Who selected this proration spacing area that's urged by Gulf?

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A. As far as I know, the proration unit was selected by the production geology staff in Midland.

Q. Did you personally have anything to do with it?

A. No, I did not.

Q. Maybe you said earlier, but have you given an opinion as to what the percentage odds you think are going to be for a well at this particular location as proposed by Gulf?

A. I would not even venture as far as that. I know Mr. Henry's said 50 to 60 percent, but with my experience in the Morrow, we've drilled wells that were surrounded by other producers and still got no Morrow production, so as far as the Morrow is concerned, I would not venture to guess.

I would say it would be a risky location but I would drill it.

Q. Back to your point a few minutes ago, Mr. LaGarde, as to the "G" well location draining 160 acres, as we discussed a few minutes ago, if that were so, would this not also permit another proration spacing area to the west on a stand-up proration spacing area, which would then drain additional acreage to the west of the section?

A. Would it prevent drainage from the west?

Q. Would it permit, wouldn't that follow if

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you're saying 160 acres would be drained from the "G" well, that the -- this would likewise permit, and in fact presuppose, that the acreage to the west were for a standup proration unit to the west?

A. It could. But what I'm saying is that this well would probably drain acreage from that section, also.

MR. COFFIELD: I have no further questions of this witness.

MR. RAMEY: Any other questions of the witness? Mr. Nutter?

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. LaGarde, and possibly, Mr. Kellahin, this question would better be directed to Mr. Kalteyer; Mr. Coffield, I would direct the same question to Mr. Duncan or to Mr. Henry -- to Mr. Henry or Mr. Erickson, whichever is the most appropriate to answer.

But do you have any idea of what your company's time frame is for drilling this well, if your application here would be approved today?

I'll ask Mr. LaGarde or Mr. Kalteyer.

A. As far as the way we have our unit set up, it would have to -- I would think it may hinge on when the

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sale would come about for this acreage which is not leased. Now I don't know that for a fact. We may drill it in spite of that.

Q. Do you have any thoughts on that, Mr. Kalteyer?

MR. KALTEYER: That's probably correct.

Q. That you'd probably wait for the sale and see if you could obtain the acreage or if you didn't obtain the acreage, what would happen?

MR. KALTEYER: For our unit?

Q. Uh-huh.

MR. KALTEYER: We would prefer that we didn't enter that with that unleased acreage at the time of drilling, or at least by the time we reached total depth of that well.

Q. Do you have any idea of when that land will be put up for sale, when you said that Gulf has asked for --

MR. KALTEYER: That is strictly third or fourth party, was that they -- one of our attorneys had talked to BLM, I believe, and they didn't know whether they could get it in a September sale, but it would be before the end of the year.

Q. I see.

MR. KALTEYER: But I have not verified that

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or heard anything other than that third party on that.

A. We do have a letter from --

MR. KALTEYER: Well, that they said they would put it up for sale at the next sale.

Q. And then if the land came up for sale and Gulf wasn't the successful bidder, I presume, Mr. Kellahin, that you'd consider this forced pooling order that you are requesting now today wuld be applicable to whoever was the successful bidder on that land, or would it?

MR. KELLAHIN: That would be a legal opinion. It's my understanding from talking to Raul Martinez at the BLM that the forced pooling order will effectively commit that unleased acreage to the proration unit.

Mr. Martinez was unable to tell us whether or not the lessee that obtained that acreage would be able to tender his share of the well costs and participate in the well without the risk.

It would be my assumption that they could do so, even though the well may have already been completed. So it's conceivable that the lessees of record for the unleased Federal tracts, depending on when the well is drilled and when the acreage is leased could get a free peek at the well, but that it would be subject to the terms of the forced pooling order.

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MR. NUTTER: The lands would be.

MR. KELLAHIN: That's right.

MR. NUTTER: Mr. Coffield, as to the time frame that your company has for drilling the well?

MR. HENRY: Now, I was told that this well has been staked and the contractor was agreed upon; that as we didn't get the paperwork done, so therefore we let this contractor go.

But Grace is in the position to get -- I think the archaeological study has already been done, and just getting approval today. We just stopped because of this thing with Gulf, but Grace is -- is in the position right now to immediately drill this proration unit, because see, we asked for a hearing to drill this well last October, September, the latter part of September or October, and we had been -- or they have been, and I'm not going to get into the land department, because that's not even in Midland, but from what they told me, they had been wanting to drill this well since, and Supron wanted to wait on production. So did Gulf. And Supron said they were ready to go and then went back to Gulf to see if they could make a deal, and then we got into this argument.

But they are ready to go as far as I understand.

MR. NUTTER: Well, when that location wa

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approved at that last hearing, was a proration unit designated as being the lands to be dedicated to the well?

MR. HENRY: Yes, sir, north and south, I believe they were.

MR. KELLAHIN: I don't know what case you're talking about.

MR. NUTTER: I don't believe you were a party to that case and --

MR. KELLAHIN: That's why I objected to it because I don't know what we're talking about. I'm asking now what the provisions of the order are.

MR. NUTTER: Does it specify the lands?

MR. HENRY: They are set out, the lands. If it serves my memory, it was 9 and 10, 15 and 16, and the southeast quarter set out in the order.

MR. COFFIELD: Let me give you a copy of it. It says, the order part -- well, the finding says that Lots 9, 10, 15, 16, and the southeast quarter of Section 6 are to be dedicated to the well.

MR. NUTTER: The same lands that Grace is seeking to pool today, then.

MR. COFFIELD: Yes, sir.

MR. RAMEY: Any other questions of the witness? He may be excused.

Do you have anything further, Mr. Kellahin?

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MR. KELLAHIN: I have no further testimony. We'd like to make a brief statement at whatever time you desire.

MR. RAMEY: All right, go ahead, Mr. Kellahin.

MR. KELLAHIN: May it please the Commission, Gulf has found itself in a very difficult position, and I think largely because of a party that's not present, Supron, I think is the bad guy in this case.

It appears from the correspondence and the records in here that Gulf Oil Company and Grace for a considerable period of time were trying to get together to work out among themselves how they were going to develop Section 6, and you can see from the correspondence that Grace has introduced, and it's a letter dated June 15th of '79, and the other letter, dated June 28th of '79, in addition to testimony of Mr. Erickson, showed that at least between Grace and Gulf they had reached a settlement whereby Gulf's share in the proration unit as proposed by Grace would be increased in return for assignment of interest in Tract No. 8 that would have increased Gulf's share to something, I believe, like 33-1/3 percent.

The testimony from Mr. Erickson was that Supron refused that deal and compelled Grace into a position where they had no other choice but to request a forced pooling.

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It appears from the correspondence that Mr. Erickson wrote to Supron that predates the letter from Mr. Griffith on behalf of Gulf to Grace saying that here is a proposed settlement upon which Mr. Erickson said there was agreement by Grace; that that letter to Supron dated June 15th makes the tender to Supron and then advises them in the last paragraph that if everyone cannot agree, then they will go ahead with the forced pooling case.

Supron was put on notice that there was a forced pooling case pending, but that notice, if my memory of the evidence, reflects that no demand was ever made upon Gulf until after the application for forced pooling was filed.

But I think regardless of that point, the companies have made an effort to solve this problem, and apparently Supron Energy Corporation has gotten greedy. I think it's as simple as that.

Everybody agrees as to the proposed location for the well. That is certainly not in dispute. That is the optimum location within the entire Section 6 in which to commence a well.

Gulf certainly could have come in here and proposed a proration unit consisting of Lots 1, 2, 7, 8, 9, 10, 15, and 16 and thereby increased its interest in the well, in the same --- in the same way that Supron and Grace

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now seek to diminish Gulf's interest. We've not done that. We don't think that's fair and appropriate.

We think the Commission is obligated by its statutory authority, first of all, to protect correlative rights. It is my opinion that the most reasonable way, the most equitable way to develop this acreage, is to assign a proration unit as Gulf has proposed. The equities among the working interest owners are equally divided in that situation.

Gulf, which is the 100 percent owner of Tracts 9, 10, and 11, would then have a 50 percent interest and Grace and Supron, with their undivided interest split among them in Tracts 14, 15, and 16, and additional equities involved, show that by doing that configuration you diminish the problems, or the impact of the unleased Federal acreage in Section 6.

If you accept the Gulf proration units, that leaves only two 40-acre tracts unleased. Either Gulf or Grace will have a larger percentage than any of the lessees that acquire that property.

If you accept the Grace configuration, you put all leased acreage in one unit, but the next well that goes into the west half of Section 6 is going to be faced with the impact of four 40-acre tracts that are not leased.

I think that's the real problem. The

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equities are further stressed in favor of Gulf in that the Commission in deciding unorthodox well locations in the past has often penalized an operator for including nonproductive acreage in his unit. I think those equities apply in this kind of case.

The testimony of Mr. Henry, I think the testimony and the entire record demonstrates that the best production lies in the center of Section 6, and I think it's without question and it's undisputed in the evidence, that the south portion of Section 6 is very risky in potential and nonproductive in the Morrow.

I think it violates Gulf's correlative rights if you assign a proration unit as requested by Grace and allowed them to commit nonproductive Morrow acreage to a well located in Tract Number 9.

In addition, I think that we have established that Gulf is certainly a competent operator; that it has presented an AFE that shows that it can drill this well at a competitive price with Grace; that it is certainly some $280,000 less than that proposed by Grace.

If you give Grace the credit that Mr. Nutter suggested with regards to potential blowouts, there's still some $280,000 cheaper.

In light of all those facts and circumstances, I think the Commission would set a very bad precedent

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if they were to approve the acreage proration unit as proposed by Grace.

In the alternative, I think the only equitable and fair way to do this would be to approve the one proposed by Gulf and deny the application of Grace.

MR. RAMEY: Thank you, Mr. Kellahin.

Mr. Coffield?

MR. COFFIELD: If you please, gentlemen, I suggest that the observation by Mr. Kellahin that Supron may be a bad guy may or may not be so, but whether it is or is not so, it doesn't endow any scientific benefit to Gulf's proposal.

Grace, by its proposal of the configurations suggested by weight of Grace's application here, does not seek to diminish Gulf's interest whatsoever.

On the contrary, Grace seeks the maximum development of the entire section. The maximum development of the entire section being three producing wells, hopefully producing wells, at locations which are the least risky and certainly by the overwhelming geological information and data that's been submitted by our Grace witnesses we have shown the three wells can very well be drilled as prospective producers if they are drilled on the configuration urged by Grace.

Definitely not so if we take the configur-

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ations urged by Gulf.

As Mr. Kellahin has just suggested and stated, the south 320 acres is considered by all parties as being very, very risky, and I assume no one with what's known about the well data at this point, would suggest a well to be located in that south portion; which isn't to say the south 320 acres could not prospectively be productive, at least with respect to some reserves.

If wells are drilled on the configuration suggested by Grace, the prospective -- there would be prospective recovery of the reserves located in that south tier of lots.

As we also have shown, in this particular field Grace has extensive and very impressive experience in drilling these wells. They wrote the book in this particular area. There is certainly no -- they're not in the position of an experimenter in connection with wells of this type. They know precisely what they're doing.

Accordingly, it is our -- we urge to the Commission the approval of Grace's application and denial of Gulf's application in the interest of protecting the correlative rights of all parties.

MR. RAMEY: Thank you, Mr. Coffield.

Anything further in the case?

If not, the Commission will take the case under advisement and the hearing is adjourned.

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REPORTER'S CERTIFICATE

I, SALLY W. BOYD, a court reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Commission was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, from my notes taken at the time of the hearing.

Sally W. Boyd, C.S.R.

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STATE OF NEW MEXICO
# ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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Re: CASE NO. 6590 and 6612
ORDER NO. R-6158

Mr. Conrad E. Coffield
Hinkle, Cox, Eaton, Coffield
& Hensley
Attorneys at Law
P. O. Box 3580
Midland, Texas 79702

Applicant:

Grace Petroleum Corporation and
Gulf Oil Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other Thomas Kellahin

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASES NOS. 6590 AND 6612
Order No. R-6158

APPLICATION OF GRACE PETROLEUM CORPORATION
FOR COMPULSORY POOLING AND AN UNORTHODOX
GAS WELL LOCATION, LEA COUNTY, NEW MEXICO.

APPLICATION OF GULF OIL CORPORATION FOR
COMPULSORY POOLING AND AN UNORTHODOX GAS
WELL LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 7, 1979, at Santa Fe, New Mexico, before the New Mexico Oil Conservation Commission, hereinafter referred to as the "Commission."

NOW, on this 26th day of October, 1979, the Commission, a quorum being present, having considered the testimony, the record, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That in Case No. 6590, the applicant, Grace Petroleum Corporation, seeks an order pooling all mineral interests in the Morrow formation underlying Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico.

(3) That in Case No. 6612, the applicant, Gulf Oil Corporation, seeks an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico.

(4) That each applicant, Grace Petroleum Corporation and Gulf Oil Corporation, seeks to be named the operator of the unit each seeks to have pooled.

(5) That each applicant further seeks authority to drill a well at an unorthodox gas well location 4650 feet from the South line and 660 feet from the East line of said Section 6.

(6) That Cases Nos. 6590 and 6612 were consolidated for purpose of hearing and should be consolidated for purpose of issuing an order inasmuch as the cases involve certain common acreage and the granting of one application would necessarily require the concomitant denial of the other.

(7) That there was no objection to the unorthodox location proposed by both applicants, and said location should be approved.

(8) That Grace Petroleum Corporation has the right to drill and proposes to drill a well on its proposed unit to test the Morrow formation underlying said unit.

(9) That Gulf Oil Corporation has the right to drill and proposes to drill a well on its proposed unit to test the Morrow formation underlying said unit.

(10) That there are interest owners in both proposed proration units who have not agreed to pool their interests.

(11) That the approval of the proration unit proposed to be pooled by Grace would include only lands which are presently under lease, and would result in a unit with the following working interest ownership:

| | Acres | Percentage |
|---|---|---|
| Grace et al | 240.00 | 75.00 |
| Gulf | 80.00 | 25.00 |
| Total | 320.00 | 100.00 |

(12) That the approval of the proration unit proposed to be pooled by Gulf would include two unleased Federally-owned lots, being Lots 12 and 13 of Section 6, and would result in a unit with the following present working interest ownership:

| | Acres | Percentage |
|---|---|---|
| Gulf | 120.00 | 36.85164 |
| Grace et al | 120.00 | 36.85164 |
| Unleased | 85.63 | 26.29672 |
| Total | 325.63 | 100.00000 |

(13) That according to the testimony, there would be no appreciable delay in which the unit well would be drilled, should the proposed Grace unit be approved.

(14) That according to the testimony, considerable uncertainty exists as to the time frame in which the unit well would be drilled, should the proposed Gulf unit be approved.

(15) That under the circumstances, it would appear appropriate for the Commission to consider, among other things, the three following factors in deciding which of the two applicants should prevail in this cause:

(1) precedence of application

(2) immediacy of drilling plans for the unit well

(3) experience in drilling operations and well completions in the immediate area

(16) That the Grace application for compulsory pooling was received by the Division on June 11, 1979, and the Gulf application for compulsory pooling was received by the Division on July 12, 1979.

(17) That Grace has immediate plans for drilling the proposed unit well, whereas Gulf has no immediate plans for drilling the proposed unit well.

(18) That Grace has successfully drilled about ten wells in the immediate area, whereas Gulf has drilled no wells in the immediate area.

(19) That the evidence indicates that Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, can be efficiently and economically drained and developed by a well drilled at the unorthodox location described in Finding No. (5) above.

(20) That considering all aspects of the subject cause, it appears to the Commission that the application of Grace Petroleum Corporation in Case No. 6590 should have preference over the application of Gulf Oil Corporation in Case No. 6612.

(21) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas

in said pool, the application of Grace Petroleum Corporation should be approved by pooling all mineral interests, whatever they may be, in the Morrow formation underlying Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at the proposed unorthodox location for said unit.

(22) That the application of Gulf Oil Corporation for an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, Lea County, New Mexico, should be denied.

(23) That the applicant, Grace Petroleum Corporation, should be designated the operator of the subject well and unit.

(24) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(25) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(26) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(27) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(28) That $2672.00 per month while drilling and $373.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(29) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(30) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That Cases Nos. 6590 and 6612 are hereby consolidated into one cause for entry of order.

(2) That all mineral interests, whatever they may be, in the Morrow formation underlying Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 4650 feet from the South line and 660 feet from the East line of said Section 6.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of February, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of February, 1980, Order (2) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (2) of this order should not be rescinded.

(3) That Grace Petroleum Corporation is hereby designated the operator of the subject well and unit.

(4) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that 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 said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of

estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(9) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(10) That $2672.00 per month while drilling and $373.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) That any unsevered 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 the terms of this order.

(12) That any well costs or charges which 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.

(13) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

IT IS FURTHER ORDERED:

(1) That the application of Gulf Oil Corporation for an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at a point 4650 feet from the South line and 660 feet from the East line of said Section 6 is hereby denied.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

ALEX J. ARMIJO, Member

EMERY C. ARNOLD, Member

JOE D. RAMEY, Member & Secretary

S E A L

fd/

Rough Draft

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASES NOS. 6590 AND 6612
Order No. R-6158

APPLICATION OF GRACE PETROLEUM CORPORATION FOR COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION, LEA COUNTY, NEW MEXICO.

APPLICATION OF GULF OIL CORPORATION FOR COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 7, 1979, at Santa Fe, New Mexico, before the New Mexico Oil Conservation Commission, hereinafter referred to as the "Commission"

NOW, on this _____ day of October, 1979, the Commission, a quorum being present, having considered the testimony, the record, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That in Case No. 6590, the applicant, Grace Petroleum Corporation, seeks an order pooling all mineral interests in the Morrow formation underlying Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico.

(3) That in Case No. 6612, the applicant, Gulf Oil Corporation, secks an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico.

(4) That each applicant, Grace Petroleum Corporation and Gulf Oil Corporation, seeks to be named the operator of the unit each seeks to have pooled.

(5) That each applicant further seeks authority to drill a

well at an unorthodox gas well location 4650 feet from the South line and 660 feet from the East line of said Section 6.

(6) That Cases Nos. 6590 and 6612 were consolidated for purpose of hearing and should be consolidated for purpose of issuing an order inasmuch as the cases involve certain common acreage and the granting of one application would necessarily require the concomitant denial of the other.

(7) That there was no objection to the unorthodox location proposed by both applicants, and said location should be approved.

(8) That Grace Petroleum Corporation has the right to drill and proposes to drill a well on its proposed unit to test the Morrow formation underlying said unit.

(9) That Gulf Oil Corporation has the right to drill and proposes to drill a well on its proposed unit to test the Morrow formation underlying said unit.

(10) That there are interest owners in both proposed proration units who have not agreed to pool their interests.

(11) That the appoval of the proration unit proposed to be pooled by Grace would include only lands which are presently under lease, and would result in a unit with the following working interest ownership:

| | Acres | Percentage |
|---|---|---|
| Grace et al | 240.00 | 75.00 |
| Gulf | 80.00 | 25.00 |
| Total | 320.00 | 100.00 |

(12) That the approval of the proration unit proposed to be pooled by Gulf would include two unleased Federally-owned lots, being Lots 12 and 13 of Section 6, and would result in a unit with the following present working interest ownership:

| | Acres | Percentage |
|---|---|---|
| Gulf | 120.00 | 36.85164 |
| Grace et al | 120.00 | 36.85164 |
| Unleased | 85.63 | 26.29672 |
| Total | 325.63 | 100.00000 |

(13) That according to the testimony, there would be no appreciable delay in which the unit well would be drilled, ~~if~~ should the proposed Grace unit ~~be~~ approved.

(14) That according to the testimony, considerable uncertainty exists as to the time frame in which the unit well would be drilled, ~~if~~ should the proposed Gulf unit ~~is~~ be approved.

(15) That under the circumstances, it would appear appropriate ~~for~~ the Commission to consider, among other things, the three following factors in deciding which of the two applicants should prevail in this cause:

(1) precedence of application

(2) immediacy of drilling plans for the unit well

(3) experience in drilling operations and well completions in the immediate area

(16) That the Grace application for compulsory pooling was received by the Division on June 11, 1979, and the Gulf application for compulsory pooling was received by the Division on July 12, 1979.

(17) That Grace has immediate plans for drilling the proposed unit well, whereas Gulf has no immediate plans for drilling the proposed unit well.

(18) That Grace has successfully drilled ~~some~~ about ten wells in the immediate area, whereas Gulf has drilled no wells in the immediate area.

(19) That the evidence indicates that Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, can be efficiently and economically drained and developed by a well drilled at the unorthodox location described in Finding No. (5) above.

(20) That considering all aspects of the subject cause, it appears to the Commission that the application of Grace Petroleum Corporation in Case No. 6590 should have preference over the application of Gulf Oil Corporation in Case No. 6612.

(21) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the application of Grace Petroleum Corporation should be approved by pooling all mineral interests, whatever they may be, in the Morrow formation underlying Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at the proposed unorthodox location for said unit.

(22) That the application of Gulf Oil Corporation for an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, Lea County, New Mexico, should be denied.

(~~23~~) That the applicant, Grace Petroleum Corporation, should be designated the operator of the subject well and unit.

(~~24~~) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(25) ~~(18)~~ That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

(26) ~~(19)~~ That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(27) ~~(20)~~ That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(28) ~~(11)~~ That $2672.00 per month while drilling and $373.00 per month while producing per month should be fixed as ~~a~~ reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(29) ~~(12)~~ That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(30) ~~(13)~~ That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before ~~January 31~~ February 1, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That Cases Nos. 6590 and 6612 are hereby consolidated into one cause for entry of order.

(2) That all mineral interests, whatever they may be, in the Morrow formation underlying Lots 9, 10, 15, and 16 and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, ~~Undesignated~~ South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location ~~hereby approved~~, 4650 feet from the South line and 660 feet from the East line of said Section 6

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the ~~first~~ day of ~~January~~ February 1, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of ~~January~~ February 1, 1980, Order (2) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (2) of this order should not be rescinded.

~~(b) That the said unorthodox well location is approved.~~

3 (2) That Crosse Petroleum Corporation is hereby designated the operator of the subject well and unit.

4 (3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

5 (4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

6 (5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that 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 said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

7 (6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided

above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

8 (7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

9 (8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

10 (9) That $ 2672.00 per month while drilling and $ 323.00 per month while producing are ~~per month is~~ hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered 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 the terms of this order.

(11) That any well costs or charges which 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.

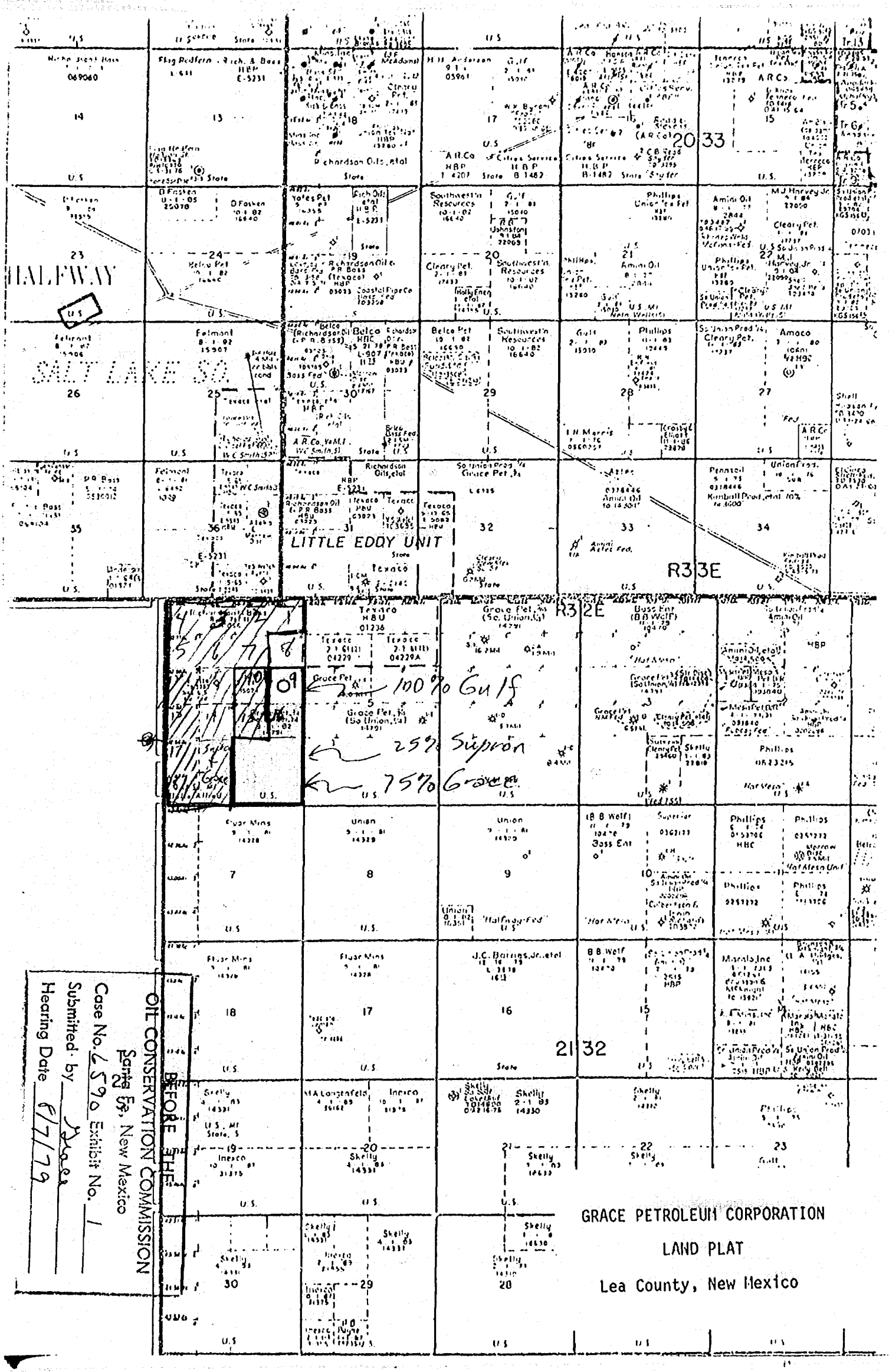
(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause 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.

IT IS FURTHER ORDERED:

(1) That the application of Gulf Oil Corporation for an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, South South Lake-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at a point 4650 feet from the South line and 660 feet from the East line of said Section 6 is hereby denied


HALFWAY
SAT LAKE SO.
LITTLE EDDY UNIT
R33E
R32E
100% Gulf
25% Supron
75% Grace
GRACE PETROLEUM CORPORATION
LAND PLAT
Lea County, New Mexico
BEFORE THE OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6590 Exhibit No. 1
Submitted by
Hearing Date 6/7/79

GRACE PETROLEUM CORPORATION
SUBSIDIARY OF W. R. GRACE & CO.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Region MID-CONTINENT Case No. 6
Submitted by 6590 - GRACE
Hearing Date

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITURE
AFE No.
Date 8/1/79

WELL NAME New Mexico Federal "G" #1 PROSPECT So. Salt Lake
DESCRIPTION [illegible] FEL & 660' FSL EXPLORATORY ___ DEVELOPMENT X WORKOVER ___
Sec. 6-21S-32E
COUNTY & STATE Lea Co., NM

| Depth | Formation | Type |
|---|---|---|
| 13,600' | Morrow | Oil ___ Gas X |
| 14,100' | TD | Oil ___ Gas ___ |
| ___ | ___ | Oil ___ Gas ___ |

Code 25 applies only if we have your election in writing to be covered under our policy.

| Item and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| INTANGIBLE DRILLING COSTS: | | | | | |
| Drilling Cost - Footage | 01 | | 01 | | |
| Day Work 60 @ 4600; 2 @ 4600 + 14 @ 1500 | 02 | 276,000 | 02 | 31,000 | 307,000 |
| Drilling and Turnkey MI RU MO | 04 | 40,000 | 04 | - | 40,000 |
| Labor - Company and Contract | 13 | 15,000 | 13 | 10,000 | 25,000 |
| Transportation | 26 | 2,000 | 26 | 8,000 | 10,000 |
| Bridges, Roads, Locations, etc. | 08 | 25,000 | 08 | 3,000 | 28,000 |
| Fuel, Water and Power | 05 | 60,000 | 05 | 5,000 | 65,000 |
| Bits, Coreheads and Rentals | 07 | 50,000 | 07 | 30,000 | 80,000 |
| Drilling Fluids | 06 | 75,000 | 06 | 2,000 | 77,000 |
| Surveys (Logging) Perforating | 11 | 20,000 | 11 | 25,000 | 45,000 |
| Mudlogger | 30 | - | 30 | - | - |
| Cement and Cementing Services and Frac | 15 | 33,000 | 15 | 35,000 | 68,000 |
| Testing (Drillstem & Wireline) | 10 | 16,000 | 10 | - | 16,000 |
| Core Analysis | 12 | - | 12 | - | - |
| Geological and Engineering | 09 | 30,000 | 09 | 8,000 | 38,000 |
| Plugging & Abandoning | 27 | 5,000 | 27 | (5,000) | - |
| District and Overhead Expense | 20 | 4,000 | 20 | - | 4,000 |
| Insurance | 25 | 9,000 | 25 | - | 9,000 |
| Miscellaneous and Unforeseen @ 10% | 28 | 66,000 | 28 | 15,200 | 81,200 |
| TOTAL INTANGIBLE DRILLING COSTS | | 726,000 | | 167,200 | 893,200 |
| TANGIBLE DRILLING COSTS: | | | | | |
| Casing Size 13 3/8" 475' @ 19.00/ft. | 51 | 9,000 | 51 | - | 9,000 |
| Casing Size 9 5/8" 5300' @ 15.00/ft. | 51 | 80,000 | 51 | | 80,000 |
| Casing Size 5 1/2" 14,100' @ 9.00/ft. | 51 | - | 51 | 126,900 | 126,900 |
| Casing Size | 51 | | 51 | | |
| Casing Size | 51 | | 51 | | |
| Tubing 2 7/8" 14,100' @ 3.00/ft. | 52 | - | 52 | 42,300 | 42,300 |
| Subsurface Equipment | 53 | 2,000 | 53 | 12,000 | 14,000 |
| Well Head Equipment | 50 | 2,000 | 50 | 20,000 | 22,000 |
| Miscellaneous @ 10% | 72 | 9,300 | 72 | 20,100 | 29,400 |
| TOTAL TANGIBLE DRILLING COSTS | | 102,300 | | 221,300 | 323,600 |
| TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS | | | | | |
| Tanks, Separators, etc. | | | 56 | 30,000 | 30,000 |
| Heater Treater, Flow Line Heater, LTX, etc. | | | 58 | 10,000 | 10,000 |
| Lease Lines | | | 60 | 4,000 | 4,000 |
| Other Major Expense | | | 54 | 10,000 | 10,000 |
| Miscellaneous Connections | | | 71 | 5,000 | 5,000 |
| Installation | | | 74 | 6,000 | 6,000 |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 65,000 | 65,000 |
| TOTAL AFE COST (100%) | | 828,300 | | 453,500 | 1,281,800 |

COMPANY: ___
APPROVED: ___
TITLE: ___ DATE: ___

GRACE PETROLEUM CORPORATION
APPROVED: Robert W. Hamburg
TITLE: Drilling Manager DATE: 8/1/79

COMMUNITIZATION AGREEMENT

Contract No. _____

THIE AGREEMENT, entered into as of the 1st day of November, 1978, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

WITNESSETH:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.), authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

   Lots 9, 10, 15, 16, and SE/4 of
   Section 6-21S-32E,
   Lea County, New Mexico

   containing 320 acres, more or less, and this agreement shall include only the Morrow Formation underlying said lands and the natural gas and associated liquid hydrocarbons hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit B, designating the operator of the communitized area and showing the acreage percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area, and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

(b) It is agreed that for any Federal lease bearing a sliding - or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement is effective November 1, 1978, upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities: Provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246, as amended, (30 F.R. 12319), which are hereby incorporated by reference in this agreement.

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

BY: _____
ASSISTANT SECRETARY

GRACE PETROLEUM CORPORATION

BY: _____
Vice President

ATTEST:

BY: _____

SUPRON ENERGY CORPORATION

BY: _____

ATTEST:

BY: _____

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 1st day of November 1978, by J. K. Ursidale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___ day of _____, 19 , by

President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this _____ day of _____, 19__, by President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this____day of_____

by_____.

_____

Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____

by_____.

_____

Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____, 19

by_____.

_____

Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____, 19

by_____.

_____

Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___ day of _____, 19__, by _____.

_____
Notary Public

My Commission Expires:

_____

EXHIBIT "A"

TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, EMBRACING LOTS 9, 10, 15, & 16 and SE/4 Section 6, Township 21 South, Range 32 East, NEW MEXICO P.M., LEA COUNTY, NEW MEXICO

OPERATOR OF COMMUNITIZED AREA - GRACE PETROLEUM CORPORATION

TRACT NO. 1

LESSOR(S) : U. S. A.

LESSEE(S) OF RECORD: Gulf Oil Exploration and Production Company

SERIAL NO. OF LEASE: NM-15024

DATE OF LEASE: February 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 9 & 10 of
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 80

WORKING INTEREST AND PERCENTAGE: Gulf Oil Exploration and Production Company. . .100.%

O.R.R.I. AND PERCENTAGE:

Walter Duncan.....30% of 5%
Raymond T. Duncan.....30% of 5%
Vincent J. Duncan.....30% of 5%
J. Walter Duncan, Jr..... 9% of 5%
Walter Duncan, III..... 1% of 5%

TRACT NO. 2

LESSOR(S): U. S. A.

LESSEE(S) OF RECORD: Grace Petroleum Corporation and
Supron Energy Corporation

SERIAL NO. OF LEASE: NM-14791

DATE OF LEASE: March 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 15 & 16 & SE/4
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 240

WORKING INTEREST AND PERCENTAGE:

Grace Petroleum Corporation ..... 75.%
Supron Energy Corporation ..... 25.%
100.%

O.R.R.I. AND PERCENTAGE:

Henry Vartanian.....2.5%
Charles E. Strange,
Trustee of the Charles
E. Strange Trust.....2.5%

EXHIBIT "B"

PLAT OF COMMUNITIZED AREA COVERING LOTS 9, 10, 15, & 16 and SE/4 of Section 6-21S-32E, NMPM, LEA COUNTY, NEW MEXICO, SALT LAKE SOUTH FIELD

| | |
|---|---|
| Lot 10<br>Tr. 1 - 40 acres<br>NM 15024 | Lot 9<br>Tr. 1 - 40 acres<br>NM 15024<br>o Well Location |
| Lot 15<br>Tr. 2 - 40 acres<br>NM-14791 | Lot 16<br>Tr. 2 - 40 acres<br>NM 14791 |
| SE/4<br>Tract 2 - 160 acres<br>NM-14791 | |

R E C A P I T U L A T I O N

| TRACT # | TOTAL ACRES COMMITTED | % OF INTEREST IN COMMITTED AREA |
|---|---|---|
| 1 | 80.00 | 25.00% |
| 2 | 240.00 | 75.00% |
| | 320.00 | 100.00% |

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____
ASSISTANT SECRETARY

BY: _____
Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____
Bill Curtis, Attorney-in-Fact

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 1st day of November 1978 by J. K. Lindale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF TEXAS )
) SS
COUNTY OF DALLAS )

The foregoing instrument was acknowledged before me this 22 day of December 1978, by Bill Curtis, Attorney-in-Fact of Supron Energy Corporation, a Delaware Corporation, on behalf of said corporation.

Mary P. Brooks
Notary Public

My Commission Expires:
6/15/80

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this_____day of_____, 19__, by President of a corporation, on behalf of said corporation.

Notary Public

My Commission Expires:

Walter Duncan OIL PROPERTIES

1300 WRITERS' CENTER IV · 1720 SOUTH BELLAIRE STREET
AREA CODE 303 TEL. 758-3303 · DENVER, COLORADO 80222

July 9, 1979

United States Geological Survey
505 Marquette, NW, Suite 815
Albuquerque, New Mexico

Attention: Mr. James W. Sutherland
Area Oil and Gas Supervisor

Re: NM-15024
Communitization Agreement
T21S-R32E
Sec. 6: Lots 9 & 10
Lea County, New Mexico
31-2-171-01

Dear Mr. Sutherland:

Mr. Walter Duncan III is temporarily incapacitated due to illness, thus being unable to sign the captioned instrument. Mr. Duncan owns 1% of 5% (.05% net) of the Overriding Royalty interest in Federal Oil and Gas Lease NM-15024. Messrs. Walter Duncan, Raymond T. Duncan, Vincent J. Duncan and J. Walter Duncan, Jr. own 99.0% of 5% of the overriding royalty interest in the lease and have executed the captioned Communitization Agreement.

Very truly yours,

Dale E. Harrison

Dale E. Harrison
Land Manager

DEH:lks

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____
ASSISTANT SECRETARY

BY: _____
Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

_____
Walter Duncan

_____
Joan R. Duncan, wife of Raymond T. Duncan

_____
Raymond T. Duncan

_____
Annamarie Duncan, wife of Vincent J. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 18 day of June, 197
by Raymond T. Duncan & Joan R. Duncan, husband & wife

Connie R. Knutson
Notary Public

My Commission Expires:
12-10-80

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 26 day of June, 1979
by Vincent J. Duncan & Annamarie Duncan, husband & wife

Diana M. Jones
Notary Public

My Commission Expires:
5-28-83

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 29 day of June, 197?,
by J. Walter Duncan, Jr.

Jane S. Kawamoto
Notary Public

My Commission Expires:
12-29-81

STATE OF Illinois )
) SS
COUNTY OF LaSalle )

The foregoing instrument was acknowledged before me this 5 day of July, 1979,
by Walter Duncan

Notary Public

My Commission Expires:
3-27-80

LAW OFFICES
HINKLE, COX, EATON, COFFIELD & HENSLEY
1000 FIRST NATIONAL BANK TOWER
POST OFFICE BOX 3580
MIDLAND, TEXAS 79702
(915)683-4691

LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
JAMES H. BOZARTH

DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
J. DOUGLAS FOSTER
R. DOUGLAS PERRIN
C. RAY ALLEN
JACQUELINE W. ALLEN
T. CALDER EZZELL, JR.

OF COUNSEL
CLARENCE E. HINKLE

W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
800 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

November 6, 1978

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Re: United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.

HCEC&H T/O No. 25,140
Requirement D

Gentlemen:

Under date of September 26, 1978 we rendered our original opinion of title wherein we imposed Requirement D. We have not been submitted any additional abstracts but we have received additional curative materials and now report curative action as follows:

REQUIREMENT D: Satisfied. We have received a letter from the United States Geological Survey dated October 13, 1978 which states that the lease account for NM 14791 is considered in good standing through July 1978.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cm

LAW OFFICES
HINKLE, COX, EATON, COFFIELD & HENSLEY
1000 FIRST NATIONAL BANK TOWER
POST OFFICE BOX 3580
MIDLAND, TEXAS 79702
(915) 683-4691

LEWIS C. COX, JR.
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C. D. MARTIN
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JAMES H. BOZARTH
DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
J. DOUGLAS FOSTER
K. DOUGLAS PERRIN
C. RAY ALLEN
JACQUELINE W. ALLEN
T. CALDER EZZELL, JR.

OF COUNSEL
CLARENCE E. HINKLE
W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

September 26, 1978

IN RE: OPINION OF TITLE TO:
United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ of Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.

Your No. _____

No. 25,140

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

In connection with the title to the captioned lease and lands we have examined the following materials:

(a) Southern Union Production Company, in-house opinion, dated November 10, 1972, which opinion was based on examination of various materials, including abstracts certified down to October 17, 1972 at 10:00 A. M. as to the federal records and down to October 18, 1972 at 8:00 A.M. as to the county records; and

(b) Federal Abstract Company Abstract Nos. 27739, 28130, 28218 and 30446, which when taken collectively, cover the records in the United States Land Office at Santa Fe, New Mexico from October 17, 1972 at 10:00 A.M. down to August 7, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 14791; and

(c) Federal Abstract Company Abstract No. 30506 which purports to cover the records in the United States Land Office at Santa Fe, New Mexico from inception of records down to August 22, 1978 at 10:00 A.M. as to captioned lands covered by Lease NM 15024; and,

(d) Lovington Abstract Company, Inc. Abstract Nos. 1-2174-B, 12-1476-A, 5-1777 and 8-1178-F, which collectively cover the public records of Lea County, New Mexico as to the mineral estate from October 18, 1972 at 8:00 A.M. down to August 11, 1978 at 8:00 A.M., insofar as said records reflect the captioned mineral estate covered by Lease NM 14791 and which contain satisfactory judgment and lien searches against the parties in the chain of title to the captioned lease and lands; and,

(e) Lovington Abstract Company Abstract No. 8-2378-A which covers the public records of Lea County, New Mexico as to the mineral estate from inception of records down to August 23, 1978 at 8:00 A.M. as to the captioned mineral estate covered by Lease NM 15024; and,

(f) Hinkle, Cox, Eaton, Coffield & Hensley Title Opinion No. 23,892 dated July 8, 1977.

From our examination of the foregoing, and based solely thereon, we now report the status of title to the captioned lease and lands as of the most recent closing dates reflected by the abstract certificates as follows:

I. TITLE TO OIL AND GAS SUBJECT TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 12.5% ROYALTY):

United States of America ---------- All

II. RECORD TITLE TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 82.5% WORKING INTEREST):

NM 14791:

Grace Petroleum Corporation ---------- 75%*
Southern Union Production Company ------ 25%

* This will be the status of title upon filing a Certificate of Merger between Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management.

NM 15024:

Gulf Oil Corporation ---------- All

III. TITLE TO OVERRIDING ROYALTY INTERESTS EQUAL TO 5% of 8/8 CREATED UNDER EACH OF LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS:

NM 14791:

| | |
|---|---|
| Henry H. Vartanian, whose wife is Betty Jane Vartanian | 1/2 |
| Charles E. Strange, Trustee of the Charles E. Strange Trust established on May 6, 1974 | 1/2 |

NM 15024:

| | | |
|---|---|---|
| Walter Duncan | 30% | .00375 Unit NRI |
| Raymond T. Duncan | 30% | .00375 Unit NRI |
| Vincent J. Duncan | 30% | .00375 Unit NRI |
| J. Walter Duncan | 9% | .001125 Unit NRI |
| Walter Duncan III | 1% | .000125 Unit NRI |

IV. OIL AND GAS LEASES -- RENTS AND ROYALTIES -- ASSIGNMENTS -- DESIGNATIONS OF OPERATOR -- PRODUCTION HISTORY:

NM 14791:

| | |
|---|---|
| Date: | March 1, 1972 |
| Lessor: | United States of America |
| Lessee: | Henry Vartanian |
| Term: | Ten years and so long thereafter etc. |
| Rentals: | Although not noted in the base opinion on which we are relying, in part, the captioned lease apparently provides for rentals of 50¢ per acre, increasing to $2.00 per acre or any fraction thereof, commencing with thirty days after notice that any portion of the lands within the lease are in a known geologic structure. Apparently, rentals were timely and properly paid for all lease years down to the lease year expiring March 1, 1974. Prior to that date, it appears that the captioned lease went on production and therefore the lease is now considered held by production on a royalty payment status. |
| Lands Covered: | Township 21 South, Range 32 East, NMPM<br>Section 3: Lots 9-16, inclusive SW¼<br>Section 4: Lots 1-16, inclusive, S½ (All) |

Section 5: Lots 13, 14, 15, 16, S½
Section 6: Lots 14, 15, 16, E½SW¼ SE¼

containing a total of 2,282.84 acres, more or less.

Royalty: 12½%

Other Features: Since we have not actually examined this lease we have assumed that the captioned lease was probably prepared on Form 4-1158, and based upon that assumption, we have attached a schedule reflecting the general features of that lease form.

NM 15024:

Form: 3120-19 (May 1968)

Date: February 1, 1972

Lessor: United States of America

Original Lessee: Annamarie Duncan

Term: Ten years and so long thereafter, etc.

Rentals: This lease provided for annual delay rentals in the amount of 50¢ per acre until such time as said lease may have been determined to be in a known geological structure. Said lease was included in a known geological structure effective June 16, 1973 and rentals thereafter were paid at the $2.00 per acre rate. Rentals have been timely and properly paid for all time period up to February 1, 1979.

Lands Covered: Township 20 South, Range 32 East, NMPM

Section 27: N½N½

Township 21 South, Range 32 East, NMPM

Section 6: Lots 8, 9, 10 and 11

containing 320 acres, more or less.

Royalty: 12½%

Other Features: See attached schedule

2. Assignments: The following assignments have been made affecting the captioned lease and lands:

NM 14791:

(a) An assignment prepared on Form 3106-5 (February 1971) from Henry H. Vartanian and his wife, Betty Jane Vartanian, to C. E. Strange dated December 9, 1971 and approved by the Bureau of Land Management effective March 1, 1972, recorded in the Office of the Lea County Clerk in Book 282 at page 685, assigning all interest as to the captioned lease and the lands described hereinabove, but retaining to the assignor an overriding royalty of 2½% of 8/8; and

(b) Prepared on a form identical to that described above, from C. E. Strange and his wife, Sherrie R. Strange, to Amini Oil Company, dated February 25, 1972, approved by the Bureau of Land Management effective April 1, 1972 and recorded in the Office of the Lea County Clerk in Book 282 at page 643, assigning all interest as to the captioned lease and lands. This assignment is subject to the previously create 2½% overrid and in addition, the assignors reserve an additional 2½% overriding royalty. Further, this assignment contains a sixty day reassignment clause in favor of C. E. Strange and wife with a limitation of liability for failure to comply with the reassignment provision. This assignment for does not contain any warranties; and

(c) An assignment prepared on a form identical to the assignments described hereinabove from Amini Oil Company to Southern Union Production Company dated January 5, 1973, and approved by the Bureau of Land Management effective February 1, 1973 and recorded in the Office of the Lea County Clerk in Book 282 at page 163, assigning a 25% interest in the captioned lease and lands. No overriding royalty is subject to the previously created 5% overriding royalty. Again, this assignment form contains no warranties; and

(d) An assignment prepared on a form identical to the assignments described hereinabove from Teal Petroleum Company (formerly Amini Oil Company) to Cleary Petroleum Corporation, dated September 23, 1976, assigning Cleary a 75% interest in the captioned lease and lands, said assignment having been approved effective February 1, 1977 by the Bureau of Land Management being recorded November 28, 1977 in Book 306 at page 775 in the Office of the Lea County Clerk. No overriding royalty was reserved to Teal, but the assignment is subject to the previously created total of 5% overriding royalty interest. Again, this assignment form contains no warranties.

(e) An Assignment of overriding royalty interest from C. E. Strange, a married man, to Charles E. Strange, Trustee of the Charles E. Strange Trust, established on May 6, 1974 assigning a 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment being dated May 6, 1974 and filed with the Bureau of Land Management on July 25, 1974, recorded May 20, 1974 in Book 318 at page 726 in the Office of the Lea County Clerk. We have previously in other opinions relating to this lease mentioned deficiencies in this Assignment of Overriding Royalty Interest; however, the assignment described in sub-paragraph (f) hereinbelow is a correction of these deficiencies.

(f) Correction Assignment of overriding royalty interest from C. E. Strange and wife, Sherrie R. Strange, Charles E. Strange, Trustee of the Charles E. Strange Trust, established May 6, 1974 assigning 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment having been dated July 20, 1977 and recorded August 1, 1977 in Book 342 at page 825 in the Office of the Eddy County Clerk. We will not require that this assignment be placed of record in the Office of the Bureau of Land Management inasmuch as the defective assignment was previously placed of file with the Bureau of Land Management and the defect contained therein do not effect the status of the federal records.

NM 15024:

(a) A Record Title Assignment of Oil and Gas Lease from Annamarie Duncan and husband, Vincent J. Duncan, to Gulf Oil Corporation, dated September 6, 1972, approved effective October 1, 1972 by the Bureau of Land Management and recorded November 8, 1972 in Book 280 at page 459 in the Office of the Lea County Clerk, assigning the entire record title

into said lease. This assignment was prepared on Government Form 3106-5 (February 1971) and reserves a 5% of 8/8 overriding royalty interest and contains a reassignment rider.

REQUIREMENT A: You should note your lease files in connection with the reassignment rider contained in this assignment.

(b) Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975 and filed with the Bureau of Land Management on July 30, 1975, recorded June 27, 1975 in Book 327 at page 338 in the Office of the Lea County Clerk assigning said 5% of 8/8 overriding royalty to to the following persons in the following proportions:

| Name | Percent of Override |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 |
| Raymond T. Duncan | 30% of 5% of 8/8 |
| Vincent J. Duncan | 30% of 5% of 8/8 |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 |
| Walter Duncan III | 1% of 5% of 8/8 |

This assigment of overriding royalty interest does not contain pooling authority.

REQUIREMENT B: In the event that you desire to pool these lands it will be necessary to have these overriding royalty interest owners ratify any such pooling agreement.

3. Designations of Operator: The abstracts under examination reflect the following Designations of Operator:

(a) Designation of Operator from Southern Union Production Company to Cleary Petroleum Corporation dated October 4, 1976, relating to the captioned lease and lands; and

(b) Designation of Operator from Teal Petroleum Corporation to Cleary Petroleum Corporation, dated November 3, 1976, covering the captioned lease and lands.

COMMENT: Inasmuch as you are the successor corporation to Cleary Petroleum Corporation we believe these designations are adequate in the event your drillsite will be located on the lands covered by NM 14791. However, in the event that your drillsite may be located on lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

REQUIREMENT C: In the event that you intend to conduct drilling operations on the lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

4. Production History: The materials under examination indicate that there is currently production from Lease NM 14791; however, we find no evidence of any production from Lease NM 15024. This is advisory.

V. EXCEPTIONS TO TITLE AND REMARKS:

1. Lease Account Status: The abstracts under examination do not reflect current status of the lease account in connection with Lease NM 14791. This account should be in a current status.

REQUIREMENT D: You should inquire of the USGS in Albuquerque, New Mexico and ascertain whether or not the lease account in connection with Lease NM 14791 is in a current status. (We have taken the liberty to write a letter inquiring as to the status of this lease account.)

2. Gas Purchase Agreement: The materials under examination indicate that there has been filed of record in Lea County, New Mexico, a document entitled "Recording Supplement", dated April 6, 1973, between Southern Union Gas Company as "Buyer" and Amini Oil Company (now Teal Petroleum Company) and Southern Union Production Company as "Sellers". This document was filed of record on May 24, 1973 in Book 309 at page 808 in the Office of the Lea County Clerk. This Recording Supplement indicates the existence of a Gas Purchase Agreement dated January 25, 1973, to which the captioned lands located in Lease NM 14791 and other lands are dedicated. In addition, it gives notice of the existence of an agreement dated November 3, 1972 between the Sellers and Buyer.

3. Charles E. Strange Trust: We have been in contact with the attorney for Charles E. Strange, and have previously been submitted evidence that the Trust Agreement contains adequate authority for the Trustee to enter into agreements relating to oil and gas leases which are held in said trust.

4. Merger: We note that Cleary Petroleum Corporation has now merged into the Grace Petroleum Corporation. In this regard we do not find any Certificate of Merger filed with the Bureau of Land Management nor do we find one recorded in the Office of the Lea County Clerk.

REQUIREMENT E: If you have not already done so, you should file a Certificate of Merger of Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management in Santa Fe, New Mexico, as well as record a copy of the same in the Office of the County Clerk.

5. Potash Rider - Potash Area: The base title opinion on which this examination is, in turn, based, indicates that the captioned lease contains a rider to the effect that no wells are to be drilled without approval of the United States Geological Survey, which will be granted only in the event that it is satisfied that any proposed well drilling will not interfere with mining of potash deposits and a provision must be made for adequate protection of potash deposits.

In addition, although not reflected in any materials under examination, it is apparent from other files and plats available to us in our offices that the captioned lands are located within what has generally been designated as a potash area by the United States Geological Survey. It also appears that the captioned lands lie within a potash area as designated by the New Mexico Oil Conservation Division. As a consequence of the lands being located in these desginated area, it is likely that certain drilling restrictions may be imposed by the United States Geological Survey and/or the New Mexico Oil Conservation Division at such time as drilling operations are to be commenced.

We make no requirement with respect to the foregoing matters, but point this out for your information. We assume that you have probably encountered this problem with regard to wells which you previously drilled on the captioned lease and lands. We would point out that irrespective of what requirements may have been made relating to prior drilling activities, these requirements may very likely be different in the event that actual drilling operations are commenced some period of time after the first drilling operations.

6. Prior Title Opinions: As mentioned hereinabove, we have based this opinion on the title opinion dated November 10, 1972 rendered by Southern Union Gas Company House Counsel in connection with the captioned lease. Although we have no reason to doubt the accuracy of the Southern Union Gas Company House Counsel opinion, we must necessarily limit our opinion to the materials actually examined.

7. Acreage in Lots: It is apparent from the caption of this opinion that all of the subdivisions within the captioned lands are not described as directional subdivisions. Some are numbered as lots. Usually this indicates each numbered lot has acreage greater than or lesser than the usual 40 acres; however, in this case, each lot contains 40 acres. We have no requirement with respect to the acreage in these lots, but we note this for your information and possible future reference.

8. Surface Estate: Although the abstracts under examination do not purport to reflect the title to the surface of the captioned lands, certain information contained therein indicates the following surface rights:

(a) It appears from the materials under examination that all of the captioned lots, and lease, have the surface patented with the minerals being reserved to the United States of America. If you intend to conduct drilling activities on any of these lands it will be necessary that you make arrangements with the surface owner or owners with regard to surface damage.

(b) Grazing Lease: It is possible that the remainder of the surface of the captioned

lands is included in grazing leases from the United States. In such cases your rights under the oil and gas lease are superior to any rights under grazing leases.

9. Judgment and Lien Search: The county abstracts under examination contain satisfactory judgment and lien searches.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cm

Federal Abstract No. 30506 and Lovington Abstract No. 8-2378-A are returned herewith. The remainder of the abstracts are retained for further examination.

PRINCIPAL FEATURES OF LEASE (Form 4-1158) (3120-19)
(10 year initial term)

ESSOR: United States, acting by and through the Secretary of the Interior.

ERM AND REGULATIONS: For a primary term of ten years and so long thereafter as oil or as is produced in paying quantities; subject to any unit agreement heretofore or hereafter approved by the Secretary of the Interior. Lease is made subject to all reasonable egulations of the Secretary now or hereafter in force not inconsistent with any of the xpress and specific provisions of the lease.

Although not stated in the lease, the primary term of the lease for land on which, r for which under an approved cooperative or unit plan of development or operation, ctual drilling operations were commenced prior to the end of such term and are being iligently prosecuted at that time, shall be extended for two years and so long thereafter s oil or gas is produced in paying quantities. (See Sec. 17(e) of the Mineral Leasing ct Revision of 1960.) Rentals continue until production is obtained.

OND: Requires lessee, upon inclusion of any part of the leased land within the geologic tructure of a producing oil or gas field, to furnish a bond in a sum double the amount f the $2.00 per acre annual rental, but not less than $1000 nor more than $10,000; to urnish, prior to commencement of drilling operations $10,000 lease bond with approved orporate surety, unless a bond in that amount is already being maintained, or unless uch a bond furnished by an operator of the lease is accepted. Until a general lease ond is filed, a $1000 bond must be filed in those cases in which a bond is required by aw for the protection of owners of surface rights. (See Sec. 2(a) of lease.)

OOPERATIVE OR UNIT PLAN: Requires lessee, within 30 days of demand, to subscribe to nd to operate under such reasonable or cooperative unit plan as may be determined by he Secretary of the Interior to be practicable and necessary or advisable. (See Sec. (b) of lease.)

RILLING REQUIREMENTS: Requires lessee to drill and produce all wells necessary to rotect the leased land from drainage by wells on lands not the property of the lessor, lands of the lessor leased at a lower royalty rate, and to drill and produce such her wells as may be approved or required by the Secretary. (See Sec. 2(c) of lease.)

ENTALS: Lessee to pay in advance an annual rental at the following rates:

(a) If the lands are wholly outside the known geologic structure of a producing l or gas field:

(i) For each lease year a rental of 50¢ per acre or fraction of an acre.

(b) If the lands are wholly or partly within the known geologic structure of a oducing oil or gas field:

(i) Beginning with the first lease year after thirty days' notice that all or part of the land is included in such a structure, and for each year thereafter, prior to a discovery of oil or gas on the lands leased, $2.00 per acre or fraction of an acre.

(ii) If the lease is committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, a rental for each lease year of 50¢ per acre or fraction of an acre shall apply to the acreage not within a participating area.

If there is no well capable of producing oil or gas in paying quantities, the failure pay a rental on or before the anniversary date shall automatically terminate the lease operation of law. If time for payment falls on a day in which the proper office to ceive payment is closed, payment shall be deemed timely if made on the next official rking day.

(See Sections 2(d)(1), 2(d)(4), and 2(e) of lease.)

PRINCIPAL FEATURES OF LEASE (Form 4-1158) (3120-19)
(10 year initial term)

LESSOR: United States, acting by and through the Secretary of the Interior.

TERM AND REGULATIONS: For a primary term of ten years and so long thereafter as oil or as is produced in paying quantities; subject to any unit agreement heretofore or hereafter approved by the Secretary of the Interior. Lease is made subject to all reasonable regulations of the Secretary now or hereafter in force not inconsistent with any of the express and specific provisions of the lease.

Although not stated in the lease, the primary term of the lease for land on which, or for which under an approved cooperative or unit plan of development or operation, actual drilling operations were commenced prior to the end of such term and are being diligently prosecuted at that time, shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities. (See Sec. 17(e) of the Mineral Leasing Act Revision of 1960.) Rentals continue until production is obtained.

BOND: Requires lessee, upon inclusion of any part of the leased land within the geologic structure of a producing oil or gas field, to furnish a bond in a sum double the amount of the $2.00 per acre annual rental, but not less than $1000 nor more than $10,000; to furnish, prior to commencement of drilling operations $10,000 lease bond with approved corporate surety, unless a bond in that amount is already being maintained, or unless such a bond furnished by an operator of the lease is accepted. Until a general lease bond is filed, a $1000 bond must be filed in those cases in which a bond is required by law for the protection of owners of surface rights. (See Sec. 2(a) of lease.)

COOPERATIVE OR UNIT PLAN: Requires lessee, within 30 days of demand, to subscribe to and to operate under such reasonable or cooperative unit plan as may be determined by the Secretary of the Interior to be practicable and necessary or advisable. (See Sec. (b) of lease.)

DRILLING REQUIREMENTS: Requires lessee to drill and produce all wells necessary to protect the leased land from drainage by wells on lands not the property of the lessor, or lands of the lessor leased at a lower royalty rate, and to drill and produce such other wells as may be approved or required by the Secretary. (See Sec. 2(c) of lease.)

RENTALS: Lessee to pay in advance an annual rental at the following rates:

(a) If the lands are wholly outside the known geologic structure of a producing oil or gas field:

(i) For each lease year a rental of 50¢ per acre or fraction of an acre.

(b) If the lands are wholly or partly within the known geologic structure of a producing oil or gas field:

(i) Beginning with the first lease year after thirty days' notice that all or part of the land is included in such a structure, and for each year thereafter, prior to a discovery of oil or gas on the lands leased, $2.00 per acre or fraction of an acre.

(ii) If the lease is committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, a rental for each lease year of 50¢ per acre or fraction of an acre shall apply to the acreage not within a participating area.

If there is no well capable of producing oil or gas in paying quantities, the failure to pay a rental on or before the anniversary date shall automatically terminate the lease by operation of law. If time for payment falls on a day in which the proper office to receive payment is closed, payment shall be deemed timely if made on the next official working day.

(See Sections 2(d)(1), 2(d)(4), and 2(e) of lease.)

ROYALTY: - 12½% on production removed or sold from the leased lands; provided, however, a minimum royalty in lieu of rental shall be paid at the expiration of each lease year after discovery equal to $1.00 per acre. If the lease has been unitized, the minimum royalty shall be payable only on the participating acreage. (See Sec. 2(d)(1) of lease.

Secretary may establish reasonable minimum values for purpose of computing royalty on any oil or gas produced. See 30 C.F.R. 221. All contracts for disposal of products must be approved by the Director, U.S.G.S., or his representatives, subject to review by the Secretary of the Interior. (See Sec. 2(d)(2) and 2(f) of lease.)

ASSIGNMENTS: All assignments are to be filed within 90 days of final execution and are to take effect, upon final approval by the Director, Bureau of Land Management, as of the first day of the lease month following the date of filing. (See Sec. 2(m) of lease.

RESERVED RIGHTS OF LESSOR: See Sec. 3 of lease with regard to easements, disposition of surface, monopoly and fair prices, reservation of helium, taking of royalty in kind, and operation of valuable water wells.

SURRENDER AND TERMINATION: Lease may be surrendered and terminated as provided by Section 5 thereof.

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Walter Duncan
P.O. Box 211
La Salle, Illinois 71301

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

PS Form 3811, Apr. 1977

SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
- ☐ Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
- ☐ Show to whom, date, and address of delivery.$____
- (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Walter Duncan
PO Box 211
LaSalle, Illinois 71301

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916567 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY — POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: — CLERK'S INITIALS

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

☆ GPO : 1977—O-234-337

No. 916567

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO: Walter Duncan
STREET AND NO.: PO Box 211
P.O., STATE AND ZIP CODE: LaSalle, Illinois 71301

| | | | |
|---|---|---|---|
| POSTAGE | | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | | ¢ |
| | OPTIONAL SERVICES: SPECIAL DELIVERY | | ¢ |
| | OPTIONAL SERVICES: RESTRICTED DELIVERY | | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | | $ 1.40 |

POSTMARK OR DATE
June 6, 1979

PS Form 3800, Apr. 1976

No. 916567

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO: Walter Duncan
STREET AND NO.: PO Box 211
P.O., STATE AND ZIP CODE: LaSalle, Illinois 71301

| | | | |
|---|---|---|---|
| POSTAGE | | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | | ¢ |
| | OPTIONAL SERVICES: SPECIAL DELIVERY | | ¢ |
| | OPTIONAL SERVICES: RESTRICTED DELIVERY | | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
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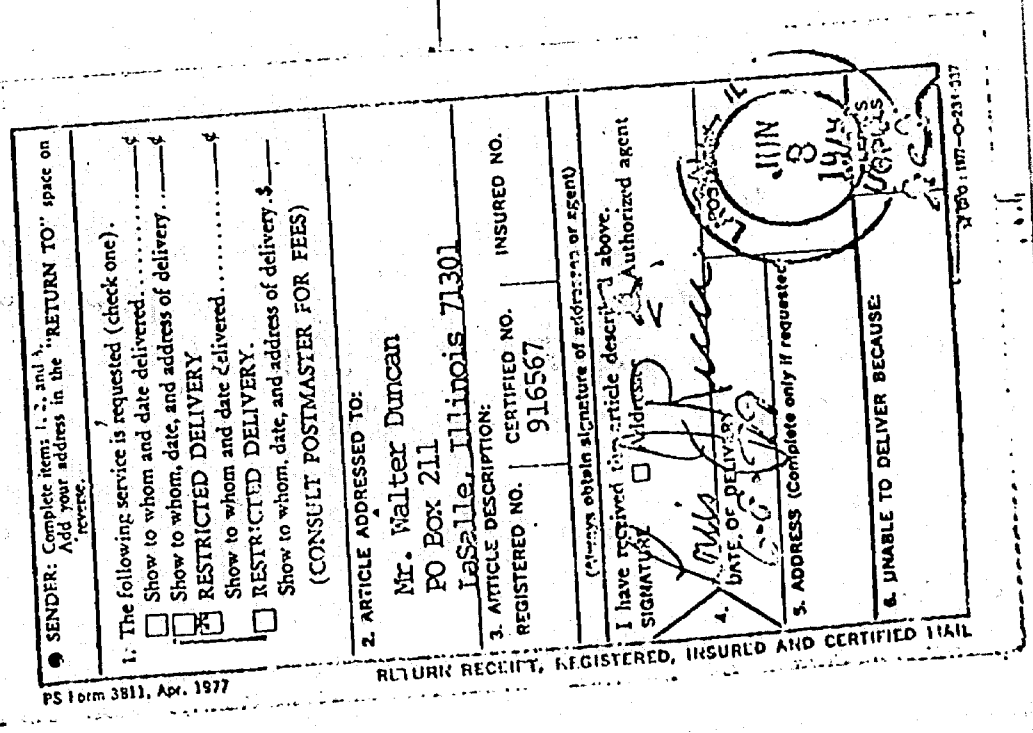
POSTMARK OR DATE
June 6, 1979

PS Form 3800, Apr. 1976



PS Form 3811, Apr. 1977

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Add your address in the "RETURN TO" space on reverse.

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- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Walter Duncan
PO Box 211
LaSalle, Illinois 71301

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916567 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

ALE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

No. 916567

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO: Walter Duncan
STREET AND NO.: PO Box 211
P.O., STATE AND ZIP CODE: LaSalle, Illinois 71301

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| | OPTIONAL SERVICES: SPECIAL DELIVERY | ¢ |
| | OPTIONAL SERVICES: RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $ 1.40 |

POSTMARK OR DATE
June 6, 1979

PS Form 3800, Apr. 1976

No. 916567
RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)
SENT TO: Walter Duncan
STREET AND NO.: PO Box 211
P.O., STATE AND ZIP CODE: LaSalle, Illinois 71301
POSTAGE $
CONSULT POSTMASTER FOR FEES
CERTIFIED FEE ¢
OPTIONAL SERVICES: SPECIAL DELIVERY ¢
OPTIONAL SERVICES: RESTRICTED DELIVERY ¢
OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED ¢
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OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY ¢
TOTAL POSTAGE AND FEES $ 1.40
POSTMARK OR DATE
June 6, 1979

SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.
1. The following service is requested (check one).
☐ Show to whom and date delivered.....¢
☐ Show to whom, date, and address of delivery.....¢
☒ RESTRICTED DELIVERY
Show to whom and date delivered.....¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery.$____
(CONSULT POSTMASTER FOR FEES)
2. ARTICLE ADDRESSED TO:
Mr. Walter Duncan
PO Box 211
LaSalle, Illinois 71301
3. ARTICLE DESCRIPTION:
REGISTERED NO. | CERTIFIED NO. 916567 | INSURED NO.
(Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
4. DATE OF DELIVERY | POSTMARK
5. ADDRESS (Complete only if requested)
6. UNABLE TO DELIVER BECAUSE:
PS Form 3811, Apr. 1977
RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Raymond T. Duncan
1300 Writers Center
1720 South Bellaire Street
Denver, Colorado 80222

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

C- SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☒ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☐ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Raymond T. Duncan
1300 Writers Center
1720 S. Bellaire, Denver, CØ 80222

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916570

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Raymond T. Duncan
STREET AND NO.
1300 Writers Center
P.O. STATE AND ZIP CODE
Denver, Colo. 80222

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES — CERTIFIED FEE | | ¢ |
| OPTIONAL SERVICES — SPECIAL DELIVERY | | ¢ |
| OPTIONAL SERVICES — RESTRICTED DELIVERY | | ¢ |
| OPTIONAL SERVICES — RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1.40 |

POSTMARK OR DATE
6-6-79

PS Form 3800, Apr. 1976

TICLE TO COVER FIRST CLASS POSTAGE.
ANY SELECTED OPTIONAL SERVICES. (see front)
k the gummed stub on the left portion of the ad
tached, and present the article at a post office s
(no extra charge)
ked, stick the gummed stub on the left portion
and retain the receipt, and mail the article.
certified-mail number and your name and addre
ch it to the front of the article by means of the p
back of article. Endorse front of article RETURN
addressee, or to an authorized agent of the ad
front of the article.
n the appropriate spaces on the front of this
applicable blocks in item 1 of Form 3811.
make inquiry.

☆ GPO 1978 -256-91

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☒ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☐ RESTRICTED DELIVERY
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Raymond T. Duncan
1300 Writers Center
1720 S. Bellaire, Denver, CØ 80222

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY
6-9-79

POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☒ Show to whom and date delivered. ..... ¢
- ☐ Show to whom, date, and address of delivery. ..... ¢
- ☐ RESTRICTED DELIVERY
  Show to whom and date delivered ..... ¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery. $____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Raymond T. Duncan
1300 Writers Center
1720 S. Bellaire, Denver, CØ 80222

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916570

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Raymond T. Duncan
STREET AND NO.
1300 Writers Center
P.O. STATE AND ZIP CODE
Denver, Colo. 80222

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES — OPTIONAL SERVICES | CERTIFIED FEE | ¢ |
| | SPECIAL DELIVERY | ¢ |
| | RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1.40 |

POSTMARK OR DATE
6-6-79

PS Form 3800, Apr. 1976

ARTICLE TO COVER FIRST CLASS POSTAGE AND ANY SELECTED OPTIONAL SERVICES. (See front)
1. Attach the gummed stub on the left portion of the addressed, and present the article at a post office service (no extra charge)
2. If desired, stick the receipt, and mail the article.
3. If desired, obtain and retain the receipt, and mail the article.
4. If desired, obtain and your name and address on the certified-mail number and your name and address of the article by means of the return receipt to the front of the article by means of the RETURN RECEIPT back of article. Endorse front of article RETURN RECEIPT addressee, or to an authorized agent of the addressee.
5. In the appropriate spaces on the front of this article.
6. In the appropriate spaces on the front of this article.
7. If applicable blocks in item 1 of Form 3811.
8. If desired, make inquiry.

☆ GPO 1978 -256-915

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☒ Show to whom and date delivered. ..... ¢
- ☐ Show to whom, date, and address of delivery. ..... ¢
- ☐ RESTRICTED DELIVERY
  Show to whom and date delivered ..... ¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery. $____
  (CONSULT POSTMASTER FOR FEES)

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Mr. Raymond T. Duncan
1300 Writers Center
1720 S. Bellaire, Denver, CØ 80222

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
J. Duckworth

4. DATE OF DELIVERY 6-9-79 | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977-O-234-337

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Vincent J. Duncan
1800 Security Life Building
Denver, Colorado 80202

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

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Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. J. Walter Duncan, Jr.
Suite 1200
100 Park Avenue Building
Oklahoma City, Oklahoma 73102

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 30% of 5% of 8/8 ORI |
| Walter Duncan, III | 9% of 5% of 8/8 ORI |
| | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

No. 916569

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

| | |
|---|---|
| SENT TO | J. Walter Duncan, Jr |
| STREET AND NO. | Suite 1200, 100 Park Ave Bldg |
| P.O., STATE AND ZIP CODE | OKC, OK 73116 |
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $1.40 |
| POSTMARK OR DATE | 6-6-79 |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

PS Form 3800, Apr. 1976

SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered ..... ¢
- ☐ Show to whom, date, and address of delivery ..... ¢
- ☐ RESTRICTED DELIVERY
  Show to whom and date delivered ..... ¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery ..... ¢

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. J. Walter Duncan, Jr.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916569 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY — POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: — CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977 — RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

No. 916569

**RECEIPT FOR CERTIFIED MAIL**

**NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL**

(See Reverse)

SENT TO: S. Walter Duncan, Jr

STREET AND NO.: Suite 1200, 100 Park Ave Bldg

P.O., STATE AND ZIP CODE: OKC, OK 73116

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| | SPECIAL DELIVERY | ¢ |
| | RESTRICTED DELIVERY | ¢ |
| OPTIONAL SERVICES — RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1.40 |

POSTMARK OR DATE: 6-6-79

PS Form 3800, Apr. 1976

1. The following service is requested (check one).
   - ☐ Show to whom and date delivered ¢
   - ☐ Show to whom, date, and address of delivery ¢
   - ☐ RESTRICTED DELIVERY ¢
   - ☐ Show to whom and date delivered ¢
   - ☐ RESTRICTED DELIVERY ¢
   - ☐ Show to whom, date, and address of delivery ¢

   (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
   Mr. J. Walter Duncan, Jr.
   Suite 1200, 100 Park Ave. Bldg.
   Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916569 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY: 6-7-79 — POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: — CLERK'S INITIALS

☆ GPO : 1977—O-234-337

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

☆ GPO : 1977—O-234-337


No. 916569

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL

(See Reverse)

SENT TO: S. Walter Duncan, Jr

STREET AND NO.: Suite 1200, 100 Park Ave Bldg

P.O., STATE AND ZIP CODE: OKC, OK 73116

POSTAGE $

CONSULT POSTMASTER FOR FEES

OPTIONAL SERVICES — RETURN RECEIPT SERVICE

CERTIFIED FEE ¢

SPECIAL DELIVERY ¢

RESTRICTED DELIVERY ¢

SHOW TO WHOM AND DATE DELIVERED ¢

SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY ¢

SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY ¢

SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY ¢

TOTAL POSTAGE AND FEES $1.40

POSTMARK OR DATE: 6-6-79

PS Form 3800, Apr. 1976

1. The following service is requested (check one).
   - ☐ Show to whom and date delivered ¢
   - ☐ Show to whom, date, and address of delivery ¢
   - ☐ RESTRICTED DELIVERY ¢
   - ☐ Show to whom and date delivered ¢
   - ☐ RESTRICTED DELIVERY ¢
   - ☐ Show to whom, date, and address of delivery ¢

   (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
   Mr. J. Walter Duncan, Jr.
   Suite 1200, 100 Park Ave. Bldg.
   Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916569 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY: 6-7-79 — POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: — CLERK'S INITIALS

☆ GPO : 1977—O-234-337

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL


CERTIFIED
No. 916569

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Walter Duncan, III
Suite 1200
100 Park Avenue Building
Oklahoma City, Oklahoma 73102

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

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Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. Bill Curtis

5

**No. 916568**

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200, 100 Park Ave. Bldg
P.O. STATE AND ZIP CODE
Okla. City, OK 73102

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| | OPTIONAL SERVICES: SPECIAL DELIVERY | ¢ |
| | OPTIONAL SERVICES: RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $ 1 40 |
| POSTMARK OR DATE | | |

PS Form 3800, Apr. 1976

PS Form 3811, Aug. 1977 — RETURN RE

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY
  Show to whom, date, and address of delivery.$
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Walter Duncan, III.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916568 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

DATE OF DELIVERY | POSTMARK

ADDRESS (Complete only if requested)

UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

6

**No. 916568**

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200, 100 Park Ave. Bldg
P.O. STATE AND ZIP CODE
Okla. City, OK 73102

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| | OPTIONAL SERVICES: SPECIAL DELIVERY | ¢ |
| | OPTIONAL SERVICES: RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $ 1 40 |
| POSTMARK ON DATE | | |

PS Form 3800, Apr. 1976

CERTIFIED
No. 916568
MAIL

PS Form 3811, Apr. 1977 — RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY
  Show to whom, date, and address of delivery.$
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Walter Duncan, III
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916563 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916568

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200 100 Park Ave Bldg
P.O., STATE AND ZIP CODE
Okla. City, OK 73102

| | |
|---|---|
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| CONSULT POSTMASTER FOR FEES — OPTIONAL SERVICES — RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $1 40 |
| POSTMARK OR DATE | |

PS Form 3800, Apr. 1976

RETURN RECEIPT

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
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  (CONSULT POSTMASTER FOR FEES)

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Walter Duncan, III.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916568 | |

(Always obtain signature of addressee or agent)

I've received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

DATE OF DELIVERY | POSTMARK

ADDRESS (Complete only if requested)

UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200 100 Park Ave Bldg
P.O., STATE AND ZIP CODE
Okla. City, OK 73102

| | |
|---|---|
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| CONSULT POSTMASTER FOR FEES — OPTIONAL SERVICES — RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $1 40 |
| POSTMARK OR DATE | |

PS Form 3800, Apr. 1976

CERTIFIED
No. 916568
MAIL

PS Form 3811, Apr. 1977

● SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
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  Show to whom, date, and address of delivery.$
  (CONSULT POSTMASTER FOR FEES)

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Walter Duncan, III
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916568 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

# GRACE MEMO

to: Jim Thomas, Don Sterne, Howard Green, Max Douglas

from: Don Erickson

date: July 5, 1979

subject:

cc:

SALT LAKE MORROW SOUTH PROSPECT
New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Sec. 6-21S-32E, NMPM
Lea County, New Mexico

Supron Energy called July 3, 1979, to say that Supron does not want to swap acreage with Gulf in order to give Gulf a greater interest in the captioned unit. Supron wants Grace to proceed with the force pooling.

Original Signed By,
DON ERICKSON

DWE/jct

# Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Drawer 1150
Midland, TX 79702

June 28, 1979

915-682-1301

Re: Salt Lake Morrow South Prospect, Proposed New Mexico Federal "G" Com No. 1, Lots 9,10,15,16 and SE/4 of Section 6, T-21-S, R-32-E, NMPM, LEA COUNTY, New Mexico

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don W. Erickson

Gentlemen:

.11111125 X240=
26.6667
+80
106.6667/320 = .333334

Reference is made to your recent telephone conversation with Mr. Chesley Blackham of our Land Section regarding the captioned prospect. Please be advised that we have carefully reviewed said prospect and the most recent proposal concerning the prospect and Gulf is agreeable as follows:

Gulf will assign to Grace Petroleum Corporation and Supron Energy Corporation 100% of their interest in Lot 8 of Section 6, T-21-S, R-32-E, NMPM, Lea County, New Mexico, in exchange for 11.1125% of Supron and Grace's interest in the 240 acre tract consisting of Lots 15, 16 and SE/4 of said Section 6, T-21-S, R-32-E, Lea County, New Mexico, being a total of 26.67 acres. It is to be understood that said 26.67 acres will be added to Gulf's interest in Lots 9 and 10 of said section to give Gulf a total acreage of 106.67 acres in the 320 acre proration unit, being 33.33% interest in said proration unit.

The above offer is, ofcourse, contingent upon Gulf's approval of the AFE and a satisfactory Operating Agreement.

If we can be of any assistance, please feel free to contact Ches Blackham of our Land Section.

Yours very truly,

R. E. Griffith

R. E. GRIFFITH

CTB/dh

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 15, 1979

Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231

Attention: Mr. William Brown

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal
"G" Comm. #1
Lea County, New Mexico

Gentlemen:

Please refer to my letter, dated May 16, 1979, to Gulf Oil in which Grace offered to Gulf a counterproposal which suggested a 360-acre non-standard unit.

The interest of the parties would be:

| | |
|---|---|
| Grace | 50.00000 % |
| Supron | 16.66667 % |
| Gulf | 33.33333 % |
| Total | 100.00000 % |

Since writing this letter, I have talked with Conrad Coffield, the expert on such matters with the law firm of Hinkle, Cox in Midland, Texas. Mr. Coffield stated that unless we could prove geologically to the State of New Mexico Oil Conservation Commission that the formation actually followed the shape of an irregular unit, that neither Gulf's proposed irregular 320-acre unit nor Grace's proposed irregular 360-acre unit would be approved.

Since Gulf wants a larger percentage of working interest in order to join the unit, Grace suggests that we approach Gulf with the following proposal:

> Gulf would be asked to assign all of its interest in Lot No. 8, the lot it wanted added to the unit to Grace and Supron. We would assign to Gulf an additional undivided 8.33333% working interest in Supron's and Grace's acreage which consists of Lots 15 and 16 and the SE/4 Section 6-T21S-R33E, NMPM, Lea County, New Mexico. This procedure would reduce Supron's interest by 25% of 8.33333%, or 2.0833%; and would reduce Grace's interest in the unit by 75% of 8.33333%, or 6.25000%.

This change in interest would result in the partners' interests in the 320-acre unit to be as follows:

| | |
|---|---|
| Grace | 50.00000 % |
| Supron | 16.66667 % |
| Gulf | 33.33333 % |
| Total | 100.00000 % |

Please let Grace know as soon as possible if you approve of this offer.

In case Gulf, Grace and Supron cannot agree to the above, Grace has requested a force pooling hearing based on Lots 9, 10, 15 and 16 and SE/4 Section 6-T21S-R32E, NMPM, Lea County, New Mexico before the full commission as soon as possible after June 27, 1979. Enclosed is a copy of the application.

Very truly yours,

Don W. Erickson

Don W. Erickson
District Landman

DWE/jct

June 4, 1979

Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231

Attention: Mr. William Brown

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G"
Com. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Gentlemen:

As you know, Gulf has not agreed to join the unit in its present unit outline.

Although you suggested changes in the Operating Agreement, no changes will be made until we are able to settle with Gulf about its joining the unit. However, the overhead well rates probably would not be changed. We feel that $2,407.00 for a drilling well and $336.00 for a producing well is a fair charge. Grace periodically revises these rates to meet rising costs. These rates were last revised May 3, 1978.

Very truly yours,

Original Signed By

Don W. Erickson
District Landman

DWE/jct

16

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

WILLIAM M. BROWN
LANDMAN

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL.

May 30, 1979

Grace Petroleum Corporation
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attn: Mr. Don W. Erickson

Re: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G"
Comm. #1
Lea County, New Mexico

Gentlemen:

Reference is made to your letter of May 16, 1979 concerning the drilling of the captioned well.

Supron agrees to participate in the drilling of said well subject to our approval of an AFE, Operating Agreement and relative instruments. Also, with respect to your counter proposal to Gulf's proposed unit outline, Supron would support the 360-acre unit.

If anything further is needed, please advise.

Sincerely,

Wm. M. Brown

William M. Brown
Landman

WMB/bb

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

May 16, 1979

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1
Lea County, New Mexico

Gentlemen:

By Gulf's letter, dated April 19, 1979, Gulf proposed the addition of Gulf's Lot No. 8 to the proposed unit and the exclusion of the SW/4 SE/4 Sec. 6-21S-32E, NMPM. The SW/4 SE/4 Sec. 6 is owned 25% by Supron Energy Corporation and 75% by Grace Petroleum. The interest of the parties would then be as follows:

| | | |
|---|---|---|
| Grace | 150 Acres | 46.875% |
| Supron | 50 Acres | 15.625% |
| Gulf | 120 Acres | 37.500% |
| Total | 320 Acres | 100.000% |

Grace is not agreeable to the above suggestion. Instead, Grace proposes the following compromise:

The present acreage in the proposed unit would be retained plus the addition of Lot No. 8. This additional acreage would result in a non-standard 360-acre unit. The interests of the parties would be as follows:

| | | |
|---|---|---|
| Grace | 180 Acres | 50.00000% |
| Supron | 60 Acres | 16.66667% |
| Gulf | 120 Acres | 33.33333% |
| Total | 360 Acres | 100.00000% |

It is also suggested that the approval of this 360-acre unit be obtained by Gulf and such application for approval be submitted to the proper state and Federal agencies by Gulf within a reasonable amount of time.

If Gulf approves, please let Grace know as soon as possible. By a copy of this letter to Supron Energy Corporation, Grace requests to be notified if Supron approves of this change.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc

cc: Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231
Attention: Mr. William Brown

bcc: Don L. Sterne
Howard Green
Max Douglas
Buddy Knight
Steve Rabenaldt
Mike Reisz

# Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Drawer 1150
Midland, TX 79702

cc: Mal Douglas
Mike Reisz 5:1:79
LTB

April 19, 1979

Re: Salt Lake Morrow South Prospect, Proposed New Mexico Federal "G" Com #1, Lots 9, 10, 15 and 16 and SE/4 of Section 6, T-21-S, R-32-E, NMPM LEA COUNTY, New Mexico

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

In reference to your letter of March 7, 1979 concerning Gulf's joining in the captioned well, please be advised that Gulf has considered your proposal, however, Gulf would like to submit a revised proposal for your consideration. Gulf would like to include lot #8 in the proration unit and exclude the SW/4 of the SE/4 of the presently proposed unit. This would increase Gulf's working interest from 25% to ~~35.5%~~ 37.5% DHE.

Upon your acceptance the necessary instruments will be prepared. This offer is not exclusive and Gulf reserves the right to withdraw it without further notice to you after thirty (30) days from the date hereof unless we receive a firm commitment from you within said 30-day period.

If you have any questions, please contact Denise Beckham of our Land Department at 915/682-7301, ext. 469.

