

CASE NO.

7553

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
22 April 1982 .

COMMISSION HEARING

IN THE MATTER OF:

Application of Jack J. Grynberg for
compulsory pooling, Chaves County,
New Mexico.

CASE
7535

and

Application of Fred Pool Drilling
Company for compulsory pooling,
Chaves County, New Mexico.

CASE
7553

BEFORE: Commissioner Raney
Commissioner Armijo

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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JACK J. GRYNBERG

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2 MR. RAMEY: We'll now call Case 7535.

3 MR. PEARCE: Case 7535 is the application
4 of Jack J. Grynberg for compulsory pooling, Chaves County,
5 New Mexico.

6 MR. RAMEY: Ask for appearances in this
7 case, please.

8 MR. GALLEGOS: Appearing in behalf of
9 Jack Grynberg and Associates, I am Gene Gallegos of Jones,
10 Gallegos, Snead, and Wertheim, P. O. Box 2228, Santa Fe,
11 New Mexico, and let me say at this time, express our appre-
12 ciation to the Chairman and the Commission for accommodating
13 Mr. Grynberg's schedule and taking this case first this
14 morning.

15 MR. RAMEY: How many witnesses do you have,
16 Mr. Gallegos?

17 MR. GALLEGOS: One.

18 MR. RAMEY: One witness.

19 MR. KELLAHIN: Mr. Chairman, I am Tom
20 Kellahin of Kellahin and Kellahin, Santa Fe, appearing on
21 behalf of Fred Pool Drilling Company.

22 We would request, Mr. Chairman, that the
23 Case 7553 be called at this time and consolidated for hearing
24 purposes with Mr. Grynberg's case.

25 As you can see from the advertisement it

1
2 involves the same acreage and it's a question of competing,
3 an individual seeking to be operator of the same well for the
4 same proration unit.

5 MR. GALLEGOS: We'd have no objection with
6 that manner of proceeding.

7 MR. RAMEY: Call Case 7553.

8 MR. PEARCE: That is the application of
9 Fred Pool Drilling Company for compulsory pooling, Chaves
10 County, New Mexico.

11 MR. CARR: May it please the Commission,
12 my name is William F. Carr with the law firm Campbell, Byrd,
13 and Black, P. A., of Santa Fe, New Mexico, appearing on behalf
14 of Mesa Petroleum Company. I am appearing in association with
15 Steven C. James, Attorney for Mesa from Midland, Texas.

16 Mesa has a 12.5 percent interest in the
17 acreage to be pooled.

18 MR. RAMEY: Mr. Kellahin, how many wit-
19 nesses do you have?

20 MR. KELLAHIN: I anticipate at least
21 three, Mr. Ramey.

22 MR. RAMEY: Mr. Carr, do you have any
23 witnesses?

24 MR. CARR: We do not intend to call wit-
25 nesses.

1
2 MR. RAMEY: Any other appearances? I'll
3 ask that all witnesses stand and be sworn at this time.
4

5 (Witnesses sworn.)
6

7 MR. RAMEY: Okay, Mr. Gallegos, you may
8 proceed.
9

10 MR. GALLEGOS: Thank you, Mr. Chairman.
11 We call Jack Grynberg.
12

13 JACK J. GRYNBERG

14 being called as a witness and being duly sworn upon his oath,
15 testified as follows, to-wit:
16

17 DIRECT EXAMINATION

18 BY MR. GALLEGOS:

19 Q Would you state your name, please?

20 A My name is Jack J. Grynberg.

21 Q Where do you live?

22 A I live at 4661 South Dasa Drive, Englewood,
23 Colorado, 80111.

24 Q Are you associated with Grynberg and
25 Associates?

A I am the owner..

1
2 Q What is the business of Grynberg and Asso-
3 ciates and where does it engage in that business?

4 A We're an independent oil and gas explora-
5 tion and production company engaged for exploration and pro-
6 duction of oil and gas in the continental United States and
7 in several foreign countries.

8 Q Where are you headquartered?

9 A We're headquartered in Denver.

10 Q Do you have operating offices or field of-
11 fices in any other locations?

12 A Yes. We have an office in Grynbury, Texas.
13 We have an office in Roswell; we have an office in Panama City,
14 Panama.

15 Q Mr. Grynberg, let me ask you to summarize
16 for this Commission your own personal education, experience,
17 and qualifications in the oil and gas industry.

18 A I am a graduate of Colorado School of
19 Mines; first degree received in 1952 was a Professional En-
20 gineer's degree. That's a Master's equivalent without a
21 Bachelor's degree; in petroleum refining and chemical engineering;
22 second degree was in petroleum -- professional engineer's de-
23 gree in petroleum production engineering; and I completed all
24 my requirements except a thesis for a doctorate in geophysical
25 engineering. I subsequently got an honorary degree from Colo-

1
2 rado School of Mines.

3 I was a Trustee of Colorado School of
4 Mines for six years until a year ago. I am now a Trustee
5 Emeritus.

6 I was appointed by President Ford to the
7 committee, the National Committee on Nuclear and Alternate
8 Energy Systems; reappointed by President Carter; fired by
9 President Carter and reappointed again; and President Reagan
10 hasn't gotten around to reconstitute the committee as such.

11 I'm a Registered Professional Engineer
12 in the State of Texas, Registration Number 14578.

13 I've also been a Registered Professional
14 Engineer in the State of Oklahoma but did not keep up the
15 registration as such.

16 Q What has been your experience in the in-
17 dustry besides engaging in the -- directly in the oil and gas
18 business?

19 A I started with Western Geophysical Com-
20 pany out of college. I subsequently joined Colorado Oil Com-
21 pany as a research engineer in research and development,
22 specializing in petrophysics. That's the quantitative inter-
23 pretation of electrical surveys, resistivity surveys, and
24 acoustical velocity surveys in reservoir engineering.

25 Thereafter Sylvan Pearson, S. J. Pearson,

1 and I formed a partnership of Pearson/Grynberg Associates.
2 We conducted over twenty-five courses in quantitative log in-
3 terpretation and in reservoir engineering all over the world.
4

5 About 1962 I became an independent oil
6 and gas operator. I expanded the operations to foreign oper-
7 ations in 1968 and have been in that business ever since.

8 Q Have you published authoritative works
9 in various technical -- on various technical subjects in the
10 industry?

11 A Yes. I brought a stack of some of these.
12 The latest ones are U. S. Energy Supply Prospects to the Year
13 2010, published by the National Academy of Sciences. I'm a
14 co-author of that.

15 Problems of U. S. Uranium Sources and
16 Supply to the Year 2010, also published by National Academy
17 of Sciences. I'm a co-author of that.

18 Q I don't think we have to go into all the --
19 into each of them, Mr. Grynberg, that will be adequate.

20 Let me ask you to turn your attention to
21 the exhibit that's identified as Exhibit Number One, and
22 which bears the legend Pecos Slope. Would you explain where
23 that region is and what the Pecos Slope area is?

24 A This is an area approximately thirty
25 miles northwest of -- north-northwest of Roswell, and the map

1
2 here specifically covers three townships, Township 5 South,
3 Range 24 East; Township 6 South, 24 East; and Township 6 South,
4 Range 25 East.

5 Q Is this an area of interest for Jack
6 Grynberg and Associates in its operations?

7 A Yes, it is.

8 Q How did it come to be active in the Pecos
9 Slope area?

10 A Sometime, approximately ten years ago,
11 I interpreted an electric log of a dry hole drilled in the
12 fifties in Section 24, Township 5 South, Range 24 East. I
13 believe it was Western Oilfields or Western Reserves; it's
14 marked as Western Reserves. And that well was plugged and
15 abandoned and has since been recompleted.

16 I came to the conclusion that three zones
17 in the Abo had been bypassed and I acquired the acreage posi-
18 tion that is represented on this map, approximately 8000 acres.

19 Q Did your company then become active at
20 some time in the drilling of wells in this region?

21 A Yes. Approximately two years ago I con-
22 vinced John Yates that I was a bypassed well and made a farm-
23 out in Section 36 to Yates Petroleum. That's the Yates Pet-
24 roleum out of Artesia, and resulted in the discovery, and
25 thereafter it's a history known to everybody.

Q Well, within that history would you describe for the Commission what the activities of Grynberg and Associates have been in that two-year period?

A As of to date we have drilling interest from 25 to 100 percent, mostly 100 percent, in 29 producing wells. We have participation in three active rigs right now, drilling three wells, three additional wells.

Q What do you foresee and expect as to the activities of your company in this area?

A We hope that if all the various forced poolings are either resolved or approved that by sometime in August of this year we'll -- we would have drilled 62 wells total.

Q Has your company established a pattern and a method for its well drilling and well completion in the Pecos Slope?

A Yes, we did.

Q Would you describe what that is?

A We believe that one should save money where money can be saved. We believe also that one should not try and penny-pinch when one sacrifices information and quality. And that's the pattern we have followed. We were the first ones to start a pattern of totally disregarding the surface casing program of 8-5/8ths, which many operators

1
2 use to run it to 1500 feet.

3 We start it with 10-3/4 surface casing,
4 actually lighter than the API. We got approval from -- from
5 the Oil and Gas Commission to do so, and Yates Petroleum has
6 followed our approach, and so has Mesa now, I understand, and
7 we run 10-3/4 pipe to 900 feet, and with the exception of one
8 well out of those 29 we did not have to set an intermediate
9 string of casing, 8-5/8ths inch casing. The reason for the
10 10-3/4, we can always go with 8-5/8ths if we have to, or 7-5/8ths
11 if we have to.

12 We thereafter proceed to drill, changing
13 over from fresh water to a brine system. We felt it was im-
14 portant to have a brine system based on experience that I had
15 off-shore Greece. We drilled through a salt section. Unless
16 you drill with a saturated brine you are then inviting a prob-
17 lem down the line. The problem is twofold. One, that salt
18 is a mobile entity. Salt moves and salt can shear casing
19 in half; can shear it in more than one place.

20 The other problem is that unless you cement
21 your long string all the way to the surface you're creating
22 an electrolytic cell between a fresh water reservoir and a
23 salt water reservoir with a current flow between them, just
24 like a battery, and as such you're asking for a tremendous
25 corrosion problem down the line where you have pitted casing.

1
2 You have holes in the casing with all kinds of waters coming
3 in and, in fact, reaching a point where a well has to be re-
4 drilled.

5 As such we are, and we're probably the
6 only ones, as far as I know, that cement our long string all
7 the way to the surface to prevent any corrosion down the line
8 and to prevent any possible salt movement within the salt
9 section. The extra expense of cementing it all the way to
10 the surface prevents any contamination of fresh waters by
11 saline waters at deeper depth; prevents the corrosion prob-
12 lem; prevents collapse of casing.

13 We've experimented with several different
14 bits. We use a J-22 now, which we have in many instances
15 been able to use just one bit to get down to total depth.

16 We run a good mud program and the best
17 result, of course, is the cement bond logs that we get from
18 our wells. We have very good cement jobs. We have had no
19 problems with any one of our cement jobs and there have been
20 many problems with cement jobs by other operators.

21 And the cement job is, in fact, the criti-
22 cal aspect in getting a well completion, because once perfor-
23 ations take place in the producing horizons, we have a good
24 cement job; we don't have to squeeze it; we don't have to
25 monkey around with the well; we don't have to lose it. We go

1
2 in there, we perforate, we check our perforations after each
3 set of perforations by instructing the perforating company to
4 turn on to a maximum sensitivity the collar locator system
5 so they can go ahead back and record the perforations so in
6 fact we know that they have made no mistakes.

7 And that resulted, frankly, in discovering
8 that a truck operator in one well did make a mistake and per-
9 forate the wrong place, and the company offered to pay for a
10 squeeze job of the wrong perforations and for us to re-perfor-
11 ate.

12 So the quality control is of the utmost
13 importance.

14 In each case before we set our long string
15 we run two sets of logs. We run the compensated neutron
16 formation density log and we run the duolatero log micro
17 SPL. They're both Schlumberger, they're more expensive than
18 any other surveys run, but they are the best and we feel very
19 strongly that these logs that we run, and the interpretation,
20 the quantitative interpretation, has enabled us to in fact
21 complete more potential pay and not leave it behind pipe.

22 I think probably a very good example which
23 I'd like to call to your attention is a well we drilled in
24 Section 16 of Township 5 South, Range 24 East, and I would
25 like to pass a compensated neutron formation density and a

1
2 dualatero log, and call the Commission's attention to a horizon
3 at 3635 feet to 51 feet.

4 MR. GALLEGOS: May Mr. Grynberg be per-
5 mitted to just approach the table -- Commission's table, sir?

6 MR. RAMEY: Sure.

7 MR. GALLEGOS: So you can look at it while
8 you discuss it with Mr. Grynberg.

9 MR. RAMEY: Be sure and speak up, Mr.
10 Grynberg, so the reporter can hear you.

11 A Certainly.

12 MR. KELLAHIN: Excuse me, Mr. Grynberg,
13 would you identify for us -- me where this well is?

14 A Yes. It is Section 16, as I said, Town-
15 ship 5 South, Range 24. It's the No. 4 and I believe the
16 No. 4 is the one in the southwest of the northeast quarter.

17 MR. KELLAHIN: This is not the section
18 immediately adjacent to the --

19 A No, it's not.

20 MR. KELLAHIN: -- Section 17?

21 A No, it is not, and I am trying to demon-
22 strate a point and I think it's a point that pertains very
23 critically to this situation here.

24 If one correlates the two logs for the
25 horizon at 10,635 to 3651, one can easily recognize that there

1
2 is a zone that looks like it's a shale zone, in fact, from
3 3635 to 3640, a five-foot zone; more so on the compensated neutro
4 formation density log than on the dualatero log micro SFL.

5 Of course the question then arises whether
6 one should perforate. Should one perforate from 3640 to 3651
7 or should one perforate from 3635 to 3651.

8 Well, when one looks at the neutron den-
9 sity log it is very clear that one should parforate from 3635
10 to 3651, but one cannot really be sure, especially since the
11 top five feet on the gamma ray looks like it is shale.

12 But when one compares this thing with the
13 dualatero log micro SFL, one can see that there is separation,
14 there is invasion, there is porosity, and there's a clear in-
15 dication that there is also continual reservoir.

16 So we have two sets of logs, then, the
17 density neutron indicating that we have a gas-bearing reser-
18 voir and we have a dualatero micro SFL, both logs contradicting
19 the gamma ray.

20 We, in fact, have perforated the full in-
21 terval from 3635 to 51 and the interpretation, the correct
22 interpretation, our opinion is that the top five feet is a
23 radioactive reservoir; could have some uranium; could have
24 some radium; could have some thorianite (sic); could have some
25 potassium 40, even; and there to indicate some increase in

1 radioactivity and it is not shale.

2 And I tried to test this approach and
3 after the former hearing which I attended in here, I showed
4 exactly the same log to Mr. Houston, production manager of
5 Mesa Petroleum, and asked him where he'd perforate. He ana-
6 lyzed it; he made the statement which I expected. He'd per-
7 forate in the interval --

8 MR. KELLAHIN: If the Commission please,
9 Mr. Grynberg, I would object, Mr. Commissioner. I've waited
10 patiently for some relevance to the case in point here and I
11 have found that what he is talking about is a well some five
12 or six miles away in a different township, and I don't be-
13 lieve this discussion is relevant to the case.

14 MR. GALLEGOS: Let me ask a question at
15 this point, Mr. Chairman.

16 Let's depart from the discussion with the
17 Mesa individual, Mr. Grynberg.

18 Q How does this pertain, your well logging
19 method and your capacity to interpret these logs, how does
20 this pertain to the proposed well to be drilled in Township
21 6 South, 25 East?

22 A Well, I think the pertinence is clear,
23 at least it is clear to me. It shows the competence of my
24 organization and myself to interpret electric logs to maxi-
25

1
2 maximize the production from a well drilled, if we are appointed
3 as the operator, for the benefit not only of my company but
4 for the benefit of all the participants within the well, as
5 well as the State of New Mexico.

6 Q In this area of activity, going back to
7 the question of the operating patterns that you've developed,
8 what drilling company do you use and how are their rigs uti-
9 lized?

10 A We use Aztec Drilling. It's a company
11 owned by the Sandell family, Jerry Sandell is the president,
12 from Farmington. There is no relationship whatsoever between
13 our two companies; totally arms-length transactions. It's a
14 competitive bid situation. They have done a superb job.
15 They have superb drilling equipment. People that have been
16 on the same rig for over two years, which is almost unheard
17 of in today's situation; same two pushers, same drilling per-
18 sonnel, and so forth, and they do a fantastic job. They're
19 efficient, first rate equipment, new equipment, they've got
20 fine people.

21 Q What is the availability circumstances
22 as to that driller?

23 A Well, today there are plenty of drilling
24 rigs. You can have your choice, and why not select the best
25 for the most economical price.

1
2 Q And has the rig at Astor been moved from
3 site to site --

4 A Continuously from site to site.

5 Q Let's turn your attention, Mr. Grynberg,
6 if you will, please, to the southwest quarter of Section 17
7 and the particular well in question here.

8 Would you describe the location and the
9 objective of the proposed well?

10 A The location that we have selected would
11 be the southeast quarter of the southwest quarter of Section
12 17. We've selected it based on geologic analysis, that the
13 sands seem to be running in that area in a north/south direction.
14 We have completed a well where in fact Fred Pool Drilling Com-
15 pany has an interest, in the northeast quarter of the -- I'm
16 sorry, the northwest quarter of the southeast quarter of
17 Section 17; completed it for 3.5 million cubic feet a day
18 just a few days ago.

19 We feel it's a good well and we'd like to
20 be fairly close to that well, namely a diagonal offset, and
21 that's why the location in the southeast quarter of the south-
22 west quarter has been selected.

23 Q Is that the well that -- that's shown on
24 this map close to the circle containing the number nine and
25 the letter "A"?

1

2

A Yes.

3

4

Q In what period of time and at what cost was that well completed?

5

6

7

8

A That well -- that well cost \$238,406.28 to drill and complete, and the only thing missing there is the surface equipment, the storage, gas distillate storage and a separator. That's about another \$10-12,000.

9

10

The AFE for the well was \$355,000; the completed cost is \$238,000, a savings of \$116,000.

11

12

As a matter of fact, we have a comparison of the three wells drilled.

13

14

Q Let's see, are you referring to what is marked Exhibit --

15

16

17

A Yes, and as a matter of fact, we have also an abstract of that exhibit just for the wells that we have drilled.

18

19

20

Q Well, first of all, let's find out by identification there. You're talking about Exhibit Number Four?

21

22

A I am talking about Exhibit Number Four, that is correct.

23

24

Q All right. Mr. Grynberg, if you do refer to any of these documents, if you'll --

25

A Sure.

1

2

3

Q -- identify them by exhibit number it will be helpful.

4

5

6

7

8

9

A I'd like to submit as a summary an exhibit which I would like to have your permission to call Exhibit Four-A, which is just the summary of the partnership wells alone. This is a summary of all the wells and if we can call this Four-A and pass it around, because that deals with the four wells we operated where we are in partnership with others.

10

11

12

Q All right.

A And that's exactly the same figures as are inserted in the Exhibit Four.

13

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22

If we can refer to Exhibit Four-A with the three wells completed where Fred Pool Drilling Company had an interest in each one of those wells, we have completed the 14-1, which is already hooked up to the pipeline for \$288,000 -- I'm going to read in round numbers -- the 35-1, that's the one that lots of people have read in the papers had an open flow for 27-1/2 million cubic feet a day. We've completed it for \$255,000. The 17-1, or 17 Communitized 1, which is the offset to this proposed location, we completed for \$238,000.

23

24

25

Q

That's the one you were just talking about, the 17-1.

A

Yes. The surface equipment has not been

1
2 included in this; \$12,000 probably should be added to it.

3 And in the first case it's \$66,000 under
4 the AFE; second case, \$99,000; the third, \$116,000. The last
5 well we don't have the final figures as yet.

6 Q Well, while we're on this point, what is
7 shown then on Exhibit Four?

8 A On Exhibit Four, it's all the completion
9 costs of all the wells, whether partnership or no partnership,
10 and if you will look at the column that is referred as Total
11 Actual Costs, and please remember they do not include the sur-
12 face equipment, we start from the top, \$288,000, \$287, \$325,
13 \$274, \$2 --

14 Q I don't think it will be necessary to
15 read all the numbers on there, but is there -- is there a way
16 in which someone observing the exhibit can know whether they
17 were partnership wells or 100 percent --

18 A Yes.

19 Q -- wells?

20 A On the righthand side column, where we
21 have a difference in cost, it's a partnership well. Where it
22 says N/A, not applicable, it's 100 percent well.

23 Q All right. Now tell the Commission, then,
24 what your objective would be as to this proposed well in the
25 southwest quarter and your expectations as to time for drilling

1
2 and completion, and costs.

3 A Well, we have several expectations for
4 asking to become an operator.

5 Number one, we have plenty of work; we're
6 not trying to get any more work. We feel that we can save
7 money for us and save money for all the participants, and also
8 drill the best possible well and make the best possible com-
9 pletion.

10 If I can take a second on the completion
11 aspect, I think it's a very important part.

12 We have started a program, which Yates
13 Petroleum is now following, and lots of people seem to be
14 calling Halliburton wanting to know what is it we do; if you have
15 no objection, I'd like to put it of record.

16 We complete our wells by selectively per-
17 forating the pay zones. We clean it up with anywhere from
18 1000 to 3000 gallons of mud acid. We follow it up with a KCL
19 gelled water frac, using the minimal 50,000 pounds of sand and
20 as much as 90,000 pounds of sand and approximately 50,000
21 gallons of gelled water.

22 We start out with about the 20/40 mesh
23 sand with about a half a pound to a gallon of gelled KCL. We
24 increase it to a pound, pound and a half, two pounds, two and
25 a half pounds, and about two-thirds of that sand is 20/40 mesh.

1
2 The last one-third is -- we increase the size of the sand to
3 about a 10/20 mesh and we seem to be the only ones doing it.
4 So we have a larger fracture, a larger opening that's being
5 supported by the larger sand.

6 I think the problem the others have en-
7 countered, that they get a drastic variation in the injection
8 pressure, is that they do not proceed with a gradual approach,
9 plus they do not use an adequate amount of surfactant added
10 to the fracing technique. We use an extra dosage over and
11 above that recommended by Halliburton of surfactant and our
12 pressure, injection pressure does not vary from initial to
13 final and throughout the fracing period more than five pounds;
14 usually just stays within one to two pounds, and that is a sign
15 of a good, effective frac.

16 We've made wells for a million and a half
17 cubic feet, offsetting wells that are for 400 to 600,000 cubic
18 feet. We've made wells for five million offsetting wells that
19 have been completed for a million and a half. We feel that
20 drilling technique, completion technique, and close supervision
21 in cleaning of the well are very critical. We've used 1000
22 cubic feet of CO₂ per gallon of KCL gelled water so we can
23 get a recovery of fluid as quickly as possible.

24 All those combined plus a few other little
25 tricks have resulted in some very good completions.

1
2 What is critical, in our opinion, right
3 now is not only the fact that we feel we can make the best
4 possible completion, we can drill and complete on the cheapest
5 basis because we put everything out to competitive bidding,
6 including the building of locations to competitive bidding,
7 so we get the best possible prices for everyone concerned.
8 But what is critical, in my personal opinion, is the timing of
9 drilling these wells.

10 We are entering an era right now where
11 today there is an over-supply of gas already, and that over-
12 supply of gas is growing, together with the over-supply of oil.
13 IN the next several months, frankly, I predict a certain peace
14 movement will be completed between Iraq and Iran. Now you
15 might ask, why is it important for the State of New Mexico?
16 It's important because five million barrels of oil production
17 will start flowing from Iran and Iraq, driving the price of
18 oil farther down, getting an extra supply of energy, and the
19 quicker we drill the wells in the Pecos Slope trend, and the
20 quicker we put them on production, and the quicker we capture
21 the markets outside the State of New Mexico, the quicker we
22 are assured that New Mexico gas is going to go to the market
23 and we will not end up with a bunch of undrilled locations
24 or a bunch of shut-in gas wells for lack of market.

25 That's why we feel that it's very important

1
2 to get those wells drilled as quickly as possible, get them
3 hooked up, capture the market, and get moving.

4 Now, since last September we've been trying,
5 everyone concerned, including Fred Pool organization, to drill
6 this well and several other wells. We at one point had a
7 promise that Mr. Pool will drill this well and we agreed to
8 let him do it, by the end of December, 1981. This never came
9 to be.

10 We have committed in writing to Mr. Pool
11 that we will drill this well by May 15th. We have an AFE from
12 Fred Pool Drilling Company that they will drill the well by
13 June 1 of this year. We as late as yesterday morning telecopied
14 a letter agreeing that he can operate these -- this well and
15 another well and drill it by August 21, which he insisted that
16 he cannot drill by June 1, he wanted till August 21 to drill,
17 and we would drill two other wells where we have a fifty per-
18 cent ownership and Mr. Pool has a smaller ownership in them,
19 provided we don't have to come to the Commission and waste the
20 Commission's time arguing about a matter like this, and that
21 fell apart yesterday morning.

22 The information we got, or Ms. Hill got,
23 is that they can't drill it by the 21st of August, but we are
24 here asking the Commission to give us the order so we can move
25 on it, get it drilled and drill it efficiently, complete it,

1
2 and get it hooked up to the pipeline for the benefit of every-
3 one concerned.

4 We also happen to be one of the two largest
5 owners of this 160-acre tract. We have tried --

6 Q Let me interrupt you on that point --

7 A I'm sorry.

8 Q -- because I want to go back a little bit
9 to some background of what you're talking about.

10 Would you take a look at Exhibit Number
11 Two and identify what that is, since we're speaking about the
12 interest owners and the effort to come to agreement?

13 A Exhibit Number Two shows the ownership of
14 the 160-acre tract comprising the southwest of Section 17.
15 We have a 25 percent interest and the only other 25 percent
16 interest holder is Plains Radio, which is an investment organ-
17 ization out of Amarillo, no operating expertise, and no willing-
18 ness to operate. Nobody else has a higher than 25 percent
19 interest in this tract.

20 Fred Pool Drilling Company has an 11.25
21 percent interest in this tract.

22 Q Now, Mr. Grynberg, does Exhibit Number
23 Three constitute a few of the documents that pertain to the
24 efforts that have gone on over the last several months to
25 arrive at an agreement as to the operation of this unit and

1
2 pooling the interests?

3 A Yes, it does.

4 Q As far back as when did Grynberg and
5 Associates attempt by agreement to bring together the interest
6 owners so that a well could be drilled and it would be unnec-
7 essary to ask this Commission for the -- for the forced pooling?

8 A I believe it was as far as September of
9 1981.

10 Q And have those efforts been continuing
11 up to --

12 A Yes.

13 Q -- yesterday?

14 A They have been continuing until yesterday
15 morning.

16 Q Now, you indicated, and I think part of
17 the documents in Exhibit Number Three will reflect, that Fred
18 Pool has also offered to the working interest owners for his
19 company to be the operator on this well, is that correct?

20 A That is correct.

21 Q And did you consider that and evaluate
22 that offer for Fred Pool to be the operator?

23 A Yes, I did.

24 Q Describe to the Commission your evaluation
25 of Fred Pool Drilling Company being the operator of this parti-

1
2 cular well.

3 A Well, there were several objections that
4 we had to Mr. Pool operating this well. One of the main ob-
5 jections we had was to use a drilling rig owned by TexMex
6 Drilling Company. We feel that there is a relationship in here
7 that is not an arms-length relationship. Mr. Pool sold the
8 drilling rig that TexMex was going to drill this particular
9 well with to TexMex Drilling. TexMex Drilling owes Mr. Pool
10 approximately a million dollars. They have so informed me.

11 We feel that giving it to TexMex just on
12 a straight contract basis without making sure it is number one,
13 the best possible rig, with the best possible crew on it, and
14 number two, the best possible deal, is not to the advantage of
15 all the other members or owners of this particular tract.
16 Just because Mr. Pool needs to get payments from TexMex Drilling
17 on the million dollars owed to Fred Pool Drilling, that does
18 not mean that the others, including my company, has to be sub-
19 jected to being any party to it.

20 The indication here is that it's going to
21 take fifteen days. With the exception of one well, and speci-
22 fically the last wells, we've been taking eight days to drill.
23 The AFE's --

24 Q Are you of the opinion that this well
25 could be drilled in eight days with you as operator?

1
2 payments from Transwestern Pipeline for the tight gas sand
3 portion, we discovered --

4 Q Are you still talking about the Fred Pool
5 drilled well that you're a partner in?

6 A That's correct, that's the well in Section
7 13.

8 Q All right.

9 A We discovered Mr. Pool, as operator, was
10 not paid the full amount. It was our urging, I don't know,
11 maybe screaming is the word, on the telephone that finally got
12 Transwestern Pipelines to promise to have a check this month
13 for back payments for about six months. In the middle that
14 they've excluded; they paid before and they paid after, but in
15 the middle six months were excluded.

16 The fact is that these are things that
17 are important. They're small, but in an aggregate they all
18 add up to quite a bit of a number of things, and we feel that
19 this for the benefit of everyone concerned, not just our own.
20 True, we have 25 percent, nobody else except Plains Radio has
21 25 percent. Everybody else has very small fractions.

22 Now we make a point in our operations to
23 take discounts and we pass on those discounts to everyone of
24 the partners. When there's a discount within a ten day or five
25 day period, we always take the discount and pay them, and in

fact, we have from November 1 until now spent \$3,989,000 --

Q Are you referring to Exhibit Number Five now?

A Yes, I am referring to Exhibit Number Five. Of which we have paid through the 15th of April, and we pay our bills twice a month, or -- or more frequently if there are discounts that are involved, we've paid \$3,669,215, with outstanding bills, which are not even due, undisputed, for \$187, and we have two disputed bills for \$132,000. The disputed bills amount to 3.3 percent, and they're disputed because they overcharges, and when they're overcharges we do not agree with them, we try to resolve them if we possibly can to different sources, and that's all there is to it.

Q Mr. Grynberg, focusing again on this well and asking your attention to Exhibit -- well, both Exhibit Four and Exhibit Four-A, where this well cost is reflected for the well that was completed in Section 17 in the southeast quarter, reflecting a cost of \$230,000, and you say that there is an additional about \$12,000 --

A Right.

Q -- for surface equipment, what is your expectation as to that cost being indicative with reasonable accuracy of the cost that will be incurred to drill the well that is proposed in the southwest quarter of Section 17?

1
2 A I expect it to be lower. We are no longer
3 using the Kenai Drilling Company rig. We have the Aztec rig,
4 which is a much better rig, much better equipment, better
5 people, and we frankly, we expect to cut it, barring -- barring
6 any lost circulation or other problems.

7 Q So you expect it to come in for less than
8 \$250,000?

9 A That what's we expect it.

10 Q Besides what you've already told the Com-
11 mission about concerning your practice of paying your receivables
12 to obtain discounts, are there any other means or methods by
13 which you're able to accomplish this well completion as econ-
14 omically as you do?

15 A Well, as I mentioned, we put up everything
16 for competitive bidding, locations, our pipe. We negotiate
17 the best possible deal, and right now with the -- with the de-
18 mand being lower than the supply, one can make some very at-
19 tractive deals and one should take advantage of them.

20 Q All right.

21 A If you save money, you have more money
22 to drill more wells. It's not a bottomless pit.

23 Q Let me ask you at this time to give the
24 Commission a little more information about your organization.
25 We've heard about your qualifications and experience, but

1
2 within your organization who are the key personnel? Would you
3 just identify them briefly, what their credentials are?

4 A Yes. Mr. Morris Ettinger, who is Executive
5 Vice President of the company, is a graduate of Colorado School
6 of Mines; has a special engineer's degree in geophysical en-
7 gineering, and a Master's of Science degree in geological en-
8 gineering.

9 Mr. Jim McWilliams, our production drilling
10 superintendent, has an engineering degree in geological and
11 petroleum engineering from University of Oklahoma.

12 Julio Benedette, who runs foreign opera-
13 tions out of Panama is a chemical engineering graduate from
14 the University of Colorado and has a Master's of Science degree
15 from Colorado School of Mines.

16 We have --

17 Q Do your -- I'm sorry.

18 A We have geologists, landmen, accounting
19 people, CPA is a controller, which is very important, Jim
20 Brady is an in-house controller; he's a Certified Public Ac-
21 countant, handles all the funds. We have coordinators in the
22 office, bookkeepers, draftsmen, landmen, geologists, and so
23 forth.

24 Q Is your company --

25 A About thirty people.

1
2 Q All right. Is your company able to exer-
3 cise close supervision and a continuity of skilled supervision
4 over its operations?

5 A Yes, we have a very close supervision.
6 We have -- every bill before it's paid is checked by three
7 different people, and very closely scrutinized, very well docu-
8 mented, copies of everything available to anyone who wants to.

9 We're an active organization; we drill
10 about eighty wells a year. We have a little over a million
11 acres of oil and gas leases throughout the United States and
12 that's not counting foreign operations.

13 Q Are you involved in the day-to-day oper-
14 ations of the company?

15 A Yes, I am. If I wouldn't be, I'd go
16 crazy.

17 Q Now, let me ask you to -- to describe and
18 explain fully for the Commission what the financial circum-
19 stances of Gryaberg and Associates are, and in particular with
20 reference to what I think is probably a well-known fact, or
21 matter of discussion in the industry, concerning a Chapter 11
22 reorganization of your company.

23 A Certainly. Our present financial situa-
24 tion, we have \$50,000,000 in cash, or ready marketable securi-
25 ties like CD's, municipal bonds, easily convertible to cash,

1
2 in various banking entities.

3 We have assets in excess of \$100,000,000.
4 We have absolutely no bank debt.

5 We have a line of credit, our bank, Bank
6 of America, one of the two banks, wants us to take its \$5,000,000
7 letter -- line of credit, which we haven't used; we might use
8 it later on but so far we don't see any -- any need for it.

9 On February 20th, 1981, my wife and I
10 voluntarily filed for Chapter 11 reorganization under Federal
11 Bankruptcy and Reorganization laws. This was a rather unique
12 filing, especially since the new law that's about two years
13 old permits one to file without being broke.

14 The week before we filed over \$300,000
15 in cashier's checks went out to pay all the bills to make sure
16 that nobody suffers.

17 The filing was to protect an asset, off-
18 shore Greece, consisting of an interest which I had in an oil
19 field and a gas field that I discovered. There was some
20 litigation for about five years in a Delaware court, because
21 when you have Greek interests when you litigate you don't go
22 to Greece. The company involved I had, was a Delaware company,
23 so we went to the Delaware court.

24 For five years it got us absolutely no-
25 where to resolve the dispute, so I can sell my interest, because

1
2 I was very anxious to sell since 65 percent of my interest was
3 nationalized when the Colonels were kicked out and the civilian
4 government came in, and I expected a new government, a socialist
5 government to come in in the fall of 1981.

6 So I had a race. I had to come under
7 Federal jurisdiction and a court that would immediately resolve
8 any dispute and allow me to sell the interest.

9 This was accomplished. I am thankful to
10 a brilliant attorney which I have, who told me that unless I
11 want to kiss goodbye the Greek interests, I have no choice but
12 to bite the bullet. We filed for the reorganization. The
13 court, Federal court in Denver took the case away from Dela-
14 ware, and resolved in three months what Delaware could not re-
15 solve in five years.

16 I sold my interest on the 22nd of September
17 for \$22,000,000 in cash. On the 18th of October a socialist
18 government came to be in Greece. Last month Exxon was nation-
19 alized. I expect purchasers of my interest and others very
20 likely to be nationalized in Greece, as well.

21 On Tuesday of this week, that's day before
22 yesterday, we were discharged from Chapter 11. The order,
23 according to Judge Moore, was dictated yesterday; it's pro-
24 bably in my office today, this morning, discharging us from
25 Chapter 11 reorganization. I guess I'm a free man again.

1
2 Q Mr. Grynberg, one other exhibit in this
3 packet that we distributed that has not been identified and
4 referred to, and that's Exhibit Number Six.

5 A Yes, sir.

6 Q Will you tell the Commission what that is?

7 A This is an unfortunate experience which
8 we have had with Fred Pool Drilling Company, as far as payments
9 on the three wells where they participated.

10 You will notice on the left side the well,
11 when the money was requested when it was completed. On the
12 middle column when the monies were received, and on the right-
13 hand column the time has elapsed.

14 I'd like to call the Commission's atten-
15 tion to the fact that Fred Pool Drilling Company had signed
16 an operating agreement providing for payment within fifteen
17 days after request. You will notice that the shortest time
18 we were paid was twenty-three days and the longest was a hundred
19 days that it took us to collect the money for their interest
20 in the wells.

21 The last payment we received we had to
22 write a letter indicating unless we received a payment for
23 the two different -- for the two last wells we had drilled,
24 we will exercise our privilege and put Fred Pool Drilling Com-
25 pany into the non-consent provision of the operating agreement

1
2 and collect the 200 percent penalty out of production unless
3 we receive payment within a five day period from receipt of the
4 letter by Fred Pool Drilling Company, and we did receive the
5 payment.

6 But, you know, I'm a workaholic and I like
7 to work but I don't need to work on things that there's no
8 need to work for. These are things that are totally unneces-
9 sary. By doing what I had to do there, I obviously didn't do
10 something else that probably was by far more important.

11 And that's the stuff we're trying to pre-
12 vent. We want to go on, go in there, drill the wells, do a
13 good job, put them on production, and live happily ever after.
14 We don't want any problems. Life is too short.

15 Q Mr. Grynberg, why does Grynberg and Asso-
16 ciates want to be the operator of the proposed well?

17 A We want to drill an economic, efficient
18 well, by people who have no relationship whatsoever to Grynberg
19 and Associates organization, who are dealing on a competitive
20 basis on a totally arms-length transaction. We want to make
21 a good completion. We want to do it immediately. We don't
22 want to wait. We want to hook up the well, because if we wait
23 everybody will be the loser. We'll be the loser, the other
24 participants will be the loser, the State of New Mexico will
25 be the loser. What good is a shut in gas well six months from

1
2 now on when there is no space in the pipeline and the people
3 in San Francisco have all the gas they want?

4 Q Is it your objective to make money by
5 being the operator?

6 A Not from the operation. The objective is
7 to save money and to make sure that it is an orderly operation.
8 As an operator we don't make money. I don't think any operator
9 makes money.

10 I might like to point out that we've oper-
11 ated there for two years with Yates Petroleum Company. We've
12 had no problems.

13 And I'd like to apologize to the Commis-
14 sion for having to file so many forced pooling requirements,
15 but I'd like to indicate to the Commission that we have re-
16 solved as many as humanly possible, and we've only filed those
17 when we had no other resort.

18 You might like -- you might enjoy a little
19 story about Mike Hardy, who is in Sections 3 and 4 of 5 South,
20 24 East.

21 MR. KELVAHIN: If the Examiner please,
22 I'd like to keep this on the subject of the hearing and delete
23 stories.

24 MR. RAMEY: Maybe you can tell the story
25 later, Mr. Grynberg.

1
2 MR. GALLEGOS: At the recess, perhaps.

3 I pass the witness and move the admission
4 of Exhibits One through Six, including Exhibit Four-A.

5 MR. RAMEY: Exhibits One through Six,
6 One through Four, Four-A, Five, and Six, will be admitted.

7 Are there any questions of the witness?

8 Mr. Kellahin?

9 MR. KELLAHIN: Yes, Mr. Ramey.

10
11 CROSS EXAMINATION

12 BY MR. KELLAHIN:

13 Q Mr. Grynberg, earlier in your direct exam-
14 ination you made reference to the fact that you operated some
15 29 wells capable of production, is that not true?

16 A That's not true.

17 Q What did you say?

18 A What I said, we had varying interest from
19 25 percent to 100 percent in 29 wells.

20 Q Of the -- are those all Abo wells?

21 A They're all Abo and I think there are two,
22 probably one by now, Pennsylvanian and Abo together.

23 Q Of the 29 wells in which you have an in-
24 terest, how many of those wells are Abo wells that you operate?

25 A Eighteen.

1
2 Q Are those Abo wells operated under the
3 name of Jack J. Grynberg or Jack J. Grynberg and Associates?

4 A They're either under that name or under
5 Viking Petroleum, which is an affiliate.

6 Q Would you describe for us the relationship
7 between you and Viking Petroleum?

8 A It's a very close relationship. We have
9 joint ownerships in different parts; joint operations where
10 they're operator or we're operator.

11 Q Is Jack J. Grynberg going to be the oper-
12 ator of the preration unit in the southwest quarter of Section
13 17 or is Viking Petroleum going to be the operator?

14 A Jack J. Grynberg.

15 Q Do you have a statewide plugging bond,
16 Mr. Grynberg?

17 A I can have it in five minutes.

18 Q Do you have a filed, approved statewide
19 plugging --

20 A No, I don't.

21 Q -- bond --

22 A No, I don't.

23 Q -- with the Commissioner of --

24 A No, but I'll have it by the end -- by the
25 first of next week.

1
2 Q Do you operate any Abo wells under the
3 name of Jack J. Grynberg?

4 A Yes.

5 Q Do you operate those wells under a state-
6 wide approved plugging bond?

7 A We operate under a Federal bond; it's a
8 Federal lease. We have a statewide Federal -- Federal bond
9 in the State of New Mexico.

10 Q Do you have a plugging bond approved by
11 the Oil Conservation Division on --

12 A I don't.

13 Q -- a statewide basis?

14 A I don't, now.

15 Q Of those eighteen Abo wells in which you
16 or Viking operate, Mr. Grynberg, how many of those are in a
17 producing status, producing into the pipeline?

18 A The pipeline is hooking them up almost
19 every day. We had four wells hooked up this week, so I can't
20 tell you exactly as of today, but of those eighteen, probably
21 six are hooked up and the balance will be hooked up within the
22 next two weeks.

23 Q Do you have any production history from
24 any of those Abo wells?

25 A Well, I don't have it -- I have it from

1
2 the ones that I do not operate, a partnership with Yates.

3 Q No, sir, I meant for the ones you operate.

4 A No, I don't.

5 Q Mr. Grynberg, I think everybody is aware
6 that a month or so ago you filed some twelve forced pooling
7 applications against Mesa, Mr. Pool, Yates, and others. What
8 was the reason for doing that?