Yours very truly,

R. E. GRIFFITH

DB/dh

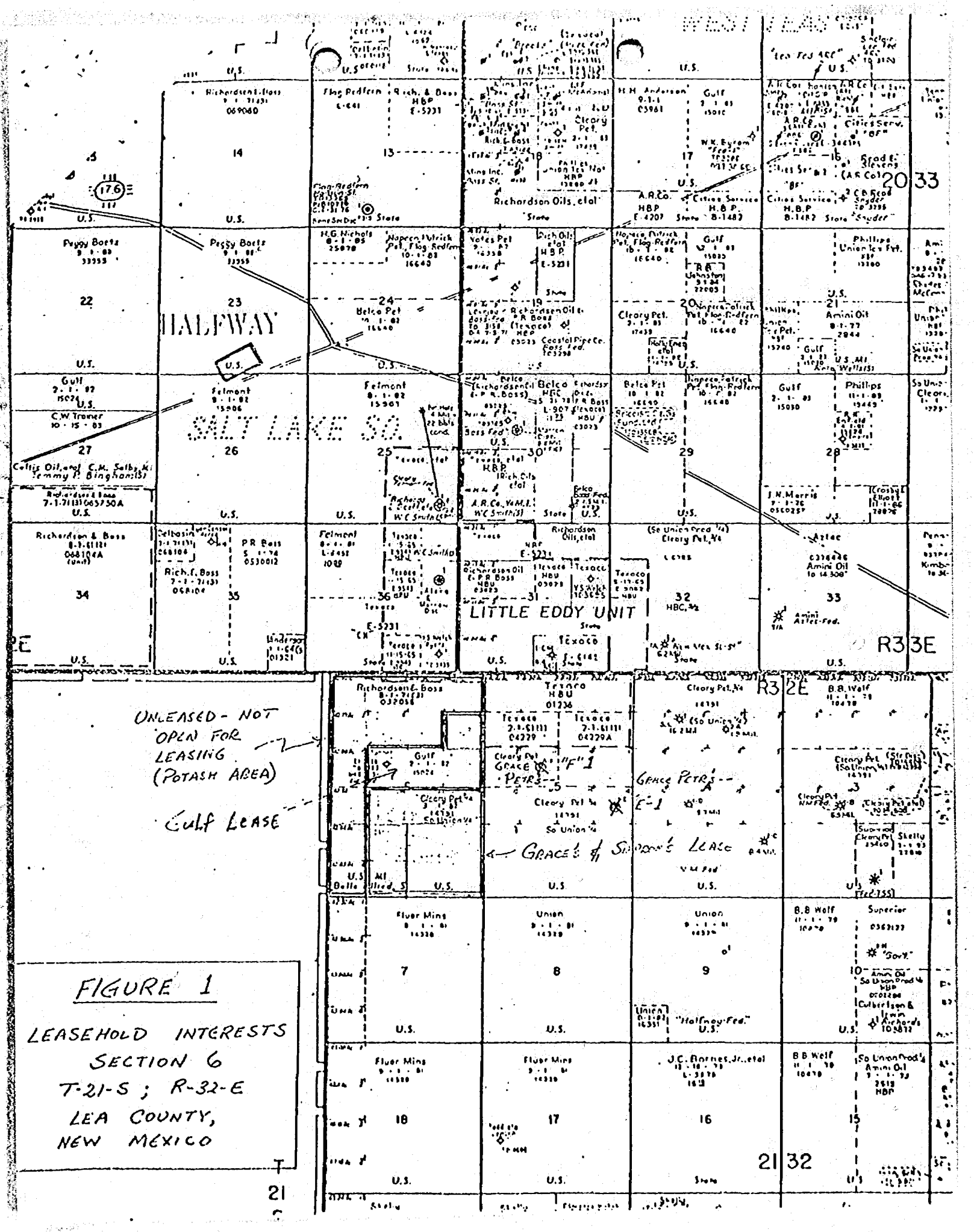
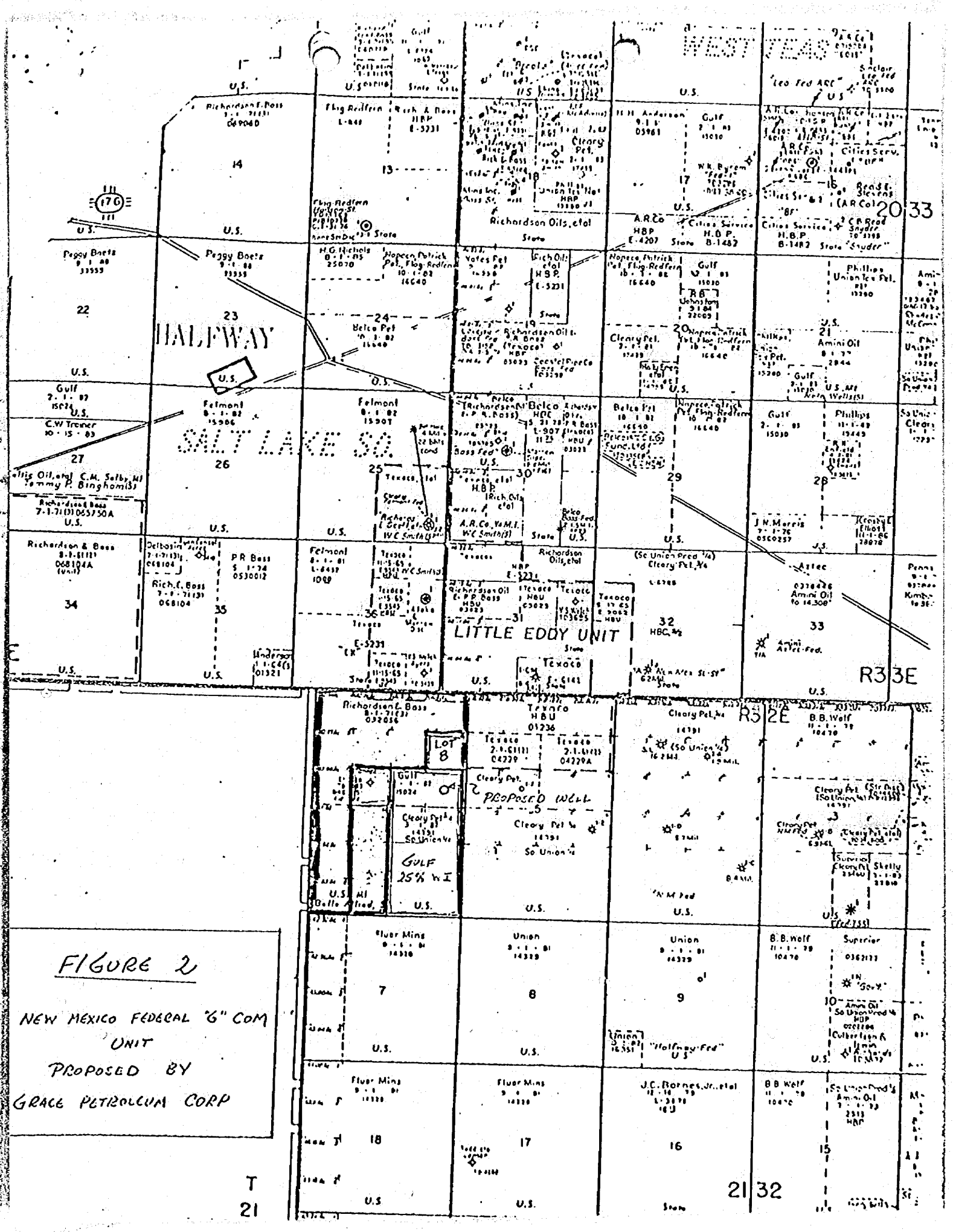



FIGURE 1

LEASEHOLD INTERESTS
SECTION 6
T-21-S ; R-32-E
LEA COUNTY,
NEW MEXICO


HALFWAY
SALT LAKE SO.
LITTLE EDDY UNIT
PROPOSED WELL
GULF 25% W.I.
R33E
R32E
T 21 S
21 32
Richardson & Bass
Peggy Boetz
Felmont
Belco Pet
Texaco
Cleary Pet.
Amini Oil
Aztec
Fluor Mines
Union
Richardson Oils, etal
Cities Service
Phillips
Gulf
Superior
Skelly
Penn
Kimbo
Sc Union-Cleary
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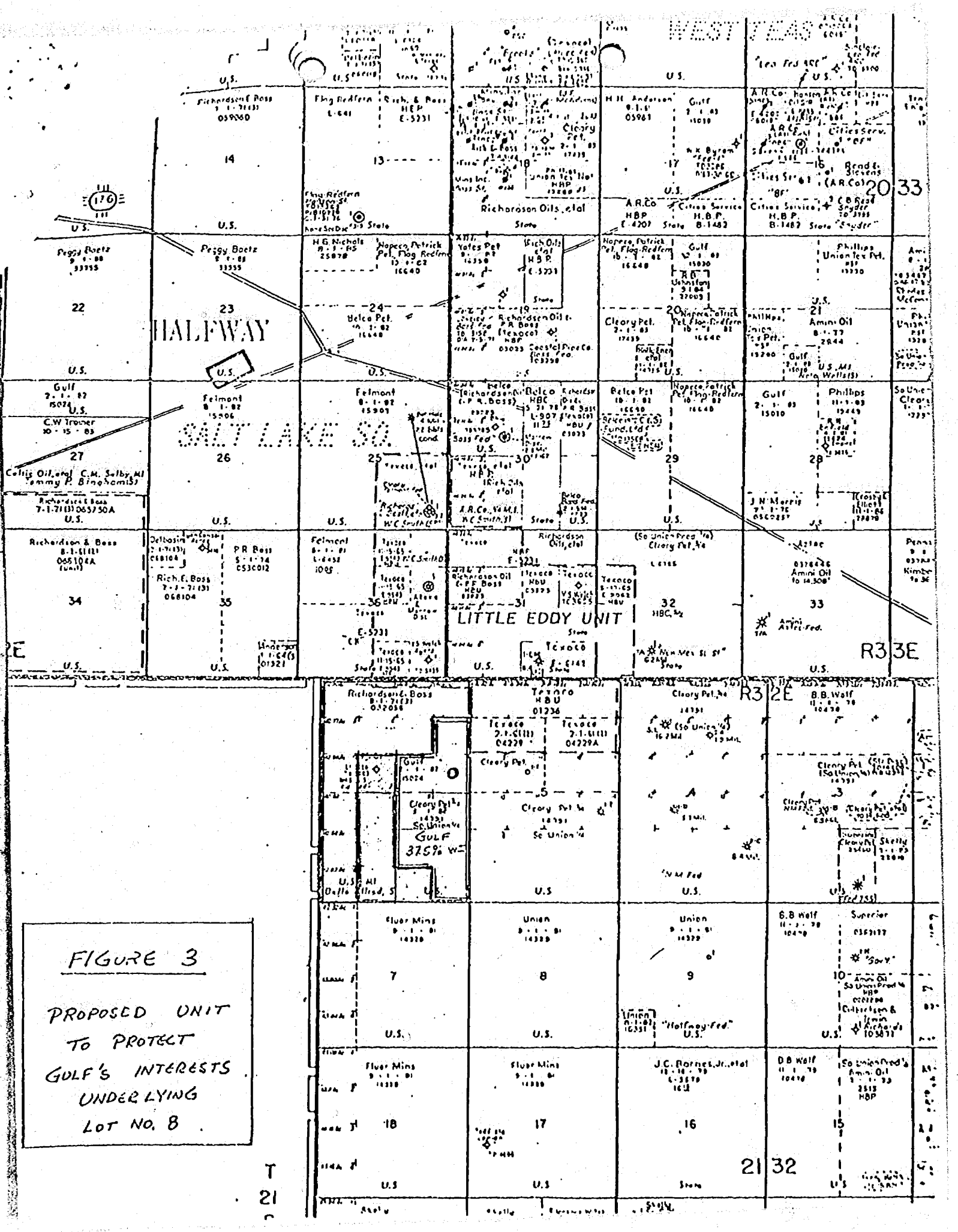
HALFWAY
SALT LAKE SO.
LITTLE EDDY UNIT
R33E
R32E
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21
32
Richardson & Boss
Peggy Boetz
Felmont
Belco Pet.
Richardson Oils, etal
Cleary Pet.
Texaco
Gulf
Phillips
Amini Oil
Aztec
Cities Service
A.R.Co
Fling-Redfern
Rich. & Boss
H.G. Nichols
Napco, Patrick Pet. Flag-Redfern
Yates Pet
Rich Oils etal
H.B.P.
Richardson Oil & P.R. Boss (Texaco)
Coastal Pipe Co.
H.H. Anderson
Gulf
W.K. Byrom
Union Tex Nat HBP
Union Tex Pet.
Cities Service H.B.P.
Read & Stevens (A.R.Co)
C.B. Read Snyder
C.W. Trainer
Celtic Oil, etal C.M. Selby, Jr. Jimmy P. Bingham(5)
Richardson & Boss 7-1-71(3) 065750A
Richardson & Boss 065104A (Unit)
Rich. E. Boss 065104
P.R. Boss 053012
Delbosin
Felmont
Texaco
Richardson Oil (P.R. Boss)
HBU
Richardson Oils, etal
(So Union Prod. Co) Cleary Pet. Co
Aztec
Amini Oil to 14,300'
Amini Fed.
Penn
Kimbe
Fiser Mins
Union
J.C. Barnes, Jr. etal
B.B. Wolf
Superior
So Union Prod's Amini Oil
HBP
Gulf 37.5% W.I.
Celtic Oil, etal
Texaco 2-1-61(3) 04229
Texaco 2-1-61(3) 04229A
Texaco HBU 01236
Richardson & Boss 052056
Cleary Pet. Co 14351
So Union Co
Chevron
Skelly
Union 0-1-61 16329
Union 0-1-61 16331
"Halfway Fed."
So Union Prod's Amini Oil 3-1-73 3515 HBP
U.S.
State
Fed 25(5)
NM Fed
Mi Wells(5)
Mi Wells Plugged
Mi Wells Drlg
Mi Wells Comp
Mi Wells Abnd
Mi Loc
Mi Loc Abnd
Mi Loc Comp
Mi Loc Drlg
Mi Loc Plugged

March 28, 1979

Gulf Oil Exploration & Production Co.
Post Office Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

Re: South Salt Lake Morrow Prospect
Proposed New Mexico Federal "G"
Comm. #1
Lots 9, 10, 15 and 16 and
SE/4, Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

In conjunction with the letter from Grace Petroleum's Land Department dated March 7, 1979, we would like to furnish Gulf with the latest production information available on the New Mexico Federal "F" No. 1.

Enclosed is a tabulation of weekly production reports on the New Mexico Federal "F" No. 1 and a graph of the above tabulation. Also enclosed for your review is some information on an offset, the New Mexico Federal "E" No. 1. This well was completed natural on September 8, 1977 with an AOF of 4,525 MCFPD plus 5 BC on a four-hour test. Structurally this well is equivalent to the proposed "G" location. As of March 1, 1979 the New Mexico Federal "E" No. 1 has produced 1,054,600 MCF of gas and cumulative condensate production of 10,573 barrels. The "E" No. 1 is presently producing 1.9 MMCFPD and is representative of what could be encountered at the proposed "G" location.

It is anticipated that some time will be required to obtain an approved permit for the proposed location. If additional information is required, please contact our Midland office or call (405) 843-5551, extension 405.

Very truly yours,

Original Signed by: Michael R. Reisz

Michael R. Reisz
District Reservoir Engineer

djt3/1
Enclosures

cc: Midland District Office - Buddy Knight

bcc: Don Erickson ✓
Jack HIll
Ken Dowell
Steve Rabenaldt

WEEKLY PRODUCTION REPORT

NEW MEXICO FEDERAL F #1

| DATE WEEK OF | MCF | BBL. COND/OIL | B/W | FTP PSI | L.P. PSI | REMARKS |
|---|---|---|---|---|---|---|
| 2-02-79 | 14,200 | 198 | 3 | 2,150 | - | 15/64" CHK of 1/27 to 2/2. |
| 2-12-79 | 16,400 | 232 | 6 | 1,300 | - | 21/64" CHK. |
| 2-16-79 | 19,400 | 274 | 9 | 1,050 | - | 25/64" CHK. |
| 2-23-79 | 18,800 | 244 | 15 | 1,000 | - | 25/64" CHK. |
| 3-02-79 | 17,400 | 225 | 9 | 1,000 | - | 21/64" CHK. |
| 3-09-79 | 16,300 | 208 | 9 | 950 | - | 21/64" CHK. |
| 3-16-79 | 12,500 | 160 | 9 | 2,200 | - | 15/64" CHK. Rate change & reduction in choke size due to seasonal adjustments in demand. |

N.M. STATE "F" #1

SOUTH SALT DRAW - MORROW

△ GAS PROD.

○ CONDENSATE PROD.

BBLS. COND./WEEK

MCF/WEEK

1/5/62 CHOKE

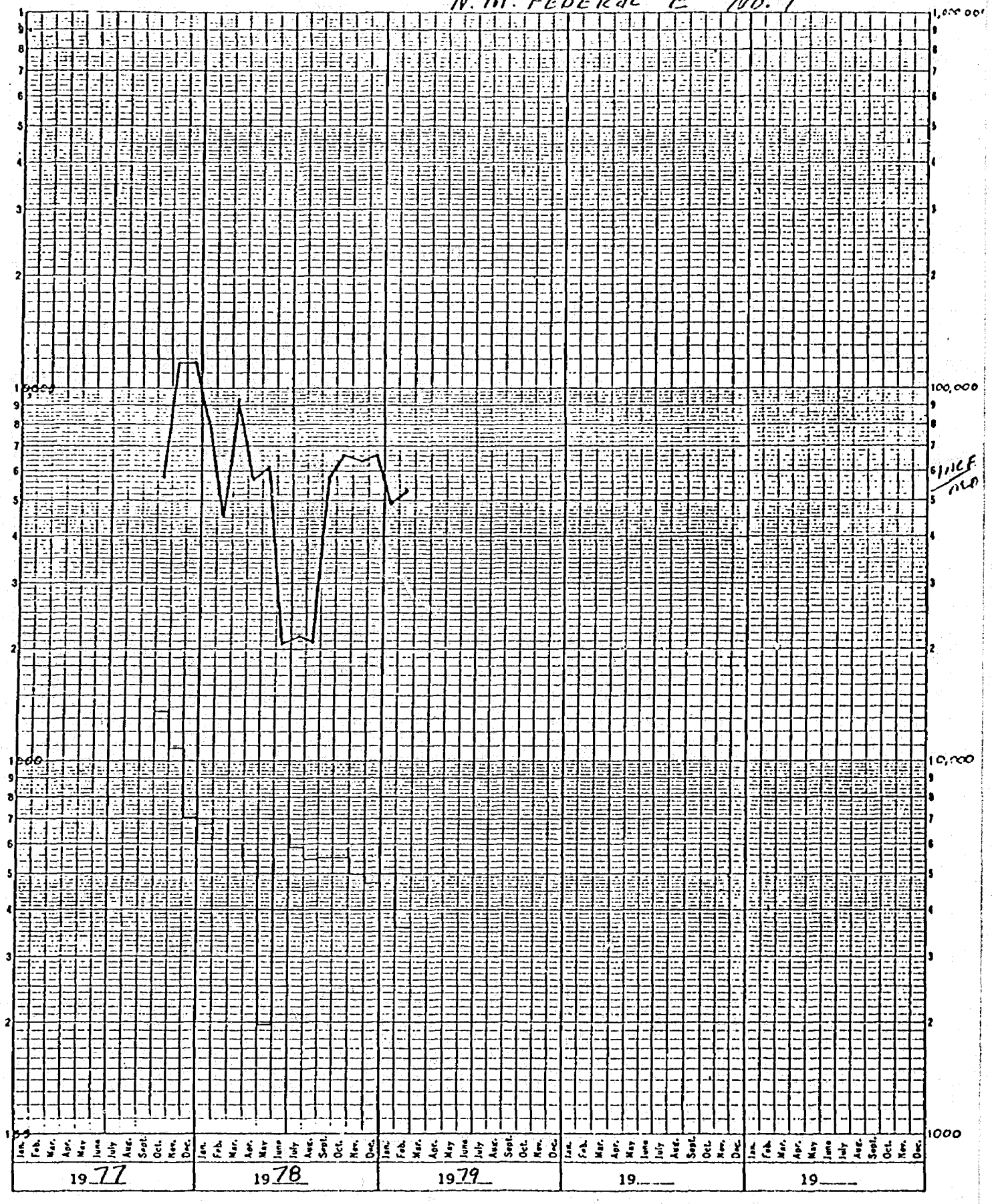
1/5/62 CHOKE

2/2 2/12 2/16 2/23 3/2 3/9 3/16 3/23

1962

46-3450

N. M. FEDERAL "E" NO. 1




MCF/mo.

KRUFFEL & ESSER CO.

Formation Tops:

| | |
|---|---|
| Rustler Anhydrite (Base Red Beds) | 1310' (+2381) |
| Yates | 3164' (+ 527) |
| Capitan Reef | 3376' (+ 315) |
| Delaware Mtn. Sands | 5225' (-1534) |
| Bone Springs | 8464' (-4773) |
| Wolfcamp | 11030' (-7339) |
| Strawn | 12076' (-9015) |
| Atoka Sand | 12864' (-9173) |
| Atoka Carbonates | 13224' (-9533) |
| Morrow Sands-Upper | 13772' (-10081) |
| Morrow Sands-Lower | 14156' (-10465) |
| Barnett Shale | 14298' (-10602) |
| Total Depth | 14361' (-10670) |

Perforating Record:

7-22-77 — 13,908-14' (7); 13,940-60 (21)
Total 28- 0.39" diameter holes

Treating Record:

None - Natural

Producing Zone:

Morrow Sand 13,908-13,960'.

Potential:

9-8-77 AOF 4525 MCF/D + 5 BC on 4 hr test. Gas liquid ratio 100,416. Gas gty 0.610. Condensate gty 51.7° API. Flow rates as follows:

| | | | |
|---|---|---|---|
| Flow #1 | 3670 | MCF/D | 2718 psg FTP |
| #2 | 3283 | MCF/D | 3045 psg FTP |
| #3 | 2353 | MCF/D | 3640 psg FTP |
| #4 | 2244 | MCF/D | 4150 psg FTP |

Average flow rate - 4.0 MMCF/D + 28 BC + no wtr/26 hrs. TP 2100 on 21/64" chk.

Permanent Production Equipment:

7-22-77 Otis Permatrieve 5½" pkr set at 13,760'.

Remedial Work:

None to 7-19-78

REW:mlb

xc: Jack Hill — BJK
Ken Dowell — DWR
Frank Elliott ✓ — File

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

March 7, 1979

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

In your letter, dated August 10, 1978, to Grace Petroleum Corporation you stated that Gulf preferred to defer consideration to join in the captioned well pending the outcome of the New Mexico Federal "F" Comm. #1.

The "F" Comm. #1 is comprised of Lots 11, 12, 13 & 14 and SW/4 Sec. 5-21S-32E, NMPM, Lea County, New Mexico. The date of first sale of gas from this well was on January 26, 1979, at an initial price of $1.73 per MCF.

As soon as you are able to make a decision, we would appreciate hearing from you.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc

cc: Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231
Attention: Mr. William M. Brown

bcc: Max Douglas
Mike Reisz

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL

January 15, 1979

GRACE PETROLEUM CORPORATION
Broadway Executive Park
6501 North Broadway
Oklahoma City, Okalhoma 73116

Attention: Mr. Don W. Erickson

Re: New Mexico Federal "G" Comm. #1
Lea County, New Mexico

Dear Mr. Erickson:

Enclosed please find five (5) copies of the signature page for the Communitization Agreement for the above captioned area. With regard to the Operating Agreement, we are waiting for your reply to the changes requested in our letter of January 4, 1979 from Mr. William Brown.

In the meantime, if we may be of further assistance in this matter, please advise.

Very truly yours,

Pamela Putnam

Pamela Putnam
Land Department

Enclosures

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL.

WILLIAM M. BROWN
LANDMAN

January 4, 1979

Grace Petroleum Corporation
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attn: Mr. Don W. Erickson

Re: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6, T-21-S, R-32-E, N.M.P.M.
Lea County, New Mexico

Dear Mr. Erickson:

Pursuant to our telephone conversation of January 2, 1979 concerning the Operating Agreement for the captioned, this letter will formally set forth our objections to same. We would appreciate your consideration of the following changes:

1. Amending portions of Article V, Section 13, 1 and 2 as indicated on the enclosed Page 4, as well as adding Selection of New Operator provision as set forth in the enclosed Page 14, being Article XV, Section A;

2. Deleting first paragraph of Article VIII, Section E;

3. Reducing the well rates contained in Section III, 1A of the Accounting Procedure. Please note that in the past, ie. Operating Agreements for New Mexico Comm. #1E and F wells, your rates were $1,456.00 per drilling well and $217.00 per producing well, both being substantially less than the rates you propose. We, therefore, recommend rates of $1,900.00 and $250.00, respectively.

Also, you will recall that we discussed the absence of Exhibit "B" to the Agreement, and you advised that you would handle by subsequent correspondence upon receipt of our obligations to the Agreement.

Should you have any questions concerning our proposed changes, please feel free to contact the undersigned.

Sincerely,

William M. Brown
Landman

WMB/bb

Enclosures

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the majority vote in interest of Non-Operators.

Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the majority vote in interest of Non-Operators.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

## ARTICLE VI.
## DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the_____ day of_____, 19__, Operator shall commence the drilling of a well for oil and gas at the following location:

and shall thereafter continue the drilling of the well with due diligence to

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1 hereof.

☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of _____ days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within _____ days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

## ARTICLE XIV.
## COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

## ARTICLE XV.
## OTHER PROVISIONS

A. Selection of New Operator:

Notwithstanding anything to the contrary contained herein, after Operator has acted in that capacity for a period of not less than one year, Non-Operator may give notice to the Operator, in writing, in accordance with the provisions hereof respecting notices, of any charges deemed by Non-Operator to be excessive or of any practices employed by Operator deemed by Non-Operator not in accord with accepted industry procedure. Unless within sixty (60) days after receipt by it of such notice, Operator agrees to act as Operator according to terms set out in such notice, then Non-Operator may elect to assume the duties of Operator and thereafter act as Operator of the Contract Area in accordance with the terms set out in the notice given to the former Operator. After any successor Operator who has assumed operation of the Contract Area in accordance with this section has operated the joint property for a period of not less than one year, the provisions of this section may be again invoked by any party who is then Non-Operator.

B. Equal Employment Opportunity:

During the performance of this agreement, the Operator shall be bound by and comply with all terms and provisions of Section 202 of Executive Order 11246 of September 24, 1965, all of which are incorporated herein by reference to the same regulations and relevant orders adopted pursuant to such Executive Order.

Operator assures Non-Operator that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965. Operator further understands and agrees that a breach of the assurance herein contained subjects it

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

BILL CURTIS
MANAGER OF LANDS

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL

December 8, 1978

GRACE PETROLEUM CORPORATION
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attention: Don W. Erickson
District Landman

Re: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Enclosed please find one (1) executed copy of the AFE for the above captioned well.

If we may be of further assistance, please, do not hesitate to contact us.

Very truly yours,

Bill Curtis
Manager of Lands

pp

Enclosure

November 3, 1978

Supron Energy Corporation
Building V, Fifth Floor
10300 N. Central Expressway
Dallas, Texas 75231
Attention: Mr. William M. Brown

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

RE: Proposed New Mexico Federal "G"
Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Enclosed for your consideration are the following:

1. One copy for your records of the Communitization Agreement dated November 1, 1978, which has been executed by Grace Petroleum Corporation.

2. Five copies of the signature pages for this agreement.

Although you have informed Grace that you do not yet want to make the decision to join, pending the outcome of the New Mexico Federal "F" #1 Well, we would appreciate your retaining the agreement for your possible approval and execution.

If you do execute the agreement, please execute and acknowledge all five copies of the signature pages and return all five copies to Grace to my attention.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc
Enclosures: As Stated

United States Department of the Interior

OCT 23 1978

GEOLOGICAL SURVEY
P. O. Drawer 1857
Roswell, New Mexico 88201

October 19, 1978

Grace Petroleum Corporation
Attention: Mr. Don W. Erickson
6501 North Broadway
Oklahoma City, Oklahoma 73116

Gentlemen:

The information submitted in Exhibits "A" and "B" for the proposed Morrow communitization agreement of Lots 9, 10, 15, 16 and SE¼ Sec. 6, T. 21 S., R. 32 E., concurs with our records. No changes or corrections are necessary.

Please include "as amended" to the communitization agreement, Part 15, Nondiscrimination as follows:

> . . . inclusive, of Executive Order 11246 as amended (30 F.R. 12319), which . . .

This change should be included in all future communitization agreements.

Sincerely yours,

Jack Willock

JACK WILLOCK
Assistant Oil & Gas Supervisor, SRMA

Enclosure

3. All matters of operation shall be governed under and pursuant to the terms and provis

COMMUNITIZATION AGREEMENT

Contract No. _____

RECEIVED
OCT 16 1978
U. S. GEOLOGICAL SURVEY
ROSWELL, NEW MEXICO

THIE AGREEMENT, entered into as of the 1st day of November, 1978, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

WITNESSETH:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.), authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

   Lots 9, 10, 15, 16, and SE/4 of
   Section 6-21S-32E,
   Lea County, New Mexico

   containing 320 acres, more or less, and this agreement shall include only the Morrow Formation underlying said lands and the natural gas and associated liquid hydrocarbons hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit B, designating the operator of the communitized area and showing the acreage percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area, and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

RECEIVED
OCT 16 1978
U. S. GEOLOGICAL SURVEY
ROSWELL, NEW MEXICO

COMMUNITIZATION AGREEMENT

Contract No. _____

THIS AGREEMENT, entered into as of the 1st day of November, 1978, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

WITNESSETH:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.), authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

   Lots 9, 10, 15, 16, and SE/4 of
   Section 6-21S-32E,
   Lea County, New Mexico

   containing 320 acres, more or less, and this agreement shall include only the Morrow Formation underlying said lands and the natural gas and associated liquid hydrocarbons hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit B, designating the operator of the communitized area and showing the acreage percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area, and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

(b) It is agreed that for any Federal lease bearing a sliding - or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement is effective November 1, 1978, upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities: Provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

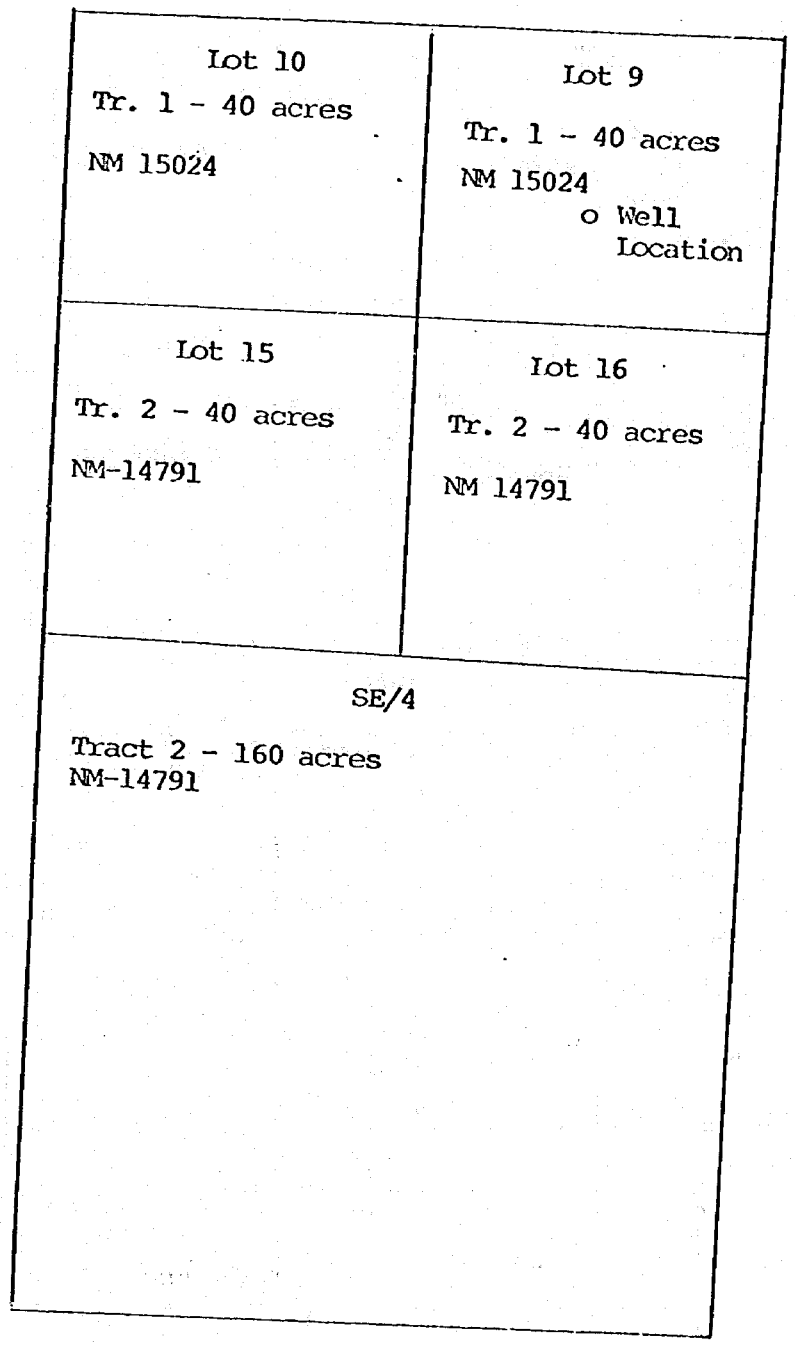
13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference in this agreement. as amended

EXHIBIT "B"

PLAT OF COMMUNITIZED AREA COVERING LOTS 9, 10, 15, & 16 and SE/4 of Section 6-21S-32E, NMPM, LEA COUNTY, NEW MEXICO, SALT LAKE SOUTH FIELD




RECAPITULATION

| TRACT # | TOTAL ACRES COMMITTED | % OF INTEREST IN COMMITTED AREA |
|---|---|---|
| 1 | 80.00 | 25.00% |
| 2 | 240.00 | 75.00% |
| | 320.00 | 100.00% |

EXHIBIT "A"

TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, EMBRACING LOTS 9, 10, 15, & 16 and SE/4 Section 6, ,Township 21 South, Range 32 East, NEW MEXICO P.M., LEA COUNTY, NEW MEXICO

OPERATOR OF COMMUNITIZED AREA - GRACE PETROLEUM CORPORATION

TRACT NO. 1

LESSOR(S) : U. S. A.

LESSEE(S) OF RECORD: Gulf Oil Exploration and Production Company

SERIAL NO. OF LEASE: NM-15024

DATE OF LEASE: February 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 9 & 10 of
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 80

WORKING INTEREST AND PERCENTAGE: Gulf Oil Exploration and Production Company. . .100.%

O.R.R.I. AND PERCENTAGE:

Walter Duncan.....30% of 5%
Raymond T. Duncan.....30% of 5%
Vincent J. Duncan.....30% of 5%
J. Walter Duncan, Jr.....9% of 5%
Walter Duncan, III.....1% of 5%

TRACT NO. 2

LESSOR(S): U. S. A.

LESSEE(S) OF RECORD: Grace Petroleum Corporation and
Supron Energy Corporation

SERIAL NO. OF LEASE: NM-14791

DATE OF LEASE: March 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 15 & 16 & SE/4
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 240

WORKING INTEREST AND PERCENTAGE:

Grace Petroleum Corporation ..... 75.%
Supron Energy Corporation ..... 25.%
100.%

O.R.R.I. AND PERCENTAGE:

Henry Vartanian.....2.5%
Charles E. Strange,
Trustee of the Charles
E. Strange Trust.....2.5%

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____

BY: _____
James H. Thomas, Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

BILL CURTIS
MANAGER OF LANDS

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL.

December 8, 1978

GRACE PETROLEUM CORPORATION
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attention: Don W. Erickson
District Landman

Re: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Enclosed please find one (1) executed copy of the AFE for the above captioned well.

If we may be of further assistance, please, do not hesitate to contact us.

Very truly yours,

Bill Curtis
Manager of Lands

pp

Enclosure

October 19, 1978

Sunron Energy Corporation
Building V, Fifth Floor
10300 N. Central Expressway
Dallas, Texas 75231
Attention: Mr. William M. Brown

Gulf Oil Exploration and
Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

RE: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Inclosed for your consideration are the following:

1. Two copies of the Operating Agreement for the captioned unit, dated November 1, 1978, which have been executed by Grace Petroleum Corporation.

2. One copy of Hinkle, Cox, Eaton, Coffield and Hensley's Title Opinion, dated September 26, 1978, covering the captioned acreage.

3. Two copies of Grace's AFE for the "G" #1 Well. Please note that New Mexico Oil Conservation Commission Form C-102, which is also inclosed, has the revised well location noted on it.

The Communitization Agreement has been sent to the U. S. G. S. for preliminary approval of form.

Although you have informed Grace that you do not yet want to make the decision to join, pending the outcome of the New Mexico Federal "F" #1 Well, we would appreciate your retaining the above instruments for your approval and execution if you do decide to join.

If and when you do approve the drilling of the "G" #1 Well, please return one executed copy of the Operating Agreement and one executed copy of the AFE to my attention at Grace Petroleum.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc
Enclosures: As Stated

# Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Drawer 1150
Midland, TX 79702

AUG 14 1978

August 10, 1978

Re: Salt Lake Morrow South
Prospect, Proposed New Mexico
Federal "G" Com #1, LEA COUNTY,
New Mexico

Grace Petroleum Corporation
6501 North Broadway
Oklahoma City, OK 73116

Attention: Don W. Erickson

Gentlemen:

Please refer to your letter of July 17, 1978 proposing formation of the captioned unit. This is to advise you that Gulf prefers to defer consideration of your proposal pending the outcome of the New Mexico Federal "F-1" offsetting your proposed test.

Yours very truly,

R. E. Griffith

R. E. GRIFFITH

CMH/dh
cc: Superior Energy Corp.

SUPRON ENERGY CORPORATION
SUITE 1700, CAMPBELL CENTRE
8350 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75206

TELEPHONE (214) 691-9141
TWX (910) 861-9112
SUPCO DAL

July 26, 1978

JUL 28 1978

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attn: Mr. Don W. Erickson

Re: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1 Well
Lea County, New Mexico

Dear Mr. Erickson:

Reference is made to your letter of July 17, 1978 concerning the formation of a unit for the drilling of the captioned well, to be located in Section 6, Township 21 South, Range 32 East, Lea County, New Mexico.

Supron would prefer to make an election with respect to your proposal at such time as the New Mexico Federal F-1 Well is drilled and completed, in view of the fact that said well is a direct offset.

Sincerely,

Wm M. Brown

William M. Brown
Landman

WMB/bb

cc: Gulf Energy & Mineral Co., U.S.

July 28, 1978

Gulf Energy & Mineral Co., U.S.A.
P.O. Box 1150
Midland, Texas 79702

Attention: Mr. Robert E. Griffith

Connie Hawkins
Handling

Supron Energy Corporation
Suite 1700, Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206

Attention: Mr. Bill Curtis

RE: AFE
Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G" Com. #1
Lots 9, 10, 15 & 16, and SE/4 Section 6,
T21S, R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No. 9281

Gentlemen:

Please refer to my letters of July 17 and July 21, 1978 concerning the proposed captioned unit.

Enclosed for your information is Grace Petroleum Corporations's AFE for this well.

Yours very truly,

Original Signed By
DON ERICKSON
Don W. Erickson
District Landman

DWE/jc

bcc: Don Stamm
Howard Green
Max Douglas
Frank Elliott

July 21, 1978

Gulf Energy & Mineral Co., U.S.
P.O. Box 1150
Midland, Texas 79702
ATTENTION: Mr. Robert E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
ATTENTION: Mr. Bill Curtis

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Sec. 6, T21S, R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No. 9281

Gentlemen:

Please refer to my letter of July 17, 1978, concerning the proposed captioned unit.

The unit outline has been revised to include Lots 9, 10, 15, and 16 and SE/4 Section 6-T21S, R32E, NMPM, Lea County, New Mexico. Lot No. 8 will not be included. A revised plat is attached.

Yours very truly,
Original Signed By
DON W. ERICKSON

Don W. Erickson
District Landman

DWE/ja

bcc: Don Sterne
Howard Green
Max Douglas
Frank Elliott

CLEARY PETROLEUM CORPORATION
BROADWAY EXECUTIVE PARK, 6501 N. BROADWAY
OKLAHOMA CITY, OKLAHOMA 73116
(405) 843-5551

July 17, 1978

S.J. CERNY
President

Gulf Energy & Mineral Co., U. S.
P. O. Box 1150
Midland, Texas 79702
ATTENTION: Mr. Robert E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
ATTENTION: Mr. Bill Curtis

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1 Lots 8, 9, 15,
and 16, SE/4 Sec. 6, T21S,
R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No. 9281

Gentlemen:

Grace Petroleum Corporation, formerly Clearly Petroleum Corporation, is proposing a unit comprised of Lots 8, 9, 15, and 16, SE/4 Sec. 6, T21S, R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

In order to best utilize the leasehold of Grace, Supron Energy, and Gulf, it is suggested that the "G" unit be comprised of the captioned acreage. This unit would be considered as a non-standard unit but would contain 320 acres, more or less. The proposed well would be located on Gulf's acreage in Lot 9.

Gulf owns, according to our records, 100% of Lots 8 and 9, and Grace owns 75% and Supron owns 25% of Lots 15, 16, and the SE/4 Sec. 6-T21S, R32E. An ownership Take-Off of this area is enclosed along with a plat of the proposed unit.

Please give this proposal your early consideration. It takes, as you know, several months to complete the necessary paper work and to obtain approval of the U.S.G.S. on all regulatory matters. If you are agreeable to this proposal, we will immediately start on all the requirements to form this unit.

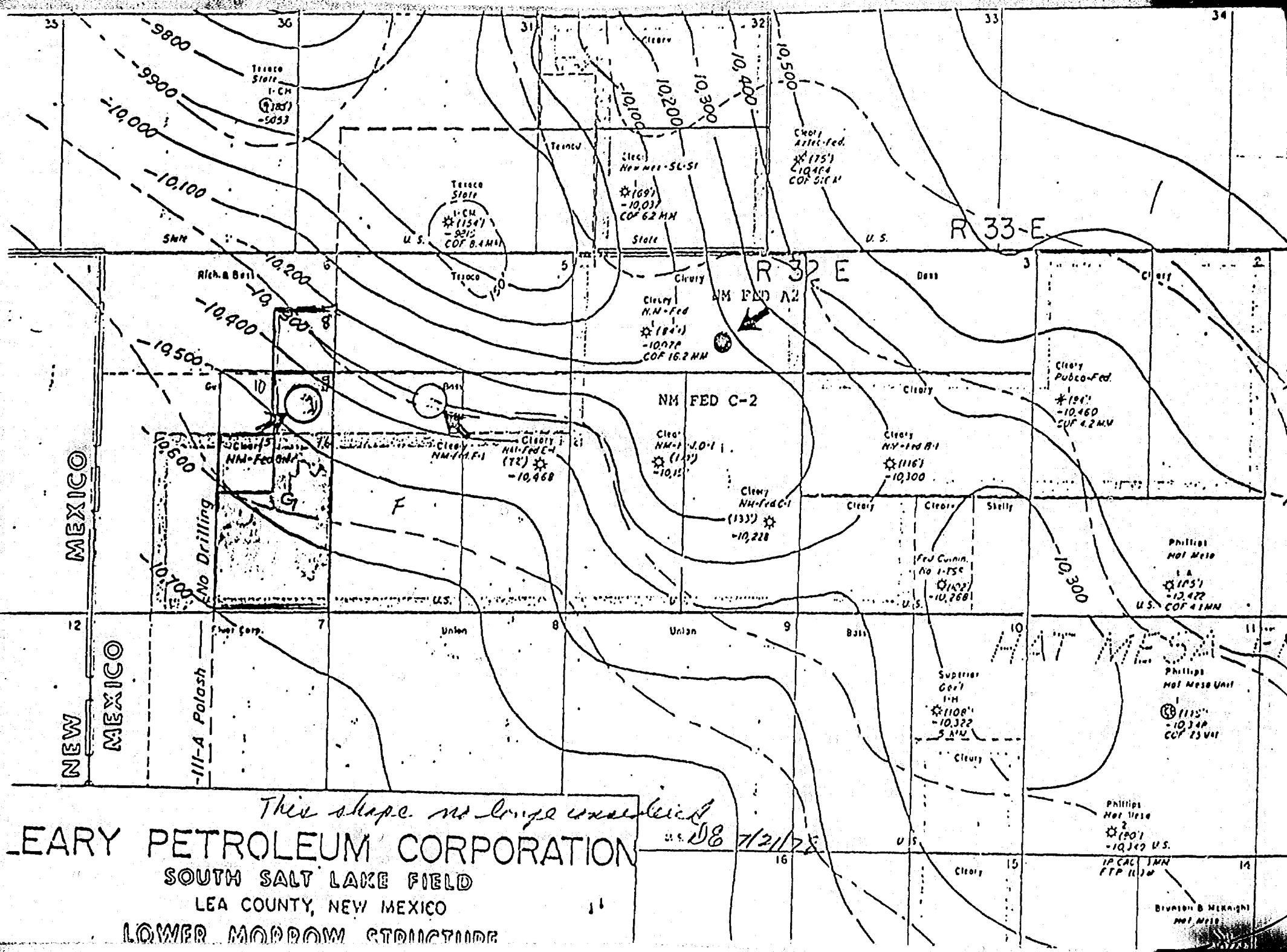
Very truly yours,

Don W. Erickson

Don W. Erickson
District Landman

DWE:db

bcc: Don Sterne
Howard Green
Max Douglas
Frank Elliott




This shape no longer exists
U.S. DE 7/21/72

# EARY PETROLEUM CORPORATION

## SOUTH SALT LAKE FIELD

LEA COUNTY, NEW MEXICO

LOWER MORROW STRUCTURE

R 33-E

R 32 E

NM FED C-2

AM FED A2

10,100
10,200
10,300
10,400
10,500
10400
10500
10500
10300

Texaco State 1-CH (154') -9215' COF 6.4 MM

Texaco 1-50

Texaco

Cleary New Mex-SL-S1 (69') -10,037' COF 6.2 MM

Cleary Allec-Fed. (175') -10,464 COF 5.6 MM

Cleary N.M.-Fed (84') -10,078 COF 16.2 MM

Cleary NM-Fed F-1

Cleary Nat-Fed C-1 (72') -10,468

Cleary NM-Fed C-1 (133') -10,228

Cleary NM-Fed J-D-1 (133') -10,15[illegible]

Cleary N.Y.-Fed B-1 (116') -10,300

Cleary Pubco-Fed (194') -10,460 COF 4.2 MM

Phillips Fed 1-E12 -10,458

Phillips Hot Mesa 1-A (185') -13,422 COF 4 MM

Kimble Prod Fed-One 1-A (47') -10,450 3.2 MM U.S.

Fed Comm. No 1-T5S (102') -10,268

Superior Gov't 1-H (1108') -10,322 5 MM

Phillips Hot Mesa Unit 1 (115') -10,348 COF 15 MM

Phillips Hot Mesa 2 (90') -10,349 U.S.

Brunson & Merchant Hot Mesa

HAT MESA FIELD

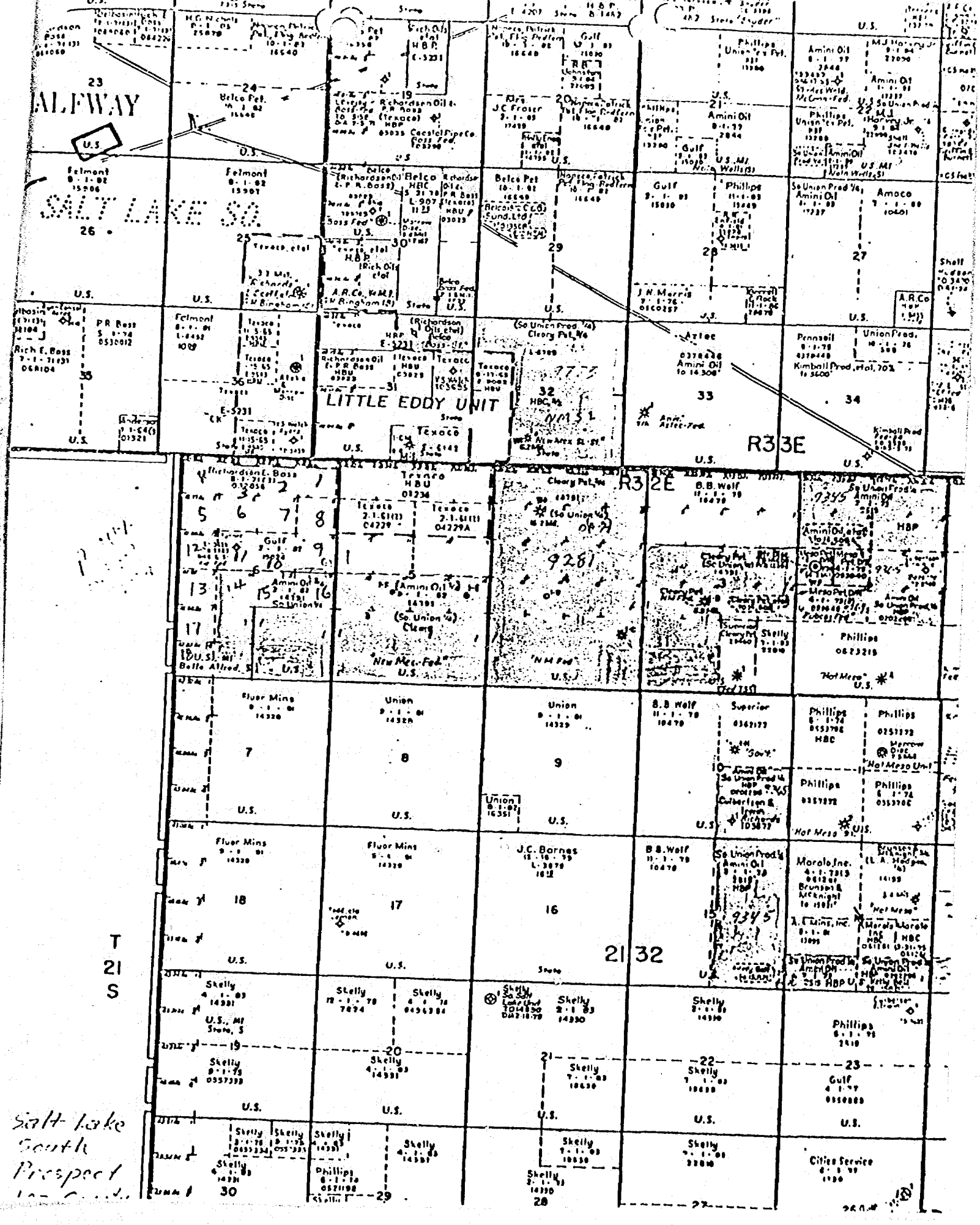
shape no longer accurate DE 7/21/78

UM CORPORATION
LAKE FIELD
NEW MEXICO
STRUCTURE

TAKE-OFF

Township 21 South, Range 32 East, N.M.P.M.
Section 6: Lots 1 thru 18, E½SW¼,SE¼
Containing 985.06 acres, more or less,
Lea County, New Mexico

| DESCRIPTION | MINERAL OWNER | INTEREST | STATUS |
|---|---|---|---|
| Lots 1,2,3,4,5,6,7,12,13,17,18 (465.06 acres) | U.S.A. | 8/8 | UNLEASED<br>NOT OPEN FOR LEASING<br>(Potash Area) |
| Lot 8,9,10,11 (160.00) | U.S.A. | 8/8 | LEASED<br>NM-15024; dated 2/1/72<br>Gulf Oil Co. - 100%<br>Midland, TX 79701<br>ORR: Annamarie Duncan 5% |
| Lots 14,15,16,E½SW¼SE¼ | U.S.A. | 8/8 | LEASED<br>NM-14791; dated 3/1/72<br>(HBP)<br>Cleary Petroleum - 75%<br>Oklahoma City, OK 73116<br><br>Supron Energy Corp. - 25%<br>Dallas, Texas |


SALT LAKE
LITTLE EDDY UNIT
R33E
R32E
T
21
S
21 32
Salt Lake
South
Prospect

WORKING INTEREST AND BILLING INSTRUCTIONS

DATE 1/15/79 DOI #866

CPC's TOTAL W. I. 56.25 %BPO
56.25 %AFO

Est. NRI = 46.40625%

Est Lease Cost (_____ ac) $_____

Est. Costs To T. D. $ 670,000

Est. Total Risk $ 670,000

Est. Completion Costs $ 326,000

Turnkey Basis (100%)

Leases $_____

Drilling $_____

Total $_____

Lease acquired thru RCA on _____

WELL NAME: New Mexico Federal "G" Comm. #1
660' FNL & 660' FEL, Sec. 6-21S-33E, NMPM
Lea County, New Mexico

PROSPECT SALT LAKE MORROW SOUTH

Region: Mid-Continent

Land AFE _____ Well AFE 8424AB

FUND _____

Exploratory _____ or Development X

Est. T.D. & Objective 14,100' Morrow

Spacing 320 acres Oil _____ Gas X

Date Spudded _____ Date Compl. _____

Results: _____

First Sale: Oil _____ Gas _____

| OWNERS | WORKING INTEREST BEFORE PO | WORKING INTEREST AFTER PO | BASIS SOLD | ESTIMATED $ PAID TO CASH POINT |
|---|---|---|---|---|
| Grace Petroleum Corporation (Oper.) | 56.25% | | | |
| Supron Energy Corporation | 18.75% | | | |
| Gulf Oil Exploration and Prod. Co. | 25.00% | | | |
| | 100.00% | | | |

Supron Energy Corporation: Building V, Fifth Floor
10300 N. Central Expressway
Dallas, TX 75231

Gulf Oil Exploration and Production Co.: P. O. Drawer 1150, Midland, TX 79702

100% of LHC & Dilg. to T.D. $ 670,000

Promoted Money Paid by Others $ -0-

Unpromoted " " " $_____

CPC Total Exposure $ 376,876

CPC Est. Completion Cost $ 183,375

RECAP OF PROFIT ON SALE

Sale $_____

Less Commission $_____

Total $_____

Cost of Sale $_____

CPC DH Cost $ 376,875

(CPC LHC $_____)

(CPC Drilling $ 376,875 )

JD, FR, MK, DH(3), JH(2), DS, GV, RM, JT(2), GM, ET, GD, JC(2), EF, G-H

GRACE PETROLEUM CORPORATION

WELL DATA MEMO

SUPPLEMENTAL

DATE: January 8, 1979

LOCATION DATA

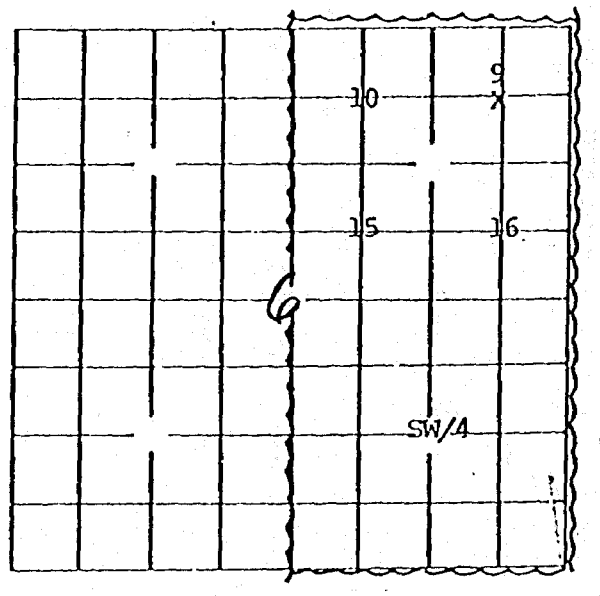
Region: Mid-Continent

Prospect: Salt Lake Morrow South

County and State: Lea County, New Mexico

Well name: New Mexico Federal "G" Comm. #1

Location: ~~660' FNL~~ 4650' FSL & 660' FEL
Sec. 6-21S-~~33E~~ 32E, NMPM




Operator: Grace Petroleum Corporation

Estimated TD: 14,100'

Objective: Morrow

Lease Nos. Affected by Well:
NM-9281

DESCRIPTION OF WELL OR UNIT: NO. ACRES: 320.00

Lot 9, 10, 15, 16, and SE/4
Sec. 6-21S-32E, NMPM, Lea County, New Mexico

| OWNERS & ADDRESSES | COST | NRI (E) |
|---|---|---|
| Grace Petroleum Corporation<br>Broadway Executive Park<br>6501 North Broadway<br>Oklahoma City, Oklahoma 73116 | 56.25% | 46.40625 % |
| Supron Energy Corporation<br>Building V, Fifth Floor<br>10300 N. Central Expressway<br>Dallas, Texas 75231 | 18.75% | 15.46875 % |
| Gulf Oil Exploration and Production Company<br>P. O. Drawer 1150<br>Midland, Texas 79702 | 25.00% | 20.62500 % |

17½% [illegible]

JOA DATA Dated: November 1, 1978

Limitation of Expenditure: $15,000

Casing Point Election: Yes

Overhead Rates:

Non-Consent Penalty: 100% Equip.
300% Drlg.

Drilling $2,407.00
Operating $ 336.00

Distribution:

Prepared by: DWE
Don W. Erickson

COMMUNITIZATION AGREEMENT

Contract No. _____

THIE AGREEMENT, entered into as of the 1st day of November, 1978, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

WITNESSETH:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.), authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

   Lots 9, 10, 15, 16, and SE/4 of
   Section 6-21S-32E,
   Lea County, New Mexico

   containing 320 acres, more or less, and this agreement shall include only the Morrow Formation underlying said lands and the natural gas and associated liquid hydrocarbons hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit B, designating the operator of the communitized area and showing the acreage percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area, and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

(b) It is agreed that for any Federal lease bearing a sliding - or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement is effective November 1, 1978, upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities: Provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246, as amended, (30 F.R. 12319), which are hereby incorporated by reference in this agreement.

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978; BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____
ASSISTANT SECRETARY

BY: _____
Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 1st day of November 1978, by J. K. Ursidale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___ day of _____, 19 , by

President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this _____ day of _____, 19__ by President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this____day of_____, 19__ by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this__day of_____. 19__, by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this__day of_____, 19__, by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
)
COUNTY OF ) SS

The foregoing instrument was acknowledged before me this__day of_____, 19__, by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
)
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___ day of _____, 19__, by _____.

_____
Notary Public

My Commission Expires:

_____.

EXHIBIT "A"

TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, EMBRACING LOTS 9, 10, 15, & 16 and SE/4 Section 6, Township 21 South, Range 32 East, NEW MEXICO P.M., LEA COUNTY, NEW MEXICO

OPERATOR OF COMMUNITIZED AREA - GRACE PETROLEUM CORPORATION

TRACT NO. 1

LESSOR(S) : U. S. A.

LESSEE(S) OF RECORD: Gulf Oil Exploration and Production Company

SERIAL NO. OF LEASE: NM-15024

DATE OF LEASE: February 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 9 & 10 of
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 80

WORKING INTEREST AND PERCENTAGE: Gulf Oil Exploration and Production Company. . .100.%

O.R.R.I. AND PERCENTAGE:

Walter Duncan.....30% of 5%
Raymond T. Duncan.....30% of 5%
Vincent J. Duncan.....30% of 5%
J. Walter Duncan, Jr..... 9% of 5%
Walter Duncan, III..... 1% of 5%

TRACT NO. 2

LESSOR(S): U. S. A.

LESSEE(S) OF RECORD: Grace Petroleum Corporation and
Supron Energy Corporation

SERIAL NO. OF LEASE: NM-14791

DATE OF LEASE: March 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 15 & 16 & SE/4
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 240

WORKING INTEREST AND PERCENTAGE:

Grace Petroleum Corporation ..... 75.%
Supron Energy Corporation ..... 25.%
100.%

O.R.R.I. AND PERCENTAGE:

Henry Vartanian.....2.5%
Charles E. Strange,
Trustee of the Charles
E. Strange Trust.....2.5%

EXHIBIT "B"

PLAT OF COMMUNITIZED AREA COVERING LOTS 9, 10, 15, & 16 and SE/4 of Section 6-21S-32E, NMPM, LEA COUNTY, NEW MEXICO, SALT LAKE SOUTH FIELD

| | |
|---|---|
| Lot 10<br>Tr. 1 - 40 acres<br>NM 15024 | Lot 9<br>Tr. 1 - 40 acres<br>NM 15024<br>o Well Location |
| Lot 15<br>Tr. 2 - 40 acres<br>NM-14791 | Lot 16<br>Tr. 2 - 40 acres<br>NM 14791 |
| SE/4<br>Tract 2 - 160 acres<br>NM-14791 | |

R E C A P I T U L A T I O N

| TRACT # | TOTAL ACRES COMMITTED | % OF INTEREST IN COMMITTED AREA |
|---|---|---|
| 1 | 80.00 | 25.00% |
| 2 | 240.00 | 75.00% |
| | 320.00 | 100.00% |

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

BY: _____
ASSISTANT SECRETARY

GRACE PETROLEUM CORPORATION

BY: _____
Vice President

ATTEST:

BY: _____

SUPRON ENERGY CORPORATION

BY: _____
Bill Curtis, Attorney-in-Fact

ATTEST:

BY: _____

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 1st day of November 1978 by J. K. Hisdale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF TEXAS )
) SS
COUNTY OF DALLAS )

The foregoing instrument was acknowledged before me this 22 day of December 1978, by Bill Curtis, Attorney-in-Fact of Supron Energy Corporation, a Delaware Corporation, on behalf of said corporation.

Mary P. Brooks
Notary Public

My Commission Expires:
6/15/80

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this_____day of_____, 19__, by _____ President of _____ a _____ corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

Walter Duncan OIL PROPERTIES

1300 WRITERS' CENTER IV • 1720 SOUTH BELLAIRE STREET
AREA CODE 303 TEL. 759-3303 • DENVER, COLORADO 80222

July 9, 1979

United States Geological Survey
505 Marquette, NW, Suite 815
Albuquerque, New Mexico

Attention: Mr. James W. Sutherland
Area Oil and Gas Supervisor

Re: NM-15024
Communitization Agreement
T21S-R32E
Sec. 6: Lots 9 & 10
Lea County, New Mexico
31-2-171-01

Dear Mr. Sutherland:

Mr. Walter Duncan III is temporarily incapacitated due to illness, thus being unable to sign the captioned instrument. Mr. Duncan owns 1% of 5% (.05% net) of the Overriding Royalty interest in Federal Oil and Gas Lease NM-15024. Messrs. Walter Duncan, Raymond T. Duncan, Vincent J. Duncan and J. Walter Duncan, Jr. own 99.0% of 5% of the overriding royalty interest in the lease and have executed the captioned Communitization Agreement.

Very truly yours,

Dale E. Harrison

Dale E. Harrison
Land Manager

DEH:lks

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

BY: _____
ASSISTANT SECRETARY

GRACE PETROLEUM CORPORATION

BY: _____
Vice President

ATTEST:

BY: _____

SUPRON ENERGY CORPORATION

BY: _____

ATTEST:

BY: _____

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

_____
Joan R. Duncan, wife of Raymond T. Duncan

_____
Annamarie Duncan, wife of Vincent J. Duncan

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 18 day of June, 197

by Raymond T. Duncan & Joan R. Duncan, husband & wife

Connie K. Faulkner
Notary Public

My Commission Expires:

12-10-80

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 26 day of June, 197

by Vincent J. Duncan & Annamarie Duncan, husband & wife

Diana M. Jones
Notary Public

My Commission Expires:

5-28-83

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 20 day of June, 197

by J. Walter Duncan, Jr.

Notary Public

My Commission Expires:

12.29.81

STATE OF Illinois )
) SS
COUNTY OF LaSalle )

The foregoing instrument was acknowledged before me this 5 day of July, 197

by Walter Duncan

Notary Public

My Commission Expires:

3.27.80

LAW OFFICES

HINKLE, COX, EATON, COFFIELD & HENSLEY

1000 FIRST NATIONAL BANK TOWER

POST OFFICE BOX 3580

MIDLAND, TEXAS 79702

(915) 683-4691

LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
JAMES H. BOZARTH

DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
J. DOUGLAS FOSTER
K. DOUGLAS PERRIN
C. RAY ALLEN
JACQUELINE W ALLEN
T. CALDER EZZELL, JR.
WILLIAM B. BURFORD
JOHN S. NELSON
RICHARD E. OLSON

OF COUNSEL
CLARENCE E. HINKLE

W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN, ALLEN & BURFORD LICENSED IN TEXAS

July 18, 1979

IN RE: FIRST SUPPLEMENTAL OPINION OF TITLE TO:

United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ of Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said lands being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.

Your No. _____

No. 25,140

Grace Petroleum Corporation
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

We rendered our original Opinion of Title herein on September 26, 1978, based upon prior opinions, abstract coverage of the federal records last certified to August 7, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 14791 and to August 22, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 15024, and abstract coverage of the county records last certified to August 11, 1978 at 8:00 A.M. as to the mineral estate covered by Lease NM 14791 and to August 23, 1978 at 8:00 A.M. as to the mineral estate covered by Lease NM 15024. We have been furnished for further examination the following materials:

(a) Federal Abstract Company Abstract No. 31481, covering the records in the United States Land Office at Santa Fe, New Mexico as to the captioned lands covered by Lease NM 14791, from August 7, 1978 at 10:00 A.M. to June 7, 1979 at 10:00 A.M.,

(b) Federal Abstract Company Abstract No. 31482, covering the records in the United States Land Office at Santa Fe, New Mexico as to the captioned lands covered by Lease NM 15024, from August 22, 1978 at 10:00 A.M. to June 7, 1979 at 10:00 A.M.

(c) Lovington Abstract Company Abstract No. 6-1579 covering the public records of Lea County, New Mexico as to the mineral estate in the captioned lands from August 11, 1978 at 8:00 A.M. as to Lots 15 and 16 and the SE¼ of Section 6, and from August 23, 1978 at 8:00 A.M. as to Lots 9 and 10 of Section 6, to June 15, 1979 at 8:00 A.M.

Based upon our examination of the above materials, we report the status of previous title requirements as follows:

I. CURATIVE ACTION ON PREVIOUS TITLE REQUIREMENTS

REQUIREMENT A: Advisory only, and relates to the reassignment rider contained in the assignment from Annamarie Duncan and husband, Vincent J. Duncan, to Gulf Oil Corporation.

REQUIREMENT B: Nothing submitted. This requirement should be satisfied in the event that you desire to pool the lands covered by Lease NM 15024 with other lands.

REQUIREMENT C: Nothing submitted, and it may be that you will waive this requirement in the event that you do not intend to conduct drilling operations on the lands covered by Lease NM 15024.

REQUIREMENT D: Previously satisfied as indicated in our letter dated November 6, 1978.

REQUIREMENT E: Partially satisfied. By Decision dated March 19, 1979, the Bureau of Land Management in Santa Fe recognized that effective as of July 1, 1978, Cleary Petroleum Corporation changed its name to Grace Petroleum Corporation. The county records still do not contain any record of this change, however.

II. ADDITIONAL EXCEPTIONS TO TITLE AND COMMENTS:

1. Lease Account Status: The abstracts under examination do not reflect current status of the lease account in connection with Lease NM 14791. This account should be in a current status.

REQUIREMENT F (NEW): You should inquire of the United States Geological Survey in Albuquerque, New Mexico and ascertain whether or not the lease account in connection with Lease NM 14791 is in a current status. (We have taken the liberty to write a letter inquirying as to the status of this lease account.)

2. Rentals: The abstracts indicate that rentals on Lease NM 15024 have been paid to February 1, 1980. This is advisory only.

3. Judgment and Lien Search: The county abstract contains satisfactory judgment and lien searches.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

John S Nelson /WBB

John S. Nelson

JSN:rf
Above mentioned abstracts
returned herewith.

LAW OFFICES
HINKLE, COX, EATON, COFFIELD & HENSLEY
1000 FIRST NATIONAL BANK TOWER
POST OFFICE BOX 3580
MIDLAND, TEXAS 79702
(915)683-4691

LEWIS C. COX, JR.
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J. DOUGLAS FOSTER
K. DOUGLAS PERRIN
C. RAY ALLEN
JACQUELINE W. ALLEN
T. CALDER EZZELL, JR.

OF COUNSEL
CLARENCE E. HINKLE

W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

November 6, 1978

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Re: United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.
HCEC&H T/O No. 25,140
Requirement D

Gentlemen:

Under date of September 26, 1978 we rendered our original opinion of title wherein we imposed Requirement D. We have not been submitted any additional abstracts but we have received additional curative materials and now report curative action as follows:

REQUIREMENT D: Satisfied. We have received a letter from the United States Geological Survey dated October 13, 1978 which states that the lease account for NM 14791 is considered in good standing through July 1978.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cm

LAW OFFICES
HINKLE, COX, EATON, COFFIELD & HENSLEY
1000 FIRST NATIONAL BANK TOWER
POST OFFICE BOX 3580
MIDLAND, TEXAS 79702
(915) 683-4691

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OF COUNSEL
CLARENCE E. HINKLE

W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

September 26, 1978

| | |
|---|---|
| IN RE: OPINION OF TITLE TO: United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ of Section 6, United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6, All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less. Your No. _____ | No. 25,140 |

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

In connection with the title to the captioned lease and lands we have examined the following materials:

(a) Southern Union Production Company, in-house opinion, dated November 10, 1972, which opinion was based on examination of various materials, including abstracts certified down to October 17, 1972 at 10:00 A. M. as to the federal records and down to October 18, 1972 at 8:00 A.M. as to the county records; and

(b) Federal Abstract Company Abstract Nos. 27739, 28130, 28218 and 30446, which when taken collectively, cover the records in the United States Land Office at Santa Fe, New Mexico from October 17, 1972 at 10:00 A.M. down to August 7, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 14791; and

(c) Federal Abstract Company Abstract No. 30506 which purports to cover the records in the United States Land Office at Santa Fe, New Mexico from inception of records down to August 22, 1978 at 10:00 A.M. as to captioned lands covered by Lease NM 15024; and,

(d) Lovington Abstract Company, Inc. Abstract Nos. 1-2174-B, 12-1476-A, 5-1777 and 8-1178-F, which collectively cover the public records of Lea County, New Mexico as to the mineral estate from October 18, 1972 at 8:00 A.M. down to August 11, 1978 at 8:00 A.M., insofar as said records reflect the captioned mineral estate covered by Lease NM 14791 and which contain satisfactory judgment and lien searches against the parties in the chain of title to the captioned lease and lands; and,

(e) Lovington Abstract Company Abstract No. 8-2378-A which covers the public records of Lea County, New Mexico as to the mineral estate from inception of records down to August 23, 1978 at 8:00 A.M. as to the captioned mineral estate covered by Lease NM 15024; and,

(f) Hinkle, Cox, Eaton, Coffield & Hensley Title Opinion No. 23,892 dated July 8, 1977.

From our examination of the foregoing, and based solely thereon, we now report the status of title to the captioned lease and lands as of the most recent closing dates reflected by the abstract certificates as follows:

I. TITLE TO OIL AND GAS SUBJECT TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 12.5% ROYALTY):

United States of America ---------- All

II. RECORD TITLE TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 82.5% WORKING INTEREST):

NM 14791:

Grace Petroleum Corporation ---------- 75%*
Southern Union Production Company ------ 25%

* This will be the status of title upon filing a Certificate of Merger between Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management.

NM 15024:

Gulf Oil Corporation ---------- All

III. TITLE TO OVERRIDING ROYALTY INTERESTS EQUAL TO 5% of 8/8 CREATED UNDER EACH OF LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS:

NM 14791:

| | |
|---|---|
| Henry H. Vartanian, whose wife is Betty Jane Vartanian | 1/2 |
| Charles E. Strange, Trustee of the Charles E. Strange Trust established on May 6, 1974 | 1/2 |

NM 15024:

| | |
|---|---|
| Walter Duncan | 30% |
| Raymond T. Duncan | 30% |
| Vincent J. Duncan | 30% |
| J. Walter Duncan | 9% |
| Walter Duncan III | 1% |

IV. OIL AND GAS LEASES -- RENTS AND ROYALTIES -- ASSIGNMENTS -- DESIGNATIONS OF OPERATOR -- PRODUCTION HISTORY:

NM 14791:

| | |
|---|---|
| Date: | March 1, 1972 |
| Lessor: | United States of America |
| Lessee: | Henry Vartanian |
| Term: | Ten years and so long thereafter etc. |
| Rentals: | Although not noted in the base opinion on which we are relying, in part, the captioned lease apparently provides for rentals of 50¢ per acre, increasing to $2.00 per acre or any fraction thereof, commencing with thirty days after notice that any portion of the lands within the lease are in a known geologic structure. Apparently, rentals were timely and properly paid for all lease years down to the lease year expiring March 1, 1974. Prior to that date, it appears that the captioned lease went on production and therefore the lease is now considered held by production on a royalty payment status. |
| Lands Covered: | Township 21 South, Range 32 East, NMPM<br>Section 3: Lots 9-16, inclusive SW¼<br>Section 4: Lots 1-16, inclusive, S½ (All) |

Section 5: Lots 13, 14, 15, 16, S½
Section 6: Lots 14, 15, 16, E½SW¼
SE¼

containing a total of 2,282.84 acres, more or less.

Royalty: 12½%

Other Features: Since we have not actually examined this lease we have assumed that the captioned lease was probably prepared on Form 4-1158, and based upon that assumption, we have attached a schedule reflecting the general features of that lease form.

NM 15024:

Form: 3120-19
(May 1968)

Date: February 1, 1972

Lessor: United States of America

Original Lessee: Annamarie Duncan

Term: Ten years and so long thereafter, etc.

Rentals: This lease provided for annual delay rentals in the amount of 50¢ per acre until such time as said lease may have been determined to be in a known geological structure. Said lease was included in a known geological structure effective June 16, 1973 and rentals thereafter were paid at the $2.00 per acre rate. Rentals have been timely and properly paid for all time period up to February 1, 1979.

Lands Covered: Township 20 South, Range 32 East, NMPM

Section 27: N½N½

Township 21 South, Range 32 East, NMPM

Section 6: Lots 8, 9, 10 and 11

containing 320 acres, more or less.

Royalty: 12½%

Other Features: See attached schedule

2. Assignments: The following assignments have been made affecting the captioned lease and lands:

NM 14791:

(a) An assignment prepared on Form 3106-5 (February 1971) from Henry H. Vartanian and his wife, Betty Jane Vartanian, to C. E. Strange dated December 9, 1971 and approved by the Bureau of Land Management effective March 1, 1972, recorded in the Office of the Lea County Clerk in Book 282 at page 685, assigning all interest as to the captioned lease and the lands described hereinabove, but retaining to the assignor an overriding royalty of 2½% of 8/8; and

(b) Prepared on a form identical to that described above, from C. E. Strange and his wife, Sherrie R. Strange, to Amini Oil Company, dated February 25, 1972, approved by the Bureau of Land Management effective April 1, 1972 and recorded in the Office of the Lea County Clerk in Book 282 at page 643, assigning all interest as to the captioned lease and lands. This assignment is subject to the previously create 2½% overrid and in addition, the assignors reserve an additional 2½% overriding royalty. Further, this assignment contains a sixty day reassignment clause in favor of C. E. Strange and wife with a limitation of liability for failure to comply with the reassignment provision. This assignment for does not contain any warranties; and

(c) An assignment prepared on a form identical to the assignments described hereinabove from Amini Oil Company to Southern Union Production Company dated January 5, 1973, and approved by the Bureau of Land Management effective February 1, 1973 and recorded in the Office of the Lea County Clerk in Book 282 at page 163, assigning a 25% interest in the captioned lease and lands. No overriding royalty is subject to the previously created 5% overriding royalty. Again, this assignment form contains no warranties; and

(d) An assignment prepared on a form identical to the assignments described hereinabove from Teal Petroleum Company (formerly Amini Oil Company) to Cleary Petroleum Corporation, dated September 23, 1976, assigning Cleary a 75% interest in the captioned lease and lands, said assignment having been approved effective February 1, 1977 by the Bureau of Land Management being recorded November 28, 1977 in Book 306 at page 775 in the Office of the Lea County Clerk. No overriding royalty was reserved to Teal, but the assignment is subject to the previously created total of 5% overriding royalty interest. Again, this assignment form contains no warranties.

(e) An Assignment of overriding royalty interest from C. E. Strange, a married man, to Charles E. Strange, Trustee of the Charles E. Strange Trust, established on May 6, 1974 assigning a 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment being dated May 6, 1974 and filed with the Bureau of Land Management on July 25, 1974, recorded May 20, 1974 in Book 318 at page 726 in the Office of the Lea County Clerk. We have previously in other opinions relating to this lease mentioned deficiencies in this Assignment of Overriding Royalty Interest; however, the assignment described in sub-paragraph (f) hereinbelow is a correction of these deficiencies.

(f) Correction Assignment of overriding royalty interest from C. E. Strange and wife, Sherrie R. Strange, Charles E. Strange, Trustee of the Charles E. Strange Trust, established May 6, 1974 assigning 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment having been dated July 20, 1977 and recorded August 1, 1977 in Book 342 at page 825 in the Office of the Eddy County Clerk. We will not require that this assignment be placed of record in the Office of the Bureau of Land Management inasmuch as the defective assignment was previously placed of file with the Bureau of Land Management and the defect contained therein do not effect the status of the federal records.

NM 15024:

(a) A Record Title Assignment of Oil and Gas Lease from Annamarie Duncan and husband, Vincent J. Duncan, to Gulf Oil Corporation, dated September 6, 1972, approved effective October 1, 1972 by the Bureau of Land Management and recorded November 8, 1972 in Book 280 at page 459 in the Office of the Lea County Clerk, assigning the entire record title

into said lease. This assignment was prepared on Government Form 3106-5 (February 1971) and reserves a 5% of 8/8 overriding royalty interest and contains a reassignment rider.

REQUIREMENT A: You should note your lease files in connection with the reassignment rider contained in this assignment.

(b) Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975 and filed with the Bureau of Land Management on July 30, 1975, recorded June 27, 1975 in Book 327 at page 338 in the Office of the Lea County Clerk assigning said 5% of 8/8 overriding royalty to to the following persons in the following proportions:

| Name | Percent of Override |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 |
| Raymond T. Duncan | 30% of 5% of 8/8 |
| Vincent J. Duncan | 30% of 5% of 8/8 |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 |
| Walter Duncan III | 1% of 5% of 8/8 |

This assigment of overriding royalty interest does not contain pooling authority.

REQUIREMENT B: In the event that you desire to pool these lands it will be necessary to have these overriding royalty interest owners ratify any such pooling agreement.

3. Designations of Operator: The abstracts under examination reflect the following Designations of Operator:

(a) Designation of Operator from Southern Union Production Company to Cleary Petroleum Corporation dated October 4, 1976, relating to the captioned lease and lands; and

(b) Designation of Operator from Teal Petroleum Corporation to Cleary Petroleum Corporation, dated November 3, 1976, covering the captioned lease and lands.

COMMENT: Inasmuch as you are the successor corporation to Cleary Petroleum Corporation we believe these designations are adequate in the event your drillsite will be located on the lands covered by NM 14791. However, in the event that your drillsite may be located on lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

REQUIREMENT C: In the event that you intend to conduct drilling operations on the lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

4. Production History: The materials under examination indicate that there is currently production from Lease NM 14791; however, we find no evidence of any production from Lease NM 15024. This is advisory.

V. EXCEPTIONS TO TITLE AND REMARKS:

1. Lease Account Status: The abstracts under examination do not reflect current status of the lease account in connection with Lease NM 14791. This account should be in a current status.

REQUIREMENT D: You should inquire of the USGS in Albuquerque, New Mexico and ascertain whether or not the lease account in connection with Lease NM 14791 is in a current status. (We have taken the liberty to write a letter inquiring as to the status of this lease account.)

2. Gas Purchase Agreement: The materials under examination indicate that there has been filed of record in Lea County, New Mexico, a document entitled "Recording Supplement", dated April 6, 1973, between Southern Union Gas Company as "Buyer" and Amini Oil Company (now Teal Petroleum Company) and Southern Union Production Company as "Sellers". This document was filed of record on May 24, 1973 in Book 309 at page 808 in the Office of the Lea County Clerk. This Recording Supplement indicates the existence of a Gas Purchase Agreement dated January 25, 1973, to which the captioned lands located in Lease NM 14791 and other lands are dedicated. In addition, it gives notice of the existence of an agreement dated November 3, 1972 between the Sellers and Buyer.

3. Charles E. Strange Trust: We have been in contact with the attorney for Charles E. Strange, and have previously been submitted evidence that the Trust Agreement contains adequate authority for the Trustee to enter into agreements relating to oil and gas leases which are held in said trust.

4. Merger: We note that Cleary Petroleum Corporation has now merged into the Grace Petroleum Corporation. In this regard we do not find any Certificate of Merger filed with the Bureau of Land Management nor do we find one recorded in the Office of the Lea County Clerk.

REQUIREMENT E: If you have not already done so, you should file a Certificate of Merger of Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management in Santa Fe, New Mexico, as well as record a copy of the same in the Office of the County Clerk.

5. Potash Rider - Potash Area: The base title opinion on which this examination is, in turn, based, indicates that the captioned lease contains a rider to the effect that no wells are to be drilled without approval of the United States Geological Survey, which will be granted only in the event that it is satisfied that any proposed well drilling will not interfere with mining of potash deposits and a provision must be made for adequate protection of potash deposits.

In addition, although not reflected in any materials under examination, it is apparent from other files and plats available to us in our offices that the captioned lands are located within what has generally been designated as a potash area by the United States Geological Survey. It also appears that the captioned lands lie within a potash area as designated by the New Mexico Oil Conservation Division. As a consequence of the lands being located in these desginated area, it is likely that certain drilling restrictions may be imposed by the United States Geological Survey and/or the New Mexico Oil Conservation Division at such time as drilling operations are to be commenced.

We make no requirement with respect to the foregoing matters, but point this out for your information. We assume that you have probably encountered this problem with regard to wells which you previously drilled on the captioned lease and lands. We would point out that irrespective of what requirements may have been made relating to prior drilling activities, these requirements may very likely be different in the event that actual drilling operations are commenced some period of time after the first drilling operations.

6. Prior Title Opinions: As mentioned hereinabove, we have based this opinion on the title opinion dated November 10, 1972 rendered by Southern Union Gas Company House Counsel in connection with the captioned lease. Although we have no reason to doubt the accuracy of the Southern Union Gas Company House Counsel opinion, we must necessarily limit our opinion to the materials actually examined.

7. Acreage in Lots: It is apparent from the caption of this opinion that all of the subdivisions within the captioned lands are not described as directional subdivisions. Some are numbered as lots. Usually this indicates each numbered lot has acreage greater than or lesser than the usual 40 acres; however, in this case, each lot contains 40 acres. We have no requirement with respect to the acreage in these lots, but we note this for your information and possible future reference.

8. Surface Estate: Although the abstracts under examination do not purport to reflect the title to the surface of the captioned lands, certain information contained therein indicates the following surface rights:

(a) It appears from the materials under examination that all of the captioned lots, and lease, have the surface patented with the minerals being reserved to the United States of America. If you intend to conduct drilling activities on any of these lands it will be necessary that you make arrangements with the surface owner or owners with regard to surface damage.

(b) Grazing Lease: It is possible that the remainder of the surface of the captioned

lands is included in grazing leases from the United States. In such cases your rights under the oil and gas lease are superior to any rights under grazing leases.

9. Judgment and Lien Search: The county abstracts under examination contain satisfactory judgment and lien searches.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cr

Federal Abstract No. 30506 and Lovington Abstract No. 8-2378-A are returned herewith. The remainder of the abstracts are retained for further examination.

PRINCI[redacted] FEATURES OF LEASE (Form 4-[redacted]S) (3120-19)
(10 year initial term)

ESSOR: United States, acting by and through the Secretary of the Interior.

ERM AND REGULATIONS: For a primary term of ten years and so long thereafter as oil or as is produced in paying quantities; subject to any unit agreement heretofore or hereafter approved by the Secretary of the Interior. Lease is made subject to all reasonable egulations of the Secretary now or hereafter in force not inconsistent with any of the xpress and specific provisions of the lease.

Although not stated in the lease, the primary term of the lease for land on which, r for which under an approved cooperative or unit plan of development or operation, ctual drilling operations were commenced prior to the end of such term and are being iligently prosecuted at that time, shall be extended for two years and so long thereafter s oil or gas is produced in paying quantities. (See Sec. 17(e) of the Mineral Leasing ct Revision of 1960.) Rentals continue until production is obtained.

OND: Requires lessee, upon inclusion of any part of the leased land within the geologic tructure of a producing oil or gas field, to furnish a bond in a sum double the amount f the $2.00 per acre annual rental, but not less than $1000 nor more than $10,000; to rnish, prior to commencement of drilling operations $10,000 lease bond with approved rporate surety, unless a bond in that amount is already being maintained, or unless ch a bond furnished by an operator of the lease is accepted. Until a general lease nd is filed, a $1000 bond must be filed in those cases in which a bond is required by w for the protection of owners of surface rights. (See Sec. 2(a) of lease.)

OOPERATIVE OR UNIT PLAN: Requires lessee, within 30 days of demand, to subscribe to d to operate under such reasonable or cooperative unit plan as may be determined by e Secretary of the Interior to be practicable and necessary or advisable. (See Sec. (b) of lease.)

ILLING REQUIREMENTS: Requires lessee to drill and produce all wells necessary to otect the leased land from drainage by wells on lands not the property of the lessor, lands of the lessor leased at a lower royalty rate, and to drill and produce such her wells as may be approved or required by the Secretary. (See Sec. 2(c) of lease.)

NTALS: Lessee to pay in advance an annual rental at the following rates:

(a) If the lands are wholly outside the known geologic structure of a producing l or gas field:
  (i) For each lease year a rental of 50¢ per acre or fraction of an acre.

(b) If the lands are wholly or partly within the known geologic structure of a oducing oil or gas field:
  (i) Beginning with the first lease year after thirty days' notice that all or part of the land is included in such a structure, and for each year thereafter, prior to a discovery of oil or gas on the lands leased, $2.00 per acre or fraction of an acre.

  (ii) If the lease is committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, a rental for each lease year of 50¢ per acre or fraction of an acre shall apply to the acreage not within a participating area.

If there is no well capable of producing oil or gas in paying quantities, the failure pay a rental on or before the anniversary date shall automatically terminate the lease operation of law. If time for payment falls on a day in which the proper office to ceive payment is closed, payment shall be deemed timely if made on the next official rking day.

(See Sections 2(d)(1), 2(d)(4), and 2(e) of lease.)

ROYALTY: 12½% on production removed or sold from the leased lands; provided, however, a minimum royalty in lieu of rental shall be paid at the expiration of each lease year after discovery equal to $1.00 per acre. If the lease has been unitized, the minimum royalty shall be payable only on the participating acreage. (See Sec. 2(d)(1) of lease.

Secretary may establish reasonable minimum values for purpose of computing royalty on any oil or gas produced. See 30 C.F.R. 221. All contracts for disposal of products must be approved by the Director, U.S.G.S., or his representatives, subject to review by the Secretary of the Interior. (See Sec. 2(d)(2) and 2(f) of lease.)

ASSIGNMENTS: All assignments are to be filed within 90 days of final execution and are to take effect, upon final approval by the Director, Bureau of Land Management, as of the first day of the lease month following the date of filing. (See Sec. 2(m) of lease.

RESERVED RIGHTS OF LESSOR: See Sec. 3 of lease with regard to easements, disposition of surface, monopoly and fair prices, reservation of helium, taking of royalty in kind, and operation of valuable water wells.

SURRENDER AND TERMINATION: Lease may be surrendered and terminated as provided by Section 5 thereof.

A.A.P.L. FORM 610 - 1977

# MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

November 1, 19 78,

OPERATOR GRACE PETROLEUM CORPORATION

CONTRACT AREA LOTS 9, 10, 15 and 16 and SE/4 Section 6-21S-32E, NMPM

COUNTY ~~OR PARISH OF~~ Lea STATE OF New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
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## GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blank as applicable.

2. Preamble, Page 1 - Name of Operator.

3. Article II - Exhibits:
   (a) Indicate Exhibits to be attached.
   (b) If it is desired that no reference be made to Non-discrimination, the reference to Exhibit "F" should be deleted.

4. Article IV.A - Title Examination - Select option as agreed to by the parties.

5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."

6. Article V - Operator - Enter name of Operator.

7. Article VI.A - Initial Well:
   (a) Date of commencement of drilling.
   (b) Location of well.
   (c) Obligation depth.

8. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.

9. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.

10. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.

11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.

12. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.

13. Article XIII. - Term of Agreement:
   (a) Select Option as agreed to by parties.
   (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.

14. Signature Page - Enter effective date.

# OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between GRACE PETROLEUM CORPORATION _____, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

## ARTICLE I.
## DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

## ARTICLE II.
## EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:
(1) Identification of lands subject to agreement,
(2) Restrictions, if any, as to depths or formations,
(3) Percentages or fractional interests of parties to this agreement,
(4) Oil and gas leases and/or oil and gas interests subject to this agreement,
(5) Addresses of parties for notice purposes.

☐ ~~B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☐ ~~E. Exhibit "E", Gas Balancing Agreement.~~

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

If any provision of any exhibit, ~~except Exhibit "E",~~ is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

## ARTICLE III.
## INTERESTS OF PARTIES

**A. Oil and Gas Interests:**

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

**B. Interest of Parties in Costs and Production:**

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties which will be borne by the Joint Account, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

## ARTICLE IV.
## TITLES

**A. Title Examination:**

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ ~~Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including~~ preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether ~~performed by Operator's staff attorneys or by outside attorneys.~~

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

**B. Loss of Title:**

~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through~~ failure of title, which loss results in a reduction of interest from that ~~shown on Exhibit "A",~~ this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

(a) The party ~~whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development~~

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost; and

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded; and

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties in the same proportions in which they shared in such prior production; and

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

## ARTICLE V.
## OPERATOR

### A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

Grace Petroleum Corporation shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

## ARTICLE VI.
## DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 1979, Operator shall commence the drilling of a well for oil and gas at the following location:

At a legal location in Lot 9 Section 6, T21S,R32E, NMPM,
Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 14,100 feet below the surface or to a depth sufficient to test the Morrow Formation, whichever is the lesser depth.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to sidetrack, rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, sidetrack, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to sidetrack, rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

Each consenting party which elects to carry its proportionate part of Non-Consenting Parties' interest shall also carry its proportionate part of the interest remaining if one or more consenting parties elect to limit participation to such consenting parties' interest as shown on Exhibit "A".

of this Article results in a producer of oil and/or gas in paying quantities, the Consenting [illegible] complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) 300 % of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

300% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting party.

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

sidetracking

**C. Right to Take Production in Kind:**

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

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment direct from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as Exhibit "E", or is a separate Agreement.

**D. Access to Contract Area and Information:**

Each party shall have access to the Contract Area at all reasonable times, at its sole to inspect or observe operations, and shall have access at reasonable times to information pertaining the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

**E. Abandonment of Wells:**

1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as a result of the separate ownership of the assigned well.

## ARTICLE VII.
## EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment and furniture payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

**D. Limitation of Expenditures:**

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

~~☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.~~

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand Dollars ($ 15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Five Thousand Dollars ($ 5,000.00).

**E. Royalties, Overriding Royalties and Other Payments:**

Each party shall pay or deliver, or cause to be paid or delivered, all royalties ~~to the extent of~~ _____ due on its share of production and shall hold the other parties free from any liability therefor. ~~If the interest of any party in any oil and gas lease covered by this agreement~~ is subject to any royalty, overriding royalty, production payment, ~~or other~~ charge over and above the aforesaid royalty, ~~such party shall assume~~ and alone bear all such obligations and shall account ~~for or cause to be accounted for, such interest to the owners thereof.~~

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

**F. Rentals, Shut-in Well Payments and Minimum Royalties:**

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article ~~IV.B.2.~~ IV.B.3.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

## ARTICLE VIII.
## ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce, or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. ~~and VIII.G.~~, if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

**E. Maintenance of Uniform Interest:**

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and

2. an equal undivided interest in all leases and equipment and production in Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be expressly subject to this agreement, and shall be made without prejudice to the right of the parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

**F. Waiver of Right to Partition:**

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~**G. Preferential Right to Purchase:**~~

~~Should any party desire to sell all or any part of its interests under this agreement or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

## ARTICLE IX.
## INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

## ARTICLE X.
## CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Two Thousand Five Hundred and No/100 Dollars ($ 2,500.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

## ARTICLE XI.
## FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

## ARTICLE XII.
## NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

## ARTICLE XIII.
## TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subjected hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease, or oil and gas interest contributed by any other party beyond the term of this agreement.

☐ ~~Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest~~

ption No. 2: In the event the well described in Article VI.A., or any subsequent well drilled any provision of this agreement, results in production of oil and/or gas in paying quantities, this ment shall continue in force so long as any such well or wells produce, or are capable of produc- and for an additional period of 90 days from cessation of all production; provided, however, ior to the expiration of such additional period, one or more of the parties hereto are engaged in, ng or reworking a well or wells hereunder, this agreement shall continue in force until such op- ons have been completed and if production results therefrom, this agreement shall continue in as provided herein. In the event the well described in Article VI.A., or any subsequent well ed hereunder, results in a dry hole, and no other well is producing, or capable of producing oil /or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera- s are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from liability which has accrued or attached prior to the date of such termination.

## ARTICLE XIV.
## COMPLIANCE WITH LAWS AND REGULATIONS

Laws, Regulations and Orders:

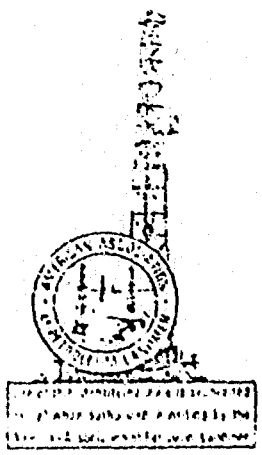
This agreement shall be subject to the conservation laws of the state in which the committed creage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of aid state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and rders.

8. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

## ARTICLE XV.
## OTHER PROVISIONS

A. As to the interest of Supron Energy Corporation and Grace Petroleum Corporation, this Operating Agreement will replace and supercede that certain Operating Agreement dated January 5, 1973, as amended, between Southern Union Production Company and Amini Oil Company, insofar only as to those lands contributed to the Unit Area herein described.



## ARTICLE XVI.
## MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of November, 1978.

OPERATOR

ATTEST:

Assistant Secretary

GRACE PETROLEUM CORPORATION

BY: _____

James H. Thomas, Vice President

DE

NON-OPERATORS

ATTEST:

_____

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

ATTEST:

_____

SUPRON ENERGY CORPORATION

BY: _____

Vice President

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT, DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, AS OPERATOR, AND GULF OIL EXPLORATION AND PRODUCTION COMPANY AND SUPRON ENERGY CORPORATION, AS NON-OPERATOR.

I. LAND SUBJECT TO AGREEMENT:

Lots 9, 10, 15 and 16 and SE/4 Section 6-T21S-R32E, NMPN, Lea County, New Mexico, 320 acres.

II. PARTIES TO AGREEMENT AND PERCENTAGE OF INTEREST:

| PARTIES | NET ACRES | UNIT PARTICIPATION |
|---|---|---|
| Grace Petroleum Corporation<br>Broadway Executive Park<br>6501 North Broadway<br>Oklahoma City, Oklahoma 73112<br>Attention: Don W. Erickson | 180.00 | 56.25000 % |
| Supron Energy Corporation<br>Building V, Fifth Floor<br>10300 N. Central Expressway<br>Dallas, Texas 75231<br>Attention: Mr. William M. Brown | 60.00 | 18.75000 % |
| Gulf Oil Exploration and<br>Production Company<br>P.O. Drawer 1150<br>Midland, Texas 79702<br>Attention: Mr. R. E. Griffith | 80.00 | 25.00000 % |

Recommended by the Council of Petroleum Accountants Societies of North America

# EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated November 1, 1978 between Grace Petroleum Corporation, as Operator, and Gulf Oil Exploration and Production Company and Supron Energy Corporation, as Non-Operator.

# ACCOUNTING PROCEDURE
# JOINT OPERATIONS

## I. GENERAL PROVISIONS

**1. Definitions**

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

**2. Statement and Billings**

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

**3. Advances and Payments by Non-Operators**

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

**4. Adjustments**

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

**5. Audits**

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

**6. Approval by Non-Operators**

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

**1. Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations.

**2. Labor**

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

**3. Employee Benefits**

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

**4. Material**

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

**5. Transportation**

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

**6. Services**

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

**7. Equipment and Facilities Furnished by Operator**

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

**8. Damages and Losses to Joint Property**

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

**9. Legal Expense**

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

10. **Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. **Insurance**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. **Other Expenditures**

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

## III. OVERHEAD

1. **Overhead - Drilling and Producing Operations**

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

( X ) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not ( X ) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate $ 2,407.00
Producing Well Rate $ 336.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent ( %) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent ( %) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:
For the purpose of determining charges on a percentage basis under Paragraph [illegible] of Section III, development shall include all costs in connection with drilling, redrilling, deepening, remedial operations on any or all wells involving the use of drilling crew and equipment; also, expenditures necessary in preparation for drilling and expenditures incurred in abandoning wells not completed as a producer, and original cost of construction or installation of fixed assets, expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction TO BE NEGOTIATED

~~To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $_____:~~

~~A. _____% of total costs if such costs are more than $_____ but less than $_____; plus~~

~~B. _____% of total costs in excess of $_____ but less than $1,000,000; plus~~

~~C. _____% of total costs in excess of $1,000,000.~~

~~Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.~~

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

## IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

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(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate wit its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some r purpose, shall be priced on a basis comparable with that of items normally used for such other pu rator may dispose of Condition D Material under procedures normally utilized by the Operator oval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value . ch Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current kn d-down price of new Material.

**3. Premium Prices**

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

**4. Warranty of Material Furnished by Operator**

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

**1. Periodic Inventories, Notice and Representation**

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

**2. Reconciliation and Adjustment of Inventories**

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

**4. Expense of Conducting Periodic Inventories**

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "D"

The Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

(a) Workmen's Compensation Insurance: In compliance with the Workmen's Compensation Laws of the State of New Mexico. Employers' Liability: $500,000.00.

(b) Comprehensive General Liability insurance, excluding products: A single combined limit of $1,000,000.00 each accident for bodily injuries or death and $1,000,000.00 property damage.

(c) Automobile Public Liability and Property Damage Insurance with a single combined limit of $1,000,000.00 each accident for bodily injuries or death and $1,000,000.00 property damage.

The Operator shall require its contractors and subcontractors working or performing services upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached to comply with the Workmen's Compensation Laws of the State of New Mexico and to carry such other insurance and in such amounts as the Operator shall deem necessary.

EXHIBIT "F"

Attached to and made a part of an Operating Agreement dated November 1, 1978, 19__, by and between Grace Petroleum Corporation, as Operator, and Gulf Oil Exploration and Production Company and Supron Energy Corporation, as Non-Operator.

EQUAL OPPORTUNITY CLAUSE

Operator shall be bound by and agrees to the following provisions as contained in ection 202 of Executive Order 11246 as amended to wit:

(1). The Operator will not discriminate against any employee or application for mployment because of race, color, religion, sex, or national origin. The Operator will take ffirmative action to ensure that applicants are employed, and that employees are treated luring employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, de- notion, or transfer, recruitment or recruitment advertising; layoff or termination; rates or pay or other forms of compensation; and selection for training, including apprentice- ship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

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

(3). The Operator will send to each labor union or representative of workers th which he has a collective bargaining agreement or other contract or understanding, notice to be provided by the agency contracting officer, advising the labor union or orker's representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places availab to employees and applicants for employment.

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

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

(6). In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this Contract may be cancelled, terminated, or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with the procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7). The Operator will include the provisions of paragraphs (1) through (7) in every Subcontract or Purchase Order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each Subcontractor or Vendor. The Operator will make such action with respect to any Subcontract or Purchase Order as the Contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a Subcontractor or Vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interest of the United States.

CERTIFICATION OF NONSEGREGATED FACILITIES

Operator certifies that he does not maintain or provide for his employees any gretated facilities at any of his establishments, and that he does not permit his employees perform their services at any location under his control, where segretated facilities e maintained. He certifies further that he will not maintain or provide for his employees y segregated facilities at any location under his control, where segretated ployees to perform their services at any location under his control, where segretated cilities are maintained. The Operator agrees that a breach of this certification is a olation of the Equal Opportunity Clause in this contract. As used in this certification, e term "segrated facilities" means, but is not limited to any waiting rooms, work areas, strooms and washrooms, restaurants and other eating areas, time clocks, locker rooms, d other storage or dressing areas, parking lots, drinking fountains, recreation or ntertainment areas, transportation and housing facilities provided for employees which are grated by explicit directive or are in fact segrated on the basis of race, color, religion, x, or national origin, segrated on the basis of race, color, religion, sex or national igin because of habit, local custom, or otherwise. He further agrees that (except where has obtained identical certifications from proposed subcontractors for specific time eriods) he will obtain identical certifications from proposed subcontractors prior to he award of subcontracts exceeding $10,000 which are not exempt from the provisions of he Equal Opportunity Clause: that he will retain such certification in his files; and hat he will forward the following notice to such proposed subcontractors (except where he proposed subcontractors have submitted identical certificates for specifid time eriods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGRATED ACILITIES."

A Certification of Nonsegrated Facilities must be submitted prior to the award f a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal pportunity Clause. The certification may be submitted either for each subcontract or or all subcontracts during a period (i.e. quarterly, semi-annually or annually)." Note: he penalty for making false statements is prescribed in 18 U.S.C. 1001.

II. EEO-1 REPORT AND AFFIRMATIVE ACTION COMPLIANCE PROGRAM

Operator is aware of Executive Order 11246 and Section 60-1.7 and Section 60-1.40, itle 41 of the Code of Federal Regulations. The Operator agrees and certifies that, if he as 50 or more employees and a contract of $50,000 or more, he will file complete and ccurate EEO reports on Standard Form 100 (EEO-1) with the appropriate government contracting or administering agency and develop affirmative action programs for each of his establish- ents, in accordance with the Executive Order 11246 and all rules, regulations and orders romulgated thereunder.

IV. LISTING OF EMPLOYMENT OPENINGS

Operator shall be bound by and agrees to the provisions of Executive Order 11701 and Section 50-250 of Title 41 of the Code of Federal Regulations, and all rules and regulations and orders promulgated thereunder to wit:

(a) The Operator to provide special emphasis to the employment of qualified disabled veterans and veterans of the Vietnam era, agrees that all suitable employment openings of the Operator which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by this contract and including those occurring at an establishment of the Operator other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such reports to such local office regarding employment openings and hires as may be required: PROVIDED, that if the contract is for less than $10,000 or if it is with a State of local government the reports set forth in paragraphs (c) and (d) of this clause are not required.

(b) Listing of employment openings with the employment service system pursuant this clause shall be made at least concurrently with the use of any other recruitment rvice or effort and shall involve the normal obligations which attach to the placing a bonafide job order including the acceptance of referrals of veterans and non-veterans. e listing of employment openings does not require the hiring of any particular job plicant or from any particular group of job applicants, and nothing herein is intended to lieve the Operator from any requirements in any Executive Orders or regulations regarding ndiscrimination in employment.

(c) The reports required by paragraph (a) of this clause shall include, but not limited to, periodic reports which shall be filed at least quarterly with the appropriate cal office or, where the Operator has more than one establishment in a State, with the ntral office of that State employment service. Such reports shall indicate for each tablishment (1) the number of individuals who were hired during the reporting period, ) the number of those hired who were disabled veterans, and (3) the number who were non-sabled veterans of the Vietnam era. The Operator shall submit a report within 30 days ter the end of each reporting period wherein any performance is made on this contract. e Operator shall maintain copies of the reports submitted until the expiration of one ) year after final payment under the contract, during which time they shall be made ailable upon request, for examination by any authorized representatives of the contracting ficer or of the Secretary of Labor.

(d) Whenever the Operator becomes contractually bound to the listing provisions this clause, he shall advise the employment service system in each State wherein he has tablishments of the name and location of each such establishment in the State. As long the Operator is contractually bound to these provisions and has so advised the State stem there is no need to advise the State system of subsequent contracts. The Operator y advise the State systems when it is no longer bound by this contract clause.

(e) This clause does not apply to the listing of employment openings which ccur and are filled outside of the 50 States, the District of Columbia, Puerto Rico, am, and the Virgin Islands.

(f) This clause does not apply to openings which the Operator proposes to fill rom within his own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement. This exclusion does not apply to a particular opening nce an employer decides to consider applications outside of his own organization or mployer-union arrangement for that opening.

(g) As used in this clause:

(1) "All suitable employment openings" includes, but is not limited to, openings which occur in the following job categories Production and nonproduction; plant and office; laborers and mechanics; supervisory and nonsupervisory; technical; and executive, administrative, and professional openings which are compensated on a salary basis of less than $18,000 per year. This term includes full-time employment, temporary employment of more than three (3) days duration, and part-time employment. It does not include openings which the Operator proposes to fill from within his own organization, or to fill pursuant to a customary and traditional employer-union hiring arrangement. Under the most compelling circumstances an employment opening may not be suitable for listing, including such situations where the needs of the Government cannot reasonably be otherwise supplied; where listing would be contrary to national security, or where the requirement of listing would otherwise not be for the best interest of the Government.

(2) "Appropriate office of the State employment service system" means the local office of the Federal-State national system of public employment offices with assigned responsibilitiy for serving the area where the employment opening is to be filled, including the District of Columbia, Guam, Puerto Rico and the Virgin Islands.

(3) "Openi[illegible] which the Operator proposes [illegible] fill from within his own organization: means employment openings for which no consideration will be given to persons outside the Operator's organization (including any affiliates, subsidiaries, and the parent companies) and includes any openings which the Operator proposes to fill from regularly established "recall" or "rehire" lists.

(4) "Openings which the Operator proposes *** to fill pursuant to a customary and traditional employer-union hiring arrangement" means employment openings for which no consideration will be given to persons outside of a special hiring arrangement, including openings which the Operator proposes to fill from union halls, which is part of the customary and traditional hiring relationship which exists between the Operator and representatives of his employees.

(5) "Disabled veteran" means a person entitled to disability compensation under laws administered by the Veterans' Administration for disability rated at 30 per centum or more, or a person whose discharge or release from active duty was for a disability incurred or aggravated in line of duty.

(6) "Veteran of the Vietnam era" means a person (1) who (i) served on active duty for a period of more than 180 days, any part of which occurred after August 5, 1964, and was discharged or released therefrom with other than a dishonorable discharge, or (ii) was discharged or released from active duty for service-connected disability if any part of such duty was performed after August 5, 1964, and (2) who was so discharged or released within the 48 months preceding his application for employment covered under this part.

(h) The Operator agrees to place this clause (excluding this paragraph (h)) in any subcontract of $2,500 or more directly under this contract. This clause shall apply to any subcontract entered into by Operator in carrying out any contract for the procurement of personal property and nonpersonal services (including construction) for the United States.

V. MINORITY BUSINESS ENTERPRISES

Operator shall be bound by and agrees to the provisions of Executive Order 11625 and all rules, regulations and orders promulgated thereunder to wit:

1. UTILIZATION OF MINORITY BUSINESS ENTERPRISES

(a) It is the policy of the Government that minority business enterprises shall have the maximum practicable opportunity to participate in the performance of Government contracts.

(b) The Operator agrees to use his best efforts to carry out this policy in the award of his subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority business enterprise" means a business, at least 50 percent of which is owned by minority group members or, in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members. For the purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orientals, American-Indians, American-Eskimos, and American-Aleuts. Operator may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

2. MINORITY BUSINESS ENTERPRISES SUBCONTRACTOR PROGRAM

(a) The Operator agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, the Operator shall-

(1) Designate a liaison officer who will administer the Operator's minority business enterprises program.

(2) Provide adequate and timely consideration of the

potenti ities of known minority busi. ss enterprises in all "make-or-buy" decisions.

(3) Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.

(4) Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises, (ii) awards to minority business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority business enterprises.

(5) Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.

(6) Cooperate with the contracting officer in any studies and surveys of the Operator's minority business enterprises, procedures and practices that the contracting officer may from time to time conduct.

(7) Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph (4), above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may perscribe.

(b) The Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000 provisions which shall conform substantially to the language of this clause, including this paragraph (b) and to notify the contracting officer of the names of such subcontractors.

VI. EMPLOYMENT OF THE HANDICAPPED

Operator shall be bound by and agrees to the provisions of Section 503 of the Rehabilitation Act of 1973 and Executive Order 11758 and all Rules, Regulations, and Orders promulgated thereunder to wit:

(This clause applies to all nonexempt contracts and subcontracts which exceed $2,500 as follows: (1) Part A applies to contracts and subcontracts which provide for performance in less than 90 days. (2) Parts A and B apply to contracts and subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is less than $500,000, and (3) Parts A, B, and C apply to contracts and subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is $500,000 or more.)

PART A

(a) The Operator will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the employee or applicant for employment is qualified. The Operator agrees to take affirmative action to employ, advance in employment and otherwise treat qualified handicapped individuals without discrimination based upon their physical or mental handicap in all employment practices such as the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(b) The Operator agrees that, if a handicapped individual files a complaint with the Operator that he is not complying with the requirements of the Act, he will (1) investigate the complaint and take appropriate action consistent with the requirements of 20 CFR 741.29 and (2) maintain on file for three years, the record regarding the complaint and the actions taken.

(c) The Operator agrees that, if a handicapped individual files a complaint with the Department of Labor that he has not complied with the requirements of the Act, (1) he will cooperate with the Department in its investigation of the complaint, and (2) he will provide all pertinent information regarding his employment practices with respect to the handicapped.

(d) The Operator agrees to comply with the rules and regulations of the Secretary of Labor in 20 CRF Ch. VI, Part 741.

(e) In the event of the Operator's noncompliance with the requirements of this clause, the contract may be terminated or suspended in whole or in part.

(f) This clause shall be included in all subcontracts over $2,500.

PART B

(g) The Operator agrees (1) to establish an affirmative action program, including appropriate procedures consistent with the guidelines and the rules of the Secretary of Labor, which will provide the affirmative action regarding the employment and advancement of the handicapped required by P.L. 93-112, (2) to publish the program in his employee's or personnel handbook or otherwise distribute a copy to all personnel, (3) to review his program on or before March 31 of each year and to make such changes as may be appropriate, and (4) to designate one of his principal officials to be responsible for the establishment and operation of the program.

(h) The Operator agrees to permit the examination by appropriate contracting agency officials of the Assistant Secretary of Employment Standards or his designee, of pertinent books, documents, papers and records concerning his employment and advancement of the handicapped.

(i) The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Assistant Secretary for Employment Standards, provided by the contracting officer stating Operator's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment and the rights and remedies available.

(j) The Operator will notify each labor union or representative of workers with which he has a collective bargaining agreement or other contract understanding, that the Operator is bound by the terms of Section 503 of the Rehabilitation Act, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

PART C

(k) The Operator agrees to submit a copy of his affirmative action program to the Assistant Secretary for Employment Standards within 90 days after the award to him of a contract or subcontract.

(l) The Operator agrees to submit a summary report to the Assistant Secretary for Employment Standards, by March 31 of each year during performance of the contract, and by March 31 of the year following completion of the contract, in the form prescribed by the Assistant Secretary, covering employment and complaint experience, accommodations made and all steps taken to effectuate and carry out the commitments set forth in the affirmative action program.

GRACE PETROLEUM CORPORATION
SUBSIDIARY OF W. R. GRACE & CO.

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITURE

gion MID-CONTINENT  AFE No. _____

Date 8/1/79

ELL NAME New Mexico Federal "G" #1  PROSPECT So. Salt Lake

ESCRIPTION ~~660' FNL & 660' FEL~~ 1650 FSL & 330 FEL Sec. 6-21S-32E  EXPLORATORY ___ DEVELOPMENT X WORKOVER ___

OUNTY & STATE Lea Co., NM

| Depth | Formation | Type |
|---|---|---|
| 13,600' | Morrow | Oil ___ Gas X |
| 14,100' | TD | Oil ___ Gas ___ |
| | | Oil ___ Gas ___ |

ode 25 applies only if we have your election in writing to be covered under our policy.

| Item and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| INTANGIBLE DRILLING COSTS: | | | | | |
| Drilling Cost - Footage | 01 | | 01 | | |
| Day Work 60 @ 4600; 2 @ 4600 + 14 @ 1500 | 02 | 276,000 | 02 | 31,000 | 307,000 |
| Drilling and Turnkey MI RU MO | 04 | 40,000 | 04 | - | 40,000 |
| Labor - Company and Contract | 13 | 15,000 | 13 | 10,000 | 25,000 |
| Transportation | 26 | 2,000 | 26 | 8,000 | 10,000 |
| Bridges, Roads, Locations, etc. | 08 | 25,000 | 08 | 3,000 | 28,000 |
| Fuel, Water and Power | 05 | 60,000 | 05 | 5,000 | 65,000 |
| Bits, Coreheads and Rentals | 07 | 50,000 | 07 | 30,000 | 80,000 |
| Drilling Fluids | 06 | 75,000 | 06 | 2,000 | 77,000 |
| Surveys (logging) Perforating | 11 | 20,000 | 11 | 25,000 | 45,000 |
| Mudlogger | 30 | - | 30 | - | - |
| Cement and Cementing Services and Frac | 15 | 33,000 | 15 | 35,000 | 68,000 |
| Testing (Drillstem & Wireline) | 10 | 16,000 | 10 | - | 16,000 |
| Core Analysis | 12 | - | 12 | - | - |
| Geological and Engineering | 09 | 30,000 | 09 | 8,000 | 38,000 |
| Plugging & Abandoning | 27 | 5,000 | 27 | (5,000) | - |
| District and Overhead Expense | 20 | 4,000 | 20 | - | 4,000 |
| Insurance | 25 | 9,000 | 25 | - | 9,000 |
| Miscellaneous and Unforeseen @ 10% | 28 | 66,000 | 28 | 15,200 | 81,200 |
| TOTAL INTANGIBLE DRILLING COSTS | | 726,000 | | 167,200 | 893,200 |
| TANGIBLE DRILLING COSTS: | | | | | |
| Casing Size 13 3/8" 475' @ 19.00/ft. | 51 | 9,000 | 51 | - | 9,000 |
| Casing Size 9 5/8" 5300' @ 15.00/ft. | 51 | 80,000 | 51 | | 80,000 |
| Casing Size 5 1/2" 14,100' @ 9.00/ft. | 51 | - | 51 | 126,900 | 126,900 |
| Casing Size | 51 | | 51 | | |
| Casing Size | 51 | | 51 | | |
| Tubing 2 7/8" 14,100' @ 3.00/ft. | 52 | - | 52 | 42,300 | 42,300 |
| Subsurface Equipment | 53 | 2,000 | 53 | 12,000 | 14,000 |
| Well Head Equipment | 50 | 2,000 | 50 | 20,000 | 22,000 |
| Miscellaneous @ 10% | 72 | 9,300 | 72 | 20,100 | 29,400 |
| TOTAL TANGIBLE DRILLING COSTS | | 102,300 | | 221,300 | 323,600 |
| TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS | | | | | |
| Tanks, Separators, etc. | | | 56 | 30,000 | 30,000 |
| Heater Treater, Flow Line Heater, LTX, etc. | | | 58 | 10,000 | 10,000 |
| Lease Lines | | | 60 | 4,000 | 4,000 |
| Other Major Expense | | | 54 | 10,000 | 10,000 |
| Miscellaneous Connections | | | 71 | 5,000 | 5,000 |
| Installation | | | 74 | 6,000 | 6,000 |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 65,000 | 65,000 |
| TOTAL AFE COST (100%) | | 828,300 | | 453,500 | 1,281,800 |

COMPANY: _____

APPROVED: _____

TITLE: _____ DATE: _____

GRACE PETROLEUM CORPORATION

APPROVED: Robert W. Hartman

TITLE: Drilling Manager DATE: 8/1/79

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDIT

it Grace Petroleum Corporation  AFE No. _____

Date 7/10/78  REVISION

ELL NAME New Mexico Federal "G" #1  PROSPECT S. Salt Lake

ESCRIPTION 660'FNL & 660'FEL Sec.6-21S-33E  EXPLORATORY ___  DEVELOPMENT X  WORKOVER ___

OUNTY & STATE Lea Co., New Mexico  Depth | Formation | Type

ode 25 applies only if we have your election in writing to be covered under ur policy.

| Depth | Formation | | | | |
|---|---|---|---|---|---|
| 13,600 | Morrow | Oil ___ | Gas X | | |
| 14,100 | TD | Oil ___ | Gas ___ | | |
| ___ | ___ | Oil ___ | Gas ___ | | |

| tem and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| NTANGIBLE DRILLING COSTS: | | | | | |
| rilling Cost - Footage | 01 | | 01 | | |
| ey Work 60 @ 4600 / 14 @ 1000 | 02 | 276,000 | 02 | 14,000 | |
| rilling and Turnkey | 04 | 32,400 | 04 | | |
| ebor - Company and Contract | 13 | 7,000 | 13 | 10,000 | |
| ransportation | 26 | 1,500 | 26 | 5,000 | |
| ridges, Roads, Locations, etc. | 08 | 12,500 | 08 | 1,500 | |
| uel, Water and Power | 05 | 15,000 | 05 | | |
| its, Coreheads and Rentals | 07 | 45,000 | 07 | 11,000 | |
| rilling Fluids | 06 | 45,000 | 06 | 1,000 | |
| urveys (logging) Perforating | 11 | 20,000 | 11 | 14,000 | |
| udlogger | 30 | | 30 | | |
| ement and Cementing Services and Frac | 15 | 33,000 | 15 | 19,000 | |
| esting (Drillstem & Wireline) | 10 | 6,000 | 10 | | |
| ore Analysis | 12 | | 12 | | |
| eological and Engineering | 09 | 14,000 | 09 | 3,500 | |
| lugging & Abandoning | 27 | 5,000 | 27 | | |
| istrict and Overhead Expense | 20 | 1,000 | 20 | 400 | |
| nsurance | 25 | 13,900 | 25 | | |
| iscellaneous and Unforeseen | 28 | 50,700 | 28 | 7,600 | |
| TOTAL INTANGIBLE DRILLING COSTS | | 578,000 | | 87,000 | |
| NGIBLE DRILLING COSTS: | | | | | |
| asing Size 13 3/8 475' | 51 | 8,170 | 51 | | |
| asing Size 9 5/8 5300' | 51 | 74,040 | 51 | | |
| asing Size 5 1/2 14,100' | 51 | | 51 | 107,808 | |
| asing Size | 51 | | 51 | | |
| asing Size | 51 | | 51 | | |
| ubing | 52 | | 52 | 56,000 | |
| ubsurface Equipment | 53 | 2,000 | 53 | 7,000 | |
| ell Head Equipment | 50 | 2,300 | 50 | 12,000 | |
| iscellaneous | 72 | 5,490 | 72 | 12,192 | |
| TOTAL TANGIBLE DRILLING COSTS | | 92,000 | | 195,000 | |
| NGIBLE INSTALLATION AND ASE EQUIPMENT COSTS | | | | | |
| anks, Separators, etc. | | | 56 | 20,000 | |
| ater Treater, Flow Line Heater, LTX, etc. | | | 58 | 14,000 | |
| ease Lines | | | 60 | 3,000 | |
| ther Major Expense | | | 54 | 1,500 | |
| iscellaneous Connections | | | 71 | 4,000 | |
| nstallation | | | 74 | 1,500 | |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 44,000 | |
| OTAL AFE COST (100%) | | 670,000 | | 326,000 | 996,000 |

COMPANY: SUPRON ENERGY CORPORATION  GRACE PETROLEUM CORPORATION

APPROVED: [signature] Haskell Fleetwood, Vice President  APPROVED: [signature]

TITLE: _____ DATE: 12/5/78  TITLE: Drilling Manager  DATE: 7/10/78 MLR

Supron 18.75% = $125,625.00 Dry Hole
186,750.00 Producer

GRACE PETROLEUM CORPORATION

File

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITURE

Unit Grace Petroleum Corporation  AFE No. _____

Date 7/10/78  REVISION

WELL NAME New Mexico Federal "G" #1  PROSPECT S. Salt Lake

DESCRIPTION 660'FNL & 660'FEL Sec.6-21S-33E  EXPLORATORY ____ DEVELOPMENT X WORKOVER ____

COUNTY & STATE Lea Co., New Mexico

Code 25 applies only if we have your election in writing to be covered under our policy.

| Depth | Formation | Type | |
|---|---|---|---|
| 13,600 | Morrow | oil ___ | Gas X |
| 14,100 | TD | oil ___ | Gas ___ |
| ___ | ___ | oil ___ | Gas ___ |

| Item and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| **INTANGIBLE DRILLING COSTS:** | | | | | |
| Drilling Cost - Footage | 01 | | 01 | | |
| Day Work 60 @ 4600 / 14 @ 1000 | 02 | 276,000 | 02 | 14,000 | |
| Drilling and Turnkey | 04 | 32,400 | 04 | | |
| Labor - Company and Contract | 13 | 7,000 | 13 | 10,000 | |
| Transportation | 26 | 1,500 | 26 | 5,000 | |
| Bridges, Roads, Locations, etc. | 08 | 12,500 | 08 | 1,500 | |
| Fuel, Water and Power | 05 | 15,000 | 05 | | |
| Bits, Coreheads and Rentals | 07 | 45,000 | 07 | 11,000 | |
| Drilling Fluids | 06 | 45,000 | 06 | 1,000 | |
| Surveys (logging) Perforating | 11 | 20,000 | 11 | 14,000 | |
| Mudlogger | 30 | | 30 | | |
| Cement and Cementing Services and Frac | 15 | 33,000 | 15 | 19,000 | |
| Testing (Drillstem & Wireline) | 10 | 6,000 | 10 | | |
| Core Analysis | 12 | | 12 | | |
| Geological and Engineering | 09 | 14,000 | 09 | 3,500 | |
| Plugging & Abandoning | 27 | 5,000 | 27 | | |
| District and Overhead Expense | 20 | 1,000 | 20 | 400 | |
| Insurance | 25 | 13,900 | 25 | | |
| Miscellaneous and Unforeseen | 28 | 50,700 | 28 | 7,600 | |
| TOTAL INTANGIBLE DRILLING COSTS | | 578,200 | | 87,000 | |
| **TANGIBLE DRILLING COSTS:** | | | | | |
| Casing Size 13 3/8 475' | 51 | 8,170 | 51 | | |
| Casing Size 9 5/8 5300' | 51 | 74,040 | 51 | | |
| Casing Size 5 1/2 14,100' | 51 | | 51 | 107,808 | |
| Casing Size | 51 | | 51 | | |
| Casing Size | 51 | | 51 | | |
| Tubing | 52 | | 52 | 56,000 | |
| Subsurface Equipment | 53 | 2,000 | 53 | 7,000 | |
| Well Head Equipment | 50 | 2,300 | 50 | 12,000 | |
| Miscellaneous | 72 | 5,490 | 72 | 12,192 | |
| TOTAL TANGIBLE DRILLING COSTS | | 92,000 | | 195,000 | |
| **TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS** | | | | | |
| Tanks, Separators, etc. | | | 56 | 20,000 | |
| Heater Treater, Flow Line Heater, LTX, etc. | | | 58 | 14,000 | |
| Lease Lines | | | 60 | 3,000 | |
| Other Major Expense | | | 54 | 1,500 | |
| Miscellaneous Connections | | | 71 | 4,000 | |
| Installation | | | 74 | 1,500 | |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 44,000 | |
| TOTAL AFE COST (100%) | | 670,000 | | 326,000 | 996,000 |

COMPANY: _____

APPROVED: _____

TITLE: _____ DATE: _____

GRACE PETROLEUM CORPORATION

APPROVED: [signature]

TITLE: Drilling Manager DATE: 7/10/78 MLR

HALFWAY

LITTLE EDDY UNIT

R-11-A

R31E

R32E

R33E

T 20 S

T 21 S

x = unleased

v = inside R-11-A

Wm. J. Henry
Consulting
geologist

OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6590 Exhibit No. 1
Submitted by Grace
Hearing Date 8/7/79
BEFORE THE

GRACE PETROLEUM CORPORATION

LAND PLAT

Lea County, New Mexico

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Walter Duncan
P.O. Box 211
La Salle, Illinois 71301

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assigrment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

PS Form 3811, Apr. 1977

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery. $____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Walter Duncan
PO Box 211
LaSalle, Illinois 71301

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916567 | |

(Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

LE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

---

No. 916567

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Walter Duncan
STREET AND NO.
PO Box 211
P.O., STATE AND ZIP CODE
LaSalle, Illinois 71301

| | | | | |
|---|---|---|---|---|
| POSTAGE | | | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | | | ¢ |
| | OPTIONAL SERVICES | SPECIAL DELIVERY | | ¢ |
| | | RESTRICTED DELIVERY | | ¢ |
| | | RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | | | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | | | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | | | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | | | $ 1.40 |

POSTMARK OR DATE
June 6, 1979

---

No. 916567

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Walter Duncan
STREET AND NO.
PO Box 211
P.O., STATE AND ZIP CODE
LaSalle, Illinois 71301

| | | | | |
|---|---|---|---|---|
| POSTAGE | | | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | | | ¢ |
| | OPTIONAL SERVICES | SPECIAL DELIVERY | | ¢ |
| | | RESTRICTED DELIVERY | | ¢ |
| | | RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | | | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | | | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | | | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | | | $ 1.40 |

POSTMARK OR DATE
June 6, 1979

PS Form 3800, Apr. 1976

---

CERTIFIED
No. 916567
MAIL

---

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Walter Duncan
PO Box 211
LaSalle, Illinois 71301

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916567 | |

(Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☐ Addressee ☒ Authorized agent

4. DATE OF DELIVERY JUN 8 1979 | POSTMARK LASALLE ILL

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

No. 916567

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

| | |
|---|---|
| SENT TO | Walter Duncan |
| STREET AND NO. | PO Box 211 |
| P.O., STATE AND ZIP CODE | LaSalle, Illinois 71301 |
| POSTAGE | $ |
| CONSULT POSTMASTER FOR FEES — CERTIFIED FEE | ¢ |
| OPTIONAL SERVICES — SPECIAL DELIVERY | ¢ |
| OPTIONAL SERVICES — RESTRICTED DELIVERY | ¢ |
| OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED | ¢ |
| OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $ 1.40 |
| POSTMARK OR DATE | June 6, 1979 |

PS Form 3800, Apr. 1976

PS Form 3811, Apr. 1977

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered. ____¢
- ☐ Show to whom, date, and address of delivery. ____¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered. ____¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery. $____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Walter Duncan
PO Box 211
LaSalle, Illinois 71301

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916567 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

No. 916567

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

| | |
|---|---|
| SENT TO | Walter Duncan |
| STREET AND NO. | PO Box 211 |
| P.O., STATE AND ZIP CODE | LaSalle, Illinois 71301 |
| POSTAGE | $ |
| CONSULT POSTMASTER FOR FEES — CERTIFIED FEE | ¢ |
| OPTIONAL SERVICES — SPECIAL DELIVERY | ¢ |
| OPTIONAL SERVICES — RESTRICTED DELIVERY | ¢ |
| OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED | ¢ |
| OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $ 1.40 |
| POSTMARK OR DATE | June 6, 1979 |

PS Form 3800, Apr. 1976

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered. ____¢
- ☐ Show to whom, date, and address of delivery. ____¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered. ____¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery. $____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Walter Duncan
PO Box 211
LaSalle, Illinois 71301

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916567 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

CERTIFIED
No. 916567
MAIL

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered. ____¢
- ☐ Show to whom, date, and address of delivery. ____¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered. ____¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery. $____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Walter Duncan
PO Box 211
LaSalle, Illinois 71301

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916567 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

POSTMARK JUN 8 1979 LaSalle Ill. 61301

☆ GPO : 1977—O-231-537

PS Form 3811, Apr. 1977 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Raymond T. Duncan
1300 Writers Center
1720 South Bellaire Street
Denver, Colorado 80222

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Raymond T. Duncan
1300 Writers Center
1720 South Bellaire Street
Denver, Colorado 80222

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

O SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- [X] Show to whom and date delivered.....¢
- [ ] Show to whom, date, and address of delivery.....¢
- [ ] RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- [ ] RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery. $____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:

Mr. Raymond T. Duncan
1300 Writers Center
1720 S. Bellaire, Denver, CØ 80222

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3800, Apr. 1976

No. 916570

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Raymond T. Duncan
STREET AND NO.
1300 Writers Center
P.O. STATE AND ZIP CODE
Denver, Colo. 80222

| | | | |
|---|---|---|---|
| POSTAGE | | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | | ¢ |
| | OPTIONAL SERVICES: SPECIAL DELIVERY | | ¢ |
| | RESTRICTED DELIVERY | | ¢ |
| | RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | | ¢ |
| | | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | | $1.40 |

POSTMARK OR DATE
6-6-79

TICLE TO COVER FIRST CLASS POSTAGE, ANY SELECTED OPTIONAL SERVICES. (see front)
k the gummed stub on the left portion of the addr
tached, and present the article at a post office ser
no extra charge)
ked, stick the gummed stub on the left portion of
and retain the receipt, and mail the article.
certified-mail number and your name and address
ch it to the front of the article by means of the gu
back of article. Endorse front of article RETURN R
addressee, or to an authorized agent of the add
front of the article.
n the appropriate spaces on the front of this re
pplicable blocks in item 1 of Form 3811.
make inquiry.

☆ GPO 1978 -256-915

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- [X] Show to whom and date delivered.....¢
- [ ] Show to whom, date, and address of delivery.....¢
- [ ] RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- [ ] RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery. $____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:

Mr. Raymond T. Duncan
1300 Writers Center
1720 S. Bellaire, Denver, CØ 80222

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY 6-8-79 | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

G SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☒ Show to whom and date delivered. ____¢
- ☐ Show to whom, date, and address of delivery. ____¢
- ☐ RESTRICTED DELIVERY
  Show to whom and date delivered. ____¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery. $____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Raymond T. Duncan
1300 Writers Center
1720 S. Bellaire, Denver, CØ 80222

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916570

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Raymond T. Duncan
STREET AND NO.
1300 Writers Center
P.O. STATE AND ZIP CODE
Denver, Colo. 80222

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES — CERTIFIED FEE | | ¢ |
| OPTIONAL SERVICES — SPECIAL DELIVERY | | ¢ |
| OPTIONAL SERVICES — RESTRICTED DELIVERY | | ¢ |
| RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1.40 |

POSTMARK OR DATE
6-6-79

PS Form 3800, Apr. 1976

TICLE TO COVER FIRST CLASS POSTAGE,
ANY SELECTED OPTIONAL SERVICES. (see front)
k the gummed stub on the left portion of the addr
tached, and present the article at a post office serv
no extra charge)
ked, stick the gummed stub on the left portion o
and retain the receipt, and mail the article.
ch it to the front of the article by means of the gu
certified-mail number and your name and addres
back of article. Endorse front of article RETURN R
addressee, or to an authorized agent of the addr
front of the article.
in the appropriate spaces on the front of this re
applicable blocks in item 1 of Form 3811.
make inquiry.

☆ GPO 1978 -256-915

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Add your address in the "RETURN TO" space on reverse.

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- ☒ Show to whom and date delivered. ____¢
- ☐ Show to whom, date, and address of delivery. ____¢
- ☐ RESTRICTED DELIVERY
  Show to whom and date delivered. ____¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery. $____
  (CONSULT POSTMASTER FOR FEES)

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| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
Y. Lukontake

4. DATE OF DELIVERY 6-8-79 | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Vincent J. Duncan
1800 Security Life Building
Denver, Colorado 80202

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

PS Form 3811, Apr. 1977

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- ☐ Show to whom, date, and address of delivery.....¢
- ☐ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$.....
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Vincent J. Duncan
1800 Security Life Bldg.
Denver, Colorado 80202

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916571 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

No. 916571

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Vincent J. Duncan
STREET AND NO.
1800 Security Life Bldg
P.O., STATE AND ZIP CODE
Denver, Colo 80202

| | |
|---|---|
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $ 1 40 |
| POSTMARK OR DATE | |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

PS Form 3800, Apr. 1976

CERTIFIED
No. 916571
MAIL

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Vincent J. Duncan
STREET AND NO.
1800 Security Life Bldg
P.O. STATE AND ZIP CODE
Denver, Colo 80202

| | |
|---|---|
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $ 1 40 |
| POSTMARK OR DATE | 6-6-79 |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

PS Form 3800, Apr. 1976

1800 Security Life Bldg
Denver, Colorado 80202

3. ARTICLE DESCRIPTION:
REGISTERED NO. | CERTIFIED NO. 916571 | INSURED NO.

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
Vincent Duncan

4. DATE OF DELIVERY
DENVER, COLO. FF. STA. & POSTMARK
JUN 11 1979

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
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  (CONSULT POSTMASTER FOR FEES)

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Mr. Vincent J. Duncan
1800 Security Life Bldg.
Denver, Colorado 80202

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916571 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916571

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Vincent J. Duncan
STREET AND NO.
1800 Security Life Bldg
P.O., STATE AND ZIP CODE
Denver, CO 80202

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES — CERTIFIED FEE | | ¢ |
| OPTIONAL SERVICES — SPECIAL DELIVERY | | ¢ |
| OPTIONAL SERVICES — RESTRICTED DELIVERY | | ¢ |
| RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED | | ¢ |
| RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | | ¢ |
| RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | | ¢ |
| RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | | ¢ |
| TOTAL POSTAGE AND FEES | | $ 1.40 |

POSTMARK OR DATE

PS Form 3800, Apr. 1976

CERTIFIED
No. 916571
MAIL

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Vincent J. Duncan
STREET AND NO.
1800 Security Life Bldg
P.O., STATE AND ZIP CODE
Denver, CO 80202

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES — CERTIFIED FEE | | ¢ |
| OPTIONAL SERVICES — SPECIAL DELIVERY | | ¢ |
| OPTIONAL SERVICES — RESTRICTED DELIVERY | | ¢ |
| RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED | | ¢ |
| RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | | ¢ |
| RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | | ¢ |
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POSTMARK OR DATE
6-6-79

PS Form 3800, Apr. 1976

1800 Security Life Bldg.
Denver, Colorado 80202

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REGISTERED NO. | CERTIFIED NO. 916571 | INSURED NO.

(Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
Vincent Duncan

DATE OF DELIVERY
JUN 11 1979

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☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977 RETURN RECEIPT

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. J. Walter Duncan, Jr.
Suite 1200
100 Park Avenue Building
Oklahoma City, Oklahoma 73102

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

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Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

No. 916569

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL

(See Reverse)

SENT TO
J. Walter Duncan, Jr

STREET AND NO.
Suite 1200, 100 Park Ave Bldg

P.O., STATE AND ZIP CODE
OKC, OK 73116

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| | OPTIONAL SERVICES — SPECIAL DELIVERY | ¢ |
| | OPTIONAL SERVICES — RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1.40 |

POSTMARK OR DATE

6-6-79

PS Form 3811, May 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

1. The following service is requested (check one).
   - ☒ Show to whom and date delivered
   - ☐ Show to whom, date, and address of delivery
   - ☐ RESTRICTED DELIVERY
   - Show to whom and date delivered ____¢
   - ☐ RESTRICTED DELIVERY.
   - Show to whom, date, and address of delivery ____¢
   - (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. J. Walter Duncan, Jr.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916569 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY — POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: — CLERK'S INITIALS

☆ GPO : 1977—O-234-337

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL


1. The following service is requested (check one).
   - ☒ Show to whom and date delivered
   - ☐ Show to whom, date, and address of delivery
   - ☐ RESTRICTED DELIVERY
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   - (CONSULT POSTMASTER FOR FEES)

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Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

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(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY — POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: — CLERK'S INITIALS

☆ GPO : 1977—O-234-337


PS Form 3800, Apr. 1976

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| | OPTIONAL SERVICES — SPECIAL DELIVERY | ¢ |
| | OPTIONAL SERVICES — RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES — RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1.40 |

POSTMARK OR DATE

6-6-79

CERTIFIED MAIL
No. 916569


No. 916569

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL

(See Reverse)

No. 916569

**RECEIPT FOR CERTIFIED MAIL**

**NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL**

(See Reverse)

SENT TO: S. Walter Duncan, Jr

STREET AND NO.: Suite 1200, 100 Park Ave Bldg

P.O., STATE AND ZIP CODE: OKC, OK 73116

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| OPTIONAL SERVICES | SPECIAL DELIVERY | ¢ |
| | RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1.40 |
| POSTMARK OR DATE | | 6-6-79 |

PS Form 3800, Apr. 1976

Mr. J. Walter Duncan, Jr.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916569 | |

(Always obtain signature of addressee or agent)

I have received the article described above.

SIGNATURE ☐ Addressee ☐ Authorized agent

Dick Cramer

DATE OF DELIVERY: 6-7-79

POSTMARK

ADDRESS (Complete only if requested)

UNABLE TO DELIVER BECAUSE:

CLERK'S INITIALS

☆ GPO : 1977—O-234-337

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

4. DATE OF DELIVERY

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

CLERK'S INITIALS

POSTMARK

2. ARTICLE ADDRESSED TO:

Mr. J. Walter Duncan, Jr.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916569 | |

(Always obtain signature of addressee or agent)

I have received the article described above.

SIGNATURE ☐ Addressee ☐ Authorized agent

1. Unless fellowing service is requested (check one).

☐ Show to whom and date delivered.....¢

☐ Show to whom, date, and address of delivery.....¢

☐ RESTRICTED DELIVERY

Show to whom and date delivered.....¢

☐ RESTRICTED DELIVERY.

Show to whom, date, and address of delivery.....¢

(CONSULT POSTMASTER FOR FEES)

Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

PS Form 3800, Apr. 1976

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| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| OPTIONAL SERVICES | SPECIAL DELIVERY | ¢ |
| | RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1.40 |
| POSTMARK OR DATE | | 6-6-79 |

SENT TO: S. Walter Duncan, Jr

STREET AND NO.: Suite 1200, 100 Park Ave Bldg

P.O., STATE AND ZIP CODE: OKC, OK 73116

(See Reverse)

CERTIFIED
No. 916569
MAIL

No. 916569

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Walter Duncan, III
Suite 1200
100 Park Avenue Building
Oklahoma City, Oklahoma 73102

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. Bill Curtis

**No. 916568**

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200 100 Park Ave Bldg
P.O., STATE AND ZIP CODE
Okla. City, OK 73102

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| | OPTIONAL SERVICES: SPECIAL DELIVERY | ¢ |
| | OPTIONAL SERVICES: RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $/ 40 |
| POSTMARK OR DATE | | |

PS Form 3800, Apr. 1976

PS Form 3811, Apr. 1977

RETURN RE

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$
(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Walter Duncan, III
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916568 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

DATE OF DELIVERY | POSTMARK

ADDRESS (Complete only if requested)

UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

**No. 916568**

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200 100 Park Ave Bldg
P.O., STATE AND ZIP CODE
Okla. City, OK 73102

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| | OPTIONAL SERVICES: SPECIAL DELIVERY | ¢ |
| | OPTIONAL SERVICES: RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $/ 40 |
| POSTMARK OR DATE | | |

PS Form 3800, Apr. 1976

CERTIFIED
No. 916568
MAIL

PS Form 3811, Apr. 1977 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$
(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Walter Duncan, III
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916568 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916568

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200 100 Park Ave Bldg
P.O., STATE AND ZIP CODE
Okla. City, OK 73102

| POSTAGE | $ |
|---|---|
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $/ 40 |
| POSTMARK OR DATE | |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE

PS Form 3800, Apr. 1976

PS Form 3811, Apr. 1977

RETURN RECEIPT

1. The following service is requested (check one).
   - ☐ Show to whom and date delivered.....¢
   - ☐ Show to whom, date, and address of delivery.....¢
   - ☒ RESTRICTED DELIVERY.
     Show to whom and date delivered.....¢
   - ☐ RESTRICTED DELIVERY.
     Show to whom, date, and address of delivery.$
     (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
   Walter Duncan, III
   Suite 1200, 100 Park Ave. Bldg.
   Okla. City, OK 73102

ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916568 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

DATE OF DELIVERY | POSTMARK

ADDRESS (Complete only if requested)

UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200 100 Park Ave Bldg
P.O., STATE AND ZIP CODE
Okla. City, OK 73102

| POSTAGE | $ |
|---|---|
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $/ 40 |
| POSTMARK OR DATE | |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE

PS Form 3800, Apr. 1975

CERTIFIED
No. 916568
MAIL

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
   - ☐ Show to whom and date delivered.....¢
   - ☐ Show to whom, date, and address of delivery.....¢
   - ☒ RESTRICTED DELIVERY.
     Show to whom and date delivered.....¢
   - ☐ RESTRICTED DELIVERY.
     Show to whom, date, and address of delivery.$
     (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
   Walter Duncan, III
   Suite 1200, 100 Park Ave. Bldg.
   Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916568 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-214-337

Stevens Creek
2672 Sec 9 T6S
373 grad rate
court fixed rates

COMMUNITIZATION AGREEMENT

Contract No. _____

THIE AGREEMENT, entered into as of the 1st day of November, 1978, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

WITNESSETH:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.), authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is detennined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

   Lots 9, 10, 15, 16, and SE/4 of
   Section 6-21S-32E,
   Lea County, New Mexico

   containing 320 acres, more or less, and this agreement shall include only the Morrow Formation underlying said lands and the natural gas and associated liquid hydrocarbons hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit B, designating the operator of the communitized area and showing the acreage percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area, and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

(b) It is agreed that for any Federal lease bearing a sliding - or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement is effective November 1, 1978, upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities: Provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246, as amended, (30 F.R. 12319), which are hereby incorporated by reference in this agreement.

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

BY: _____
ASSISTANT SECRETARY

GRACE PETROLEUM CORPORATION

BY: _____
Vice President

ATTEST:

BY: _____

SUPRON ENERGY CORPORATION

BY: _____

ATTEST:

BY: _____

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 1st day of November 1978, by J. K. Ursidale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___ day of _____, 19 , by

President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this _____ day of _____, 19__, by President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ____day of _____, 19__, by _____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___day of _____, 19__, by _____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___day of _____, 19__, by _____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___day of _____, 19__, by _____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___ day of _____, 19__, by _____.

_____
Notary Public

My Commission Expires:

_____

EXHIBIT "A"

TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, EMBRACING LOTS 9, 10, 15, & 16 and SE/4 Section 6, Township 21 South, Range 32 East, NEW MEXICO P.M., LEA COUNTY, NEW MEXICO

OPERATOR OF COMMUNITIZED AREA - GRACE PETROLEUM CORPORATION

TRACT NO. 1

LESSOR(S) : U. S. A.

LESSEE(S) OF RECORD: Gulf Oil Exploration and Production Company

SERIAL NO. OF LEASE: NM-15024

DATE OF LEASE: February 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 9 & 10 of
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 80

WORKING INTEREST AND PERCENTAGE: Gulf Oil Exploration and Production Company. . .100.%

O.R.R.I. AND PERCENTAGE:

Walter Duncan.....30% of 5%
Raymond T. Duncan.....30% of 5%
Vincent J. Duncan.....30% of 5%
J. Walter Duncan, Jr..... 9% of 5%
Walter Duncan, III..... 1% of 5%

TRACT NO. 2

LESSOR(S): U. S. A.

LESSEE(S) OF RECORD: Grace Petroleum Corporation and
Supron Energy Corporation

SERIAL NO. OF LEASE: NM-14791

DATE OF LEASE: March 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 15 & 16 & SE/4
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 240

WORKING INTEREST AND PERCENTAGE:

Grace Petroleum Corporation ..... 75.%
Supron Energy Corporation ..... 25.%
100.%

O.R.R.I. AND PERCENTAGE:

Henry Vartanian.....2.5%
Charles E. Strange,
Trustee of the Charles
E. Strange Trust.....2.5%

EXHIBIT "B"

PLAT OF COMMUNITIZED AREA COVERING LOTS 9, 10, 15, & 16 and SE/4 of Section 6-21S-32E, NMPM, LEA COUNTY, NEW MEXICO, SALT LAKE SOUTH FIELD

| | |
|---|---|
| Lot 10<br>Tr. 1 - 40 acres<br>NM 15024 | Lot 9<br>Tr. 1 - 40 acres<br>NM 15024<br>o Well Location |
| Lot 15<br>Tr. 2 - 40 acres<br>NM-14791 | Lot 16<br>Tr. 2 - 40 acres<br>NM 14791 |
| SE/4<br>Tract 2 - 160 acres<br>NM-14791 | |

R E C A P I T U L A T I O N

| TRACT # | TOTAL ACRES COMMITTED | % OF INTEREST IN COMMITTED AREA |
|---|---|---|
| 1 | 80.00 | 25.00% |
| 2 | 240.00 | 75.00% |
| | 320.00 | 100.00% |

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____
ASSISTANT SECRETARY

BY: _____
Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____
Bill Curtis, Attorney-in-Fact

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 1st day of November 1978 by O.K. Hisdale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF TEXAS )
) SS
COUNTY OF DALLAS )

The foregoing instrument was acknowledged before me this 22 day of December 1978, by Bill Curtis, Attorney-in-Fact of Supron Energy Corporation, a Delaware Corporation, on behalf of said corporation.

Mary P. Brooks
Notary Public

My Commission Expires:
6/15/80

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this_____day of_____, 19__, by President of a corporation, on behalf of said corporation.

Notary Public

My Commission Expires:

Walter Duncan OIL PROPERTIES

1300 WRITERS' CENTER IV • 1720 SOUTH BELLAIRE STREET
AREA CODE 303 TEL. 758-3303 • DENVER, COLORADO 80222

July 9, 1979

United States Geological Survey
505 Marquette, NW, Suite 815
Albuquerque, New Mexico

Attention: Mr. James W. Sutherland
Area Oil and Gas Supervisor

Re: NM-15024
Communitization Agreement
T21S-R32E
Sec. 6: Lots 9 & 10
Lea County, New Mexico
31-2-171-01

Dear Mr. Sutherland:

Mr. Walter Duncan III is temporarily incapacitated due to illness, thus being unable to sign the captioned instrument. Mr. Duncan owns 1% of 5% (.05% net) of the Overriding Royalty interest in Federal Oil and Gas Lease NM-15024. Messrs. Walter Duncan, Raymond T. Duncan, Vincent J. Duncan and J. Walter Duncan, Jr. own 99.0% of 5% of the overriding royalty interest in the lease and have executed the captioned Communitization Agreement.

Very truly yours,

Dale E. Harrison

Dale E. Harrison
Land Manager

DEH:lks

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____
ASSISTANT SECRETARY

BY: _____
Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

_____
Walter Duncan

_____
Joan R. Duncan, wife of Raymond T. Duncan

_____
Raymond T. Duncan

_____
Annamarie Duncan, wife of Vincent J. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 18 day of June, 1979

by Raymond T. Duncan & Joan R. Duncan, husband & wife

Connie R. Knutson
Notary Public

My Commission Expires:

12-10-80

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 26 day of June, 1979

by Vincent J. Duncan & Annamarie Duncan, husband & wife

Dina D. Jones
Notary Public

My Commission Expires:

5-28-83

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 29 day of June, 1979,

by J. Walter Duncan, Jr.

Jane J. Hannah
Notary Public

My Commission Expires:

12-29-81

STATE OF Illinois )
)
COUNTY OF LaSalle ) SS

The foregoing instrument was acknowledged before me this 5 day of July, 1979,

by Walter Duncan

Kristine Lamm
Notary Public

My Commission Expires:

3-22-80

LAW OFFICES
HINKLE, COX, EATON, COFFIELD & HENSLEY
1000 FIRST NATIONAL BANK TOWER
POST OFFICE BOX 3580
MIDLAND, TEXAS 79702
(915) 683-4691

LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
JAMES H. BOZARTH

DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
J. DOUGLAS FOSTER
K. DOUGLAS PERRIN
C. RAY ALLEN
JACQUELINE W. ALLEN
T. CALDER EZZELL, JR.

OF COUNSEL
CLARENCE E. HINKLE

W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

November 6, 1978

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Re: United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.
HCEC&H T/O No. 25,140
Requirement D

Gentlemen:

Under date of September 26, 1978 we rendered our original opinion of title wherein we imposed Requirement D. We have not been submitted any additional abstracts but we have received additional curative materials and now report curative action as follows:

REQUIREMENT D: Satisfied. We have received a letter from the United States Geological Survey dated October 13, 1978 which states that the lease account for NM 14791 is considered in good standing through July 1978.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cm

LAW OFFICES
HINKLE, COX, EATON, COFFIELD & HENSLEY
1000 FIRST NATIONAL BANK TOWER
POST OFFICE BOX 3580
MIDLAND, TEXAS 79702
(915) 683-4691

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JACQUELINE W. ALLEN
T. CALDER EZZELL, JR.

OF COUNSEL
CLARENCE E. HINKLE

W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

September 26, 1978

IN RE: OPINION OF TITLE TO:
United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ of Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.

Your No. _____

No. 25,140

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

In connection with the title to the captioned lease and lands we have examined the following materials:

(a) Southern Union Production Company, in-house opinion, dated November 10, 1972, which opinion was based on examination of various materials, including abstracts certified down to October 17, 1972 at 10:00 A. M. as to the federal records and down to October 18, 1972 at 8:00 A.M. as to the county records; and

(b) Federal Abstract Company Abstract Nos. 27739, 28130, 28218 and 30446, which when taken collectively, cover the records in the United States Land Office at Santa Fe, New Mexico from October 17, 1972 at 10:00 A.M. down to August 7, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 14791; and

(c) Federal Abstract Company Abstract No. 30506 which purports to cover the records in the United States Land Office at Santa Fe, New Mexico from inception of records down to August 22, 1978 at 10:00 A.M. as to captioned lands covered by Lease NM 15024; and,

(d) Lovington Abstract Company, Inc. Abstract Nos. 1-2174-B, 12-1476-A, 5-1777 and 8-1178-F, which collectively cover the public records of Lea County, New Mexico as to the mineral estate from October 18, 1972 at 8:00 A.M. down to August 11, 1978 at 8:00 A.M., insofar as said records reflect the captioned mineral estate covered by Lease NM 14791 and which contain satisfactory judgment and lien searches against the parties in the chain of title to the captioned lease and lands; and,

(e) Lovington Abstract Company Abstract No. 8-2378-A which covers the public records of Lea County, New Mexico as to the mineral estate from inception of records down to August 23, 1978 at 8:00 A.M. as to the captioned mineral estate covered by Lease NM 15024; and,

(f) Hinkle, Cox, Eaton, Coffield & Hensley Title Opinion No. 23,892 dated July 8, 1977.

From our examination of the foregoing, and based solely thereon, we now report the status of title to the captioned lease and lands as of the most recent closing dates reflected by the abstract certificates as follows:

I. TITLE TO OIL AND GAS SUBJECT TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 12.5% ROYALTY):

United States of America ---------- All

II. RECORD TITLE TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 82.5% WORKING INTEREST):

NM 14791:

Grace Petroleum Corporation ---------- 75%*
Southern Union Production Company ------ 25%

* This will be the status of title upon filing a Certificate of Merger between Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management.

NM 15024:

Gulf Oil Corporation ---------- All

III. TITLE TO OVERRIDING ROYALTY INTERESTS EQUAL TO 5% of 8/8 CREATED UNDER EACH OF LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS:

NM 14791:

| | |
|---|---|
| Henry H. Vartanian, whose wife is Betty Jane Vartanian | 1/2 |
| Charles E. Strange, Trustee of the Charles E. Strange Trust established on May 6, 1974 | 1/2 |

NM 15024:

| | | |
|---|---|---|
| Walter Duncan | 30% | .00375 Unit NRI |
| Raymond T. Duncan | 30% | .00375 Unit NRI |
| Vincent J. Duncan | 30% | .00375 Unit NRI |
| J. Walter Duncan | 9% | .001125 Unit NRI |
| Walter Duncan III | 1% | .000125 Unit NRI |

IV. OIL AND GAS LEASES -- RENTS AND ROYALTIES -- ASSIGNMENTS -- DESIGNATIONS OF OPERATOR -- PRODUCTION HISTORY:

NM 14791:

| | |
|---|---|
| Date: | March 1, 1972 |
| Lessor: | United States of America |
| Lessee: | Henry Vartanian |
| Term: | Ten years and so long thereafter etc. |
| Rentals: | Although not noted in the base opinion on which we are relying, in part, the captioned lease apparently provides for rentals of 50¢ per acre, increasing to $2.00 per acre or any fraction thereof, commencing with thirty days after notice that any portion of the lands within the lease are in a known geologic structure. Apparently, rentals were timely and properly paid for all lease years down to the lease year expiring March 1, 1974. Prior to that date, it appears that the captioned lease went on production and therefore the lease is now considered held by production on a royalty payment status. |
| Lands Covered: | Township 21 South, Range 32 East, NMPM<br>Section 3: Lots 9-16, inclusive SW¼<br>Section 4: Lots 1-16, inclusive, S½ (All) |

Section 5: Lots 13, 14, 15, 16, S½
Section 6: Lots 14, 15, 16, E½SW¼ SE¼

containing a total of 2,282.84 acres, more or less.

Royalty: 12½%

Other Features: Since we have not actually examined this lease we have assumed that the captioned lease was probably prepared on Form 4-1158, and based upon that assumption, we have attached a schedule reflecting the general features of that lease form.

NM 15024:

Form: 3120-19 (May 1968)

Date: February 1, 1972

Lessor: United States of America

Original Lessee: Annamarie Duncan

Term: Ten years and so long thereafter, etc.

Rentals: This lease provided for annual delay rentals in the amount of 50¢ per acre until such time as said lease may have been determined to be in a known geological structure. Said lease was included in a known geological structure effective June 16, 1973 and rentals thereafter were paid at the $2.00 per acre rate. Rentals have been timely and properly paid for all time period up to February 1, 1979.

Lands Covered: Township 20 South, Range 32 East, NMPM

Section 27: N½N½

Township 21 South, Range 32 East, NMPM

Section 6: Lots 8, 9, 10 and 11

containing 320 acres, more or less.

Royalty: 12½%

Other Features: See attached schedule

2. Assignments: The following assignments have been made affecting the captioned lease and lands:

NM 14791:

(a) An assignment prepared on Form 3106-5 (February 1971) from Henry H. Vartanian and his wife, Betty Jane Vartanian, to C. E. Strange dated December 9, 1971 and approved by the Bureau of Land Management effective March 1, 1972, recorded in the Office of the Lea County Clerk in Book 282 at page 685, assigning all interest as to the captioned lease and the lands described hereinabove, but retaining to the assignor an overriding royalty of 2½% of 8/8; and

(b) Prepared on a form identical to that described above, from C. E. Strange and his wife, Sherrie R. Strange, to Amini Oil Company, dated February 25, 1972, approved by the Bureau of Land Management effective April 1, 1972 and recorded in the Office of the Lea County Clerk in Book 282 at page 643, assigning all interest as to the captioned lease and lands. This assignment is subject to the previously create 2½% overrid and in addition, the assignors reserve an additional 2½% overriding royalty. Further, this assignment contains a sixty day reassignment clause in favor of C. E. Strange and wife with a limitation of liability for failure to comply with the reassignment provision. This assignment for does not contain any warranties; and

(c) An assignment prepared on a form identical to the assignments described hereinabove from Amini Oil Company to Southern Union Production Company dated January 5, 1973, and approved by the Bureau of Land Management effective February 1, 1973 and recorded in the Office of the Lea County Clerk in Book 282 at page 163, assigning a 25% interest in the captioned lease and lands. No overriding royalty is subject to the previously created 5% overriding royalty. Again, this assignment form contains no warranties; and

(d) An assignment prepared on a form identical to the assignments described hereinabove from Teal Petroleum Company (formerly Amini Oil Company) to Cleary Petroleum Corporation, dated September 23, 1976, assigning Cleary a 75% interest in the captioned lease and lands, said assignment having been approved effective February 1, 1977 by the Bureau of Land Management being recorded November 28, 1977 in Book 306 at page 775 in the Office of the Lea County Clerk. No overriding royalty was reserved to Teal, but the assignment is subject to the previously created total of 5% overriding royalty interest. Again, this assignment form contains no warranties.

(e) An Assignment of overriding royalty interest from C. E. Strange, a married man, to Charles E. Strange, Trustee of the Charles E. Strange Trust, established on May 6, 1974 assigning a 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment being dated May 6, 1974 and filed with the Bureau of Land Management on July 25, 1974, recorded May 20, 1974 in Book 318 at page 726 in the Office of the Lea County Clerk. We have previously in other opinions relating to this lease mentioned deficiencies in this Assignment of Overriding Royalty Interest; however, the assignment described in sub-paragraph (f) hereinbelow is a correction of these deficiencies.

(f) Correction Assignment of overriding royalty interest from C. E. Strange and wife, Sherrie R. Strange, Charles E. Strange, Trustee of the Charles E. Strange Trust, established May 6, 1974 assigning 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment having been dated July 20, 1977 and recorded August 1, 1977 in Book 342 at page 825 in the Office of the Eddy County Clerk. We will not require that this assignment be placed of record in the Office of the Bureau of Land Management inasmuch as the defective assignment was previously placed of file with the Bureau of Land Management and the defect contained therein do not effect the status of the federal records.

NM 15024:

(a) A Record Title Assignment of Oil and Gas Lease from Annamarie Duncan and husband, Vincent J. Duncan, to Gulf Oil Corporation, dated September 6, 1972, approved effective October 1, 1972 by the Bureau of Land Management and recorded November 8, 1972 in Book 280 at page 459 in the Office of the Lea County Clerk, assigning the entire record title

into said lease. This assignment was prepared on Government Form 3106-5 (February 1971) and reserves a 5% of 8/8 overriding royalty interest and contains a reassignment rider.

REQUIREMENT A: You should note your lease files in connection with the reassignment rider contained in this assignment.

(b) Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975 and filed with the Bureau of Land Management on July 30, 1975, recorded June 27, 1975 in Book 327 at page 338 in the Office of the Lea County Clerk assigning said 5% of 8/8 overriding royalty to to the following persons in the following proportions:

| Name | Percent of Override |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 |
| Raymond T. Duncan | 30% of 5% of 8/8 |
| Vincent J. Duncan | 30% of 5% of 8/8 |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 |
| Walter Duncan III | 1% of 5% of 8/8 |

This assigment of overriding royalty interest does not contain pooling authority.

REQUIREMENT B: In the event that you desire to pool these lands it will be necessary to have these overriding royalty interest owners ratify any such pooling agreement.

3. Designations of Operator: The abstracts under examination reflect the following Designations of Operator:

(a) Designation of Operator from Southern Union Production Company to Cleary Petroleum Corporation dated October 4, 1976, relating to the captioned lease and lands; and

(b) Designation of Operator from Teal Petroleum Corporation to Cleary Petroleum Corporation, dated November 3, 1976, covering the captioned lease and lands.

COMMENT: Inasmuch as you are the successor corporation to Cleary Petroleum Corporation we believe these designations are adequate in the event your drillsite will be located on the lands covered by NM 14791. However, in the event that your drillsite may be located on lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

REQUIREMENT C: In the event that you intend to conduct drilling operations on the lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

4. Production History: The materials under examination indicate that there is currently production from Lease NM 14791; however, we find no evidence of any production from Lease NM 15024. This is advisory.

V. EXCEPTIONS TO TITLE AND REMARKS:

1. Lease Account Status: The abstracts under examination do not reflect current status of the lease account in connection with Lease NM 14791. This account should be in a current status.

REQUIREMENT D: You should inquire of the USGS in Albuquerque, New Mexico and ascertain whether or not the lease account in connection with Lease NM 14791 is in a current status. (We have taken the liberty to write a letter inquiring as to the status of this lease account.)

2. Gas Purchase Agreement: The materials under examination indicate that there has been filed of record in Lea County, New Mexico, a document entitled "Recording Supplement", dated April 6, 1973, between Southern Union Gas Company as "Buyer" and Amini Oil Company (now Teal Petroleum Company) and Southern Union Production Company as "Sellers". This document was filed of record on May 24, 1973 in Book 309 at page 808 in the Office of the Lea County Clerk. This Recording Supplement indicates the existence of a Gas Purchase Agreement dated January 25, 1973, to which the captioned lands located in Lease NM 14791 and other lands are dedicated. In addition, it gives notice of the existence of an agreement dated November 3, 1972 between the Sellers and Buyer.

3. Charles E. Strange Trust: We have been in contact with the attorney for Charles E. Strange, and have previously been submitted evidence that the Trust Agreement contains adequate authority for the Trustee to enter into agreements relating to oil and gas leases which are held in said trust.

4. Merger: We note that Cleary Petroleum Corporation has now merged into the Grace Petroleum Corporation. In this regard we do not find any Certificate of Merger filed with the Bureau of Land Management nor do we find one recorded in the Office of the Lea County Clerk.

REQUIREMENT E: If you have not already done so, you should file a Certificate of Merger of Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management in Santa Fe, New Mexico, as well as record a copy of the same in the Office of the County Clerk.

5. Potash Rider - Potash Area: The base title opinion on which this examination is, in turn, based, indicates that the captioned lease contains a rider to the effect that no wells are to be drilled without approval of the United States Geological Survey, which will be granted only in the event that it is satisfied that any proposed well drilling will not interfere with mining of potash deposits and a provision must be made for adequate protection of potash deposits.

In addition, although not reflected in any materials under examination, it is apparent from other files and plats available to us in our offices that the captioned lands are located within what has generally been designated as a potash area by the United States Geological Survey. It also appears that the captioned lands lie within a potash area as designated by the New Mexico Oil Conservation Division. As a consequence of the lands being located in these desginated area, it is likely that certain drilling restrictions may be imposed by the United States Geological Survey and/or the New Mexico Oil Conservation Division at such time as drilling operations are to be commenced.

We make no requirement with respect to the foregoing matters, but point this out for your information. We assume that you have probably encountered this problem with regard to wells which you previously drilled on the captioned lease and lands. We would point out that irrespective of what requirements may have been made relating to prior drilling activities, these requirements may very likely be different in the event that actual drilling operations are commenced some period of time after the first drilling operations.

6. Prior Title Opinions: As mentioned hereinabove, we have based this opinion on the title opinion dated November 10, 1972 rendered by Southern Union Gas Company House Counsel in connection with the captioned lease. Although we have no reason to doubt the accuracy of the Southern Union Gas Company House Counsel opinion, we must necessarily limit our opinion to the materials actually examined.

7. Acreage in Lots: It is apparent from the caption of this opinion that all of the subdivisions within the captioned lands are not described as directional subdivisions. Some are numbered as lots. Usually this indicates each numbered lot has acreage greater than or lesser than the usual 40 acres; however, in this case, each lot contains 40 acres. We have no requirement with respect to the acreage in these lots, but we note this for your information and possible future reference.

8. Surface Estate: Although the abstracts under examination do not purport to reflect the title to the surface of the captioned lands, certain information contained therein indicates the following surface rights:

(a) It appears from the materials under examination that all of the captioned lots, and lease, have the surface patented with the minerals being reserved to the United States of America. If you intend to conduct drilling activities on any of these lands it will be necessary that you make arrangements with the surface owner or owners with regard to surface damage.

(b) Grazing Lease: It is possible that the remainder of the surface of the captioned

lands is included in grazing leases from the United States. In such cases your rights under the oil and gas lease are superior to any rights under grazing leases.

9. Judgment and Lien Search: The county abstracts under examination contain satisfactory judgment and lien searches.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cm

Federal Abstract No. 30506 and Lovington Abstract No. 8-2378-A are returned herewith. The remainder of the abstracts are retained for further examination.

PRINCIPAL FEATURES OF LEASE (Form 4-1158) (3120-19)
(10 year initial term)

LESSOR: United States, acting by and through the Secretary of the Interior.

TERM AND REGULATIONS: For a primary term of ten years and so long thereafter as oil or gas is produced in paying quantities; subject to any unit agreement heretofore or hereafter approved by the Secretary of the Interior. Lease is made subject to all reasonable regulations of the Secretary now or hereafter in force not inconsistent with any of the express and specific provisions of the lease.

Although not stated in the lease, the primary term of the lease for land on which, or for which under an approved cooperative or unit plan of development or operation, actual drilling operations were commenced prior to the end of such term and are being diligently prosecuted at that time, shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities. (See Sec. 17(e) of the Mineral Leasing Act Revision of 1960.) Rentals continue until production is obtained.

BOND: Requires lessee, upon inclusion of any part of the leased land within the geologic structure of a producing oil or gas field, to furnish a bond in a sum double the amount of the $2.00 per acre annual rental, but not less than $1000 nor more than $10,000; to furnish, prior to commencement of drilling operations $10,000 lease bond with approved corporate surety, unless a bond in that amount is already being maintained, or unless such a bond furnished by an operator of the lease is accepted. Until a general lease bond is filed, a $1000 bond must be filed in those cases in which a bond is required by law for the protection of owners of surface rights. (See Sec. 2(a) of lease.)

COOPERATIVE OR UNIT PLAN: Requires lessee, within 30 days of demand, to subscribe to and to operate under such reasonable or cooperative unit plan as may be determined by the Secretary of the Interior to be practicable and necessary or advisable. (See Sec. (b) of lease.)

DRILLING REQUIREMENTS: Requires lessee to drill and produce all wells necessary to protect the leased land from drainage by wells on lands not the property of the lessor, or lands of the lessor leased at a lower royalty rate, and to drill and produce such other wells as may be approved or required by the Secretary. (See Sec. 2(c) of lease.)

RENTALS: Lessee to pay in advance an annual rental at the following rates:

(a) If the lands are wholly outside the known geologic structure of a producing oil or gas field:

(i) For each lease year a rental of 50¢ per acre or fraction of an acre.

(b) If the lands are wholly or partly within the known geologic structure of a producing oil or gas field:

(i) Beginning with the first lease year after thirty days' notice that all or part of the land is included in such a structure, and for each year thereafter, prior to a discovery of oil or gas on the lands leased, $2.00 per acre or fraction of an acre.

(ii) If the lease is committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, a rental for each lease year of 50¢ per acre or fraction of an acre shall apply to the acreage not within a participating area.

If there is no well capable of producing oil or gas in paying quantities, the failure to pay a rental on or before the anniversary date shall automatically terminate the lease by operation of law. If time for payment falls on a day in which the proper office to receive payment is closed, payment shall be deemed timely if made on the next official working day.

(See Sections 2(d)(1), 2(d)(4), and 2(e) of lease.)

ROYALTY: - 12½% on production removed or sold from the leased lands; provided, however, a minimum royalty in lieu of rental shall be paid at the expiration of each lease year after discovery equal to $1.00 per acre. If the lease has been unitized, the minimum royalty shall be payable only on the participating acreage. (See Sec. 2(d)(1) of lease.)

Secretary may establish reasonable minimum values for purpose of computing royalty on any oil or gas produced. See 30 C.F.R. 221. All contracts for disposal of products must be approved by the Director, U.S.G.S., or his representatives, subject to review by the Secretary of the Interior. (See Sec. 2(d)(2) and 2(f) of lease.)

ASSIGNMENTS: All assignments are to be filed within 90 days of final execution and are to take effect, upon final approval by the Director, Bureau of Land Management, as of the first day of the lease month following the date of filing. (See Sec. 2(m) of lease.)

RESERVED RIGHTS OF LESSOR: See Sec. 3 of lease with regard to easements, disposition of surface, monopoly and fair prices, reservation of helium, taking of royalty in kind, and operation of valuable water wells.

SURRENDER AND TERMINATION: Lease may be surrendered and terminated as provided by Section 5 thereof.

ROYALTY: - 12½% on production removed or sold from the leased lands; provided, however, a minimum royalty in lieu of rental shall be paid at the expiration of each lease year after discovery equal to $1.00 per acre. If the lease has been unitized, the minimum royalty shall be payable only on the participating acreage. (See Sec. 2(d)(1) of lease.

Secretary may establish reasonable minimum values for purpose of computing royalty on any oil or gas produced. See 30 C.F.R. 221. All contracts for disposal of products must be approved by the Director, U.S.G.S., or his representatives, subject to review by the Secretary of the Interior. (See Sec. 2(d)(2) and 2(f) of lease.)

ASSIGNMENTS: All assignments are to be filed within 90 days of final execution and are to take effect, upon final approval by the Director, Bureau of Land Management, as of the first day of the lease month following the date of filing. (See Sec. 2(m) of lease.

RESERVED RIGHTS OF LESSOR: See Sec. 3 of lease with regard to easements, disposition of surface, monopoly and fair prices, reservation of helium, taking of royalty in kind, and operation of valuable water wells.

SURRENDER AND TERMINATION: Lease may be surrendered and terminated as provided by Section 5 thereof.

# GRACE MEMO

to: Jim Thomas, Don Sterne, Howard Green, Max Douglas

date: July 5, 1979

from: Don Erickson

cc:

subject: SALT LAKE MORROW SOUTH PROSPECT
New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Sec. 6-21S-32E, NMPM
Lea County, New Mexico

Supron Energy called July 3, 1979, to say that Supron does not want to swap acreage with Gulf in order to give Gulf a greater interest in the captioned unit. Supron wants Grace to proceed with the force pooling.

Original Signed By,
DON ERICKSON

DWE/jct

# Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Drawer 1159
Midland, TX 79702

June 28, 1979

915-682 7301

Re: Salt Lake Morrow South Prospect, Proposed New Mexico Federal "G" Com No. 1, Lots 9,10,15,16 and SE/4 of Section 6, T-21-S, R-32-E, NMPM, LEA COUNTY, New Mexico

.11111125 X240=
26.6667
+80
106.6667/320 = .333334

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don W. Erickson

Gentlemen:

Reference is made to your recent telephone conversation with Mr. Chesley Blackham of our Land Section regarding the captioned prospect. Please be advised that we have carefully reviewed said prospect and the most recent proposal concerning the prospect and Gulf is agreeable as follows:

Gulf will assign to Grace Petroleum Corporation and Supron Energy Corporation 100% of their interest in Lot 8 of Section 6, T-21-S, R-32-E, NMPM, Lea County, New Mexico, in exchange for 11.1125% of Supron and Grace's interest in the 240 acre tract consisting of Lots 15, 16 and SE/4 of said Section 6, T-21-S, R-32-E, Lea County, New Mexico, being a total of 26.67 acres. It is to be understood that said 26.67 acres will be added to Gulf's interest in Lots 9 and 10 of said section to give Gulf a total acreage of 106.67 acres in the 320 acre proration unit, being 33.33% interest in said proration unit.