9 A Well, I simply could not get things moving
10 quick enough, which I honestly believe that unless those wells
11 are drilled promptly and hooked up, everyone is going to suf-
12 fer, because there's going to be an even greater over-supply
13 of gas, and I am very proud to say that many of those have been
14 resolved on a purely voluntary basis and if you let me tell
15 you the story, I'll tell you how we resolved the Section 3
16 and Section 4 forced pooling.

17 Q I'm interested in the southwest quarter
18 of Section 17, Mr. Grynberg, and what was your first efforts
19 with regards to the drilling of a well in the southwest quarter
20 of 17?

21 A As I testified, we tried to get that well
22 drilled, ask Fred Pool, in September, October, of last year.
23 We got an indication that he will get to it and get it drilled
24 by the end of December of 1981. That didn't come to pass.

25 We talked more, we talked as long as until

1
2 yesterday morning, and we were even willing to extend the
3 January 1 -- I mean the June 1 promise. Mr. Pool sent out an
4 agreement saying he'll drill by June 1, only to inform us day
5 before yesterday he can't drill it till August 21. Now which
6 is it? An agreement, an operating agreement and an AFE sub-
7 mitted to this Commission saying he'll drill it by June 1, or
8 is it August 21.

9 Q Now, Mr. Grynberg, let me show you what
10 I've marked as Fred Pool Exhibit Number One and ask you if you
11 can identify that exhibit?

12 A This is a letter dated August 31, 1981.

13 Q Is that your signature?

14 A That is correct.

15 Q All right, sir.

16 A That's exactly what he proposed. I said
17 September. It's August of '81.

18 MR. KELLAHIN: If the Commission please,
19 I move the introduction of Fred Pool Exhibit Number One.

20 A I hope you realize, Mr. Kellahin, that
21 that exhibit doesn't help you very much.

22 MR. RAMEY: Exhibit One will be admitted.

23 Q Now, on December 17th, 1981, in your
24 package of exhibits that are labeled Number Three, Mr. Gryn-
25 berg, would you look to the Estimated Authority for Expenditure

1
2 dated December 17th, 1981?

3 A Yes, I have it.

4 Q It's December 17th, 1981?

5 A Yes.

6 Q It's the very end exhibit.

7 A Yes.

8 Q This was your first AFE to the working
9 interest owners in the southwest quarter --

10 A Yes.

11 Q -- for you to drill this well.

12 A Yes.

13 Q With regards to Exhibit Number Two, now,
14 Mr. Grynberg, if you would refer to that, that's the tabulation
15 of the working interest owners in the southwest quarter.

16 A All right.

17 Q You've told us a great deal about what
18 you consider to be your competence and the effectiveness in
19 the operation of Abo wells, Mr. Grynberg, have you been able
20 to persuade any of the other working interest owners in this
21 proration unit to voluntarily commit their interest to you?

22 A Yes, I believe we have a signed AFE from
23 Mercury Exploration.

24 Q That's for a 9.75 percent interest?

25 A That is correct.

1
2 Q Have you been able to persuade any of the
3 others to join you?

4 A Our requirements are that we -- while we
5 have the cash to operate, we don't believe we should use the
6 cash for everyone's benefit. We insist on a cash goal that is
7 paid within fifteen days so we can use everybody's money
8 equally to drill those wells for the mutual benefit of everyone
9 concerned.

10 Mr. Pool, and some of the people that he
11 brought into the deal don't like that approach, and so far
12 they have been very reluctant to do so. I think their approach
13 is sort of shortsighted. I think it's to their benefit to take
14 the discounts and pay cash.

15 Q So in response to my question, the only
16 other working interest owner besides yourself, you say, is
17 Mercury Exploration that's agreed to join you in the drilling
18 of the well?

19 A That's correct, and subject to the presi-
20 dent's approval this morning, Corona agreed to join, too.

21 Q Do you have any written confirmation from
22 anyone of those working interest owners?

23 A I have from Mercury.

24 Q May we see that?

25 A Sure.

1
2 Q Do you have it with you?

3 A Sure.

4 MR. GALLEGOS: In fact Mercury
5 has signed on the exhibit you're referring to.

6 Q Mr. Grynberg, do you operate any Abo well
7 in which you have only a 25 percent working interest?

8 A Not yet.

9 Q You've also shown to us or introduced Mr.
10 Pool's AFE of March 8th, 1982, Mr. Grynberg, if you would com-
11 pare that to the December 17th, '81 AFE that you submitted.

12 A Yes. That was superseded by an AFE sub-
13 mitted in March by us, as well. This was the beginning. We
14 were just starting to drill. We want to be sure that we are
15 very, very conservative, and even the March AFE is still con-
16 servative. The facts, however, speak for themselves and those
17 facts are found on Exhibit Four and Exhibit Four-A.

18 One always wants to submit an AFE to be
19 protected, but even on the extreme our AFE is still lower than
20 Mr. Pool's and I'm referring to the March AFE.

21 Q Based upon your experience with the actual
22 well costs, Mr. Grynberg, it would appear that your AFE over
23 estimates the cost of these wells by about \$100,000, is that
24 not true?

25 A Approximately.

1
2 Q Now, in comparing the Pool AFE and your
3 AFE, Mr. Grynberg, the December one and the March 8th one,
4 would you describe for us what you might consider any signifi-
5 cant differences in the well drilling program or the logging
6 program or the completion techniques?

7 A I'm going to compare Fred Pool's March
8 and my March, right?

9 Q No, sir, we're going to compare your
10 March 8th to the December 17th, '81, and then we'll come to
11 your March one.

12 MR. GALLEGOS: Wait a minute, is the
13 question clear? I thought it was asking for him to compare
14 the Fred Pool --

15 A Fred Pool.

16 MR. GALLEGOS: -- to the Grynberg, is
17 that correct?

18 MR. KELLAHIN: Yes, sir, that's correct,
19 and it's the Grynberg AFE of December 17th.

20 A But that's totally outdated now. I don't
21 see why we're going to something that's --

22 MR. GALLEGOS: That's all right, just
23 answer the question.

24 A I will say that there is a slight mistake
25 or maybe what is being -- what's being incorporated. First

1
2 of all it's ten days instead of 12 days. The price is higher.
3 It's possibly something else has been added to the day work
4 that's just not reflected in the AFE.

5 Our AFE for March is 348; for December
6 it is 367.

7 Q It would appear to me, Mr. Grynberg, that
8 your proposed AFE and the Pool AFE anticipate the same type
9 of drilling program for this well and the same type of logging
10 program; the same kind of mud program. They look about the
11 same, do they not?

12 A Well, there is a great deal of similarity.
13 The only thing that -- we have ten days and he has fifteen
14 days, and that's a very critical amount as far as the type of
15 drilling.

16 Q Well, those are estimates and you get
17 billed for actual days --

18 A Of course.

19 Q -- of actual work.

20 A Of course.

21 Q So that can vary.

22 A Of course, but I might add that I had ex-
23 perience with the TexMax rig. I had that rig a year ago and
24 had to shut it down three different times; one time to exchange
25 a drill pipe or they're not going to drill any farther; one

1
2 to exchange a pump; and one something else was wrong, and I'm
3 not looking forward to using that junk rig.

4 Q In comparison of your December 17th AFE
5 and then your March 12th AFE, Mr. Grynberg, can you explain to
6 us why your latest AFE is some \$22,000 cheaper on a dry hole
7 cost?

8 A Well, I can go through each individual
9 and check it. I did not prepare the AFE, but I can also tell
10 you this is an AFE for the sole purpose of getting the maximum
11 amount so everyone is protected.

12 I just see on equipment here, on the De-
13 cember AFE the equipment is \$99,000 and the equipment on the
14 March AFE is \$50,000. Right there there is a significant
15 change.

16 Q Let me ask you this: With regards to the
17 casing program, the December AFE shows in excess of \$20,000
18 and the March AFE is down to \$12,000.

19 A That's correct.

20 Q What have you done to the casing program
21 to save the \$8000 difference?

22 A I've been able to obtain 10-3/4 inch
23 pipe.

24 Q Is this new pipe or is this used pipe?

25 A I don't use used pipe. It's brand new

1
2 pipe. It's 32.75 pound versus 40.5 pound and I've been able
3 to cut the price down almost in half. I get that pipe for
4 \$11.40 a foot versus a price in December of somewhere in the
5 order of \$22.00. Brand new pipe.

6 Q I'd like you to clarify some questions
7 about this Chapter 11 reorganization taking place in Denver.
8 Mr. Grynberg. I'm sure you're aware of the concern of these
9 working interests in this proration unit that if you drill the
10 well they're going to become entangled in creditors claims,
11 liens, litigation, or financial matters, and I'm sure that
12 we'd all like to avoid. What assurances or guarantees can you
13 make us that if you're the operator we will not get embroiled
14 in that kind of predicament?

15 A How about a court order from a Federal
16 judge?

17 Q Will that discharge the current lien
18 that's on file in New Mexico?

19 A A lien has been filed because it's a dis-
20 pute for payment. It has an artificial lien; it has no basis
21 whatsoever.

22 Q And who is that dispute with, Mr. Grynberg?

23 A It's with Broom.

24 Q Broom, he's a water hauler, isn't he?

25 A That's right.

1
2 Q Is that dispute taken into consideration
3 in your tabulation of disputed monies here --

4 A Yes, it is.

5 Q -- on one of these schedules? And what
6 is the amount of that particular dispute?

7 A I believe it's --

8 Q The water hauler?

9 A The dispute is only \$15,000; the bill is
10 102, and as soon as we get credit for the 15,000 he'll get
11 paid everything in full.

12 Q Does that lien currently affect your in-
13 terest in this proration unit?

14 A I don't believe so; not at all.

15 Q I believe one of the last things you told
16 us is that perhaps Yates is one of the other active operators
17 in the Abo area right here?

18 A Yes.

19 Q And you say drilled a number of wells?

20 A Yes.

21 Q And you said you had no disputes with
22 them? I thought you had force pooled them in one of those
23 twelve forced pooling cases?

24 A They were force pooled by virtue of being
25 there; not force pooled per se but by virtue of being in a

1 unit that -- that Mike Hardy had an interest in.

2 Q Were they one of the non-consenting
3 working interest owners in that proration unit?

4 A Oh, no, no, they're consenting. As a
5 matter of fact, I turned over the operation to them once they
6 made a deal with Mike Hardy.

7 I might say we've withdrawn a number and
8 I'm about to withdraw some more for next week's hearing, be-
9 cause we've resolved them.

10 Q Have you submitted your March 12th, 1982,
11 AFE to any of the working interest owners?

12 A I believe we have submitted to everyone.
13 Ms. Hill can testify to that.

14 Q Do you have a cover letter or some docu-
15 ment of transmittal on that?

16 A Yes, I have the return receipt requested
17 right here, if you'd like a Xerox of those. We have all the
18 return receipts requested; the post office green slips, we
19 have a Xerox of those.

20 Q With regards to your revised AFE, Mr.
21 Grynberg, have you received any commitments from working in-
22 terest owners with regards to that revised AFE?

23 A I believe I testified that would be the
24 Mercury.
25

1

2

Q That would still be the Mercury?

3

A Yes.

4

Q You, as other operators in this Abo area, have in fact experienced difficulty with Abo completions, have you not?

7

A We have not.

8

Q You did not experience lost circulation in the McDermott Well?

10

A Yeah. Your question was with the completions. I think what you meant to say was the drilling.

12

Q Yes, sir.

13

A Okay, with drilling we had one experience with the McDermott Well, yes, sir.

15

Q So despite the use of the best possible methods an operator can, through no fault of his own, encounter some difficulty with the Abo?

18

A Yes.

19

Q At least in August of '81 you certainly had no objection to the competency of Mr. Fred Pool as being the operator of this Abo well, had you?

22

A In August of 1981 I did not know a number of things I know now, including the fact that Mesa contacted me and said Fred Pool was using foam fracing and they would have none of that.

25

1
2 Q Have you discussed with Mr. Pool the type
3 of drilling and completion and stimulation work he will do
4 for this well?

5 A If I can find Mr. Pool. Mr. Pool seems
6 to disappear for three days at a time being on a drilling rig
7 when there are problems. If he could sometimes be available
8 I'd be happy to talk to him. I don't get replies to my phone
9 calls from Mr. Pool so I can't discuss these things. I get
10 an answer from Mr. Klee, who's not a technical person by any
11 theory.

12 Q So at this point you're not willing to
13 voluntarily join Mr. Pool in the drilling of the well if Mr.
14 Pool is the operator?

15 A Absolutely not.

16 MR. KELLAHIN: May we have a few minutes?

17 MR. RAMEY: Ten minutes.

18

19 (Thereupon a recess was taken.)

20

21 MR. RAMEY: Any more questions, Mr. Kel-
22 lahin?

23 MR. KELLAHIN: Yes, sir.

24 Q Mr. Grynberg, let me refer to Exhibit One,
25 which is a map of the ownership.

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A Yes, sir.

Q You have a 25 percent working interest in the proposed 160-acre proration unit. Is that 25 percent interest a result of your ownership of the Federal lease in the northeast of the southwest?

A That is correct.

Q You control the working interest for that 40-acre tract?

A That is correct.

Q All right, sir. Where do you propose to locate the well?

A I propose to locate a well in the southeast of the southwest.

Q So this would be off your lease and on the lease in which Mr. Pool has an --

A That's correct.

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

MR. RAMEY: Any other questions of Mr. Grynberg? Mr. Carr?

CROSS EXAMINATION

BY MR. CARR:

Q Mr. Grynberg, I'd like to direct your

1
2 attention to Exhibit Number Five.

3 A Yes, Mr. Carr.

4 Q And on that exhibit you have outstanding
5 bills disputed, and I think Mr. Kellahin asked you certain
6 questions concerning a bill disputed with Broom for water
7 hauling.

8 A Yes, Mr. Carr.

9 Q And if I understood your testimony there
10 was also one additional dispute --

11 A Yes, there is.

12 Q -- is that correct?

13 A That's with Stewart Brothers Drilling
14 Company.

15 Q Right, and --

16 A Stewart Brothers Drilling Company, who no
17 longer work for me. It had to deal with continuous breaking
18 of drill pipe which in our opinion was total negligence and
19 we simply would not pay for the day work; it had to do with a
20 number of wells.

21 Q I believe a month ago you testified there
22 were two disputed bills. At that time you were talking about
23 the same two, weren't you?

24 A Yes, Mr. Carr.

25 Q Has any litigation or anything been the

1
2 result of the Stewart problem? Or the Broom?

3 A No. As a matter of fact, I got a letter
4 off to Mr. Broom day before yesterday saying my fiscal year
5 expires on May 1 and I'd like to resolve it and pay him so I
6 can have the deduction.

7 Q Now, I'd like to look for a moment at
8 Exhibit Four-A just to be sure that this isn't misleading.

9 A Yes, sir.

10 Q On the McDermott Well you had a total ac-
11 tual cost of \$288,533.07.

12 A Yes, and I wanted to be absolutely sure,
13 Mr. Carr, that is not misleading and that's why the footnote
14 as well as an asterisk at the bottom, but I guess it doesn't --
15 oh, yes, it does say where it's to, is put in. We don't have
16 all the rest of the bills yet.

17 Q You did have an AFE for \$368+?

18 A And a supplemental AFE, that's correct.

19 Q And the reason for the supplemental, you
20 would have exceeded the \$368+?

21 A Yes, that's what we thought we did. I
22 can still not tell you until I get all the bills.

23 Q But the additional was a result of the
24 20-day delay due to the lost circulation.

25 A Continuous lost circulation, Mr. Carr.

1
2 Q Had you been drilling with air, not mud,
3 you wouldn't have lost circulation, is that correct?

4 A That's not necessarily correct. It's --
5 well, let's put it this way.

6 Yes, but at some point you'd have to go
7 in and set your surface pipe and -- and -- but it's my under-
8 standing that Mesa is now drilling with mud. They've adopted
9 my proposal and they're no longer drilling with air. That's
10 what I hear.

11 Q But you lost circulation; that means you
12 lost the drilling mud, is that correct?

13 A Yes, I did. Yes, I did.

14 Q So any system has its problems.

15 A Any system has its problems.

16 Q Now, would the operator of the proposed
17 well be Jack Grynberg and Associates? Is that -- is that
18 correct?

19 A Or Jack J. Grynberg, the same thing, yes.

20 Q Same thing?

21 A Yes.

22 Q Who are the associates?

23 A My wife, of 22 years.

24 Q Do you believe she would join in this?

25 A The last I heard she would.

1
2 Q Now I believe you filed approximately
3 twelve additional pooling applications.

4 A Yes.

5 Q Including several involving Mesa.

6 A Yes.

7 Q Did you enter into any negotiations with
8 Mesa prior to filing those applications?

9 A Yes, we tried. I believe we tried. As
10 you can see, we have thirty people in my office. I can't
11 handle everything. I try and stick with the major decisions,
12 like what's happening to the Falkland Islands and a few other
13 things.

14 Q Did you attempt to deal with each of
15 these other individuals prior to and continue to obtain joinder
16 prior to filing --

17 A My office did.

18 Q -- these applications?

19 A Yes, my office did. Mr. Carr, since you
20 asked an appropriate question, when you deal with an individual
21 for -- I'm sorry, twelve different times for about a four or
22 five month period, and in the final telephone call trying to
23 urge him, when you put a person-to-person call to Mike Harvey
24 and the guy picks up the phone and says, "I'm not here," and
25 hangs up, that's the time to file for forced pooling.

1
2 MR. CARR: I don't have any further ques-
3 tions. I believe Mr. James has a question.

4 MR. RAMEY: Mr. James?

5
6 CROSS EXAMINATION

7 BY MR. JAMES:

8 Q Mr. Grynberg, you tell us that you operate
9 in a number of areas throughout the United States.

10 A Yes, I do.

11 Q Do you have at this time or in the recent
12 past, have you had other liens filed on those operations or
13 other litigation involving those operations?

14 A Very few. I'm sure that over a 20-some
15 year period there have been some, but very few.

16 Q Do you have any at the current time in
17 those operations?

18 A I think so, yes.

19 Q Could you be a little more specific about
20 those types of liens?

21 A Well, I don't know if it's a question of
22 liens. Texas Oil and Gas moved on a lease of mine and drilled
23 a beautiful gas well and I'm claiming that I own it, and the
24 law says I do, so that's litigation.

25 Q What other litigation?

1
2 A I don't recall, there are probably some
3 others.

4 Q Do you recall other liens for unpaid debts?

5 A I'm sorry, I don't recall. I'm sure there
6 were probably some at one time.

7 MR. JAMES: That's all.

8 A That's the first time in my life I don't
9 owe any money to banks and have cash in the bank, so in the
10 past there probably was some dispute and a lien probably would
11 have been filed. I just don't recall.

12 And there might have been none.

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

15 A Thank you.

16 MR. RAMEY: Anything further, Mr. Gallegos?

17 MR. GALLEGOS: Nothing further, Mr. Chair-
18 man, on behalf of the applicant.

19 MR. RAMEY: Mr. Kellahin, are you ready
20 to proceed?

21 MR. KELLAHIN: Mr. Ramey, we're ready to
22 proceed with Mr. Pool's witnesses on his request to be oper-
23 ator of the same proration unit.

24 We call Mr. John Klee.
25

JOHN KLEE

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Klee, for purposes of the record, would
you please state your name and occupation?

A Yes, sir, my name is John Klee and I am
a petroleum landman with Fred Pool Drilling Company.

Q You're going to have to shout at us a
little bit --

A All right.

Q -- because your voice is soft and we can't
hear you.

A All right. My name is John Klee. I'm a
petroleum landman with Mr. Fred Pool Drilling Company.

Q What has been your educational background,
Mr. Klee, insofar as is directed to petroleum landman?

A I've attended numerous petroleum land
courses. For background I've been with Mr. Pool for two and
a half years, approximately, and have been well educated by
my employer.

1
2 Q Do you hold any graduate degrees of any
3 kind?

4 A Yes, sir, I have an Arts and Sciences
5 degree from the University of New Mexico.

6 Q What are your principal duties with Mr.
7 Pool?

8 A Principal duties would entail preparation
9 of operating agreements, APF's, mostly handling the land de-
10 partment itself, paying of royalties.

11 Q Have you had dealings with Mr. Grynberg
12 or members of his firm and association with regards to this
13 proposed proration unit in the southwest quarter of Section
14 17?

15 A Yes, sir, we have.

16 Q Are you familiar with the working interest
17 ownership for that 160-acre proration unit?

18 A Yes, sir, I am.

19 Q And have you been involved with -- on Mr.
20 Pool's behalf with regards to his interests in other wells
21 that Mr. Grynberg is operating currently?

22 A Yes, sir, I'm well familiar, very familiar
23 with these other wells in which we have a working interest.

24 MR. KELLAHIN: If the Commission please,
25 we tender Mr. Klee as an expert petroleum landman.

1
2 MR. RAMEY: He is considered qualified.

3 MR. GALLEGOS: Well, please --

4 MR. RAMEY: Okay, I'm sorry.

5 MR. GALLEGOS: I'm not -- if we have an
6 objection I think we're going to have to go on a question by
7 question basis, Mr. Chairman. I'm not sure I know what an
8 expert petroleum landman is, and if the Chair could reserve
9 rulings as to individual questions until we see what expertise
10 is called for. May we have that rather than some blanket
11 ruling in this gentleman's case?

12 MR. RAMEY: All right, we'll try it.

13 MR. GALLEGOS: Thank you.

14 Q Mr. Klee, do you have an exhibit that
15 shows the subject proration unit?

16 A Yes, sir, I do.

17 Q May I have those, please?

18 Mr. Klee, would you identify for us the
19 proration unit that's outlined on your exhibit?

20 A Yes, sir, this proration unit is 160-acre
21 standard proration unit for an Abo well. It is located in
22 Township 6 South, 25 East, Section 17, southwest quarter.

23 The ownership is as follows.

24 Q Just a minute, before you tell us about
25 that, let me show you what's been introduced as Mr. Grynberg's

1
2 Exhibit Number Two, which is a tabulation of his understanding
3 of the percentage working interest owners for the proration
4 unit. Would you review that for a moment?

5 A Would you like me to read it, sir?

6 Q No, sir. In reviewing that exhibit, Mr.
7 Klee, do those percentages agree or disagree with your under-
8 standing of the percentages of working interest division
9 among the proration unit?

10 A Yes, sir, the percentages set forth agree
11 with what we -- is our understanding.

12 Q Would you identify for us how the working
13 interest percentages are apportioned among the 160-acre pro-
14 ration unit in the southwest quarter of 17?

15 A Okay, the northeast of the southwest is
16 owned by Mr. Jack Grynberg, 25 percent, I believe it's a
17 Federal lease.

18 The northwest of the southwest is a joint
19 ownership with Mesa and Corona Oil -- I'm sorry, MTS, Limited.

20 Q What is your understanding of the owner-
21 ship of MTS Limited Partnership?

22 A My understanding is that Mesa Petroleum
23 has operator status, or is doing the work in this area, for
24 the partnership.

25 Q The -- that is the northwest of the -- 40

1
2 acres --

3 A Yes, sir.

4 Q -- of the proration unit is divided between
5 Corona and MTS?

6 A Yes, sir.

7 Q All right, sir, and how is -- what's the
8 ownership history with regards to the south half of the pro-
9 ration unit?

10 A Okay, the south half is a fee lease ac-
11 quired by Fred Pool Drilling Company. He has then taken on
12 working interest partners in order to facilitate drilling
13 this acreage.

14 Q All right, sir, the balance, then, of the
15 working interest owners on Mr. Grynberg's tabulation, excluding
16 himself, MTS and Corona, would be the 50 percent then for the
17 south half proration unit?

18 A Yes, sir.

19 Q All right. What, if any, involvement did
20 you have, Mr. Klee, with the first proposed AFE that Mr.
21 Grynberg submitted to Mr. Pool in December of 1981?

22 A The first AFE was received by our office.
23 At this time we were under an understanding with Mr. Grynberg
24 that whoever had control of majority acreage -- majority in-
25 terest in a set proration unit would be the designated operator.

1
2 This was done on an acreage basis; whoever controlled the
3 acreage at this time on a majority basis would be the operator
4 and the other parties would join.

5 We received this AFE. A number of our
6 working interest partners called us in reference to this and
7 at that time we were still under the understanding, as I just
8 set forth, that the majority owner would -- would operate.

9 Q And who was the majority owner?

10 MR. GALLEGOS: Objection to that. That
11 is not a matter of opinion and it's yet to be sworn exactly
12 what these ownership interests are, other than what is shown
13 by Exhibit Number Two.

14 Q Mr. Klee, my question is what is your
15 understanding of the majority owner for that proration unit?

16 A Our understanding is that we would con-
17 trol 62.5 percent at this point. Corona Oil has elected at
18 this point to wait for a decision on this case and they have
19 said that they will join whoever the winner may be.

20 Q With regards to your March, 1982, AFE,
21 have you circulated that AFE among the working interest owners?

22 A Yes, sir, it has been circulated.

23 Q And what, if any, results have you received
24 from the working interest owners?

25 A I have received signed letters of joinder,

1
2 joining Fred Pool Drilling Company on the drilling of this
3 well, as well as signed AFE's, which I have with me today.

4 Q All right, sir, and they would be from
5 which working interest owners for this proration unit, Mr.
6 Klee?

7 A Okay. From Mesa Petroleum we have a letter
8 of joinder upon a mutual agreement of an operating agreement,
9 which we have submitted for their approval; Mercury Explora-
10 tion has signed an AFE, as well as a letter of joinder; Plains
11 Radio Broadcasting has signed a letter of AFE and a letter of
12 joinder; Jack Cargill has signed; James Lusk has signed; Kent
13 McMillan has signed; TexMex Drilling Company has signed; and
14 of course, Fred Pool Operating Company.

15 Q Am I correct in understanding that except
16 for Corona, Mr. Grynberg, the other working interest owners
17 have returned you an executed AFE?

18 A This is true.

19 Q May we have --

20 A Yes, sir.

21 Q -- a copy of those?

22 Mr. Klee, I show you what I've marked
23 as Exhibit Number Three on behalf of Mr. Pool, and ask you if
24 you can identify that document?

25 A Yes, sir, this is an AFE sent out by Fred

1
2 Pool Drilling Company on the proposed well in the southwest
3 quarter of Section 17, 6, 25.

4 Q What is attached to the AFE, Mr. Klee?

5 A Attached to the AFE are signature pages,
6 showing the interest, working interest, for parties concerned.

7 It might be noted that the first AFE was
8 sent out. Mesa Petroleum then informed us of the fact that
9 Corona Oil had a working interest, also.

10 Q All right, sir, let me show you what I've
11 marked as Exhibit Number Four and have you identify that.

12 A Yes, sir. These are -- the first one is
13 a letter from Mesa Petroleum advising us that they will accept
14 Fred Pool Drilling Company as the operator of this well.

15 We also have letters of joinder from Mer-
16 cury Exploration, Plains Radio, Jack Cargill, James Lusk,
17 Kent McMillan, and TexMex Drilling.

18 Q Mr. Klee, when did you first become aware
19 that Mr. Grynberg was seeking a compulsory pooling hearing
20 before the Oil Conservation Division?

21 A The first time I was aware of it was when
22 it appeared in the Roswell paper.

23 Q What are the reasons, as far as you under-
24 stand them, that Fred Pool Drilling Company has not elected
25 to participate with Mr. Grynberg so that Mr. Grynberg can be

1
2 the operator of the proration unit?

3 A Okay, as I stated earlier, we -- we felt
4 we had an agreement between the -- Mr. Grynberg and ourselves
5 to where the majority acreage owner would operate any wells in
6 which we had an interest in along with Mr. Grynberg.

7 Upon receipt of his first AFE, it was not
8 known at this time Mr. Grynberg's financial situation, as has
9 been stated earlier, and our working interest partners expressed
10 this feeling to us, and also expressed that they were not at
11 this time willing to join Mr. Grynberg and wished me to request
12 for us to operate the well, also.

13 We -- during the interim period of these
14 AFE's, we sent out and returned to Mr. Grynberg sending his
15 out, we also noted the fact that a number of Oil Commission
16 reports sent in by Mr. Grynberg, such as sundry notices, were
17 sent in, and we have joint interest in a couple of wells with
18 Mr. Grynberg and which he operates. We were under the assump-
19 tion by way of signing AFE's with Mr. Grynberg that he was the
20 operator. We then noticed at the Oil Commission in Artesia
21 that Mr. Grynberg was sending in sundry notices under the name
22 of Viking Petroleum, as well as his NGPA tight sand formation
23 pricing applications were being submitted by Mr. Grynberg
24 under the name of Viking Petroleum.

25 At this time it was very confusing as to

1
2 who really was operating the lands that we had signed an
3 operating agreement with Mr. Grynberg, where he represented
4 that he was the operator, and in fact Viking Petroleum was the
5 record operator with the Oil Conservation Commission.

6 Q Let me ask you some questions about those
7 wells in which you have a working interest ownership operated
8 by Mr. Grynberg. And in that regard I'm going to show you
9 what he's introduced as his Exhibit Number Six, Mr. Klee.

10 Are you familiar with the arrangement with
11 Mr. Grynberg with regards to those wells?

12 A Yes, sir, I am.

13 Q I believe you were present when Mr. Gryn-
14 berg made his direct statement with regards to payment diffi-
15 culties he was experiencing with Mr. Pool concerning the pay-
16 ment for expenditures on wells he operated. Did you hear that
17 discussion?

18 A Yes, sir, I did.

19 Q What, if any, response do you have?

20 A Our -- ourselves, as well as our partners,
21 are very conscientious of costs, as well. We requested upon
22 Mr. Grynberg -- his requesting prepayment on all these wells
23 from us, which we have done. We requested in December, January,
24 February, March, April, some type of billing statement by Mr.
25 Grynberg to show that he was paying these bills, as well as

1
2 a billing statement to show which portion of these bills could
3 be tangible, intangible. We had no -- no response whatsoever
4 other than "I can't get to it until some time in July."

5 So we had no idea at this time whether
6 these bills were being paid that we were paying for. We felt
7 that we submitted a significant amount of money to the opera-
8 tions of these wells and we felt at this time it was -- we were
9 able to request some type of ledger sheet, something showing
10 where this money was going to and were these bills in fact
11 being paid, and of course we've already discussed the lien
12 down in Chaves County of Broom Transportation, which made us
13 wonder even more were the bills that we were supposedly paying
14 through Mr. Grynberg actually being paid.

15 Q Now with regards to Mr. Pool's proposed
16 operation of the proration unit in question, Mr. Klee, have
17 you prepared and circulated a proposed operating agreement?

18 A Yes, sir, we have.

19 Q Is that operating agreement one that fol-
20 lows a form generally used by operators in the Abo formation?

21 A Yes, sir, I would -- I would say so.
22 Mesa Petroleum is using it. Yates Petroleum is using it.
23 It's a standard Form AAPL 610, which I believe is very common
24 in the area.

25 Q All right, sir. Do you have a copy of the

1

2 proposed operating agreement that you have used for this
3 proration unit?

4

A Yes, sir, I do.

5

Q Now, Mr. Klee, with regards to the pro-
6 posed operating agreement used by Mr. Pool, have you caused
7 to be appended to that the COPAS exhibit with regards to the
8 accounting for the operation of the well?

9

A Yes, sir, we have.

10

Q And with regards to that exhibit, Mr.
11 Klee, have you inserted your proposals with regards to the
12 overhead charges while drilling and while producing?

13

A Yes, sir, we have.

14

Q And what are your recommendations to the
15 Commission with regards to those charges?

16

A Our drilling well rate is at \$3000 while
17 the drilling rig is -- is commencing operations.

18

Our producing well rate is \$300.

19

Q I show you Mr. Grynberg's operating --
20 proposed operating agreement. Have you had an opportunity
21 to review that?

22

A Yes, sir, we have.

23

Q And how do your proposed overhead charges
24 compare to his?

25

A We are significantly lower.

1

2

Q And what are his proposed charges?

3

A \$3700 and \$370, respectively.

4

Q Based upon your experience with operating

5

agreements in the Abo formation, Mr. Klee, is the proposed

6

overhead charges that you request reasonable with those charged

7

by other operators in the area?

8

A Yes, sir, we feel they're very reasonable

9

if not lower. This is one of the points which ourselves and

10

partners brought out, that Mr. Grynberg's rate was -- was

11

higher, and we asked that question.

12

Q In summary, then, Mr. Klee, would you arti-

13

culate for us the reasons, as you understand them, that Mr.

14

Pool desires to be designated the operator as opposed to Mr.

15

Grynberg?

16

A Yes, sir. Based on the evidence that we've

17

set forth, with the majority, 62.5 percent, working interest

18

owners committed to Mr. Pool, we feel that this a strong enough

19

position to take, that we are taking this responsibility for

20

these other parties on our behalf, which we have AFE's and

21

letters of joinder to back us up, and we are willing to take

22

on this operation right now on their behalf, as well as our-

23

selves.

24

Q What other Abo wells does Mr. Pool operate

25

in this area?

1
2 A With the Commission's approval, Sonny has
3 a list of those. I don't have any.

4 Q I'll ask another witness.

5 A Okay.

6 Q Then, if you don't recall what the property
7 is.

8 A That would be fine. I can name them. I
9 can name a good number of them.

10 In 5, 24, now these are the ones that we
11 are operating in this area. 5, 24, Section 24, in the south
12 half we have the Corn 1 Well, the Corn 2 Well.

13 In 6, 25, we are operating the Corn Brothers,
14 Inc. Well.

15 In 6, 24, we are operating the Grynberg
16 Federal Well, which is the Abo and Penn test.

17 We are operating. I believe, in 7, 25, the
18 Red Bluff, the Macho, the -- up in 5, 24. Section 33, we have
19 two wells up there which we're operating and on line.

20 I could keep going or --

21 Q Where is Mr. Pool's business of operation?

22 A We have a facility located just north of
23 Roswell, approximately one mile north of the city limits. We
24 have a 4-1/2, 5 acre lot there, which we can store pipe and
25 various other things that we would need for drilling. We

1
2 have -- we have our own trucks that we feel we can save a
3 little trucking cost. We are in Roswell; we are local. Mr.
4 Pool is -- is right there. We are right there, and this is
5 why I feel we can keep our overhead rate down at this time.

6 Q All right, sir. Is there anything else
7 that -- I believe we've covered all the points that I had in
8 mind, Mr. Klee.

9 Let me ask you this, sir. Were Exhibits
10 One through Five, I believe it is, prepared or compiled under
11 your supervision and direction, Mr. Klee?

12 A Yes, sir.

13 MR. KELLAHIN: We move the introduction
14 of Exhibits Two through Five.

15 MR. GALLEGOS: We have an objection to
16 Exhibit Number Two and we'd like to ask that ruling be reserved
17 pending cross examination on that.

18 MR. RAMEY: On Exhibit Two?

19 MR. GALLEGOS: This map.

20 MR. RAMEY: The ownership map?

21 MR. GALLEGOS: Okay, I'll accept Exhibits
22 Three, Four, and Five at this point.

23 Any questions of the witness?

24 MR. GALLEGOS: Yes, sir.

25 MR. RAMEY: Mr. Gallegos.

CROSS EXAMINATION

BY MR. GALLEGOS:

Q Mr. Klee, you referred to an Arts and Science degree. Would you explain, is that a Bachelor's degree?

A Yes, sir.

Q And that was conferred on you from the University of New Mexico?

A Yes, sir, in Albuquerque.

Q What was the principal subject matter of study?

A The subject would be English.

Q When did you graduate?

A 1972.

Q What was your next prior employment to when you went to work for Fred Pool Drilling?

A Prior to when I went to work for Mr. Pool?

Q Yes.

A I was in Dallas, Texas, running a retail store, Manager.

Q And can you tell us the month and the year

1
2 when you went to work for Fred Pool?

3 A Yes, sir, it was February 15th of 1980.

4 Q What was your job when you started out
5 with that company?

6 A When I went with Mr. Pool I immediately
7 went into the land department and prepared all land dealings
8 with the supervision of Mr. Pool.

9 Q I understand that sometime in the fairly
10 recent past you spent some time in Denver at Mr. Grynberg's
11 place of business so that you could have some training in the
12 reading of operating agreements, is that correct?

13 A No, sir, this is not correct.

14 Q Did you spend some time there undergoing
15 some sort of orientation, familiarization?

16 A No, sir, this is not correct.

17 Q Do you have any training?

18 A Yes, sir, I do. I've Vice President of
19 the New Mexico Landman's Association.

20 Q I didn't ask that. I asked if you had
21 any training in that field?

22 A Yes, sir, I've gone to numerous IED schools
23 on petroleum land courses.

24 Q Can you give us an idea of, when you came
25 into the company in February, 1980, who was in the land de-

1
2 department?

3 A At that time?

4 Q Who were the other personnel?

5 A Yes, sir. We were using -- Mr. Pool was
6 doing most of the land negotiations. At that time I believe
7 we were also using numerous landmen throughout Roswell.

8 Q When you say "numerous landmen" you're
9 referring to people who are not employees of Fred Pool Drilling
10 Company.

11 A Yes, sir, this is true.

12 Q And so the landman was Fred Pool, as well
13 as doing other capacities, performing other duties in the
14 company?

15 A At that time, yes.

16 Q And then from time to time he used brokers,
17 outside lease brokers.

18 A I don't believe I could term them brokers,
19 but that's --

20 Q Some people term them brokers, is that
21 correct?

22 A Some people do, yes, sir.

23 Q All right. Let's take a look at this
24 Exhibit Two, Mr. Klee, and your repeated testimony that Fred
25 Pool controls 62.5 percent of the working interest ownership.

1
2 Now to begin with, there is no question
3 that 37.5 percent is not in any way committed or signed up
4 to Fred Pool Drilling Company. That's the Grynberg and the
5 Corona interest, correct?

6 A Yes, that's true.

7 Q All right. Then another 12-1/2 percent
8 is the interest in the name of MTS Limited Partnership.

9 MR. JAMES: Mr. Commissioner, I'll object
10 to that. We're here today representing Mesa Petroleum Company
11 and made that clear.

12 MTS Partnership has no ownership interest
13 in this property. Mesa Petroleum Co. owns 12.5 percent.

14 Q Well, wasn't it your testimony that there
15 was a 12-1/2 percent MTS interest and you proceeded to say
16 that you knew something about the ownership of MTS?

17 A No, sir, I did not say I knew of the owner-
18 ship. I knew that Mesa had a -- had the controlling word in
19 this ownership. I did not go into the MTS itself as a partner-
20 ship, because I am not --

21 Q Well, do you know whether or not from the
22 examination of land title records, or any other source, in
23 what ownership the 12-1/2 percent interest is held that we're
24 discussing?

25 A At this time abstracts have been ordered

1
2 for development purposes of the acreage, and at that time it
3 will be known exactly who has what of this proration unit.

4 Q So your answer to my question is you do
5 not know the answer to --

6 A Yes, sir, we do. We have contacted Mr.
7 Mark Hannifin with Mesa Petroleum, who is, I believe, their
8 Senior Landman in Midland, and he has informed us of the fact
9 that they do have the 12-1/2 percent working interest in this
10 unit, and I believe we have a letter -- I'm not sure exactly
11 the exhibit number, but we do have a letter of joinder from
12 Mr. Hannifin with Mesa Petroleum illustrating this.

13 Q On your direct testimony by your counsel
14 you refer to Exhibit Number Two and see if that comported with
15 your understanding of the line-up of working interest owners,
16 did you not confirm that that did reflect what you understood
17 to be that ownership? Exhibit Number Two.

18 A Yes, Yes, sir.

19 Q Now do I understand that there is some
20 question as to the ownership of that 12-1/2 percent interest
21 that is shown on Exhibit Number Two as being in the name of
22 MTS, you're ordering an abstract, and by word of mouth you have
23 been told by Mesa Petroleum Company that it is the owner of
24 the interest?

25 A No, sir, as of --

1
2 Q Is that the state of the matter?

3 A As I stated, no, sir, as I stated moments
4 ago, it's not by word of mouth. It is by word of -- by letter.

5 Q Well, are you referring to Exhibit Number
6 Four?

7 A Yes, sir.

8 Q One sentence letter?

9 A I had not added up the sentence, no, sir.

10 Q Well, Mr. -- Mr. Hannifin's letter.

11 A Yes, sir, I'm referring to that.

12 Q Will you point out to us where in that
13 letter it explains the ownership issue that I'm asking you
14 about?

15 A We have also sent --

16 MR. KELLAHIN: I object to this line of
17 questioning, Mr. Ramsey, I think it's pointless. The original
18 exhibit came from Mr. Grynberg and all we've asked the witness
19 to do is to describe what fractional interests are displayed
20 where.

21 Masa representative is here and he says
22 they own it. I don't know why we're spending all this time
23 discussing it.

24 MR. GALLEGOS: Well, we have an assertion
25 of a sign-up for participation and we've been told that MTS

1
2 was the owner by the witness, and now we have a letter from
3 Mesa and that's what we're pursuing.

4 MR. RAMEY: I'm going to accept the ques-
5 tion. I think your point is well taken, Mr. Kellahin. Mesa
6 is here and say they own a 12-1/2 percent interest, so maybe
7 that will be good enough.

8 MR. GALLEGOS: I think the objection is
9 overruled and the question is pending?

10 MR. RAMEY: Yes. Would you repeat the
11 question, please?

12 Q You referred to the letter providing in-
13 formation by way of an exhibit as to Mesa's ownership interest.
14 I'm simply asking Mr. Klee how -- what portion of that letter
15 you interpret as providing that fact?

16 A The way I would answer that question, sir,
17 is that Mr. Hannifin has informed me of the fact that they
18 do own 12-1/2 percent of this unit.

19 Q Thank you.

20 MR. RAMEY: Was that Mesa or MTS?

21 A That was Mesa, sir.

22 Q Has he also informed you if that owner-
23 ship is something that has occurred recently as a result of
24 some transfer of ownership from MTS to Mesa?

25 A No, sir.

1
2 Q The letter from Mr. Hannifin is Exhibit
3 Four, dated March 26, 1982, refers to your letter of January
4 28th, 1982. What was the subject matter of your letter?