The above offer is, ofcourse, contingent upon Gulf's approval of the AFE and a satisfactory Operating Agreement.

If we can be of any assistance, please feel free to contact Ches Blackham of our Land Section.

Yours very truly,

R. E. Griffith

R. E. GRIFFITH

CTB/dh

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 15, 1979

Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231

Attention: Mr. William Brown

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal
"G" Comm. #1
Lea County, New Mexico

Gentlemen:

Please refer to my letter, dated May 16, 1979, to Gulf Oil in which Grace offered to Gulf a counterproposal which suggested a 360-acre non-standard unit.

The interest of the parties would be:

| | |
|---|---|
| Grace | 50.00000 % |
| Supron | 16.66667 % |
| Gulf | 33.33333 % |
| Total | 100.00000 % |

Since writing this letter, I have talked with Conrad Coffield, the expert on such matters with the law firm of Hinkle, Cox in Midland, Texas. Mr. Coffield stated that unless we could prove geologically to the State of New Mexico Oil Conservation Commission that the formation actually followed the shape of an irregular unit, that neither Gulf's proposed irregular 320-acre unit nor Grace's proposed irregular 360-acre unit would be approved.

Since Gulf wants a larger percentage of working interest in order to join the unit, Grace suggests that we approach Gulf with the following proposal:

> Gulf would be asked to assign all of its interest in Lot No. 8, the lot it wanted added to the unit to Grace and Supron. We would assign to Gulf an additional undivided 8.33333% working interest in Supron's and Grace's acreage which consists of Lots 15 and 16 and the SE/4 Section 6-T21S-R33E, NMPM, Lea County, New Mexico. This procedure would reduce Supron's interest by 25% of 8.33333%, or 2.0833%; and would reduce Grace's interest in the unit by 75% of 8.33333%, or 6.25000%.

This change in interest would result in the partners' interests in the 320-acre unit to be as follows:

| | |
|---|---|
| Grace | 50.00000 % |
| Supron | 16.66667 % |
| Gulf | 33.33333 % |
| Total | 100.00000 % |

Please let Grace know as soon as possible if you approve of this offer.

In case Gulf, Grace and Supron cannot agree to the above, Grace has requested a force pooling hearing based on Lots 9, 10, 15 and 16 and SE/4 Section 6-T21S-R32E, NMPM, Lea County, New Mexico before the full commission as soon as possible after June 27, 1979. Enclosed is a copy of the application.

Very truly yours,

Don W. Erickson

Don W. Erickson
District Landman

DWE/jct

June 4, 1979

Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231

Attention: Mr. William Brown

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G"
Com. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Gentlemen:

As you know, Gulf has not agreed to join the unit in its present unit outline.

Although you suggested changes in the Operating Agreement, no changes will be made until we are able to settle with Gulf about its joining the unit. However, the overhead well rates probably would not be changed. We feel that $2,407.00 for a drilling well and $336.00 for a producing well is a fair charge. Grace periodically revises these rates to meet rising costs. These rates were last revised May 3, 1978.

Very truly yours,

Original Signed By

Don W. Erickson
District Landman

DWE/jct

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

WILLIAM M. BROWN
LANDMAN

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL.

May 30, 1979

Grace Petroleum Corporation
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attn: Mr. Don W. Erickson

Re: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G"
Comm. #1
Lea County, New Mexico

Gentlemen:

Reference is made to your letter of May 16, 1979 concerning the drilling of the captioned well.

Supron agrees to participate in the drilling of said well subject to our approval of an AFE, Operating Agreement and relative instruments. Also, with respect to your counter proposal to Gulf's proposed unit outline, Supron would support the 360-acre unit.

If anything further is needed, please advise.

Sincerely,

William M. Brown
Landman

WMB/bb

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

May 16, 1979

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1
Lea County, New Mexico

Gentlemen:

By Gulf's letter, dated April 19, 1979, Gulf proposed the addition of Gulf's Lot No. 8 to the proposed unit and the exclusion of the SW/4 SE/4 Sec. 6-21S-32E, NMPM. The SW/4 SE/4 Sec. 6 is owned 25% by Supron Energy Corporation and 75% by Grace Petroleum. The interest of the parties would then be as follows:

| | | |
|---|---|---|
| Grace | 150 Acres | 46.875% |
| Supron | 50 Acres | 15.625% |
| Gulf | 120 Acres | 37.500% |
| Total | 320 Acres | 100.000% |

Grace is not agreeable to the above suggestion. Instead, Grace proposes the following compromise:

The present acreage in the proposed unit would be retained plus the addition of Lot No. 8. This additional acreage would result in a non-standard 360-acre unit. The interests of the parties would be as follows:

| | | |
|---|---|---|
| Grace | 180 Acres | 50.00000% |
| Supron | 60 Acres | 16.66667% |
| Gulf | 120 Acres | 33.33333% |
| Total | 360 Acres | 100.00000% |

It is also suggested that the approval of this 360-acre unit be obtained by Gulf and such application for approval be submitted to the proper state and Federal agencies by Gulf within a reasonable amount of time.

If Gulf approves, please let Grace know as soon as possible. By a copy of this letter to Supron Energy Corporation, Grace requests to be notified if Supron approves of this change.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc

cc: Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231
Attention: Mr. William Brown

bcc: Don L. Sterne
Howard Green
Max Douglas
Buddy Knight
Steve Rabenaldt
Mike Reisz

# Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Drawer 1150
Midland, TX 79702

cc: Mar Douglas
Mike Reisz 5/1/79
DFG.

April 19, 1979

Re: Salt Lake Morrow South Prospect, Proposed New Mexico Federal "G" Com #1, Lots 9, 10, 15 and 16 and SE/4 of Section 6, T-21-S, R-32-E, NMPM LEA COUNTY, New Mexico

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

In reference to your letter of March 7, 1979 concerning Gulf's joining in the captioned well, please be advised that Gulf has considered your proposal, however, Gulf would like to submit a revised proposal for your consideration. Gulf would like to include lot #8 in the proration unit and exclude the SW/4 of the SE/4 of the presently proposed unit. This would increase Gulf's working interest from 25% to ~~35.5%~~ 37.5% DKE.

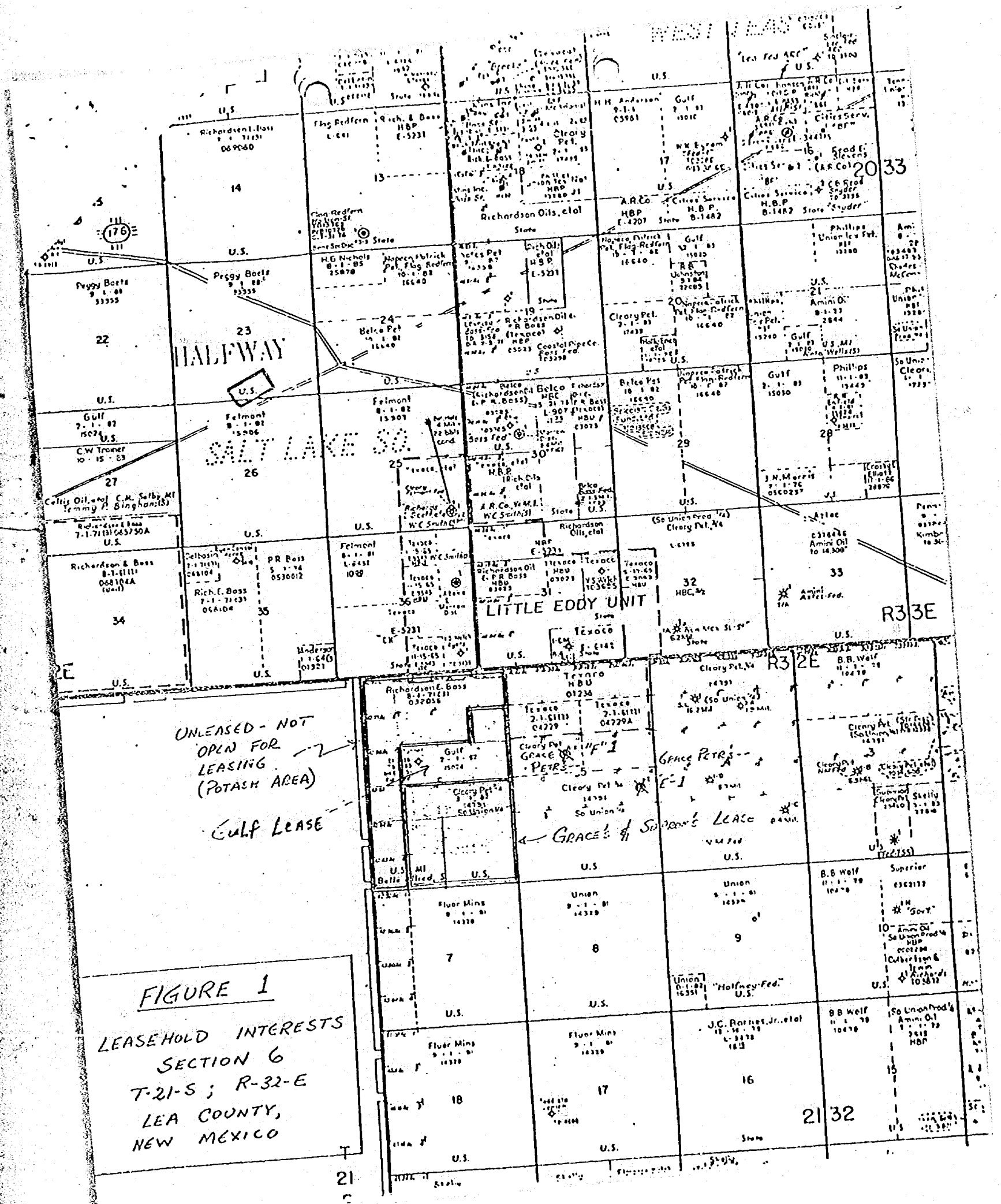
Upon your acceptance the necessary instruments will be prepared. This offer is not exclusive and Gulf reserves the right to withdraw it without further notice to you after thirty (30) days from the date hereof unless we receive a firm commitment from you within said 30-day period.

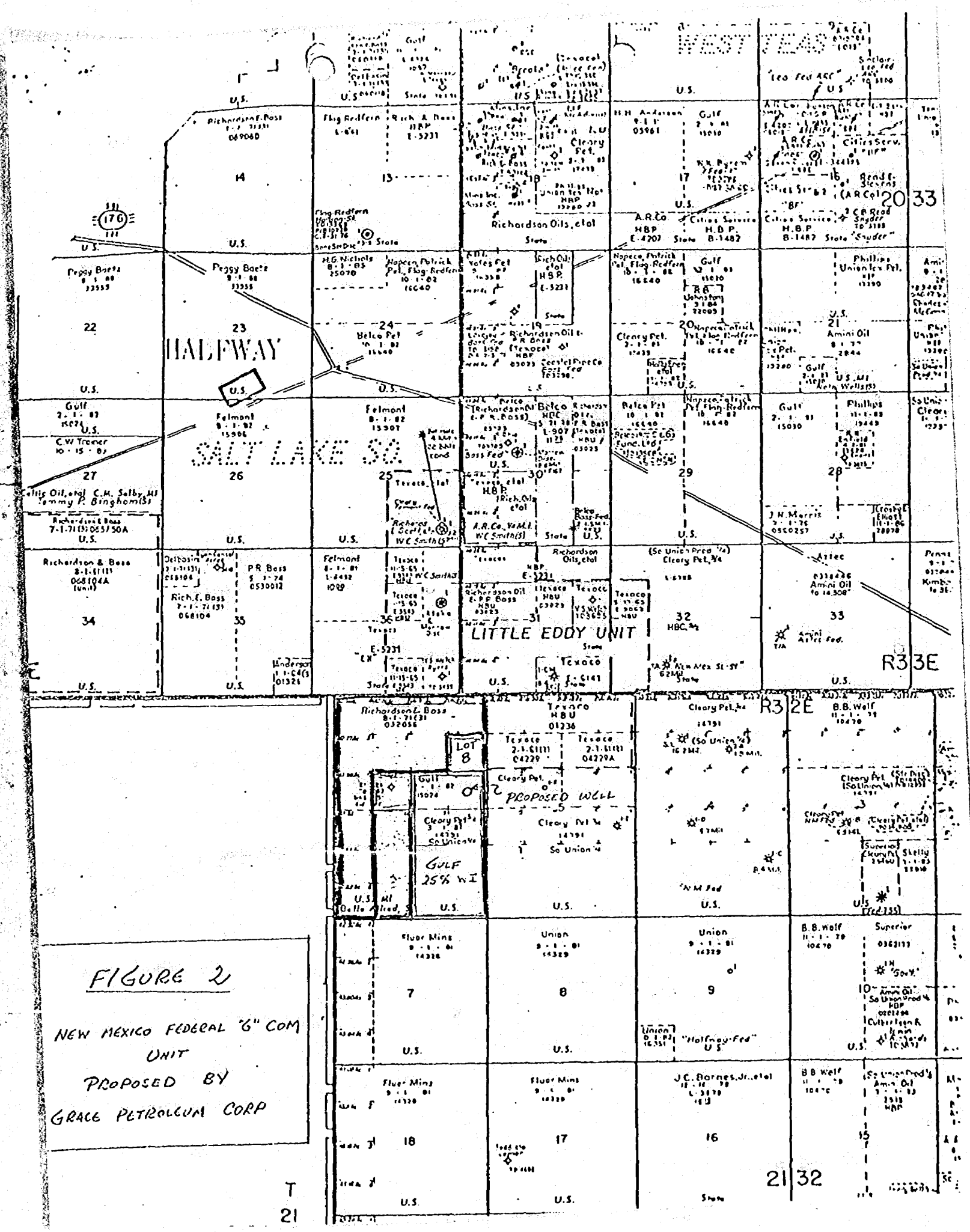
If you have any questions, please contact Denise Beckham of our Land Department at 915/682-7301, ext. 469.

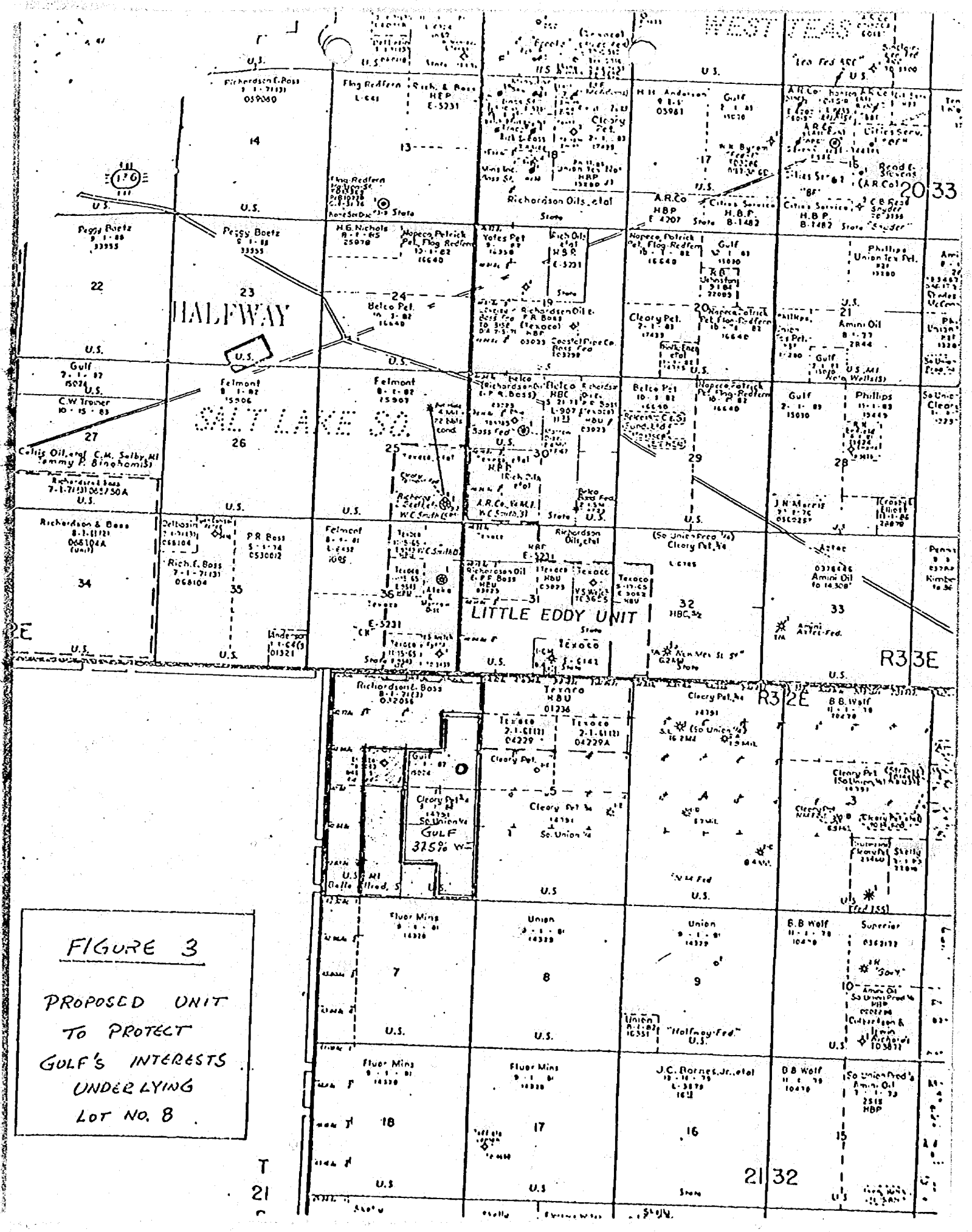
Yours very truly,

R. E. GRIFFITH

DB/dh


HALFWAY
SALT LAKE SO.
LITTLE EDDY UNIT
R33E
R32E
UNLEASED - NOT OPEN FOR LEASING. (POTASH AREA)
Gulf Lease
Grace Petrs. "F" 1
Grace Petrs. "E" 1
Richardson Oils, etal
Peggy Boots
Felmont
Texaco
Cleary Pet.
Gulf
Phillips
Amini Oil
Union
Fluor Mins
J.C. Barnes, Jr. etal
B.B. Wolf
So. Union Prod'g
Richardson & Boss
Rich. & Boss
Belco Pet
Hagen-Patrick
Aztec
Sinclair
Cities Service
Skelly
Superior
Pennz
FIGURE 1
LEASEHOLD INTERESTS
SECTION 6
T-21-S ; R-32-E
LEA COUNTY,
NEW MEXICO
T 21 S


HALFWAY
SALADO
LITTLE EDDY UNIT
PROPOSED WELL
GULF 25% W.I.
R33E
R32E
T 21
21 32
U.S.
Richardson & Boss 8-1-71(3) 068104A (unit)
Richardson & Boss 7-1-71(3) 065750A
Richardson & Boss 8-1-71(3) 068104
Richardson & Boss 8-1-71(3) 032056
Peggy Baetz 8-1-88 33555
Flag Redfern L-661
Rich. A. Boss HBP E-5231
H.G. Nichols 8-1-85 25070
Napco, Patrick Pet., Flag-Redfern 10-1-82 16640
Belco Pet 10-1-82 16640
Gulf 2-1-83 15030
Felmont 8-1-82 15906
Felmont 8-1-82 15907
C.W. Trainer 10-15-87
Celtic Oil, et al C.M. Selby, III Tommy P. Bingham(5)
Delbosin 2-1-71(3) 068106
P.R. Boss S 1-74 0530012
Rich. E. Boss 7-1-71(3) 068104
Felmont 8-1-81 L-6432 1089
Texaco HBU 03023
Texaco E-5231
Texaco 2-1-61(1) 04229
Texaco 2-1-61(2) 04229A
Richardson Oil, et al
Cleary Pet. 2-1-83 17439
H.H. Anderson 9-1-83 03961
A.R.Co HBP E-4207 State
Cities Service H.B.P. B-1482 State
Cleary Pet. 10-1-83 16640
Johnston 3-1-84 22005
Phillips Union Tex Pet. HBP 13290
Amini Oil 8-1-77 2844
Gulf 2-1-83 15030
Phillips 11-1-88 19449
Belco Pet 10-1-82 16640
Napco, Patrick Pet., Flag-Redfern 10-1-82 16640
Richardson Oil, et al HBP E-5231
Richardson Oil, et al HBP E-5221
Richardson Oil, et al HBP E-907
Belco Boss-Fed. 2-1-84
Texaco HBU 03023
Texaco V3 Wick 103655 HBU
Cleary Pet. (So Union Prod. 1/4) L-6388
Aztec 0338436 Amini Oil to 14,308'
J.M. Morris 7-1-76 0550257
Crosby E (Hot) 11-1-86 78078
Penn 9-1-83 032044
Kimbo to 36'
Texaco 2-1-61(1) 04229
Texaco HBU 01236
Cleary Pet. 14791 (So Union 1/4)
B.B. Wolf 11-1-79 10470
Cleary Pet. (So Union 1/4) 14791
Superior 0362177
Amini Oil
So Union Prod'g HBP 0202696
Skelly 3-1-83 33040
Fluor Mins 9-1-84 14328
Union 9-1-81 14329
Union 0-1-83 16551
"Halfway-Fed" U.S.
Fluor Mins 9-1-81 14329
J.C. Barnes, Jr., et al 11-16-79 L-3679
So Union Prod'g Amini Oil 3-1-83 2518 HBP
Lot 8
Lot 2
Lot 5
FIGURE 2
NEW MEXICO FEDERAL "6" COM UNIT
PROPOSED BY
GRACE PETROLEUM CORP


HALFWAY
SALT LAKE SD.
LITTLE EDDY UNIT
Richardson & Boss
Peggy Boetz
Felmont
Richardson Oils, et al
Cleary Pet.
Gulf
Amini Oil
Phillips
Texaco
Union
Fluor Mins
J.C. Barnes, Jr., et al
B.B. Wolf
Superior
Richardson & Boss 7-1-71(3) 059060
Peggy Boetz 9-1-88 33955
Peggy Boetz 6-1-88 33955
H.G. Nichols B-1-85 25978
Hapeco, Patrick Pet., Flag-Redfern 10-1-82 16640
Yates Pet 9-1-87 16358
Rich Oils, et al H.B.P. E-5231
Richardson Oil & P.R. Boss (Texaco) HBP 03033
Coastal Pipe Co. Boss Fee 03398
H.H. Anderson 9-1-85 03981
Gulf 7-1-83 15030
A.R.Co HBP E 4707 State
Cities Service H.B.P. B-1482
W.N. Byron 7-1-83 15030
Phillips Union Tex Pet. H.B.P. 15280
Amini Oil 8-1-77 2R44
Gulf 7-1-83 15030
Cleary Pet. 7-1-83 17433
Hapeco, Patrick Pet., Flag-Redfern 10-1-82 16640
Johnston 5-1-84 27089
Gulf 7-1-82 15024
C.W. Trainer 10-15-83
Collis Oil, et al C.M. Selby III Tommy P. Binghom(5)
Richardson & Boss 7-1-71(3) 059750A
Felmont 8-1-82 15906
Felmont 8-1-82 15907
Belco Pet. 10-1-82 16640
Belco Richardson Oil (P.R. Boss) 03323
Belco HBC 03023
Richardson Oil & P.R. Boss (Texaco) HBU 03023
Boss Fee
Rich Oils et al
A.R.Co. et al W.C. Smith(3)
Richardson & Boss 8-1-71(2) 068104A (unit)
Richardson & Boss 7-1-71(3) 068104
P.R. Boss 5-1-74 053002
Felmont 8-1-81 E-6432 1085
Texaco 11-15-65 E-5231
Richardson Oils, et al HBP E-5231
Texaco HBU 03023
Texaco 11-15-65 E-5231
Texaco 5-17-65 E-3062 HBU
Cleary Pet. Xe
Amini Oil to 14,308'
Richardson & Boss 8-1-71(3) 032056
Texaco HBU 01236
Texaco 2-1-61(2) 04229
Texaco 2-1-61(2) 04229A
Cleary Pet.
So. Union Pet. Xe
GULF 375% W.I.
Cleary Pet. Xe
B.B. Wolf 11-1-78 10479
Cleary Pet. (So. Union Pet. Xe) ABW
Stelly
Fluor Mins 9-1-81 14328
Union 9-1-81 14329
Union 9-1-82 10351
Superior 03623?
Amini Oil So. Union Prod'n HBP 002284
Richardson & Amini Oil
Fluor Mins 9-1-81 14330
Fluor Mins 9-1-81 14330
J.C. Barnes, Jr., et al 10-16-79 E-3879 16?
B.B. Wolf 11-1-78 10479
So. Union Prod'n Amini Oil 7-1-79 2515 HBP
Sohio Pet. Co. Boss Fee 03398
Belco Pet. 10-1-82 16640
Hapeco, Patrick Pet., Flag-Redfern 10-1-82 16640
Gulf 7-1-83 15030
Phillips 11-1-83 19449
J.N. Morris 9-1-76 053025?
Cross Elliott 11-1-85 28870
Sohio Clear 1-1-
Cleary Pet. (So. Union Pref Xe)
Astec 03784?6
Amini Oil to 14,308'
Penn 8-1 032?
Kimbe
Richardson & Boss 8-1-71(3) 066104A (unit)
Richardson & Boss 7-1-71(3) 066104
P.R. Boss 5-1-74 053002
Felmont 8-1-81 E-6432 1085
Texaco 11-15-65 E-5231
Richardson Oils, et al HBP E-5231
Texaco HBU 03023
Texaco 5-17-65 E-3062 HBU
Cleary Pet. Xe
Amini Oil to 14,308'
Richardson & Boss 8-1-71(3) 032056
Texaco HBU 01236
Texaco 2-1-61(2) 04229
Texaco 2-1-61(2) 04229A
Cleary Pet.
So. Union Xe
GULF 375% W.I.
Cleary Pet. Xe
B.B. Wolf 11-1-78 10479
Cleary Pet. (So. Union Pref

March 28, 1979

Gulf Oil Exploration & Production Co.
Post Office Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

Re: South Salt Lake Morrow Prospect
Proposed New Mexico Federal "G"
Comm. #1
Lots 9, 10, 15 and 16 and
SE/4, Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

In conjunction with the letter from Grace Petroleum's Land Department dated March 7, 1979, we would like to furnish Gulf with the latest production information available on the New Mexico Federal "F" No. 1.

Enclosed is a tabulation of weekly production reports on the New Mexico Federal "F" No. 1 and a graph of the above tabulation. Also enclosed for your review is some information on an offset, the New Mexico Federal "E" No. 1. This well was completed natural on September 8, 1977 with an AOF of 4,525 MCFPD plus 5 BC on a four-hour test. Structurally this well is equivalent to the proposed "G" location. As of March 1, 1979 the New Mexico Federal "E" No. 1 has produced 1,054,600 MCF of gas and cumulative condensate production of 10,573 barrels. The "E" No. 1 is presently producing 1.9 MMCFPD and is representative of what could be encountered at the proposed "G" location.

It is anticipated that some time will be required to obtain an approved permit for the proposed location. If additional information is required, please contact our Midland office or call (405) 843-5551, extension 405.

Very truly yours,

*Original Signed by: Michael R. Reisz*

Michael R. Reisz
District Reservoir Engineer

djt3/1
Enclosures

cc: Midland District Office - Buddy Knight

bcc: Don Erickson ✓
Jack HIll
Ken Dowell
Steve Rabenaldt

WEEKLY PRODUCTION REPORT

NEW MEXICO FEDERAL F #1

| DATE WEEK OF | MCF | BBL. COND/OIL | B/W | FTP PSI | L.P. PSI | REMARKS |
|---|---|---|---|---|---|---|
| 2-02-79 | 14,200 | 198 | 3 | 2,150 | - | 15/64" CHK of 1/27 to 2/2. |
| 2-12-79 | 16,400 | 232 | 6 | 1,300 | - | 21/64" CHK. |
| 2-16-79 | 19,400 | 274 | 9 | 1,050 | - | 25/64" CHK. |
| 2-23-79 | 18,800 | 244 | 15 | 1,000 | - | 25/64" CHK. |
| 3-02-79 | 17,400 | 225 | 9 | 1,000 | - | 21/64" CHK. |
| 3-09-79 | 16,300 | 208 | 9 | 950 | - | 21/64" CHK. |
| 3-16-79 | 12,500 | 160 | 9 | 2,200 | - | 15/64" CHK. Rate change & reduction in choke size due to seasonal adjustments in demand. |

N. M. GERAL "F" #1

SOUTH SALT DRAW - MORROW

△ GAS PROD.

○ CONDENSATE PROD

BBLS. COND./WEEK

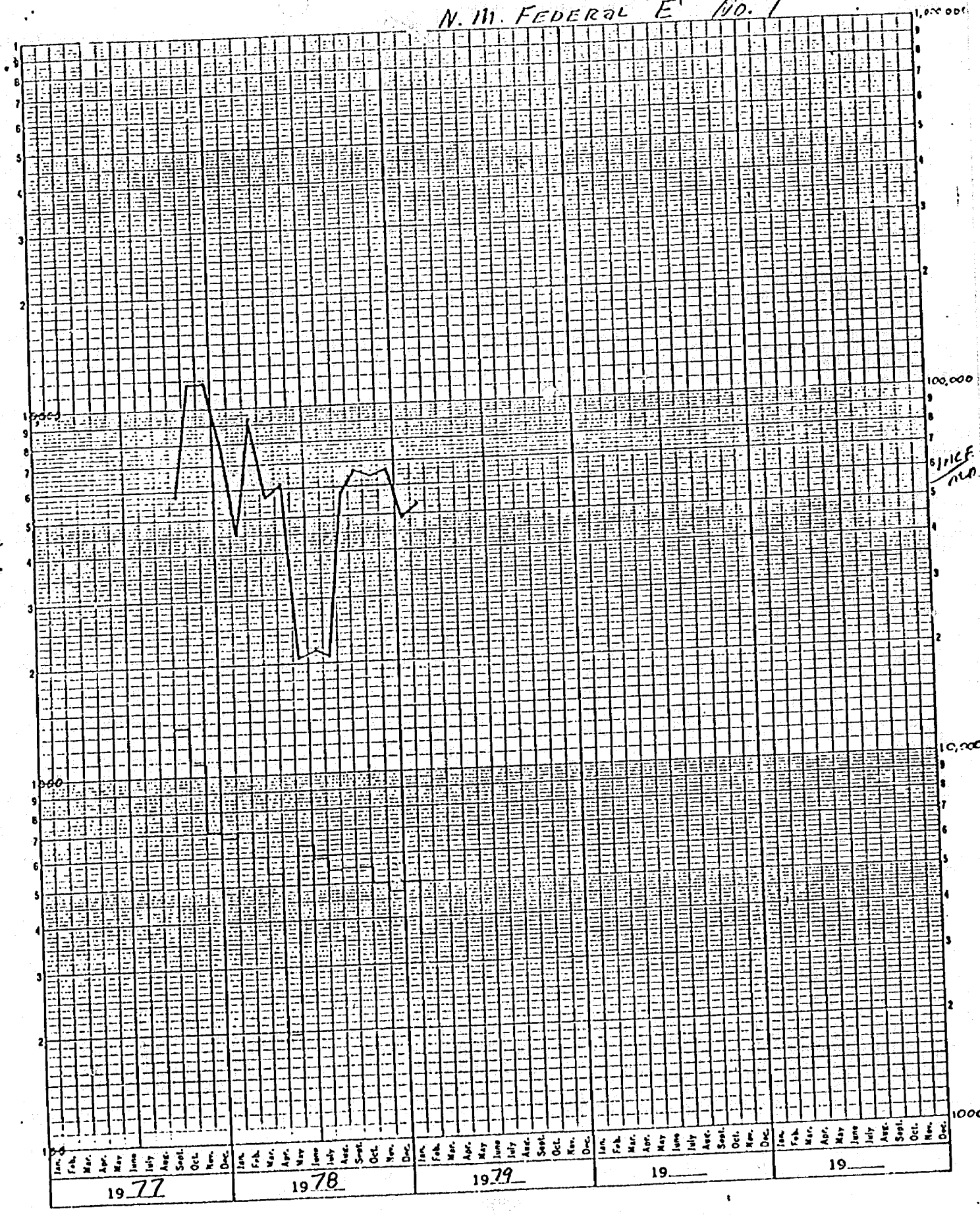
MCF/WEEK

10
9
8
7
6
5
4
3
2
1
9
8
7
6
5
4
300
200
100
9
8
7
6
5
4
3
2
10

2,000
1,900
1,800

2/2 2/12 2/16 2/23 3/2 3/9 3/16 3/23

N. M. FEDERAL "E" NO. 1




MCF/mo.

KEUFFEL & ESSER CO.

Formation Tops:

| | |
|---|---|
| Rustler Anhydrite (Base Red Beds) | 1310' (+2381) |
| Yates | 3164' (+ 527) |
| Capitan Reef | 3376' (+ 315) |
| Delaware Mtn. Sands | 5225' (-1534) |
| Bone Springs | 8464' (-4773) |
| Wolfcamp | 11030' (-7339) |
| Strawn | 12076' (-9015) |
| Atoka Sand | 12864' (-9173) |
| Atoka Carbonates | 13224' (-9533) |
| Morrow Sands-Upper | 13772' (-10081) |
| Morrow Sands-Lower | 14156' (-10465) |
| Barnett Shale | 14298' (-10602) |
| Total Depth | 14361' (-10670) |

Perforating Record:

7-22-77 — 13,908-14' (7); 13,940-60 (21)
Total 28- 0.39" diameter holes

Treating Record:

None - Natural

Producing Zone:

Morrow Sand 13,908-13,960'.

Potential:

9-8-77 AOF 4525 MCF/D + 5 BC on 4 hr test. Gas liquid ratio 100,416. Gas gty 0.610. Condensate gty 51.7° API. Flow rates as follows:

| | | | |
|---|---|---|---|
| Flow #1 | 3670 | MCF/D | 2718 psg FTP |
| #2 | 3283 | MCF/D | 3045 osg FTP |
| #3 | 2853 | MCF/D | 3640 psg FTP |
| #4 | 2244 | MCF/D | 4150 psg FTP |

Average flow rate - 4.0 MMCF/D + 28 BC + no wtr/26 hrs. TP 2100 on 21/64" chk.

Permanent Production Equipment:

7-22-77 Otis Permatrieve 5½" pkr set at 13,760'.

Remedial Work:

None to 7-19-78

REW:mlb

xc: Jack Hill — BJK
Ken Dowell — DWR
Frank Elliott ✓ — File

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

March 7, 1979

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

In your letter, dated August 10, 1978, to Grace Petroleum Corporation you stated that Gulf preferred to defer consideration to join in the captioned well pending the outcome of the New Mexico Federal "F" Comm. #1.

The "F" Comm. #1 is comprised of Lots 11, 12, 13 & 14 and SW/4 Sec. 5-21S-32E, NMPM, Lea County, New Mexico. The date of first sale of gas from this well was on January 26, 1979, at an initial price of $1.73 per MCF.

As soon as you are able to make a decision, we would appreciate hearing from you.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc

cc: Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231
Attention: Mr. William M. Brown

bcc: Max Douglas
Mike Reisz

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL.

January 15, 1979

GRACE PETROLEUM CORPORATION
Broadway Executive Park
6501 North Broadway
Oklahoma City, Okalhoma 73116

Attention: Mr. Don W. Erickson

Re: New Mexico Federal "G" Comm. #1
Lea County, New Mexico

Dear Mr. Erickson:

Enclosed please find five (5) copies of the signature page for the Communitization Agreement for the above captioned area. With regard to the Operating Agreement, we are waiting for your reply to the changes requested in our letter of January 4, 1979 from Mr. William Brown.

In the meantime, if we may be of further assistance in this matter, please advise.

Very truly yours,

Pamela Putnam

Pamela Putnam
Land Department

Enclosures

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL

WILLIAM M. BROWN
LANDMAN

January 4, 1979

Grace Petroleum Corporation
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attn: Mr. Don W. Erickson

Re: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6, T-21-S, R-32-E, N.M.P.M.
Lea County, New Mexico

Dear Mr. Erickson:

Pursuant to our telephone conversation of January 2, 1979 concerning the Operating Agreement for the captioned, this letter will formally set forth our objections to same. We would appreciate your consideration of the following changes:

1. Amending portions of Article V, Section 13, 1 and 2 as indicated on the enclosed Page 4, as well as adding Selection of New Operator provision as set forth in the enclosed Page 14, being Article XV, Section A;

2. Deleting first paragraph of Article VIII, Section E;

3. Reducing the well rates contained in Section III, 1A of the Accounting Procedure. Please note that in the past, ie. Operating Agreements for New Mexico Comm. #1E and F wells, your rates were $1,456.00 per drilling well and $217.00 per producing well, both being substantially less than the rates you propose. We, therefore, recommend rates of $1,900.00 and $250.00, respectively.

Also, you will recall that we discussed the absence of Exhibit "B" to the Agreement, and you advised that you would handle by subsequent correspondence upon receipt of our obligations to the Agreement.

Should you have any questions concerning our proposed changes, please feel free to contact the undersigned.

Sincerely,

William M. Brown
Landman

WMB/bb

Enclosures

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the majority vote in interest of Non-Operators.

Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the majority vote in interest of Non-Operators.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

## ARTICLE VI.
## DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the _____ day of _____, 19__, Operator shall commence the drilling of a well for oil and gas at the following location:

and shall thereafter continue the drilling of the well with due diligence to

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1 hereof.

☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of _____ days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within _____ days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

## ARTICLE XIV.
## COMPLIANCE WITH LAWS AND REGULATIONS

**A. Laws, Regulations and Orders:**

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

**B. Governing Law:**

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

## ARTICLE XV.
## OTHER PROVISIONS

A. Selection of New Operator:

Notwithstanding anything to the contrary contained herein, after Operator has acted in that capacity for a period of not less than one year, Non-Operator may give notice to the Operator, in writing, in accordance with the provisions hereof respecting notices, of any charges deemed by Non-Operator to be excessive or of any practices employed by Operator deemed by Non-Operator not in accord with accepted industry procedure. Unless within sixty (60) days after receipt by it of such notice, Operator agrees to act as Operator according to terms set out in such notice, then Non-Operator may elect to assume the duties of Operator and thereafter act as Operator of the Contract Area in accordance with the terms set out in the notice given to the former Operator. After any successor Operator who has assumed operation of the Contract Area in accordance with this section has operated the joint property for a period of not less than one year, the provisions of this section may be again invoked by any party who is then Non-Operator.

B. Equal Employment Opportunity:

During the performance of this agreement, the Operator shall be bound by and comply with all terms and provisions of Section 202 of Executive Order 11246 of September 24, 1965, all of which are incorporated herein by reference to the same regulations and relevant orders adopted pursuant to such Executive Order.

Operator assures Non-Operator that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965. Operator further understands and agrees that a breach of the assurance herein contained subjects it

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

BILL CURTIS
MANAGER OF LANDS

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL

December 8, 1978

GRACE PETROLEUM CORPORATION
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attention: Don W. Erickson
District Landman

Re: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Enclosed please find one (1) executed copy of the AFE for the above captioned well.

If we may be of further assistance, please, do not hesitate to contact us.

Very truly yours,

Bill Curtis
Manager of Lands

pp

Enclosure

November 3, 1978

Supron Energy Corporation
Building V, Fifth Floor
10300 N. Central Expressway
Dallas, Texas 75231
Attention: Mr. William M. Brown

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

RE: Proposed New Mexico Federal "G"
Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Section 6-21S-32E, N.M.P.M.
Lea County, New Mexico

Gentlemen:

Enclosed for your consideration are the following:

1. One copy for your records of the Communitization Agreement dated November 1, 1978, which has been executed by Grace Petroleum Corporation.

2. Five copies of the signature pages for this agreement.

Although you have informed Grace that you do not yet want to make the decision to join, pending the outcome of the New Mexico Federal "F" #1 well, we would appreciate your retaining the agreement for your possible approval and execution.

If you do execute the agreement, please execute and acknowledge all five copies of the signature pages and return all five copies to Grace to my attention.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc
Enclosures: As Stated

United States Department of the Interior

OCT 23 1978

GEOLOGICAL SURVEY
P. O. Drawer 1857
Roswell, New Mexico 88201

October 19, 1978

Grace Petroleum Corporation
Attention: Mr. Don W. Erickson
6501 North Broadway
Oklahoma City, Oklahoma 73116

Gentlemen:

The information submitted in Exhibits "A" and "B" for the proposed Morrow communitization agreement of Lots 9, 10, 15, 16 and SE¼ Sec. 6, T. 21 S., R. 32 E., concurs with our records. No changes or corrections are necessary.

Please include "as amended" to the communitization agreement, Part 15, Nondiscrimination as follows:

> . . . inclusive, of Executive Order 11246 as amended (30 F.R. 12319), which . . .

This change should be included in all future communitization agreements.

Sincerely yours,

JACK WILLOCK
Assistant Oil & Gas Supervisor, SRMA

Enclosure

3. All matters of operation shall be governed under and pursuant to the terms and provisi

COMMUNITIZATION AGREEMENT

Contract No. _____

RECEIVED
OCT 16 1978
U. S. GEOLOGICAL SURVEY
ROSWELL, NEW MEXICO

THIE AGREEMENT, entered into as of the 1st day of November, 1978, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

WITNESSETH:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.), authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

   Lots 9, 10, 15, 16, and SE/4 of
   Section 6-21S-32E,
   Lea County, New Mexico

   containing 320 acres, more or less, and this agreement shall include only the Morrow Formation underlying said lands and the natural gas and associated liquid hydrocarbons hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit B, designating the operator of the communitized area and showing the acreage percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area, and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

(b) It is agreed that for any Federal lease bearing a sliding - or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement is effective November 1, 1978, upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities: Provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference in this agreement.
as amended

EXHIBIT "B"

PLAT OF COMMUNITIZED AREA COVERING LOTS 9, 10, 15, & 16 and SE/4 of Section 6-21S-32E, NMPM, LEA COUNTY, NEW MEXICO, SALT LAKE SOUTH FIELD

| | |
|---|---|
| Lot 10<br>Tr. 1 - 40 acres<br>NM 15024 | Lot 9<br>Tr. 1 - 40 acres<br>NM 15024<br>o Well Location |
| Lot 15<br>Tr. 2 - 40 acres<br>NM-14791 | Lot 16<br>Tr. 2 - 40 acres<br>NM 14791 |
| SE/4<br>Tract 2 - 160 acres<br>NM-14791 | |

RECAPITULATION

| TRACT # | TOTAL ACRES COMMITTED | % OF INTEREST IN COMMITTED AREA |
|---|---|---|
| 1 | 80.00 | 25.00% |
| 2 | 240.00 | 75.00% |
| | 320.00 | 100.00% |

EXHIBIT "A"

TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, EMBRACING LOTS 9, 10, 15, & 16 and SE/4 Section 6, Township 21 South, Range 32 East, NEW MEXICO P.M., LEA COUNTY, NEW MEXICO

OPERATOR OF COMMUNITIZED AREA - GRACE PETROLEUM CORPORATION

TRACT NO. 1

LESSOR(S) : U. S. A.

LESSEE(S) OF RECORD: Gulf Oil Exploration and Production Company

SERIAL NO. OF LEASE: NM-15024

DATE OF LEASE: February 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 9 & 10 of
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 80

WORKING INTEREST AND PERCENTAGE: Gulf Oil Exploration and Production Company. . .100.%

O.R.R.I. AND PERCENTAGE:

Walter Duncan.....30% of 5%
Raymond T. Duncan.....30% of 5%
Vincent J. Duncan.....30% of 5%
J. Walter Duncan, Jr..... 9% of 5%
Walter Duncan, III..... 1% of 5%

TRACT NO. 2

LESSOR(S): U. S. A.

LESSEE(S) OF RECORD: Grace Petroleum Corporation and
Supron Energy Corporation

SERIAL NO. OF LEASE: NM-14791

DATE OF LEASE: March 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 15 & 16 & SE/4
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 240

WORKING INTEREST AND PERCENTAGE:

| | |
|---|---|
| Grace Petroleum Corporation ..... | 75.% |
| Supron Energy Corporation ..... | 25.% |
| | 100.% |

O.R.R.I. AND PERCENTAGE:

Henry Vartanian.....2.5%
Charles E. Strange,
Trustee of the Charles
E. Strange Trust.....2.5%

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____

BY: _____
James H. Thomas, Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

TELEPHONE (214) 691-9141
TWX: (910) 861-9117
SUPCO DAL

BILL CURTIS
MANAGER OF LANDS

December 8, 1978

GRACE PETROLEUM CORPORATION
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attention: Don W. Erickson
District Landman

Re: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Enclosed please find one (1) executed copy of the AFE for the above captioned well.

If we may be of further assistance, please, do not hesitate to contact us.

Very truly yours,

Bill Curtis
Manager of Lands

pp

Enclosure

October 19, 1978

Sunron Energy Corporation
Building V, Fifth Floor
10300 N. Central Expressway
Dallas, Texas 75231
Attention: Mr. William M. Brown

Gulf Oil Exploration and
Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

RE: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Enclosed for your consideration are the following:

1. Two copies of the Operating Agreement for the captioned unit, dated November 1, 1978, which have been executed by Grace Petroleum Corporation.

2. One copy of Hinkle, Cox, Eaton, Coffield and Hensley's Title Opinion, dated September 26, 1978, covering the captioned acreage.

3. Two copies of Grace's AFE for the "G" #1 Well. Please note that New Mexico Oil Conservation Commission Form C-102, which is also enclosed, has the revised well location noted on it.

The Communitization Agreement has been sent to the U. S. G. S. for preliminary approval of form.

Although you have informed Grace that you do not yet want to make the decision to join, pending the outcome of the New Mexico Federal "F" #1 Well, we would appreciate your retaining the above instruments for your approval and execution if you do decide to join.

If and when you do approve the drilling of the "G" #1 Well, please return one executed copy of the Operating Agreement and one executed copy of the AFE to my attention at Grace Petroleum.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc
Enclosures: As Stated

# Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Drawer 1150
Midland, TX 79702

AUG 14 1978

August 10, 1978

Re: Salt Lake Morrow South
Prospect, Proposed New Mexico
Federal "G" Com #1, LEA COUNTY,
New Mexico

Grace Petroleum Corporation
6501 North Broadway
Oklahoma City, OK 73116

Attention: Don W. Erickson

Gentlemen:

Please refer to your letter of July 17, 1978 proposing formation of the captioned unit. This is to advise you that Gulf prefers to defer consideration of your proposal pending the outcome of the New Mexico Federal "F-1" offsetting your proposed test.

Yours very truly,

R. E. Griffith

R. E. GRIFFITH

CMH/dh
cc: Superior Energy Corp.

SUPRON ENERGY CORPORATION
SUITE 1700, CAMPBELL CENTRE
8350 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75206

TELEPHONE (214) 691-9141
TWX (910) 861-9112
SUPCO DAL

July 26, 1978

JUL 28 1978

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attn: Mr. Don W. Erickson

Re: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1 Well
Lea County, New Mexico

Dear Mr. Erickson:

Reference is made to your letter of July 17, 1978 concerning the formation of a unit for the drilling of the captioned well, to be located in Section 6, Township 21 South, Range 32 East, Lea County, New Mexico.

Supron would prefer to make an election with respect to your proposal at such time as the New Mexico Federal F-1 Well is drilled and completed, in view of the fact that said well is a direct offset.

Sincerely,

Wm M. Brown

William M. Brown
Landman

WMB/bb

cc: Gulf Energy & Mineral Co., U.S.

July 28, 1978

Gulf Energy & Mineral Co., U.S.A.
P.O. Box 1150
Midland, Texas 79702

Attention: Mr. Robert E. Griffith

Connie Hawkins
Handling

Supron Energy Corporation
Suite 1700, Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206

Attention: Mr. Bill Curtis

RE: AFE
Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G" Com. #1
Lots 9, 10, 15 & 16, and SE/4 Section 6,
T21S, R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No. 9281

Gentlemen:

Please refer to my letters of July 17 and July 21, 1978 concerning the proposed captioned unit.

Enclosed for your information is Grace Petroleum Corporations's AFE for this well.

Yours very truly,

Original Signed By
DON ERICKSON
Don W. Erickson
District Landman

DWE/jc

bcc: Don Sterne
Howard Green
Max Douglas
Frank Elliott

July 21, 1978

Gulf Energy & Mineral Co., U.S.
P.O. Box 1150
Midland, Texas 79702
ATTENTION: Mr. Robert E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
ATTENTION: Mr. Bill Curtis

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Sec. 6, T21S, R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No. 9281

Gentlemen:

Please refer to my letter of July 17, 1978, concerning the proposed captioned unit.

The unit outline has been revised to include Lots 9, 10, 15, and 16 and SE/4 Section 6-T21S, R32E, NMPM, Lea County, New Mexico. Lot No. 8 will not be included. A revised plat is attached.

Yours very truly,

Original Signed By
DON W. ERICKSON

Don W. Erickson
District Landman

DWE/jo

bcc: Don Sterne
Howard Green
Max Douglas
Frank Elliott

CLEARY PETROLEUM CORPORATION
BROADWAY EXECUTIVE PARK, 6501 N. BROADWAY
OKLAHOMA CITY, OKLAHOMA 73116
(405) 843-5551

July 17, 1978

S.J. CERNY
President

Gulf Energy & Mineral Co., U. S.
P. O. Box 1150
Midland, Texas 79702
ATTENTION: Mr. Robert E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
ATTENTION: Mr. Bill Curtis

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1 Lots 8, 9, 15,
and 16, SE/4 Sec. 6, T21S,
R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No, 9281

Gentlemen:

Grace Petroleum Corporation, formerly Clearly Petroleum Corporation, is proposing a unit comprised of Lots 8, 9, 15, and 16, SE/4 Sec. 6, T21S, R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

In order to best utilize the leasehold of Grace, Supron Energy, and Gulf, it is suggested that the "G" unit be comprised of the captioned acreage. This unit would be considered as a non-standard unit but would contain 320 acres, more or less. The proposed well would be located on Gulf's acreage in Lot 9.

Gulf owns, according to our records, 100% of Lots 8 and 9, and Grace owns 75% and Supron owns 25% of Lots 15, 16, and the SE/4 Sec. 6-T21S, R32E. An ownership Take-Off of this area is enclosed along with a plat of the proposed unit.

Please give this proposal your early consideration. It takes, as you know, several months to complete the necessary paper work and to obtain approval of the U.S.G.S. on all regulatory matters. If you are agreeable to this proposal, we will immediately start on all the requirements to form this unit.

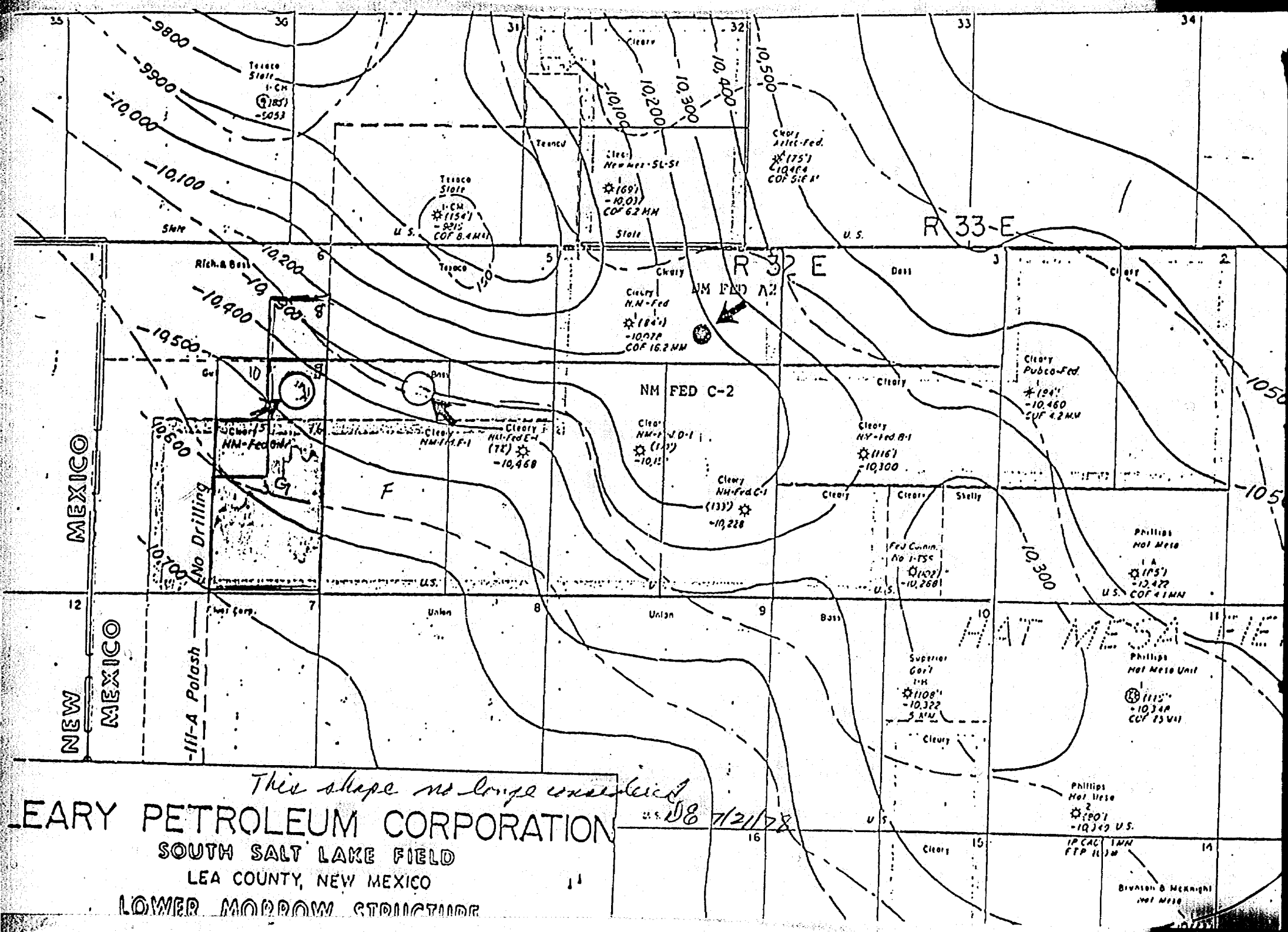
Very truly yours,

Don W. Erickson

Don W. Erickson
District Landman

DWE:db

bcc: Don Sterne
Howard Green
Max Douglas
Frank Elliott



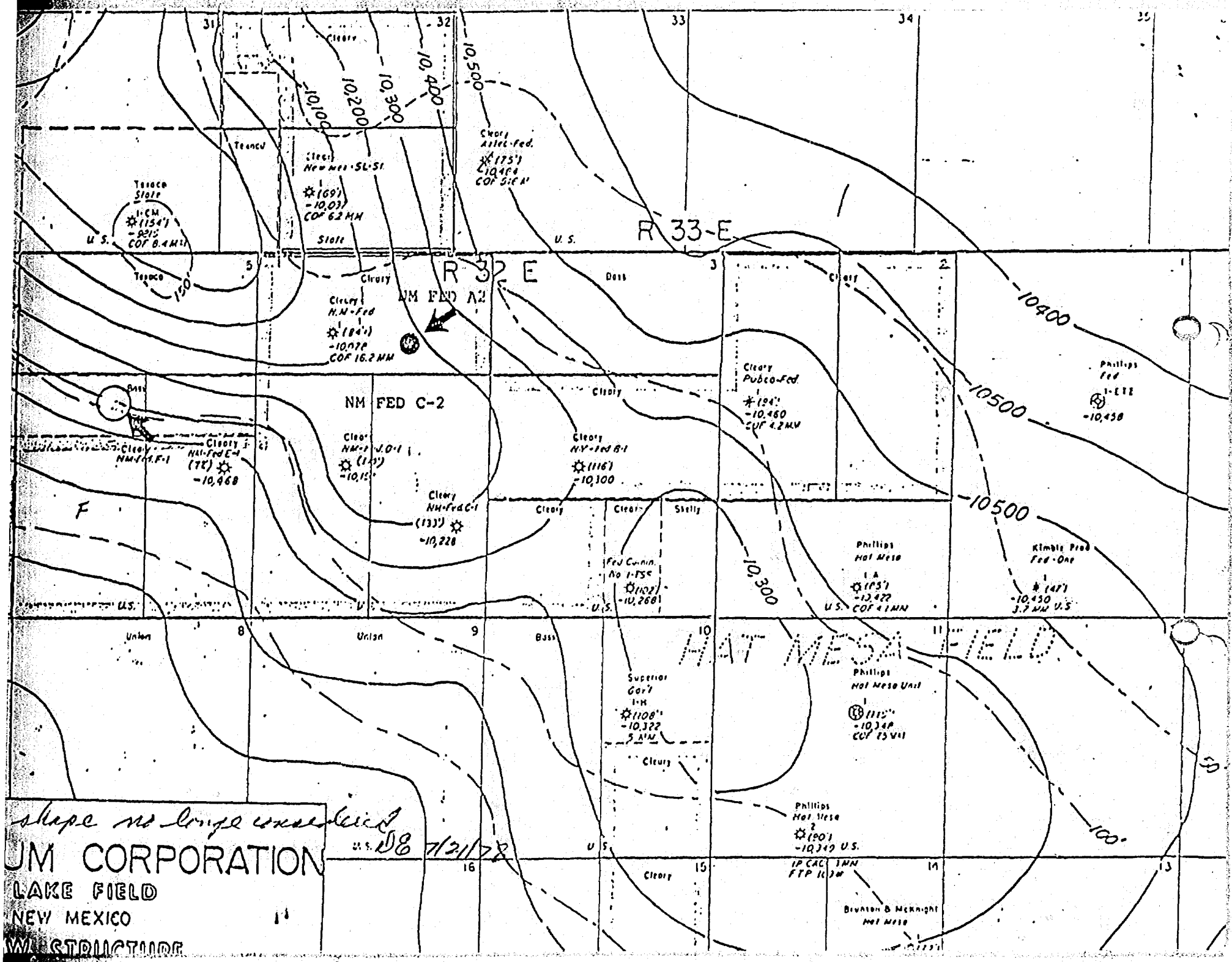

This shape no longer exists
U.S. DB 7/21/78

# CLEARY PETROLEUM CORPORATION

## SOUTH SALT LAKE FIELD

LEA COUNTY, NEW MEXICO

LOWER MORROW STRUCTURE




shape no longe

U.S. DB 7/21/78

UM CORPORATION
LAKE FIELD
NEW MEXICO
STRUCTURE

TAKE-OFF

Township 21 South, Range 32 East, N.M.P.M.
Section 6: Lots 1 thru 18, E½SW¼,SE¼
Containing 985.06 acres, more or less,
Lea County, New Mexico

| DESCRIPTION | MINERAL OWNER | INTEREST | STATUS |
|---|---|---|---|
| Lots 1,2,3,4,5,6,7,12,13,17,18 (465.06 acres) | U.S.A. | 8/8 | UNLEASED<br>NOT OPEN FOR LEASING<br>(Potash Area) |
| Lot 8,9,10,11 (160.00) | U.S.A. | 8/8 | LEASED<br>NM-15024; dated 2/1/72<br>Gulf Oil Co. - 100%<br>Midland, TX 79701<br>ORR: Annamarie Duncan 5% |
| Lots 14,15,16,E½SW¼SE¼ | U.S.A. | 8/8 | LEASED<br>NM-14791; dated 3/1/72<br>(HBP)<br>Cleary Petroleum - 75%<br>Oklahoma City, OK 73116<br><br>Supron Energy Corp. - 25%<br>Dallas, Texas |

HALFWAY

SALT LAKE SO.

LITTLE EDDY UNIT

R33E

R32E

T 21 S

Salt Lake South Prospect

## WORKING INTEREST AND BILLING INSTRUCTION

DATE 1/15/79 DOI #866

CPC's TOTAL W. I. 56.25 %BPO

56.25 %APO

Est. NRI = 46.40625%

Est Lease Cost ( ac) $

Est. Costs To T. D. $ 670,000

Est. Total Risk $ 670,000

Est. Completion Costs $ 326,000

Turnkey Basis (100%)

Leases $

Drilling $

Total $

Lease acquired thru RCA on

WELL NAME: New Mexico Federal "G" Comm. #1
660' FNL & 660' FEL, Sec. 6-21S-33E, NMPM
Lea County, New Mexico

PROSPECT SALT LAKE MORROW SOUTH

Region: Mid-Continent

Land
AFE Well AFE 8424AB

FUND

Exploratory or Development X

Est. T.D. & Objective 14,100' Morrow

Spacing 320 acres Oil Gas X

Date Spudded Date Compl.

Results:

First Sale: Oil Gas

| OWNERS | WORKING INTEREST BEFORE PO | AFTER PO | BASIS SOLD | ESTIMATED $ PAID TO CASING POINT |
|---|---|---|---|---|
| Grace Petroleum Corporation (Oper.) | 56.25% | | | |
| Supron Energy Corporation | 18.75% | | | |
| Gulf Oil Exploration and Prod. Co. | 25.00% | | | |
| | 100.00% | | | |

Supron Energy Corporation: Building V, Fifth Floor
10300 N. Central Expressway
Dallas, TX 75231

Gulf Oil Exploration and Production Co.: P. O. Drawer 1150, Midland, TX 79702

RECAP OF PROFIT ON SALE

| | |
|---|---|
| Sale | $ |
| Less Commission | $ |
| Total | $ |
| Cost of Sale | $ |
| CPC DH Cost | $ 376,875 |

| | |
|---|---|
| 100% of LHC & Drlg. to T.D. | $ 670,000 |
| Promoted Money Paid by Others | $ -0- |
| Unpromoted " " " " | $ |
| CPC Total Exposure | $ 376,875 |
| CPC Est. Completion Cost | $ 183,375 |

(CPC LHC $ )
(CPC Drilling $ 376,875 )

JD, FR, MK, DH(3), JH(2), DS, GV, RM, JT(2), GM, ET, GD, JC(2), EF, G-H

GRACE PETROLEUM CORPORATION

WELL DATA MEMO

SUPPLEMENTAL

DATE: January 8, 1979

LOCATION DATA

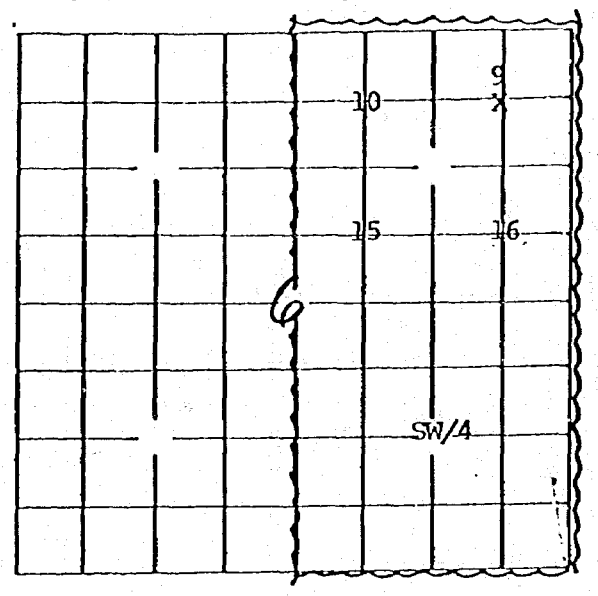
Region: Mid-Continent

Prospect: Salt Lake Morrow South

County and State: Lea County, New Mexico

Well name: New Mexico Federal "G" Comm. #1

Location: ~~660' FNL~~ 4650' FSL & 660' FEL
Sec. 6-21S-~~33~~32E, NMPM




Operator: Grace Petroleum Corporation

Estimated TD: 14,100'

Objective: Morrow

Lease Nos. Affected by Well:
NM-9281

DESCRIPTION OF WELL OR UNIT: NO. ACRES: 320.00

Lot 9, 10, 15, 16, and SE/4
Sec. 6-21S-32E, NMPM, Lea County, New Mexico

| OWNERS & ADDRESSES | COST | NRI (E) |
|---|---|---|
| Grace Petroleum Corporation<br>Broadway Executive Park<br>6501 North Broadway<br>Oklahoma City, Oklahoma 73116 | 56.25% | 46.40625 % |
| Supron Energy Corporation<br>Building V, Fifth Floor<br>10300 N. Central Expressway<br>Dallas, Texas 75231 | 18.75% | 15.46875 % |
| Gulf Oil Exploration and Production Company<br>P. O. Drawer 1150<br>Midland, Texas 79702 | 25.00% | 20.62500 % |

17½% burden on all but 320 acres assigned to Gulf

JOA DATA Dated: November 1, 1978

Limitation of Expenditure: $15,000

Casing Point Election: Yes

Overhead Rates:

Non-Consent Penalty: 100% Equip.
300% Drlg.

Drilling $2,407.00
Operating $ 336.00

Distribution:

Prepared by: DWE
Don W. Erickson

COMMUNITIZATION AGREEMENT

Contract No. _____

THIE AGREEMENT, entered into as of the 1st day of November, 1978, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

WITNESSETH:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.), authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

   Lots 9, 10, 15, 16, and SE/4 of
   Section 6-21S-32E,
   Lea County, New Mexico

   containing 320 acres, more or less, and this agreement shall include only the Morrow Formation underlying said lands and the natural gas and associated liquid hydrocarbons hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit B, designating the operator of the communitized area and showing the acreage percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area, and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

(b) It is agreed that for any Federal lease bearing a sliding - or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement is effective November 1, 1978, upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities: Provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246, as amended, (30 F.R. 12319), which are hereby incorporated by reference in this agreement.

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____
ASSISTANT SECRETARY

BY: _____
Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 1st day of November 1978, by J. K. Ursidale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___ day of _____, 19 , by

President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this _____ day of _____, 19__ by President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this____day of_____, 19__

by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____, 19__,

by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____, 19__,

by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____, 19__,

by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___ day of _____, 19__, by _____.

_____
Notary Public

My Commission Expires:

_____

EXHIBIT "A"

TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, EMBRACING LOTS 9, 10, 15, & 16 and SE/4 Section 6, Township 21 South, Range 32 East, NEW MEXICO P.M., LEA COUNTY, NEW MEXICO

OPERATOR OF COMMUNITIZED AREA - GRACE PETROLEUM CORPORATION

TRACT NO. 1

LESSOR(S) : U. S. A.

LESSEE(S) OF RECORD: Gulf Oil Exploration and Production Company

SERIAL NO. OF LEASE: NM-15024

DATE OF LEASE: February 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 9 & 10 of
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 80

WORKING INTEREST AND PERCENTAGE: Gulf Oil Exploration and Production Company. . .100.%

O.R.R.I. AND PERCENTAGE:

Walter Duncan.....30% of 5%
Raymond T. Duncan.....30% of 5%
Vincent J. Duncan.....30% of 5%
J. Walter Duncan, Jr..... 9% of 5%
Walter Duncan, III..... 1% of 5%

TRACT NO. 2

LESSOR(S): U. S. A.

LESSEE(S) OF RECORD: Grace Petroleum Corporation and
Supron Energy Corporation

SERIAL NO. OF LEASE: NM-14791

DATE OF LEASE: March 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 15 & 16 & SE/4
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 240

WORKING INTEREST AND PERCENTAGE:

Grace Petroleum Corporation ..... 75.%
Supron Energy Corporation ..... 25.%
100.%

O.R.R.I. AND PERCENTAGE:

Henry Vartanian.....2.5%
Charles E. Strange,
Trustee of the Charles
E. Strange Trust.....2.5%

EXHIBIT "B"

PLAT OF COMMUNITIZED AREA COVERING LOTS 9, 10, 15, & 16 and SE/4 of Section 6-21S-32E, NMPM, LEA COUNTY, NEW MEXICO, SALT LAKE SOUTH FIELD

| | |
|---|---|
| Lot 10<br>Tr. 1 - 40 acres<br>NM 15024 | Lot 9<br>Tr. 1 - 40 acres<br>NM 15024<br>o Well Location |
| Lot 15<br>Tr. 2 - 40 acres<br>NM-14791 | Lot 16<br>Tr. 2 - 40 acres<br>NM 14791 |
| SE/4<br>Tract 2 - 160 acres<br>NM-14791 | |

R E C A P I T U L A T I O N

| TRACT # | TOTAL ACRES COMMITTED | % OF INTEREST IN COMMITTED AREA |
|---|---|---|
| 1 | 80.00 | 25.00% |
| 2 | 240.00 | 75.00% |
| | 320.00 | 100.00% |

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

BY: _____
ASSISTANT SECRETARY

GRACE PETROLEUM CORPORATION

BY: _____
Vice President

ATTEST:

BY: _____

SUPRON ENERGY CORPORATION

BY: _____
Bill Curtis, Attorney-in-Fact

ATTEST:

BY: _____

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

Walter Duncan

Raymond T. Duncan

Vincent J. Duncan

J. Walter Duncan, Jr.

Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 1st day of November 1978 by J. K. Weisdale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF TEXAS )
) SS
COUNTY OF DALLAS )

The foregoing instrument was acknowledged before me this 22 day of December 1978, by Bill Curtis, Attorney-in-Fact of Supron Energy Corporation, a Delaware Corporation, on behalf of said corporation.

Mary P. Brooks
Notary Public

My Commission Expires:
6/15/80

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this_____day of_____, 19__, by President of a corporation, on behalf of said corporation.

Notary Public

My Commission Expires:

_____

Walter Duncan OIL PROPERTIES

1300 WRITERS' CENTER IV • 1720 SOUTH BELLAIRE STREET
AREA CODE 303 TEL. 759-3303 • DENVER, COLORADO 80222

July 9, 1979

United States Geological Survey
505 Marquette, NW, Suite 815
Albuquerque, New Mexico

Attention: Mr. James W. Sutherland
Area Oil and Gas Supervisor

Re: NM-15024
Communitization Agreement
T21S-R32E
Sec. 6: Lots 9 & 10
Lea County, New Mexico
31-2-171-01

Dear Mr. Sutherland:

Mr. Walter Duncan III is temporarily incapacitated due to illness, thus being unable to sign the captioned instrument. Mr. Duncan owns 1% of 5% (.05% net) of the Overriding Royalty interest in Federal Oil and Gas Lease NM-15024. Messrs. Walter Duncan, Raymond T. Duncan, Vincent J. Duncan and J. Walter Duncan, Jr. own 99.0% of 5% of the overriding royalty interest in the lease and have executed the captioned Communitization Agreement.

Very truly yours,

Dale E. Harrison

Dale E. Harrison
Land Manager

DEH:lks

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____
ASSISTANT SECRETARY

BY: _____
Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

_____
Walter Duncan

_____
Joan R. Duncan, wife of Raymond T. Duncan

_____
Raymond T. Duncan

_____
Annamarie Duncan, wife of Vincent J. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 18 day of June, 197
by Raymond T. Duncan & Joan R. Duncan, husband & wife

Notary Public

My Commission Expires:

12-10-80

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 21 day of June, 1979
by Vincent J. Duncan & Annamarie Duncan, husband & wife

Notary Public

My Commission Expires:

5-31-83

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 20 day of June, 1979,
by J. Walter Duncan, Jr.

Notary Public

My Commission Expires:

12.29.81

STATE OF Illinois )
)
COUNTY OF LaSalle ) SS

The foregoing instrument was acknowledged before me this 5 day of July, 1979,
by Walter Duncan

Notary Public

My Commission Expires:

3.22.80

LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
JAMES H. BOZARTH

DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
J. DOUGLAS FOSTER
R. DOUGLAS PERRIN
C. RAY ALLEN
JACQUELINE W. ALLEN
T. CALDER EZZELL, JR.
WILLIAM B. BURFORD
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ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN, ALLEN & BURFORD LICENSED IN TEXAS

July 18, 1979

IN RE: FIRST SUPPLEMENTAL OPINION OF TITLE TO:

United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ of Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said lands being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.

Your No. _____

No. 25,140

Grace Petroleum Corporation
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

We rendered our original Opinion of Title herein on September 26, 1978, based upon prior opinions, abstract coverage of the federal records last certified to August 7, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 14791 and to August 22, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 15024, and abstract coverage of the county records last certified to August 11, 1978 at 8:00 A.M. as to the mineral estate covered by Lease NM 14791 and to August 23, 1978 at 8:00 A.M. as to the mineral estate covered by Lease NM 15024. We have been furnished for further examination the following materials:

(a) Federal Abstract Company Abstract No. 31481, covering the records in the United States Land Office at Santa Fe, New Mexico as to the captioned lands covered by Lease NM 14791, from August 7, 1978 at 10:00 A.M. to June 7, 1979 at 10:00 A.M.,

(b) Federal Abstract Company Abstract No. 31482, covering the records in the United States Land Office at Santa Fe, New Mexico as to the captioned lands covered by Lease NM 15024, from August 22, 1978 at 10:00 A.M. to June 7, 1979 at 10:00 A.M.

(c) Lovington Abstract Company Abstract No. 6-1579 covering the public records of Lea County, New Mexico as to the mineral estate in the captioned lands from August 11, 1978 at 8:00 A.M. as to Lots 15 and 16 and the SE¼ of Section 6, and from August 23, 1978 at 8:00 A.M. as to Lots 9 and 10 of Section 6, to June 15, 1979 at 8:00 A.M.

Based upon our examination of the above materials, we report the status of previous title requirements as follows:

I. CURATIVE ACTION ON PREVIOUS TITLE REQUIREMENTS

REQUIREMENT A: Advisory only, and relates to the reassignment rider contained in the assignment from Annamarie Duncan and husband, Vincent J. Duncan, to Gulf Oil Corporation.

REQUIREMENT B: Nothing submitted. This requirement should be satisfied in the event that you desire to pool the lands covered by Lease NM 15024 with other lands.

REQUIREMENT C: Nothing submitted, and it may be that you will waive this requirement in the event that you do not intend to conduct drilling operations on the lands covered by Lease NM 15024.

REQUIREMENT D: Previously satisfied as indicated in our letter dated November 6, 1978.

REQUIREMENT E: Partially satisfied. By Decision dated March 19, 1979, the Bureau of Land Management in Santa Fe recognized that effective as of July 1, 1978, Cleary Petroleum Corporation changed its name to Grace Petroleum Corporation. The county records still do not contain any record of this change, however.

II. ADDITIONAL EXCEPTIONS TO TITLE AND COMMENTS:

1. Lease Account Status: The abstracts under examination do not reflect current status of the lease account in connection with Lease NM 14791. This account should be in a current status.

REQUIREMENT F (NEW): You should inquire of the United States Geological Survey in Albuquerque, New Mexico and ascertain whether or not the lease account in connection with Lease NM 14791 is in a current status. (We have taken the liberty to write a letter inquirying as to the status of this lease account.)

2. Rentals: The abstracts indicate that rentals on Lease NM 15024 have been paid to February 1, 1980. This is advisory only.

3. Judgment and Lien Search: The county abstract contains satisfactory judgment and lien searches.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

John S Nelson /WBB

John S. Nelson

JSN:rf
Above mentioned abstracts
returned herewith.

LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
JAMES H. BOZARTH

DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
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ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

November 6, 1978

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Re: United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.
HCEC&H T/O No. 25,140
Requirement D

Gentlemen:

Under date of September 26, 1978 we rendered our original opinion of title wherein we imposed Requirement D. We have not been submitted any additional abstracts but we have received additional curative materials and now report curative action as follows:

REQUIREMENT D: Satisfied. We have received a letter from the United States Geological Survey dated October 13, 1978 which states that the lease account for NM 14791 is considered in good standing through July 1978.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cm

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ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

September 26, 1978

IN RE: OPINION OF TITLE TO:
United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ of Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.

Your No. _____

No. 25,140

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

In connection with the title to the captioned lease and lands we have examined the following materials:

(a) Southern Union Production Company, in-house opinion, dated November 10, 1972, which opinion was based on examination of various materials, including abstracts certified down to October 17, 1972 at 10:00 A. M. as to the federal records and down to October 18, 1972 at 8:00 A.M. as to the county records; and

(b) Federal Abstract Company Abstract Nos. 27739, 28130, 28218 and 30446, which when taken collectively, cover the records in the United States Land Office at Santa Fe, New Mexico from October 17, 1972 at 10:00 A.M. down to August 7, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 14791; and

(c) Federal Abstract Company Abstract No. 30506 which purports to cover the records in the United States Land Office at Santa Fe, New Mexico from inception of records down to August 22, 1978 at 10:00 A.M. as to captioned lands covered by Lease NM 15024; and,

(d) Lovington Abstract Company, Inc. Abstract Nos. 1-2174-B, 12-1476-A, 5-1777 and 8-1178-F, which collectively cover the public records of Lea County, New Mexico as to the mineral estate from October 18, 1972 at 8:00 A.M. down to August 11, 1978 at 8:00 A.M., insofar as said records reflect the captioned mineral estate covered by Lease NM 14791 and which contain satisfactory judgment and lien searches against the parties in the chain of title to the captioned lease and lands; and,

(e) Lovington Abstract Company Abstract No. 8-2378-A which covers the public records of Lea County, New Mexico as to the mineral estate from inception of records down to August 23, 1978 at 8:00 A.M. as to the captioned mineral estate covered by Lease NM 15024; and,

(f) Hinkle, Cox, Eaton, Coffield & Hensley Title Opinion No. 23,892 dated July 8, 1977.

From our examination of the foregoing, and based solely thereon, we now report the status of title to the captioned lease and lands as of the most recent closing dates reflected by the abstract certificates as follows:

I. TITLE TO OIL AND GAS SUBJECT TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 12.5% ROYALTY):

United States of America ---------- All

II. RECORD TITLE TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 82.5% WORKING INTEREST):

NM 14791:

Grace Petroleum Corporation ---------- 75%*
Southern Union Production Company ------ 25%

* This will be the status of title upon filing a Certificate of Merger between Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management.

NM 15024:

Gulf Oil Corporation ---------- All

III. TITLE TO OVERRIDING ROYALTY INTERESTS EQUAL TO 5% of 8/8 CREATED UNDER EACH OF LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS:

NM 14791:

| | |
|---|---|
| Henry H. Vartanian, whose wife is Betty Jane Vartanian | 1/2 |
| Charles E. Strange, Trustee of the Charles E. Strange Trust established on May 6, 1974 | 1/2 |

NM 15024:

| | |
|---|---|
| Walter Duncan | 30% |
| Raymond T. Duncan | 30% |
| Vincent J. Duncan | 30% |
| J. Walter Duncan | 9% |
| Walter Duncan III | 1% |

IV. OIL AND GAS LEASES -- RENTS AND ROYALTIES -- ASSIGNMENTS -- DESIGNATIONS OF OPERATOR -- PRODUCTION HISTORY:

NM 14791:

| | |
|---|---|
| Date: | March 1, 1972 |
| Lessor: | United States of America |
| Lessee: | Henry Vartanian |
| Term: | Ten years and so long thereafter etc. |
| Rentals: | Although not noted in the base opinion on which we are relying, in part, the captioned lease apparently provides for rentals of 50¢ per acre, increasing to $2.00 per acre or any fraction thereof, commencing with thirty days after notice that any portion of the lands within the lease are in a known geologic structure. Apparently, rentals were timely and properly paid for all lease years down to the lease year expiring March 1, 1974. Prior to that date, it appears that the captioned lease went on production and therefore the lease is now considered held by production on a royalty payment status. |
| Lands Covered: | Township 21 South, Range 32 East, NMPM<br>Section 3: Lots 9-16, inclusive SW¼<br>Section 4: Lots 1-16, inclusive, S½ (All) |

Section 5: Lots 13, 14, 15, 16, S½
Section 6: Lots 14, 15, 16, E½SW¼ SE¼

containing a total of 2,282.84 acres, more or less.

Royalty: 12½%

Other Features: Since we have not actually examined this lease we have assumed that the captioned lease was probably prepared on Form 4-1158, and based upon that assumption, we have attached a schedule reflecting the general features of that lease form.

NM 15024:

Form: 3120-19 (May 1968)

Date: February 1, 1972

Lessor: United States of America

Original Lessee: Annamarie Duncan

Term: Ten years and so long thereafter, etc.

Rentals: This lease provided for annual delay rentals in the amount of 50¢ per acre until such time as said lease may have been determined to be in a known geological structure. Said lease was included in a known geological structure effective June 16, 1973 and rentals thereafter were paid at the $2.00 per acre rate. Rentals have been timely and properly paid for all time period up to February 1, 1979.

Lands Covered: Township 20 South, Range 32 East, NMPM

Section 27: N½N½

Township 21 South, Range 32 East, NMPM

Section 6: Lots 8, 9, 10 and 11

containing 320 acres, more or less.

Royalty: 12½%

Other Features: See attached schedule

2. Assignments: The following assignments have been made affecting the captioned lease and lands:

NM 14791:

(a) An assignment prepared on Form 3106-5 (February 1971) from Henry H. Vartanian and his wife, Betty Jane Vartanian, to C. E. Strange dated December 9, 1971 and approved by the Bureau of Land Management effective March 1, 1972, recorded in the Office of the Lea County Clerk in Book 282 at page 685, assigning all interest as to the captioned lease and the lands described hereinabove, but retaining to the assignor an overriding royalty of 2½% of 8/8; and

(b) Prepared on a form identical to that described above, from C. E. Strange and his wife, Sherrie R. Strange, to Amini Oil Company, dated February 25, 1972, approved by the Bureau of Land Management effective April 1, 1972 and recorded in the Office of the Lea County Clerk in Book 282 at page 643, assigning all interest as to the captioned lease and lands. This assignment is subject to the previously create 2½% overrid and in addition, the assignors reserve an additional 2½% overriding royalty. Further, this assignment contains a sixty day reassignment clause in favor of C. E. Strange and wife with a limitation of liability for failure to comply with the reassignment provision. This assignment for does not contain any warranties; and

(c) An assignment prepared on a form identical to the assignments described hereinabove from Amini Oil Company to Southern Union Production Company dated January 5, 1973, and approved by the Bureau of Land Management effective February 1, 1973 and recorded in the Office of the Lea County Clerk in Book 282 at page 163, assigning a 25% interest in the captioned lease and lands. No overriding royalty is subject to the previously created 5% overriding royalty. Again, this assignment form contains no warranties; and

(d) An assignment prepared on a form identical to the assignments described hereinabove from Teal Petroleum Company (formerly Amini Oil Company) to Cleary Petroleum Corporation, dated September 23, 1976, assigning Cleary a 75% interest in the captioned lease and lands, said assignment having been approved effective February 1, 1977 by the Bureau of Land Management being recorded November 28, 1977 in Book 306 at page 775 in the Office of the Lea County Clerk. No overriding royalty was reserved to Teal, but the assignment is subject to the previously created total of 5% overriding royalty interest. Again, this assignment form contains no warranties.

(e) An Assignment of overriding royalty interest from C. E. Strange, a married man, to Charles E. Strange, Trustee of the Charles E. Strange Trust, established on May 6, 1974 assigning a 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment being dated May 6, 1974 and filed with the Bureau of Land Management on July 25, 1974, recorded May 20, 1974 in Book 318 at page 726 in the Office of the Lea County Clerk. We have previously in other opinions relating to this lease mentioned deficiencies in this Assignment of Overriding Royalty Interest; however, the assignment described in sub-paragraph (f) hereinbelow is a correction of these deficiencies.

(f) Correction Assignment of overriding royalty interest from C. E. Strange and wife, Sherrie R. Strange, Charles E. Strange, Trustee of the Charles E. Strange Trust, established May 6, 1974 assigning 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment having been dated July 20, 1977 and recorded August 1, 1977 in Book 342 at page 825 in the Office of the Eddy County Clerk. We will not require that this assignment be placed of record in the Office of the Bureau of Land Management inasmuch as the defective assignment was previously placed of file with the Bureau of Land Management and the defect contained therein do not effect the status of the federal records.

NM 15024:

(a) A Record Title Assignment of Oil and Gas Lease from Annamarie Duncan and husband, Vincent J. Duncan, to Gulf Oil Corporation, dated September 6, 1972, approved effective October 1, 1972 by the Bureau of Land Management and recorded November 8, 1972 in Book 280 at page 459 in the Office of the Lea County Clerk, assigning the entire record title

into said lease. This assignment was prepared on Government Form 3106-5 (February 1971) and reserves a 5% of 8/8 overriding royalty interest and contains a reassignment rider.

REQUIREMENT A: You should note your lease files in connection with the reassignment rider contained in this assignment.

(b) Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975 and filed with the Bureau of Land Management on July 30, 1975, recorded June 27, 1975 in Book 327 at page 338 in the Office of the Lea County Clerk assigning said 5% of 8/8 overriding royalty to to the following persons in the following proportions:

| Name | Percent of Override |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 |
| Raymond T. Duncan | 30% of 5% of 8/8 |
| Vincent J. Duncan | 30% of 5% of 8/8 |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 |
| Walter Duncan III | 1% of 5% of 8/8 |

This assigment of overriding royalty interest does not contain pooling authority.