5 A My letter was an exact duplicate of the
6 letter which you'll find on the following page, which indicates
7 Fred Pool proposing the drilling of this well.

8 Q And that letter called for a signature by
9 the solicited working interest party to sign and return the
10 letter if they were in agreement, in the same manner as the
11 letters attached, did it not?

12 A Yes, sir, the request was made.

13 Q All right, and Mesa did not return your
14 letter requesting agreement by signature, isn't that true?

15 A No, sir, they submitted their own letter.

16 Q And in their own letter they have said
17 that the question of their joinder is "subject to mutually
18 agreeable operating agreement."

19 A Yes, sir, this is true.

20 Q All right. Have there been negotiations
21 underway between Mesa and Fred Pool as to terms of a mutually
22 agreeable operating agreement?

23 A Yes, sir, there have.

24 Q And no agreement has been achieved as of
25 this date, isn't that true?

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A That is not true, sir. We are agreeable at this point. We are circulating the new operating agreements at this time.

Q Well, does that mean that Exhibit Number Five dated March 3, 1982, is not exemplary of the operating agreement that you intend to use if you are designated as operator of this well?

A We intend to use that, yes, sir.

Q Well, if you negotiate something different than this is --

A We have not negotiated anything different. I did not say that.

Q Well, what are you saying is the status of the negotiations of an operating agreement between Mesa and Fred Pool? What is the status of that matter?

A I would say the status of that is that we have come to terms on certain language within the operating agreement which they would like to be used as standard language and we have accepted this and we are attaching exhibits to that original operating agreement to be sent out to the partners for their approval.

Q But those terms which you negotiated would change or modify the terms reflected by Exhibit Number Five, isn't that true?

1
2 A Not substantially, no, sir.
3 Q Well, without your qualification of how
4 substantial it is, the fact is it would change the agreement,
5 correct?
6 A Yes, sir.
7 Q Do you have those in written form?
8 A No, sir, I do not have them with me at
9 this time.
10 Q Do they exist --
11 A Yes, sir, they do.
12 Q -- in written form?
13 A Yes, sir, they do.
14 Q By that I mean as opposed to your just
15 having some conversation --
16 A Yes, sir.
17 Q There are -- there are writings that re-
18 flect amendments or addendums to the operating agreement,
19 correct?
20 A Yes, sir.
21 Q And those are submitted to Mesa and pending
22 Mesa's acceptance as of today?
23 A Yes, sir.
24 Q If accepted by Mesa, then it will be ne-
25 cessary for you, will it not, to submit those to the other

1
2 working interest owners to see whether or not they, or some
3 of them, accept those amendments to the proposed operating
4 agreement.

5 A Yes, sir.

6 Q Do your fellow representatives of Fred
7 Pool, to your knowledge, have available with them here today
8 something in writing that will reflect the amendments or ad-
9 dendums achieved by the negotiation -- I shouldn't say achieved,
10 but the negotiations with Mesa?

11 A To my direct knowledge, no, sir.

12 Q When were those prepared, Mr. Klee?

13 A After receipt of our original operating
14 agreement by Mesa.

15 Q Well, can you give us a date? Was it yes-
16 terday?

17 A No, sir, it would have been a good month
18 ago.

19 Q And they were prepared by Fred Pool or
20 they were prepared by someone else?

21 A They were prepared by Mesa, as additions
22 or deletions.

23 Q Well, so then the state of the facts is
24 that they are actually submitted to Fred Pool then, for Fred
25 Pool's concurrence or rejection, isn't that correct?

1
2 A No, sir, it is a mutual agreement being
3 worked out between Mesa Petroleum and ourselves.

4 Q Well, let me see if we understand, then.
5 The terms of these amendments were originated by Mesa in the
6 sense of putting them down in writing, but it is still an open
7 question if Mesa will sign agreement to them, is that what
8 you're telling us?

9 A Yes, sir.

10 Q Have any of these terms been circulated
11 for consideration by the other working interest owners who
12 have previously signed your AFE?

13 A No, sir, not at this time.

14 Q You started naming various wells where
15 Fred Pool is the operator. Could you just give us the number
16 of Abo wells in the Pecos Slope area where Fred Pool is the
17 operator?

18 A No, sir, not right at this moment, no.

19 Q Is it true that if Fred Pool Drilling Com-
20 pany is designated the operator of this particular well that
21 TexMex Drilling will be the driller?

22 A No, sir, it is not true.

23 Q Has your company used TexMex as a driller?

24 A Yes, sir, we have.

25 Q How recently?

1
2 A Sir, I believe you're asking the land
3 department something you need to ask the engineering department.

4 Q You don't know the answer?

5 A I could not give you a specific date, no,
6 sir.

7 Q The AFE that's reflected as Exhibit Number
8 Three, which you sponsored to show the participation of various
9 working interest holders, does tell those working interest
10 owners that the drilling contract will be TexMex Drilling,
11 does it not?

12 A Yes, sir.

13 Q This is the one that was made in March of
14 1982?

15 A Yes, sir.

16 Q Fred Pool Drilling Company has changed
17 its mind about the drilling contractor?

18 A Sir, no contract negotiations have been
19 undertaken with TexMex to drill this proposed well.

20 Q So you simply put TexMex as the drilling
21 contractor in this AFE without any negotiation with that con-
22 tractor?

23 A Not -- they are a well respected drilling
24 company in the area and we have used them in the past. Thus
25 there is the possibility we'll use them in the future.

1
2 Again, that is not the land department's
3 decision.

4 Q Well, are you telling me that Fred Pool
5 Drilling Company will make a representation to working interest
6 owners as to the cost of drilling, what would be charged by
7 a drilling contractor, without ever having made the contact
8 with the contractor to see that that would be the charge on
9 a given well?

10 A Sir, as pointed out before, these are --
11 our AFE's are estimates of the cost. This is the going rate
12 at the time this AFE was prepared, for drilling.

13 Costs change. I'm not saying that.

14 Q Are you telling the Commission that it can
15 understand that TexMex Drilling would not be used on this well
16 if your company is the operator?

17 A I'm not saying it would not, no, sir.

18 Q Is it a fact that TexMex Drilling is in-
19 debted to Fred Pool Drilling Company?

20 A I believe that question would have to be
21 asked of Mr. Pool, President of this company.

22 Q Well, what is your understanding of that
23 fact, Mr. Klee? Certainly you have some knowledge of that.

24 A Mr. Pool carried on all negotiations with
25 them in regards to that transaction.

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Q Would you like to answer my question now, please, what is your understanding of that?

A Again, I have -- that was not in my department and I have no --

Q Is that your answer?

A Yes, sir.

Q You're going to use some sort of company or affiliated trucker in connection with the proposed drilling of this well by your company?

A No, sir.

Q Well, would you explain what your reference was to economy that you could achieve?

A I was merely stating the convenience of our location in Roswell, and Mr. Grynberg's location being that of Denver.

Q Well, your testimony referred to the utilization of trucking services, at the end of your direct examination. That's what I was inquiring about. Who do you intend to use?

A We, again, sir, you're asking the land department something they don't handle. They don't set up trucking services.

I'm merely pointing out that our yard is

a convenient location for this particular area.

1
2 Q Well, you don't -- you don't expect, do
3 you, that the drill rig to be used by -- to be used by Gryn-
4 berg and Associates is located anywhere but in the -- in the
5 same vicinity as the well to be drilled, do you?

6 A Would you repeat that, please?

7 Q Were you trying to suggest that the -- that
8 the -- that the drilling equipment and the drill rig to be
9 used by Grynberg was going to have to come from Denver, or
10 some remote location?

11 A No, sir, I'm referring to the operations
12 aspect; not to the equipment itself.

13 Q I took a note on your testimony in which
14 you said that, as you went down through the list of -- of all
15 these people who have -- constitute 62.5 percent, that all of
16 them have signed and returned an AFE.

17 Just so that the record is clear, Mr. Klee,
18 first of all, the AFE you would be referring to would be Ex-
19 hibit Number Three that we've already talked about, correct?

20 A I'm not sure of the number on the exhibit.

21 It's dated March 8, 1962.

22 A Yes, sir.

23 Q You will acknowledge, will you not, sir,
24 that this paper does not show either MTS or Mesa has signed
25 and returned such an instrument.

1

2

A Yes, sir, I will acknowledge that.

3

Q While you're not able to give us the

4

number of Abo wells in the Pecos Slope operated by Fred Pool

5

Drilling Company, can you help us by telling us how many wells

6

of that character there are in which your company holds a

7

working interest?

8

A I could do some serious adding, sir, but

9

it would take a little while. We have a significant interest

10

in the Abo play.

11

Q Would you identify for the Commission the

12

technical people employed by Fred Pool Drilling Company, if

13

there are any? By that I mean geologist, reservoir engineer,

14

people of that category?

15

A Yes, sir, I believe Mr. Kellahin is going

16

to call a number of witnesses which can give their qualifi-

17

cations at that time. I can name them. There's Fred Pool, III,

18

who is a petroleum engineer, a graduate of Socorro. I could

19

not give you his total educational background. I believe he

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can give that to you when he takes the witness stand, and Mr.

21

Fred Pool, and I really don't know where I could start on his

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expertise in the drilling of oil and gas wells. It's a long

23

history of drilling wells in southeast New Mexico as well as

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Texas, and again, if he is called, I would prefer him give

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his qualifications.

1
2 Q I'm not asking you to go through that.

3 A Okay.

4 Q I'm just asking you to identify --

5 A All right.

6 Q -- people of that category --

7 A Fred Pool III and Fred Pool, Junior.

8 MR. GALLEGOS: That's all the questions

9 I have. Thank you.

10 Excuse me, I have one more.

11 A Yes, sir.

12 Q If by order of this Commission Fred Pool
13 Drilling Company is designated the operator, when will drilling
14 of the well be commenced, Mr. Klee?

15 A I hate to be evasive with your questions,
16 sir, but again this is the decision of the president of this
17 company, which is Mr. Fred Pool, and I think he would be better
18 qualified to answer that question.

19 Q He hasn't entrusted you with his decision
20 to let you know as a landman?

21 A Upon the recommendation of this Commission,
22 I'm sure that a decision will be made for sure, although I
23 believe he has a pretty good idea when he's going to start
24 it, although I do not know specifically the date, no, sir.

25 Q Well, you just said a decision will be

1
2 made. You mean that as of this time Fred Pool Drilling Com-
3 pany has no decision as to when it will start drilling the
4 well?

5 A That's not what I'm saying. What I'm
6 saying, sir, is that depending on the time frame of the deci-
7 sion handed down by this Commission, if it takes two days or
8 it takes thirty days, if it takes thirty days we, of course,
9 cannot start a well in the interim period.

10 Q Well, forget about how long it takes the
11 Commission order to come down. What I'm asking you, what
12 is the plan, what is the business plan of Fred Pool Drilling
13 Company as to the commencement of this proposed well?

14 A I would say that the plan, commencement
15 of this well is as soon as possible, feasible, for our other
16 drilling obligations in the area.

17 Q Is that within calendar year 1982?

18 A Yes, sir, I would believe so.

19 Q Can you be any more specific than that?

20 A No, sir, not at this time, not without Mr.
21 Pool stating his feelings on it.

22 Q Okay, thank you.

23 MR. RAMEY: Any other questions of Mr.
24 Klee? He may be excused.

25 A Thank you, sir.

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2 MR. RAMEY: We will recess until 1:15.

3
4 (Thereupon the noon recess was
5 taken.)

6
7 MR. RAMEY: Mr. Kellahin, do you want to
8 call your next witness?

9 MR. KELLAHIN: Thank you, Mr. Chairman.
10 We would call at this time Mr. Burk Whittenburg.

11 Mr. Chairman, I do not believe Mr.
12 Whittenburg has been sworn.

13
14 (Mr. Whittenburg sworn.)

15
16 BURK WHITTENBURG

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

19
20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q Mr. Whittenburg, would you please state
23 your name and address for us?

24 A My name is Burk Whittenburg and I live
25 at 7600 Colter in Amarillo, Texas.

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Q You're going to have to raise your voice just a little bit so that we can hear you.

A All right.

Q You're appearing on behalf of which of the working interest owners in this proration unit, Mr. Whittenburg?

A I represent Plains Radio Broadcasting Company.

Q What, if any, relationship do you have with Plains Radio Broadcasting?

A I am a lawyer that represents it quite often.

Q All right, sir. Are you an officer or a director of Plains Radio Broadcasting?

A I am an officer, and a director.

Q And your appearance this afternoon is in their behalf, is it not, Mr. Whittenburg?

A Yes, sir.

Q You sat through this morning's testimony with regards to this pooling case, did you not, Mr. Whittenburg?

A Yes, I did.

Q So you understand that the principal point in contention is which of the competing operators will be

1
2 approved as the operator for this Abo test in Section 17?

3 A Yes, I do.

4 Q What, if any, decision has Plains Radio
5 Broadcasting made with regards to their preference as to an
6 operator for this proration unit?

7 A We have signed the letter and the Author-
8 ization for Expenditure submitted to us by Fred Pool Operating.

9 Q Have you made any commitments or agreements
10 with Mr. Grynberg to join him in this well?

11 A Not in this one.

12 Q Why have -- why has Plains Radio Broad-
13 casting made a decision to join Mr. Pool as operator as op-
14 posed to Mr. Grynberg?

15 A We -- we prefer Mr. Pool as an operator
16 in the event he can do it for several reasons. Fred's being
17 there in the location of the operations more on a personal
18 basis has resulted in greater amount of information available
19 to Plains Radio, and we're convinced that our rights are
20 better protected by his personal supervision that he provides.

21 Q Have you had any dealings with Mr. Gryn-
22 berg on the operation of wells in which Plains Radio Broad-
23 casting has had a working interest?

24 A Yes, we have.

25 Q Have you had any other Abo wells operated

1
2 by Mr. Pool which Plains Radio Broadcasting has a working
3 interest?

4 A Yes, sir, we do.

5 Q Could you describe generally, Mr. Whitten-
6 burg, what has been your experience with Mr. Grynberg and his
7 associates with regards to the operation of their wells inso-
8 far as your interest is concerned?

9 A We have participated in three wells in the
10 Abo with Grynberg and Associates. They are all three appar-
11 ently producers.

12 We were somewhat surprised in that Gryn-
13 berg and Associates was the only operator we've ever dealt
14 with at any time who had demanded immediate prepayment of
15 estimated expenditures upon the premise that he would provide
16 us with joint interest billing at a later date, and we -- we
17 complied with his request, and at the present time we are
18 overpaid with Mr. Grynberg and he's holding our money and ac-
19 cording to his office, we should -- we should be getting a
20 full accounting of that at some time in the future, but we
21 haven't really gotten it yet.

22 Q Does Mr. Pool in the operation of his
23 wells require the prepayment of your proportionate share of
24 estimated expenditures for a well?

25 A No, and no other operator has ever asked

1
2 that. We've operated with Yates; we've operated with Mesa;
3 and that's the only time that sort of thing goes on.

4 Q I think you've told us you've had other
5 working interests in wells Mr. Pool has operated?

6 A Yes, sir.

7 Q Do you recall how many wells that it might
8 have been in which Plains Radio Broadcasting had a working
9 interest?

10 A That Fred Pool has operated?

11 Q Yes, sir.

12 A Well, we have had years and years of ex-
13 perience with Fred Pool, years before I was necessarily on the
14 scene, so my knowledge in that regard would be limited. But --

15 Q What -- yeah, go ahead.

16 A I have personal knowledge of -- of the
17 other side of ten wells that we're operating in with Mr. Pool.

18 Q What, if any, difficulty have you had with
19 any of Mr. Pool's operations of those wells concerning your
20 interests?

21 A Really none. We've been very pleased with
22 Fred Pool.

23 Q Are there any other reasons you'd like to
24 express with regards to Plains Radio Broadcasting's preference
25 as to operators?

1
2 A Fred Pool Operating being there in Ros-
3 well and just a few miles from the wells themselves, and Fred
4 himself putting in awesome workload that he does and the time
5 and effort, has seemed to pay off time and time and time again,
6 and we've been impressed with him as an operator.

7 Q Mr. Grynberg has introduced what I believe
8 is his Exhibit Number Six, which is a tabulation of the working
9 interest owners, Mr. Whittenburg. Let me show you a copy of
10 that exhibit.

11 That exhibit describes Plains Broadcasting
12 as having a 25 percent working interest.

13 A Yes, sir.

14 Q Is that correct?

15 A Yes, sir, that is correct.

16 MR. KELLAHIN: I have no further questions
17 of Mr. Whittenburg on direct.

18 MR. RAMEY: Any questions of Mr. Whitten-
19 burg?

20 MR. GALLEGOS: Yes, sir.

21 MR. RAMEY: Mr. Gallegos.

22
23 CROSS EXAMINATION:

24 BY MR. GALLEGOS:

25 Q Mr. Whittenburg, do you normally have re-

1
2 responsibility for the oil and gas ventures of Plains Radio
3 Broadcasting Company?

4 A I wouldn't say that I generally have re-
5 sponsibility for them. I do quite a bit of work in connection
6 with the oil and gas operations and investments.

7 Q Is there somebody within the organization
8 who ordinarily handles those matters on a regular basis?

9 A I would say that the president does.

10 Q Who is the president?

11 A S. B. Whittenburg.

12 Q What is your office, sir?

13 A I'm a director and assistant secretary of
14 the corporation.

15 Q Did you come here today with the intention
16 of testifying as a witness in this meeting in behalf of Fred
17 Pool Drilling Company?

18 A As far as my intentions were involved, we
19 came today with the intention of supporting Fred in his efforts
20 to become operator on this unit.

21 I had no -- I had not necessarily planned
22 in advance to testify, but as it worked out, I'm happy to do
23 it for -- for Fred Pool Operating.

24 MR. KELLAHIN: You got enlisted.

25 A Well, I -- maybe I volunteered, I don't

1
2 know, but we're happy to do it because this is the way we
3 feel.

4 Q Let me ask you a little bit about your
5 experience with Mr. Grynberg.

6 First of all from a technical standpoint
7 and a workmanship standpoint are you and have you been satis-
8 fied with the performance by Grynberg as an operator?

9 A I'm probably not able to judge the techni-
10 cal expertise of one person to a great degree as opposed to
11 another. I just know what has worked and what hasn't worked.

12 When Steve Smith with Mr. Grynberg's office
13 told me that they had messed up and drilled a well on one of
14 Yates' leases, that kind of scared us a little bit. I mean,
15 I -- I just know kind of what --

16 Q Who told you that?

17 A Mr. Steven Smith.

18 Q Who is he with?

19 A With Grynberg and Associates. He confirmed
20 it.

21 Q Your company is an interest holder in a
22 well fairly recently completed by Grynberg and Associates in
23 5 South, 24 East, is it not?

24 A As I recall there are two in 5 South, 24
25 East.

1
2 Q I have reference to the one that attained
3 some publicity, I think, it tested 27-million cubic feet?

4 A That's what Jack says.

5 Q Well, do you have any dissatisfaction with
6 a well of that nature, that performance tested?

7 A Well, obviously not, if that -- if that
8 test is accurate and true, obviously no one would have any
9 objection to that part of the operation.

10 Q The one thing that I understand is -- pre-
11 sents some difficulty to you is simply that Grynberg and As-
12 sociates as an operator asked that you make payment in advance
13 of the costs for -- your share of costs for the drilling,
14 isn't that true?

15 A Yes, sir, it does.

16 Q All other things being equal as far as an
17 operator goes, that is the matter or the item by which you say
18 you prefer Fred Pool.

19 A No, no.

20 Q Over Grynberg and Associates.

21 A No, that's not the only -- that's not the
22 only reason.

23 Fred is there. Fred knows what is happening
24 and Fred gives intense personal supervision to the wells that
25 he operates and he's -- he's back and forth between his oper-

1
2 ations and rigs and workover units at all hours of the day,
3 and Jack just hasn't been able to give it that sort of per-
4 sonal attention. I've had experiences with Jack where he
5 didn't really know what was happening on a well that he had
6 an interest in that was offsetting a producer, and we were
7 drilling a direct offset to a producer in Chaves County, it
8 was a good producer, we were drilling a direct offset to it and
9 his words were that we were crazy to drill that well and it
10 turned out to be one of the better ones in that -- in that
11 field, and the only conclusion I could reach is that he really
12 didn't have the foggiest about what was act going on
13 there.

14 Q Are you interested in what the costs are
15 for the --

16 A Yes.

17 Q -- drilling of a well --

18 A Yes.

19 Q -- in which you're an working interest
20 owner?

21 A Yes. And Jack is --

22 Q Hypothetically, Mr. Whittenburg, if a
23 well cost \$350,000 and you're on a basis where you can pay
24 your share as billed, do you prefer that to a well that cost
25 \$250,000 and you pay your share in advance?

1
2 A Well, you see, that's like comparing
3 apples and oranges because that's not what Jack does for you.
4 Jack told us --

5 Q Well, I'm asking you if you'd answer that
6 question, if you don't mind.

7 A Theoretically. .

8 Q Just taking that assumption --

9 A If you got -- if you got credit and you
10 understood what all the bills were for, and you knew that there
11 weren't going to be any liens filed against the operation,
12 obviously you would take the -- the latter.

13 Q You're talking about a well where you over-
14 paid. Did you not receive an accounting last month? Or did
15 your company receive it, do you know?

16 A There were three wells that we have entered
17 into operating agreements with Grynberg and Associates and
18 they promised that they would -- we would have joint interest
19 billing within the next month, and this started in February,
20 and we never really got it, and really haven't gotten it yet,
21 although we did receive an accounting that finally showed us
22 having paid ahead some \$25,000, and the reason Jack told us
23 that he wanted us to pay in advance is because he could get
24 all these good discounts, but we haven't seen -- seen it yet.
25 All we know is that someone who's in Chapter 11 now has \$25,000

1
2 worth of our money.

3 Q That Grynberg and Associates was in Chapter
4 11 was a big concern of yours, that was --

5 A Well, obviously, as a lawyer representing
6 a company, if they ask you can we do this or can we do that,
7 you have to be concerned with someone in Chapter 11.

8 Q Mr. Whittenburg, have you or your company
9 simply made an economic study or comparison? Disregarding
10 whether you pay your portion of the expenses in advance or
11 you pay them as you're billed, have you compared the economics
12 and return to you of wells drilled by Fred Pool Drilling Com-
13 pany as opposed to wells drilled by Grynberg and Associates?

14 A We have not made a -- the kind of compar-
15 ison you're talking about because we have not yet received
16 any runs from the wells that Mr. Grynberg is operating. We
17 don't -- we don't have that much history to compare it.

18 MR. RAMEY: Any more questions of Mr.
19 Whittenburg?

20 MR. KELLAHIN: No further.

21 A Thank you, Mr. Chairman.

22 MR. KELLAHIN: If the Chairman please,
23 I'd call at this time Mr. Stuart Hanson.
24
25

STUART HANSON

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Hanson, let me ask you if you'll place
of record your name and occupation, please?

A My name is Stuart T. Hanson. I'm a consultant geologist.

Q Mr. Hanson, would you describe for the
Commission when and where you obtained your degree in geology?

A I have a Bachelor of Science degree from
Michigan State University, in geology, and I also have a Master
of Science degree in geology from the same institution.

Q Would you tell us when you obtained your
degrees?

A Bot my Bachelor's degree in 1967 and my
Master's degree in 1971.

Q Subsequent to graduation, Mr. Hanson,
would you summarize for us what has been your experience as
a professional geologist with regards to exploration geology?

A I worked as an exploration geologist for
Union Oil Company of California for approximately three years.

1
2 I worked as an exploration geologist for
3 Hanagan and Hanagan for approximately four years, and I have
4 an independent in Roswell for almost four years.

5 Q Has the substantial portion of your pro-
6 fessional career been in exploration geology in the State of
7 New Mexico?

8 A Yes, sir.

9 Q And you have particular knowledge with
10 regards to exploration geology in the Abo formation?

11 A Yes, sir.

12 Q Would you describe generally the number
13 of wells that you have been involved in that have penetrated
14 and tested the Abo formation?

15 A In excess of forty.

16 Q You said you have been retained as a con-
17 sultant for Mr. Fred Pool, is that not correct, Mr. Hanson?

18 A Yes, sir.

19 Q And what were you specifically requested
20 to do by Mr. Pool as a consulting geologist?

21 A Evaluate the geological prospects for
22 Abo completions in the immediate area of the subject 160 acres.

23 Q We're talking in terms of the southwest
24 quarter of Section 17, the subject matter of this application?

25 A Yes, sir.

1

2

Q And pursuant to that study, Mr. Hanson,
3 have you prepared certain geological exhibits?

4

A I have.

5

6

Q And those have been marked Exhibits Six
through Fourteen?

7

A I assume so.

8

MR. KELLAHIN: If the Commission please,
9 we tender Mr. Hanson as an expert petroleum geologist.

10

MR. RAMEY: He is so qualified.

11

MR. GALLEGOS: No objection.

12

13

14

15

Q Mr. Hanson, to give us a little background,
with regards to the subject proration unit, can you describe
generally the Abo geology found in this particular area and
then we'll commence with a look at each of your exhibits?

16

17

18

A Okay. Generally we're dealing with a
prograding deltaic distribution system, distributary system,
that is going over in the --

19

20

Q Take a minute and catch your breath and
speak up louder --

21

A Okay.

22

Q -- so we can hear you.

23

24

25

A We're dealing with a deltaic distributary
system prograding from the northwest to the southeast through
the area in question.

1
2 Q Have you made a recommendation to -- pur-
3 suant to that study have you made a recommendation to Mr. Pool
4 with regards to a well location for a proration unit consisting
5 of the subject 160-acre proration unit?

6 A Yes, I have.

7 Q And where would you propose to locate a
8 well?

9 A 1980 degrees -- or 1980 feet from the west
10 and 660 feet from the south line.

11 Q That will space us in which quarter quarter
12 section?

13 A That would be the southeast of the south-
14 west of Section 17.

15 Q All right, sir. You were present in the
16 hearing this morning when Mr. Grynberg testified as to his
17 preference for a location in the southeast quarter of the
18 southwest quarter?

19 A Yes, sir.

20 Q Is that location you have chosen consistent
21 with the location he has chosen?

22 A Yes, sir.

23 Q All right, Mr. Hanson, let's -- let's go
24 through each of these exhibits, and if you'll summarize for
25 us those particular maps that you think are relevant and im-

portant, let's go through how you've reached the conclusion that the location ought to be the southeast of the southwest.

A Very well.

The first map under consideration is a structure/contour map on the top of the Abo; contour interval 25 feet. It indicates a monoclinial feature running through the west part of the subject acreage.

The gradient decreases as you go further east. This would, as the deltaic system progrades across such a monoclinial feature, would decrease the energy of the system as it approached the lower gradients, causing the pressure fraction of the sediments to drop out of the distributary system from the stratigraphic traps.

The next exhibit is --

Q This is Number Seven, okay.

A Exhibit Number Seven is a contour of the reported initial potentials of the wells in the area.

Q I notice in the legend here, Mr. Hanson, that the initial potentials, in parentheses show a calculated absolute open flow.

A Yes, sir, I have used those where they are available.

Q Have you used the measured absolute open flow for any of the wells?

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A Yes, sir, in the three Yates wells, two in Section 9 and one in Section 16, the potentials for the wells were given in terms of actual flow tests.

Q All right, sir, please tell us what this exhibit means?

A Well, what it boils down to is that it was an attempt to determine whether or not wells completed with essentially the same completion techniques had any indications that the completion techniques had more to do with the way they turned out than the stratigraphy of the area, and at this point I would have to go into the other exhibits to indicate that in point of fact they seem to have quite a bit to do with the stratigraphy. In other words, the formation itself dictates how well it takes the completion techniques.

Q Let's make that comparison. If you'll go to the next exhibit.

A All right, if you'll look at the cross section, I have broken the Abo section up --

Q Just a minute, let me get the cross section. That is Exhibit Number Fourteen in your exhibits --

A Okay.

Q -- Mr. Hanson, and it's a little large. Please continue.

A On the cross section I have broken the Abo

1
2 up into three zones, primarily for purposes of limiting the
3 amount of sand in each one, with which I had to go up on the
4 Isopachs in order to have a more detailed look at individual
5 sand deposition.

6 The first map is an Isopach of the Upper
7 Abo net porosity, the value being contoured is that porosity
8 greater than 7.5 percent, and in this porosity -- and in this
9 case, all porosities were obtained from neutron density cross
10 plots.

11 It indicates that there in the immediate
12 area of Section 17 there were two channel systems prograding
13 across the monoclinical feature already discussed. There is one
14 to the north, going to the far northeastern part of the sec-
15 tion, and there is another one of apparently the same magni-
16 tude, or similar magnitude, going through the southwest part
17 of the section, which covers the subject 160 acres.

18 Immediately below that exhibit I have
19 another Isopach of Upper Abo clean sand.

20 Q That is going to be Exhibit Number Nine.

21 A Exhibit Number Nine. Upper Abo clean sand
22 for the purposes of this map is defined as gamma ray readings
23 of less than 75 gapi units. It indicates a very similar trend
24 to the porosity. This is to be expected, and just basically
25 supports the previous contention.

1
2 Q All right, sir, Exhibit Ten.

3 A Exhibit Ten is a Middle Abo net porosity
4 Isopach made based on the same measurements as the Upper one.
5 It also indicates a slightly different distributary system,
6 prograding across the system, but not significantly different,
7 and would support a drilling location in the same -- at the
8 same point already discussed in terms of the Upper Abo.

9 Middle Abo clean sand, which would be Ex-
10 hibit Number Eleven, more or less approach that same view.

11 The next two maps deal with the Lower Abo
12 and the primary information that can be gained from them is
13 that there is not sufficient sand in the Lower Abo in this
14 area to make it an effective reservoir or a primary objective.

15 Q Based upon your study of the geology of
16 the Abo, Mr. Hanson, do you have an opinion as to the per-
17 centage degree of risk that you would recommend be assessed
18 against any nonconsenting working interest owner?

19 A I would say that based on the production
20 rates from completed and producing Abo wells and from other
21 factors involved in my study of it, I would say 200 percent
22 would be a reasonable figure.

23 Q Let me ask you some questions about the
24 percentage risk involved, Mr. Hanson, with regard to whether
25 or not an operator is likely to drill a well that produces

1 from the Abo. What is the risk involved in doing that?

2 A May I ask you to clarify, do you mean pro-
3 duce or pay out?

4 Q One that produces, not necessarily pays
5 out.

6 A I would say that it's a pretty high per-
7 centage of wells that eventually produce some gas from the Abo
8 formation.

9 Q With regards to the Abo wells in this
10 area, what in your opinion is the percentage of wells that
11 not only will encounter production in the Abo but will pay
12 out within a reasonable period of time?

13 A Based on limited production history and
14 some indications from initial testing on many of the wells,
15 I would estimate 60 percent.

16 Q Were those factors used in making your
17 opinion with regards to the ultimate percentage of risk in-
18 volved in the drilling of this well?

19 A Yes, they were..

20 Q Were Exhibits Seven through Fourteen pre-
21 pared by you or compiled under your direction and supervision?

22 A They were prepared by me.

23 Q All right, sir..

24 MR. KELLAHIN: That concludes our examin-
25

1
2 ation of Mr. Hanson. We'd move the introduction of Exhibits
3 Seven through Fourteen.

4 MR. GALLEGOS: No objection.

5 MR. RAMEY: The Exhibits Seven through
6 Fourteen will be admitted.

7 Any questions of the witness?

8 MR. GALLEGOS: No questions, thank you.

9 A Thank you, Mr. Chairman.

10 MR. KELLAHIN: Mr. Chairman, we'd call at
11 this time Mr. Sonny Pool.

12
13 FRED F. POOL (SONNY) III

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

16
17 DIRECT EXAMINATION

18 BY MR. KELLAHIN:

19 Q Mr. Pool, for the record would you please
20 state your name and occupation, sir?

21 A My name is Fred F. Pool, III. I'm a
22 petroleum engineer for the Fred Pool Operating Company.

23 Q The applicant in Fred Pool Drilling Com-
24 pany's case, 7553, the pooling application by Fred Pool
25 Drilling Company, what is your relationship to the applicant?

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25

A He's my father..

Q And your father is Fred Pool the II?

A Junior.

Q All right, sir.. Mr. Pool, would you describe for the Commission when and where you obtained your degree in engineering?

A I obtained my Bachelor of Science in petroleum engineering from New Mexico Institute of Mining and Technology, May 16th, 1981.

Q Subsequent to graduation, Mr. Pool, would you describe generally what has been your working experience as a petroleum engineer?

A I have been directly involved in our drilling and completion operations; helped my father to pick his perforations; and completed the wells.

Q Prior to obtaining your degree as an engineer, Mr. Pool, have you not worked for a considerable period of time with your father in his operation of his business?

A Yes, sir, I've worked with him since I was a kid; I just went out with him a lot.

I graduated from high school, I worked two years before I went to college.

Q Doing what?

1

2

A I was a driller.

3

Q Describe generally the kinds of things

4

that you've done during your history of employment with your father in his drilling operations.

5

6

A In general I've done just about everything,

7

Tom. I've helped him workover the wells. I've run the rigs,

8

helped to move rigs; monitored his production histories; made

9

recommendations as to when he should work on a well, and not,

10

et cetera.

11

Q Have you currently been involved in the

12

proposed well in the southwest quarter of Section 17, which

13

is the subject of the two hearings here today?

14

A In what respect?

15

Q In terms of a drilling program, completion

16

program, logging program, stimulation tests, that sort of

17

thing?

18

A Yes, sir, I have.

19

Q Let me direct your attention to what has

20

been introduced in a package of exhibits by Mr. Grynberg, I

21

believe they're Exhibit Three, and what I'd like you to refer

22

to are the three AFE's, two by Mr. Grynberg and the one by

23

Mr. Pool. Do you have those before you?

24

A Yes, sir, I do.

25

Q Mr. Pool, would you tell us how many pro-

1
2 ducing Abo wells are operated by Fred Pool Drilling Company?

3 A At the present time we operate thirteen
4 producing Abo wells.

5 Q Apart from the thirteen Abo wells that
6 you actually operate there that are producing, can you tell
7 us the number of Abo wells in which Mr. Pool and his company
8 have a working interest in which they do not operate the well?

9 A Thirty-one.

10 Q Were you here this morning at the hearing
11 and heard Mr. Grynberg testify with regards to his drilling,
12 casing, cementing program, the stimulation program, his logging
13 program, or with regards to his proposed drilling and comple-
14 tion of this Abo test?

15 A Yes, sir, I was.

16 Q All right, sir. And you had an oppor-
17 tunity to look at and compare the proposed AFE's by both
18 operators?

19 A Yes, sir.

20 Q All right. In your opinion as a petroleum
21 engineer, Mr. Pool, are there any significant differences,
22 first of all, in the way that you would propose to drill the
23 subject well?

24 A My feeling as an engineer, there are no
25 significant differences, other than the fact that Mr. Grynberg

1
2 cements his 4-1/2 back up into the surface casing.

3 Q All right, what do you do?

4 A We cement -- we use enough cement sufficient
5 to bring our cement 500 feet above the pay zone.

6 Q So the difference is he cements that --
7 was it intermediate?

8 A Intermediate casing string. It's surface.

9 Q The surface casing string, he cements it
10 all the way to the surface.

11 A I mean it's the long string.

12 Q Oh, the long string, all right. Let me
13 make sure I understand for my own information.

14 A Okay.

15 Q You testified he cements the long string
16 all the way to the surface and you do not do that.

17 A No, sir.

18 Q All right. Have you encountered any dif-
19 ficulty with Abo wells because you don't cement the long string
20 all the way to the surface?

21 A None whatsoever.

22 Q Okay, all right, sir. Other than that,
23 are there any casing or cementing programs for the drilling
24 of this well that are materially different from what Mr. Gryn-
25 berg has proposed?

1
2 A Not to my knowledge.

3 Q Do you propose to drill this well with mud,
4 as Mr. Grynberg has proposed?

5 A Yes, sir.

6 Q Is there any significant difference in
7 the suite of logs that you propose to run for this well?

8 A No, sir.

9 Q Is there any significant difference with
10 regards to the stimulation program that you propose for this
11 well?

12 A Yes, sir.

13 Q All right, would you describe for us what,
14 if any, differences there may be?

15 A Okay. We do not run 10/20 sand in the
16 tailend of our frac jobs.

17 Q Is that what Mr. Grynberg proposes to do?

18 A Yes, sir.

19 Q And why do you not do that?

20 A We feel the depth limitation -- the depth
21 is just too great for the 10/20 and the hydrostatic overburden
22 can crush your 10/20 sand grains.

23 Q And what do you use?

24 A We use 20/40.

25 Q Is there any other difference?

1

2

A Not to my knowledge.

3

4

5

6

7

A Yes, sir, it is.

8

9

10

A Yes, it does make note of that.

11

12

13

Q Okay. Has Fred Pool Drilling Company made a decision with regards to who the drilling contractor is to be?

14

A No, we have not.

15

16

Q What -- what are your choices for a drilling contractor, Mr. Pool?

17

18

A I would either use TexMex, Stewart Brothers, or Horizon Drilling Corporation.

19

20

21

Q Would you describe generally the experiences you've had with these drilling contractors with regards to ability to successfully drill and complete the Abo wells?

22

23

24

A I have personally worked with all three of them and they all do an excellent job. I've had no trouble whatsoever with any of them.

25

Q Mr. Grynberg made a point of talking about

1
2 a well he has drilled that has been tested with a calculated
3 absolute open flow potential of some, I believe, 27-million
4 Mcf.

5 A Yes, sir.

6 Q Do you have knowledge of that well?

7 A Yes, sir.

8 Q And where is that well in relation to the
9 subject proration unit?

10 A I'm not sure of --

11 Q Approximately.

12 A I know it's northeast about three or four
13 miles.

14 Q What, as a petroleum engineer, Mr. Pool,
15 what, if any, difference is there between a calculated abso-
16 lute open flow potential and a measured absolute open flow
17 potential?

18 A A calculated absolute open flow potential
19 is obtained from a 4-point back pressure test and a calculated
20 absolute open flow represents the amount of gas a sand face
21 will produce with no PTPSI. In other words, you're taking
22 away your friction of your tubular and the weight of the gas
23 column.

24 Q Then it's a theoretical calculation, then?

25 A Yes, sir, it is.

1
2 Q All right, sir..

3 A The absolute open flow is simply a
4 measured rate at the surface, what the well will actually
5 produce.

6 Q Based upon your experience, would a cal-
7 culated absolute open flow potential be higher or lower than
8 a measured absolute open flow?

9 A It will be much higher.

10 Q Are you familiar with the calculated and
11 absolute open flow tests of Abo wells in this area in relation
12 to their eventual productivity?

13 A Yes, I am.

14 Q And what, if any, comparison can you make
15 between a potential and the actual production history of the
16 wells, in general terms, Mr. Pool?

17 A In general we can't make any comparison
18 at all. Some of the good wells are dropping off real fast;
19 some of the wells that tested bad are producing better than
20 the other ones.

21 Q Have you been involved with Mr. Grynberg
22 with regards to his operation of Abo wells in which Fred Pool
23 has a working interest?

24 A On the wells which Mr. Grynberg is oper-
25 ating?

1
2 Q Yes, sir.

3 A To a limited extent. I've just gone over
4 the drilling reports, and et cetera.

5 Q As a petroleum engineer, what, if any,
6 reasons you have on behalf of your company for opposing Mr.
7 Grynberg being operator of this particular proration unit?

8 A As an engineer I have nothing, no big
9 reasons to -- for us not to let him operate.

10 Q All right, sir. Based upon your experience
11 you don't see any -- do you see any significant difference
12 with the way Mr. Grynberg and the way your family and your
13 father operate their Abo wells?

14 A Yes, I see a good bit of difference in the
15 way they take care of their business, but I'm not involved in
16 that.

17 Q I'm talking strictly on the engineering
18 way of, in your experience and opinion, in the way these wells
19 are completed and tested?

20 A No, sir.

21 Q All right, in your opinion there's no
22 significant difference between either operator?

23 A No, sir, there's not.

24 Q Can you give us any reasons, Mr. Pool, why
25 you would prefer to have Fred Pool Drilling Company be desig-

1 nated the operator for the proration unit?

2 A Well, for one, we have the majority of
3 interest all signed up with us. The well is staked on our
4 acreage.
5

6 Q In terms of when you might anticipate
7 commencement of the Abo well if you're approved as the oper-
8 ator, can you give us some estimates as to when you'd be
9 ready to start that well?

10 A No, I cannot.

11 Q Can you give us any -- any time frame in
12 terms of how long it will take you to gear up, get a rig, and
13 that sort of thing, in order to start the well?

14 A When we decide when to commence the well
15 it won't take very long.

16 Q When you say it won't take very long, is
17 that in terms of days, months, weeks?

18 A We could be on the well and drilling with-
19 in a week if we wanted to.

20 Q Okay. Is that decision on drilling con-
21 tingent upon the terms and conditions of the pooling orders?

22 A I can't answer that.

23 Q All right, sir.

24 MR. RAMEY: Mr. Kellahin, I think we've
25 got to take a twenty minute recess.

1
2 MR. KELLAHIN: All right, sir, I have a
3 few more questions but I have no objection.

4 MR. RAMEY: The Commissioner has something
5 he has to do.

6
7 (Thereupon a recess was taken.)
8

9 MR. RAMEY: The hearing will come to or-
10 der. You may proceed, Mr. Kellahin.

11 MR. KELLAHIN: I believe I don't have any
12 more questions for Mr. Pool.

13 MR. RAMEY: Any questions of Mr. Pool?

14 MR. GALLEGOS: Yes, sir.
15

16 CROSS EXAMINATION

17 BY MR. GALLEGOS:

18 Q How old are you, Mr. Pool?

19 A Twenty-four.

20 Q When did you start school at New Mexico

21 Tech?

22 A September, 1977.

23 Q And you graduated from there last spring?

24 A Yes, sir.

25 Q Now as I understand, you refer to yourself

1
2 as a petroleum engineer and by that you have reference to your
3 college degree to be in that field of petroleum engineering?