REQUIREMENT B: In the event that you desire to pool these lands it will be necessary to have these overriding royalty interest owners ratify any such pooling agreement.

3. Designations of Operator: The abstracts under examination reflect the following Designations of Operator:

(a) Designation of Operator from Southern Union Production Company to Cleary Petroleum Corporation dated October 4, 1976, relating to the captioned lease and lands; and

(b) Designation of Operator from Teal Petroleum Corporation to Cleary Petroleum Corporation, dated November 3, 1976, covering the captioned lease and lands.

COMMENT: Inasmuch as you are the successor corporation to Cleary Petroleum Corporation we believe these designations are adequate in the event your drillsite will be located on the lands covered by NM 14791. However, in the event that your drillsite may be located on lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

REQUIREMENT C: In the event that you intend to conduct drilling operations on the lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

4. Production History: The materials under examination indicate that there is currently production from Lease NM 14791; however, we find no evidence of any production from Lease NM 15024. This is advisory.

V. EXCEPTIONS TO TITLE AND REMARKS:

1. Lease Account Status: The abstracts under examination do not reflect current status of the lease account in connection with Lease NM 14791. This account should be in a current status.

REQUIREMENT D: You should inquire of the USGS in Albuquerque, New Mexico and ascertain whether or not the lease account in connection with Lease NM 14791 is in a current status. (We have taken the liberty to write a letter inquiring as to the status of this lease account.)

2. Gas Purchase Agreement: The materials under examination indicate that there has been filed of record in Lea County, New Mexico, a document entitled "Recording Supplement", dated April 6, 1973, between Southern Union Gas Company as "Buyer" and Amini Oil Company (now Teal Petroleum Company) and Southern Union Production Company as "Sellers". This document was filed of record on May 24, 1973 in Book 309 at page 808 in the Office of the Lea County Clerk. This Recording Supplement indicates the existence of a Gas Purchase Agreement dated January 25, 1973, to which the captioned lands located in Lease NM 14791 and other lands are dedicated. In addition, it gives notice of the existence of an agreement dated November 3, 1972 between the Sellers and Buyer.

3. Charles E. Strange Trust: We have been in contact with the attorney for Charles E. Strange, and have previously been submitted evidence that the Trust Agreement contains adequate authority for the Trustee to enter into agreements relating to oil and gas leases which are held in said trust.

4. Merger: We note that Cleary Petroleum Corporation has now merged into the Grace Petroleum Corporation. In this regard we do not find any Certificate of Merger filed with the Bureau of Land Management nor do we find one recorded in the Office of the Lea County Clerk.

REQUIREMENT E: If you have not already done so, you should file a Certificate of Merger of Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management in Santa Fe, New Mexico, as well as record a copy of the same in the Office of the County Clerk.

5. Potash Rider - Potash Area: The base title opinion on which this examination is, in turn, based, indicates that the captioned lease contains a rider to the effect that no wells are to be drilled without approval of the United States Geological Survey, which will be granted only in the event that it is satisfied that any proposed well drilling will not interfere with mining of potash deposits and a provision must be made for adequate protection of potash deposits.

In addition, although not reflected in any materials under examination, it is apparent from other files and plats available to us in our offices that the captioned lands are located within what has generally been designated as a potash area by the United States Geological Survey. It also appears that the captioned lands lie within a potash area as designated by the New Mexico Oil Conservation Division. As a consequence of the lands being located in these desginated area, it is likely that certain drilling restrictions may be imposed by the United States Geological Survey and/or the New Mexico Oil Conservation Division at such time as drilling operations are to be commenced.

We make no requirement with respect to the foregoing matters, but point this out for your information. We assume that you have probably encountered this problem with regard to wells which you previously drilled on the captioned lease and lands. We would point out that irrespective of what requirements may have been made relating to prior drilling activities, these requirements may very likely be different in the event that actual drilling operations are commenced some period of time after the first drilling operations.

6. Prior Title Opinions: As mentioned hereinabove, we have based this opinion on the title opinion dated November 10, 1972 rendered by Southern Union Gas Company House Counsel in connection with the captioned lease. Although we have no reason to doubt the accuracy of the Southern Union Gas Company House Counsel opinion, we must necessarily limit our opinion to the materials actually examined.

7. Acreage in Lots: It is apparent from the caption of this opinion that all of the subdivisions within the captioned lands are not described as directional subdivisions. Some are numbered as lots. Usually this indicates each numbered lot has acreage greater than or lesser than the usual 40 acres; however, in this case, each lot contains 40 acres. We have no requirement with respect to the acreage in these lots, but we note this for your information and possible future reference.

8. Surface Estate: Although the abstracts under examination do not purport to reflect the title to the surface of the captioned lands, certain information contained therein indicates the following surface rights:

(a) It appears from the materials under examination that all of the captioned lots, and lease, have the surface patented with the minerals being reserved to the United States of America. If you intend to conduct drilling activities on any of these lands it will be necessary that you make arrangements with the surface owner or owners with regard to surface damage.

(b) Grazing Lease: It is possible that the remainder of the surface of the captioned

lands is included in grazing leases from the United States. In such cases your rights under the oil and gas lease are superior to any rights under grazing leases.

9. Judgment and Lien Search: The county abstracts under examination contain satisfactory judgment and lien searches.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cm

Federal Abstract No. 30506 and Lovington Abstract No. 8-2378-A are returned herewith. The remainder of the abstracts are retained for further examination.

PRINCI[illegible] FEATURES OF LEASE (Form 4-[illegible]6S) (3120-19)
(10 year initial term)

ESSOR: United States, acting by and through the Secretary of the Interior.

ERM AND REGULATIONS: For a primary term of ten years and so long thereafter as oil or as is produced in paying quantities; subject to any unit agreement heretofore or hereafter approved by the Secretary of the Interior. Lease is made subject to all reasonable egulations of the Secretary now or hereafter in force not inconsistent with any of the xpress and specific provisions of the lease.

Although not stated in the lease, the primary term of the lease for land on which, r for which under an approved cooperative or unit plan of development or operation, ctual drilling operations were commenced prior to the end of such term and are being iligently prosecuted at that time, shall be extended for two years and so long thereafter s oil or gas is produced in paying quantities. (See Sec. 17(e) of the Mineral Leasing ct Revision of 1960.) Rentals continue until production is obtained.

OND: Requires lessee, upon inclusion of any part of the leased land within the geologic tructure of a producing oil or gas field, to furnish a bond in a sum double the amount f the $2.00 per acre annual rental, but not less than $1000 nor more than $10,000; to rnish, prior to commencement of drilling operations $10,000 lease bond with approved rporate surety, unless a bond in that amount is already being maintained, or unless ch a bond furnished by an operator of the lease is accepted. Until a general lease ond is filed, a $1000 bond must be filed in those cases in which a bond is required by w for the protection of owners of surface rights. (See Sec. 2(a) of lease.)

OOPERATIVE OR UNIT PLAN: Requires lessee, within 30 days of demand, to subscribe to d to operate under such reasonable or cooperative unit plan as may be determined by e Secretary of the Interior to be practicable and necessary or advisable. (See Sec. (b) of lease.)

RILLING REQUIREMENTS: Requires lessee to drill and produce all wells necessary to otect the leased land from drainage by wells on lands not the property of the lessor, lands of the lessor leased at a lower royalty rate, and to drill and produce such her wells as may be approved or required by the Secretary. (See Sec. 2(c) of lease.)

NTALS: Lessee to pay in advance an annual rental at the following rates:

(a) If the lands are wholly outside the known geologic structure of a producing l or gas field:

(i) For each lease year a rental of 50¢ per acre or fraction of an acre.

(b) If the lands are wholly or partly within the known geologic structure of a oducing oil or gas field:

(i) Beginning with the first lease year after thirty days' notice that all or part of the land is included in such a structure, and for each year thereafter, prior to a discovery of oil or gas on the lands leased, $2.00 per acre or fraction of an acre.

(ii) If the lease is committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, a rental for each lease year of 50¢ per acre or fraction of an acre shall apply to the acreage not within a participating area.

If there is no well capable of producing oil or gas in paying quantities, the failure pay a rental on or before the anniversary date shall automatically terminate the lease operation of law. If time for payment falls on a day in which the proper office to ceive payment is closed, payment shall be deemed timely if made on the next official cking day.

(See Sections 2(d)(1), 2(d)(4), and 2(e) of lease.)

ROYALTY: 12½% on production removed or sold from the leased lands; provided, however, a minimum royalty in lieu of rental shall be paid at the expiration of each lease year after discovery equal to $1.00 per acre. If the lease has been unitized, the minimum royalty shall be payable only on the participating acreage. (See Sec. 2(d)(1) of lease.

Secretary may establish reasonable minimum values for purpose of computing royalty on any oil or gas produced. See 30 C.F.R. 221. All contracts for disposal of products must be approved by the Director, U.S.G.S., or his representatives, subject to review by the Secretary of the Interior. (See Sec. 2(d)(2) and 2(f) of lease.)

ASSIGNMENTS: All assignments are to be filed within 90 days of final execution and are to take effect, upon final approval by the Director, Bureau of Land Management, as of the first day of the lease month following the date of filing. (See Sec. 2(m) of lease.

RESERVED RIGHTS OF LESSOR: See Sec. 3 of lease with regard to easements, disposition of surface, monopoly and fair prices, reservation of helium, taking of royalty in kind, and operation of valuable water wells.

SURRENDER AND TERMINATION: Lease may be surrendered and terminated as provided by Section 5 thereof.

A.A.P.L. FORM 610 - 1977

# MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

November 1 , 19 78 ,

OPERATOR GRACE PETROLEUM CORPORATION

CONTRACT AREA LOTS 9, 10, 15 and 16 and SE/4 Section 6-21S-32E, NMPM

COUNTY ~~OR PARISH OF~~ Lea STATE OF New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

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GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blank as applicable.

2. Preamble, Page 1 - Name of Operator.

3. Article II - Exhibits:
   (a) Indicate Exhibits to be attached.
   (b) If it is desired that no reference be made to Non-discrimination, the reference to Exhibit "F" should be deleted.

4. Article IV.A - Title Examination - Select option as agreed to by the parties.

5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."

6. Article V - Operator - Enter name of Operator.

7. Article VI.A - Initial Well:
   (a) Date of commencement of drilling.
   (b) Location of well.
   (c) Obligation depth.

8. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.

9. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.

10. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.

11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.

12. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.

13. Article XIII. - Term of Agreement:
   (a) Select Option as agreed to by parties.
   (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.

14. Signature Page - Enter effective date.

# OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between GRACE PETROLEUM CORPORATION _____, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

**WITNESSETH:**

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

## ARTICLE I.
## DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

## ARTICLE II.
## EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ ~~B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☐ ~~E. Exhibit "E", Gas Balancing Agreement.~~

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

If any provision of any exhibit, ~~except Exhibit "E"~~, is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

## ARTICLE III.
## INTERESTS OF PARTIES

**A. Oil and Gas Interests:**

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

**B. Interest of Parties in Costs and Production:**

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties which will be borne by the Joint Account, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

## ARTICLE IV.
## TITLES

**A. Title Examination:**

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

~~☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including~~ preliminary, supplemental, shut-in gas royalty opinions ~~and division order title~~ opinions) shall be a part of the administrative overhead ~~as provided~~ in Exhibit "C," and shall not be a direct charge, whether ~~performed by Operator's staff attorneys or by outside attorneys.~~

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

**B. Loss of Title:**

~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through~~ failure of title, which loss results in a reduction of interest from ~~that shown on Exhibit "A",~~ this agreement, nevertheless, shall continue in force ~~as to all remaining~~ oil and gas leases and interests, and

(a) The party ~~whose~~ oil and gas lease or interest is affected by the title failure shall bear alone ~~the entire loss and it shall not be entitled to recover from Operator or the other parties any development~~

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost; and

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded; and

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties in the same proportions in which they shared in such prior production; and

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

## ARTICLE V.
## OPERATOR

### A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

Grace Petroleum Corporation shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

## ARTICLE VI.
## DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 1979, Operator shall commence the drilling of a well for oil and gas at the following location:

At a legal location in Lot 9 Section 6, T21S,R32E, NMPM,
Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 14,100 feet below the surface or to a depth sufficient to test the Morrow Formation, whichever is the lesser depth.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, in its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

Each consenting party which elects to carry its proportionate part of Non-Consenting Parties' interest shall also carry its proportionate part of the interest remaining if one or more consenting parties elect to limit participation to such consenting parties' interest as shown on Exhibit "A".

If any of the operations provided for in this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) 300% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

300% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting party.

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

sidetracking,

**C. Right to Take Production in Kind:**

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

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment direct from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as Exhibit "E", or is a separate Agreement.

**D. Access to Contract Area and Information:**

Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

**E. Abandonment of Wells:**

1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

## ARTICLE VII.
## EXPENDITURES AND LIABILITY OF PARTIES

**A. Liability of Parties:**

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

**B. Liens and Payment Defaults:**

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

**C. Payments and Accounting:**

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

~~☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.~~

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand Dollars ($ 15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Five Thousand Dollars ($ 5,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties ~~to the extent of~~ _____ due on its share of production and shall hold the other parties free from any liability therefor. ~~If the interest of any party in any oil and gas lease covered by this agreement~~ is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party ~~shall assume~~ and alone bear all such obligations and shall account ~~for or cause to be accounted for, such interest to the owners thereof.~~

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

F. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article ~~IV.B.2.~~ IV.B.3.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

## ARTICLE VIII.
## ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision, shall not reduce or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. ~~and VIII.G.~~, if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

F. Waiver of Right to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~G. Preferential Right to Purchase:~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and~~ interests in the Contract Area, it shall promptly give written notice to the other parties, with ~~full~~ information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior ~~right~~, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and ~~conditions~~ the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or ~~substantially~~ all of its assets to a subsidiary or parent company or to a subsidiary of a parent ~~company, or to any company in which any one party owns a majority of the stock.~~

## ARTICLE IX.
## INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

## ARTICLE X.
## CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Two Thousand Five Hundred and No/100 Dollars ($ 2,500.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

## ARTICLE XI.
## FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

## ARTICLE XII.
## NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

## ARTICLE XIII.
## TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subjected hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease, or oil and gas interest contributed by any other party beyond the term of this agreement.

☐ ~~Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.~~

ption No. 2: In the event the well described in Article VI.A., or any subsequent well drilled any provision of this agreement, results in production of oil and/or gas in paying quantities, this ment shall continue in force so long as any such well or wells produce, or are capable of produc- and for an additional period of 90 days from cessation of all production; provided, however, ior to the expiration of such additional period, one or more of the parties hereto are engaged in ng or reworking a well or wells hereunder, this agreement shall continue in force until such op- ons have been completed and if production results therefrom, this agreement shall continue in as provided herein. In the event the well described in Article VI.A., or any subsequent well ed hereunder, results in a dry hole, and no other well is producing, or capable of producing oil /or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera- s are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from liability which has accrued or attached prior to the date of such termination.

## ARTICLE XIV.
## COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

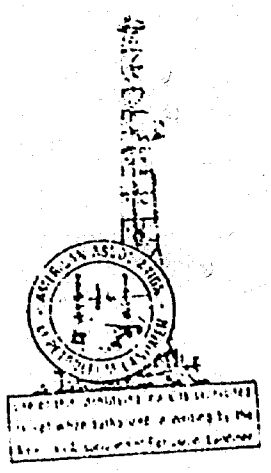
This agreement shall be subject to the conservation laws of the state in which the committed creage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

## ARTICLE XV.
## OTHER PROVISIONS

A. As to the interest of Supron Energy Corporation and Grace Petroleum Corporation, this Operating Agreement will replace and supercede that certain Operating Agreement dated January 5, 1973, as amended, between Southern Union Production Company and Amini Oil Company, insofar only as to those lands contributed to the Unit Area herein described.



## ARTICLE XVI.
## MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of November, 1978.

OPERATOR

ATTEST:

Assistant Secretary

GRACE PETROLEUM CORPORATION

BY:

James H. Thomas, Vice President

NON-OPERATORS

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY:

ATTEST:

SUPRON ENERGY CORPORATION

BY:

Vice President

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT, DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, AS OPERATOR, AND GULF OIL EXPLORATION AND PRODUCTION COMPANY AND SUPRON ENERGY CORPORATION, AS NON-OPERATOR.

I. LAND SUBJECT TO AGREEMENT:

Lots 9, 10, 15 and 16 and SE/4 Section 6-T21S-R32E, NMPN, Lea County, New Mexico, 320 acres.

II. PARTIES TO AGREEMENT AND PERCENTAGE OF INTEREST:

| PARTIES | NET ACRES | UNIT PARTICIPATION |
|---|---|---|
| Grace Petroleum Corporation<br>Broadway Executive Park<br>6501 North Broadway<br>Oklahoma City, Oklahoma 73112<br>Attention: Don W. Erickson | 180.00 | 56.25000 % |
| Supron Energy Corporation<br>Building V, Fifth Floor<br>10300 N. Central Expressway<br>Dallas, Texas 75231<br>Attention: Mr. William M. Brown | 60.00 | 18.75000 % |
| Gulf Oil Exploration and Production Company<br>P.O. Drawer 1150<br>Midland, Texas 79702<br>Attention: Mr. R. E. Griffith | 80.00 | 25.00000 % |

Council of Petroleum Accountants Societies of North America

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated November 1, 1978 between Grace Petroleum Corporation, as Operator, and Gulf Oil Exploration and Production Company and Supron Energy Corporation, as Non-Operator.

# ACCOUNTING PROCEDURE
# JOINT OPERATIONS

## I. GENERAL PROVISIONS

**1. Definitions**

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

**2. Statement and Billings**

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

**3. Advances and Payments by Non-Operators**

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

**4. Adjustments**

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

**5. Audits**

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

**6. Approval by Non-Operators**

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**

   Lease rentals and royalties paid by Operator for the Joint Operations.

2. **Labor**

   A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

   (2) Salaries of First Level Supervisors in the field.

   (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

   B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

   C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

   D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. **Employee Benefits**

   Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. **Material**

   Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. **Transportation**

   Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

   A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.

   B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

   C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. **Services**

   The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. **Equipment and Facilities Furnished by Operator**

   A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

   B.. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. **Damages and Losses to Joint Property**

   All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. **Legal Expense**

   Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

10. **Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. **Insurance**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. **Other Expenditures**

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

## III. OVERHEAD

1. **Overhead - Drilling and Producing Operations**

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

( X ) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate $ 2,407.00
Producing Well Rate $ 336.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent ( %) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent ( %) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:
For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction TO BE NEGOTIATED

~~To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the ex~~pansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning ~~of construction~~, or shall charge the Joint Account for Overhead based on the following rates for any ~~Major Construction~~ project in excess of $_____:

A. _____% of total costs if such costs are ~~more than~~ $_____ but less than $_____; plus

B. _____% of total costs in ~~excess of~~ $_____ but less than $1,000,000; plus

C. _____% of total ~~costs~~ in excess of $1,000,000.

Total cost ~~shall~~ mean the gross cost of any one project. For the purpose of this paragraph, the component parts ~~of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded~~.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

## IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. **Premium Prices**

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. **Warranty of Material Furnished by Operator**

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. **Periodic Inventories, Notice and Representation**

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. **Reconciliation and Adjustment of Inventories**

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. **Special Inventories**

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. **Expense of Conducting Periodic Inventories**

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "D"

The Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

(a) Workmen's Compensation Insurance: In compliance with the Workmen's Compensation Laws of the State of New Mexico. Employers' Liability: $500,000.00.

(b) Comprehensive General Liability insurance, excluding products: A single combined limit of $1,000,000.00 each accident for bodily injuries or death and $1,000,000.00 property damage.

(c) Automobile Public Liability and Property Damage Insurance with a single combined limit of $1,000,000.00 each accident for bodily injuries or death and $1,000,000.00 property damage.

The Operator shall require its contractors and subcontractors working or performing services upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached to comply with the Workmen's Compensation Laws of the State of New Mexico and to carry such other insurance and in such amounts as the Operator shall deem necessary.

EXHIBIT "F"

Attached to and made a part of an Operating Agreement dated

November 1, 1978, 19__, by and between Grace Petroleum Corporation, as Operator, and Gulf Oil Exploration and Production Company and Supron Energy Corporation, as Non-Operator.

EQUAL OPPORTUNITY CLAUSE

Operator shall be bound by and agrees to the following provisions as contained in Section 202 of Executive Order 11246 as amended to wit:

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

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

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

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

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

(6). In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this Contract may be cancelled, terminated, or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with the procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7). The Operator will include the provisions of paragraphs (1) through (7) in every Subcontract or Purchase Order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each Subcontractor or Vendor. The Operator will make such action with respect to any Subcontract or Purchase Order as the Contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a Subcontractor or Vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interest of the United States.

CERTIFICATION OF NONSEGREGATED FACILITIES

Operator certifies that he does not maintain or provide for his employees any gretated facilities at any of his establishments, and that he does not permit his employees perform their services at any location under his control, where segretated facilities e maintained. He certifies further that he will not maintain or provide for his employees y segregated facilities at any of his establishments, and that he will not permit his ployees to perform their services at any location under his control, where segretated cilities are maintained. The Operator agrees that a breach of this certification is a olation of the Equal Opportunity Clause in this contract. As used in this certification, e term "segrated facilities" means, but is not limited to any waiting rooms, work areas, strooms and washrooms, restaurants and other eating areas, time clocks, locker rooms, d other storage or dressing areas, parking lots, drinking fountains, recreation or tertainment areas, transportation and housing facilities provided for employees which are grated by explicit directive or are in fact segrated on the basis of race, color, religion, x, or national origin, segrated on the basis of race, color, religion, sex or national igin because of habit, local custom, or otherwise. He further agrees that (except where has obtained identical certifications from proposed subcontractors for specific time eriods) he will obtain identical certifications from proposed subcontractors prior to e award of subcontracts exceeding $10,000 which are not exempt from the provisions of he Equal Opportunity Clause: that he will retain such certification in his files; and hat he will forward the following notice to such proposed subcontractors (except where he proposed subcontractors have submitted identical certificates for specifid time eriods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGRATED ACILITIES."

A Certification of Nonsegrated Facilities must be submitted prior to the award f a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal pportunity Clause. The certification may be submitted either for each subcontract or or all subcontracts during a period (i.e. quarterly, semi-annually or annually)." Note: he penalty for making false statements is prescribed in 18 U.S.C. 1001.

II. EEO-1 REPORT AND AFFIRMATIVE ACTION COMPLIANCE PROGRAM

Operator is aware of Executive Order 11246 and Section 60-1.7 and Section 60-1.40, itle 41 of the Code of Federal Regulations. The Operator agrees and certifies that, if he as 50 or more employees and a contract of $50,000 or more, he will file complete and ccurate EEO reports on Standard Form 100 (EEO-1) with the appropriate government contracting or administering agency and develop affirmative action programs for each of his establish- ments, in accordance with the Executive Order 11246 and all rules, regulations and orders promulgated thereunder.

IV. LISTING OF EMPLOYMENT OPENINGS

Operator shall be bound by and agrees to the provisions of Executive Order 11701 and Section 50-250 of Title 41 of the Code of Federal Regulations, and all rules and regulations and orders promulgated thereunder to wit:

(a) The Operator to provide special emphasis to the employment of qualified disabled veterans and veterans of the Vietnam era, agrees that all suitable employment openings of the Operator which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by this contract and including those occurring at an establishment of the Operator other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such reports to such local office regarding employment openings and hires as may be required: PROVIDED, that if the contract is for less than $10,000 or if it is with a State of local government the reports set forth in paragraphs (c) and (d) of this clause are not required.

(b) Listing of employment openings with the employment service system pursuant this clause shall be made at least concurrently with the use of any other recruitment service, or effort and shall involve the normal obligations which attach to the placing a bonafide job order including the acceptance of referrals of veterans and non-veterans. The listing of employment openings does not require the hiring of any particular job applicant or from any particular group of job applicants, and nothing herein is intended to relieve the Operator from any requirements in any Executive Orders or regulations regarding nondiscrimination in employment.

(c) The reports required by paragraph (a) of this clause shall include, but not limited to, periodic reports which shall be filed at least quarterly with the appropriate local office or, where the Operator has more than one establishment in a State, with the central office of that State employment service. Such reports shall indicate for each establishment (1) the number of individuals who were hired during the reporting period, (2) the number of those hired who were disabled veterans, and (3) the number who were non-disabled veterans of the Vietnam era. The Operator shall submit a report within 30 days after the end of each reporting period wherein any performance is made on this contract. The Operator shall maintain copies of the reports submitted until the expiration of one (1) year after final payment under the contract, during which time they shall be made available upon request, for examination by any authorized representatives of the contracting officer or of the Secretary of Labor.

(d) Whenever the Operator becomes contractually bound to the listing provisions of this clause, he shall advise the employment service system in each State wherein he has establishments of the name and location of each such establishment in the State. As long as the Operator is contractually bound to these provisions and has so advised the State system there is no need to advise the State system of subsequent contracts. The Operator may advise the State systems when it is no longer bound by this contract clause.

(e) This clause does not apply to the listing of employment openings which occur and are filled outside of the 50 States, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands.

(f) This clause does not apply to openings which the Operator proposes to fill from within his own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement. This exclusion does not apply to a particular opening once an employer decides to consider applications outside of his own organization or employer-union arrangement for that opening.

(g) As used in this clause:

(1) "All suitable employment openings" includes, but is not limited to, openings which occur in the following job categories Production and nonproduction; plant and office; laborers and mechanics; supervisory and nonsupervisory; technical; and executive, administrative, and professional openings which are compensated on a salary basis of less than $18,000 per year. This term includes full-time employment, temporary employment of more than three (3) days duration, and part-time employment. It does not include openings which the Operator proposes to fill from within his own organization, or to fill pursuant to a customary and traditional employer-union hiring arrangement. Under the most compelling circumstances an employment opening may not be suitable for listing, including such situations where the needs of the Government cannot reasonably be otherwise supplied, where listing would be contrary to national security, or where the requirement of listing would otherwise not be for the best interest of the Government.

(2) "Appropriate office of the State employment service system" means the local office of the Federal-State national system of public employment offices with assigned responsibilitiy for serving the area where the employment opening is to be filled, including the District of Columbia, Guam, Puerto Rico and the Virgin Islands.

(3) "Openings which the Operator proposes to fill from within his own organization: means employment openings for which no consideration will be given to persons outside the Operator's organization (including any affiliates, subsidiaries, and the parent companies) and includes any openings which the Operator proposes to fill from regularly established "recall" or "rehire" lists.

(4) "Openings which the Operator proposes *** to fill pursuant to a customary and traditional employer-union hiring arrangement" means employment openings for which no consideration will be given to persons outside of a special hiring arrangement, including openings which the Operator proposes to fill from union halls, which is part of the customary and traditional hiring relationship which exists between the Operator and representatives of his employees.

(5) "Disabled veteran" means a person entitled to disability compensation under laws administered by the Veterans' Administration for disability rated at 30 per centum or more, or a person whose discharge or release from active duty was for a disability incurred or aggravated in line of duty.

(6) "Veteran of the Vietnam era" means a person (1) who (i) served on active duty for a period of more than 180 days, any part of which occurred after August 5, 1964, and was discharged or released therefrom with other than a dishonorable discharge, or (ii) was discharged or released from active duty for service-connected disability if any part of such duty was performed after August 5, 1964, and (2) who was so discharged or released within the 48 months preceding his application for employment covered under this part.

(h) The Operator agrees to place this clause (excluding this paragraph (h)) in any subcontract of $2,500 or more directly under this contract. This clause shall apply to any subcontract entered into by Operator in carrying out any contract for the procurement of personal property and nonpersonal services (including construction) for the United States.

V. MINORITY BUSINESS ENTERPRISES

Operator shall be bound by and agrees to the provisions of Executive Order 11625 and all rules, regulations and orders promulgated thereunder to wit:

1. UTILIZATION OF MINORITY BUSINESS ENTERPRISES

(a) It is the policy of the Government that minority business enterprises shall have the maximum practicable opportunity to participate in the performance of Government contracts.

(b) The Operator agrees to use his best efforts to carry out this policy in the award of his subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority business enterprise" means a business, at least 50 percent of which is owned by minority group members or, in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members. For the purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orientals, American-Indians, American-Eskimos, and American-Aleuts. Operator may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

2. MINORITY BUSINESS ENTERPRISES SUBCONTRACTOR PROGRAM

(a) The Operator agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, the Operator shall-

(1) Designate a liaison officer who will administer the Operator's minority business enterprises program.

(2) Provide adequate and timely consideration of the

potenti ities of known minority busi s enterprises in all "make-or-buy" decisions.

(3) Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises:

(4) Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises, (ii) awards to minority business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority business enterprises.

(5) Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.

(6) Cooperate with the contracting officer in any studies and surveys of the Operator's minority business enterprises, procedures and practices that the contracting officer may from time to time conduct.

(7) Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph (4), above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may perscribe.

(b) The Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000 provisions which shall conform substantially to the language of this clause, including this paragraph (b) and to notify the contracting officer of the names of such subcontractors.

VI. EMPLOYMENT OF THE HANDICAPPED

Operator shall be bound by and agrees to the provisions of Section 503 of the Rehabilitation Act of 1973 and Executive Order 11758 and all Rules, Regulations, and Orders promulgated thereunder to wit:

(This clause applies to all nonexempt contracts and subcontracts which exceed $2,500 as follows: (1) Part A applies to contracts and subcontracts which provide for performance in less than 90 days. (2) Parts A and B apply to contracts and subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is less than $500,000, and (3) Parts A, B, and C apply to contracts and subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is $500,000 or more.)

PART A

(a) The Operator will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the employee or applicant for employment is qualified. The Operator agrees to take affirmative action to employ, advance in employment and otherwise treat qualified handicapped individuals without discrimination based upon their physical or mental handicap in all employment practices such as the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(b) The Operator agrees that, if a handicapped individual files a complaint with the Operator that he is not complying with the requirements of the Act, he will (1) investigate the complaint and take appropriate action consistent with the requirements of 20 CFR 741.29 and (2) maintain on file for three years, the record regarding the complaint and the actions taken.

(c) The Operator agrees that, if a handicapped individual files a complaint with the Department of Labor that he has not complied with the requirements of the Act, (1) he will cooperate with the Department in its investigation of the complaint, and (2) he will provide all pertinent information regarding his employment practices with respect to the handicapped.

(d) The Operator agrees to comply with the rules and regulations of the Secretary of Labor in 20 CRF Ch. VI, Part 741.

(e) In the event of the Operator's noncompliance with the requirements of this clause, the contract may be terminated or suspended in whole or in part.

(f) This clause shall be included in all subcontracts over $2,500.

PART B

(g) The Operator agrees (1) to establish an affirmative action program, including appropriate procedures consistent with the guidelines and the rules of the Secretary of Labor, which will provide the affirmative action regarding the employment and advancement of the handicapped required by P.L. 93-112, (2) to publish the program in his employee's or personnel handbook or otherwise distribute a copy to all personnel, (3) to review his program on or before March 31 of each year and to make such changes as may be appropriate, and (4) to designate one of his principal officials to be responsible for the establishment and operation of the program.

(h) The Operator agrees to permit the examination by appropriate contracting agency officials of the Assistant Secretary of Employment Standards or his designee, of pertinent books, documents, papers and records concerning his employment and advancement of the handicapped.

(i) The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Assistant Secretary for Employment Standards, provided by the contracting officer stating Operator's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment and the rights and remedies available.

(j) The Operator will notify each labor union or representative of workers with which he has a collective bargaining agreement or other contract understanding, that the Operator is bound by the terms of Section 503 of the Rehabilitation Act, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

PART C

(k) The Operator agrees to submit a copy of his affirmative action program to the Assistant Secretary for Employment Standards within 90 days after the award to him of a contract or subcontract.

(l) The Operator agrees to submit a summary report to the Assistant Secretary for Employment Standards, by March 31 of each year during performance of the contract, and by March 31 of the year following completion of the contract, in the form prescribed by the Assistant Secretary, covering employment and complaint experience, accommodations made and all steps taken to effectuate and carry out the commitments set forth in the affirmative action program.

GRACE PETROLEUM CORPORATION
SUBSIDIARY OF W. R. GRACE & CO.

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITURE

gion MID-CONTINENT  AFE No. _____

Date 8/1/79

ELL NAME New Mexico Federal "G" #1  PROSPECT So. Salt Lake
ESCRIPTION ~~660' FNL & 660' FEL~~ 1980' FSL & 1650' FEL Sec. 6-21S-~~30E~~ 32E  EXPLORATORY ____ DEVELOPMENT X WORKOVER ____
OUNTY & STATE Lea Co., NM

| | Depth | Formation | Type |
|---|---|---|---|
| ode 25 applies only if we have your | 13,600' | Morrow | Oil ___ Gas X |
| election in writing to be covered under | 14,100' | TD | Oil ___ Gas ___ |
| ur policy. | | | Oil ___ Gas ___ |

| Item and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| INTANGIBLE DRILLING COSTS: | | | | | |
| Drilling Cost - Footage | 01 | | 01 | | |
| Day Work 60 @ 4600; 2 @ 4600 + 14 @ 1500 | 02 | 276,000 | 02 | 31,000 | 307,000 |
| Drilling and Turnkey MI RU MO | 04 | 40,000 | 04 | - | 40,000 |
| Labor - Company and Contract | 13 | 15,000 | 13 | 10,000 | 25,000 |
| Transportation | 26 | 2,000 | 26 | 8,000 | 10,000 |
| Bridges, Roads, Locations, etc. | 08 | 25,000 | 08 | 3,000 | 28,000 |
| Fuel, Water and Power | 05 | 60,000 | 05 | 5,000 | 65,000 |
| Bits, Coreheads and Rentals | 07 | 50,000 | 07 | 30,000 | 80,000 |
| Drilling Fluids | 06 | 75,000 | 06 | 2,000 | 77,000 |
| Surveys (logging) Perforating | 11 | 20,000 | 11 | 25,000 | 45,000 |
| Mudlogger | 30 | - | 30 | - | - |
| Cement and Cementing Services and Frac | 15 | 33,000 | 15 | 35,000 | 68,000 |
| Testing (Drillstem & Wireline) | 10 | 16,000 | 10 | - | 16,000 |
| Core Analysis | 12 | - | 12 | - | - |
| Geological and Engineering | 09 | 30,000 | 09 | 8,000 | 38,000 |
| Plugging & Abandoning | 27 | 5,000 | 27 | (5,000) | - |
| District and Overhead Expense | 20 | 4,000 | 20 | - | 4,000 |
| Insurance | 25 | 9,000 | 25 | - | 9,000 |
| Miscellaneous and Unforeseen @ 10% | 28 | 66,000 | 28 | 15,200 | 81,200 |
| TOTAL INTANGIBLE DRILLING COSTS | | 726,000 | | 167,200 | 893,200 |
| TANGIBLE DRILLING COSTS: | | | | | |
| Casing Size 13 3/8" 475' @ 19.00/ft. | 51 | 9,000 | 51 | - | 9,000 |
| Casing Size 9 5/8" 5300' @ 15.00/ft. | 51 | 80,000 | 51 | | 80,000 |
| Casing Size 5 1/2" 14,100' @ 9.00/ft. | 51 | - | 51 | 126,900 | 126,900 |
| Casing Size | 51 | | 51 | | |
| Casing Size | 51 | | 51 | | |
| Tubing 2 7/8" 14,100' @ 3.00/ft. | 52 | - | 52 | 42,300 | 42,300 |
| Subsurface Equipment | 53 | 2,000 | 53 | 12,000 | 14,000 |
| Well Head Equipment | 50 | 2,000 | 50 | 20,000 | 22,000 |
| Miscellaneous @ 10% | 72 | 9,300 | 72 | 20,100 | 29,400 |
| TOTAL TANGIBLE DRILLING COSTS | | 102,300 | | 221,300 | 323,600 |
| TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS | | | | | |
| Tanks Separators, etc. | | | 56 | 30,000 | 30,000 |
| Heater Treater, Flow Line Heater, LACT, etc. | | | 58 | 10,000 | 10,000 |
| Lease Lines | | | 60 | 4,000 | 4,000 |
| Other Major Expense | | | 54 | 10,000 | 10,000 |
| Miscellaneous Connections | | | 71 | 5,000 | 5,000 |
| Installation | | | 74 | 6,000 | 6,000 |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 65,000 | 65,000 |
| TOTAL AFE COST (100%) | | 828,300 | | 453,500 | 1,281,800 |

COMPANY: _____
APPROVED: _____
TITLE: _____ DATE: _____

GRACE PETROLEUM CORPORATION
APPROVED: C. Grant W. Hardman
TITLE: Drilling Manager DATE: 8/1/79

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITU

it Grace Petroleum Corporation  AFE No. _____

Date 7/10/78  REVISION

ILL NAME New Mexico Federal "G" #1  PROSPECT S. Salt Lake

SCRIPTION 660'FNL & 660'FEL Sec.6-21S-33E  EXPLORATORY ___  DEVELOPMENT X  WORKOVER ___

UNTY & STATE Lea Co., New Mexico

| Depth | Formation | Type | | | |
|---|---|---|---|---|---|
| 13,600 | Morrow | oil ___ | Gas X |
| 14,100 | TD | oil ___ | Gas ___ |
| ___ | ___ | oil ___ | Gas ___ |

ode 25 applies only if we have your election in writing to be covered under ur policy.

| tem and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| TANGIBLE DRILLING COSTS: | | | | | |
| rilling Cost - Footage | 01 | | 01 | | |
| y Work 60 @ 4600 / 14 @ 1000 | 02 | 276,000 | 02 | 14,000 | |
| rilling and Turnkey | 04 | 32,400 | 04 | | |
| bor - Company and Contract | 13 | 7,000 | 13 | 10,000 | |
| ansportation | 26 | 1,500 | 26 | 5,000 | |
| idges, Roads, Locations, etc. | 08 | 12,500 | 08 | 1,500 | |
| el, Water and Power | 05 | 15,000 | 05 | | |
| ts, Coreheads and Rentals | 07 | 45,000 | 07 | 11,000 | |
| rilling Fluids | 06 | 45,000 | 06 | 1,000 | |
| rveys (logging) Perforating | 11 | 20,000 | 11 | 14,000 | |
| dlogger | 30 | | 30 | | |
| ment and Cementing Services and Frac | 15 | 33,000 | 15 | 19,000 | |
| sting (Drillstem & Wireline) | 10 | 6,000 | 10 | | |
| re Analysis | 12 | | 12 | | |
| ological and Engineering | 09 | 14,000 | 09 | 3,500 | |
| ucaing & Abandoning | 27 | 5,000 | 27 | | |
| strict and Overhead Expense | 20 | 1,000 | 20 | 400 | |
| surance | 25 | 13,900 | 25 | | |
| scellaneous and Unforeseen | 28 | 50,700 | 28 | 7,600 | |
| TOTAL INTANGIBLE DRILLING COSTS | | 578,000 | | 87,000 | |
| NGIBLE DRILLING COSTS: | | | | | |
| sing Size 13 3/8 475' | 51 | 8,170 | 51 | | |
| sing Size 9 5/8 5300' | 51 | 74,040 | 51 | | |
| sing Size 5 1/2 14,100' | 51 | | 51 | 107,808 | |
| sing Size | 51 | | 51 | | |
| sing Size | 51 | | 51 | | |
| bing | 52 | | 52 | 56,000 | |
| bsurface Equipment | 53 | 2,000 | 53 | 7,000 | |
| ll Head Equipment | 50 | 2,300 | 50 | 12,000 | |
| scellaneous | 72 | 5,490 | 72 | 12,192 | |
| TOTAL TANGIBLE DRILLING COSTS | | 92,000 | | 195,000 | |
| NGIBLE INSTALLATION AND ASE EQUIPMENT COSTS | | | | | |
| nks, Separators, etc. | | | 56 | 20,000 | |
| ater Treater, Flow Line Heater, LTX, etc. | | | 58 | 14,000 | |
| ase Lines | | | 60 | 3,000 | |
| her Major Expense | | | 54 | 1,500 | |
| scellaneous Connections | | | 71 | 4,000 | |
| stallation | | | 74 | 1,500 | |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 44,000 | |
| TAL AFE COST (100%) | | 670,000 | | 326,000 | 996,000 |

GNANT: SUPRON ENERGY CORPORATION  GRACE PETROLEUM CORPORATION

PROVED: ~~Haskell Fleetwood, Vice President~~  APPROVED: _____

TLE: _____  DATE: 12/5/78  TITLE: Drilling Manager  DATE: 7/10/78 MLR

*Supron 18.75% = $125,625.00 Dry Hole*
*166,750.00 Producer*

GRACE PETROLEUM CORPORATION

File

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITURE

Unit Grace Petroleum Corporation  AFE No. _____

Date 7/10/78  REVISION

WELL NAME New Mexico Federal "G" #1  PROSPECT S. Salt Lake

DESCRIPTION 660'FNL & 660'FEL Sec.6-21S-33E  EXPLORATORY ___ DEVELOPMENT X WORKOVER ___

COUNTY & STATE Lea Co., New Mexico

Code 25 applies only if we have your election in writing to be covered under our policy.

| Depth | Formation | Type |
|---|---|---|
| 13,600 | Morrow | oil ___ Gas X |
| 14,100 | TD | oil ___ Gas ___ |
| | | oil ___ Gas ___ |

| Item and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| **INTANGIBLE DRILLING COSTS:** | | | | | |
| Drilling Cost - Footage | 01 | | 01 | | |
| Day Work 60 @ 4600 / 14 @ 1000 | 02 | 276,000 | 02 | 14,000 | |
| Drilling and Turnkey | 04 | 32,400 | 04 | | |
| Labor - Company and Contract | 13 | 7,000 | 13 | 10,000 | |
| Transportation | 26 | 1,500 | 26 | 5,000 | |
| Bridges, Roads, Locations, etc. | 08 | 12,500 | 08 | 1,500 | |
| Fuel, Water and Power | 05 | 15,000 | 05 | | |
| Bits, Coreheads and Rentals | 07 | 45,000 | 07 | 11,000 | |
| Drilling Fluids | 06 | 45,000 | 06 | 1,000 | |
| Surveys (logging) Perforating | 11 | 20,000 | 11 | 14,000 | |
| Mudlogger | 30 | | 30 | | |
| Cement and Cementing Services and Frac | 15 | 33,000 | 15 | 19,000 | |
| Testing (Drillstem & Wireline) | 10 | 6,000 | 10 | | |
| Core Analysis | 12 | | 12 | | |
| Geological and Engineering | 09 | 14,000 | 09 | 3,500 | |
| Plugging & Abandoning | 27 | 5,000 | 27 | | |
| District and Overhead Expense | 20 | 1,000 | 20 | 400 | |
| Insurance | 25 | 13,900 | 25 | | |
| Miscellaneous and Unforeseen | 28 | 50,700 | 28 | 7,600 | |
| TOTAL INTANGIBLE DRILLING COSTS | | 578,000 | | 87,000 | |
| **TANGIBLE DRILLING COSTS:** | | | | | |
| Casing Size 13 3/8 475' | 51 | 8,170 | 51 | | |
| Casing Size 9 5/8 5300' | 51 | 74,040 | 51 | | |
| Casing Size 5 1/2 14,100' | 51 | | 51 | 107,808 | |
| Casing Size | 51 | | 51 | | |
| Casing Size | 51 | | 51 | | |
| Tubing | 52 | | 52 | 56,000 | |
| Subsurface Equipment | 53 | 2,000 | 53 | 7,000 | |
| Well Head Equipment | 50 | 2,300 | 50 | 12,000 | |
| Miscellaneous | 72 | 5,490 | 72 | 12,192 | |
| TOTAL TANGIBLE DRILLING COSTS | | 92,000 | | 195,000 | |
| **TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS** | | | | | |
| Tanks, Separators, etc. | | | 56 | 20,000 | |
| Heater Treater, Flow Line Heater, LTX, etc. | | | 58 | 14,000 | |
| Lease Lines | | | 60 | 3,000 | |
| Other Major Expense | | | 54 | 1,500 | |
| Miscellaneous Connections | | | 71 | 4,000 | |
| Installation | | | 74 | 1,500 | |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 44,000 | |
| TOTAL AFE COST (100%) | | 670,000 | | 326,000 | 996,000 |

COMPANY: _____

APPROVED: _____

TITLE: _____ DATE: _____

GRACE PETROLEUM CORPORATION

APPROVED: [signature]

TITLE: Drilling Manager  DATE: 7/10/78 MLR

GRACE PETROLEUM CORPORATION
SUBSIDIARY OF W. R. GRACE & CO.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Exhibit No. 6
Case No. MID-CONTINENT
Submitted by 6590 GRACE
Hearing Date

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITURE

AFE No.

Date 8/1/79

14,100'

WELL NAME New Mexico Federal "G" #1 PROSPECT So. Salt Lake

DESCRIPTION [redacted] 660' FEL & 4650'FSL

Sec. 6-21S-32E EXPLORATORY ___ DEVELOPMENT X WORKOVER ___

COUNTY & STATE Lea Co., NM

| Code 25 applies only if we have your election in writing to be covered under our policy. | Depth | Formation | Type |
|---|---|---|---|
| | 13,600' | Morrow | Oil ___ Gas X |
| | 14,100' | TD | Oil ___ Gas ___ |
| | | | Oil ___ Gas ___ |

| Item and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| **INTANGIBLE DRILLING COSTS:** | | | | | |
| Drilling Cost - Footage | 01 | | 01 | | |
| Day Work 60 @ 4600; 2 @ 4600 + 14 @ 1500 | 02 | 276,000 | 02 | 31,000 | 307,000 |
| Drilling and Turnkey MI RU MO | 04 | 40,000 | 04 | - | 40,000 |
| Labor - Company and Contract | 13 | 15,000 | 13 | 10,000 | 25,000 |
| Transportation | 26 | 2,000 | 26 | 8,000 | 10,000 |
| Bridges, Roads, Locations, etc. | 08 | 25,000 | 08 | 3,000 | 28,000 |
| Fuel, Water and Power | 05 | 60,000 | 05 | 5,000 | 65,000 |
| Bits, Coreheads and Rentals | 07 | 50,000 | 07 | 30,000 | 80,00 |
| Drilling Fluids | 06 | 75,000 | 06 | 2,000 | 77,0 |
| Surveys (logging) Perforating | 11 | 20,000 | 11 | 25,000 | 45,000 |
| Mudlogger | 30 | - | 30 | - | - |
| Cement and Cementing Services and Frac | 15 | 33,000 | 15 | 35,000 | 68,000 |
| Testing (Drillstem & Wireline) | 10 | 16,000 | 10 | - | 16,000 |
| Core Analysis | 12 | - | 12 | - | - |
| Geological and Engineering | 09 | 30,000 | 09 | 8,000 | 38,000 |
| Plugging & Abandoning | 27 | 5,000 | 27 | (5,000) | - |
| District and Overhead Expense | 20 | 4,000 | 20 | - | 4,000 |
| Insurance | 25 | 9,000 | 25 | - | 9,000 |
| Miscellaneous and Unforeseen @ 10% | 28 | 66,000 | 28 | 15,200 | 81,200 |
| TOTAL INTANGIBLE DRILLING COSTS | | 726,000 | | 167,200 | 893,200 |
| **TANGIBLE DRILLING COSTS:** | | | | | |
| Casing Size 13 3/8" 475' @ 19.00/ft. | 51 | 9,000 | 51 | - | 9,000 |
| Casing Size 9 5/8" 5300' @ 15.00/ft. | 51 | 80,000 | 51 | | 80,000 |
| Casing Size 5 1/2" 14,100' @ 9.00/ft. | 51 | - | 51 | 126,900 | 126,900 |
| Casing Size | 51 | | 51 | | |
| Casing Size | 51 | | 51 | | |
| Tubing 2 7/8" 14,100' @ 3.00/ft. | 52 | - | 52 | 42,300 | 42,300 |
| Subsurface Equipment | 53 | 2,000 | 53 | 12,000 | 14,000 |
| Well Head Equipment | 50 | 2,000 | 50 | 20,000 | 22,000 |
| Miscellaneous @ 10% | 72 | 9,300 | 72 | 20,100 | 29,400 |
| TOTAL TANGIBLE DRILLING COSTS | | 102,300 | | 221,300 | 323,600 |
| **TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS** | | | | | |
| Tanks, Separators, etc. | | | 56 | 30,000 | 30,000 |
| Heater Treater, Flow Line Heater, LTX, etc. | | | 58 | 10,000 | 10,000 |
| Lease Lines | | | 60 | 4,000 | 4,000 |
| Other Major Expense | | | 54 | 10,000 | 10,000 |
| Miscellaneous Connections | | | 71 | 5,000 | 5,000 |
| Installation | | | 74 | 6,000 | 6,000 |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 65,000 | 65,000 |
| TOTAL AFE COST (100%) | | 828,300 | | 453,500 | 1,281,800 |

COMPANY: ___

APPROVED: ___

TITLE: ___ DATE: ___

GRACE PETROLEUM CORPORATION

APPROVED: Robert W. Hall

TITLE: Drilling Manager DATE: 8/1/79

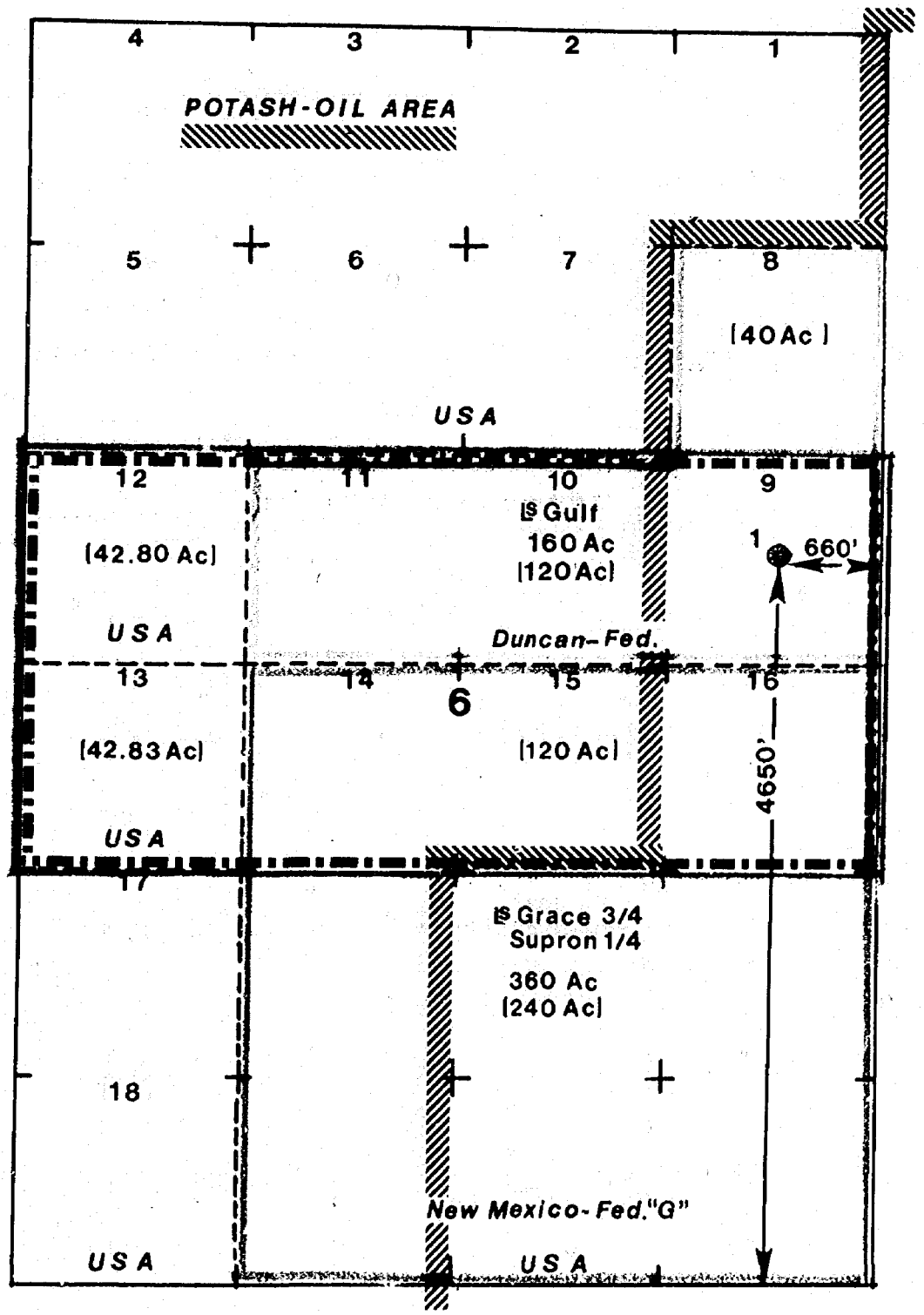
# GULF OIL CORPORATION

# PROPOSED DUNCAN FEDERAL COM. UNIT

Lots 9,10,11,12,13,14,15 & 16

Sec. 6 T-21-S, R-32-E

Lea County, New Mexico




Scale: 1" = 1000'

PROPOSED GULF UNIT:

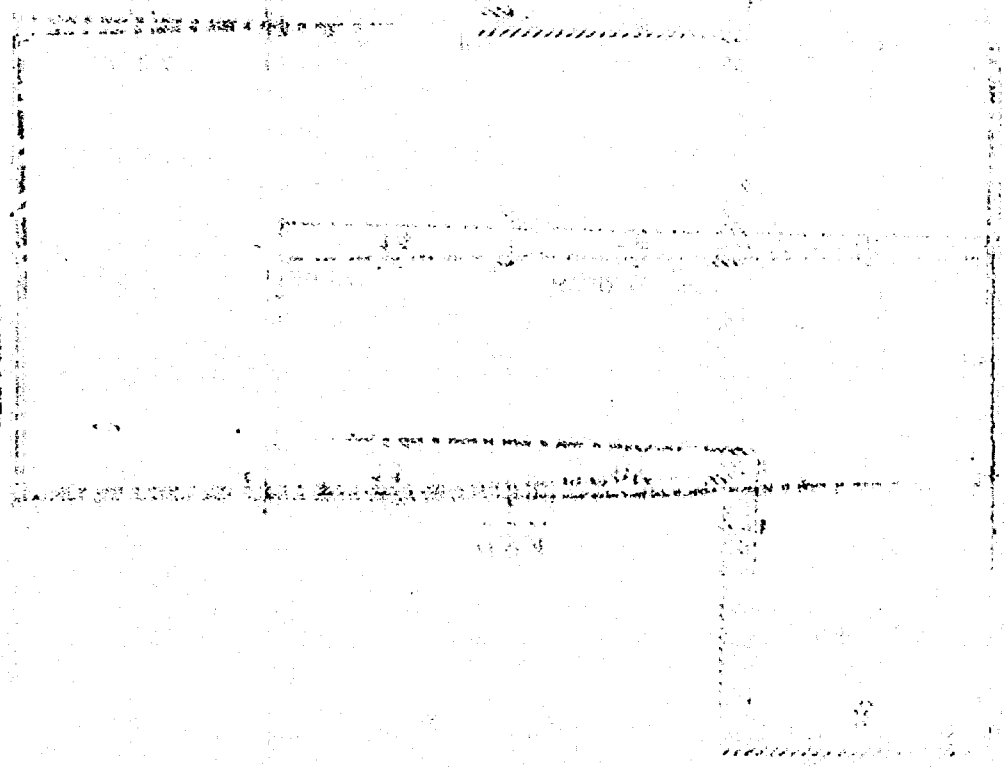
| Owner | Acres | Percentage |
|---|---|---|
| Gulf | 120.00 | 36.85164 |
| Grace & Supron | 120.00 | 36.85164 |
| USA - Unleased | 85.63 | 26.29672 |
| | 325.63 | 100.00000 |

PROPOSED GRACE UNIT

| | Acres | Percentage |
|---|---|---|
| Gulf | 80.00 | 25.00 |
| Grace/Supron | 240.00 | 75.00 |
| Unleased | 0.00 | 0.00 |
| TOTAL | 320.00 | 100.00 |

Exhibit: 1
Case: 6612
August 7, 1979

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 1
Submitted by Gulf
Hearing Date



GULF OIL EXPLORATION & PRODUCTION COMPANY

AREA: Hobbs COST ESTIMATE DATE: 7-27-79

DRILL & COMPLETE: Duncan Federal Com #1

LOCATION: 3300 FNL + 660 FEL Sec 6 T-21-S R-32-E Eddy Co. New Mexico

## I N T A N G I B L E S

| ITEM | DESCRIPTION | DRILLING | COMPLETION | AFE AMOUNT |
|---|---|---|---|---|
| 101 | LOCATION & ACCESS | 12,000 | 1,000 | 13,000 |
| 102 | RIG CONTRACT - RIG UP & TEAR DOWN | | | |
| | RIG CONTRACT - DAY RATE $ 4500 /DAY | 18,000 | 20,000 | 38,000 |
| | RIG CONTRACT - FOOTAGE $ 24.00 /FT | 348,000 | | 348,000 |
| 106 | DRILLING FLUIDS | 45,000 | 1,000 | 46,000 |
| | CORROSION INHIBITOR | | | |
| | BRINE WATER | 15,000 | 1,000 | 16,000 |
| 108 | CEMENT & CEMENT SERVICES | 22,000 | 12,000 | 34,000 |
| 112 | RENTAL - SURFACE TOOLS | 2,000 | 3,000 | 5,000 |
| 113 | RENTAL - DOWNHOLE TOOLS | | 2,000 | 2,000 |
| 114 | RENTAL - $H_2S$ & SAFETY EQUIPMENT | | | |
| 115 | RENTAL - CORING | | | |
| 130 | DRILL STEM TESTING | 10,000 | | 10,000 |
| 131 | ELECTRIC LOGS & SURVEYS | 31,000 | | 31,000 |
| 132 | MUD LOGGING | | | |
| 133 | PERFORATING | | 10,000 | 10,000 |
| 134 | DIRECTIONAL CONTROL | | | |
| 140 | FORMATION TREATING (INCL. TOOLS) | | 10,000 | 10,000 |
| 150 | BITS (Rmrs, Cutters, etc.) | | | |
| 151 | LUBRICANTS | | | |
| 152 | FUEL (Incl. Trans & Laying Line) | | | |
| 153 | ENVIRONMENTAL PROTECTION | | | |
| 154 | FRESH WATER (Trans, Trtg, Well, Lines) | 1,000 | | 1,000 |
| 155 | OTHER SUPPLIES (Scrs, Cmt, Rtnrs, BP) | 4,000 | 2,000 | 6,000 |
| 162 | OTHER CONTR SVCS (Csg Crws, Clean-up) | 4,000 | 1,000 | 5,000 |
| 163 | DRLG SUPERVISION (Incl. Engrs) | 10,000 | | 10,000 |
| 164 | GEOLOGICAL SUPERVISION | | | |
| 170 | TRANS (Mixed Cargo - Lump Charge) | 3,000 | 2,000 | 5,000 |
| 192 | ALLOCATION OF FOE | 2,000 | 1,000 | 3,000 |
| 196 | TANGIBLE MATERIALS FOR TEMP USE | | | |
| | TAX ON TANGIBLE MATERIALS | | | |
| | SUB-TOTAL | | | |
| | CONTINGENCY | | | |
| | GROSS TOTAL INTANGIBLES | 527,000 | 66,000 | 593,000 |

14,500'

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 2
Submitted by Gulf
Hearing Date

COST ESTIMATE

Page 2

DRILL & COMPLETE: Duncan Fed. Com #1

## T A N G I B L E S

| ITEM | DESCRIPTION | DRILLING | COMPLETION | AFE AMOUNT |
|---|---|---|---|---|
| 21X | CASING (SURFACE & INTERMEDIATE) | | | |
| | 500' 13 3/8" 48 #H-40 ST & C csg | 10,000 | | 10,000 |
| | 5200 8 5/8" 32 #K-55 ST & C csg | 62,000 | | 62,000 |
| 22X | CASING (OIL STRING) | | | |
| | 14,500' 5 1/2" 17 #S-95 & N80 LT &c csg | | 130,000 | 130,000 |
| 23X | OTHER SUBSURFACE PRODUCING EQPT: | | | |
| | TUBING: 14,000' 2 3/8" 4.7 #N-80 tbg | | 47,000 | 47,000 |
| | OTHER: PKR | | 5,000 | 5,000 |
| 24X | SUBSURFACE ARTIFICIAL LIFT EQPT: | | | |
| | RODS: | | | |
| | OTHER: | | | |
| 25X | SURFACE PRODUCING EQPT: | | | |
| | PUMPING UNIT | | | |
| | ELECTRIC MOTOR | | | |
| | FLOW LINE | | | |
| | OTHER | | | |
| 26X | CHRISTMAS TREE (Single - Dual) | 8,000 | 11,000 | 19,000 |
| 29X | MISC. ITEMS (Transfers & Other Expense) | 1,000 | 1,000 | 2,000 |
| | SUBTOTAL | | | |
| | CONTINGENCY | | | |
| | GROSS TOTAL TANGIBLES | 81,000 | 194,000 | 275,000 |
| | GROSS TOTAL AFE | 608,000 | 260,000 | 868,000 |

50,000 Surface

PREPARED BY: K. L. Vaughn

DATE: 7-27-77

R. C. Anderson

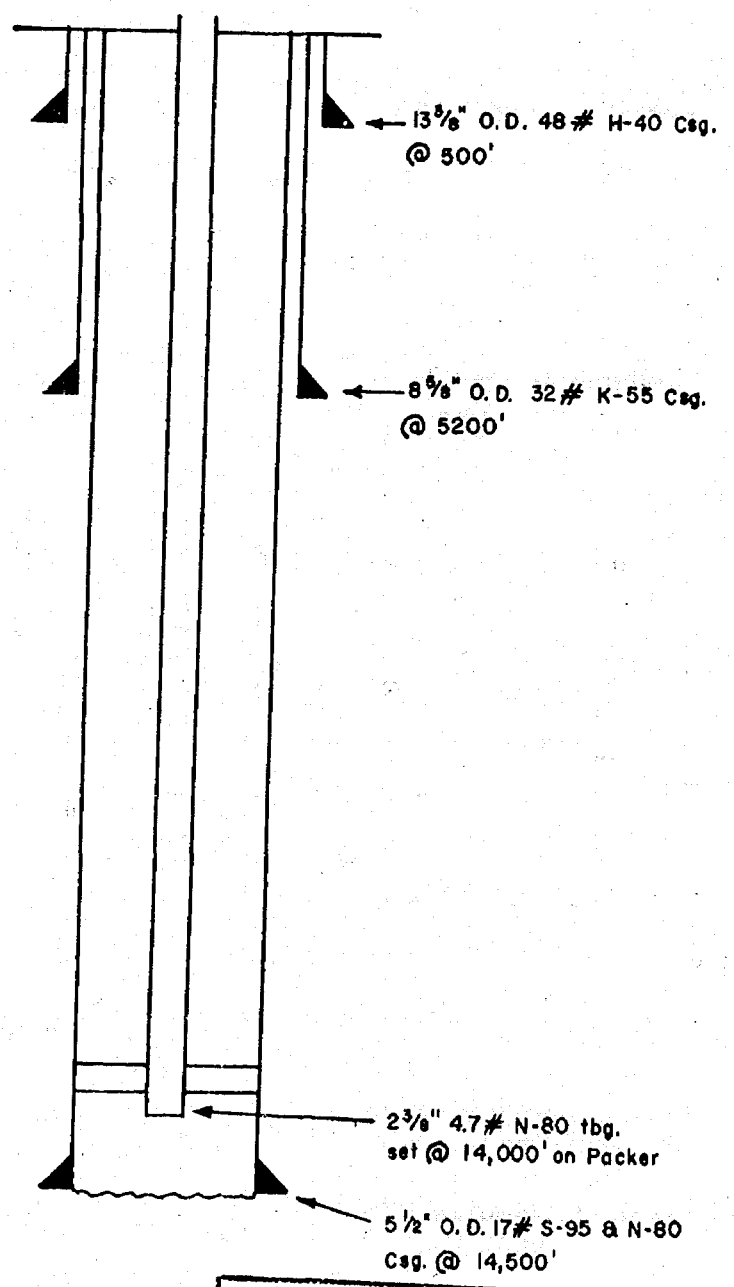
AREA PRODUCTION MANAGER

# 918,000
140
1058

*SCHEMATIC DIAGRAM*

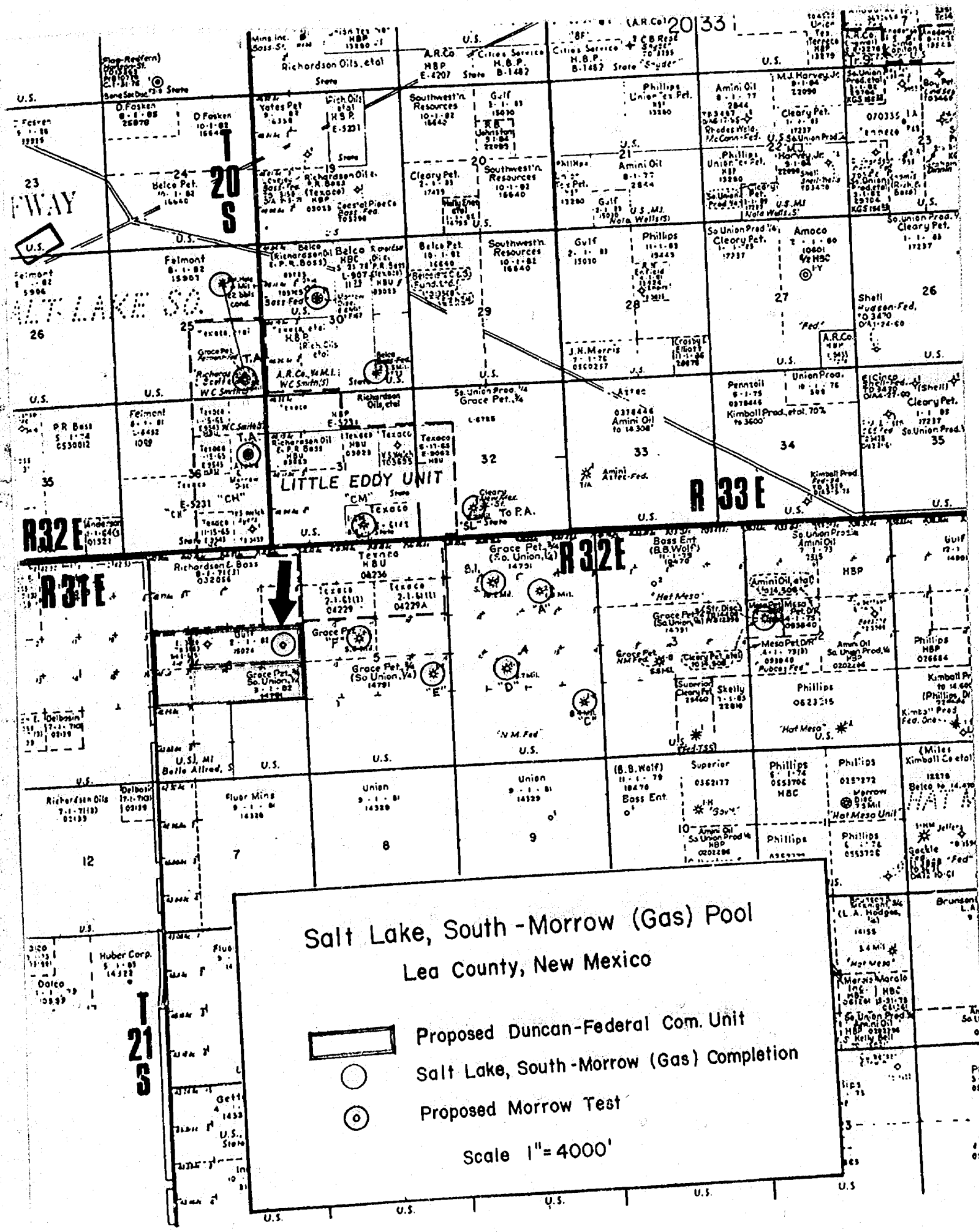
# DUNCAN-FEDERAL COM. NO. 1

4650' FSL & 660' FEL
UNIT I, SEC. 6, T21S, R32E
SALT LAKE, SOUTH-MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO




BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 3
Submitted by Gulf
Hearing Date

Exhibit _____
Case 6612
Date 8-7-79
Gulf Oil Corporation


T 20 S
T 21 S
R 32 E
R 33 E
R 31 E
LITTLE EDDY UNIT
Richardson Oils, etal
Belco Pet.
Felmont
Grace Pet.
Texaco
Amini Oil
Cleary Pet.
Phillips
Amoco
Aztec
Union Prod.
Kimball Prod., etal 70%
Grace Pet. (So. Union, 1/4)
Bass Ent. (B.B. Wolf)
Superior
Meso Pet. DR
Hot Meso
Salt Lake, South - Morrow (Gas) Pool
Lea County, New Mexico
Proposed Duncan-Federal Com. Unit
Salt Lake, South - Morrow (Gas) Completion
Proposed Morrow Test
Scale 1" = 4000'

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 4
Submitted by Gulf
Hearing Date

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH-MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT _____
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

BEFORE THE
OIL CONSERVATION CO
Santa Fe, New Me
Case No. 6612 Exhibit N
Submitted by Gulf
Hearing Date

| | BELCO PETROLEUM | | GRACE PETROLEUM CORP. (RIAL OIL COMPANY) | | | |
|---|---|---|---|---|---|---|
| | Bass<br>1F3020S33E<br>Llano, El Paso Nat'l | Bass Federal Com.<br>2P3020S33E<br>Llano, El Paso Nat'l | Federal C<br>1Q421S32E<br>Gas Co. of N.M. | Federal D<br>1N421S32E<br>Gas Co. of N.M. | Felmont Federal<br>1P2520S32E<br>Gas Co. of N.M. | New Mexic<br>1K521S32E<br>Gas Co. o |
| 1978 | | | | | | |
| JAN | 90,550 | 18,019 | 89,317 | 30,562 | | |
| FEB | 78,204 | 9,930 | 102,992 | 40,539 | | |
| MAR | 90,602 | 12,480 | 75,274 | 56,196 | | |
| APR | 85,884 | 13,739 | 90,085 | 61,613 | | |
| MAY | 85,174 | 8,300 | 33,851 | 21,237 | | |
| JUN | 76,495 | 11,930 | 75,033 | 49,976 | | |
| JUL | 83,042 | 11,197 | 78,683 | 58,677 | | |
| AUG | 93,225 | 15,441 | 77,004 | 5 ,110 | | |
| SEPT | 92,323 | 13,660 | 76,952 | 47,840 | 87,457 | |
| OCT | 97,450 | 13,756 | 49,422 | 31,656 | 149,943 | |
| NOV | 89,991 | 12,472 | 15,379 | 3,132 | 73,080 | |
| DEC | 82,108 | 11,586 | 110,930 | 28,541 | 143,490 | |
| ANNUAL | 1,045,048 | 152,510 | 874,992 | 481,079 | 453,970 | |
| CUMULATIVE | 6,078,812 | 972,855 | 1,789,150 | 773,838 | 453,970 | |
| 1979 | | | | | | |
| JAN | 79,326 | 11,458 | 114,277 | 33,739 | 136,140 | |
| FEB | 70,710 | 8,761 | 109,209 | 31,725 | 126,827 | 80, |
| MAR | 88,213 | 11,989 | 62,470 | 30,076 | 100,275 | 57, |
| APR | 83,019 | 13,201 | 9,388 | 14,002 | 87,489 | 27, |
| YEAR TO DATE | 321,268 | 45,409 | 295,344 | 109,542 | 450,731 | 165, |
| DAILY AVERAGE | 2,723 | 388 | 3,558 | 1,085 | 4,212 | 2, |
| CUMULATIVE (5-1-79) | 6,400,080 | 1,018,264 | 2,084,494 | 883,380 | 904,701 | 165, |

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH-MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT _____
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

BE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 5
Submitted by Gulf
Hearing Date _____

| CO PETROLEUM | GRACE PETROLEUM CORP. (RIAL OIL COMPANY) | | | |
|---|---|---|---|---|
| Bass Federal Com. 2P3020S33E | Federal C 1Q421S32E | Federal D 1N421S32E | Felmont Federal 1P2520S32E | New Mexico Federal F Com. 1K521S32E |
| at'l Llano, El Paso Nat'l | Gas Co. of N.M. | Gas Co. of N.M. | Gas Co. of N.M. | Gas Co. of N.M. |
| 18,019 | 89,317 | 30,562 | | |
| 9,930 | 102,992 | 40,539 | | |
| 12,480 | 75,274 | 56,196 | | |
| 13,739 | 90,085 | 61,613 | | |
| 8,300 | 33,851 | 21,237 | | |
| 11,930 | 75,033 | 49,976 | | |
| 11,197 | 78,683 | 58,677 | | |
| 15,441 | 77,004 | 5 ,110 | | |
| 13,660 | 76,952 | 47,840 | 87,457 | |
| 13,756 | 49,422 | 31,656 | 149,943 | |
| 12,472 | 15,379 | 3,132 | 73,080 | |
| 11,586 | 110,930 | 28,541 | 143,490 | |
| 152,510 | 874,992 | 481,079 | 453,970 | |
| 972,855 | 1,789,150 | 773,838 | 453,970 | |
| 11,458 | 114,277 | 33,739 | 136,140 | 48 |
| 8,761 | 109,209 | 31,725 | 126,827 | 80,001 |
| 11,989 | 62,470 | 30,076 | 100,275 | 57,259 |
| 13,201 | 9,388 | 14,002 | 87,489 | 27,845 |
| 45,409 | 295,344 | 109,542 | 450,731 | 165,153 |
| 388 | 3,558 | 1,085 | 4,212 | 2,202 |
| 1,018,264 | 2,084,494 | 883,380 | 904,701 | 165,153 |

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH - MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT _____
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

| | GRACE PETROLEUM CORPORATION (RIAL OIL COMPANY) | | | TEXACO INCORPORATED | |
|---|---|---|---|---|---|
| | NEW MEXICO A FEDERAL<br>2G 421S32E<br>Gas Co. of N.M. | NEW MEXICO E FEDERAL COM.<br>1P 521S32E<br>Gas Co. of N.M. | PUBCO FEDERAL<br>1L221S32E<br>Gas Co. of N.M. | LITTLE EDDY UNIT<br>AUDIE RICHARDS<br>1P 2520S32E<br>Texaco | LITTL<br>CM ST<br>10 31<br>Texac |
| 1978 | | | | | |
| JAN | | 57,146 | 9,894 | 1,138 | 27 |
| FEB | | 84,378 | 8,270 | 1,482 | 1 |
| MAR | | 59,052 | 8,165 | - - - | 12 |
| APR | | 58,869 | 8,385 | 609 | 28 |
| MAY | | 21,430 | 7,991 | 245 | 34 |
| JUN | | 78,635 | 7,715 | 770 | 33 |
| JUL | | 603 | 7,691 | 241 | 20 |
| AUG | 34,044 | 60,632 | 7,253 | 599 | 24 |
| SEPT | 29,894 | 62,649 | 6,550 | 775 | 35 |
| OCT | 22,283 | 66,432 | 7,777 | - - - | 34 |
| NOV | 9,064 | 64,278 | 7,641 | 64 | 26 |
| DEC | 22,798 | 50,045 | 7,566 | - - - | 29 |
| ANNUAL | 118,083 | 664,149 | 94,918 | 5,923 | 309 |
| CUMULATIVE | 118,083 | 1,035,719 | 755,577 | 2,290,735 | 7,313 |
| 1979 | | | | | |
| JAN | 19,985 | 59,007 | 6,469 | - - - | 12 |
| FEB | 16,938 | 48,269 | 6,662 | - - - | 28 |
| MAR | 13,304 | 48,035 | 4,948 | - - - | 21 |
| APR | 10,501 | 41,114 | 4,875 | TA | 18 |
| YEAR TO DATE | 225,881 | 196,425 | 22,954 | - - - | 81 |
| DAILY AVERAGE | 2,236 | 1,889 | 261 | - - - | |
| CUMULATIVE (5-1-79) | 343,964 | 1,232,144 | 778,531 | 2,290,735 | 7,394 |

GAS PRODUCTION DATA (MCF)
SALT LAKE, SOUTH - MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO
EXHIBIT _____
CASE 6612
DATE: 8-7-79
GULF OIL CORPORATION

| PETROLEUM CORPORATION (RIAL OIL COMPANY) | | | TEXACO INCORPORATED | |
|---|---|---|---|---|
| DERAL | NEW MEXICO E FEDERAL COM. 1P 521S32E Gas Co. of N.M. | PUBCO FEDERAL 1L221S32E Gas Co. of N.M. | LITTLE EDDY UNIT AUDIE RICHARDS 1P 2520S32E Texaco | LITTLE EDDY UNIT CM STATE 1O 3120S33E Texaco |
| | 57,146 | 9,894 | 1,138 | 27,516 |
| | 84,378 | 8,270 | 1,482 | 1,735 |
| | 59,052 | 8,165 | - - - | 12,750 |
| | 58,869 | 8,385 | 609 | 28,317 |
| | 21,430 | 7,991 | 245 | 34,610 |
| | 78,635 | 7,715 | 770 | 33,861 |
| | 603 | 7,691 | 241 | 20,461 |
| | 60,632 | 7,253 | 599 | 24,854 |
| | 62,649 | 6,550 | 775 | 35,138 |
| | 66,432 | 7,777 | - - - | 34,607 |
| | 64,278 | 7,641 | 64 | 26,776 |
| | 50,045 | 7,566 | - - - | 29,112 |
| | 664,149 | 94,918 | 5,923 | 309,737 |
| | 1,035,719 | 755,577 | 2,290,735 | 7,313,141 |
| | 59,007 | 6,469 | - - - | 12,418 |
| | 48,269 | 6,662 | - - - | 28,701 |
| | 48,035 | 4,948 | - - - | 21,729 |
| | 41,114 | 4,875 | TA | 18,205 |
| | 196,425 | 22,954 | - - - | 81,503 |
| | 1,889 | 261 | - - - | 679 |
| | 1,232,144 | 778,531 | 2,290,735 | 7,394,194 |

CLEARY PETROLEUM CORPORATION
BROADWAY EXECUTIVE PARK, 6301 N. BROADWAY
OKLAHOMA CITY, OKLAHOMA 73116
(405) 843-5551

RECEIVED
JUL 17 1978
LAND SECTION
MIDLAND, TEXAS

S.J. CERNY
President

Map No. R-21
Lsa # S-07025-00
Full int.
1/8 roy. + 5% ORR
Exp. 2-82

July 17, 1978

RECEIVED
JUL 19 1978
EXPLORATION
GEOLOGY

Gulf Energy & Mineral Co., U. S.
P. O. Box 1150
Midland, Texas 79702
ATTENTION: Mr. Robert E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
ATTENTION: Mr. Bill Curtis

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1 Lots 8, 9, 15,
and 16, SE/4 Sec. 6, T21S,
R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No. 9281

Gentlemen:

Grace Petroleum Corporation, formerly Clearly Petroleum Corporation, is proposing a unit comprised of Lots 8, 9, 15, and 16, SE/4 Sec. 6, T21S, R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

In order to best utilize the leasehold of Grace, Supron Energy, and Gulf, it is suggested that the "G" unit be comprised of the captioned acreage. This unit would be considered as a non-standard unit but would contain 320 acres, more or less. The proposed well would be located on Gulf's acreage in Lot 9.

Gulf owns, according to our records, 100% of Lots 8 and 9, and Grace owns 75% and Supron owns 25% of Lots 15, 16, and the SE/4 Sec. 6-T21S, R32E. An ownership Take-Off of this area is enclosed along with a plat of the proposed unit.



BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 6-A
Submitted by Gulf
Hearing Date

Please give this proposal your early consideration. It takes, as you know, several months to complete the necessary paper work and to obtain approval of the U.S.G.S. on all regulatory matters. If you are agreeable to this proposal, we will immediately start on all the requirements to form this unit.

Very truly yours,

Don W. Erickson

Don W. Erickson
District Landman

DWE:db

TAKE-OFF

Township 21 South, Range 32 East, N.M.P.M.
Section 6: Lots 1 thru 18, E½SW¼,SE¼
Containing 985.06 acres, more or less,
Lea County, New Mexico

| DESCRIPTION | MINERAL OWNER | INTEREST | STATUS |
|---|---|---|---|
| Lots 1,2,3,4,5,6,7,12,13,17,18 (465.06 acres) | U.S.A. | 8/8 | UNLEASED<br>NOT OPEN FOR LEASING<br>(Potash Area) |
| Lot 8,9,10,11 (160.00) | U.S.A. | 8/8 | LEASED<br>NM-15024; dated 2/1/72<br>Gulf Oil Co. - 100%<br>Midland, TX 79701<br>ORR: Annamarie Duncan 5% |
| Lots 14,15,16,E½SW¼SE¼ | U.S.A. | 8/8 | LEASED<br>NM-14791; dated 3/1/72<br>(HBP)<br>Cleary Petroleum - 75%<br>Oklahoma City, OK 73116<br><br>Supron Energy Corp. - 25%<br>Dallas, Texas |

L.R. Woodard 7-28-78
copy to Cudd

CMH

Map No. R-21
Previous correspondence attached

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

July 21, 1978

RECEIVED
JUL 27 1978
LAND SECTION
MIDLAND, TEXAS

Gulf Energy & Mineral Co., U.S.
P.O. Box 1150
Midland, Texas 79702
ATTENTION: Mr. Robert E. Griffith

RECEIVED
JUL 31 1978
EXPLORATION
GEOLOGY

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
ATTENTION: Mr. Bill Curtis

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G"
Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Sec. 6, T21S, R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No. 9281

Gentlemen:

Please refer to my letter of July 17, 1978, concerning the proposed captioned unit.

The unit outline has been revised to include Lots 9, 10, 15, and 16 and SE/4 Section 6-T21S, R32E, NMPM, Lea County, New Mexico. Lot No. 8 will not be included. A revised plat is attached.