4 A Yes, that's correct.

5 Q You are not licensed by the State of New
6 Mexico --

7 A No, sir.

8 Q -- as a practicing engineer, are you, sir?

9 A I'm not old enough.

10 Q Are you licensed in any state?

11 A No, sir.

12 Q Do you intend to achieve that license to
13 practice engineering sometime in the future?

14 A Yes, sir, I do.

15 Q Mr. Pool, let's go back a little bit his-
16 torically, if we can, and have some understanding of the
17 acreage that's in question here.

18 It seems to me that there was some testi-
19 mony on the part of one of your witnesses this morning that
20 the southwest quarter that we're dealing with was at one time,
21 as far as the south half was concerned, totally under lease,
22 100 percent under lease as far as working interest goes, to
23 your company?

24 A I can't answer that.

25 Q Well, what do you mean you can't answer

1
2 that?

3 A I just can't answer that.

4 Q You don't know anything about the land or
5 the holdings of your company?

6 A I know about the land but I don't know that
7 the whole south half was 100 percent leased by our company,
8 no.

9 Q Well, maybe we can get at it this way.
10 When we look at the listing of working interest holders and
11 take, for example, TexMex Drilling Company, you can confirm
12 for us, can you not, sir, that that interest arose by reason
13 of an assignment or transfer from Fred Pool Drilling Company --

14 MR. KELLAHIN: If the Examiner please, I'm
15 going to object to this line of questioning. I don't believe
16 this witness has ever testified about any ownership.

17 MR. RAMEY: I agree with Mr. Kellahin.
18 I'll sustain the objection. I don't believe the witness testi-
19 fied about that.

20 MR. GALLEGOS: That's correct, he hasn't
21 testified about it, but I think we have the opportunity to in-
22 quire into that, Mr. Chairman.

23 MR. RAMEY: Mr. Gallegos, I believe you
24 need to keep your questions to -- in line with what he testi-
25 fied to.

1
2 MR. GALLEGOS: Okay.

3 Q With what bank do you do business?

4 A Personally?

5 Q Fred Pool Drilling Company, is what I
6 mean when I say "you". I'm referring to your company.

7 A To my knowledge we do business with several
8 banks in Roswell, New Mexico.

9 Q Well, what's the bank that you rely on
10 for financing, for example, if you're undertaking some well
11 drilling ventures?

12 MR. KELLAHIN: Again, Mr. Chairman, I'm
13 going to object to this line of questioning. It was not
14 raised by this witness on direct examination. I don't think
15 it's relevant here.

16 MR. RAMEY: Mr. Kellahin is correct, Mr.
17 Gallegos.

18 MR. GALLEGOS: Your rule of evidence is
19 that cross is strictly limited to the direct examination, un-
20 like the Rules of Civil Procedure?

21 MR. PEARCE: Mr. Gallegos --

22 MR. GALLEGOS: Or the Rules of Evidence?

23 MR. PEARCE: The rules of procedure of the
24 Oil Conservation Division provide that the Rules of Evidence
25 shall apply unless the Commission believes that the ends of

1 justice are served by that and otherwise. If you wish to
2 present to this Commission argument to the effect of the New
3 Mexico Rules of Evidence, I would certainly advise the Com-
4 mission to listen to that argument.
5

6 MR. GALLEGOS: Well, the Rules of Evidence
7 enforced in the New Mexico District Courts do not limit cross
8 examination to the scope of the direct. Admittedly, I don't
9 have -- carry the Rules of Evidence around with me to cite
10 that, but we'll call another witness if that's going to be the
11 limitation on the cross examination, and abide by the ruling,
12 but the Rules of Evidence enforced in this State do not limit
13 cross examination.

14 MR. RAMEY: Would you like to make an
15 argument on that, Mr. Kellahin?

16 MR. KELLAHIN: No, sir. I've made my
17 objection and I'll stand on it.

18 MR. RAMEY: Okay, ask your question, Mr.
19 Gallegos, and you can answer to the best of your ability, Mr.
20 Pool.

21 A Yes, sir.

22 Q What bank in Roswell do you ordinarily
23 rely on for financing as to well drilling ventures?

24 A That would be the Bank of Commerce.

25 Q Any other bank?

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A No, sir.

Q Does your company have an annual drilling program?

A You mean a formal?

Q Well, formal or informal, does it have a program?

A Yes, sir.

Q Does it have a drilling program for 1982?

A Yes, sir.

Q What form is that drilling program?

A It's in the form of the wells that we can get to and the wells that we -- the wells that my father wants to drill.

Q You mean it exists in the head of your father, Mr. Pool?

A Yes, sir.

Q Nothing is set out in writing?

A There are some things set out in writing, such as AFE's, et cetera.

Q Well, is there something set to writing that projects that Fred Pool Drilling Company will drill a specified number of wells during the year, or that it expects to undertake certain drilling operations?

A No, sir.

- 1
2 Q Just depends on what your father feels
3 like when he gets up in the morning, is that basically it?
4 A Well, I wouldn't put it that way.
5 Q But it's up to the matter of his complete
6 discretion or whim?
7 A That's correct.
8 Q Do you have a drilling budget for your com-
9 pany for 1982?
10 A Yes, sir.
11 Q Does that appear in any kind of written
12 form?
13 A No, sir.
14 Q Is that again in the same form as the
15 drilling program, whatever your dad decides on from day to
16 day?
17 A Yes, sir.
18 Q As you undertook this year, as you com-
19 menced it in January, did you have any oral discussions among
20 the management of the company, where you're going and --
21 A Yes, sir, we certainly did.
22 Q You did talk about it?
23 A Yes, sir.
24 Q Well, with that, and so everybody in the
25 company has some idea of the objectives of what will be done

1
2 in --

3 A Yes.

4 Q -- the way of drilling the wells, right?
5 That's oral, of course, as we understand it.

6 A Yes, sir.

7 Q Now do I understand that once that's under-
8 taken it's subject to being modified or revoked dependent
9 upon the sole decision of your father, Fred Pool, Junior?

10 A That's true.

11 Q In the course, at least, of the discussions
12 that you've had as you embarked on your activities for this
13 year, did you talk about drilling a well in the southwest
14 quarter of Section 17 that we're concerned with here?

15 A I don't recall.

16 Q Can't recall if that one came up?

17 A No, sir.

18 Q Is it safe to say that as we stand here
19 today there is no program nor budget that calls for the drilling
20 of that well?

21 A There is now.

22 Q Now being what, as of the break, the re-
23 cess we just took, or --

24 A Well, if we're designated operator of this
25 well, we're going to start it and drill it.

1
2 Q Well, let's go back and say, first of all,
3 is there a concept within a program or a budget for that well
4 to be done?

5 A Yes, as I stated earlier.

6 Q Okay, well, describe to me what -- what
7 exists.

8 A Our program and budget exists orally.

9 Q What is your drilling budget for 1982?

10 A I have no idea.

11 Q How much of your drilling budget has been
12 expended for 1982?

13 A I can't answer that, either. I don't
14 have the figures with me.

15 Q How many wells has your company drilled
16 this year?

17 A Approximately three.

18 Q Approximately three? What does -- is it
19 three or not three?

20 A Well, I'm just -- there's one that was
21 drilling over the first of the year. I'd say four. We have
22 one well right now that would be five.

23 Q I'm sure you've seen, have you not, a
24 copy of what was introduced as your company's Exhibit Number
25 One, a letter from Mr. Grynberg addressed to Mesa Petroleum

and Fred Pool Drilling Company, dated August 31, 1981?

A Yes, sir.

Q Are you familiar with that document?

A To an extent.

Q Do you need to have a copy before you for reference to refresh your recollection?

A Yes, sir, if I'm going to be asked about it.

MR. GALLEGOS: Mr. Kellahin, do you have a --

MR. KELLAHIN: I've got one here somewhere.

Q You've had a sufficient time to go over it and call it back to mind?

A Yes, sir.

Q Okay. Essentially in August of 1981 you were invited by Grynberg and Associates to proceed as operator for the drilling of the well that's in question, were you not?

A According to this letter, yes.

Q Why did your company not start and undertake at that time to drill the well?

A I can't answer that. I don't make those decisions.

Q If this well is ever started with Fred

1
2 Pool Drilling Company as the operator, where will the funds
3 come from to pay the 11-1/4 percent share of the cost that
4 equates to your working interest share?

5 A Again, that will be up to my father.

6 Q Are there any other interest holders that
7 will be participants in that share of the cost? In other
8 words, that in some form or manner will be providing the funds
9 for the 11-1/4th interest share of Fred Pool Drilling Company?

10 A I don't believe so.

11 Q Do you know, sir, anything about agreements
12 or arrangements that may exist between Fred Pool Drilling Com-
13 pany and working interest holders in this property, other than
14 Grynberg and Associates and Mesa Petroleum Company?

15 And excluding their signatures on your
16 AFE's.

17 A Would you restate the question, please?

18 Q Do you know of any agreements or arrange-
19 ments concerning this property, any kind of business arrange-
20 ments or agreements of any sort, contracts or anything of that
21 sort, between Fred Pool Drilling Company and Plains Radio
22 Broadcasting, Mercury Exploration, TexMex Drilling Company?

23 MR. KELLAHIN: I'm going to object to that
24 question, Mr. Chairman. Mr. Pool has been placed on the stand
25 as a petroleum engineer and we have discussed in his testimony

1 the drilling, completion, stimulation, and logging of wells,
2 and how his operation would compare to that of Mr. Grynberg.

3 Mr. Gallegos has yet to discuss any of
4 those matters and continues to fish for other things that we
5 think are irrelevant, and certainly are not the subject matter
6 of this witness' testimony, and we renew our objection.
7

8 MR. RAMEY: Would you like to respond to
9 that, Mr. Gallegos?

10 MR. GALLEGOS: Oh, I think the relevance
11 is clear. I don't want to respond to the speech.

12 I don't have to -- I don't have to pursue
13 cross examination the way counsel would like it to go, but I
14 happen to see some other areas that I think could be helpful
15 to the Commission.

16 MR. RAMEY: I'm going to overrule the ob-
17 jection and ask the witness to answer the question.

18 A Would you repeat the question, please?

19 Q Any contracts, arrangements, or agreements
20 between Fred Pool Drilling Company and the other working in-
21 terest owners in this quarter section, except Mesa and Gryn-
22 berg. Do you know of any such arrangements?

23 A Yes, sir.

24 Q Okay, describe them. What are those ar-
25 rangements and with whom?

1
2 A I do believe that several of the other
3 working interest owners have agreed to -- to go with us and
4 they want us to be operator.

5 To me that's an arrangement and agreement.

6 Q Okay, any other agreement, contract, in-
7 debtedness to run between those companies and your company?

8 A Yes, sir.

9 Q With whom?

10 A I believe TexMex Drilling Company has a
11 promissory note to us.

12 Q In approximately what amount?

13 A I'm not sure.

14 Q How did it arise?

15 A It came through the sale of drilling rigs
16 from us to them.

17 Q Your -- your company previously operated
18 and owned some three drilling rigs?

19 A Yes, sir.

20 Q Up to when?

21 A We sold the rigs to TexMex around May '81.
22 And we sold one more to Horizon Drilling Corporation approxi-
23 mately February '82.

24 Q Did you sell one to Stewart?

25 A No, sir.

1
2 Q Brothers.
3 A No.
4 Q You sold how many to TexMex?
5 A Two.
6 Q Two, and one to Horizon, and that consti-
7 tuted the total number of rigs that your company previously
8 owned.
9 A Yes, sir.
10 Q Okay. Does Fred Pool Drilling Company
11 now own a rig?
12 A No, sir.
13 Q So TexMex is indebted to your company for
14 the purchase of those two rigs.
15 A From what I understand.
16 Q Does Horizon remain indebted to Fred Pool
17 Drilling Company for the purchase of that rig?
18 A I'm not sure.
19 Q Now, as to the others who are involved,
20 for example, Plains Radio Broadcasting.
21 A Yes, sir.
22 Q Is there any contractual arrangement?
23 A No.
24 Q Indebtedness existing between the companies?
25 Anything of that sort?

1

2

A Not to my knowledge.

3

Q Financial arrangement. Not that you know

4

of.

5

A Yes, sir.

6

Q Likewise as to the other interest holders

7

who I've identified, without having to go down the list.

8

A Likewise.

9

Q Has drilling been performed for Fred Pool

Drilling Company by TexMex under an arrangement where in com-

pensation for the drilling the indebtedness from TexMex to

Fred Pool Drilling Company has been reduced?

13

A No.

14

Q Have you discussed with TexMex an arrange-

ment of that nature?

16

A Not to my knowledge. I don't negotiate

that type of things.

18

Q So your answer is that it's out of your

area of --

20

A Yes.

21

Q -- responsibility.

22

A Yes, sir.

23

Q If I asked you the same as to Horizon

Drilling, is your answer the same?

25

A Yes, sir.

1
2 Q Has Horizon ever done any drilling --

3 A Yes, sir.

4 Q -- for Fred Pool Drilling Company?

5 A Yes, sir.

6 Q Since it bought that rig?

7 A Yes, sir.

8 Q Just so the record will be complete on
9 that, has TexMex done drilling for Fred Pool since it bought
10 those two rigs?

11 A Yes, they have..

12 Q Why was TexMex Drilling listed in your
13 March, 1982, Authority for Expenditure as the drilling con-
14 tractor?

15 A At that time I -- we were considering them
16 for the contract.

17 Q And have you decided that you no longer
18 consider them?

19 A No, we haven't decided as to who we will
20 use.

21 Q You were considering TexMex exclusively
22 as of March 8th, 1982?

23 A Not exclusively.

24 Q Well, what was -- why did you select to
25 list that contractor?

1

A There's really no -- just because.

2

3

Q Mr. Pool, did your company seek bids from drilling contractors for the work of drilling the well on the quarter section in question?

4

5

6

A We seek oral bids, yes.

7

Q Did you do so in this case?

8

A No, sir.

9

Q Are the present facts such that a number of rigs are standing unoccupied in the Chaves County area?

10

11

A There are several.

12

Q Do you think that that presents the economic opportunity for the driller to obtain competing bids and thereby economy as to his drilling costs?

13

14

15

A Yes, sir, I certainly do.

16

Q Have you been doing that?

17

A Yes, sir.

18

Q You have been calling and attempting to get competitive bids between drilling contractors?

19

20

A Yes, sir.

21

Q But you have not done so in the case of the well to be drilled on the quarter section in question.

22

23

A No, we have not.

24

Q You told the Commission that you have two reasons why Fred Pool Drilling should be preferred. One of

25

1
2 them is that the well would be on its acreage. What differ-
3 ence does that make in the 160 unit, whose acreage the well
4 is on?

5 A I can't answer that.

6 Q Now you said your company had a majority
7 of the interest. The fact is your company owns an 11-1/4 in-
8 terest in the property, isn't that true?

9 A At this time.

10 Q Well, are there -- strike that.

11 MR. GALLEGOS: That's all the questions
12 I have.

13 MR. RAMEY: Any other questions? Mr. Carr?

14
15 CROSS EXAMINATION

16 BY MR. CARR:

17 Q Mr. Pool, during your direct examination
18 I believe you testified that Fred Pool Drilling Company would
19 be in a position to drill this well when you were ready to,
20 something along those lines. Could you explain what you meant
21 by that, when you would be ready to drill?

22 A What I meant by us being ready was when
23 we get the designation of operator, if we do, we're ready to
24 get on it and drill it.

25 Q And of your own knowledge do you know that

1
2 if you got an order and all the time limitations built into
3 that order to be complied with, do you know whether or not
4 Fred Pool Drilling Company would go ahead and drill that well
5 and in a time frame as reasonably promptly as possible?

6 A Yes, they would.

7 Q What do you mean when you say you represent
8 a majority of the interests here today?

9 A Well, I just meant that the majority of
10 them indicated to us that they would prefer us to operate the
11 well.

12 MR. CARR: I have nothing further.

13 MR. RAMEY: Any other questions of Mr. Pool?
14 He may be excused. Oh --

15 MR. GALLEGOS: I'd like to ask him a
16 question on --

17 MR. RAMEY: Okay.

18 MR. GALLEGOS: -- the redirect or recross,
19 or --

20
21 RE CROSS EXAMINATION

22 BY MR. GALLEGOS:

23 Q Do you mind defining for us what Fred Pool
24 Drilling Company considers to be reasonably promptly as pos-
25 sible?

1
2 A Could you ask that a different way or --
3 Q I don't know how I could say it different.
4 You said the well would be drilled as reasonably promptly as
5 possible. I want to know what that is.
6 A That's exactly what it means.
7 Q Well, if you would, please, tell us what
8 it means in time, in months or years.
9 A I would say a week to me is reasonably
10 prompt, given the situation of the rig.
11 Q Fred Pool Drilling Company will commence
12 drilling of the well in question within seven days of being
13 designated as operator by order of the Oil Conservation Divi-
14 sion, if such an order issues, is that your testimony?
15 A No, I said that seven days to me would be
16 reasonably prompt.
17 Q Well, what are you saying about --
18 As I just told Mr. Carr --
19 Q --- your schedule as far as drilling the
20 subject well?
21 A -- we'd get on the well and drill it.
22 Q Pardon me?
23 A Like I told Mr. Carr, we'd get on the well
24 and drill it.
25 Q What is the problem, Mr. Pool, as far as

1
2 your company's apparent unwillingness to state any concrete
3 plan for the commencement of the drilling of this well?

4 Are there some difficulties? Financial?
5 Operational?

6 A No, sir. I don't think I'm here to say
7 when we're going to drill the well. I'm here to give my test-
8 imony as an engineer.

9 Q Okay, thank you.

10 MR. RAMEY: Any other questions? The
11 witness may be excused.

12 Do you have anything further, Mr. Kellahin?

13 MR. KELLAHIN: No, sir.

14 MR. RAMEY: Mr. Carr?

15 MR. CARR: No, sir, Mr. Ramey.

16 MR. RAMEY: Do you have anything further,
17 Mr. Gallegos?

18 MR. GALLEGOS: Yes, I have a brief rebuttal.
19 I'd like to call Mr. Grynberg back to the stand, please.

20
21 JACK J. GRYNBERG

22 being recalled as a rebuttal witness, and being previously
23 sworn and still under oath, testified as follows, to-wit:
24
25

DIRECT EXAMINATION

BY MR. GALLEGOS:

Q Mr. Grynberg, briefly, there was some testimony brought forth by Mr. Whittenburg concerning information on the outcome of financial matters in connection with the well in which you were operator and Plains Radio Broadcasting held an interest.

Would you explain what the circumstances are there?

A To begin with, it took quite some time to get the checks from Plains Radio, and again, the final checks were received when we had to notify them about the nonconsent provisions in the contract. We did supply them, as everybody else, with prompt information. The logs were Federal Expressed; two sets were always delivered to Fred Pool's office in Roswell; we shipped the logs immediately to Plains Radio and everybody else.

We also sent an accounting up to date on all the bills that were paid in March, which has been at about forty-five days, thirty to forty-five days from commencement of those wells.

Any money that's left right now is going to be used to pay for the surface equipment. Anything that's left over will be refunded immediately. The net effect is that

1
2 we had actually spent our own money for the other participants
3 before we got any money from them to pay their share of it,
4 and this is done for their benefit. You can't have both. You
5 can't have the discounts and not pay the money. You have to
6 pay the money and get the discounts or you don't pay the money
7 and then don't get the discounts. And everybody wants the
8 discounts and therefor we want to have the money.

9 We've had experience with people before.
10 As a matter of fact, there's \$800,000 owed us since 1974 and
11 after all kinds of prolongation the trial in Carlsbad is set
12 for June 9th. That's a long time to collect money.

13 Q Mr. Grynberg, on another subject, Stuart
14 Hanson, the consulting geologist who appeared in behalf of
15 Fred Pool gave certain testimony regarding his evaluation of
16 the risk factor on this well. What observations do you have
17 in regard to that?

18 A I'll agree with him the risk factor, as
19 far as a commercial well is concerned, is about 200 percent.

20 The risk is quite small as far as getting
21 a well but the question is, is it going to be a commercial
22 well. There is fluctuation in sand thickness. There's inter-
23 pretation in sand porosity; fluctuation in permeability; some
24 pressure fluctuations, as well.

25 Q Testimony was produced by Mr. Pool, Fred

Pool III, concerning a difference in cementing techniques.

Do you recall without my --

A Yes, I do.

Q -- describing?

A Yes, I do.

Q Can you state for the advisability of the method that Grynberg and Associates employs and contrast that for the method that Fred Pool Drilling Company employs?

A Obviously there is no concrete proof today that one has predicting rather tragic circumstances down the line that I have predicted. The point is that economically speaking it makes no sense to try and cement just 500 feet because twenty years from now on you're going to recover a few hundred feet of salvage casing. That's not prudent at all.

We are penetrating a number of salt sections. The experience of the fifties has taught us in North Dakota and other places that when you have salt sections it is suicide not to have cement all the way to the surface, but many operators trying to save a few bucks on the cementing job, they are very short sighted because there are people in this area that depend on fresh water for grazing for cattle, for irrigation, for other sources, and it is the duty of the oil industry, as well as any mineral industry, to try and live and utilized the land for the benefit of all concerned.