Yours very truly,

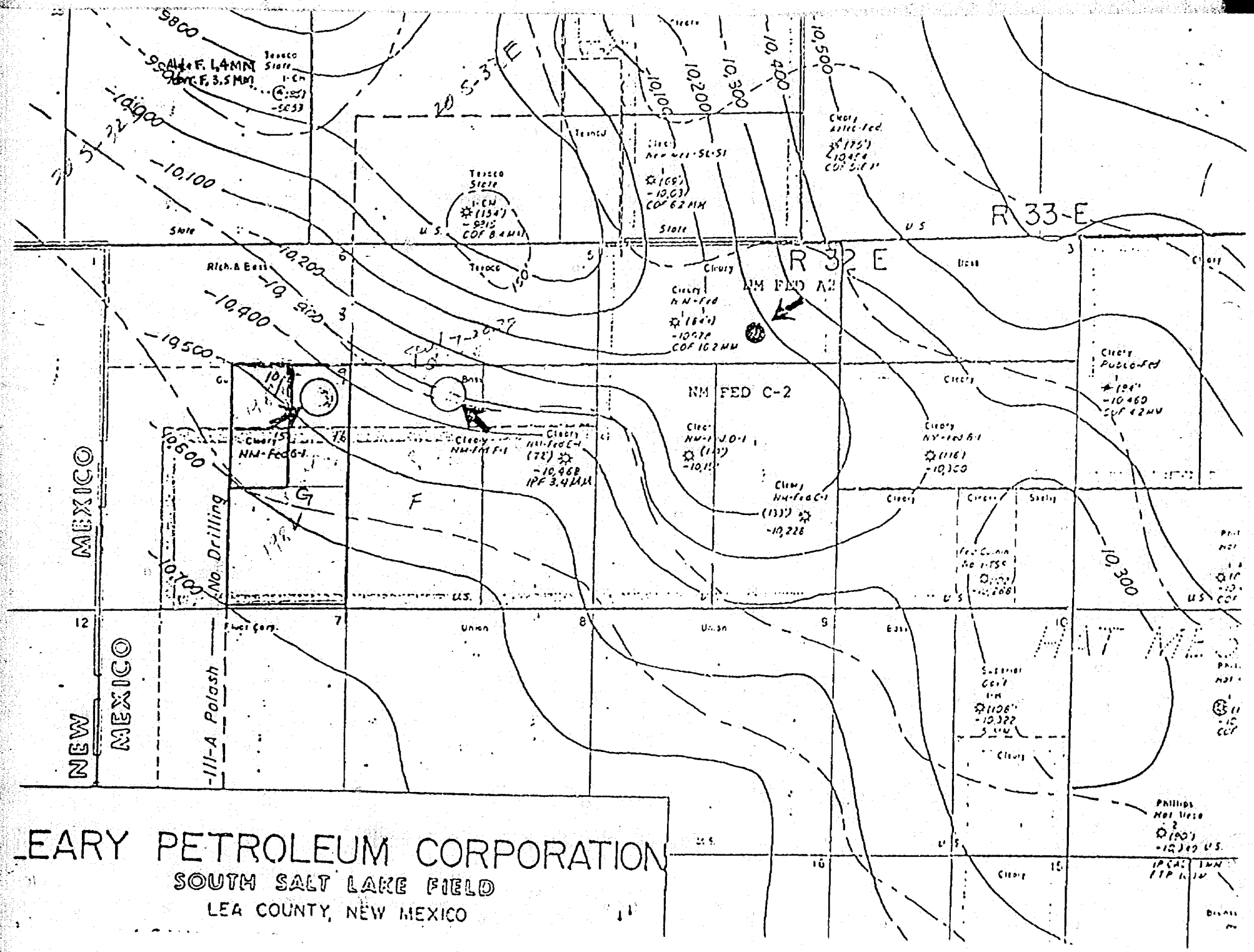
Don W. Erickson

Don W. Erickson
District Landman

DWE/jc

Refer to Prod. Dept.
RAH
8-1-78
LRW

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 6-B
Submitted by Gulf
Hearing Date


R 33 E
R 32 E
NM FED A-2
NM FED C-2
NEW MEXICO
No. Drilling
-111-A Potash
10,100
10,200
10,300
10,400
10,500
10,600
10,700
10,800
10,900
11,000
11,100
11,200
11,300
11,400
11,500
11,600
11,700
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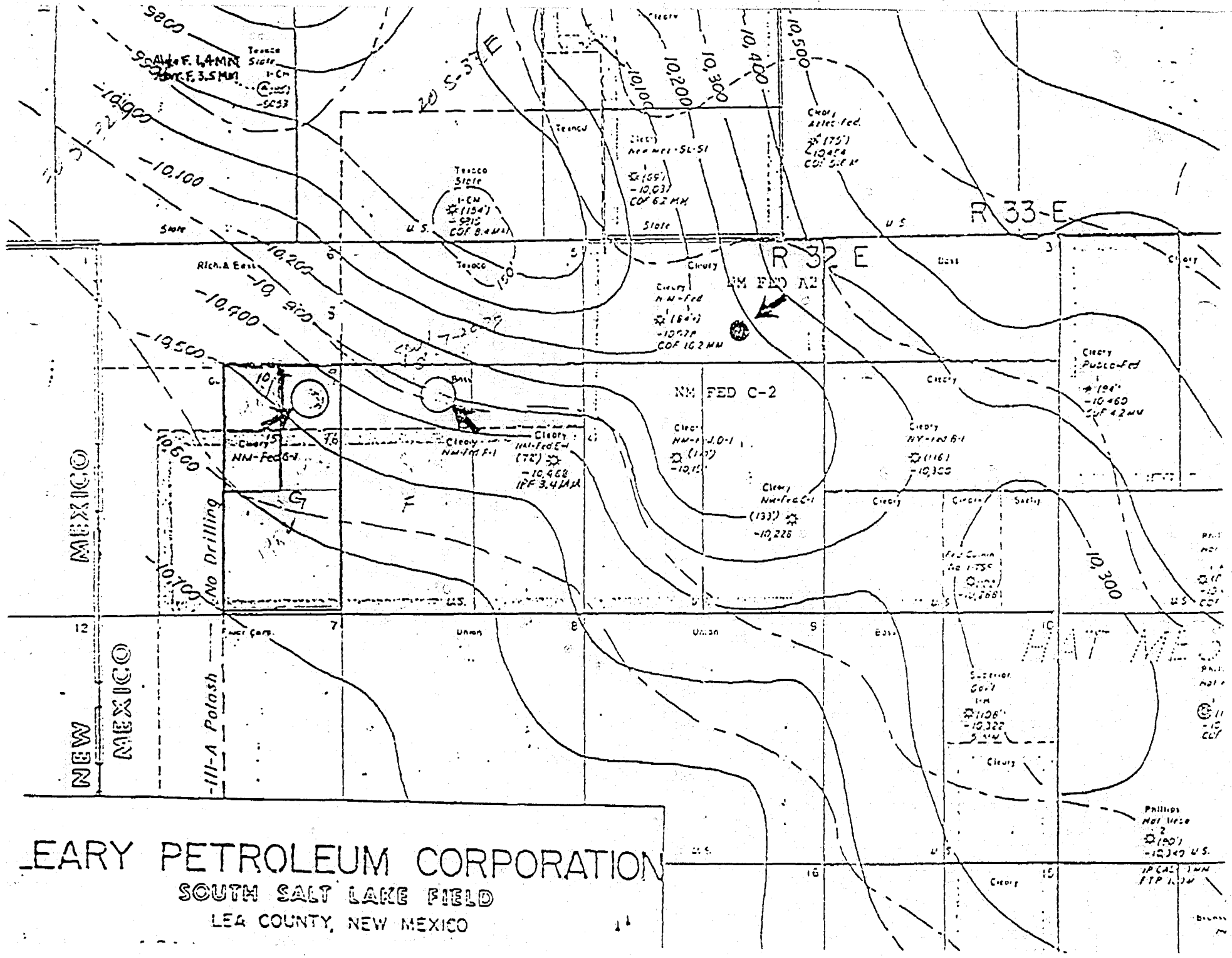
13,900
14,000




# EARY PETROLEUM CORPORATION

## SOUTH SALT LAKE FIELD

LEA COUNTY, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 6-C
Submitted by Gulf
Hearing Date

SUPRON ENERGY CORPORATION
SUITE 1700, CAMPBELL CENTRE
8350 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75206

TELEPHONE (214) 691-9141
TWX (910) 861-9112
SUPCO DAL

RECEIVED
JUL 28 1978
LAND SECTION
MIDLAND, TEXAS

July 26, 1978

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attn: Mr. Don W. Erickson

Re: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1 Well
Lea County, New Mexico

Dear Mr. Erickson:

Reference is made to your letter of July 17, 1978 concerning the formation of a unit for the drilling of the captioned well, to be located in Section 6, Township 21 South, Range 32 East, Lea County, New Mexico.

Supron would prefer to make an election with respect to your proposal at such time as the New Mexico Federal F-1 Well is drilled and completed, in view of the fact that said well is a direct offset.

Sincerely,

Wm. M. Brown

William M. Brown
Landman

WMB/bb

cc: Gulf Energy & Mineral Co., U.S.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 6-D
Submitted by Gulf
Hearing Date

CMH

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

RECEIVED
JUL 31 1978
LAND SECTION
MIDLAND, TEXAS

July 28, 1978

Gulf Energy & Mineral Co., U. S. A.
P.O. Box 1150
Midland, Texas 79702

Attention: Mr. Robert E. Griffith

RECEIVED
AUG 1 1978
EXPLORATION
GEOLOGY

Supron Energy Corporation
Suite 1700, Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206

Attention: Mr. Bill Curtis

RE: AFE
Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 & 16, and SE/4 Section 6,
T21S, R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No. 9281

Gentlemen:

Please refer to my letters of July 17 and July 21, 1978 concerning the proposed captioned unit.

Enclosed for your information is Grace Petroleum Corporation's AFE for this well.

Yours very truly,

Don W. Erickson

Don W. Erickson
District Landman

DWE/jc
Enclosures: As Stated

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 6-E
Submitted by Gulf
Hearing Date

GRACE PETROLEUM CORPORATION

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITURE

t Grace Petroleum Corporation  AFE No. _____

Date 7/10/78  REVISION

L NAME New Mexico Federal "G" #1  PROSPECT S. Salt Lake

CRIPTION 660'FNL & 660'FEL Sec.6-21S-33E  EXPLORATORY ___ DEVELOPMENT X WORKOVER ___

NTY & STATE Lea Co., New Mexico

| Depth | Formation | Type |
|---|---|---|
| 13,600 | Morrow | Oil ___ Gas X |
| 14,100 | TD | Oil ___ Gas ___ |
| | | Oil ___ Gas ___ |

le 25 applies only if we have your
ection in writing to be covered under
r policy.

| em and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| TANGIBLE DRILLING COSTS: | | | | | |
| illing Cost - Footage | 01 | | 01 | | |
| y Work 60 @ 4600 / 14 @ 1000 | 02 | 276,000 | 02 | 14,000 | |
| illing and Turnkey | 04 | 32,400 | 04 | | |
| bor - Company and Contract | 13 | 7,000 | 13 | 10,000 | |
| ransportation | 26 | 1,500 | 26 | 5,000 | |
| idges, Roads, Locations, etc. | 08 | 12,500 | 08 | 1,500 | |
| uel, Water and Power | 05 | 15,000 | 05 | | |
| its, Coreheads and Rentals | 07 | 45,000 | 07 | 11,000 | |
| rilling Fluids | 06 | 45,000 | 06 | 1,000 | |
| urveys (logging) Perforating | 11 | 20,000 | 11 | 14,000 | |
| udlogger | 30 | | 30 | | |
| ement and Cementing Services and Frac | 15 | 33,000 ✓ | 15 | 19,000 ✓ | |
| esting (Drillstem & Wireline) | 10 | 6,000 | 10 | | |
| ore Analysis | 12 | | 12 | | |
| eological and Engineering | 09 | 14,000 | 09 | 3,500 ✓ | |
| lugging & Abandoning | 27 | 5,000 | 27 | | |
| istrict and Overhead Expense | 20 | 1,000 | 20 | 400 | |
| nsurance | 25 | 13,900 ✓ | 25 | | |
| iscellaneous and Unforeseen | 28 | 50,700 ✓ | 28 | 7,600 ✓ | |
| TOTAL INTANGIBLE DRILLING COSTS | | 578,000 | | 87,000 | |
| TANGIBLE DRILLING COSTS: | | | | | |
| Casing Size 13 3/8 475' | 51 | 8,170 | 51 | | |
| Casing Size 9 5/8 5300' | 51 | 74,040 | 51 | | |
| Casing Size 5 1/2 14,100' | 51 | | 51 | 107,808 | |
| Casing Size | 51 | | 51 | | |
| Casing Size | 51 | | 51 | | |
| Tubing | 52 | | 52 | 56,000 | |
| Subsurface Equipment | 53 | 2,000 | 53 | 7,000 | |
| Well Head Equipment | 50 | 2,300 | 50 | 12,000 | |
| Miscellaneous | 72 | 5,490 ✓ | 72 | 12,192 ✓ | |
| TOTAL TANGIBLE DRILLING COSTS | | 92,000 | | 195,000 | |
| TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS | | | | | |
| Tanks, Separators, etc. | 56 | | | 20,000 | |
| Heater Treater, Flow Line Heater, LTX, etc. | 58 | | | 14,000 | |
| Lease Lines | 60 | | | 3,000 | |
| Other Major Expense | 54 | | | 1,500 | |
| Miscellaneous Connections | 71 | | | 4,000 | |
| Installation | 74 | | | 1,500 | |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 44,000 | |
| TOTAL AFE COST (100%) | | 670,000 | | 326,000 | 996,000 |

COMPANY: _____

APPROVED: _____

TITLE: _____ DATE: _____

GRACE PETROLEUM CORPORATION

APPROVED: Suka Jack D. Hill

TITLE: Drilling Manager DATE: 7/10/78 MLR

August 10, 1978

Re: Salt Lake Morrow South
Prospect, Proposed New Mexico
Federal "G" Com #1, LEA COUNTY,
New Mexico

Grace Petroleum Corporation
6501 North Broadway
Oklahoma City, OK 73116

Attention: Don W. Erickson

Gentlemen:

Please refer to your letter of July 17, 1978 proposing formation of the captioned unit. This is to adivse you that Gulf prefers to defer consideration of your proposal pending the outcome of the New Mexico Federal "F-1" offsetting your proposed test.

Yours very truly,

R. E. GRIFFITH

CMH/dh
cc: Superior Energy Corp.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. G-6
Submitted by Gulf
Hearing Date

RCB
CMH

Grace Petroleum Corporation
Subsidiary of W R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

November 3, 1978

RECEIVED
NOV 6 1978
LAND SECTION
MIDLAND, TEXAS

Supron Energy Corporation
Building V, Fifth Floor
10300 N. Central Expressway
Dallas, Texas 75231
Attention: Mr. William M. Brown

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

RE: Proposed New Mexico Federal "G"
Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Enclosed for your consideration are the following:

1. One copy for your records of the Communitization Agreement dated November 1, 1978, which has been executed by Grace Petroleum Corporation.

2. Five copies of the signature pages for this agreement.

Although you have informed Grace that you do not yet want to make the decision to join, pending the outcome of the New Mexico Federal "F" #1 Well, we would appreciate your retaining the agreement for your possible approval and execution.

If you do execute the agreement, please execute and acknowledge all five copies of the signature pages and return all five copies to Grace to my attention.

Very truly yours,

Don W. Erickson

Don W. Erickson
District Landman

DWE/jc
Enclosures: As Stated

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 6-H
Submitted by Gulf
Hearing Date

COMMUNITIZATION AGREEMENT

Contract No. _____

THIS AGREEMENT, entered into as of the 1st day of November, 1978, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

WITNESSETH:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.), authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

   Lots 9, 10, 15, 16, and SE/4 of
   Section 6-21S-32E,
   Lea County, New Mexico

   containing 320 acres, more or less, and this agreement shall include only the Morrow Formation underlying said lands and the natural gas and associated liquid hydrocarbons hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit B, designating the operator of the communitized area and showing the acreage percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area, and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

(b) It is agreed that for any Federal lease bearing a sliding - or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement is effective November 1, 1978, upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities: Provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246, as amended, (30 F.R. 12319), which are hereby incorporated by reference in this agreement.

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

BY: _____
ASSISTANT SECRETARY

GRACE PETROLEUM CORPORATION

BY: _____
Vice President

ATTEST:

BY: _____

SUPRON ENERGY CORPORATION

BY: _____

ATTEST:

BY: _____

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

March 7, 1979

RECEIVED
MAR 9 1979
LAND SECTION
MIDLAND, TEXAS

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

In your letter, dated August 10, 1978, to Grace Petroleum Corporation you stated that Gulf preferred to defer consideration to join in the captioned well pending the outcome of the New Mexico Federal "F" Comm. #1.

The "F" Comm. #1 is comprised of Lots 11, 12, 13 & 14 and SW/4 Sec. 5-21S-32E, NMPM, Lea County, New Mexico. The date of first sale of gas from this well was on January 26, 1979, at an initial price of $1.73 per MCF.

As soon as you are able to make a decision, we would appreciate hearing from you.

Very truly yours,

Don W. Erickson

Don W. Erickson
District Landman

DWE/jc

cc: Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231
Attention: Mr. William M. Brown

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 6-I
Submitted by Gulf
Hearing Date

April 19, 1979

Re: Gale Lake Morrow South Prospect, Proposed New Mexico Federal "G" Com #1, Lots 9, 10, 15 and 16 and SE/4 of Section 6, T-21-S, R-32-E, NMPM LEA COUNTY, New Mexico

Grace Petroleum Corporation
Doradway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

In reference to your letter of March 7, 1979 concerning Gulf's joining in the captioned well, please be advised that Gulf has considered your proposal, however, Gulf would like to submit a revised proposal for your consideration. Gulf would like to include lot #8 in the proration unit and exclude the SW/4 of the SE/4 of the presently proposed unit. This would increase Gulf's working interest from 25% to 35.58%.

Upon your acceptance the necessary instruments will be prepared. This offer is not exclusive and Gulf reserves the right to withdraw it without further notice to you after thirty (30) days from the date hereof unless we receive a firm commitment from you within said 30-day period.

If you have any questions, please contact Denise Beckham of our Land Department at 915/682-7301, ext. 469.

Yours very truly,

R. E. GRIFFITH

DB/dh

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 6-5
Submitted by Gulf
Hearing Date

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

RECEIVED
MAY 13 1979
LAND SECTION
MIDLAND, TEXAS

May 16, 1979

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1
Lea County, New Mexico

Gentlemen:

By Gulf's letter, dated April 19, 1979, Gulf proposed the addition of Gulf's Lot No. 8 to the proposed unit and the exclusion of the SW/4 SE/4 Sec. 6-21S-32E, NMPM. The SW/4 SE/4 Sec. 6 is owned 25% by Supron Energy Corporation and 75% by Grace Petroleum. The interest of the parties would then be as follows:

| | | |
|---|---|---|
| Grace | 150 Acres | 46.875% |
| Supron | 50 Acres | 15.625% |
| Gulf | 120 Acres | 37.500% |
| Total | 320 Acres | 100.000% |

Grace is not agreeable to the above suggestion. Instead, Grace proposes the following compromise:

The present acreage in the proposed unit would be retained plus the addition of Lot No. 8. This additional acreage would result in a non-standard 360-acre unit. The interests of the parties would be as follows:

| | | |
|---|---|---|
| Grace | 180 Acres | 50.00000% |
| Supron | 60 Acres | 16.66667% |
| Gulf | 120 Acres | 33.33333% |
| Total | 360 Acres | 100.00000% |

It is also suggested that the approval of this 360-acre unit be obtained by Gulf and such application for approval be submitted to the proper state and Federal agencies by Gulf within a reasonable amount of time.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 6-K
Submitted by: Grace
Hearing Date

If Gulf approves, please let Grace know as soon as possible. By a copy of this letter to Supron Energy Corporation, Grace requests to be notified if Supron approves of this change.

Very truly yours,

Don W. Erickson

Don W. Erickson
District Landman

DWE/jc

cc: Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231
Attention: Mr. William Brown

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Walter Duncan
P.O. Box 211
La Salle, Illinois 71301

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 6-L
Submitted by Gulf
Hearing Date

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

June 23, 1979

Re: Jalmat Lake Morrow South
Prospect, Proposed New
Mexico Federal "G" Com
No. 1, Lots 9,10,15,16
and SE/4 of Section 6,
T-21-S, R-32-E, NMPM,
LEA COUNTY, New Mexico

Grace Petroleum Corporation
Broadway Executive Park
6301 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don N. Erickson

Gentlemen:

Reference is made to your recent telephone conversation with Mr. Chesley Blackham of our Land Section regarding the captioned prospect. Please be advised that we have carefully reviewed said prospect and the most recent proposal concerning the prospect and Gulf is agreeable as follows:

Gulf will assign to Grace Petroleum Corporation and Supron Energy Corporation 100% of their interest in Lot 8 of Section 6, T-21-S, R-32-E, NMPM, Lea County, New Mexico, in exchange for 11.1125% of Supron and Grace's interest in the 240 acre tract consisting of Lots 15, 16 and SE/4 of said Section 6, T-21-S, R-32-E, Lea County, New Mexico, being a total of 26.67 acres. It is to be understood that said 26.67 acres will be added to Gulf's interest in Lots 9 and 10 of said section to give Gulf a total acreage of 106.67 acres in the 320 acre proration unit, being 33.33% interest in said proration unit.

The above offer is, ofcourse, contingent upon Gulf's approval of the AFE and a satisfactory Operating Agreement.

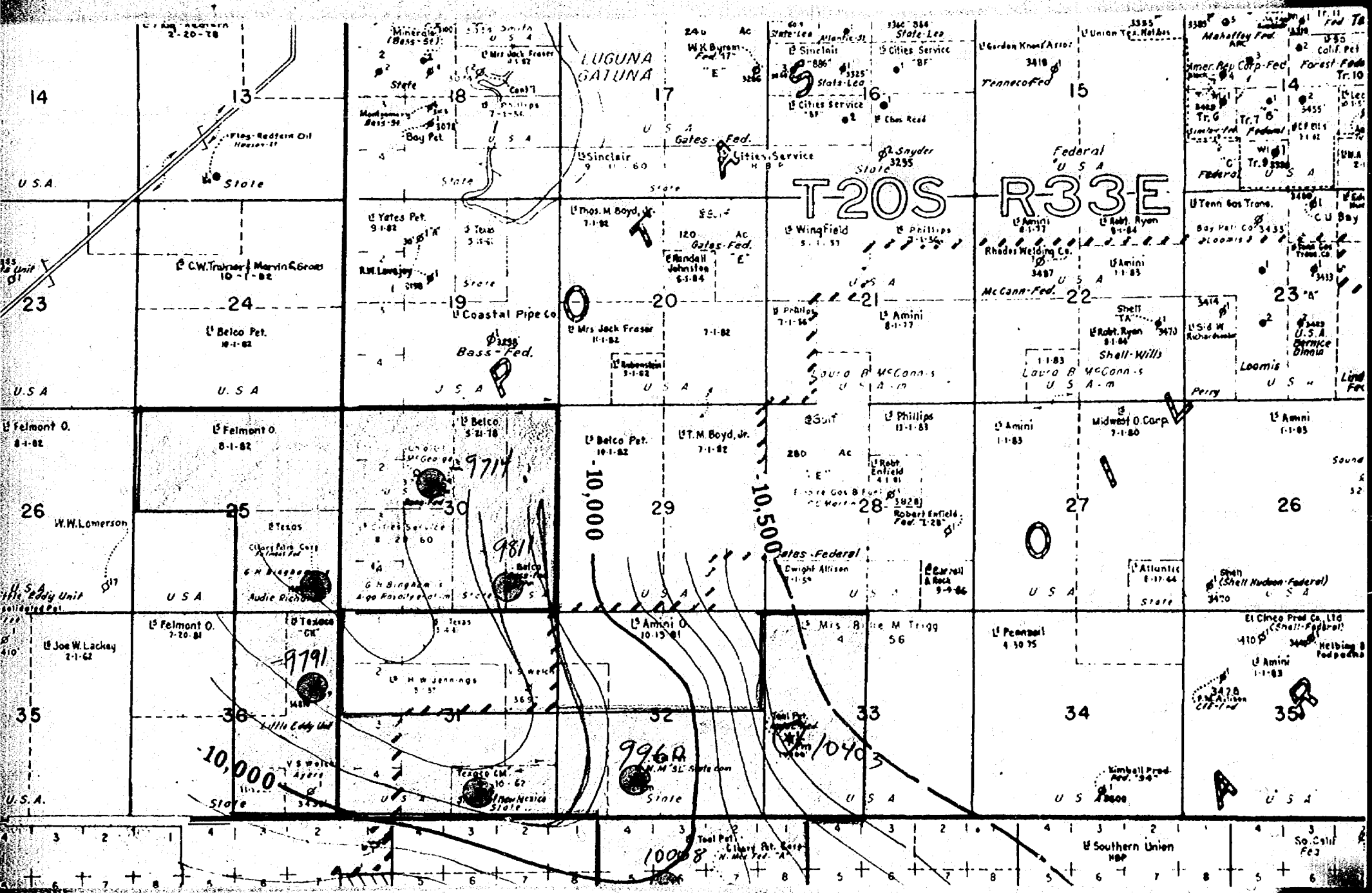
If we can be of any assistance, please feel free to contact Ches Blackham of our Land Section.

Yours very truly,

CTB/dh

R. E. GRIFFITH

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 6-M
Submitted by Gulf
Hearing Date


T-20S
R-33E
LUGUNA GATUNA
U S A
State
Gates-Fed.
Federal
Bass-Fed.
McCann-Fed.
Shell-Wills
Mahaffey Fed
Forest Fed
Tr. 10
Tr. 9
Tr. 8
Tr. 7
Tr. G
Tr. 11
Fed Tr
Rhodes Welding Co.
Loomis
Perry
Sound
Land
Lea
Phillips
Amini
Robt. Ryan
Shell
Midwest O. Corp
Atlantic
Union Tex. Nat. Gas
Gordon Knox Estes
Tennessee Fed
Tenn Gas Trans.
Bay Pet Co
C U Bay
Coastal Pipe Co
Mrs Jack Fraser
Sinclair
Cities Service
Wingfield
Yates Pet.
Texas
Belco Pet.
Belco
Felmont O.
T. M. Boyd, Jr.
Amini O
Mrs Billie M Trigg
Pennzoil
Southern Union
So. Calif
El Cinco Prod Co. Ltd
Helbing & Podpecka
Robert Enfield
Dwight Allison
Barnett & Rock
Texaco
Toal Pet.
Cleary Pet. Corp
Kimball Prod.
W. W. Lomerson
Joe W. Lackey
V. S. Weeks
H. W. Jennings
Audie Richardson
Bay Pet.
Mineral (Bass-St)
Montgomery Bass-St
Flag-Redfern Oil
Hussey-St
C. W. Trainer & Marvin C. Groves
Coastal Pipe Co
W. K. Byrom
Randall Johnston
Chas Read
Snyder
Gulf
Sohio
Amer. Rep Corp-Fed
Lee
Lloyd Fox
Ann
Sinclair
Cities Service
Phillips
Amini
Robt. Ryan
Shell-Wills
Union Tex. Nat. Gas
Gordon Knox Estes
Tennessee Fed
Mahaffey Fed
Amer. Rep Corp-Fed
Forest Fed
Tenn Gas Trans.
Bay Pet Co
C U Bay
Rhodes Welding Co.
Loomis
Perry
Sound
Land
Lea
Midwest O. Corp
Atlantic
Shell (Shell Hudson-Federal)
Pennzoil
El Cinco Prod Co. Ltd (Shell-Federal)
Helbing & Podpecka
Southern Union
So. Calif
Toal Pet.
Cleary Pet. Corp
Kimball Prod.
Texaco

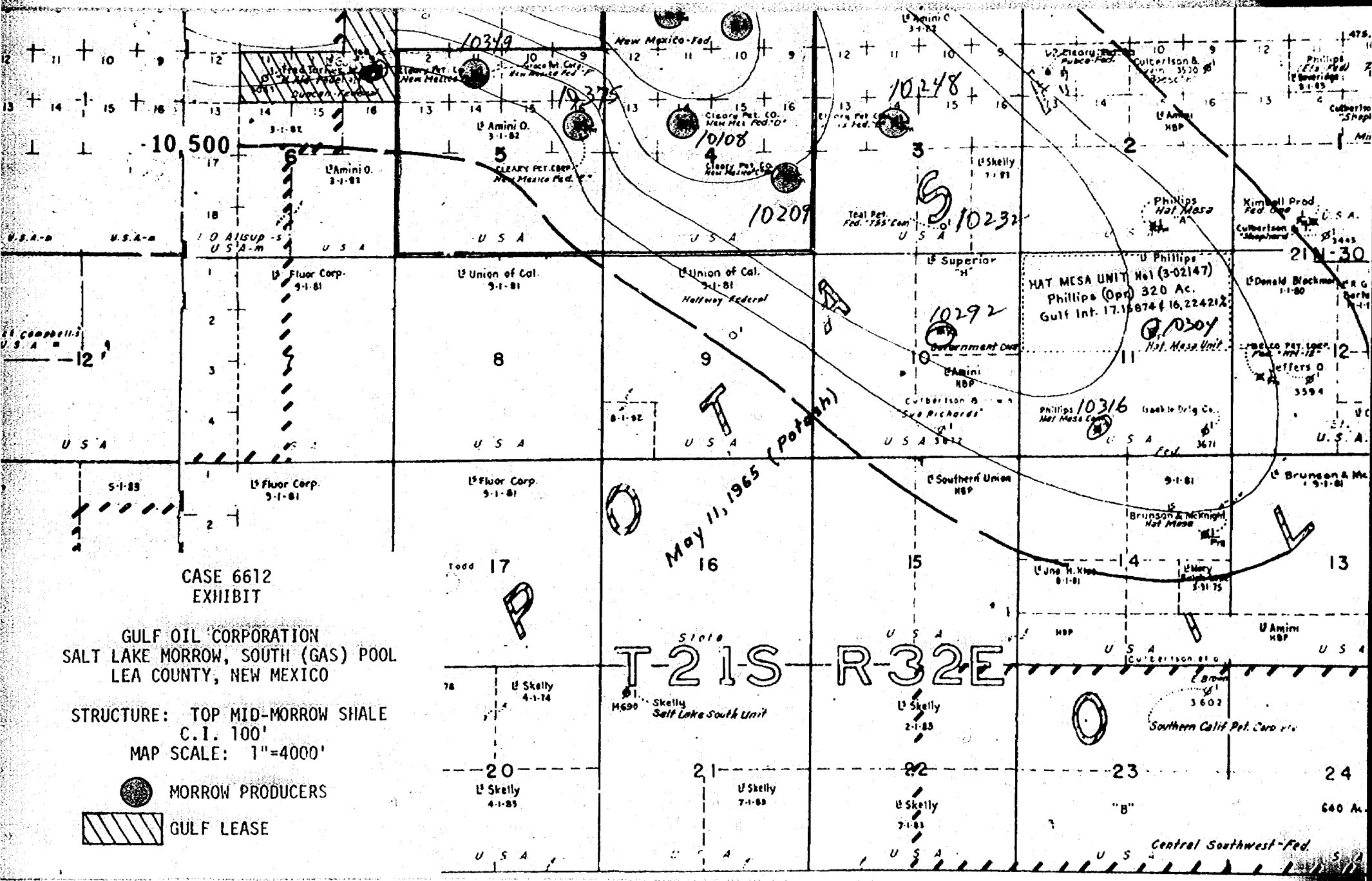
CASE 6612
EXHIBIT

GULF OIL CORPORATION
SALT LAKE MORROW, SOUTH (GAS) POOL
LEA COUNTY, NEW MEXICO

STRUCTURE: TOP MID-MORROW SHALE
C.I. 100'
MAP SCALE: 1"=4000'

MORROW PRODUCERS

GULF LEASE



T-20S — R-33E

T-21S — R-32E

-10,000

-10,500

CASE 6612
EXHIBIT

GULF OIL CORPORATION
SALT LAKE MORROW, SOUTH (GAS) POOL
LEA COUNTY, NEW MEXICO

STRUCTURE: TOP MID-MORROW SHALE
C.I. 100'
MAP SCALE: 1"=4000'

MORROW PRODUCERS

GULF LEASE

May 11, 1965 (portion)

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 7
Submitted by Gulf
Hearing Date

Welex

[redacted]

COMPANY CLEARY PETROLEUM CORPORATION

WELL NEW MEXICO - FEDERAL "F" # 1

FIELD SOUTH SALT LAKE

COUNTY LEA STATE NEW MEXICO

Location: 4650' FSL & 1980' FWL

Sec 5 Twp 21-S Rge 32-E

Other Services: Forxo-Guard

Permanent Datum: Ground Level Elev. 3668'

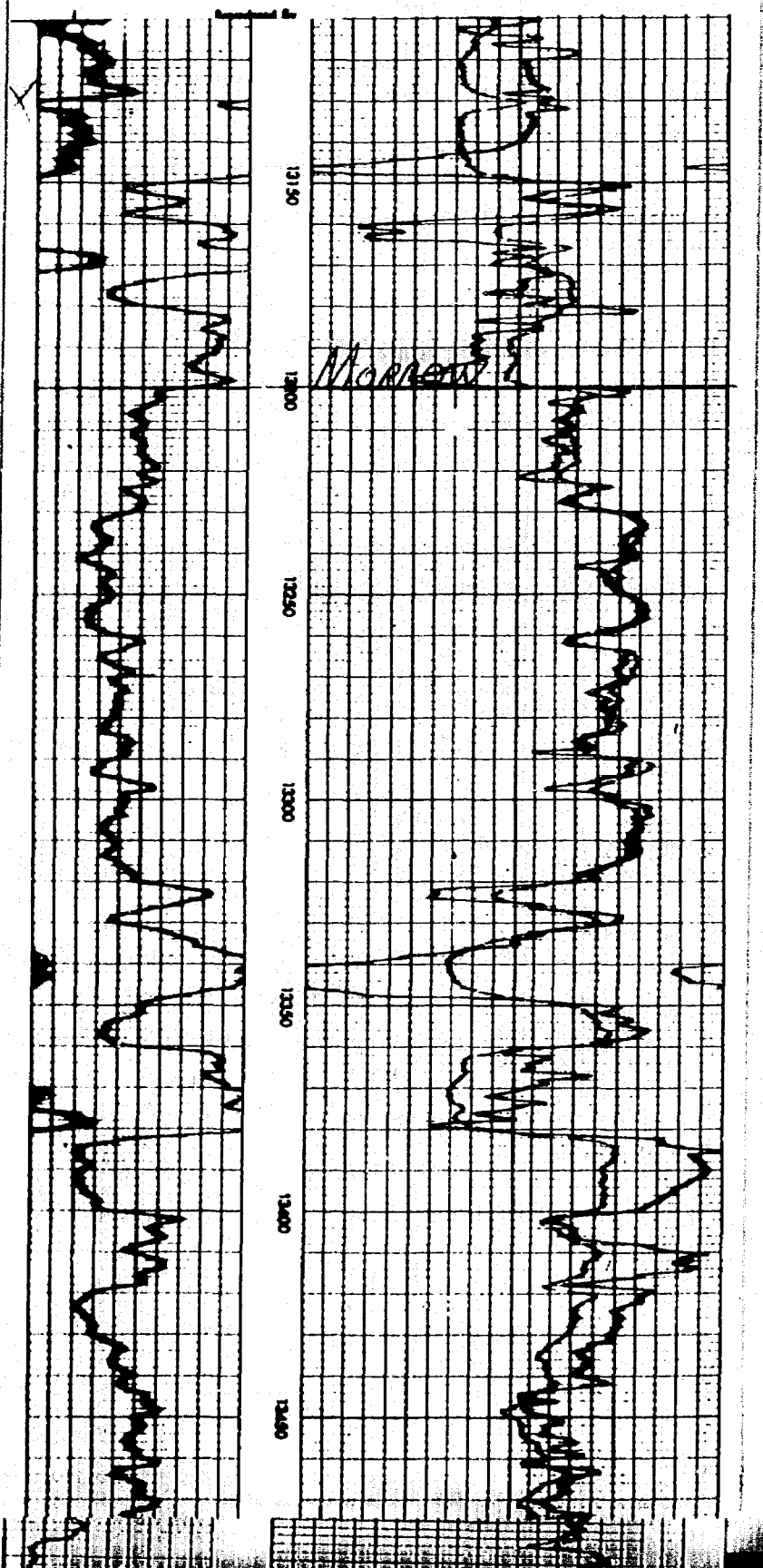
Log Measured From: K. B. 18 Ft Above Perm Datum

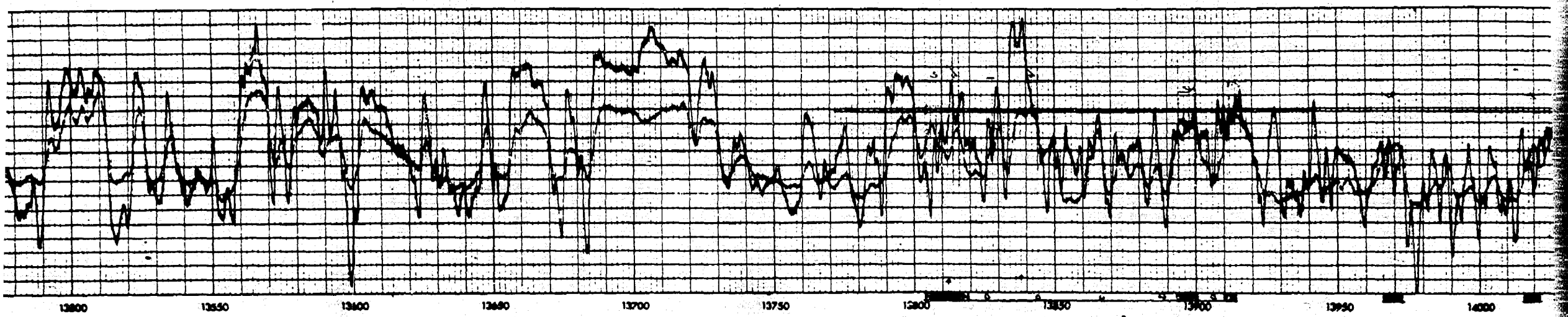
Drilling Measured From: Kelly Bushing

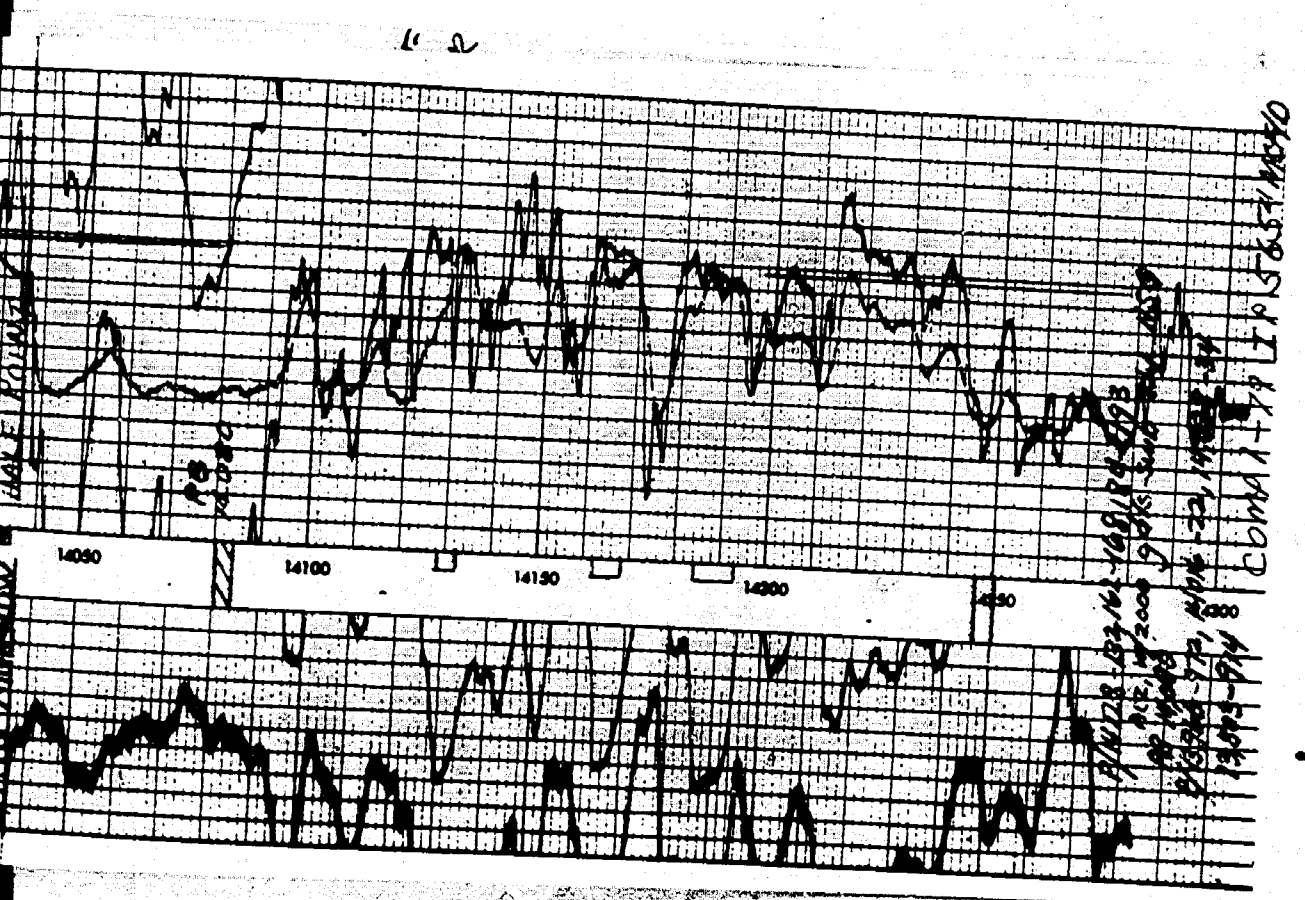
Elev. K.B. 3686'
D.F. 3685'
G.L. 3668'

3668 DF
3652 GR

| | | | | |
|---|---|---|---|---|
| Date | 8/17/78 | | | |
| Run No. | - One - | | | |
| Depth—Driller | 14,306 | | | |
| Depth—Logger | 14,306 | | | |
| Btm. Log Intvl. | 14,300 | | | |
| Top Log Intvl. | 3,350 | | | |
| Casing—Driller | 9-5/8" @ 5,176 | @ | @ | @ |
| Casing—Logger | | | | |
| Bit Size | 7-7/8" | | | |
| Type Fluid in Hole | Salt Mud | | | |
| | 140,000 PPM Cl. | | | |
| Dens. / Visc. | 11.1 /39 | / | / | / |
| pH / Fluid Loss | 9.5 /8.0 ml | / ml | / ml | / ml |
| Source of Sample | Pit | | | |
| R_m @ Meas. Temp. | .09 @ 75 °F | @ °F | @ °F | @ °F |
| R_mf @ Meas. Temp. | .05 @ 75 °F | @ °F | @ °F | @ °F |
| R_mc @ Meas. Temp. | @ °F | @ °F | @ °F | @ °F |
| Source R_mf / R_mc | Measured | / | / | / |
| R_m @ BHT | .025 @185 °F | @ °F | @ °F | @ °F |
| Time Since Circ. | 6 Hours | | | |
| Max. Rec. Temp. | 185°F @ B.H. | °F @ | °F @ | °F @ |
| Equip. / Location | 9733 / Hobbs | / | / | / |
| Recorded By | Feires | | | |
| Witnessed By | Mr. Henry | | | |




13800
13850
13900
13950
14000


14050
14100
14150
14200
4250

Welex

COMPANY CLEARY PETROLEUM CORPORATION

WELL NEW MEXICO - FEDERAL "E" # 1

FIELD SOUTH SALT LAKE

COUNTY LEA STATE NEW MEXICO

Location: 3300' FSL & 660' FEL — Other Services: Sonic-GR-AM

Sec 5 Twp 21-S Rge 32-E

Company: Cleary Petroleum Corporation — Well: New Mexico - Federal "E" No. 1 — Field: South Salt Lake — County: Lea — State: New Mexico

| | | | |
|---|---|---|---|
| Permanent Datum | Ground Level | Elev. 3927' | Elev.: K.B. 3941' |
| Log Measured From | K. B. - 18 | Ft. Above Perm. Datum | D.F. |
| Drilling Measured From | Kelly Bushing | | G.L. 3927' |

N/A

| | | | | |
|---|---|---|---|---|
| Date | 6/5/77 | 7/10/77 | 7/11/77 | |
| Run No. | - One - | - Two - | - Three - | |
| Depth - Driller | 5,225 | 14,125 | 14,138 | |
| Depth - Logger | 5,206 | 14,138 | 14,136 | |
| Btm. Log Interval | 5,170 | 14,110 | 14,055 | |
| Top Log Interval | Surface | 3,420 | 3,420 | |
| Casing - Driller | 13-3/8" @ 485 | 8-5/8" @ 5,224 | 8-5/8" @ 5,224 | |
| Casing - Logger | 485 | 5,225 | | |
| Bit Size | 12-1/4" | 7-7/8" | 7-7/8" | |
| Type Fluid in Hole | Mud | KCL Brine 170,000 PPM | KCL Brine 170,000 PPM | |
| Dens. / Visc. | 9.6 40 | 10.1 / 35 | 10.1 / 35 | / |
| pH / Fluid Loss | 9.0 / ml | 9.5 / 6.0 ml | 9.5 / 6.4 ml | / ml |
| Source of Sample | Pit | Circulated | Circulated | @ °F |
| $R_m$ @ Meas. Temp. | .076 @ 82 °F | .08 @ 70 °F | .062 @ 70 °F | @ °F |
| $R_{mf}$ @ Meas. Temp. | .070 @ 82 °F | .075 @ 70 °F | .060 @ 70 °F | @ °F |
| $R_{mc}$ @ Meas. Temp. | @ °F | @ °F | @ °F | @ °F |
| Source $R_m$, $R_{mf}$ | Measured | Measured | Measured | / |
| $R_m$ @ BHT | .057 @ 105 °F | .050 @ 165 °F | .039 @ 185 °F | @ °F |
| Time Since Circ. | 5 Hours | 6 Hours | 8 Hours | |
| Max. Rec. Temp. | 105 °F @ | 185 °F @ B.H. | 185 °F @ B.H. | °F @ |
| Equip. / Location | 0433 Hobbs | 0433 / Hobbs | 0433 Hobbs | / |
| Recorded By | Ed Morris | Ed Morris | Ed Morris | |
| Witnessed By | Mr. Henry | Mr. Henry | Mr. Henry | |

Reproduced By

*Electrical Log Services*

Monahans, Texas 79756

X

13150

13200

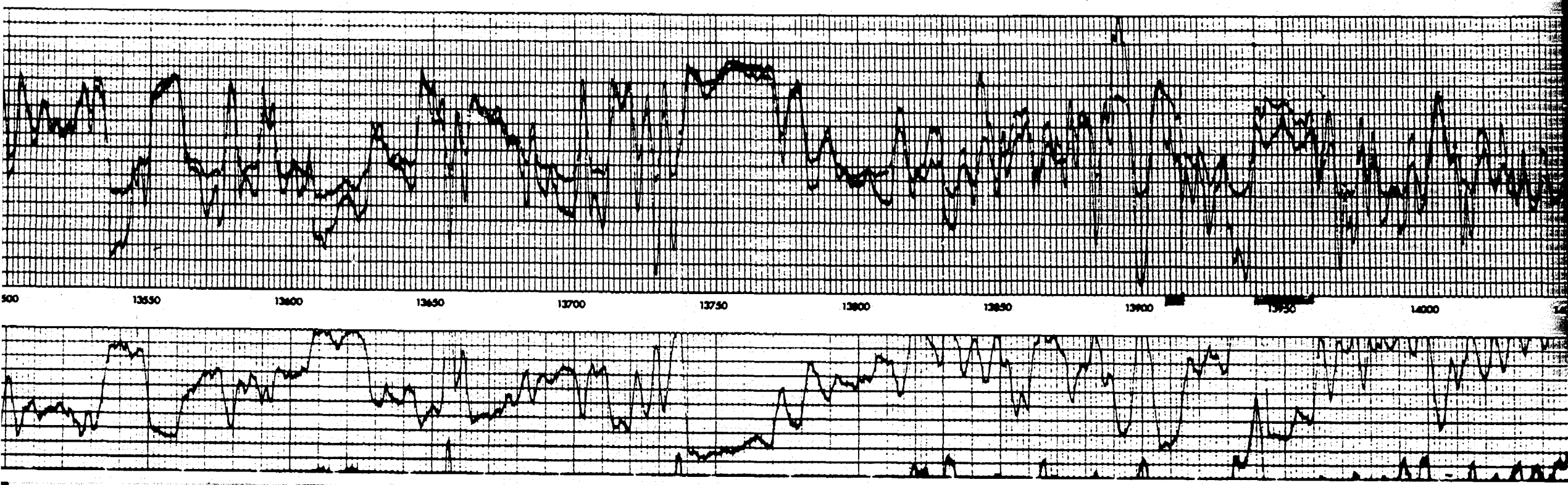
13250

13300

13350

13400

13450


500
13550
13600
13650
13700
13750
13800
13850
13900
13950
14000

MID-MORROW SHALE PAY

RUN 2

RUN 3

1410

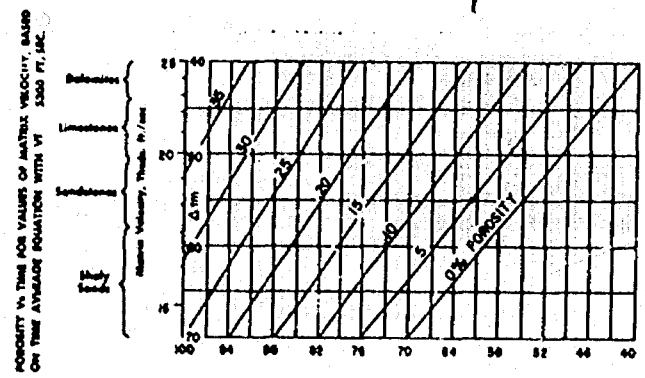
1420

1430

1440

1450

P/13908-914
13940-960
IPF 3400 MCF/D
CAOF 9-77
PBTD




1360

1370

1380

1390

1400

L.R. noted 7-28-78
copy to Scott

Map No. R-21
Previous correspondence attached

Grace Petroleum Corporation
Subsidiary of W. R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

July 21, 1978

RECEIVED
JUL 27 1978
LAND SECTION
MIDLAND, TEXAS

RECEIVED
EXPLORATION
GEOLOGY

Gulf Energy & Mineral Co., U.S.
P.O. Box 1150
Midland, Texas 79702
ATTENTION: Mr. Robert E. [illegible]

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
ATTENTION: Mr. Bill Curtis

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G"
Comun. #1
Lots 9, 10, 15 and 16 and
SE/4 Sec. 6, T21S, R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No. 9281

Gentlemen:

Please refer to my letter of July 17, 1978, concerning the proposed captioned unit.

The unit outline has been revised to include Lots 9, 10, 15, and 16 and SE/4 Section 6-T21S, R32E, NMPM, Lea County, New Mexico. Lot No. 8 will not be included. A revised plat is attached.

Yours very truly,

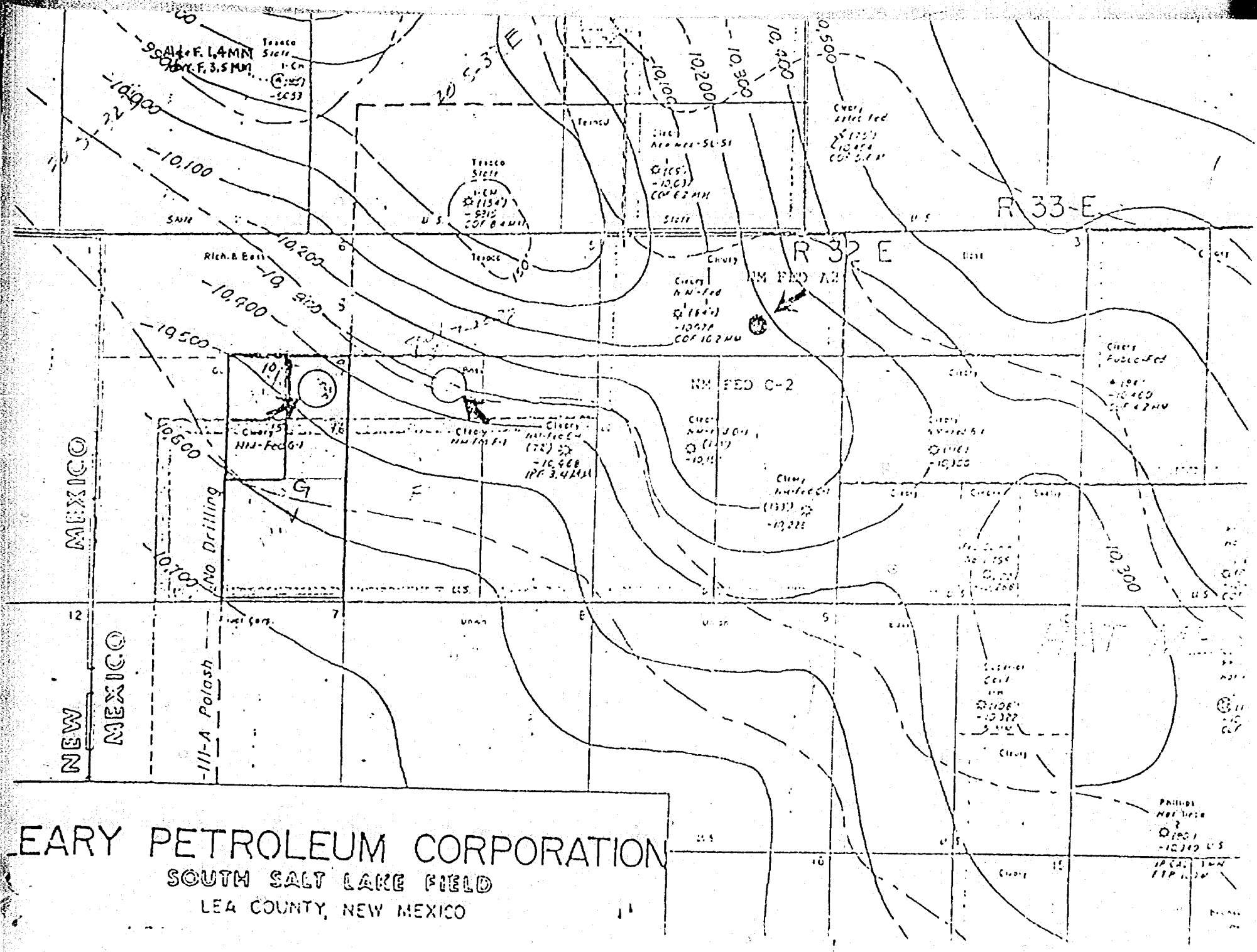
Don W. Erickson

Don W. Erickson
District Landman

DWE/jc

Refer to Prod. Dept.
RAH
8-1-78
JKV

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6612 Exhibit No. 10
Submitted by Gulf
Hearing Date

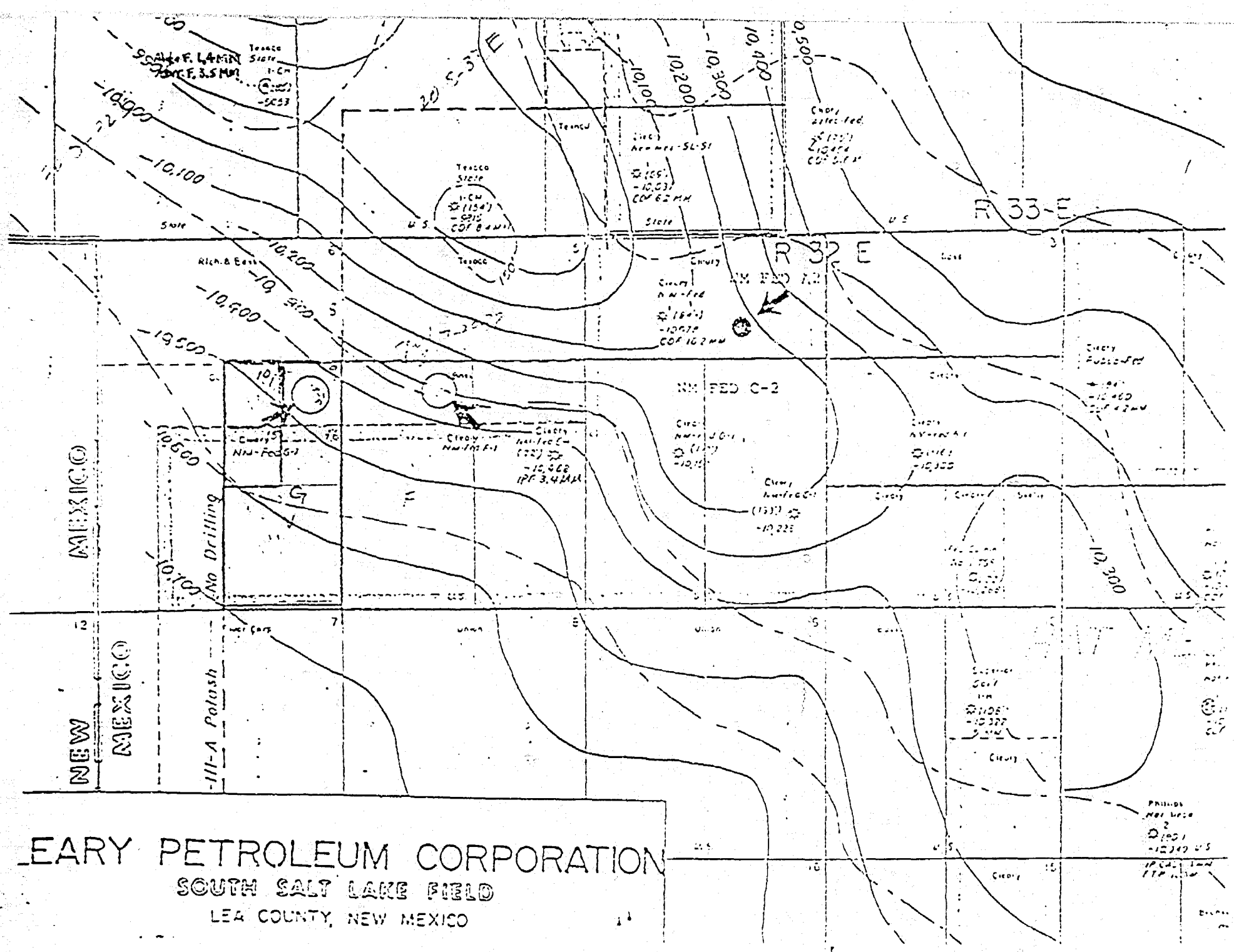



# LEARY PETROLEUM CORPORATION

## SOUTH SALT LAKE FIELD

LEA COUNTY, NEW MEXICO

BEFORE THE




BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 6612 Exhibit No. 11

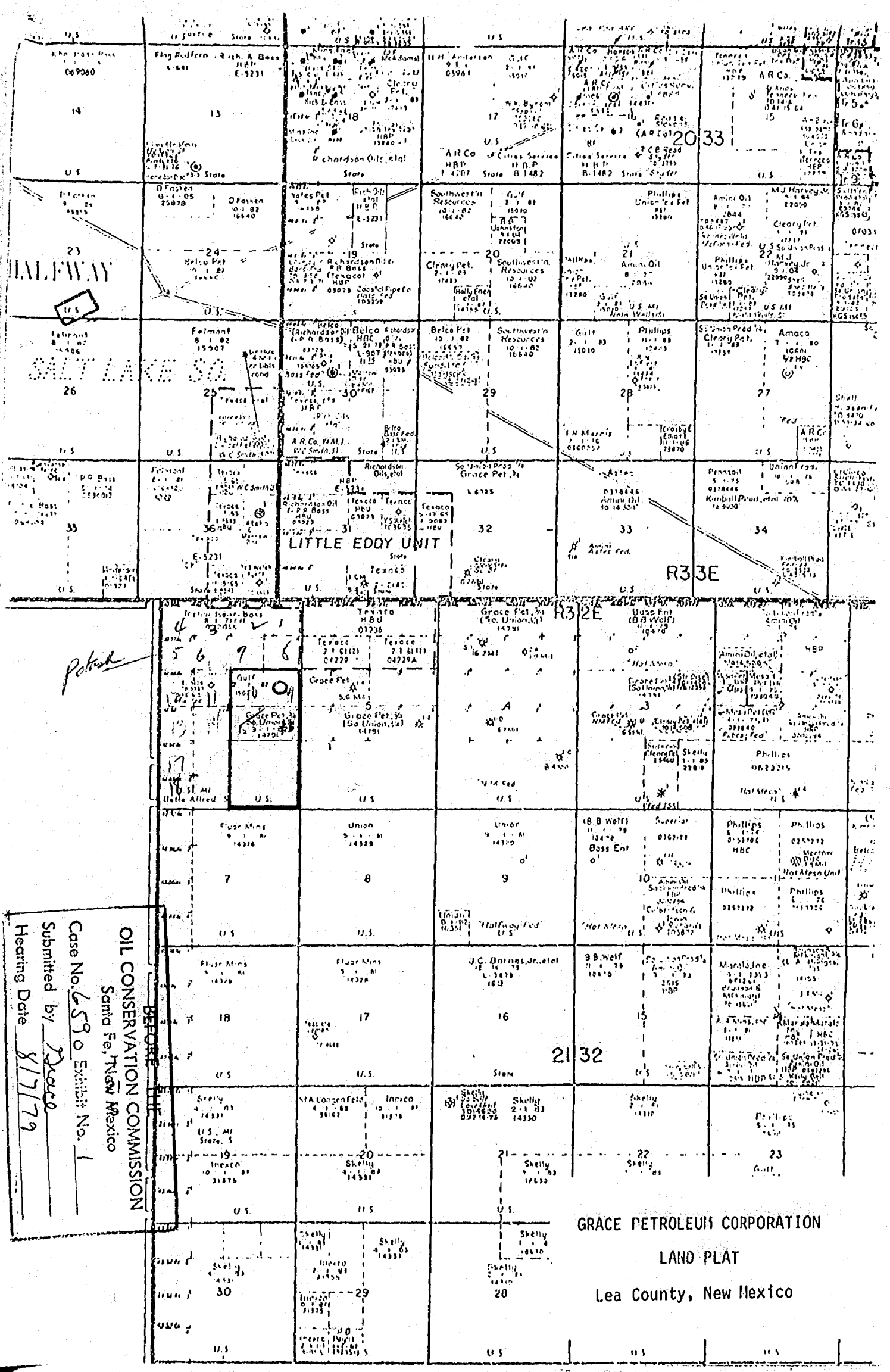
Submitted by 6 of F

Hearing Date

# EARY PETROLEUM CORPORATION

## SOUTH SALT LAKE FIELD

LEA COUNTY, NEW MEXICO

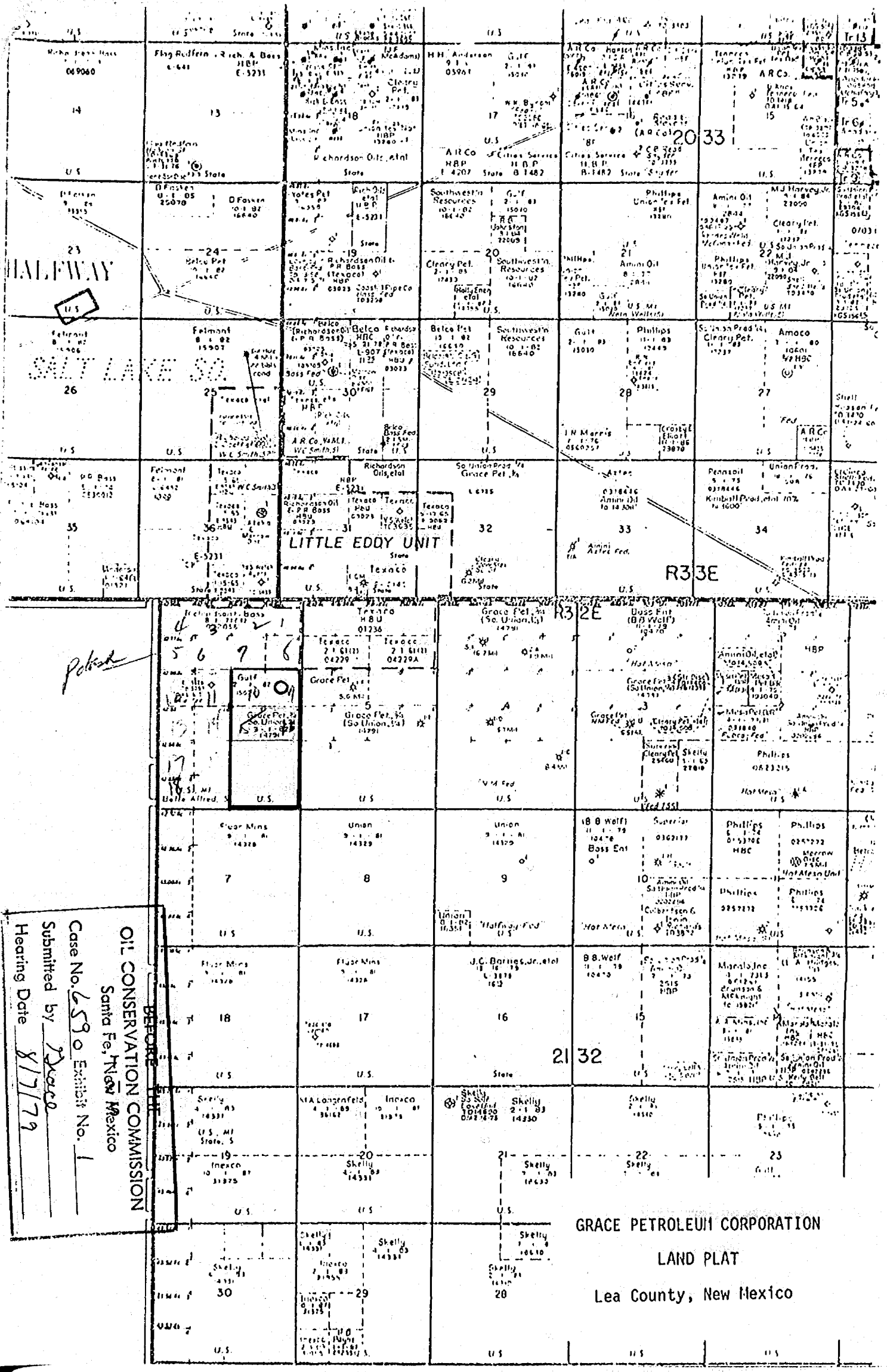



OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6590 Exhibit No. 1
Submitted by Grace
Hearing Date 8/17/79
BEFORE THE

GRACE PETROLEUM CORPORATION

LAND PLAT

Lea County, New Mexico




OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 6590 Exhibit No. 1
Submitted by Texaco
Hearing Date 8/7/79
BEFORE THE

WORKING INTEREST AND BILLING INSTRUCTIONS

DATE 1/15/79 DOI #866

CPC's TOTAL W. I. 56.25 %BPO

56.25 %APO

Est. NRI = 46.40625%

Est Lease Cost (_____ Ac) $_____

Est. Costs To T. D. $ 670,000

Est. Total Risk $ 670,000

Est. Completion Costs $ 326,000

Turnkey Basis (100%)

Leases $_____

Drilling $_____

Total $_____

Lease acquired thru RCA on _____

WELL NAME: New Mexico Federal "G" Comm. #1
660' FNL & 660' FEL, Sec. 6-21S-33E, NMPM
Lea County, New Mexico

PROSPECT SALT LAKE MORROW SOUTH

Region: Mid-Continent

Land AFE _____ Well AFE 8424AB

FUND _____

Exploratory _____ or Development X

Est. T.D. & Objective 14,100' Morrow

Spacing 320 acres Oil _____ Gas X

Date Spudded _____ Date Compl. _____

Results: _____

First Sale: Oil _____ Gas _____

| OWNERS | WORKING INTEREST BEFORE PO | WORKING INTEREST AFTER PO | BASIS SOLD | ESTIMATED $ PAID TO CASING POINT |
|---|---|---|---|---|
| Grace Petroleum Corporation (Oper.) | 56.25% | | | |
| Supron Energy Corporation | 18.75% | | | |
| Gulf Oil Exploration and Prod. Co. | 25.00% | | | |
| | 100.00% | | | |

Supron Energy Corporation: Building V, Fifth Floor
10300 N. Central Expressway
Dallas, TX 75231

Gulf Oil Exploration and Production Co.: P. O. Drawer 1150, Midland, TX 79702

100% of LHC $ Orig. to T.D. $ 670,000

Promoted Money Paid by Others $ -0-

Unpromoted " " " " $_____

CPC Total Exposure $ 376,875 (CPC LHC $_____)

CPC Est. Completion Cost $ 183,375 (CPC Drilling $ 376,875)

RECAP OF PROFIT ON SALE

Sale $_____

Less Commission $_____

Total $_____

Cost of Sale $_____

CPC DH Cost $ 376,875

JD, FR, MK, DH(3), JH(2), DS, GV, RM, JT(2), GM, ET, GD, JC(2), EF, GH

GRACE PETROLEUM CORPORATION

WELL DATA MEMO

ORIGINAL: ^

SUPPLEMENTAL

DATE: January 8, 1979

## LOCATION DATA

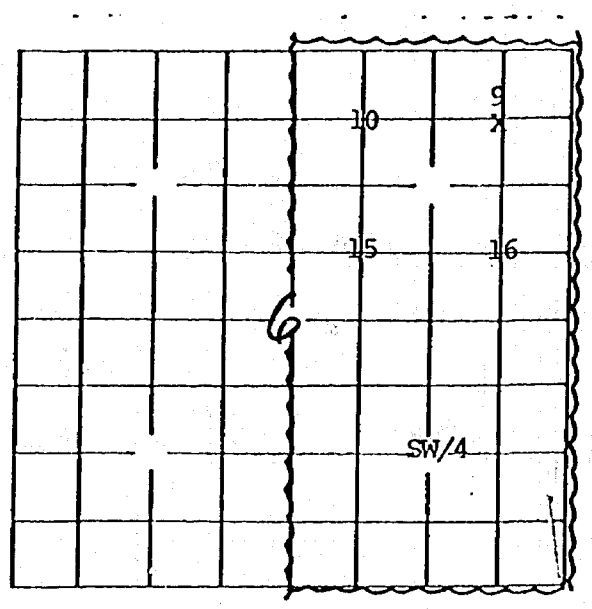
**Region:** Mid-Continent

**Prospect:** Salt Lake Morrow South

**County and State:** Lea County, New Mexico

**Well name:** New Mexico Federal "G" Comm. #1

**Location:** ~~660' FNL &~~ 4650' FSL & 660' FEL
Sec. 6-21S-~~33~~32E, NMPM




**Operator:** Grace Petroleum Corporation

**Estimated TD:** 14,100'

**Objective:** Morrow

**Lease Nos. Affected by Well:**
NM-9281

**DESCRIPTION OF WELL OR UNIT:** **NO. ACRES:** 320.00

Lot 9, 10, 15, 16, and SE/4
Sec. 6-21S-32E, NMPM, Lea County, New Mexico

| OWNERS & ADDRESSES | COST | NRI (E) |
|---|---|---|
| Grace Petroleum Corporation<br>Broadway Executive Park<br>6501 North Broadway<br>Oklahoma City, Oklahoma 73116 | 56.25% | 46.40625 % |
| Supron Energy Corporation<br>Building V, Fifth Floor<br>10300 N. Central Expressway<br>Dallas, Texas 75231 | 18.75% | 15.46875 % |
| Gulf Oil Exploration and<br>Production Company<br>P. O. Drawer 1150<br>Midland, Texas 79702 | 25.00% | 20.62500 % |

17½% burden on 320 acres Tracts

**JOA DATA** **Dated:** November 1, 1978

**Limitation of Expenditure:** $15,000

**Casing Point Election:** Yes

**Overhead Rates:**

**Non-Consent Penalty:** 100% Equip.
300% Drlg.

Drilling $2,407.00
Operating $ 336.00

**Distribution:**

**Prepared by:** DWE
Don W. Erickson

COMMUNITIZATION AGREEMENT

Contract No. _____

THIE AGREEMENT, entered into as of the 1st day of November, 1978, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

WITNESSETH:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.), authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

   Lots 9, 10, 15, 16, and SE/4 of
   Section 6-21S-32E,
   Lea County, New Mexico

   containing 320 acres, more or less, and this agreement shall include only the Morrow Formation underlying said lands and the natural gas and associated liquid hydrocarbons hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit B, designating the operator of the communitized area and showing the acreage percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area, and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

(b) It is agreed that for any Federal lease bearing a sliding - or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement is effective November 1, 1978, upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities: Provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246, as amended, (30 F.R. 12319), which are hereby incorporated by reference in this agreement.

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____
ASSISTANT SECRETARY

BY: _____
Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 1st day of November 1978, by J. K. Ursidale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___ day of _____, 19 , by

President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this _____ day of _____, 19__, by President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this____day of_____, 19__ by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____, 19__, by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____, 19__, by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____, 19__, by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____, 19__, by_____.

_____
Notary Public

My Commission Expires:

_____.

EXHIBIT "A"

TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, EMBRACING LOTS 9, 10, 15, & 16 and SE/4 Section 6, Township 21 South, Range 32 East, NEW MEXICO P.M., LEA COUNTY, NEW MEXICO

OPERATOR OF COMMUNITIZED AREA - GRACE PETROLEUM CORPORATION

TRACT NO. 1

LESSOR(S) : U. S. A.

LESSEE(S) OF RECORD: Gulf Oil Exploration and Production Company

SERIAL NO. OF LEASE: NM-15024

DATE OF LEASE: February 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 9 & 10 of
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 80

WORKING INTEREST AND PERCENTAGE: Gulf Oil Exploration and Production Company. . .100.%

O.R.R.I. AND PERCENTAGE:

Walter Duncan.....30% of 5%
Raymond T. Duncan.....30% of 5%
Vincent J. Duncan.....30% of 5%
J. Walter Duncan, Jr..... 9% of 5%
Walter Duncan, III..... 1% of 5%

TRACT NO. 2

LESSOR(S): U. S. A.

LESSEE(S) OF RECORD: Grace Petroleum Corporation and
Supron Energy Corporation

SERIAL NO. OF LEASE: NM-14791

DATE OF LEASE: March 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 15 & 16 & SE/4
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 240

WORKING INTEREST AND PERCENTAGE:

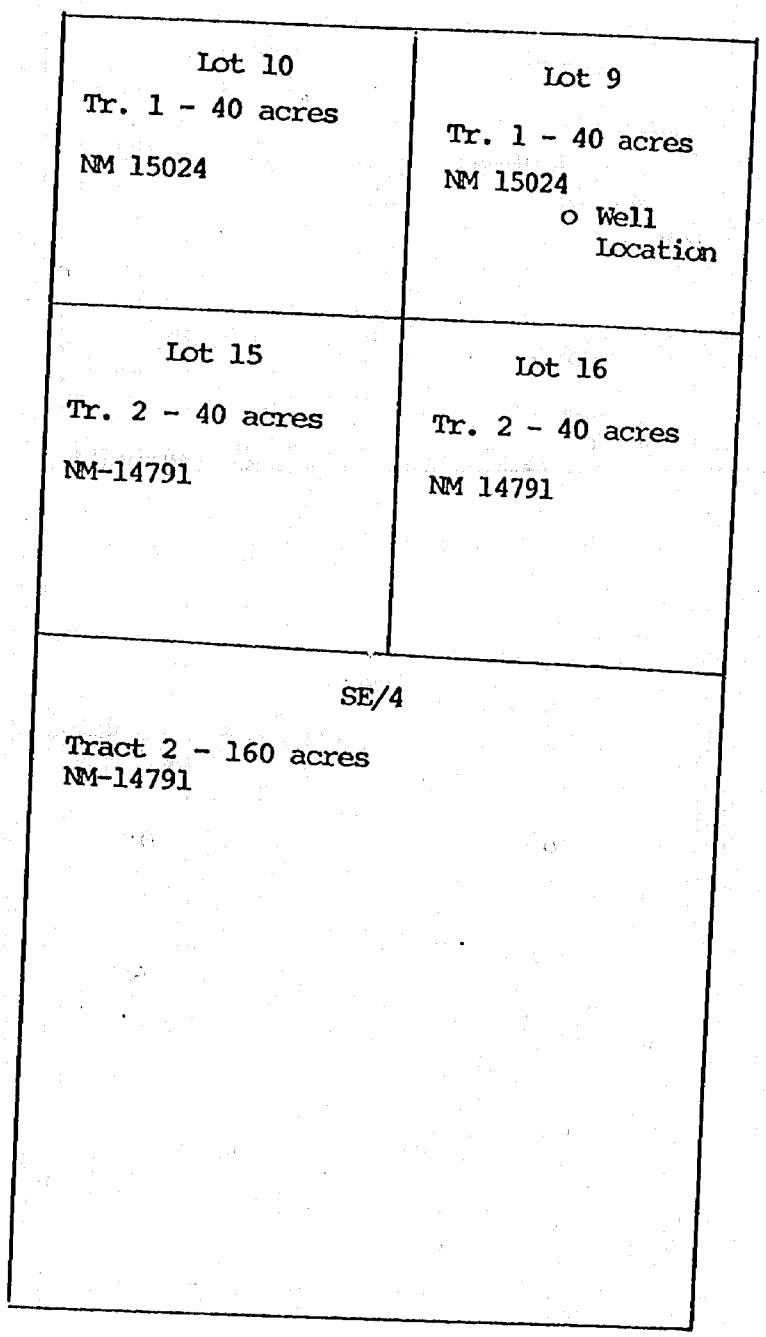
Grace Petroleum Corporation ..... 75.%
Supron Energy Corporation ..... 25.%
100.%

O.R.R.I. AND PERCENTAGE:

Henry Vartanian.....2.5%
Charles E. Strange,
Trustee of the Charles
E. Strange Trust.....2.5%

EXHIBIT "B"

PLAT OF COMMUNITIZED AREA COVERING LOTS 9, 10, 15, & 16 and SE/4 of Section 6-21S-32E, NMPM, LEA COUNTY, NEW MEXICO, SALT LAKE SOUTH FIELD




RECAPITULATION

| TRACT # | TOTAL ACRES COMMITTED | % OF INTEREST IN COMMITTED AREA |
|---|---|---|
| 1 | 80.00 | 25.00% |
| 2 | 240.00 | 75.00% |
| | 320.00 | 100.00% |

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____
ASSISTANT SECRETARY

BY: _____
Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____
Bill Curtis, Attorney-in-Fact

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 1st day of November 1978 by J. K. Hisdale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF TEXAS )
) SS
COUNTY OF DALLAS )

The foregoing instrument was acknowledged before me this 22 day of December 1978, by Bill Curtis, Attorney-in-Fact of Supron Energy Corporation, a Delaware Corporation, on behalf of said corporation.

Mary P. Brooks
Notary Public

My Commission Expires:
6/15/80

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this_____day of_____, 19__, by President of a corporation, on behalf of said corporation.

Notary Public

My Commission Expires:

Walter Duncan OIL PROPERTIES

1300 WRITERS' CENTER IV • 1720 SOUTH BELLAIRE STREET
AREA CODE 303 TEL. 759-3303 • DENVER, COLORADO 80222

July 9, 1979

United States Geological Survey
505 Marquette, NW, Suite 815
Albuquerque, New Mexico

Attention: Mr. James W. Sutherland
Area Oil and Gas Supervisor

Re: NM-15024
Communitization Agreement
T21S-R32E
Sec. 6: Lots 9 & 10
Lea County, New Mexico
31-2-171-01

Dear Mr. Sutherland:

Mr. Walter Duncan III is temporarily incapacitated due to illness, thus being unable to sign the captioned instrument. Mr. Duncan owns 1% of 5% (.05% net) of the Overriding Royalty interest in Federal Oil and Gas Lease NM-15024. Messrs. Walter Duncan, Raymond T. Duncan, Vincent J. Duncan and J. Walter Duncan, Jr. own 99.0% of 5% of the overriding royalty interest in the lease and have executed the captioned Communitization Agreement.

Very truly yours,

Dale E. Harrison

Dale E. Harrison
Land Manager

DEH:lks

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

BY: _____
ASSISTANT SECRETARY

GRACE PETROLEUM CORPORATION

BY: _____
Vice President

ATTEST:

BY: _____

SUPRON ENERGY CORPORATION

BY: _____

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

Joan R. Duncan
Joan R. Duncan, wife of Raymond T. Duncan

Annamarie Duncan
Annamarie Duncan, wife of Vincent J. Duncan

Walter Duncan

Raymond T. Duncan

Vincent J. Duncan

J. Walter Duncan, Jr.

Walter Duncan, III

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 18 day of June, 1979

by Raymond T. Duncan & Joan R. Duncan, husband & wife

Connie K. Knutson
Notary Public

My Commission Expires:

12-10-80

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 21 day of June, 1979

by Vincent J. Duncan & Annamarie Duncan, husband & wife

Nina M. Jones
Notary Public

My Commission Expires:

5-28-83

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 29 day of June, 1979,

by J. Walter Duncan, Jr.

Jean L. Kaiser
Notary Public

My Commission Expires:

12-29-81

STATE OF Illinois )
) SS
COUNTY OF LaSalle )

The foregoing instrument was acknowledged before me this 5 day of July, 1979,

by Walter Duncan.

Notary Public

My Commission Expires:

3-22-80

LAW OFFICES
HINKLE, COX, EATON, COFFIELD & HENSLEY
1000 FIRST NATIONAL BANK TOWER
POST OFFICE BOX 3580
MIDLAND, TEXAS 79702
(915) 683-4691

LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
JAMES H. BOZARTH

DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
J. DOUGLAS FOSTER
R. DOUGLAS PERRIN
C. RAY ALLEN
JACQUELINE W. ALLEN
T. CALDER EZZELL, JR.
WILLIAM B. BURFORD
JOHN S. NELSON
RICHARD E. OLSON

OF COUNSEL
CLARENCE E. HINKLE

W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN, ALLEN & BURFORD LICENSED IN TEXAS

July 18, 1979

IN RE: FIRST SUPPLEMENTAL OPINION OF TITLE TO:

United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ of Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said lands being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.

Your No. _____

No. 25,140

Grace Petroleum Corporation
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

We rendered our original Opinion of Title herein on September 26, 1978, based upon prior opinions, abstract coverage of the federal records last certified to August 7, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 14791 and to August 22, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 15024, and abstract coverage of the county records last certified to August 11, 1978 at 8:00 A.M. as to the mineral estate covered by Lease NM 14791 and to August 23, 1978 at 8:00 A.M. as to the mineral estate covered by Lease NM 15024. We have been furnished for further examination the following materials:

(a) Federal Abstract Company Abstract No. 31481, covering the records in the United States Land Office at Santa Fe, New Mexico as to the captioned lands covered by Lease NM 14791, from August 7, 1978 at 10:00 A.M. to June 7, 1979 at 10:00 A.M.,

(b) Federal Abstract Company Abstract No. 31482, covering the records in the United States Land Office at Santa Fe, New Mexico as to the captioned lands covered by Lease NM 15024, from August 22, 1978 at 10:00 A.M. to June 7, 1979 at 10:00 A.M.

(c) Lovington Abstract Company Abstract No. 6-1579 covering the public records of Lea County, New Mexico as to the mineral estate in the captioned lands from August 11, 1978 at 8:00 A.M. as to Lots 15 and 16 and the SE¼ of Section 6, and from August 23, 1978 at 8:00 A.M. as to Lots 9 and 10 of Section 6, to June 15, 1979 at 8:00 A.M.

Based upon our examination of the above materials, we report the status of previous title requirements as follows:

I. CURATIVE ACTION ON PREVIOUS TITLE REQUIREMENTS

REQUIREMENT A: Advisory only, and relates to the reassignment rider contained in the assignment from Annamarie Duncan and husband, Vincent J. Duncan, to Gulf Oil Corporation.

REQUIREMENT B: Nothing submitted. This requirement should be satisfied in the event that you desire to pool the lands covered by Lease NM 15024 with other lands.

REQUIREMENT C: Nothing submitted, and it may be that you will waive this requirement in the event that you do not intend to conduct drilling operations on the lands covered by Lease NM 15024.

REQUIREMENT D: Previously satisfied as indicated in our letter dated November 6, 1978.

REQUIREMENT E: Partially satisfied. By Decision dated March 19, 1979, the Bureau of Land Management in Santa Fe recognized that effective as of July 1, 1978, Cleary Petroleum Corporation changed its name to Grace Petroleum Corporation. The county records still do not contain any record of this change, however.

II. ADDITIONAL EXCEPTIONS TO TITLE AND COMMENTS:

1. Lease Account Status: The abstracts under examination do not reflect current status of the lease account in connection with Lease NM 14791. This account should be in a current status.

REQUIREMENT F (NEW): You should inquire of the United States Geological Survey in Albuquerque, New Mexico and ascertain whether or not the lease account in connection with Lease NM 14791 is in a current status. (We have taken the liberty to write a letter inquirying as to the status of this lease account.)

2. Rentals: The abstracts indicate that rentals on Lease NM 15024 have been paid to February 1, 1980. This is advisory only.

3. Judgment and Lien Search: The county abstract contains satisfactory judgment and lien searches.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

John S Nelson /WBB

John S. Nelson

JSN:rf
Above mentioned abstracts
returned herewith.

LAW OFFICES
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1000 FIRST NATIONAL BANK TOWER
POST OFFICE BOX 3580
MIDLAND, TEXAS 79702
(915) 683-4691

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J. DOUGLAS FOSTER
X. DOUGLAS PERRIN
C. RAY ALLEN
JACQUELINE W. ALLEN
T. CALDER EZZELL, JR.

OF COUNSEL
CLARENCE E. HINKLE

W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

November 6, 1978

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Re: United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.
HCEC&H T/O No. 25,140
Requirement D

Gentlemen:

Under date of September 26, 1978 we rendered our original opinion of title wherein we imposed Requirement D. We have not been submitted any additional abstracts but we have received additional curative materials and now report curative action as follows:

REQUIREMENT D: Satisfied. We have received a letter from the United States Geological Survey dated October 13, 1978 which states that the lease account for NM 14791 is considered in good standing through July 1978.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cm

LAW OFFICES
HINKLE, COX, EATON, COFFIELD & HENSLEY
1000 FIRST NATIONAL BANK TOWER
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MIDLAND, TEXAS 79702
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OF COUNSEL
CLARENCE E. HINKLE

W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

September 26, 1978

IN RE: OPINION OF TITLE TO:
United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ of Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.

Your No. _____

No. 25,140

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

In connection with the title to the captioned lease and lands we have examined the following materials:

(a) Southern Union Production Company, in-house opinion, dated November 10, 1972, which opinion was based on examination of various materials, including abstracts certified down to October 17, 1972 at 10:00 A. M. as to the federal records and down to October 18, 1972 at 8:00 A.M. as to the county records; and

(b) Federal Abstract Company Abstract Nos. 27739, 28130, 28218 and 30446, which when taken collectively, cover the records in the United States Land Office at Santa Fe, New Mexico from October 17, 1972 at 10:00 A.M. down to August 7, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 14791; and

(c) Federal Abstract Company Abstract No. 30506 which purports to cover the records in the United States Land Office at Santa Fe, New Mexico from inception of records down to August 22, 1978 at 10:00 A.M. as to captioned lands covered by Lease NM 15024; and,

(d) Lovington Abstract Company, Inc. Abstract Nos. 1-2174-B, 12-1476-A, 5-1777 and 8-1178-F, which collectively cover the public records of Lea County, New Mexico as to the mineral estate from October 18, 1972 at 8:00 A.M. down to August 11, 1978 at 8:00 A.M., insofar as said records reflect the captioned mineral estate covered by Lease NM 14791 and which contain satisfactory judgment and lien searches against the parties in the chain of title to the captioned lease and lands; and,

(e) Lovington Abstract Company Abstract No. 8-2378-A which covers the public records of Lea County, New Mexico as to the mineral estate from inception of records down to August 23, 1978 at 8:00 A.M. as to the captioned mineral estate covered by Lease NM 15024; and,

(f) Hinkle, Cox, Eaton, Coffield & Hensley Title Opinion No. 23,892 dated July 8, 1977.

From our examination of the foregoing, and based solely thereon, we now report the status of title to the captioned lease and lands as of the most recent closing dates reflected by the abstract certificates as follows:

I. TITLE TO OIL AND GAS SUBJECT TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 12.5% ROYALTY):

United States of America ---------- All

II. RECORD TITLE TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 82.5% WORKING INTEREST):

NM 14791:

Grace Petroleum Corporation ---------- 75%*
Southern Union Production Company ------ 25%

* This will be the status of title upon filing a Certificate of Merger between Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management.

NM 15024:

Gulf Oil Corporation ---------- All

III. TITLE TO OVERRIDING ROYALTY INTERESTS EQUAL TO 5% of 8/8 CREATED UNDER EACH OF LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS:

NM 14791:

| | |
|---|---|
| Henry H. Vartanian, whose wife is Betty Jane Vartanian | 1/2 |
| Charles E. Strange, Trustee of the Charles E. Strange Trust established on May 6, 1974 | 1/2 |

NM 15024:

| | |
|---|---|
| Walter Duncan | 30% |
| Raymond T. Duncan | 30% |
| Vincent J. Duncan | 30% |
| J. Walter Duncan | 9% |
| Walter Duncan III | 1% |

IV. OIL AND GAS LEASES -- RENTS AND ROYALTIES -- ASSIGNMENTS -- DESIGNATIONS OF OPERATOR -- PRODUCTION HISTORY:

NM 14791:

| | |
|---|---|
| Date: | March 1, 1972 |
| Lessor: | United States of America |
| Lessee: | Henry Vartanian |
| Term: | Ten years and so long thereafter etc. |
| Rentals: | Although not noted in the base opinion on which we are relying, in part, the captioned lease apparently provides for rentals of 50¢ per acre, increasing to $2.00 per acre or any fraction thereof, commencing with thirty days after notice that any portion of the lands within the lease are in a known geologic structure. Apparently, rentals were timely and properly paid for all lease years down to the lease year expiring March 1, 1974. Prior to that date, it appears that the captioned lease went on production and therefore the lease is now considered held by production on a royalty payment status. |
| Lands Covered: | Township 21 South, Range 32 East, NMPM<br>Section 3: Lots 9-16, inclusive SW¼<br>Section 4: Lots 1-16, inclusive, S½ (All) |

Section 5: Lots 13, 14, 15, 16, S½
Section 6: Lots 14, 15, 16, E½SW¼ SE¼

containing a total of 2,282.84 acres, more or less.

Royalty: 12½%

Other Features: Since we have not actually examined this lease we have assumed that the captioned lease was probably prepared on Form 4-1158, and based upon that assumption, we have attached a schedule reflecting the general features of that lease form.

NM 15024:

Form: 3120-19 (May 1968)

Date: February 1, 1972

Lessor: United States of America

Original Lessee: Annamarie Duncan

Term: Ten years and so long thereafter, etc.

Rentals: This lease provided for annual delay rentals in the amount of 50¢ per acre until such time as said lease may have been determined to be in a known geological structure. Said lease was included in a known geological structure effective June 16, 1973 and rentals thereafter were paid at the $2.00 per acre rate. Rentals have been timely and properly paid for all time period up to February 1, 1979.

Lands Covered: Township 20 South, Range 32 East, NMPM

Section 27: N½N½

Township 21 South, Range 32 East, NMPM

Section 6: Lots 8, 9, 10 and 11

containing 320 acres, more or less.

Royalty: 12½%

Other Features: See attached schedule

2. Assignments: The following assignments have been made affecting the captioned lease and lands:

NM 14791:

(a) An assignment prepared on Form 3106-5 (February 1971) from Henry H. Vartanian and his wife, Betty Jane Vartanian, to C. E. Strange dated December 9, 1971 and approved by the Bureau of Land Management effective March 1, 1972, recorded in the Office of the Lea County Clerk in Book 282 at page 685, assigning all interest as to the captioned lease and the lands described hereinabove, but retaining to the assignor an overriding royalty of 2½% of 8/8; and

(b) Prepared on a form identical to that described above, from C. E. Strange and his wife, Sherrie R. Strange, to Amini Oil Company, dated February 25, 1972, approved by the Bureau of Land Management effective April 1, 1972 and recorded in the Office of the Lea County Clerk in Book 282 at page 643, assigning all interest as to the captioned lease and lands. This assignment is subject to the previously create 2½% overrid and in addition, the assignors reserve an additional 2½% overriding royalty. Further, this assignment contains a sixty day reassignment clause in favor of C. E. Strange and wife with a limitation of liability for failure to comply with the reassignment provision. This assignment for does not contain any warranties; and

(c) An assignment prepared on a form identical to the assignments described hereinabove from Amini Oil Company to Southern Union Production Company dated January 5, 1973, and approved by the Bureau of Land Management effective February 1, 1973 and recorded in the Office of the Lea County Clerk in Book 282 at page 163, assigning a 25% interest in the captioned lease and lands. No overriding royalty is subject to the previously created 5% overriding royalty. Again, this assignment form contains no warranties; and

(d) An assignment prepared on a form identical to the assignments described hereinabove from Teal Petroleum Company (formerly Amini Oil Company) to Cleary Petroleum Corporation, dated September 23, 1976, assigning Cleary a 75% interest in the captioned lease and lands, said assignment having been approved effective February 1, 1977 by the Bureau of Land Management being recorded November 28, 1977 in Book 306 at page 775 in the Office of the Lea County Clerk. No overriding royalty was reserved to Teal, but the assignment is subject to the previously created total of 5% overriding royalty interest. Again, this assignment form contains no warranties.

(e) An Assignment of overriding royalty interest from C. E. Strange, a married man, to Charles E. Strange, Trustee of the Charles E. Strange Trust, established on May 6, 1974 assigning a 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment being dated May 6, 1974 and filed with the Bureau of Land Management on July 25, 1974, recorded May 20, 1974 in Book 318 at page 726 in the Office of the Lea County Clerk. We have previously in other opinions relating to this lease mentioned deficiencies in this Assignment of Overriding Royalty Interest; however, the assignment described in sub-paragraph (f) hereinbelow is a correction of these deficiencies.

(f) Correction Assignment of overriding royalty interest from C. E. Strange and wife, Sherrie R. Strange, Charles E. Strange, Trustee of the Charles E. Strange Trust, established May 6, 1974 assigning 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment having been dated July 20, 1977 and recorded August 1, 1977 in Book 342 at page 825 in the Office of the Eddy County Clerk. We will not require that this assignment be placed of record in the Office of the Bureau of Land Management inasmuch as the defective assignment was previously placed of file with the Bureau of Land Management and the defect contained therein do not effect the status of the federal records.

NM 15024:

(a) A Record Title Assignment of Oil and Gas Lease from Annamarie Duncan and husband, Vincent J. Duncan, to Gulf Oil Corporation, dated September 6, 1972, approved effective October 1, 1972 by the Bureau of Land Management and recorded November 8, 1972 in Book 280 at page 459 in the Office of the Lea County Clerk, assigning the entire record title

into said lease. This assignment was prepared on Government Form 3106-5 (February 1971) and reserves a 5% of 8/8 overriding royalty interest and contains a reassignment rider.

REQUIREMENT A: You should note your lease files in connection with the reassignment rider contained in this assignment.

(b) Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975 and filed with the Bureau of Land Management on July 30, 1975, recorded June 27, 1975 in Book 327 at page 338 in the Office of the Lea County Clerk assigning said 5% of 8/8 overriding royalty to to the following persons in the following proportions:

| Name | Percent of Override |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 |
| Raymond T. Duncan | 30% of 5% of 8/8 |
| Vincent J. Duncan | 30% of 5% of 8/8 |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 |
| Walter Duncan III | 1% of 5% of 8/8 |

This assigment of overriding royalty interest does not contain pooling authority.

REQUIREMENT B: In the event that you desire to pool these lands it will be necessary to have these overriding royalty interest owners ratify any such pooling agreement.

3. Designations of Operator: The abstracts under examination reflect the following Designations of Operator:

(a) Designation of Operator from Southern Union Production Company to Cleary Petroleum Corporation dated October 4, 1976, relating to the captioned lease and lands; and

(b) Designation of Operator from Teal Petroleum Corporation to Cleary Petroleum Corporation, dated November 3, 1976, covering the captioned lease and lands.

COMMENT: Inasmuch as you are the successor corporation to Cleary Petroleum Corporation we believe these designations are adequate in the event your drillsite will be located on the lands covered by NM 14791. However, in the event that your drillsite may be located on lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

REQUIREMENT C: In the event that you intend to conduct drilling operations on the lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

4. Production History: The materials under examination indicate that there is currently production from Lease NM 14791; however, we find no evidence of any production from Lease NM 15024. This is advisory.

V. EXCEPTIONS TO TITLE AND REMARKS:

1. Lease Account Status: The abstracts under examination do not reflect current status of the lease account in connection with Lease NM 14791. This account should be in a current status.

REQUIREMENT D: You should inquire of the USGS in Albuquerque, New Mexico and ascertain whether or not the lease account in connection with Lease NM 14791 is in a current status. (We have taken the liberty to write a letter inquiring as to the status of this lease account.)

2. Gas Purchase Agreement: The materials under examination indicate that there has been filed of record in Lea County, New Mexico, a document entitled "Recording Supplement", dated April 6, 1973, between Southern Union Gas Company as "Buyer" and Amini Oil Company (now Teal Petroleum Company) and Southern Union Production Company as "Sellers". This document was filed of record on May 24, 1973 in Book 309 at page 808 in the Office of the Lea County Clerk. This Recording Supplement indicates the existence of a Gas Purchase Agreement dated January 25, 1973, to which the captioned lands located in Lease NM 14791 and other lands are dedicated. In addition, it gives notice of the existence of an agreement dated November 3, 1972 between the Sellers and Buyer.

3. Charles E. Strange Trust: We have been in contact with the attorney for Charles E. Strange, and have previously been submitted evidence that the Trust Agreement contains adequate authority for the Trustee to enter into agreements relating to oil and gas leases which are held in said trust.

4. Merger: We note that Cleary Petroleum Corporation has now merged into the Grace Petroleum Corporation. In this regard we do not find any Certificate of Merger filed with the Bureau of Land Management nor do we find one recorded in the Office of the Lea County Clerk.

REQUIREMENT E: If you have not already done so, you should file a Certificate of Merger of Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management in Santa Fe, New Mexico, as well as record a copy of the same in the Office of the County Clerk.

5. Potash Rider - Potash Area: The base title opinion on which this examination is, in turn, based, indicates that the captioned lease contains a rider to the effect that no wells are to be drilled without approval of the United States Geological Survey, which will be granted only in the event that it is satisfied that any proposed well drilling will not interfere with mining of potash deposits and a provision must be made for adequate protection of potash deposits.

In addition, although not reflected in any materials under examination, it is apparent from other files and plats available to us in our offices that the captioned lands are located within what has generally been designated as a potash area by the United States Geological Survey. It also appears that the captioned lands lie within a potash area as designated by the New Mexico Oil Conservation Division. As a consequence of the lands being located in these desginated area, it is likely that certain drilling restrictions may be imposed by the United States Geological Survey and/or the New Mexico Oil Conservation Division at such time as drilling operations are to be commenced.

We make no requirement with respect to the foregoing matters, but point this out for your information. We assume that you have probably encountered this problem with regard to wells which you previously drilled on the captioned lease and lands. We would point out that irrespective of what requirements may have been made relating to prior drilling activities, these requirements may very likely be different in the event that actual drilling operations are commenced some period of time after the first drilling operations.

6. Prior Title Opinions: As mentioned hereinabove, we have based this opinion on the title opinion dated November 10, 1972 rendered by Southern Union Gas Company House Counsel in connection with the captioned lease. Although we have no reason to doubt the accuracy of the Southern Union Gas Company House Counsel opinion, we must necessarily limit our opinion to the materials actually examined.

7. Acreage in Lots: It is apparent from the caption of this opinion that all of the subdivisions within the captioned lands are not described as directional subdivisions. Some are numbered as lots. Usually this indicates each numbered lot has acreage greater than or lesser than the usual 40 acres; however, in this case, each lot contains 40 acres. We have no requirement with respect to the acreage in these lots, but we note this for your information and possible future reference.

8. Surface Estate: Although the abstracts under examination do not purport to reflect the title to the surface of the captioned lands, certain information contained therein indicates the following surface rights:

(a) It appears from the materials under examination that all of the captioned lots, and lease, have the surface patented with the minerals being reserved to the United States of America. If you intend to conduct drilling activities on any of these lands it will be necessary that you make arrangements with the surface owner or owners with regard to surface damage.

(b) Grazing Lease: It is possible that the remainder of the surface of the captioned

lands is included in grazing leases from the United States. In such cases your rights under the oil and gas lease are superior to any rights under grazing leases.

9. Judgment and Lien Search: The county abstracts under examination contain satisfactory judgment and lien searches.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cm

Federal Abstract No. 30506 and Lovington Abstract No. 8-2378-A are returned herewith. The remainder of the abstracts are retained for further examination.

PRINCIPAL FEATURES OF LEASE (Form 4-1158) (3120-19)
(10 year initial term)

LESSOR: United States, acting by and through the Secretary of the Interior.

TERM AND REGULATIONS: For a primary term of ten years and so long thereafter as oil or gas is produced in paying quantities; subject to any unit agreement heretofore or hereafter approved by the Secretary of the Interior. Lease is made subject to all reasonable regulations of the Secretary now or hereafter in force not inconsistent with any of the express and specific provisions of the lease.

Although not stated in the lease, the primary term of the lease for land on which, or for which under an approved cooperative or unit plan of development or operation, actual drilling operations were commenced prior to the end of such term and are being diligently prosecuted at that time, shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities. (See Sec. 17(e) of the Mineral Leasing Act Revision of 1960.) Rentals continue until production is obtained.

BOND: Requires lessee, upon inclusion of any part of the leased land within the geologic structure of a producing oil or gas field, to furnish a bond in a sum double the amount of the $2.00 per acre annual rental, but not less than $1000 nor more than $10,000; to furnish, prior to commencement of drilling operations $10,000 lease bond with approved corporate surety, unless a bond in that amount is already being maintained, or unless such a bond furnished by an operator of the lease is accepted. Until a general lease bond is filed, a $1000 bond must be filed in those cases in which a bond is required by law for the protection of owners of surface rights. (See Sec. 2(a) of lease.)

COOPERATIVE OR UNIT PLAN: Requires lessee, within 30 days of demand, to subscribe to and to operate under such reasonable or cooperative unit plan as may be determined by the Secretary of the Interior to be practicable and necessary or advisable. (See Sec. (b) of lease.)

DRILLING REQUIREMENTS: Requires lessee to drill and produce all wells necessary to protect the leased land from drainage by wells on lands not the property of the lessor, or lands of the lessor leased at a lower royalty rate, and to drill and produce such other wells as may be approved or required by the Secretary. (See Sec. 2(c) of lease.)

RENTALS: Lessee to pay in advance an annual rental at the following rates:

(a) If the lands are wholly outside the known geologic structure of a producing oil or gas field:

(i) For each lease year a rental of 50¢ per acre or fraction of an acre.

(b) If the lands are wholly or partly within the known geologic structure of a producing oil or gas field:

(i) Beginning with the first lease year after thirty days' notice that all or part of the land is included in such a structure, and for each year thereafter, prior to a discovery of oil or gas on the lands leased, $2.00 per acre or fraction of an acre.

(ii) If the lease is committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, a rental for each lease year of 50¢ per acre or fraction of an acre shall apply to the acreage not within a participating area.

If there is no well capable of producing oil or gas in paying quantities, the failure to pay a rental on or before the anniversary date shall automatically terminate the lease by operation of law. If time for payment falls on a day in which the proper office to receive payment is closed, payment shall be deemed timely if made on the next official working day.

(See Sections 2(d)(1), 2(d)(4), and 2(e) of lease.)

ROYALTY: 12½% on production removed or sold from the leased lands; provided, however, a minimum royalty in lieu of rental shall be paid at the expiration of each lease year after discovery equal to $1.00 per acre. If the lease has been unitized, the minimum royalty shall be payable only on the participating acreage. (See Sec. 2(d)(1) of lease.)

Secretary may establish reasonable minimum values for purpose of computing royalty on any oil or gas produced. See 30 C.F.R. 221. All contracts for disposal of products must be approved by the Director, U.S.G.S., or his representatives, subject to review by the Secretary of the Interior. (See Sec. 2(d)(2) and 2(f) of lease.)

ASSIGNMENTS: All assignments are to be filed within 90 days of final execution and are to take effect, upon final approval by the Director, Bureau of Land Management, as of the first day of the lease month following the date of filing. (See Sec. 2(m) of lease.)

RESERVED RIGHTS OF LESSOR: See Sec. 3 of lease with regard to easements, disposition of surface, monopoly and fair prices, reservation of helium, taking of royalty in kind, and operation of valuable water wells.

SURRENDER AND TERMINATION: Lease may be surrendered and terminated as provided by Section 5 thereof.

A.A.P.L. FORM 610 - 1977

# MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

November 1, 19 78,

OPERATOR GRACE PETROLEUM CORPORATION

CONTRACT AREA LOTS 9, 10, 15 and 16 and SE/4 Section 6-21S-32E, NMPM

COUNTY ~~OR PARISH OF~~ Lea STATE OF New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

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## GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blank as applicable.

2. Preamble, Page 1 - Name of Operator.

3. Article II - Exhibits:
   (a) Indicate Exhibits to be attached.
   (b) If it is desired that no reference be made to Non-discrimination, the reference to Exhibit "F" should be deleted.

4. Article IV.A - Title Examination - Select option as agreed to by the parties.

5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."

6. Article V - Operator - Enter name of Operator.

7. Article VI.A - Initial Well:
   (a) Date of commencement of drilling.
   (b) Location of well.
   (c) Obligation depth.

8. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.

9. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.

10. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.

11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.

12. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.

13. Article XIII. - Term of Agreement:
   (a) Select Option as agreed to by parties.
   (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.

14. Signature Page - Enter effective date.

# OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between GRACE PETROLEUM CORPORATION _____, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

**WITNESSETH:**

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

## ARTICLE I.
## DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

## ARTICLE II.
## EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

⊟ ~~B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

⊟ ~~E. Exhibit "E", Gas Balancing Agreement.~~

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

If any provision of any exhibit, ~~except Exhibit "E"~~, is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

## ARTICLE III.
## INTERESTS OF PARTIES

**A. Oil and Gas Interests:**

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

**B. Interest of Parties in Costs and Production:**

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties which will be borne by the Joint Account, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

## ARTICLE IV.
## TITLES

**A. Title Examination:**

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ ~~Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including~~ preliminary, supplemental, shut-in gas royalty opinions ~~and division order~~ title opinions) shall be a part of the administrative ~~overhead as provided~~ in Exhibit "C," and shall not be a direct charge, whether ~~performed by Operator's staff attorneys or by outside attorneys.~~

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

**B. Loss of Title:**

~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through~~ failure of title, which loss results in a reduction of interest from ~~that shown on Exhibit "A"~~, this agreement, nevertheless, shall continue in force ~~as to all remaining~~ oil and gas leases and interests, and

(a) The party ~~whose oil and gas~~ lease or interest is affected by the title failure shall bear alone ~~the entire loss and it shall not be entitled to recover from Operator or the other parties any development~~

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost; and

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded; and

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties in the same proportions in which they shared in such prior production; and

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

## ARTICLE V.
## OPERATOR

### A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

Grace Petroleum Corporation shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

## ARTICLE VI.
## DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 1979, Operator shall commence the drilling of a well for oil and gas at the following location:

At a legal location in Lot 9 Section 6, T21S,R32E, NMPM,
Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 14,100 feet below the surface or to a depth sufficient to test the Morrow Formation, whichever is the lesser depth.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

**B. Subsequent Operations:**

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to sidetrack, rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, sidetrack, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to sidetrack, rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

Each consenting party which elects to carry its proportionate part of Non-Consenting Parties' interest shall also carry its proportionate part of the interest remaining if one or more consenting parties elect to limit participation to such consenting parties' interest as shown on Exhibit "A".

of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) 300% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

300% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting party.

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

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**C. Right to Take Production in Kind:**

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

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment direct from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as Exhibit "E", or is a separate Agreement.

**D. Access to Contract Area and Information:**

Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

**E. Abandonment of Wells:**

1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

## ARTICLE VII.
## EXPENDITURES AND LIABILITY OF PARTIES

**A. Liability of Parties:**

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

**B. Liens and Payment Defaults:**

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

**C. Payments and Accounting:**

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

**D. Limitation of Expenditures:**

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

~~☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.~~

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand Dollars ($ 15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Five Thousand Dollars ($ 5,000.00).

**E. Royalties, Overriding Royalties and Other Payments:**

Each party shall pay or deliver, or cause to be paid or delivered, all royalties ~~to the extent of _____~~ due on its share of production and shall hold the other parties free from any liability therefor. ~~If the interest of any party in any oil and gas lease covered by this agreement~~ is subject to any royalty, overriding royalty, production payment, ~~or other~~ charge over and above the aforesaid royalty, such party ~~shall~~ assume and alone bear all such obligations and shall account ~~for or cause to be accounted for, such interest to the owners thereof.~~

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

**F. Rentals, Shut-in Well Payments and Minimum Royalties:**

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article ~~IV.B.2.~~ IV.B.3.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

**G. Taxes:**

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

**H. Insurance:**

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

## ARTICLE VIII.
## ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

**A. Surrender of Leases:**

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

**B. Renewal or Extension of Leases:**

If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

**C. Acreage or Cash Contributions:**

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

**D. Subsequently Created Interest:**

Notwithstanding the provisions of Article VIII.E. ~~and VIII.G.~~, if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

**E. Maintenance of Uniform Interest:**

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

**F. Waiver of Right to Partition:**

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~**G. Preferential Right to Purchase:**~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and~~ interests in the Contract Area, it shall promptly give written notice to the other parties, with ~~full~~ information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent ~~company, or to any company in which any one party owns a majority of the stock.~~

## ARTICLE IX.
## INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

## ARTICLE X.
## CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Two Thousand Five Hundred and No/100 Dollars ($ 2,500.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

## ARTICLE XI.
## FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

## ARTICLE XII.
## NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

## ARTICLE XIII.
## TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subjected hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease, or oil and gas interest contributed by any other party beyond the term of this agreement.

☐ ~~Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are con~~tinued in force as to any part of the Contract Area, ~~whether by production, extension, renewal or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.~~

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

## ARTICLE XIV.
## COMPLIANCE WITH LAWS AND REGULATIONS

**A. Laws, Regulations and Orders:**

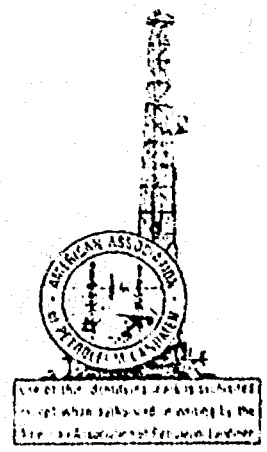
This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

**B. Governing Law:**

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

## ARTICLE XV.
## OTHER PROVISIONS

A. As to the interest of Supron Energy Corporation and Grace Petroleum Corporation, this Operating Agreement will replace and supercede that certain Operating Agreement dated January 5, 1973, as amended, between Southern Union Production Company and Amini Oil Company, insofar only as to those lands contributed to the Unit Area herein described.



## ARTICLE XVI.
## MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of November, 19 78.

OPERATOR

ATTEST:

Assistant Secretary

GRACE PETROLEUM CORPORATION

BY: _____

James H. Thomas, Vice President

DE

NON-OPERATORS

ATTEST:

_____

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

ATTEST:

_____

SUPRON ENERGY CORPORATION

BY: _____

Vice President

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT, DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, AS OPERATOR, AND GULF OIL EXPLORATION AND PRODUCTION COMPANY AND SUPRON ENERGY CORPORATION, AS NON-OPERATOR.

I. LAND SUBJECT TO AGREEMENT:

Lots 9, 10, 15 and 16 and SE/4 Section 6-T21S-R32E, NMPN, Lea County, New Mexico, 320 acres.

II. PARTIES TO AGREEMENT AND PERCENTAGE OF INTEREST:

| PARTIES | NET ACRES | UNIT PARTICIPATION |
|---|---|---|
| Grace Petroleum Corporation<br>Broadway Executive Park<br>6501 North Broadway<br>Oklahoma City, Oklahoma 73112<br>Attention: Don W. Erickson | 180.00 | 56.25000 % |
| Supron Energy Corporation<br>Building V, Fifth Floor<br>10300 N. Central Expressway<br>Dallas, Texas 75231<br>Attention: Mr. William M. Brown | 60.00 | 18.75000 % |
| Gulf Oil Exploration and Production Company<br>P.O. Drawer 1150<br>Midland, Texas 79702<br>Attention: Mr. R. E. Griffith | 80.00 | 25.00000 % |

Recommended by the Council of Petroleum Accountants Societies of North America

# EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated November 1, 1978 between Grace Petroleum Corporation, as Operator, and Gulf Oil Exploration and Production Company and Supron Energy Corporation, as Non-Operator.

# ACCOUNTING PROCEDURE
# JOINT OPERATIONS

## I. GENERAL PROVISIONS

**1. Definitions**

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

**2. Statement and Billings**

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

**3. Advances and Payments by Non-Operators**

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

**4. Adjustments**

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

**5. Audits**

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

**6. Approval by Non-Operators**

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

Recommended by the Council of Petroleum Accountants Societies of North America

# EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated November 1, 1978 between Grace Petroleum Corporation, as Operator, and Gulf Oil Exploration and Production Company and Supron Energy Corporation, as Non-Operator.

# ACCOUNTING PROCEDURE
# JOINT OPERATIONS

## I. GENERAL PROVISIONS

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"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

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"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

### 2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

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Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

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Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

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Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

**1. Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations.

**2. Labor**

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

**3. Employee Benefits**

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

**4. Material**

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

**5. Transportation**

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

**6. Services**

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

**7. Equipment and Facilities Furnished by Operator**

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B.. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

**8. Damages and Losses to Joint Property**

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

**9. Legal Expense**

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

**10. Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

**11. Insurance**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

**12. Other Expenditures**

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

## III. OVERHEAD

**1. Overhead - Drilling and Producing Operations**

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

( X ) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not ( X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate $ 2,407.00
Producing Well Rate $ 336.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent ( %) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent ( %) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:
For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction TO BE NEGOTIATED

~~To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the ex~~pansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning ~~of construction~~, or shall charge the Joint Account for Overhead based on the following rates for any ~~Major~~ Construction project in excess of $_____:

A. _____% of total costs if such costs are ~~more than~~ $_____ but less than $_____; plus

B. _____% of total costs ~~in excess of~~ $_____ but less than $1,000,000; plus

C. _____% of total ~~costs~~ in excess of $1,000,000.

Total cost ~~shall~~ mean the gross cost of any one project. For the purpose of this paragraph, the component parts ~~of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded~~.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

## IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

**3. Premium Prices**

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

**4. Warranty of Material Furnished by Operator**

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

**1. Periodic Inventories, Notice and Representation**

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

**2. Reconciliation and Adjustment of Inventories**

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

**4. Expense of Conducting Periodic Inventories**

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "D"

The Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

(a) Workmen's Compensation Insurance: In compliance with the Workmen's Compensation Laws of the State of New Mexico. Employers' Liability: $500,000.00.

(b) Comprehensive General Liability insurance, excluding products: A single combined limit of $1,000,000.00 each accident for bodily injuries or death and $1,000,000.00 property damage.

(c) Automobile Public Liability and Property Damage Insurance with a single combined limit of $1,000,000.00 each accident for bodily injuries or death and $1,000,000.00 property damage.

The Operator shall require its contractors and subcontractors working or performing services upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached to comply with the Workmen's Compensation Laws of the State of New Mexico and to carry such other insurance and in such amounts as the Operator shall deem necessary.

EXHIBIT "F"

Attached to and made a part of an Operating Agreement dated

November 1, 1978, 19__, by and between Grace Petroleum Corporation, as Operator, and Gulf Oil Exploration and Production Company and Supron Energy Corporation, as Non-Operator.

I. EQUAL OPPORTUNITY CLAUSE

Operator shall be bound by and agrees to the following provisions as contained in Section 202 of Executive Order 11246 as amended to wit:

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

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

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

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

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

(6). In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this Contract may be cancelled, terminated, or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with the procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7). The Operator will include the provisions of paragraphs (1) through (7) in every Subcontract or Purchase Order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each Subcontractor or Vendor. The Operator will make such action with respect to any Subcontract or Purchase Order as the Contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a Subcontractor or Vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interest of the United States.

II. CERTIFICATION OF NONSEGREGATED FACILITIES

Operator certifies that he does not maintain or provide for his employees any segretated facilities at any of his establishments, and that he does not permit his employees to perform their services at any location under his control, where segretated facilities are maintained. He certifies further that he will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he will not permit his employees to perform their services at any location under his control, where segretated facilities are maintained. The Operator agrees that a breach of this certification is a violation of the Equal Opportunity Clause in this contract. As used in this certification, the term "segrated facilities" means, but is not limited to any waiting rooms, work areas, restrooms and washrooms, restaurants and other eating areas, time clocks, locker rooms, and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segrated by explicit directive or are in fact segrated on the basis of race, color, religion, sex, or national origin, segrated on the basis of race, color, religion, sex or national origin because of habit, local custom, or otherwise. He further agrees that (except where he has obtained identical certifications from proposed subcontractors for specific time periods) he will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity Clause: that he will retain such certification in his files; and that he will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certificates for specifid time periods):

"NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGRATED FACILITIES."

A Certification of Nonsegrated Facilities must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e. quarterly, semi-annually or annually)." Note: The penalty for making false statements is prescribed in 18 U.S.C. 1001.

III. EEO-1 REPORT AND AFFIRMATIVE ACTION COMPLIANCE PROGRAM

Operator is aware of Executive Order 11246 and Section 60-1.7 and Section 60-1.40, Title 41 of the Code of Federal Regulations. The Operator agrees and certifies that, if he has 50 or more employees and a contract of $50,000 or more, he will file complete and accurate EEO reports on Standard Form 100 (EEO-1) with the appropriate government contracting or administering agency and develop affirmative action programs for each of his establishments, in accordance with the Executive Order 11246 and all rules, regulations and orders promulgated thereunder.

IV. LISTING OF EMPLOYMENT OPENINGS

Operator shall be bound by and agrees to the provisions of Executive Order 11701 and Section 50-250 of Title 41 of the Code of Federal Regulations, and all rules and regulations and orders promulgated thereunder to wit:

(a) The Operator to provide special emphasis to the employment of qualified disabled veterans and veterans of the Vietnam era, agrees that all suitable employment openings of the Operator which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by this contract and including those occurring at an establishment of the Operator other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such reports to such local office regarding employment openings and hires as may be required: PROVIDED, that if the contract is for less than $10,000 or if it is with a State of local government the reports set forth in paragraphs (c) and (d) of this clause are not required.

(b) Listing of employment openings with the employment service system pursuant to this clause shall be made at least concurrently with the use of any other recruitment service or effort and shall involve the normal obligations which attach to the placing of a bonafide job order including the acceptance of referrals of veterans and non-veterans. The listing of employment openings does not require the hiring of any particular job applicant or from any particular group of job applicants, and nothing herein is intended to relieve the Operator from any requirements in any Executive Orders or regulations regarding nondiscrimination in employment.

(c) The reports required by paragraph (a) of this clause shall include, but not be limited to, periodic reports which shall be filed at least quarterly with the appropriate local office or, where the Operator has more than one establishment in a State, with the central office of that State employment service. Such reports shall indicate for each establishment (1) the number of individuals who were hired during the reporting period, (2) the number of those hired who were disabled veterans, and (3) the number who were non-disabled veterans of the Vietnam era. The Operator shall submit a report within 30 days after the end of each reporting period wherein any performance is made on this contract. The Operator shall maintain copies of the reports submitted until the expiration of one (1) year after final payment under the contract, during which time they shall be made available upon request, for examination by any authorized representatives of the contracting officer or of the Secretary of Labor.

(d) Whenever the Operator becomes contractually bound to the listing provisions of this clause, he shall advise the employment service system in each State wherein he has establishments of the name and location of each such establishment in the State. As long as the Operator is contractually bound to these provisions and has so advised the State system there is no need to advise the State system of subsequent contracts. The Operator may advise the State systems when it is no longer bound by this contract clause.

(e) This clause does not apply to the listing of employment openings which occur and are filled outside of the 50 States, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands.

(f) This clause does not apply to openings which the Operator proposes to fill from within his own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement. This exclusion does not apply to a particular opening once an employer decides to consider applications outside of his own organization or employer-union arrangement for that opening.

(g) As used in this clause:

(1) "All suitable employment openings" includes, but is not limited to, openings which occur in the following job categories Production and nonproduction; plant and office; laborers and mechanics; supervisory and nonsupervisory; technical; and executive, administrative, and professional openings which are compensated on a salary basis of less than $18,000 per year. This term includes full-time employment, temporary employment of more than three (3) days duration, and part-time employment. It does not include openings which the Operator proposes to fill from within his own organization, or to fill pursuant to a customary and traditional employer-union hiring arrangement. Under the most compelling circumstances an employment opening may not be suitable for listing, including such situations where the needs of the Government cannot reasonably be otherwise supplied, where listing would be contrary to national security, or where the requirement of listing would otherwise not be for the best interest of the Government.

(2) "Appropriate office of the State employment service system" means the local office of the Federal-State national system of public employment offices with assigned responsibilitiy for serving the area where the employment opening is to be filled, including the District of Columbia, Guam, Puerto Rico and the Virgin Islands.

(3) "Openings which the Operator proposes to fill from within his own organization: means employment openings for which no consideration will be given to persons outside the Operator's organization (including any affiliates, subsidiaries, and the parent companies) and includes any openings which the Operator proposes to fill from regularly established "recall" or "rehire" lists.

(4) "Openings which the Operator proposes *** to fill pursuant to a customary and traditional employer-union hiring arrangement" means employment openings for which no consideration will be given to persons outside of a special hiring arrangement, including openings which the Operator proposes to fill from union halls, which is part of the customary and traditional hiring relationship which exists between the Operator and representatives of his employees.

(5) "Disabled veteran" means a person entitled to disability compensation under laws administered by the Veterans' Administration for disability rated at 30 per centum or more, or a person whose discharge or release from active duty was for a disability incurred or aggravated in line of duty.

(6) "Veteran of the Vietnam era" means a person (1) who (i) served on active duty for a period of more than 180 days, any part of which occurred after August 5, 1964, and was discharged or released therefrom with other than a dishonorable discharge, or (ii) was discharged or released from active duty for service-connected disability if any part of such duty was performed after August 5, 1964, and (2) who was so discharged or released within the 48 months preceding his application for employment covered under this part.

(h) The Operator agrees to place this clause (excluding this paragraph (h)) in any subcontract of $2,500 or more directly under this contract. This clause shall apply to any subcontract entered into by Operator in carrying out any contract for the procurement of personal property and nonpersonal services (including construction) for the United States.

V. MINORITY BUSINESS ENTERPRISES

Operator shall be bound by and agrees to the provisions of Executive Order 11625 and all rules, regulations and orders promulgated thereunder to wit:

1. UTILIZATION OF MINORITY BUSINESS ENTERPRISES

(a) It is the policy of the Government that minority business enterprises shall have the maximum practicable opportunity to participate in the performance of Government contracts.

(b) The Operator agrees to use his best efforts to carry out this policy in the award of his subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority business enterprise" means a business, at least 50 percent of which is owned by minority group members or, in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members. For the purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orientals, American-Indians, American-Eskimos, and American-Aleuts. Operator may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

2. MINORITY BUSINESS ENTERPRISES SUBCONTRACTOR PROGRAM

(a) The Operator agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, the Operator shall-

(1) Designate a liaison officer who will administer the Operator's minority business enterprises program.

(2) Provide adequate and timely consideration of the

potentialities of known minority business enterprises in all "make-or-buy" decisions.

(3) Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.

(4) Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises, (ii) awards to minority business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority business enterprises.

(5) Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.

(6) Cooperate with the contracting officer in any studies and surveys of the Operator's minority business enterprises, procedures and practices that the contracting officer may from time to time conduct.

(7) Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph (4), above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may perscribe.

(b) The Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000 provisions which shall conform substantially to the language of this clause, including this paragraph (b) and to notify the contracting officer of the names of such subcontractors.

VI. EMPLOYMENT OF THE HANDICAPPED

Operator shall be bound by and agrees to the provisions of Section 503 of the Rehabilitation Act of 1973 and Executive Order 11758 and all Rules, Regulations, and Orders promulgated thereunder to wit:

(This clause applies to all nonexempt contracts and subcontracts which exceed $2,500 as follows: (1) Part A applies to contracts and subcontracts which provide for performance in less than 90 days. (2) Parts A and B apply to contracts and subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is less than $500,000, and (3) Parts A, B, and C apply to contracts and subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is $500,000 or more.)

PART A

(a) The Operator will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the employee or applicant for employment is qualified. The Operator agrees to take affirmative action to employ, advance in employment and otherwise treat qualified handicapped individuals without discrimination based upon their physical or mental handicap in all employment practices such as the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(b) The Operator agrees that, if a handicapped individual files a complaint with the Operator that he is not complying with the requirements of the Act, he will (1) investigate the complaint and take appropriate action consistent with the requirements of 20 CFR 741.29 and (2) maintain on file for three years, the record regarding the complaint and the actions taken.

(c) The Operator agrees that, if a handicapped individual files a complaint with the Department of Labor that he has not complied with the requirements of the Act, (1) he will cooperate with the Department in its investigation of the complaint, and (2) he will provide all pertinent information regarding his employment practices with respect to the handicapped.

(d) The Operator agrees to comply with the rules and regulations of the Secretary of Labor in 20 CRF Ch. VI, Part 741.

(e) In the event of the Operator's noncompliance with the requirements of this clause, the contract may be terminated or suspended in whole or in part.

(f) This clause shall be included in all subcontracts over $2,500.

PART B

(g) The Operator agrees (1) to establish an affirmative action program, including appropriate procedures consistent with the guidelines and the rules of the Secretary of Labor, which will provide the affirmative action regarding the employment and advancement of the handicapped required by P.L. 93-112, (2) to publish the program in his employee's or personnel handbook or otherwise distribute a copy to all personnel, (3) to review his program on or before March 31 of each year and to make such changes as may be appropriate, and (4) to designate one of his principal officials to be responsible for the establishment and operation of the program.

(h) The Operator agrees to permit the examination by appropriate contracting agency officials of the Assistant Secretary of Employment Standards or his designee, of pertinent books, documents, papers and records concerning his employment and advancement of the handicapped.

(i) The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Assistant Secretary for Employment Standards, provided by the contracting officer stating Operator's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment and the rights and remedies available.

(j) The Operator will notify each labor union or representative of workers with which he has a collective bargaining agreement or other contract understanding, that the Operator is bound by the terms of Section 503 of the Rehabilitation Act, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

PART C

(k) The Operator agrees to submit a copy of his affirmative action program to the Assistant Secretary for Employment Standards within 90 days after the award to him of a contract or subcontract.

(l) The Operator agrees to submit a summary report to the Assistant Secretary for Employment Standards, by March 31 of each year during performance of the contract, and by March 31 of the year following completion of the contract, in the form prescribed by the Assistant Secretary, covering employment and complaint experience, accommodations made and all steps taken to effectuate and carry out the commitments set forth in the affirmative action program.

GRACE PETROLEUM CORPORATION
SUBSIDIARY OF W. R. GRACE & CO.

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITURE

gion MID-CONTINENT  AFE No. _____

Date 8/1/79

ELL NAME New Mexico Federal "G" #1  PROSPECT So. Salt Lake

ESCRIPTION ~~660' FNL &~~ 660' FEL ~~&~~ 1650 FSL Sec. 6-21S-32E  EXPLORATORY ____ DEVELOPMENT X WORKOVER ____

OUNTY & STATE Lea Co., NM

| | Depth | Formation | Type |
|---|---|---|---|
| ode 25 applies only if we have your | 13,600' | Morrow | Oil ___ Gas X |
| lection in writing to be covered under | 14,100' | TD | Oil ___ Gas ___ |
| ur policy. | ____ | ____ | Oil ___ Gas ___ |

| Item and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| INTANGIBLE DRILLING COSTS: | | | | | |
| Drilling Cost - Footage | 01 | | 01 | | |
| Day Work 60 @ 4600; 2 @ 4600 + 14 @ 1500 | 02 | 276,000 | 02 | 31,000 | 307,000 |
| Drilling and Turnkey MI RU MO | 04 | 40,000 | 04 | - | 40,000 |
| Labor - Company and Contract | 13 | 15,000 | 13 | 10,000 | 25,000 |
| Transportation | 26 | 2,000 | 26 | 8,000 | 10,000 |
| Bridges, Roads, Locations, etc. | 08 | 25,000 | 08 | 3,000 | 28,00 |
| Fuel, Water and Power | 05 | 60,000 | 05 | 5,000 | 65,000 |
| Bits, Coreheads and Rentals | 07 | 50,000 | 07 | 30,000 | 80,000 |
| Drilling Fluids | 06 | 75,000 | 06 | 2,000 | 77,000 |
| Surveys (logging) Perforating | 11 | 20,000 | 11 | 25,000 | 45,000 |
| Mudlogger | 30 | - | 30 | - | - |
| Cement and Cementing Services and Frac | 15 | 33,000 | 15 | 35,000 | 68,000 |
| Testing (Drillstem & Wireline) | 10 | 16,000 | 10 | - | 16,000 |
| Core Analysis | 12 | - | 12 | - | - |
| Geological and Engineering | 09 | 30,000 | 09 | 8,000 | 38,000 |
| Plugging & Abandoning | 27 | 5,000 | 27 | (5,000) | - |
| District and Overhead Expense | 20 | 4,000 | 20 | - | 4,000 |
| Insurance | 25 | 9,000 | 25 | - | 9,000 |
| Miscellaneous and Unforeseen @ 10% | 28 | 66,000 | 28 | 15,200 | 81,200 |
| TOTAL INTANGIBLE DRILLING COSTS | | 726,000 | | 167,200 | 893,200 |
| TANGIBLE DRILLING COSTS: | | | | | |
| Casing Size 13 3/8" 475' @ 19.00/ft. | 51 | 9,000 | 51 | - | 9,000 |
| Casing Size 9 5/8" 5300' @ 15.00/ft. | 51 | 80,000 | 51 | | 80,000 |
| Casing Size 5 1/2" 14,100' @ 9.00/ft. | 51 | - | 51 | 126,900 | 126,900 |
| Casing Size | 51 | | 51 | | |
| Casing Size | 51 | | 51 | | |
| Tubing 2 7/8" 14,100' @ 3.00/ft. | 52 | - | 52 | 42,300 | 42,300 |
| Subsurface Equipment | 53 | 2,000 | 53 | 12,000 | 14,000 |
| Well Head Equipment | 50 | 2,000 | 50 | 20,000 | 22,000 |
| Miscellaneous @ 10% | 72 | 9,300 | 72 | 20,100 | 29,400 |
| TOTAL TANGIBLE DRILLING COSTS | | 102,300 | | 221,300 | 323,600 |
| TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS | | | | | |
| Tanks, Separators, etc. | | | 56 | 30,000 | 30,000 |
| Heater Treater, Flow Line Heater, LTK, etc. | | | 58 | 10,000 | 10,000 |
| Lease Lines | | | 60 | 4,000 | 4,000 |
| Other Major Expense | | | 54 | 10,000 | 10,000 |
| Miscellaneous Connections | | | 71 | 5,000 | 5,000 |
| Installation | | | 74 | 6,000 | 6,000 |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 65,000 | 65,000 |
| TOTAL AFE COST (100%) | | 828,300 | | 453,500 | 1,281,800 |

COMPANY: _____

APPROVED: _____

TITLE: _____ DATE: _____

GRACE PETROLEUM CORPORATION

APPROVED: Robert D. Henderson

TITLE: Drilling Manager DATE: 8/1/79

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITURE

7 of 6

Unit Grace Petroleum Corporation  AFE No. _____

Date 7/10/78  REVISION

WELL NAME New Mexico Federal "G" #1  PROSPECT S. Salt Lake

DESCRIPTION 660'FNL & 660'FEL Sec.6-21S-33E  EXPLORATORY ___  DEVELOPMENT X  WORKOVER ___

COUNTY & STATE Lea Co., New Mexico

| Depth | Formation | Type | |
|---|---|---|---|
| 13,600 | Morrow | Oil ___ | Gas X |
| 14,100 | TD | Oil ___ | Gas ___ |
| ___ | ___ | Oil ___ | Gas ___ |

Code 25 applies only if we have your election in writing to be covered under our policy.

| Item and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| INTANGIBLE DRILLING COSTS: | | | | | |
| Drilling Cost - Footage | 01 | | 01 | | |
| Day Work 60 @ 4600 / 14 @ 1000 | 02 | 276,000 | 02 | 14,000 | |
| Drilling and Turnkey | 04 | 32,400 | 04 | | |
| Labor - Company and Contract | 13 | 7,000 | 13 | 10,000 | |
| Transportation | 26 | 1,500 | 26 | 5,000 | |
| Bridges, Roads, Locations, etc. | 08 | 12,500 | 08 | 1,500 | |
| Fuel, Water and Power | 05 | 15,000 | 05 | | |
| Bits, Coreheads and Rentals | 07 | 45,000 | 07 | 11,000 | |
| Drilling Fluids | 06 | 45,000 | 06 | 1,000 | |
| Surveys (logging) Perforating | 11 | 20,000 | 11 | 14,000 | |
| Mudlogger | 30 | | 30 | | |
| Cement and Cementing Services and Frac | 15 | 33,000 | 15 | 19,000 | |
| Testing (Drillstem & Wireline) | 10 | 6,000 | 10 | | |
| Core Analysis | 12 | | 12 | | |
| Geological and Engineering | 09 | 14,000 | 09 | 3,500 | |
| Plugging & Abandoning | 27 | 5,000 | 27 | | |
| District and Overhead Expense | 20 | 1,000 | 20 | 400 | |
| Insurance | 25 | 13,900 | 25 | | |
| Miscellaneous and Unforeseen | 28 | 50,700 | 28 | 7,600 | |
| TOTAL INTANGIBLE DRILLING COSTS | | 578,000 | | 87,000 | |
| TANGIBLE DRILLING COSTS: | | | | | |
| Casing Size 13 3/8 475' | 51 | 8,170 | 51 | | |
| Casing Size 9 5/8 5300' | 51 | 74,040 | 51 | | |
| Casing Size 5 1/2 14,100' | 51 | | 51 | 107,808 | |
| Casing Size | 51 | | 51 | | |
| Casing Size | 51 | | 51 | | |
| Tubing | 52 | | 52 | 56,000 | |
| Subsurface Equipment | 53 | 2,000 | 53 | 7,000 | |
| Well Head Equipment | 50 | 2,300 | 50 | 12,000 | |
| Miscellaneous | 72 | 5,490 | 72 | 12,192 | |
| TOTAL TANGIBLE DRILLING COSTS | | 92,000 | | 195,000 | |
| TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS | | | | | |
| Tanks, Separators, etc. | | | 56 | 20,000 | |
| Heater Treater, Flow Line Heater, LTX, etc. | | | 58 | 14,000 | |
| Lease Lines | | | 60 | 3,000 | |
| Other Major Expense | | | 54 | 1,500 | |
| Miscellaneous Connections | | | 71 | 4,000 | |
| Installation | | | 74 | 1,500 | |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 44,000 | |
| TOTAL AFE COST (100%) | | 670,000 | | 326,000 | 996,000 |

COMPANY: SUPRON ENERGY CORPORATION

APPROVED: Haskell Fleetwood, Vice President  TITLE: _____  DATE: 12/5/78

GRACE PETROLEUM CORPORATION

APPROVED: S.K. Hall  TITLE: Drilling Manager  DATE: 7/10/78 MLR

Supron 18.75% = $125,625.00 Dry Hole
186,750.00 Producer

GRACE PETROLEUM CORPORATION

file

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITURE

Unit Grace Petroleum Corporation  AFE No. _____

Date 7/10/78  REVISION

WELL NAME New Mexico Federal "G" #1  PROSPECT S. Salt Lake

DESCRIPTION 660'FNL & 660'FEL Sec.6-21S-33E  EXPLORATORY ___ DEVELOPMENT X WORKOVER ___

COUNTY & STATE Lea Co., New Mexico

Code 25 applies only if we have your election in writing to be covered under our policy.

| Depth | Formation | Type | |
|---|---|---|---|
| 13,600 | Morrow | oil ___ | Gas X |
| 14,100 | TD | oil ___ | Gas ___ |
| ___ | ___ | oil ___ | Gas ___ |

| Item and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| **INTANGIBLE DRILLING COSTS:** | | | | | |
| Drilling Cost - Footage | 01 | | 01 | | |
| Day Work 60 @ 4600 / 14 @ 1000 | 02 | 276,000 | 02 | 14,000 | |
| Drilling and Turnkey | 04 | 32,400 | 04 | | |
| Labor - Company and Contract | 13 | 7,000 | 13 | 10,000 | |
| Transportation | 26 | 1,500 | 26 | 5,000 | |
| Bridges, Roads, Locations, etc. | 08 | 12,500 | 08 | 1,500 | |
| Fuel, Water and Power | 05 | 15,000 | 05 | | |
| Bits, Coreheads and Rentals | 07 | 45,000 | 07 | 11,000 | |
| Drilling Fluids | 06 | 45,000 | 06 | 1,000 | |
| Surveys (logging) Perforating | 11 | 20,000 | 11 | 14,000 | |
| Mudlogger | 30 | | 30 | | |
| Cement and Cementing Services and Frac | 15 | 33,000 | 15 | 19,000 | |
| Testing (Drillstem & Wireline) | 10 | 6,000 | 10 | | |
| Core Analysis | 12 | | 12 | | |
| Geological and Engineering | 09 | 14,000 | 09 | 3,500 | |
| Plugging & Abandoning | 27 | 5,000 | 27 | | |
| District and Overhead Expense | 20 | 1,000 | 20 | 400 | |
| Insurance | 25 | 13,900 | 25 | | |
| Miscellaneous and Unforeseen | 28 | 50,700 | 28 | 7,600 | |
| TOTAL INTANGIBLE DRILLING COSTS | | 578,000 | | 87,000 | |
| **TANGIBLE DRILLING COSTS:** | | | | | |
| Casing Size 13 3/8 475' | 51 | 8,170 | 51 | | |
| Casing Size 9 5/8 5300' | 51 | 74,040 | 51 | | |
| Casing Size 5 1/2 14,100' | 51 | | 51 | 107,808 | |
| Casing Size | 51 | | 51 | | |
| Casing Size | 51 | | 51 | | |
| Tubing | 52 | | 52 | 56,000 | |
| Subsurface Equipment | 53 | 2,000 | 53 | 7,000 | |
| Well Head Equipment | 50 | 2,300 | 50 | 12,000 | |
| Miscellaneous | 72 | 5,490 | 72 | 12,192 | |
| TOTAL TANGIBLE DRILLING COSTS | | 92,000 | | 195,000 | |
| **TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS** | | | | | |
| Tanks, Separators, etc. | | | 56 | 20,000 | |
| Heater Treater, Flow Line Heater, LTX, etc. | | | 58 | 14,000 | |
| Lease Lines | | | 60 | 3,000 | |
| Other Major Expense | | | 54 | 1,500 | |
| Miscellaneous Connections | | | 71 | 4,000 | |
| Installation | | | 74 | 1,500 | |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 44,000 | |
| TOTAL AFE COST (100%) | | 670,000 | | 326,000 | 996,000 |

COMPANY: _____

APPROVED: _____

TITLE: _____ DATE: _____

GRACE PETROLEUM CORPORATION

APPROVED: [signature]

TITLE: Drilling Manager DATE: 7/10/78 MLR

# GRACE MEMO

to: Jim Thomas, Don Sterne, Howard Green, Max Douglas

from: Don Erickson

date: July 5, 1979

subject: SALT LAKE MORROW SOUTH PROSPECT
New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Sec. 6-21S-32E, NMPM
Lea County, New Mexico

cc:

Supron Energy called July 3, 1979, to say that Supron does not want to swap acreage with Gulf in order to give Gulf a greater interest in the captioned unit. Supron wants Grace to proceed with the force pooling.

Original Signed By
DON ERICKSON

DWE/jct

# Gulf Oil Exploration and Production Company

P. O. Drawer 1150
Midland, TX 79702

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

June 28, 1979

915-682-7301

Re: Salt Lake Morrow South Prospect, Proposed New Mexico Federal "G" Com No. 1, Lots 9,10,15,16 and SE/4 of Section 6, T-21-S, R-32-E, NMPM, LEA COUNTY, New Mexico

.11111125 X240=
26.6667
+80
106.6667/320 = .333334

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don W. Erickson

Gentlemen:

Reference is made to your recent telephone conversation with Mr. Chesley Blackham of our Land Section regarding the captioned prospect. Please be advised that we have carefully reviewed said prospect and the most recent proposal concerning the prospect and Gulf is agreeable as follows:

Gulf will assign to Grace Petroleum Corporation and Supron Energy Corporation 100% of their interest in Lot 8 of Section 6, T-21-S, R-32-E, NMPM, Lea County, New Mexico, in exchange for 11.1125% of Supron and Grace's interest in the 240 acre tract consisting of Lots 15, 16 and SE/4 of said Section 6, T-21-S, R-32-E, Lea County, New Mexico, being a total of 26.67 acres. It is to be understood that said 26.67 acres will be added to Gulf's interest in Lots 9 and 10 of said section to give Gulf a total acreage of 106.67 acres in the 320 acre proration unit, being 33.33% interest in said proration unit.

The above offer is, ofcourse, contingent upon Gulf's approval of the AFE and a satisfactory Operating Agreement.

If we can be of any assistance, please feel free to contact Ches Blackham of our Land Section.

Yours very truly,

R. E. Griffith

R. E. GRIFFITH

CTB/dh

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 15, 1979

Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231

Attention: Mr. William Brown

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal
"G" Comm. #1
Lea County, New Mexico

Gentlemen:

Please refer to my letter, dated May 16, 1979, to Gulf Oil in which Grace offered to Gulf a counterproposal which suggested a 360-acre non-standard unit.

The interest of the parties would be:

| | |
|---|---|
| Grace | 50.00000 % |
| Supron | 16.66667 % |
| Gulf | 33.33333 % |
| Total | 100.00000 % |

Since writing this letter, I have talked with Conrad Coffield, the expert on such matters with the law firm of Hinkle, Cox in Midland, Texas. Mr. Coffield stated that unless we could prove geologically to the State of New Mexico Oil Conservation Commission that the formation actually followed the shape of an irregular unit, that neither Gulf's proposed irregular 320-acre unit nor Grace's proposed irregular 360-acre unit would be approved.

Since Gulf wants a larger percentage of working interest in order to join the unit, Grace suggests that we approach Gulf with the following proposal:

> Gulf would be asked to assign all of its interest in Lot No. 8, the lot it wanted added to the unit to Grace and Supron. We would assign to Gulf an additional undivided 8.33333% working interest in Supron's and Grace's acreage which consists of Lots 15 and 16 and the SE/4 Section 6-T21S-R33E, NMPM, Lea County, New Mexico. This procedure would reduce Supron's interest by 25% of 8.33333%, or 2.0833%; and would reduce Grace's interest in the unit by 75% of 8.33333%, or 6.25000%.

This change in interest would result in the partners' interests in the 320-acre unit to be as follows:

| | |
|---|---|
| Grace | 50.00000 % |
| Supron | 16.66667 % |
| Gulf | 33.33333 % |
| Total | 100.00000 % |

Please let Grace know as soon as possible if you approve of this offer.

In case Gulf, Grace and Supron cannot agree to the above, Grace has requested a force pooling hearing based on Lots 9, 10, 15 and 16 and SE/4 Section 6-T21S-R32E, NMPM, Lea County, New Mexico before the full commission as soon as possible after June 27, 1979. Enclosed is a copy of the application.

Very truly yours,

Don W. Erickson

Don W. Erickson
District Landman

DWE/jct

June 4, 1979

Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231

Attention: Mr. William Brown

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G"
Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Gentlemen:

As you know, Gulf has not agreed to join the unit in its present unit outline.

Although you suggested changes in the Operating Agreement, no changes will be made until we are able to settle with Gulf about its joining the unit. However, the overhead well rates probably would not be changed. We feel that $2,407.00 for a drilling well and $336.00 for a producing well is a fair charge. Grace periodically revises these rates to meet rising costs. These rates were last revised May 3, 1978.

Very truly yours,

Original Signed By

Don W. Erickson
District Landman

DWE/jct

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL.

WILLIAM M. BROWN
LANDMAN

May 30, 1979

Grace Petroleum Corporation
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attn: Mr. Don W. Erickson

Re: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G"
Comm. #1
Lea County, New Mexico

Gentlemen:

Reference is made to your letter of May 16, 1979 concerning the drilling of the captioned well.

Supron agrees to participate in the drilling of said well subject to our approval of an AFE, Operating Agreement and relative instruments. Also, with respect to your counter proposal to Gulf's proposed unit outline, Supron would support the 360-acre unit.

If anything further is needed, please advise.

Sincerely,

Wm. M. Brown

William M. Brown
Landman

WMB/bb

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

May 16, 1979

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1
Lea County, New Mexico

Gentlemen:

By Gulf's letter, dated April 19, 1979, Gulf proposed the addition of Gulf's Lot No. 8 to the proposed unit and the exclusion of the SW/4 SE/4 Sec. 6-21S-32E, NMPM. The SW/4 SE/4 Sec. 6 is owned 25% by Supron Energy Corporation and 75% by Grace Petroleum. The interest of the parties would then be as follows:

| | | |
|---|---|---|
| Grace | 150 Acres | 46.875% |
| Supron | 50 Acres | 15.625% |
| Gulf | 120 Acres | 37.500% |
| Total | 320 Acres | 100.000% |

Grace is not agreeable to the above suggestion. Instead, Grace proposes the following compromise:

The present acreage in the proposed unit would be retained plus the addition of Lot No. 8. This additional acreage would result in a non-standard 360-acre unit. The interests of the parties would be as follows:

| | | |
|---|---|---|
| Grace | 180 Acres | 50.00000% |
| Supron | 60 Acres | 16.66667% |
| Gulf | 120 Acres | 33.33333% |
| Total | 360 Acres | 100.00000% |

It is also suggested that the approval of this 360-acre unit be obtained by Gulf and such application for approval be submitted to the proper state and Federal agencies by Gulf within a reasonable amount of time.

If Gulf approves, please let Grace know as soon as possible. By a copy of this letter to Supron Energy Corporation, Grace requests to be notified if Supron approves of this change.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc

cc: Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231
Attention: Mr. William Brown

bcc: Don L. Sterne
Howard Green
Max Douglas
Buddy Knight
Steve Rabenaldt
Mike Reisz

# Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Drawer 1150
Midland, TX 79702

cc: Mar Douglas
Mike Reisz 5/2/79
DHE

April 19, 1979

Re: Salt Lake Morrow South Prospect, Proposed New Mexico Federal "G" Com #1, Lots 9, 10, 15 and 16 and SE/4 of Section 6, T-21-S, R-32-E, NMPM LEA COUNTY, New Mexico

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

In reference to your letter of March 7, 1979 concerning Gulf's joining in the captioned well, please be advised that Gulf has considered your proposal, however, Gulf would like to submit a revised proposal for your consideration. Gulf would like to include lot #8 in the proration unit and exclude the SW/4 of the SE/4 of the presently proposed unit. This would increase Gulf's working interest from 25% to ~~35.5%~~ 37.5% DHE.

Upon your acceptance the necessary instruments will be prepared. This offer is not exclusive and Gulf reserves the right to withdraw it without further notice to you after thirty (30) days from the date hereof unless we receive a firm commitment from you within said 30-day period.

If you have any questions, please contact Denise Beckham of our Land Department at 915/682-7301, ext. 469.

Yours very truly,

R. E. GRIFFITH

DB/dh

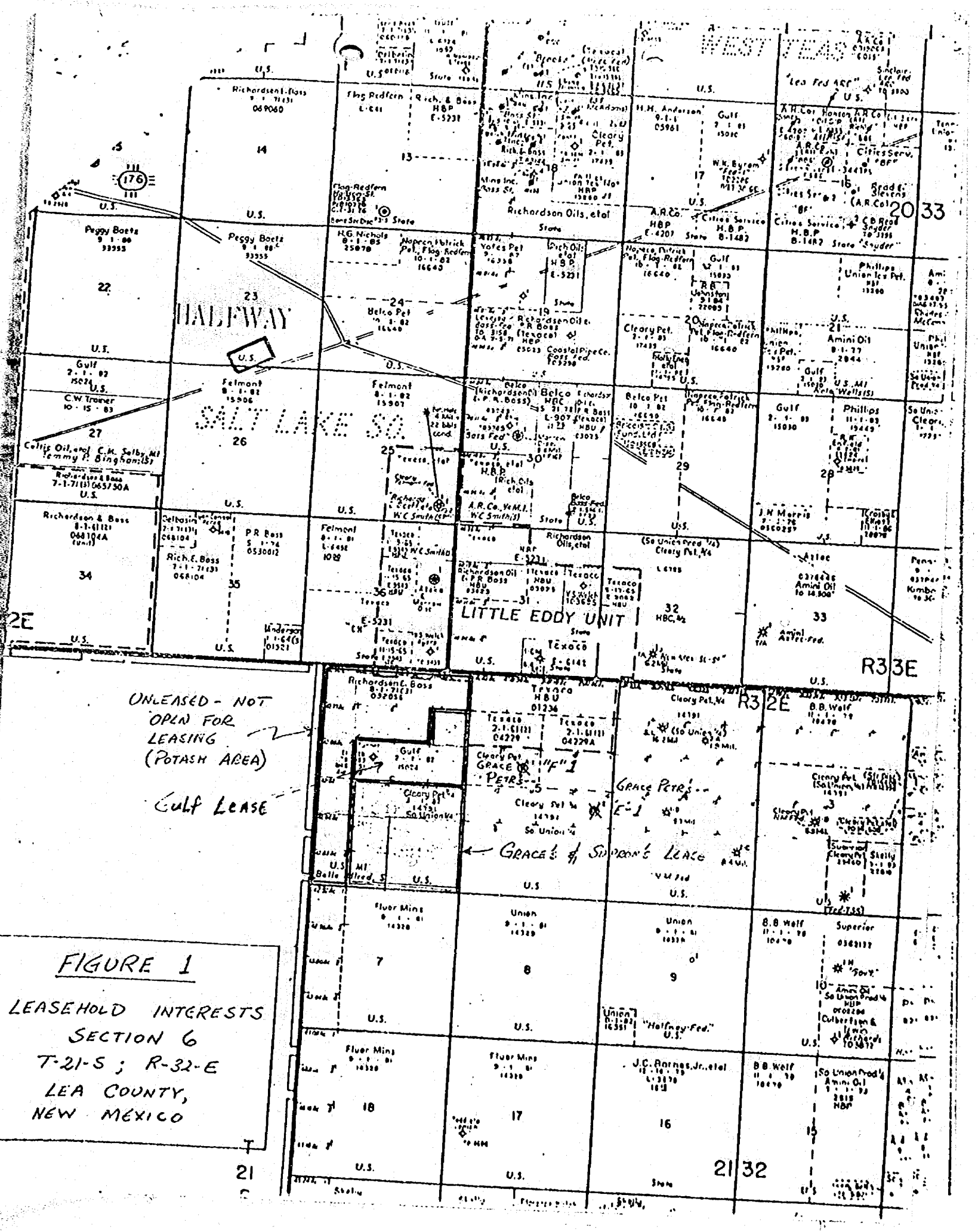



FIGURE 1

LEASEHOLD INTERESTS
SECTION 6
T-21-S ; R-32-E
LEA COUNTY,
NEW MEXICO

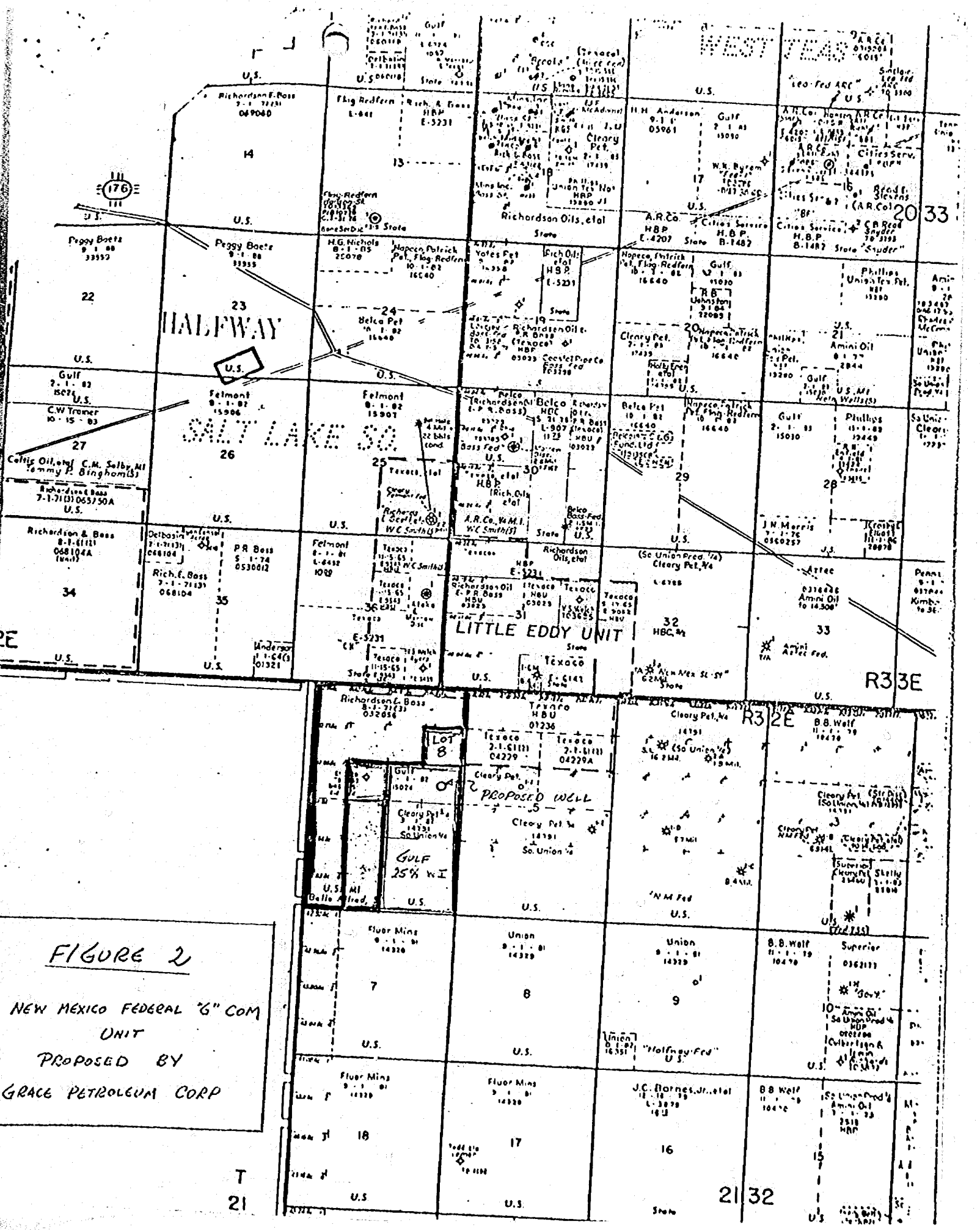
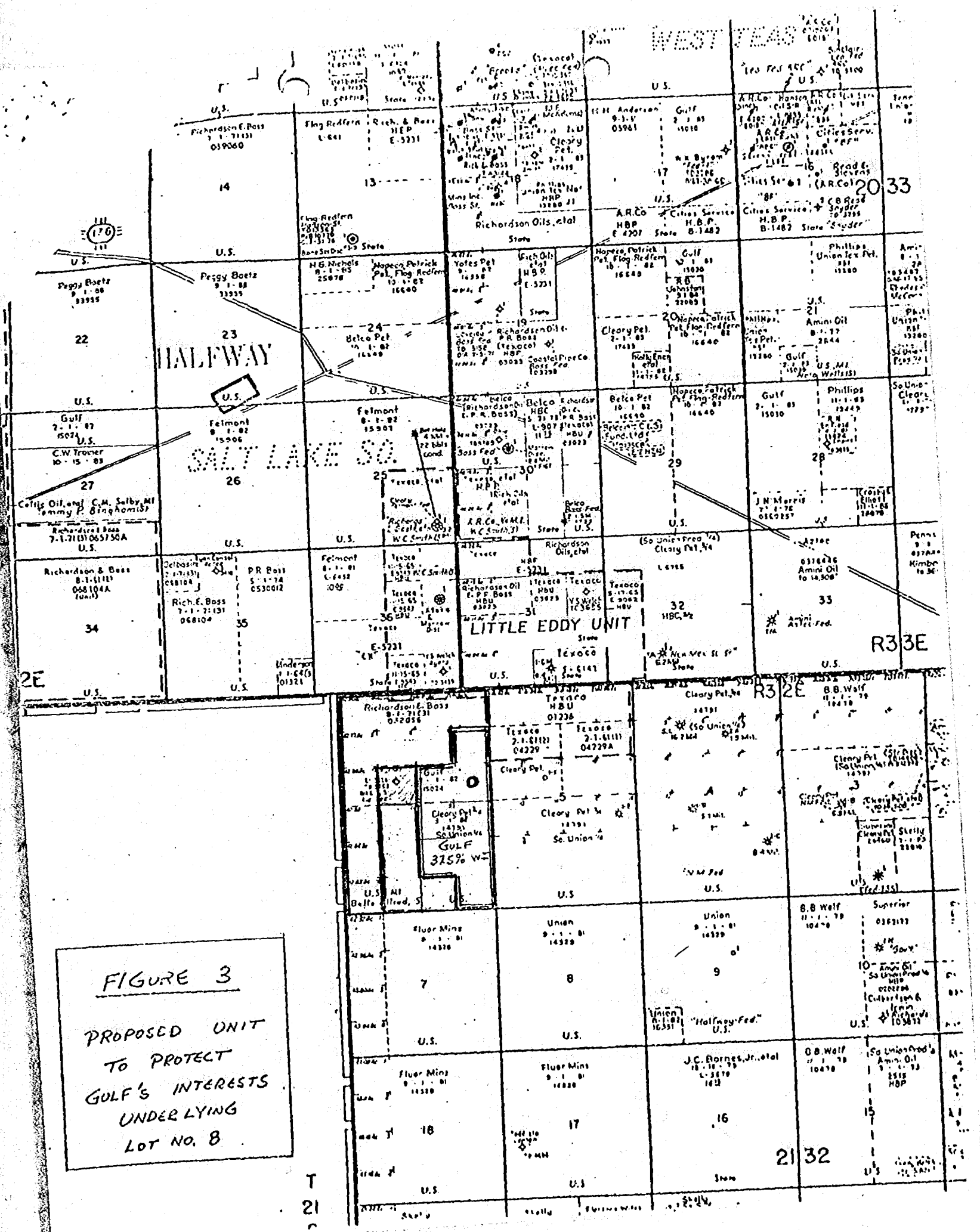



FIGURE 2

NEW MEXICO FEDERAL "G" COM UNIT

PROPOSED BY

GRACE PETROLEUM CORP


HALFWAY
SALT LAKE SD.
LITTLE EDDY UNIT
WEST TEAS
Richardson Oils, etal
Richardson & Boss
Richardson E. Boss
Peggy Boetz
Felmont
Texaco
Cleary Pet.
Hapeco, Patrick Pet. Flag-Redfern
Gulf
Phillips
Amini Oil
Cities Service
A.R.Co
Hanson
Brad E. Stevens
Rich. E. Boss
PR Boss
Belco Pet.
Flag Redfern
Rsch. & Boss
H.G. Nichols
Yates Pet.
Rich Oils
Coastal Pipe Co.
Belco
Richardson Oil
C.W. Trainer
Collis Oil, etal
C.M. Selby, Jr.
Tommy P. Binghamist
Richardson & Boss
Delhaven
Fluor Mins
Union
Sohio
Aztec
J.C. Barnes, Jr., etal
B.B. Wolf
Superior
Kimbo
Sterling
Gulf 375% W.I.
FIGURE 3
PROPOSED UNIT TO PROTECT GULF'S INTERESTS UNDERLYING LOT NO. 8
T 21 S
R32E
R33E
20
33
21
32

March 28, 1979

Gulf Oil Exploration & Production Co.
Post Office Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

Re: South Salt Lake Morrow Prospect
Proposed New Mexico Federal "G"
Comm. #1
Lots 9, 10, 15 and 16 and
SE/4, Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

In conjunction with the letter from Grace Petroleum's Land Department dated March 7, 1979, we would like to furnish Gulf with the latest production information available on the New Mexico Federal "F" No. 1.

Enclosed is a tabulation of weekly production reports on the New Mexico Federal "F" No. 1 and a graph of the above tabulation. Also enclosed for your review is some information on an offset, the New Mexico Federal "E" No. 1. This well was completed natural on September 8, 1977 with an AOF of 4,525 MCFPD plus 5 BC on a four-hour test. Structurally this well is equivalent to the proposed "G" location. As of March 1, 1979 the New Mexico Federal "E" No. 1 has produced 1,054,600 MCF of gas and cumulative condensate production of 10,573 barrels. The "E" No. 1 is presently producing 1.9 MMCFPD and is representative of what could be encountered at the proposed "G" location.

It is anticipated that some time will be required to obtain an approved permit for the proposed location. If additional information is required, please contact our Midland office or call (405) 843-5551, extension 405.

Very truly yours,

Original Signed by: Michael R. Reisz

Michael R. Reisz
District Reservoir Engineer

djt3/1
Enclosures

cc: Midland District Office - Buddy Knight

bcc: Don Erickson ✓
Jack HIll
Ken Dowell
Steve Rabenaldt

WEEKLY PRODUCTION REPORT

NEW MEXICO FEDERAL F #1

| DATE WEEK OF | MCF | BBL. COND/OIL | B/W | FTP PSI | L.P. PSI | REMARKS |
|---|---|---|---|---|---|---|
| 2-02-79 | 14,200 | 198 | 3 | 2,150 | - | 15/64" CHK of 1/27 to 2/2. |
| 2-12-79 | 16,400 | 232 | 6 | 1,300 | - | 21/64" CHK. |
| 2-16-79 | 19,400 | 274 | 9 | 1,050 | - | 25/64" CHK. |
| 2-23-79 | 18,800 | 244 | 15 | 1,000 | - | 25/64" CHK. |
| 3-02-79 | 17,400 | 225 | 9 | 1,000 | - | 21/64" CHK. |
| 3-09-79 | 16,300 | 208 | 9 | 950 | - | 21/64" CHK. |
| 3-16-79 | 12,500 | 160 | 9 | 2,200 | - | 15/64" CHK. Rate change & reduction in choke size due to seasonal adjustments in demand. |

N.M. CEDAR "F" #1

SOUTH SALT LAKE - MARROW

△ GAS PROD.

○ CONDENSATE PROD

46 5490

KEUFFEL & ESSER CO. MADE IN U.S.A.

N°2 SEMI-LOGARITHMIC 3 CYCLES X 70 DIVISIONS

BBLS. COND./WEEK

MCF/WEEK

10 9 8 7 6 5 4 3 2 1 9 8 7 6 5 4 300 200 100 9 8 7 6 5 4 3 2 10

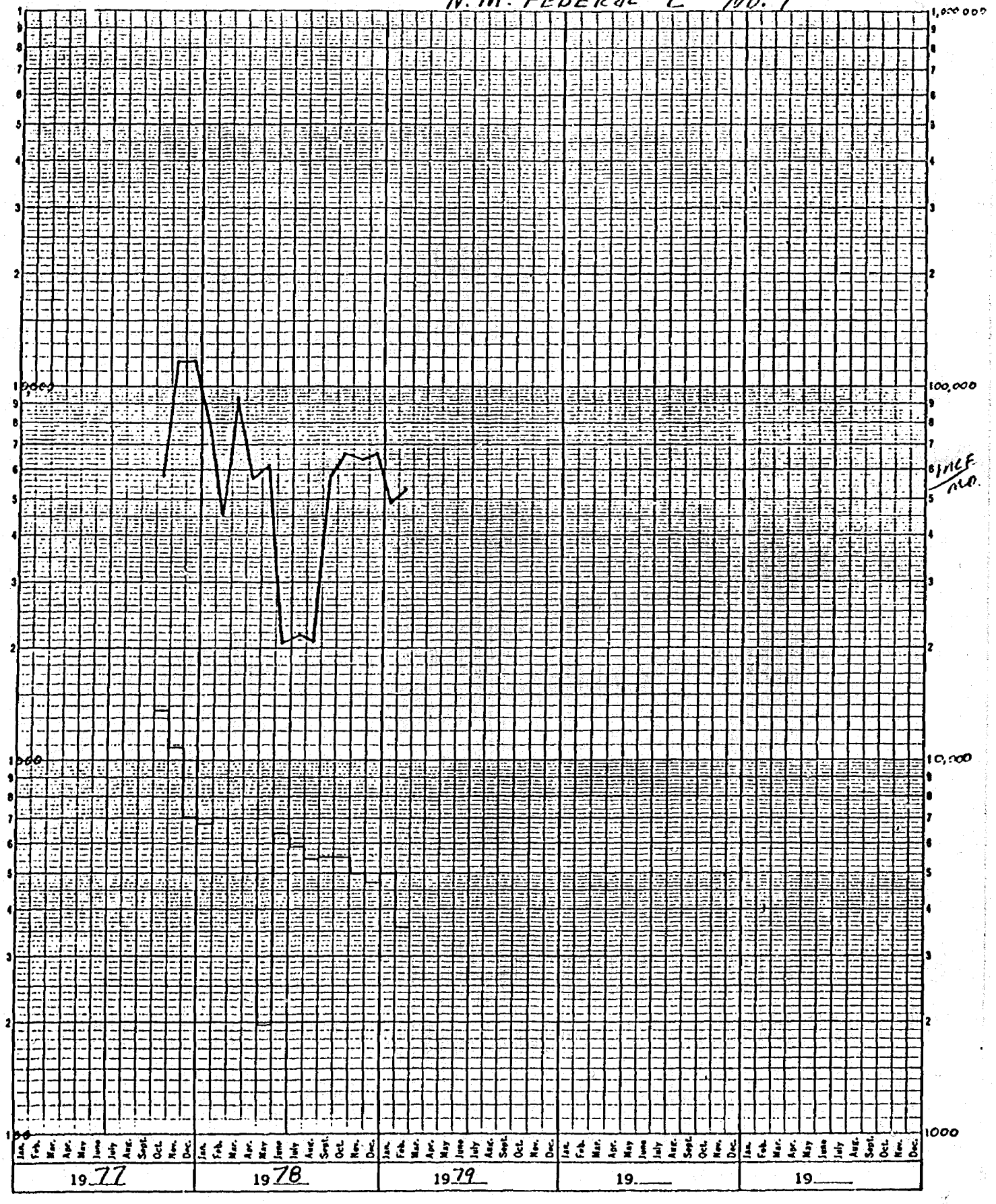
2,000 1,000

19000 1000

2/2 2/12 2/16 2/23 3/2 3/9 3/16 3/23

1970

N. M. FEDERAL "E" NO. 1




3.0 mo.

KEUFFEL & ESSER CO.

Formation Tops:

| | | |
|---|---|---|
| Rustler Anhydrite (Base Red Beds) | 1310' | (+2381) |
| Yates | 3164' | (+ 527) |
| Capitan Reef | 3376' | (+ 315) |
| Delaware Mtn. Sands | 5225' | (-1534) |
| Bone Springs | 8464' | (-4773) |
| Wolfcamp | 11030' | (-7339) |
| Strawn | 12076' | (-9015) |
| Atoka Sand | 12864' | (-9173) |
| Atoka Carbonates | 13224' | (-9533) |
| Morrow Sands-Upper | 13772' | (-10081) |
| Morrow Sands-Lower | 14156' | (-10465) |
| Barnett Shale | 14298' | (-10602) |
| Total Depth | 14361' | (-10670) |

Perforating Record:

7-22-77 13,908-14' (7); 13,940-60 (21)
Total 28- 0.39" diameter holes

Treating Record:

None - Natural

Producing Zone:

Morrow Sand 13,908-13,960'.

Potential:

9-8-77 AOF 4525 MCF/D + 5 BC on 4 hr test. Gas liquid ratio 100,416. Gas gty 0.610. Condensate gty 51.7° API. Flow rates as follows:

| | | | |
|---|---|---|---|
| Flow #1 | 3670 | MCF/D | 2718 psg FTP |
| #2 | 3283 | MCF/D | 3045 psg FTP |
| #3 | 2353 | MCF/D | 3640 psg FTP |
| #4 | 2244 | MCF/D | 4150 psg FTP |

Average flow rate - 4.0 MMCF/D + 28 BC + no wtr/26 hrs. TP 2100 on 21/64" chk.

Permanent Production Equipment:

7-22-77 Otis Permatrieve 5½" pkr set at 13,760'.

Remedial Work:

None to 7-19-78

RBW:mlb

xc: Jack Hill BJK
Ken Dowell DWR
Frank Elliott ✓ File

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

March 7, 1979

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

In your letter, dated August 10, 1978, to Grace Petroleum Corporation you stated that Gulf preferred to defer consideration to join in the captioned well pending the outcome of the New Mexico Federal "F" Comm. #1.

The "F" Comm. #1 is comprised of Lots 11, 12, 13 & 14 and SW/4 Sec. 5-21S-32E, NMPM, Lea County, New Mexico. The date of first sale of gas from this well was on January 26, 1979, at an initial price of $1.73 per MCF.

As soon as you are able to make a decision, we would appreciate hearing from you.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc

cc: Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231
Attention: Mr. William M. Brown

bcc: Max Douglas
Mike Reisz

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL

January 15, 1979

GRACE PETROLEUM CORPORATION
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attention: Mr. Don W. Erickson

Re: New Mexico Federal "G" Comm. #1
Lea County, New Mexico

Dear Mr. Erickson:

Enclosed please find five (5) copies of the signature page for the Communitization Agreement for the above captioned area. With regard to the Operating Agreement, we are waiting for your reply to the changes requested in our letter of January 4, 1979 from Mr. William Brown.

In the meantime, if we may be of further assistance in this matter, please advise.

Very truly yours,

Pamela Putnam

Pamela Putnam
Land Department

Enclosures

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

WILLIAM M. BROWN
LANDMAN

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL

January 4, 1979

Grace Petroleum Corporation
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attn: Mr. Don W. Erickson

Re: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6, T-21-S, R-32-E, N.M.P.M.
Lea County, New Mexico

Dear Mr. Erickson:

Pursuant to our telephone conversation of January 2, 1979 concerning the Operating Agreement for the captioned, this letter will formally set forth our objections to same. We would appreciate your consideration of the following changes:

1. Amending portions of Article V, Section 13, 1 and 2 as indicated on the enclosed Page 4, as well as adding Selection of New Operator provision as set forth in the enclosed Page 14, being Article XV, Section A;

2. Deleting first paragraph of Article VIII, Section E;

3. Reducing the well rates contained in Section III, 1A of the Accounting Procedure. Please note that in the past, ie. Operating Agreements for New Mexico Comm. #1E and F wells, your rates were $1,456.00 per drilling well and $217.00 per producing well, both being substantially less than the rates you propose. We, therefore, recommend rates of $1,900.00 and $250.00, respectively.

Also, you will recall that we discussed the absence of Exhibit "B" to the Agreement, and you advised that you would handle by subsequent correspondence upon receipt of our obligations to the Agreement.

Should you have any questions concerning our proposed changes, please feel free to contact the undersigned.

Sincerely,

William M. Brown
Landman

WMB/bb

Enclosures

**B. Resignation or Removal of Operator and Selection of Successor:**

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the majority vote in interest of Non-Operators.

Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the majority vote in interest of Non-Operators.

**C. Employees:**

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

**D. Drilling Contracts:**

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

## ARTICLE VI.
## DRILLING AND DEVELOPMENT

~~A. Initial Well:~~

On or before the _____ day of _____, 19__, Operator shall commence the drilling of a well for oil and gas at the following location:

and shall thereafter continue the drilling of the well with due diligence to

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall ~~plug and abandon same as provided in Article VI.E.1. hereof.~~

☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of _____ days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within _____ days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

## ARTICLE XIV.
## COMPLIANCE WITH LAWS AND REGULATIONS

**A. Laws, Regulations and Orders:**

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

**B. Governing Law:**

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

## ARTICLE XV.
## OTHER PROVISIONS

A. Selection of New Operator:

Notwithstanding anything to the contrary contained herein, after Operator has acted in that capacity for a period of not less than one year, Non-Operator may give notice to the Operator, in writing, in accordance with the provisions hereof respecting notices, of any charges deemed by Non-Operator to be excessive or of any practices employed by Operator deemed by Non-Operator not in accord with accepted industry procedure. Unless within sixty (60) days after receipt by it of such notice, Operator agrees to act as Operator according to terms set out in such notice, then Non-Operator may elect to assume the duties of Operator and thereafter act as Operator of the Contract Area in accordance with the terms set out in the notice given to the former Operator. After any successor Operator who has assumed operation of the Contract Area in accordance with this section has operated the joint property for a period of not less than one year, the provisions of this section may be again invoked by any party who is then Non-Operator.

B. Equal Employment Opportunity:

During the performance of this agreement, the Operator shall be bound by and comply with all terms and provisions of Section 202 of Executive Order 11246 of September 24, 1965, all of which are incorporated herein by reference to the same regulations and relevant orders adopted pursuant to such Executive Order.

Operator assures Non-Operator that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965. Operator further understands and agrees that a breach of the assurance herein contained subjects it

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

BILL CURTIS
MANAGER OF LANDS

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO-DAL.

December 8, 1978

GRACE PETROLEUM CORPORATION
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attention: Don W. Erickson
District Landman

Re: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Enclosed please find one (1) executed copy of the AFE for the above captioned well.

If we may be of further assistance, please, do not hesitate to contact us.

Very truly yours,

Bill Curtis
Manager of Lands

pp

Enclosure

November 3, 1978

Supron Energy Corporation
Building V, Fifth Floor
10300 N. Central Expressway
Dallas, Texas 75231
Attention: Mr. William M. Brown

Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

RE: Proposed New Mexico Federal "G"
Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Enclosed for your consideration are the following:

1. One copy for your records of the Communitization Agreement dated November 1, 1978, which has been executed by Grace Petroleum Corporation.

2. Five copies of the signature pages for this agreement.

Although you have informed Grace that you do not yet want to make the decision to join, pending the outcome of the New Mexico Federal "F" #1 Well, we would appreciate your retaining the agreement for your possible approval and execution.

If you do execute this agreement, please execute and acknowledge all five copies of the signature pages and return all five copies to Grace to my attention.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc
Enclosures: As Stated

United States Department of the Interior

GEOLOGICAL SURVEY
P. O. Drawer 1857
Roswell, New Mexico 88201

OCT 23 1978

October 19, 1978

Grace Petroleum Corporation
Attention: Mr. Don W. Erickson
6501 North Broadway
Oklahoma City, Oklahoma 73116

Gentlemen:

The information submitted in Exhibits "A" and "B" for the proposed Morrow communitization agreement of Lots 9, 10, 15, 16 and SE¼ Sec. 6, T. 21 S., R. 32 E., concurs with our records. No changes or corrections are necessary.

Please include "as amended" to the communitization agreement, Part 15, Nondiscrimination as follows:

> . . . inclusive, of Executive Order 11246 as amended (30 F.R. 12319), which . . .

This change should be included in all future communitization agreements.

Sincerely yours,

Jack Willock

JACK WILLOCK
Assistant Oil & Gas Supervisor, SRMA

Enclosure

3. All matters of operation shall be governed under and pursuant to the terms and provis

RECEIVED
OCT 16 1978
U. S. GEOLOGICAL SURVEY
ROSWELL, NEW MEXICO

COMMUNITIZATION AGREEMENT

Contract No. _____

THIE AGREEMENT, entered into as of the 1st day of November, 1978, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

WITNESSETH:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.), authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

   Lots 9, 10, 15, 16, and SE/4 of
   Section 6-21S-32E,
   Lea County, New Mexico

   containing 320 acres, more or less, and this agreement shall include only the Morrow Formation underlying said lands and the natural gas and associated liquid hydrocarbons hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit B, designating the operator of the communitized area and showing the acreage percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area, and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

(b) It is agreed that for any Federal lease bearing a sliding - or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement is effective November 1, 1978, upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities: Provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference in this agreement.
as amended

EXHIBIT "B"

PLAT OF COMMUNITIZED AREA COVERING LOTS 9, 10, 15, & 16 and SE/4 of Section 6-21S-32E, NMPM, LEA COUNTY, NEW MEXICO, SALT LAKE SOUTH FIELD

| | |
|---|---|
| Lot 10<br>Tr. 1 - 40 acres<br>NM 15024 | Lot 9<br>Tr. 1 - 40 acres<br>NM 15024<br>o Well Location |
| Lot 15<br>Tr. 2 - 40 acres<br>NM-14791 | Lot 16<br>Tr. 2 - 40 acres<br>NM 14791 |
| SE/4<br>Tract 2 - 160 acres<br>NM-14791 | |

RECAPITULATION

| TRACT # | TOTAL ACRES COMMITTED | % OF INTEREST IN COMMITTED AREA |
|---|---|---|
| 1 | 80.00 | 25.00% |
| 2 | 240.00 | 75.00% |
| | 320.00 | 100.00% |

EXHIBIT "A"

TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, EMBRACING LOTS 9, 10, 15, & 16 and SE/4 Section 6, Township 21 South, Range 32 East, NEW MEXICO P.M., LEA COUNTY, NEW MEXICO

OPERATOR OF COMMUNITIZED AREA - GRACE PETROLEUM CORPORATION

TRACT NO. 1

LESSOR(S) : U. S. A.

LESSEE(S) OF RECORD: Gulf Oil Exploration and Production Company

SERIAL NO. OF LEASE: NM-15024

DATE OF LEASE: February 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 9 & 10 of
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 80

WORKING INTEREST AND PERCENTAGE: Gulf Oil Exploration and Production Company. . .100.%

O.R.R.I. AND PERCENTAGE:

Walter Duncan.....30% of 5%
Raymond T. Duncan.....30% of 5%
Vincent J. Duncan.....30% of 5%
J. Walter Duncan, Jr..... 9% of 5%
Walter Duncan, III..... 1% of 5%

TRACT NO. 2

LESSOR(S): U. S. A.

LESSEE(S) OF RECORD: Grace Petroleum Corporation and
Supron Energy Corporation

SERIAL NO. OF LEASE: NM-14791

DATE OF LEASE: March 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 15 & 16 & SE/4
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 240

WORKING INTEREST AND PERCENTAGE:

Grace Petroleum Corporation ..... 75.%
Supron Energy Corporation ..... 25.%
100.%

O.R.R.I. AND PERCENTAGE:

Henry Vartanian.....2.5%
Charles E. Strange,
Trustee of the Charles
E. Strange Trust.....2.5%

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY:_____

BY:_____
James H. Thomas, Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY:_____

BY:_____

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY:_____

BY:_____

SUPRON ENERGY CORPORATION
BLDG. V, FIFTH FLOOR
10300 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75231

BILL CURTIS
MANAGER OF LANDS

TELEPHONE (214) 691-9141
TWX (910) 861-9117
SUPCO DAL

December 8, 1978

GRACE PETROLEUM CORPORATION
Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116

Attention: Don W. Erickson
District Landman

Re: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Enclosed please find one (1) executed copy of the AFE for the above captioned well.

If we may be of further assistance, please, do not hesitate to contact us.

Very truly yours,

Bill Curtis
Manager of Lands

pp

Enclosure

October 19, 1978

Supron Energy Corporation
Building V, Fifth Floor
10300 N. Central Expressway
Dallas, Texas 75231
Attention: Mr. William M. Brown

Gulf Oil Exploration and
Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

RE: Proposed New Mexico Federal
"G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-21S-32E, NMPM
Lea County, New Mexico

Gentlemen:

Enclosed for your consideration are the following:

1. Two copies of the Operating Agreement for the captioned unit, dated November 1, 1978, which have been executed by Grace Petroleum Corporation.

2. One copy of Hinkle, Cox, Eaton, Coffield and Hensley's Title Opinion, dated September 26, 1978, covering the captioned acreage.

3. Two copies of Grace's AFE for the "G" #1 Well. Please note that New Mexico Oil Conservation Commission Form C-102, which is also enclosed, has the revised well location noted on it.

The Communitization Agreement has been sent to the U. S. G. S. for preliminary approval of form.

Although you have informed Grace that you do not yet want to make the decision to join, pending the outcome of the New Mexico Federal "P" #1 Well, we would appreciate your retaining the above instruments for your approval and execution if you do decide to join.

If and when you do approve the drilling of the "G" #1 Well, please return one executed copy of the Operating Agreement and one executed copy of the AFE to my attention at Grace Petroleum.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jc
Enclosures: As Stated

# Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Drawer 1150
Midland, TX 79702

AUG 14 1978

August 10, 1978

Re: Salt Lake Morrow South
Prospect, Proposed New Mexico
Federal "G" Com #1, LEA COUNTY,
New Mexico

Grace Petroleum Corporation
6501 North Broadway
Oklahoma City, OK 73116

Attention: Don W. Erickson

Gentlemen:

Please refer to your letter of July 17, 1978 proposing formation of the captioned unit. This is to advise you that Gulf prefers to defer consideration of your proposal pending the outcome of the New Mexico Federal "F-1" offsetting your proposed test.

Yours very truly,

R. E. Griffith

R. E. GRIFFITH

CMH/dh
cc: Superior Energy Corp.

July 28, 1978

Gulf Energy & Mineral Co., U.S.A.
P.O. Box 1150
Midland, Texas 79702

Attention: Mr. Robert E. Griffith

Connie Hawkins
Handling

Supron Energy Corporation
Suite 1700, Caqbell Centre
8350 North Central Expressway
Dallas, Texas 75206

Attention: Mr. Bill Curtis

RE: AFE
Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 & 16, and SE/4 Section 6,
T21S, R32E, N.M.P.M.
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No. 9281

Gentlemen:

Please refer to my letters of July 17 and July 21, 1978 concerning the proposed captioned unit.

Enclosed for your information is Grace Petroleum Corporations's AFE for this well.

Yours very truly,

Original Signed By
DON ERICKSON
Don W. Erickson
District Landman

DWE/jc

bcc: Don Sterne
Howard Green
Max Douglas
Frank Elliott

SUPRON ENERGY CORPORATION
SUITE 1700, CAMPBELL CENTRE
8350 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75206

TELEPHONE (214) 691-9141
TWX (910) 861-9112
SUPCO DAL.

July 26, 1978

JUL 28 1978

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attn: Mr. Don W. Erickson

Re: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1 Well
Lea County, New Mexico

Lea County, New Mexico

Dear Mr. Erickson:

Reference is made to your letter of July 17, 1978 concerning the formation of a unit for the drilling of the captioned well, to be located in Section 6, Township 21 South, Range 32 East, Lea County, New Mexico.

Supron would prefer to make an election with respect to your proposal at such time as the New Mexico Federal F-1 Well is drilled and completed, in view of the fact that said well is a direct offset.

Sincerely,

Wm M. Brown

William M. Brown
Landman

WMB/bb

cc: Gulf Energy & Mineral Co., U.S.

July 21, 1978

Gulf Energy & Mineral Co., U.S.
P.O. Box 1150
Midland, Texas 79702
ATTENTION: Mr. Robert E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
ATTENTION: Mr. Bill Curtis

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal "G"
Comm. #1
Lots 9, 10, 15 and 16 and
SE/4 Sec. 6, T21S, R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No. 9281

Gentlemen:

Please refer to my letter of July 17, 1978, concerning the proposed captioned unit.

The unit outline has been revised to include Lots 9, 10, 15, and 16 and SE/4 Section 6-T21S, R32E, NMPM, Lea County, New Mexico. Lot No. 8 will not be included. A revised plat is attached.

Yours very truly,

Original Signed By
DON W. ERICKSON

Don W. Erickson
District Landman

DWE/jc

bcc: Don Sterne
Howard Green
Max Douglas
Frank Elliott

CLEARY PETROLEUM CORPORATION
BROADWAY EXECUTIVE PARK, 6501 N. BROADWAY
OKLAHOMA CITY, OKLAHOMA 73116
(405) 843-5551

July 17, 1978

S.J. CLERNY
President

Gulf Energy & Mineral Co., U. S.
P. O. Box 1150
Midland, Texas 79702
ATTENTION: Mr. Robert E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
ATTENTION: Mr. Bill Curtis

RE: Salt Lake Morrow South Prospect
Proposed New Mexico Federal
"G" Comm. #1 Lots 8, 9, 15,
and 16, SE/4 Sec. 6, T21S,
R32E, NMPM
Lea County, New Mexico
Federal Lease No. NM-14791
Lease No, 9281

Gentlemen:

Grace Petroleum Corporation, formerly Clearly Petroleum Corporation, is proposing a unit comprised of Lots 8, 9, 15, and 16, SE/4 Sec. 6, T21S, R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

In order to best utilize the leasehold of Grace, Supron Energy, and Gulf, it is suggested that the "G" unit be comprised of the captioned acreage. This unit would be considered as a non-standard unit but would contain 320 acres, more or less. The proposed well would be located on Gulf's acreage in Lot 9.

Gulf owns, according to our records, 100% of Lots 8 and 9, and Grace owns 75% and Supron owns 25% of Lots 15, 16, and the SE/4 Sec. 6-T21S, R32E. An ownership Take-Off of this area is enclosed along with a plat of the proposed unit.

Please give this proposal your early consideration. It takes, as you know, several months to complete the necessary paper work and to obtain approval of the U.S.G.S. on all regulatory matters. If you are agreeable to this proposal, we will immediately start on all the requirements to form this unit.

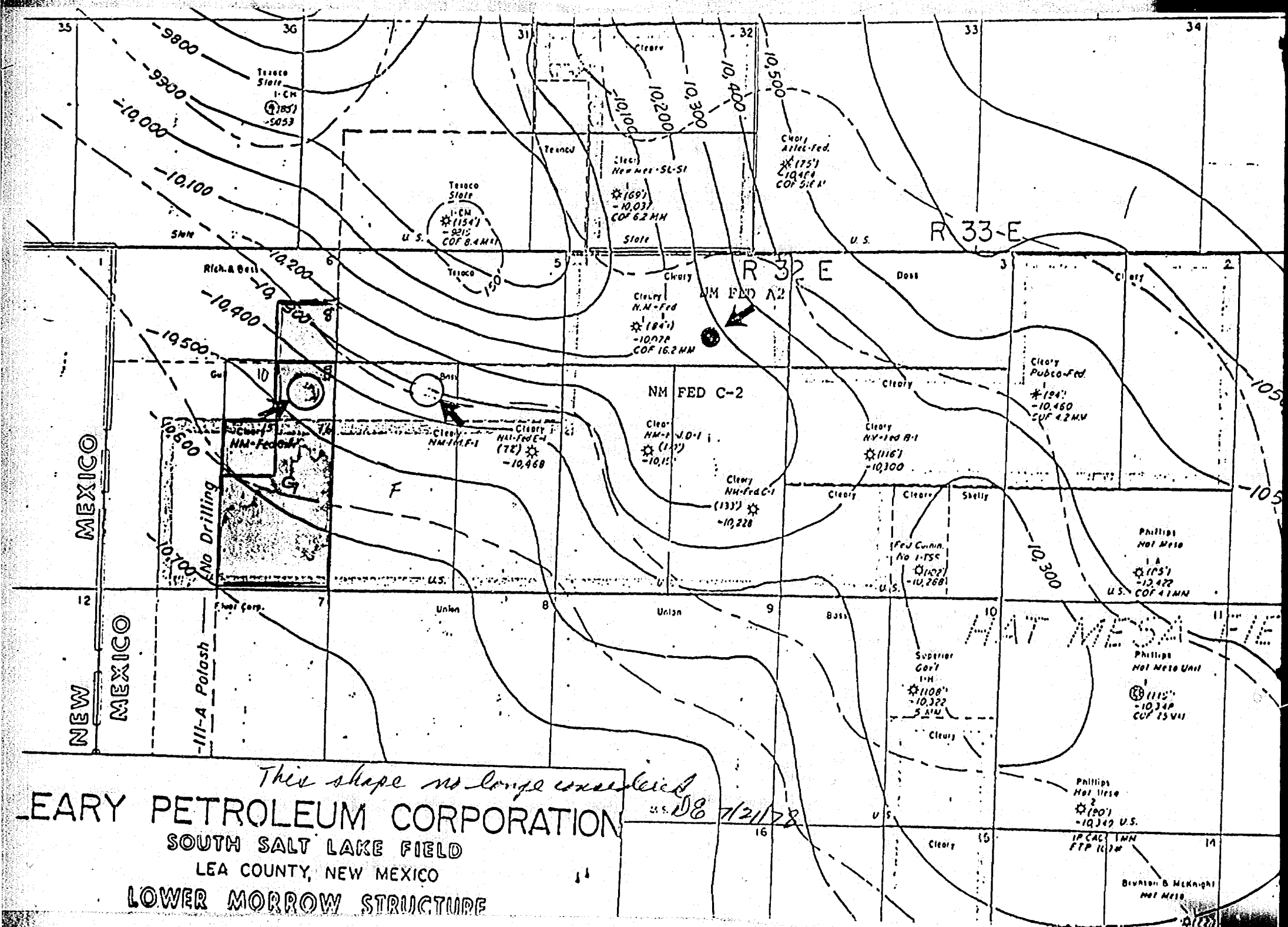
Very truly yours,

Don W. Erickson

Don W. Erickson
District Landman

DWE:db

bcc: Don Sterne
Howard Green
Max Douglas
Frank Elliott

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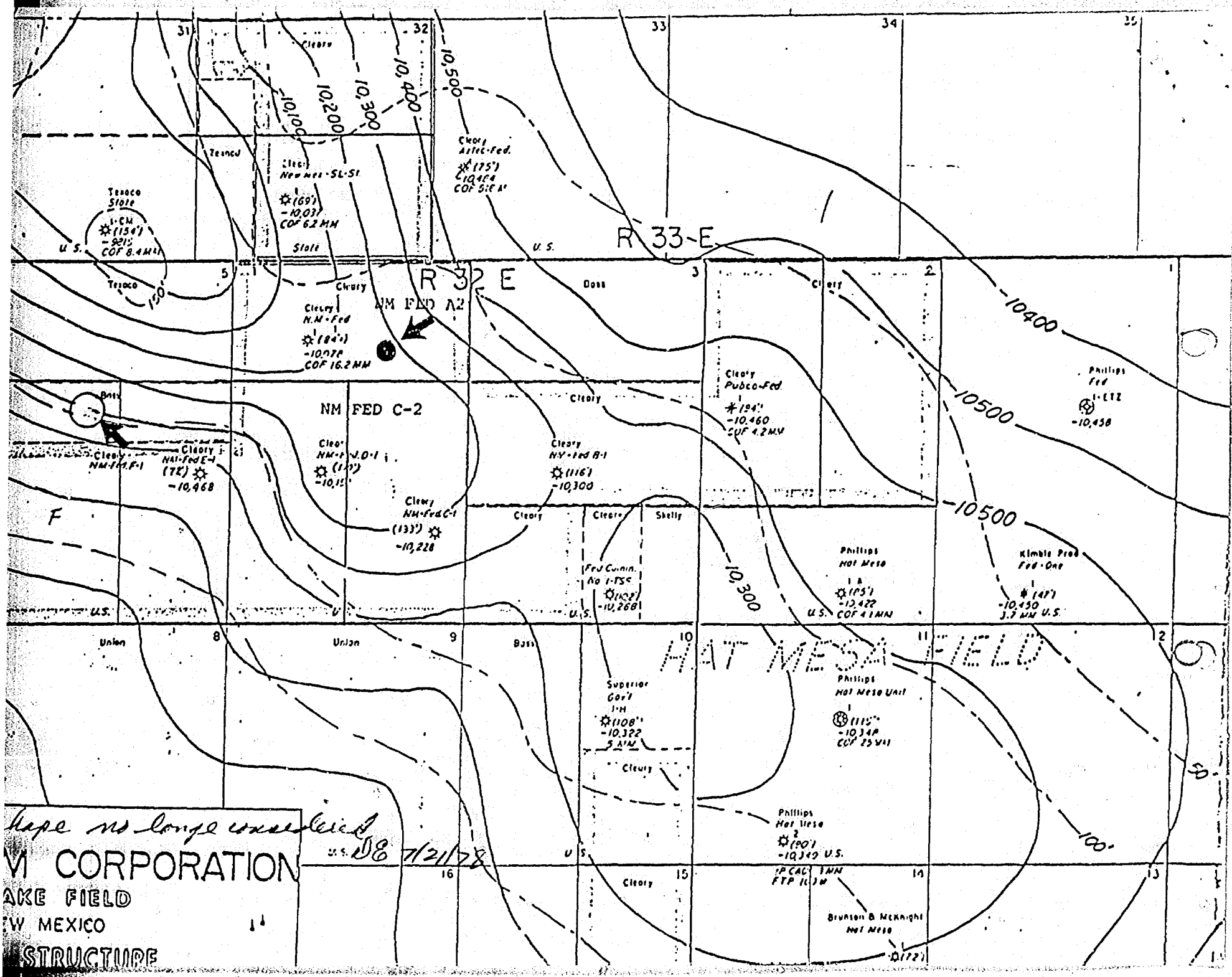
U.S. DE 7/21/78

# CLEARY PETROLEUM CORPORATION

## SOUTH SALT LAKE FIELD

LEA COUNTY, NEW MEXICO

## LOWER MORROW STRUCTURE




tape no longer considered

DE 7/21/78

M CORPORATION

AKE FIELD

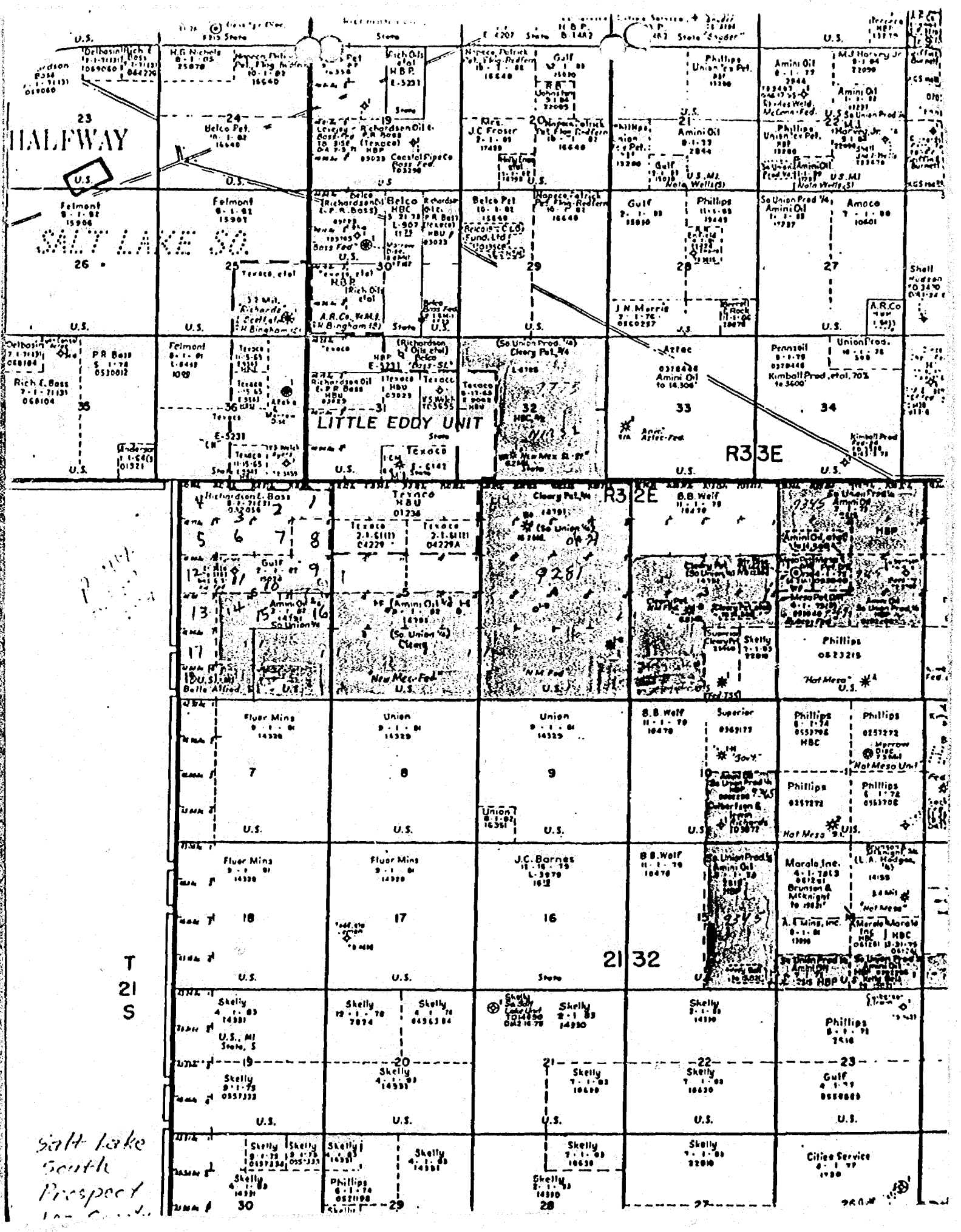
W MEXICO

STRUCTURE

TAKE-OFF

Township 21 South, Range 32 East, N.M.P.M.
Section 6: Lots 1 thru 18, E½SW¼,SE¼
Containing 985.06 acres, more or less,
Lea County, New Mexico

| DESCRIPTION | MINERAL OWNER | INTEREST | STATUS |
|---|---|---|---|
| Lots 1,2,3,4,5,6,7,12,13,17,18 (465.06 acres) | U.S.A. | 8/8 | UNLEASED<br>NOT OPEN FOR LEASING<br>(Potash Area) |
| Lot 8,9,10,11 (160.00) | U.S.A. | 8/8 | LEASED<br>NM-15024; dated 2/1/72<br>Gulf Oil Co. - 100%<br>Midland, TX 79701<br>ORR: Annamarie Duncan 5% |
| Lots 14,15,16,E½SW¼SE¼ | U.S.A. | 8/8 | LEASED<br>NM-14791; dated 3/1/72<br>(HBP)<br>Cleary Petroleum - 75%<br>Oklahoma City, OK 73116<br><br>Supron Energy Corp. - 25%<br>Dallas, Texas |


HALFWAY
SALT LAKE SO.
LITTLE EDDY UNIT
R33E
R32E
T
21
S
Salt Lake South Prospect

GRACE PETROLEUM CORPORATION
SUBSIDIARY OF W. R. GRACE & CO.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Region Case MID-CONTINENT Exhibit No. 6
Submitted by 6590 GRACG
Hearing Date

Detail Estimate of Costs
AUTHORIZATION FOR EXPENDITURE

AFE No. _____

Date 8/1/79

WELL NAME New Mexico Federal "G" #1
DESCRIPTION ~~660' FNL &~~ 660' FEL & 4650' FSL Sec. 6-21S-37E
COUNTY & STATE Lea Co., NM

PROSPECT So. Salt Lake
EXPLORATORY ___ DEVELOPMENT X WORKOVER ___

| Depth | Formation | Type |
|---|---|---|
| 13,600' | Morrow | Oil ___ Gas X |
| 14,100' | TD | Oil ___ Gas ___ |
| | | Oil ___ Gas ___ |

Code 25 applies only if we have your election in writing to be covered under our policy.

| Item and Description | Code | Dry Hole | Code | Completion | Total |
|---|---|---|---|---|---|
| **INTANGIBLE DRILLING COSTS:** | | | | | |
| Drilling Cost - Footage | 01 | | 01 | | |
| Day Work 60 @ 4600; 2 @ 4600 + 14 @ 1500 | 02 | 276,000 | 02 | 31,000 | 307,000 |
| Drilling and Turnkey MI RU MO | 04 | 40,000 | 04 | - | 40,000 |
| Labor - Company and Contract | 13 | 15,000 | 13 | 10,000 | 25,000 |
| Transportation | 26 | 2,000 | 26 | 8,000 | 10,000 |
| Bridges, Roads, Locations, etc. | 08 | 25,000 | 08 | 3,000 | 28,000 |
| Fuel, Water and Power | 05 | 60,000 | 05 | 5,000 | 65,000 |
| Bits, Coreheads and Rentals | 07 | 50,000 | 07 | 30,000 | 80,000 |
| Drilling Fluids | 06 | 75,000 | 06 | 2,000 | 77,000 |
| Surveys (logging) Perforating | 11 | 20,000 | 11 | 25,000 | 45,000 |
| Mudlogger | 30 | - | 30 | - | - |
| Cement and Cementing Services and Frac | 15 | 33,000 | 15 | 35,000 | 68,000 |
| Testing (Drillstem & Wireline) | 10 | 16,000 | 10 | - | 16,000 |
| Core Analysis | 12 | - | 12 | - | - |
| Geological and Engineering | 09 | 30,000 | 09 | 8,000 | 38,000 |
| Plugging & Abandoning | 27 | 5,000 | 27 | (5,000) | - |
| District and Overhead Expense | 20 | 4,000 | 20 | - | 4,000 |
| Insurance | 25 | 9,000 | 25 | - | 9,000 |
| Miscellaneous and Unforeseen @ 10% | 28 | 66,000 | 28 | 15,200 | 81,200 |
| TOTAL INTANGIBLE DRILLING COSTS | | 726,000 | | 167,200 | 893,200 |
| **TANGIBLE DRILLING COSTS:** | | | | | |
| Casing Size 13 3/8" 475' @ 19.00/ft. | 51 | 9,000 | 51 | - | 9,000 |
| Casing Size 9 5/8" 5300' @ 15.00/ft. | 51 | 80,000 | 51 | | 80,000 |
| Casing Size 5 1/2" 14,100' @ 9.00/ft. | 51 | - | 51 | 126,900 | 126,900 |
| Casing Size | 51 | | 51 | | |
| Casing Size | 51 | | 51 | | |
| Tubing 2 7/8" 14,100' @ 3.00/ft. | 52 | - | 52 | 42,300 | 42,300 |
| Subsurface Equipment | 53 | 2,000 | 53 | 12,000 | 14,000 |
| Well Head Equipment | 50 | 2,000 | 50 | 20,000 | 22,000 |
| Miscellaneous @ 10% | 72 | 9,300 | 72 | 20,100 | 29,400 |
| TOTAL TANGIBLE DRILLING COSTS | | 102,300 | | 221,300 | 323,600 |
| **TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS** | | | | | |
| Tanks, Separators, etc. | | | 56 | 30,000 | 30,000 |
| Heater Treater, Flow Line Heater, LTX, etc. | | | 58 | 10,000 | 10,000 |
| Lease Lines | | | 60 | 4,000 | 4,000 |
| Other Major Expense | | | 54 | 10,000 | 10,000 |
| Miscellaneous Connections | | | 71 | 5,000 | 5,000 |
| Installation | | | 74 | 6,000 | 6,000 |
| TOTAL TANGIBLE INSTALLATION, ETC. | | | | 65,000 | 65,000 |
| TOTAL AFE COST (100%) | | 828,300 | | 453,500 | 1,281,800 |

COMPANY: _____
APPROVED: _____
TITLE: _____ DATE: _____

GRACE PETROLEUM CORPORATION
APPROVED: Grant D. Hanlon
TITLE: Drilling Manager DATE: 8/1/79

COMMUNITIZATION AGREEMENT

Contract No. _____

THIE AGREEMENT, entered into as of the 1st day of November, 1978, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

WITNESSETH:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.), authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

   Lots 9, 10, 15, 16, and SE/4 of
   Section 6-21S-32E,
   Lea County, New Mexico

   containing 320 acres, more or less, and this agreement shall include only the Morrow Formation underlying said lands and the natural gas and associated liquid hydrocarbons hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit B, designating the operator of the communitized area and showing the acreage percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area, and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

(b) It is agreed that for any Federal lease bearing a sliding - or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement is effective November 1, 1978, upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities: Provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246, as amended, (30 F.R. 12319), which are hereby incorporated by reference in this agreement.

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

GRACE PETROLEUM CORPORATION

BY: _____
ASSISTANT SECRETARY

BY: _____
Vice President

ATTEST:

SUPRON ENERGY CORPORATION

BY: _____

BY: _____

ATTEST:

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 1st day of November 1978, by J. K. Ursidale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this ___ day of _____, 19 , by

President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this _____ day of _____, 19__, by President of

a corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this____day of_____
by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____
by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____, 19
by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
)
COUNTY OF ) SS

The foregoing instrument was acknowledged before me this___day of_____, 19_
by_____.

_____
Notary Public

My Commission Expires:

_____

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this___day of_____, 19__, by_____.

_____
Notary Public

My Commission Expires:

_____

EXHIBIT "A"

TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, EMBRACING LOTS 9, 10, 15, & 16 and SE/4 Section 6; Township 21 South, Range 32 East, NEW MEXICO P.M., LEA COUNTY, NEW MEXICO

OPERATOR OF COMMUNITIZED AREA - GRACE PETROLEUM CORPORATION

TRACT NO. 1

LESSOR(S) : U. S. A.

LESSEE(S) OF RECORD: Gulf Oil Exploration and Production Company

SERIAL NO. OF LEASE: NM-15024

DATE OF LEASE: February 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 9 & 10 of
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 80

WORKING INTEREST AND PERCENTAGE: Gulf Oil Exploration and Production Company. . .100.%

O.R.R.I. AND PERCENTAGE:

Walter Duncan.....30% of 5%
Raymond T. Duncan.....30% of 5%
Vincent J. Duncan.....30% of 5%
J. Walter Duncan, Jr..... 9% of 5%
Walter Duncan, III..... 1% of 5%

TRACT NO. 2

LESSOR(S): U. S. A.

LESSEE(S) OF RECORD: Grace Petroleum Corporation and
Supron Energy Corporation

SERIAL NO. OF LEASE: NM-14791

DATE OF LEASE: March 1, 1972

DESCRIPTION OF LANDS COMMITTED: Lots 15 & 16 & SE/4
Section 6-21S-32E, NMPM

NUMBER OF ACRES: 240

WORKING INTEREST AND PERCENTAGE:

Grace Petroleum Corporation ..... 75.%
Supron Energy Corporation ..... 25.%
100.%

O.R.R.I. AND PERCENTAGE:

Henry Vartanian.....2.5%
Charles E. Strange,
Trustee of the Charles
E. Strange Trust.....2.5%

EXHIBIT "B"

PLAT OF COMMUNITIZED AREA COVERING LOTS 9, 10, 15, & 16 and SE/4 of Section 6-21S-32E, NMPM, LEA COUNTY, NEW MEXICO, SALT LAKE SOUTH FIELD

| | |
|---|---|
| Lot 10<br>Tr. 1 - 40 acres<br>NM 15024 | Lot 9<br>Tr. 1 - 40 acres<br>NM 15024<br>o Well Location |
| Lot 15<br>Tr. 2 - 40 acres<br>NM-14791 | Lot 16<br>Tr. 2 - 40 acres<br>NM 14791 |
| SE/4<br>Tract 2 - 160 acres<br>NM-14791 | |

RECAPITULATION

| TRACT # | TOTAL ACRES COMMITTED | % OF INTEREST IN COMMITTED AREA |
|---|---|---|
| 1 | 80.00 | 25.00% |
| 2 | 240.00 | 75.00% |
| | 320.00 | 100.00% |

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

---

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

BY: _____
ASSISTANT SECRETARY

GRACE PETROLEUM CORPORATION

BY: _____
Vice President

ATTEST:

BY: _____

SUPRON ENERGY CORPORATION

BY: _____
Bill Curtis, Attorney-in-Fact

ATTEST:

BY: _____

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

_____
Walter Duncan

_____
Raymond T. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instriument was acknowledged before me this 1st day of November 1978 by J.K. Hisdale, Executive Vice President of Grace Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

J. Bailey Clark
Notary Public

My Commission Expires:
2-16-81

STATE OF TEXAS )
) SS
COUNTY OF DALLAS )

The foregoing instrument was acknowledged before me this 22 day of December 1978, by Bill Curtis, Attorney-in-Fact of Supron Energy Corporation, a Delaware Corporation, on behalf of said corporation.

Mary P. Brooks
Notary Public

My Commission Expires:
6/15/80

STATE OF )
) SS
COUNTY OF )

The foregoing instrument was acknowledged before me this_____day of_____, 19__, by President of a corporation, on behalf of said corporation.

Notary Public

My Commission Expires:

Walter Duncan OIL PROPERTIES

1300 WRITERS' CENTER IV • 1720 SOUTH BELLAIRE STREET
AREA CODE 303 TEL. 758-3303 • DENVER, COLORADO 80222

July 9, 1979

United States Geological Survey
505 Marquette, NW, Suite 815
Albuquerque, New Mexico

Attention: Mr. James W. Sutherland
Area Oil and Gas Supervisor

Re: NM-15024
Communitization Agreement
T21S-R32E
Sec. 6: Lots 9 & 10
Lea County, New Mexico
31-2-171-01

Dear Mr. Sutherland:

Mr. Walter Duncan III is temporarily incapacitated due to illness, thus being unable to sign the captioned instrument. Mr. Duncan owns 1% of 5% (.05% net) of the Overriding Royalty interest in Federal Oil and Gas Lease NM-15024. Messrs. Walter Duncan, Raymond T. Duncan, Vincent J. Duncan and J. Walter Duncan, Jr. own 99.0% of 5% of the overriding royalty interest in the lease and have executed the captioned Communitization Agreement.

Very truly yours,

Dale E. Harrison

Dale E. Harrison
Land Manager

DEH:lks

SIGNATURE PAGE TO COMMUNITIZATION AGREEMENT DATED NOVEMBER 1, 1978, BETWEEN GRACE PETROLEUM CORPORATION, SUPRON ENERGY CORPORATION AND GULF OIL EXPLORATION AND PRODUCTION COMPANY

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

BY: _____
ASSISTANT SECRETARY

GRACE PETROLEUM CORPORATION

BY: _____
Vice President

ATTEST:

BY: _____

SUPRON ENERGY CORPORATION

BY: _____

ATTEST:

BY: _____

GULF OIL EXPLORATION AND PRODUCTION COMPANY

BY: _____

_____
Walter Duncan

_____
Joan R. Duncan, wife of Raymond T. Duncan

_____
Raymond T. Duncan

_____
Annamarie Duncan, wife of Vincent J. Duncan

_____
Vincent J. Duncan

_____
J. Walter Duncan, Jr.

_____
Walter Duncan, III

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 18 day of June , 197

by Raymond T. Duncan & Joan R. Duncan, husband & wife

Connie K. Knutson
Notary Public

My Commission Expires:

12-10-80

STATE OF Colorado )
) SS
COUNTY OF Denver )

The foregoing instrument was acknowledged before me this 26 day of June , 1979

by Vincent J. Duncan & Annamarie Duncan, husband & wife

Dina M. Jones
Notary Public

My Commission Expires:

5-28-83

STATE OF Oklahoma )
) SS
COUNTY OF Oklahoma )

The foregoing instrument was acknowledged before me this 29 day of June , 1979.

by J. Walter Duncan, Jr.

Ina J. Hannah
Notary Public

My Commission Expires:

12-29-81

STATE OF Illinois )
)
COUNTY OF LaSalle ) SS

The foregoing instrument was acknowledged before me this 5 day of July , 1979.

by Walter Duncan

Kristin Klaus
Notary Public

My Commission Expires:

3-22-80

LAW OFFICES
HINKLE, COX, EATON, COFFIELD & HENSLEY
1000 FIRST NATIONAL BANK TOWER
POST OFFICE BOX 3580
MIDLAND, TEXAS 79702
(915) 683-4691

LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
JAMES H. BOZARTH

DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
J. DOUGLAS FOSTER
K. DOUGLAS PERRIN
C. RAY ALLEN
JACQUELINE W. ALLEN
T. CALDER EZZELL, JR.

OF COUNSEL
CLARENCE E. HINKLE

W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

November 6, 1978

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Re: United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.

HCEC&H T/O No. 25,140
Requirement D

Gentlemen:

Under date of September 26, 1978 we rendered our original opinion of title wherein we imposed Requirement D. We have not been submitted any additional abstracts but we have received additional curative materials and now report curative action as follows:

REQUIREMENT D: Satisfied. We have received a letter from the United States Geological Survey dated October 13, 1978 which states that the lease account for NM 14791 is considered in good standing through July 1978.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cm

LAW OFFICES
HINKLE, COX, EATON, COFFIELD & HENSLEY
1000 FIRST NATIONAL BANK TOWER
POST OFFICE BOX 3580
MIDLAND, TEXAS 79702
(915) 683-4691

LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
JAMES H. BOZARTH

DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
J. DOUGLAS FOSTER
K. DOUGLAS PERRIN
C. RAY ALLEN
JACQUELINE W. ALLEN
T. CALDER EZZELL, JR.

OF COUNSEL
CLARENCE E. HINKLE

W. E. BONDURANT, JR. (1914-1973)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
(505) 622-6510

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

September 26, 1978

IN RE: OPINION OF TITLE TO:
United States Oil and Gas Lease NM 14791 insofar as it covers Lots 15, 16, SE¼ of Section 6,

United States Oil and Gas Lease NM 15024 insofar as the same covers Lots 9 and 10 of Section 6,

All of said Section 6 being located in Township 21 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less.

Your No. _____

No. 25,140

Grace Petroleum Corporation
Broadway Executive Park
6501 N. Broadway
Oklahoma City, Oklahoma 73116

Attention: Don Erickson

Gentlemen:

In connection with the title to the captioned lease and lands we have examined the following materials:

(a) Southern Union Production Company, in-house opinion, dated November 10, 1972, which opinion was based on examination of various materials, including abstracts certified down to October 17, 1972 at 10:00 A. M. as to the federal records and down to October 18, 1972 at 8:00 A.M. as to the county records; and

(b) Federal Abstract Company Abstract Nos. 27739, 28130, 28218 and 30446, which when taken collectively, cover the records in the United States Land Office at Santa Fe, New Mexico from October 17, 1972 at 10:00 A.M. down to August 7, 1978 at 10:00 A.M. as to the captioned lands covered by Lease NM 14791; and

(c) Federal Abstract Company Abstract No. 30506 which purports to cover the records in the United States Land Office at Santa Fe, New Mexico from inception of records down to August 22, 1978 at 10:00 A.M. as to captioned lands covered by Lease NM 15024; and,

(d) Lovington Abstract Company, Inc. Abstract Nos. 1-2174-B, 12-1476-A, 5-1777 and 8-1178-F, which collectively cover the public records of Lea County, New Mexico as to the mineral estate from October 18, 1972 at 8:00 A.M. down to August 11, 1978 at 8:00 A.M., insofar as said records reflect the captioned mineral estate covered by Lease NM 14791 and which contain satisfactory judgment and lien searches against the parties in the chain of title to the captioned lease and lands; and,

(e) Lovington Abstract Company Abstract No. 8-2378-A which covers the public records of Lea County, New Mexico as to the mineral estate from inception of records down to August 23, 1978 at 8:00 A.M. as to the captioned mineral estate covered by Lease NM 15024; and,

(f) Hinkle, Cox, Eaton, Coffield & Hensley Title Opinion No. 23,892 dated July 8, 1977.

From our examination of the foregoing, and based solely thereon, we now report the status of title to the captioned lease and lands as of the most recent closing dates reflected by the abstract certificates as follows:

I. TITLE TO OIL AND GAS SUBJECT TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 12.5% ROYALTY):

United States of America ---------- All

II. RECORD TITLE TO LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS (OR TITLE TO 82.5% WORKING INTEREST):

NM 14791:

Grace Petroleum Corporation ---------- 75%*
Southern Union Production Company ------ 25%

* This will be the status of title upon filing a Certificate of Merger between Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management.

NM 15024:

Gulf Oil Corporation ---------- All

III. TITLE TO OVERRIDING ROYALTY INTERESTS EQUAL TO 5% of 8/8 CREATED UNDER EACH OF LEASES NM 14791 AND NM 15024 INSOFAR AS THE SAME COVER THE CAPTIONED LANDS:

NM 14791:

| | |
|---|---|
| Henry H. Vartanian, whose wife is Betty Jane Vartanian | 1/2 |
| Charles E. Strange, Trustee of the Charles E. Strange Trust established on May 6, 1974 | 1/2 |

NM 15024:

| | | |
|---|---|---|
| Walter Duncan | 30% | .00375 Unit NRI |
| Raymond T. Duncan | 30% | .00375 Unit NRI |
| Vincent J. Duncan | 30% | .00375 Unit NRI |
| J. Walter Duncan | 9% | .001125 Unit NRI |
| Walter Duncan III | 1% | .000125 Unit NRI |

IV. OIL AND GAS LEASES -- RENTS AND ROYALTIES -- ASSIGNMENTS -- DESIGNATIONS OF OPERATOR -- PRODUCTION HISTORY:

NM 14791:

| | |
|---|---|
| Date: | March 1, 1972 |
| Lessor: | United States of America |
| Lessee: | Henry Vartanian |
| Term: | Ten years and so long thereafter etc. |
| Rentals: | Although not noted in the base opinion on which we are relying, in part, the captioned lease apparently provides for rentals of 50¢ per acre, increasing to $2.00 per acre or any fraction thereof, commencing with thirty days after notice that any portion of the lands within the lease are in a known geologic structure. Apparently, rentals were timely and properly paid for all lease years down to the lease year expiring March 1, 1974. Prior to that date, it appears that the captioned lease went on production and therefore the lease is now considered held by production on a royalty payment status. |
| Lands Covered: | Township 21 South, Range 32 East, NMPM<br>Section 3: Lots 9-16, inclusive SW¼<br>Section 4: Lots 1-16, inclusive, S½ (All) |

Section 5: Lots 13, 14, 15, 16, S½
Section 6: Lots 14, 15, 16, E½SW¼ SE¼

containing a total of 2,282.84 acres, more or less.

Royalty: 12½%

Other Features: Since we have not actually examined this lease we have assumed that the captioned lease was probably prepared on Form 4-1158, and based upon that assumption, we have attached a schedule reflecting the general features of that lease form.

NM 15024:

Form: 3120-19 (May 1968)

Date: February 1, 1972

Lessor: United States of America

Original Lessee: Annamarie Duncan

Term: Ten years and so long thereafter, etc.

Rentals: This lease provided for annual delay rentals in the amount of 50¢ per acre until such time as said lease may have been determined to be in a known geological structure. Said lease was included in a known geological structure effective June 16, 1973 and rentals thereafter were paid at the $2.00 per acre rate. Rentals have been timely and properly paid for all time period up to February 1, 1979.

Lands Covered: Township 20 South, Range 32 East, NMPM

Section 27: N½N½

Township 21 South, Range 32 East, NMPM

Section 6: Lots 8, 9, 10 and 11

containing 320 acres, more or less.

Royalty: 12½%

Other Features: See attached schedule

2. Assignments: The following assignments have been made affecting the captioned lease and lands:

NM 14791:

(a) An assignment prepared on Form 3106--5 (February 1971) from Henry H. Vartanian and his wife, Betty Jane Vartanian, to C. E. Strange dated December 9, 1971 and approved by the Bureau of Land Management effective March 1, 1972, recorded in the Office of the Lea County Clerk in Book 282 at page 685, assigning all interest as to the captioned lease and the lands described hereinabove, but retaining to the assignor an overriding royalty of 2½% of 8/8; and

(b) Prepared on a form identical to that described above, from C. E. Strange and his wife, Sherrie R. Strange, to Amini Oil Company, dated February 25, 1972, approved by the Bureau of Land Management effective April 1, 1972 and recorded in the Office of the Lea County Clerk in Book 282 at page 643, assigning all interest as to the captioned lease and lands. This assignment is subject to the previously create 2½% overrid and in addition, the assignors reserve an additional 2½% overriding royalty. Further, this assignment contains a sixty day reassignment clause in favor of C. E. Strange and wife with a limitation of liability for failure to comply with the reassignment provision. This assignment for does not contain any warranties; and

(c) An assignment prepared on a form identical to the assignments described hereinabove from Amini Oil Company to Southern Union Production Company dated January 5, 1973, and approved by the Bureau of Land Management effective February 1, 1973 and recorded in the Office of the Lea County Clerk in Book 282 at page 163, assigning a 25% interest in the captioned lease and lands. No overriding royalty is subject to the previously created 5% overriding royalty. Again, this assignment form contains no warranties; and

(d) An assignment prepared on a form identical to the assignments described hereinabove from Teal Petroleum Company (formerly Amini Oil Company) to Cleary Petroleum Corporation, dated September 23, 1976, assigning Cleary a 75% interest in the captioned lease and lands, said assignment having been approved effective February 1, 1977 by the Bureau of Land Management being recorded November 28, 1977 in Book 306 at page 775 in the Office of the Lea County Clerk. No overriding royalty was reserved to Teal, but the assignment is subject to the previously created total of 5% overriding royalty interest. Again, this assignment form contains no warranties.

(e) An Assignment of overriding royalty interest from C. E. Strange, a married man, to Charles E. Strange, Trustee of the Charles E. Strange Trust, established on May 6, 1974 assigning a 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment being dated May 6, 1974 and filed with the Bureau of Land Management on July 25, 1974, recorded May 20, 1974 in Book 318 at page 726 in the Office of the Lea County Clerk. We have previously in other opinions relating to this lease mentioned deficiencies in this Assignment of Overriding Royalty Interest; however, the assignment described in sub-paragraph (f) hereinbelow is a correction of these deficiencies.

(f) Correction Assignment of overriding royalty interest from C. E. Strange and wife, Sherrie R. Strange, Charles E. Strange, Trustee of the Charles E. Strange Trust, established May 6, 1974 assigning 2½% of 8/8 overriding royalty interest in and under Lease NM 14791, said assignment having been dated July 20, 1977 and recorded August 1, 1977 in Book 342 at page 825 in the Office of the Eddy County Clerk. We will not require that this assignment be placed of record in the Office of the Bureau of Land Management inasmuch as the defective assignment was previously placed of file with the Bureau of Land Management and the defect contained therein do not effect the status of the federal records.

NM 15024:

(a) A Record Title Assignment of Oil and Gas Lease from Annamarie Duncan and husband, Vincent J. Duncan, to Gulf Oil Corporation, dated September 6, 1972, approved effective October 1, 1972 by the Bureau of Land Management and recorded November 8, 1972 in Book 280 at page 459 in the Office of the Lea County Clerk, assigning the entire record title

into said lease. This assignment was prepared on Government Form 3106-5 (February 1971) and reserves a 5% of 8/8 overriding royalty interest and contains a reassignment rider.

REQUIREMENT A: You should note your lease files in connection with the reassignment rider contained in this assignment.

(b) Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975 and filed with the Bureau of Land Management on July 30, 1975, recorded June 27, 1975 in Book 327 at page 338 in the Office of the Lea County Clerk assigning said 5% of 8/8 overriding royalty to to the following persons in the following proportions:

| Name | Percent of Override |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 |
| Raymond T. Duncan | 30% of 5% of 8/8 |
| Vincent J. Duncan | 30% of 5% of 8/8 |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 |
| Walter Duncan III | 1% of 5% of 8/8 |

This assigment of overriding royalty interest does not contain pooling authority.

REQUIREMENT B: In the event that you desire to pool these lands it will be necessary to have these overriding royalty interest owners ratify any such pooling agreement.

3. Designations of Operator: The abstracts under examination reflect the following Designations of Operator:

(a) Designation of Operator from Southern Union Production Company to Cleary Petroleum Corporation dated October 4, 1976, relating to the captioned lease and lands; and

(b) Designation of Operator from Teal Petroleum Corporation to Cleary Petroleum Corporation, dated November 3, 1976, covering the captioned lease and lands.

COMMENT: Inasmuch as you are the successor corporation to Cleary Petroleum Corporation we believe these designations are adequate in the event your drillsite will be located on the lands covered by NM 14791. However, in the event that your drillsite may be located on lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

REQUIREMENT C: In the event that you intend to conduct drilling operations on the lands covered by Lease NM 15024 it will be necessary for you to obtain a Designation of Operator from Gulf Oil Corporation.

4. Production History: The materials under examination indicate that there is currently production from Lease NM 14791; however, we find no evidence of any production from Lease NM 15024. This is advisory.

V. EXCEPTIONS TO TITLE AND REMARKS:

1. Lease Account Status: The abstracts under examination do not reflect current status of the lease account in connection with Lease NM 14791. This account should be in a current status.

REQUIREMENT D: You should inquire of the USGS in Albuquerque, New Mexico and ascertain whether or not the lease account in connection with Lease NM 14791 is in a current status. (We have taken the liberty to write a letter inquiring as to the status of this lease account.)

2. Gas Purchase Agreement: The materials under examination indicate that there has been filed of record in Lea County, New Mexico, a document entitled "Recording Supplement", dated April 6, 1973, between Southern Union Gas Company as "Buyer" and Amini Oil Company (now Teal Petroleum Company) and Southern Union Production Company as "Sellers". This document was filed of record on May 24, 1973 in Book 309 at page 808 in the Office of the Lea County Clerk. This Recording Supplement indicates the existence of a Gas Purchase Agreement dated January 25, 1973, to which the captioned lands located in Lease NM 14791 and other lands are dedicated. In addition, it gives notice of the existence of an agreement dated November 3, 1972 between the Sellers and Buyer.

3. Charles E. Strange Trust: We have been in contact with the attorney for Charles E. Strange, and have previously been submitted evidence that the Trust Agreement contains adequate authority for the Trustee to enter into agreements relating to oil and gas leases which are held in said trust.

4. Merger: We note that Cleary Petroleum Corporation has now merged into the Grace Petroleum Corporation. In this regard we do not find any Certificate of Merger filed with the Bureau of Land Management nor do we find one recorded in the Office of the Lea County Clerk.

REQUIREMENT E: If you have not already done so, you should file a Certificate of Merger of Cleary Petroleum Corporation and Grace Petroleum Corporation with the Bureau of Land Management in Santa Fe, New Mexico, as well as record a copy of the same in the Office of the County Clerk.

5. Potash Rider - Potash Area: The base title opinion on which this examination is, in turn, based, indicates that the captioned lease contains a rider to the effect that no wells are to be drilled without approval of the United States Geological Survey, which will be granted only in the event that it is satisfied that any proposed well drilling will not interfere with mining of potash deposits and a provision must be made for adequate protection of potash deposits.

In addition, although not reflected in any materials under examination, it is apparent from other files and plats available to us in our offices that the captioned lands are located within what has generally been designated as a potash area by the United States Geological Survey. It also appears that the captioned lands lie within a potash area as designated by the New Mexico Oil Conservation Division. As a consequence of the lands being located in these desginated area, it is likely that certain drilling restrictions may be imposed by the United States Geological Survey and/or the New Mexico Oil Conservation Division at such time as drilling operations are to be commenced.

We make no requirement with respect to the foregoing matters, but point this out for your information. We assume that you have probably encountered this problem with regard to wells which you previously drilled on the captioned lease and lands. We would point out that irrespective of what requirements may have been made relating to prior drilling activities, these requirements may very likely be different in the event that actual drilling operations are commenced some period of time after the first drilling operations.

6. Prior Title Opinions: As mentioned hereinabove, we have based this opinion on the title opinion dated November 10, 1972 rendered by Southern Union Gas Company House Counsel in connection with the captioned lease. Although we have no reason to doubt the accuracy of the Southern Union Gas Company House Counsel opinion, we must necessarily limit our opinion to the materials actually examined.

7. Acreage in Lots: It is apparent from the caption of this opinion that all of the subdivisions within the captioned lands are not described as directional subdivisions. Some are numbered as lots. Usually this indicates each numbered lot has acreage greater than or lesser than the usual 40 acres; however, in this case, each lot contains 40 acres. We have no requirement with respect to the acreage in these lots, but we note this for your information and possible future reference.

8. Surface Estate: Although the abstracts under examination do not purport to reflect the title to the surface of the captioned lands, certain information contained therein indicates the following surface rights:

(a) It appears from the materials under examination that all of the captioned lots, and lease, have the surface patented with the minerals being reserved to the United States of America. If you intend to conduct drilling activities on any of these lands it will be necessary that you make arrangements with the surface owner or owners with regard to surface damage.

(b) Grazing Lease: It is possible that the remainder of the surface of the captioned

lands is included in grazing leases from the United States. In such cases your rights under the oil and gas lease are superior to any rights under grazing leases.

9. Judgment and Lien Search: The county abstracts under examination contain satisfactory judgment and lien searches.

Respectfully submitted,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

C. D. Martin

CDM:cm

Federal Abstract No. 30506 and Lovington Abstract No. 8-2378-A are returned herewith. The remainder of the abstracts are retained for further examination.

PRINCI L FEATURES OF LEASE (Form 4- 58) (3120-19)
(10 year initial term)

ESSOR: United States, acting by and through the Secretary of the Interior.

ERM AND REGULATIONS: For a primary term of ten years and so long thereafter as oil or as is produced in paying quantities; subject to any unit agreement heretofore or hereafter approved by the Secretary of the Interior. Lease is made subject to all reasonable egulations of the Secretary now or hereafter in force not inconsistent with any of the xpress and specific provisions of the lease.

Although not stated in the lease, the primary term of the lease for land on which r for which under an approved cooperative or unit plan of development or operation, ctual drilling operations were commenced prior to the end of such term and are being iligently prosecuted at that time, shall be extended for two years and so long thereafter s oil or gas is produced in paying quantities. (See Sec. 17(e) of the Mineral Leasing ct Revision of 1960.) Rentals continue until production is obtained.

OND: Requires lessee, upon inclusion of any part of the leased land within the geologic tructure of a producing oil or gas field, to furnish a bond in a sum double the amount f the $2.00 per acre annual rental, but not less than $1000 nor more than $10,000; to urnish, prior to commencement of drilling operations $10,000 lease bond with approved orporate surety, unless a bond in that amount is already being maintained, or unless ch a bond furnished by an operator of the lease is accepted. Until a general lease ond is filed, a $1000 bond must be filed in those cases in which a bond is required by w for the protection of owners of surface rights. (See Sec. 2(a) of lease.)

OOPERATIVE OR UNIT PLAN: Requires lessee, within 30 days of demand, to subscribe to d to operate under such reasonable or cooperative unit plan as may be determined by e Secretary of the Interior to be practicable and necessary or advisable. (See Sec. (b) of lease.)

ILLING REQUIREMENTS: Requires lessee to drill and produce all wells necessary to otect the leased land from drainage by wells on lands not the property of the lessor, lands of the lessor leased at a lower royalty rate, and to drill and produce such her wells as may be approved or required by the Secretary. (See Sec. 2(c) of lease.)

NTALS: Lessee to pay in advance an annual rental at the following rates:

(a) If the lands are wholly outside the known geologic structure of a producing l or gas field:
(i) For each lease year a rental of 50¢ per acre or fraction of an acre.

(b) If the lands are wholly or partly within the known geologic structure of a oducing oil or gas field:
(i) Beginning with the first lease year after thirty days' notice that all or part of the land is included in such a structure, and for each year thereafter, prior to a discovery of oil or gas on the lands leased, $2.00 per acre or fraction of an acre.

(ii) If the lease is committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, a rental for each lease year of 50¢ per acre or fraction of an acre shall apply to the acreage not within a participating area.

If there is no well capable of producing oil or gas in paying quantities, the failure pay a rental on or before the anniversary date shall automatically terminate the lease operation of law. If time for payment falls on a day in which the proper office to ceive payment is closed, payment shall be deemed timely if made on the next official rking day.

(See Sections 2(d)(1), 2(d)(4), and 2(e) of lease.)

ROYALTY: - 12½% on production removed or sold from the leased lands; provided, however, a minimum royalty in lieu of rental shall be paid at the expiration of each lease year after discovery equal to $1.00 per acre. If the lease has been unitized, the minimum royalty shall be payable only on the participating acreage. (See Sec. 2(d)(1) of lease.

Secretary may establish reasonable minimum values for purpose of computing royalty on any oil or gas produced. See 30 C.F.R. 221. All contracts for disposal of products must be approved by the Director, U.S.G.S., or his representatives, subject to review by the Secretary of the Interior. (See Sec. 2(d)(2) and 2(f) of lease.)

ASSIGNMENTS: All assignments are to be filed within 90 days of final execution and are to take effect, upon final approval by the Director, Bureau of Land Management, as of the first day of the lease month following the date of filing. (See Sec. 2(m) of lease.

RESERVED RIGHTS OF LESSOR: See Sec. 3 of lease with regard to easements, disposition of surface, monopoly and fair prices, reservation of helium, taking of royalty in kind, and operation of valuable water wells.

SURRENDER AND TERMINATION: Lease may be surrendered and terminated as provided by Section 5 thereof.

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Walter Duncan
P.O. Box 211
La Salle, Illinois 71301

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Walter Duncan
PO Box 211
LaSalle, Illinois 71301

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916567 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY — POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: — CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

No. 916567

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

| | |
|---|---|
| SENT TO Walter Duncan | |
| STREET AND NO. PO Box 211 | |
| P.O. STATE AND ZIP CODE LaSalle, Illinois 71301 | |
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $ 1.40 |
| POSTMARK OR DATE June 6, 1979 | |

CONSULT POSTMASTER FOR FEES — OPTIONAL SERVICES

PS Form 3800, Apr. 1976

No. 916567

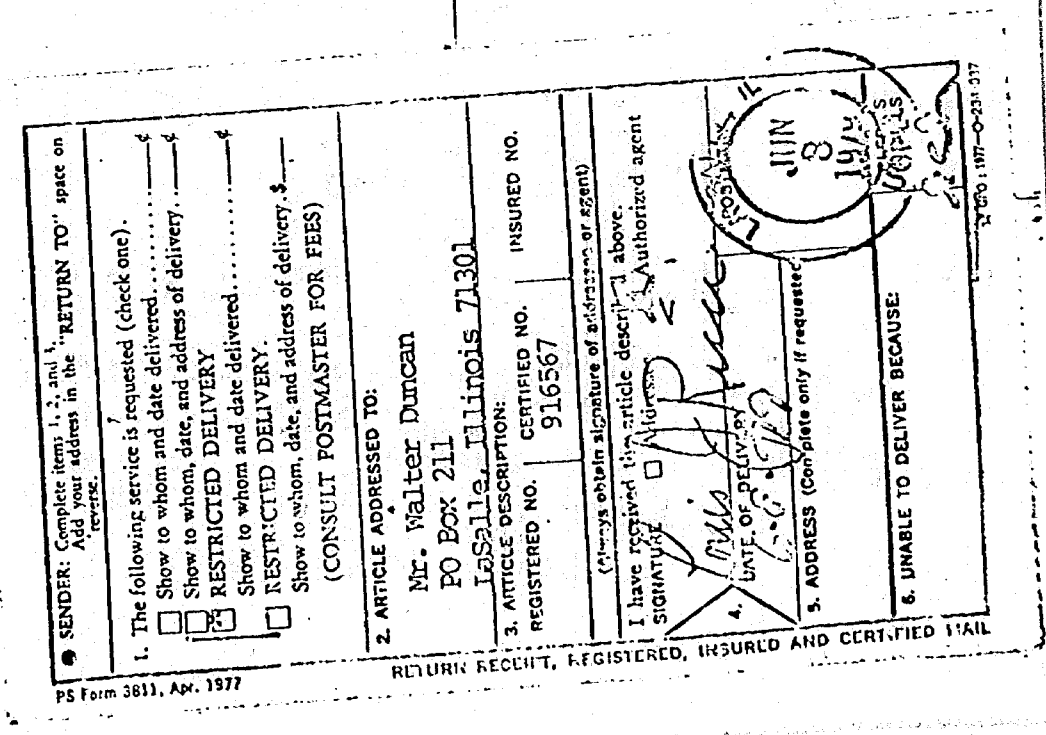
RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

| | |
|---|---|
| SENT TO Walter Duncan | |
| STREET AND NO. PO Box 211 | |
| P.O. STATE AND ZIP CODE LaSalle, Illinois 71301 | |
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $ 1.40 |
| POSTMARK OR DATE June 6, 1979 | |

CONSULT POSTMASTER FOR FEES — OPTIONAL SERVICES

PS Form 3800, Apr. 1976



No. 916567

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

| | |
|---|---|
| SENT TO: Walter Duncan | |
| STREET AND NO. PO Box 211 | |
| P.O., STATE AND ZIP CODE LaSalle, Illinois 71301 | |
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| CONSULT POSTMASTER FOR FEES — OPTIONAL SERVICES | |
| TOTAL POSTAGE AND FEES | $ 1.40 |
| POSTMARK OR DATE | June 6, 1979 |

PS Form 3800, Apr. 1976

PS Form 3811, Apr. 1977 — RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

● SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
   - ☐ Show to whom and date delivered.....¢
   - ☐ Show to whom, date, and address of delivery.....¢
   - ☒ RESTRICTED DELIVERY
     Show to whom and date delivered.....¢
   - ☐ RESTRICTED DELIVERY.
     Show to whom, date, and address of delivery.$____
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   Mr. Walter Duncan
   PO Box 211
   LaSalle, Illinois 71301

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916567 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. IF TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916567

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

| | |
|---|---|
| SENT TO: Walter Duncan | |
| STREET AND NO. PO Box 211 | |
| P.O., STATE AND ZIP CODE LaSalle, Illinois 71301 | |
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| CONSULT POSTMASTER FOR FEES — OPTIONAL SERVICES | |
| TOTAL POSTAGE AND FEES | $ 1.40 |
| POSTMARK OR DATE | June 6, 1979 |

PS Form 3800, Apr. 1976

CERTIFIED
No. 916567
MAIL

● SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
   - ☐ Show to whom and date delivered.....¢
   - ☐ Show to whom, date, and address of delivery.....¢
   - ☒ RESTRICTED DELIVERY
     Show to whom and date delivered.....¢
   - ☐ RESTRICTED DELIVERY.
     Show to whom, date, and address of delivery.$____
     (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
   Mr. Walter Duncan
   PO Box 211
   LaSalle, Illinois 71301

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916567 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

JUN 8 1979

PS Form 3811, Apr. 1977 — RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

☆ GPO : 1977—O-231-337

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Raymond T. Duncan
1300 Writers Center
1720 South Bellaire Street
Denver, Colorado 80222

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- [X] Show to whom and date delivered.....¢
- [ ] Show to whom, date, and address of delivery.....¢
- [ ] RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- [ ] RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:

Mr. Raymond T. Duncan
1300 Writers Center
1720 S. Bellaire, Denver, CO 80222

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE [ ] Addressee [ ] Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916570

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Raymond T. Duncan
STREET AND NO.
1300 Writers Center
P.O. STATE AND ZIP CODE
Denver, Colo. 80222

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| | OPTIONAL SERVICES: SPECIAL DELIVERY | ¢ |
| | OPTIONAL SERVICES: RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | OPTIONAL SERVICES: RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1,40 |

POSTMARK OR DATE

6-6-79

PS Form 3800, Apr. 1976

TITLE TO COVER FIRST CLASS POSTAGE, ANY SELECTED OPTIONAL SERVICES. (See front)
k the gummed stub on the left portion of the ad
tached, and present the article at a post office se
ing extra charge)
ked, stick the gummed stub on the left portion
and retain the receipt, and mail the article.
certified-mail number and your name and addres
ch it to the (front of the article by means of the g
back of article. Endorse front of article RETURN
addressee, or to an authorized agent of the ad
ront of the article.
n the appropriate spaces on the front of this
pplicable blocks in item 1 of Form 3811.
make inquiry.

☆ GPO 1978 -256-91

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- [X] Show to whom and date delivered.....¢
- [ ] Show to whom, date, and address of delivery.....¢
- [ ] RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- [ ] RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:

Mr. Raymond T. Duncan
1300 Writers Center
1720 S. Bellaire, Denver, CO 80222

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE [ ] Addressee [ ] Authorized agent

4. DATE OF DELIVERY: 6-8-79 | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☒ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☐ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:

Mr. Raymond T. Duncan
1300 Writers Center
1720 S. Bellaire, Denver, CO 80222

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

---

No. 916570

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Raymond T. Duncan
STREET AND NO.
1300 Writers Center
P.O. STATE AND ZIP CODE
Denver, Colo. 80222

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES — CERTIFIED FEE | | ¢ |
| OPTIONAL SERVICES — SPECIAL DELIVERY | | ¢ |
| OPTIONAL SERVICES — RESTRICTED DELIVERY | | ¢ |
| RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1.40 |
| POSTMARK OR DATE | 6-6-79 | |

PS Form 3800, Apr. 1976

---

ARTICLE TO COVER FIRST CLASS POSTAGE.
ANY SELECTED OPTIONAL SERVICES. (see front)
...k the gummed stub on the left portion of the ad...
...tached, and present the article at a post office se...
...(no extra charge)
...ked, stick the gummed stub on the left portion ...
...and retain the receipt, and mail the article.
...certified-mail number and your name and addres...
...ch it to the front of the article by means of the ...
...back of article. Endorse front of article RETURN ...

☆ GPO 1978 -256-92...

---

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☒ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☐ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:

Mr. Raymond T. Duncan
1300 Writers Center
1720 S. Bellaire, Denver, CO 80222

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916570 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY 6-9-79 | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Vincent J. Duncan
1800 Security Life Building
Denver, Colorado 80202

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☒ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☐ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Vincent J. Duncan
1800 Security Life Bldg.
Denver, Colorado 80202

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916571 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916571

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Vincent J. Duncan
STREET AND NO.
1800 Security Life Bldg
P.O., STATE AND ZIP CODE
Denver, CO 80202

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | ¢ |
| | SPECIAL DELIVERY | ¢ |
| | RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $ 1.40 |
| POSTMARK OR DATE | | |

PS Form 3800, Apr. 1976

CERTIFIED
No. 916571
MAIL

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Vincent J. Duncan
STREET AND NO.
1800 Security Life Bldg
P.O., STATE AND ZIP CODE
Denver, CO 80202

POSTAGE
CERTIFIED FEE ¢
SPECIAL DELIVERY ¢
RESTRICTED DELIVERY ¢
RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED ¢
RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY ¢
RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY ¢
RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY ¢
CONSULT POSTMASTER FOR FEES
TOTAL POSTAGE AND FEES $ 1.40
POSTMARK OR DATE 6-7-79

PS Form 3800, Apr. 1976

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

1800 Security Life Bldg
Denver, Colorado 80202

3. ARTICLE DESCRIPTION:
REGISTERED NO. | CERTIFIED NO. 916571 | INSURED NO.

(Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
Vincent Duncan

4. DATE OF DELIVERY
POSTMARK
JUN 11 1979

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- [x] Show to whom and date delivered.....¢
- [ ] Show to whom, date, and address of delivery.....¢
- [ ] RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- [ ] RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.$____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Vincent J. Duncan
1800 Security Life Bldg.
Denver, Colorado 80202

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916571 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916571

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Vincent J. Duncan
STREET AND NO.
1800 Security Life Bldg
P.O., STATE AND ZIP CODE
Denver, CO 80202

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES — OPTIONAL SERVICES | CERTIFIED FEE | ¢ |
| | SPECIAL DELIVERY | ¢ |
| | RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1.40 |
| POSTMARK OR DATE | | |

PS Form 3800, Apr. 1976

CERTIFIED
No. 916571
MAIL

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Vincent J. Duncan
STREET AND NO.
1800 Security Life Bldg
P.O., STATE AND ZIP CODE
Denver, CO 80202

| | | |
|---|---|---|
| POSTAGE | | $ |
| CONSULT POSTMASTER FOR FEES — OPTIONAL SERVICES | CERTIFIED FEE | ¢ |
| | SPECIAL DELIVERY | ¢ |
| | RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $1.40 |
| POSTMARK OR DATE | | |

PS Form 3800, Apr. 1976

6-7-79

Mr. Vincent J. Duncan
1800 Security Life Bldg.
Denver, Colorado 80202

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916571 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
Vincent Duncan

4. DATE OF DELIVERY: JUN 11 1979 | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. J. Walter Duncan, Jr.
Suite 1200
100 Park Avenue Building
Oklahoma City, Oklahoma 73102

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comm. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

has not executed Com agreement

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Orlginal Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. William M. Brown

GENERAL: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☐ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.¢
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. J. Walter Duncan, Jr.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916569 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

No. 916569

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO: J. Walter Duncan, Jr.
STREET AND NO.: Suite 1200, 100 Park Ave Bldg
P.O., STATE AND ZIP CODE: OKC, OK 73116

| | |
|---|---|
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $1.40 |
| POSTMARK OR DATE | 6-6-79 |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE

PS Form 3800, Apr. 1976

CERTIFIED
No. 916569
MAIL

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO: Walter Duncan, Jr
STREET AND NO.: Suite 1200, 100 Park Ave Bldg
P.O., STATE AND ZIP CODE: OKC, OK 73116

| | |
|---|---|
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $1.40 |
| POSTMARK OR DATE | 6-6-79 |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE

PS Form 3800, Apr. 1976

No. 916569

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO: Walter Duncan, Jr
STREET AND NO.: Suite 1200, 100 Park Ave Bldg
P.O., STATE AND ZIP CODE: OKC, OK 73116

| | |
|---|---|
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $1.40 |
| POSTMARK OR DATE | 6-6-79 |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE

PS Form 3800, Apr. 1976

SEND

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- ☐ Sh

2. Article

Mr. J. Walter Duncan, Jr.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

3. Article Description:
REGISTERED NO. | CERTIFIED NO. 916569 | INSURED NO.

(Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

NO. 916569

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
S. Walter Duncan, Jr
STREET AND NO.
Suite 1200, 100 Park Ave Bldg
P.O., STATE AND ZIP CODE
OKC, OK 73116

| | | | |
|---|---|---|---|
| POSTAGE | | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | | ¢ |
| OPTIONAL SERVICES | SPECIAL DELIVERY | | ¢ |
| | RESTRICTED DELIVERY | | ¢ |
| | RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | | $1.40 |

POSTMARK OR DATE
6-6-79

Mr. J. Walter Duncan, Jr.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

2. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916569 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY: 6-7-79 POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3800, Apr. 1976

CERTIFIED
No. 916569
MAIL

| CONSULT POSTMASTER FOR FEES | | | | | | |
|---|---|---|---|---|---|---|
| OPTIONAL SERVICES | | | | | | |
| RETURN RECEIPT SERVICE | | | | | | |
| POSTAGE | CERTIFIED FEE | SPECIAL DELIVERY | RESTRICTED DELIVERY | SHOW TO WHOM AND DATE DELIVERED | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | TOTAL POSTAGE AND FEES |
| $ | ¢ | ¢ | ¢ | ¢ | ¢ | ¢ | ¢ | $1.40 |

POSTMARK OR DATE
6-6-79

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

2. ARTICLE ADDRESSED TO:
Mr. J. Walter Duncan, Jr.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916569 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO : 1977—O-234-337

NO. 916569

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
S. Walter Duncan, Jr
STREET AND NO.
Suite 1200, 100 Park Ave Bldg
P.O., STATE AND ZIP CODE
OKC, OK 73116

| | | | |
|---|---|---|---|
| POSTAGE | | | $ |
| CONSULT POSTMASTER FOR FEES | CERTIFIED FEE | | ¢ |
| OPTIONAL SERVICES | SPECIAL DELIVERY | | ¢ |
| | RESTRICTED DELIVERY | | ¢ |
| | RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | | $1.40 |

POSTMARK OR DATE
6-6-79

Mr. J. Walter Duncan, Jr.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

2. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916569 | |

(Always obtain signature of addressee or agent)

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SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY: 6-7-79 POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO : 1977—O-234-337

Grace Petroleum Corporation
Subsidiary of W.R. Grace & Co.

Broadway Executive Park
6501 North Broadway
Oklahoma City, Oklahoma 73116
Phone (405) 843-5551

June 5, 1979

Mr. Walter Duncan, III
Suite 1200
100 Park Avenue Building
Oklahoma City, Oklahoma 73102

RE: SALT LAKE MORROW SOUTH PROSPECT
Proposed New Mexico Federal "G" Comn. #1
Lots 9, 10, 15 and 16 and SE/4
Section 6-T21S-R32E, NMPM
Lea County, New Mexico

Dear Mr. Duncan:

Grace Petroleum Corporation is proposing a unit comprised of Lots 9, 10, 15 and 16 and SE/4 Sec. 6-T21S-R32E, NMPM, Lea County, New Mexico. The proposed "G" Well would test the Morrow Sand at the approximate depth of 14,300 feet.

An Assignment of a 5% overriding royalty interest from Annamarie Duncan and husband, Vincent J. Duncan, dated June 16, 1975, assigned this 5% of 8/8th overriding royalty to the below listed persons in the following proportions:

| | |
|---|---|
| Walter Duncan | 30% of 5% of 8/8 ORI |
| Raymond T. Duncan | 30% of 5% of 8/8 ORI |
| Vincent J. Duncan | 30% of 5% of 8/8 ORI |
| J. Walter Duncan, Jr. | 9% of 5% of 8/8 ORI |
| Walter Duncan, III | 1% of 5% of 8/8 ORI |

This assignment of overriding royalty interest does not contain pooling authority. Your overriding royalty is under the Gulf acreage comprised of Lots 9 and 10, Section 6-T21S-R32E, NMPM, Lea County, New Mexico and which comprises 25% of the proposed unit. To arrive at your unit interest multiply the override opposite your name by 25%.

Enclosed is a copy of the Communitization Agreement. Exhibit "A" lists the parties involved and their ownership. Exhibit "B" diagrams the unit outline and shows that the proposed well will be located on Lot No. 9, on Gulf's acreage.

The three working interest owners involved are Gulf Oil, Grace Petroleum and Supron Energy. Grace Petroleum and Supron Energy have executed the Communitization Agreement; Gulf has not yet decided to join.

We would appreciate very much you and your wife, if married, executing and having notarized the enclosed four copies of the Ratification of Communitization Agreement. Please retain one copy and return the other three copies to my attention.

Grace Petroleum Corporation will be the operator of the unit and is most anxious to complete work on this unit in order to drill the well. Your cooperation will be appreciated.

Very truly yours,

Original Signed By
DON ERICKSON

Don W. Erickson
District Landman

DWE/jct
Enclosures: As Stated

cc: Gulf Oil Exploration and Production Company
P.O. Drawer 1150
Midland, Texas 79702
Attention: Mr. R. E. Griffith

Supron Energy Corporation
Suite 1700 Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206
Attention: Mr. Bill Curtis

No. 916568

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200 100 Park Ave Bldg
P.O. STATE AND ZIP CODE
Okla. City, OK 73102

| | | |
|---|---|---|
| POSTAGE | | $ ¢ |
| CERTIFIED FEE | | ¢ |
| SPECIAL DELIVERY | | ¢ |
| RESTRICTED DELIVERY | | ¢ |
| RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $/ 40 |
| POSTMARK OR DATE | | |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

PS Form 3800, Apr. 1976

PS Form 3811, Apr. 1977

RETURN RECEIPT

SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY.
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery.¢
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Walter Duncan, III
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916568 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

DATE OF DELIVERY | POSTMARK

ADDRESS (Complete only if requested)

UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916568

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200 100 Park Ave Bldg
P.O. STATE AND ZIP CODE
Okla. City, OK 73102

| | | |
|---|---|---|
| POSTAGE | | $ ¢ |
| CERTIFIED FEE | | ¢ |
| SPECIAL DELIVERY | | ¢ |
| RESTRICTED DELIVERY | | ¢ |
| RETURN RECEIPT SERVICE | SHOW TO WHOM AND DATE DELIVERED | ¢ |
| | SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| | SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| | SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | | $/ 40 |
| POSTMARK OR DATE | | |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

PS Form 3800, Apr. 1976

CERTIFIED
No. 916568
MAIL

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

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- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
- Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY.
- Show to whom, date, and address of delivery.$
- (CONSULT POSTMASTER FOR FEES)

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Walter Duncan, III
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Okla. City, OK 73102

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|---|---|---|
| | 916568 | |

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SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916568

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

| | |
|---|---|
| SENT TO | Walter Duncan III |
| STREET AND NO. | Suite 1200 100 Park Ave Bldg |
| P.O., STATE AND ZIP CODE | Okla. City, OK 73102 |
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| SHOW TO WHOM AND DATE DELIVERED | ¢ |
| SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $ 40 |
| POSTMARK OR DATE | |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE

PS Form 3800, Apr. 1976

PS Form 3811, Apr. 1977

RETURN REC

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

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- ☐ Show to whom and date delivered.....¢
- ☐ Show to whom, date, and address of delivery.....¢
- ☒ RESTRICTED DELIVERY
  Show to whom and date delivered.....¢
- ☐ RESTRICTED DELIVERY
  Show to whom, date, and address of delivery.$____
  (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Walter Duncan, III.
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

ARTICLE DESCRIPTION:

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|---|---|---|
| | 916568 | |

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I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

DATE OF DELIVERY | POSTMARK

ADDRESS (Complete only if requested)

UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916568

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

| | |
|---|---|
| SENT TO | Walter Duncan III |
| STREET AND NO. | Suite 1200 100 Park Ave Bldg |
| P.O., STATE AND ZIP CODE | Okla. City, OK 73102 |
| POSTAGE | $ |
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| SHOW TO WHOM AND DATE DELIVERED | ¢ |
| SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $ 40 |
| POSTMARK OR DATE | |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE

PS Form 3800, Apr. 1976

CERTIFIED
No. 916568
MAIL

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

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- ☐ Show to whom and date delivered.....¢
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- ☐ RESTRICTED DELIVERY.
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2. ARTICLE ADDRESSED TO:
Walter Duncan, III
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
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(Always obtain signature of addressee or agent)

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SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY | POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

No. 916568

RECEIPT FOR CERTIFIED MAIL

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(See Reverse)

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200 100 Park Ave Bldg
P.O., STATE AND ZIP CODE
Okla. City, OK 73102

| POSTAGE | $ |
|---|---|
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $1 40 |
| POSTMARK OR DATE | |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

PS Form 3800, Apr. 1976

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

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RECEIPT FOR CERTIFIED MAIL

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Walter Duncan III
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Suite 1200 100 Park Ave Bldg
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| POSTAGE | $ |
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| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $1 40 |
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CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

PS Form 3800, Apr. 1976

CERTIFIED

No. 916568

MAIL

No. 916568

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Walter Duncan III
STREET AND NO.
Suite 1200 100 Park Ave Bldg
P.O., STATE AND ZIP CODE
Okla. City, OK 73102

| POSTAGE | $ |
|---|---|
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
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| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $ 40 |
| POSTMARK OR DATE | |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

PS Form 3800, Apr. 1976

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

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- ☒ RESTRICTED DELIVERY ..... ¢
- Show to whom and date delivered ..... ¢
- ☐ RESTRICTED DELIVERY ..... ¢
- Show to whom, date, and address of delivery ..... ¢
- (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Walter Duncan, III
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

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|---|---|---|
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(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

DATE OF DELIVERY | POSTMARK

ADDRESS (Complete only if requested)

UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

PS Form 3811, Apr. 1977

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

● SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
- ☐ Show to whom and date delivered ..... ¢
- ☐ Show to whom, date, and address of delivery ..... ¢
- ☒ RESTRICTED DELIVERY ..... ¢
- Show to whom and date delivered ..... ¢
- ☐ RESTRICTED DELIVERY ..... ¢
- Show to whom, date, and address of delivery ..... ¢
- (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Walter Duncan, III
Suite 1200, 100 Park Ave. Bldg.
Okla. City, OK 73102

3. ARTICLE DESCRIPTION:

| REGISTERED NO. | CERTIFIED NO. | INSURED NO. |
|---|---|---|
| | 916568 | |

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

DATE OF DELIVERY | POSTMARK

ADDRESS (Complete only if requested)

UNABLE TO DELIVER BECAUSE: | CLERK'S INITIALS

☆ GPO : 1977—O-234-337

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Walter Duncan III
STREET AND NO.
Suite 1200 100 Park Ave
P.O., STATE AND ZIP CODE
Okla. City, OK 73102

| POSTAGE | $ |
|---|---|
| CERTIFIED FEE | ¢ |
| SPECIAL DELIVERY | ¢ |
| RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY | ¢ |
| RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY | ¢ |
| TOTAL POSTAGE AND FEES | $ 40 |
| POSTMARK OR DATE | |

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

PS Form 3800, Apr. 1976

CERTIFIED
No. 916568
MAIL