1
2 It is absolutely un -- it is -- it is
3 unconscionable for an oil company not to protect the fresh
4 water rights of those who have the rights to them, and by not
5 cementing all the surface, that is exactly what the company
6 is doing.

7 In addition to that, the very simple
8 principles of corrosion, of electrolytic corrosion, describe
9 a current flow from the salt water to the fresh water reservoir,
10 utilizing the pipe as a conductor. Steel is a conductor. But
11 the flow is not just air flowing, the electrons are a mass.
12 A mass brings particles of iron, particles of steel, from one
13 source to another, creating holes in one place and depositing
14 them in the other. That's what electrolytic corrosion is all
15 about.

16 Five years from now on there will be holes
17 in those pipes and if the salt decides that it's in a mobile
18 phase, the salt can cut the casing in half, not only contamin-
19 ate fresh waters in addition to other contamination, because
20 water can flow behind the casing from a high pressure salt
21 water reservoir to a low pressure fresh water reservoir if
22 there is no protection.

23 I frankly think the Commission should re-
24 quire that the wells in this area are cemented, long string
25 is cemented all the way to the surface. We're doing it on a

1
2 purely voluntary basis. We've advised others to do it for
3 protecting everybody's rights, and for the benefit of all
4 concerned.

5 MR. GALLEGOS: Thank you, that's all that
6 we have.

7 MR. KELLAHIN: Mr. Grynberg, I have a
8 couple of questions.

9
10 CROSS EXAMINATION

11 BY MR. KELLAHIN:

12 Q Your concern about cementing the long
13 string of -- all the way to the surface, is that a concern
14 you have expressed with Mr. Sexton of the District Office of
15 the Oil Conservation Division?

16 MR. RAMEY: You mean Mr. Gresset.

17 Q I'm sorry, got the wrong District, Mr.
18 Gresset.

19 A I believe we have indicated to Mr. Gresset,
20 that's what we're doing and why we're doing it. I didn't do
21 it in person but I think other persons have.

22 Q Do you have any pending -- any formal
23 applications pending before the Division requesting that it
24 be required of the Division that all operators in this area
25 be compelled to cement the long string all the way to the

1
2 surface?

3 A No, I do not have. Maybe I should.

4 Q This cash discount that you get, or the
5 discounts you get for the prompt payment of certain bills, Mr.
6 Grynberg, is that a discount that you share with the other
7 working interest owners in these wells?

8 A Yes, I do. Yes, I do.

9 Q So if there are cash discounts for the
10 payment of monies for this well, then you would pass it on to
11 the other working interests?

12 A Absolutely, and immediately.

13 MR. KELLAHIN: Nothing further.
14

15 CROSS EXAMINATION

16 BY MR. RAMEY:

17 Q Mr. Grynberg, I don't seem to have any
18 recommendation for operating charges from you.

19 A Let me just -- let me just say something
20 in here. We have used an operating agreement here which we
21 used last December because we agreed with Mesa to join them
22 in a well, which they have since drilled, and agreed to their
23 operating charges, and in every instance where Mesa was a
24 participant we used Mesa's operating charges.

25 The fact is that at the last Commission

1 hearing in front of Mr. Stamets, I have committed that the
2 charges would be, I believe, \$2500 per month and \$250 per well.
3 Which are identical to the charges of Yates Petroleum Company
4 and that's what we would charge for this well.
5

6 Q \$2500 while drilling?

7 A And \$250 while producing.

8 Q While producing. And that's your recom-
9 mendation in this case if you are the operator?

10 A Yes, sir.

11 Q Thank you.

12 MR. RAMEY: Any further questions of Mr.
13 Grynberg?

14
15 RE CROSS EXAMINATION

16 BY MR. KELLAHIN:

17 Q Mr. Grynberg, your proposed operating
18 agreement that you submitted with your Exhibit Number Three,
19 I believe it was, shows operating overhead charges at \$3700
20 and \$370.

21 A I just mentioned, this was the December
22 operating agreement; the copy was a mistake.

23 MR. RAMEY: Mr. Stamets?
24
25

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Grynberg, I believe you've indicated you ran about 900 feet of surface pipe and circulated cement back to the surface?

A Yes, we do.

Q Does that cover all fresh water in the area?

A It covers the bulk of the fresh water in the area. I'm concerned that there's some brackish water, and by definition brackish water is anything over and above what a human can drink; human being, especially Midland, Texas, can drink waters up to 2500 parts per million. The brackish water is anything greater.

A sheep can drink 4500 parts per million; a cow can drink about 9500 parts per million. I am told a camel can go to 15,000.

But it is -- it is probably -- I probably should have said that there are additional fresh and brackish water reservoirs that should be protected, and I think they are below 900 feet.

Q Do you have any evidence of that?

A I believe -- I believe from some of the old logs that had the SP curve from which I can calculate the

1
2 water resistivity and then convert the water resistivity to
3 salinity; I have seen them sometime ago, some fresher reser-
4 voirs.

5 Q I'm certain, Mr. Grynberg, that our District
6 Office at Artesia would be interested in any evidence that
7 you might have along those lines, in that part of their job is
8 to see that all such water is protected by casing and cementing.

9 MR. STAMETS: That's all I have.

10 A I'd be happy to give it to them.

11 MR. RAMEY: Any other questions of Mr.
12 Grynberg? He may be excused.

13 A Thank you, Mr. Chairman.

14 MR. RAMEY: I still have Exhibit Two to
15 rule on. Do you still object, Mr. Gallegos?

16 MR. GALLEGOS: Yes, I still object because
17 of the misleading nature of the legend. I think this will be
18 argued, but I think the cross examination revealed that.

19 MR. KELLAHIN: Mr. Chairman, I think both
20 the direct examination and cross examination made it clear
21 what Mr. Pool was testifying to on the ownership.

22 I'll withdraw the exhibit if there is any
23 confusion about what it says. It's not important.

24 MR. RAMEY: At this point, Mr. Kellahin,
25 why don't you withdraw the exhibit.

1
2 MR. KELLAHIN: We'll keep it clean.

3 MR. RAMEY: Anything further? Any state-
4 ments at this time?

5 Mr. Carr?

6 MR. CARR: I have a very brief statement.

7 May it please the Commission, I believe the
8 evidence today raised some questions as to whether or not Mesa
9 had joined or committed its interest to Mr. Pool.

10 Mesa is of the opinion that they have
11 reached an agreement with Mr. Klee, wherever the joint oper-
12 ating agreement may be in terms of being signed. We do believe
13 we have reached an agreement and should that agreement not
14 materialize and you enter an order pooling these lands and
15 and designating Mr. Pool operator, we will pay our share and
16 continue to go forward and participate in a well drilled by
17 Mr. Pool.

18 We think the evidence shows that the major-
19 ity of the interest owners in the proposed spacing unit prefer
20 to have Fred Pool Drilling Company drill and operate this
21 well. Mesa is one of those interests and we prefer Mr. Pool
22 because we believe he will protect our interests and at the
23 same time he will reasonably and prudently develop reserves
24 in the Abo with a well on the proposed spacing unit.

25 We believe the testimony shows that Mr.

1
2 Pool is ready and will drill this well as soon as it is pos-
3 sible for him to do so once the proper governmental approval
4 and time frame is prescribed there, in conjunction with those
5 approvals, and therefor we request that you grant the applica-
6 tion of Mr. Pool and deny the application of Grynberg before
7 you today.

8 MR. RAMEY: Thank you, Mr. Carr. Mr.
9 Kellahin?

10 MR. KELLAHIN: Mr. Chairman, we've spent
11 a great deal of time today talking about a lot of things. I
12 think it boils down to a very simple problem. If I might
13 give you sort of a check list of the kinds of things that might
14 be of interest to you in deciding compulsory pooling cases,
15 as you're well aware, first of all if there is a significant dif-
16 ference in the way the two operators propose to drill and com-
17 plete and test the well.

18 I think the testimony is clear that there
19 is not material difference.

20 I think one of the other points to consider
21 is the experience of both operators in the area. I think
22 that's again not a decided factor in that both operators drill
23 and operate Abo wells in this area, and they do so success-
24 fully.

25 Another point of consideration sometimes

1
2 is the question of a risk factor penalty to be assessed. Again
3 there is an agreement that this, because of the long pay out
4 of some of these wells, is a 200 percent risk factor situation,
5 so that doesn't decide things.

6 Sometimes there is some difference in the
7 overhead charges to be assessed and there is some difference
8 here, but it is not a material difference sufficient enough
9 to constitute a difference between the operators.

10 Occasionally we'll see a difference between
11 the AFE's in the cost of the wells. Here, depending on which
12 AFE you select, they're within a reasonable percentage of each
13 other and I don't think that's a material difference.

14 I think you have to decide the case based
15 upon the question of what the other working interest owners
16 have decided to do among themselves, and I think it is highly
17 significant that Mr. Grynberg is unable to persuade other
18 working interest owners to participate with them. He stands
19 alone and there is some question about the Mercury interest
20 that apparently have executed AFE's for both people. Corona
21 apparently wants to stand and go with the winner. I think,
22 however, that those two exceptions, that these other working
23 interest owners who deal with these people on a regular basis
24 know perhaps something intuitively or based upon experience
25 that causes them to want to have Fred Pool as the operator.

1
2 Mr. Whittenburg has come to testify based
3 upon their experience and they are the other single largest
4 working interest owner with a 25 percent, and they want to
5 commit their interest to Mr. Pool operating this well. I
6 think that's significant.

7 I think when it comes to adding up the
8 numbers, Mr. Pool has 62.5 percent in whatever fashion, whether
9 the contracts are formally executed at this point or not, that
10 in fact represents the kind of voluntary agreement he's been
11 able to work out with these people while Mr. Grynberg has been
12 unable to persuade anyone to go with him.

13 I think that alone decides the case.

14 Thank you.

15 MR. RAMEY: Thank you, Mr. Kellahin.

16 Mr. Gallegos?

17 MR. GALLEGOS: Thank you, Mr. Chairman.

18 First of all, with all due respect for my
19 good friend and counsel, Mr. Carr, I think he needs to be re-
20 minded that statements of counsel are not evidence, and the
21 state of the record before this Commission is that there has
22 been no agreement made by Mesa Petroleum Company, and that that
23 is still a matter of negotiation, and if that were to be a
24 matter of factual proof, then I query why there was not a
25 witness and why the documents were not brought forward and we

1
2 found what that was, and I think the Commission is still bound
3 to proceed on the basis of sworn evidence comes before any
4 exhibits that are admitted.

5 Likewise, counsel has sought to supply an-
6 other serious omission in this record that we can know some-
7 thing to the effect that Fred Pool will go forward upon ob-
8 taining certain requisite permits, et cetera, and drill the
9 well. Again, that's only argument of counsel, not evidence,
10 and the state of the record is quite to the contrary.

11 What exists as far as interests, as best
12 anybody can ascertain, and it's a bit vague at this point, is
13 that there is 50 percent of the working interest that seems
14 to be actually signed to some agreement with Mr. Pool, and
15 another 50 percent which is including Mr. Grynberg's that is
16 not so committed, and beyond that we know that within that
17 50 percent is some sort of negotiation going on between Mesa
18 and Fred Pool, but where negotiations end, if they ever do,
19 we do not know.

20 When we come down to who owns what, Fred
21 Pool owns an 11.25 percent interest and Jack Grynberg and
22 Associates owns a 25 percent interest. That's what's actually
23 held by the parties who are competing to be operators, but I
24 suggest to the Commission that the decision as to who is to be
25 the operator should not be simply left in the hands of maybe

1
2 whoever is the most capable at persuading and cozying up to,
3 or whatever else brings about the signing of an AFE, and there-
4 by takes from your judgment the decision as to what is really
5 best on the overall terms for the State for the use of its
6 resources and for the production of this gas and the return
7 from it.

8 So I think what has to be considered by
9 the Commission in light of the jumbled picture of how they
10 each stand is the capability of the operators, and we think
11 our case is without further comment much stronger in that
12 regard.

13 And probably the most important thing is
14 the expediency with which this well can be drilled and can be
15 put into production and have the likelihood of the gas from it
16 going to the market that is fast vanishing.

17 Now we know, and it is undisputed, that
18 there have been some eight months passed in which Jack Gryn-
19 berg and Associates have tried to get the well drilled and that
20 the initial attempts back to August of 1981 were to tender to
21 Fred Pool the operation of the well, to get going to drill it;
22 do it, but if you won't, then Mesa do it; if Mesa won't, then
23 I'll do it, and that is what's happened.

24 Now here we are today in April of 1982,
25 when they wouldn't do it, Grynberg says, "Well, I'll drill it."

1
2 There's a limited market; let's get this production.

3 Now the other parties say, oh, we want
4 somebody else to do it.

5 I think that's the question that the Com-
6 mission has to judge, particularly in the light of the fact
7 that even today Fred Pool Drilling Company will not come be-
8 fore this Commission and make any kind of a commitment as to
9 when it will commence the drilling of the well or how it will
10 go about that in terms of programming and financing, and I
11 think that's the key question, and if the well is to be drilled,
12 if the gas is to be recovered, and thereby the working interest
13 owners have their economic return from it, then it should be
14 put in the hands of Grynberg and Associates, who would get
15 busy and drill that well competently and quickly.

16 That's all I have.

17 MR. RAMEY: Thank you, Mr. Gallegos.

18 Does anyone have anything further to add
19 to these two cases?

20 If not, the Commission will take the cases
21 under advisement.

22
23 (Hearing concluded.)
24
25

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division 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.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
14 April 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Fred Pool Drilling
Company for compulsory pooling, Chaves CASE
County, New Mexico. 7553

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

MR. STAMETS: Call next Case 7553.

MR. PEARCE: Application of Fred Pool
Drilling Company for compulsory pooling, Chaves County, New
Mexico.

MR. STAMETS: At the request of the
applicant will be continued to the April 22nd Oil Conservation
Commission hearing.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division 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.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7553 heard by me on 11-14 1982

Richard H. Stem, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

POST OFFICE BOX 2098
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

June 16, 1982

Mr. Thomas Kellahin
Kellahin & Kellahin
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: CASE NO. 7553
ORDER NO. R-6975

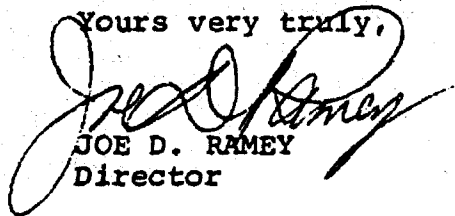
Applicant:

Fred Pool Drilling Company

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 Eugene Gallegos. William F. Carr. Steven C. James

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7553
Order No. R-6975

APPLICATION OF FRED POOL DRILLING
COMPANY FOR COMPULSORY POOLING,
CHAVES COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 22, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 16th day of June, 1982, the Commission, a quorum being present, having considered the testimony, the record, and the exhibits, 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 on March 23, 1982, the applicant, Fred Pool Drilling Company, filed an application seeking an order pooling all mineral interests from the surface down through the Abo formation underlying the SW/4 of Section 17, Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico.

(3) That as of March 8, 1982, Jack J. Grynberg had filed an application also seeking an order pooling all mineral interests in the Abo formation underlying the SW/4 of said Section 17.

(4) That the Jack J. Grynberg application was set as Case No. 7535 and was consolidated for purposes of testimony with the subject case.

(5) That by its Order No. R-6974 dated June 16, 1982, the Division approved the application of Jack J. Grynberg in said Case No. 7535.

-2-
Case No. 7553
Order No. R-6975

(6) That the application of Fred Pool Drilling Company in this concomitant case should be denied.

IT IS THEREFORE ORDERED:

(1) That the application of Fred Pool Drilling Company for an order pooling all mineral interests, whatever they may be, from the surface down through the Abo formation underlying the SW/4 of Section 17, Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico, to form a standard 160-acre gas spacing and proration unit 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

EMERY C. ARNOLD, Chairman

ALEX J. ARMISTEAD, Member

JOE D. RAMEY, Member & Secretary

SEAL

rd/

JACK GRYNBERG AND ASSOCIATES

PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS

1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 -- 572-1455

TELEX: 45-4497 ENERGY DVR

TELECOPIER: 303-623-5224

August 31, 1981

Mr. Joe Jeffers
Mesa Petroleum Co.
1000 Vaughn Building
Midland, TX 79701

Fred Pool Drilling, Inc.
Box 1300
Clovis Star Route
Roswell, New Mexico 88201

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7553 Exhibit No. 1

Submitted by Pool

Hearing Date _____

RE: Proposed Abo Test

Gentlemen:

We propose to unitize the SW1/4 of Section 17, T6S-R25E, Chaves County, New Mexico, and drill a well for the Abo producing horizons. Since Fred Pool Drilling, Inc., would be a 50% owner in the proposed 160 acre unit, we would be pleased for them to act as operator and use their own rig to drill the subject well. However, if Pool does not want to act as operator, we would be happy for Mesa to act as operator for the subject proposed well. If both Mesa and Pool decline to act as operator, we will be happy to act as operator and proceed with the drilling of the proposed well. May we have your comments and intention as soon as possible.

Very truly yours,

JACK GRYNBERG AND ASSOCIATES

Jack J. Grynberg

JJG:aj

cc: Randy Keough
Morris Ettinger

FRED POOL DRILLING INC.
AUTHORITY FOR EXPENDITURE

AFE # 02-CGI
 Revision # _____
 Date March 8, 1982

Lease Name Corn Bros. Inc. #2 formerly Ina Lee #1 Location SW1/4 Sec 17-T6S-R25E
 County Chaves Field Pecos Slope- Abo Gas
 Horizon Abo Est. Spud date _____
 Est. Completion Date _____ Est. T.D. 4300'
 Drilling Contractor Tex-Mex Drilling

Primary Objective: ☐ Oil ☒ Gas ☐ Oil and/or Gas
 Purpose: ☒ Drilling-New ☐ Recompletion ☐ Other (Supple-
 Type Well: ☐ Development ☒ Exploratory ment AFE, Etc.)

INTANGIBLE COSTS:

	<u>DRY HOLE</u>	<u>COMPLETION</u>
Staking Permit & Legal Fees	1000	1000
Location, Right-of-Way	12000	12000
Drilling Footage <u>3</u>	-	-
Drilling, Daywork <u>15</u> days @ <u>\$5500</u> /day	82500	82500
Moving in, Rigging up, Rigging down	20000	20000
Bits, Tools & Supplies	10000	10000
Drilling Water	10000	10000
Drilling Mud & Additives	12000	12000
Mud Logging Unit	-	-
Cement, Tools & Services, Temp. Surveys	12000	17000
Drill Stem Testing	-	-
Electric Logs & Perforating	15000	21000
Tool & Equip. Rental, Trucking, Welding	5500	8000
Supervision & Overhead	2300	3000
Coring, Tools & Services	-	-
Completion Unit <u>3</u> days @ <u>\$1150</u> /day	-	3400
Stimulation	-	35000
Contingency	9400	11100
<u>TOTAL INTANGIBLES</u>	<u>191700</u>	<u>246000</u>

WELL EQUIPMENT COSTS:

Christmas Tree and Well Head	1200	12000
Casing: <u>10-3/4" 40.5# K-55 @900'</u>	21300	21300
<u>4-1/2" 9.5# K-55 @4300'</u>	-	27200
Tubing: <u>2-3/8" 4.7# J-55 @4000'</u>	-	17000
Packer & Special Equipment	-	4000
Contingency	1500	3500
<u>TOTAL WELL EQUIPMENT</u>	<u>24000</u>	<u>85000</u>

LEASE & BATTERY EQUIPMENT COSTS:

Pumping Equipment	-	-
Storage 1-210 b. welded w/stair, walk, tank.	-	7900
Separation Eq., Flowlines, Valves & Fittings	-	19800
Trucking & Construction Costs	-	4300
<u>TOTAL LEASE & BATTERY EQUIP.</u>	<u>-</u>	<u>32000</u>

BEFORE THE
 OIL CONSERVATION COMMISSIONALS

Santa Fe, New Mexico

Case No. 2553 Exhibit No. 3

Submitted by Pool

Hearing Date _____

\$215700 \$363000

M.C.F. MICROGRAPHICS



BEST AVAILABLE COPY

Approval of this AFE constitutes approval of the Operator's option to charge the joint account with tubular goods from Operator's warehouse stock at the rates stated above, unless the Non-Operator gives notification on this form of his intent to furnish his proportionate share in kind.

		SHARE
MESA PETROLEUM		
BY _____	DATE _____	25.%
_____	DATE _____	25.%
Jack Grynberg		
MERCURY EXPLORATION		
BY <u>Frank Darden</u>	DATE <u>3-17-82</u>	9.750%
PLAINS RADIO BROADCASTING		
BY _____	DATE _____	25.%
<u>Fred Pool Jr.</u>	DATE _____	11.250%
_____	DATE _____	1.000%
Jack Cargill		
_____	DATE _____	1.000%
James Lusk		
_____	DATE _____	.5000%
Kemp McMillan		
TEX-MEX DRILLING		
BY _____	DATE _____	1.5000%

I.M.C.F. MICROGRAPHICS



BEST AVAILABLE COPY

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MESA PETROLEUM

BY _____

DATE _____

SHARE

25.%

Jack Grynberg

DATE _____

25.%

MERCURY EXPLORATION

BY _____

DATE _____

9.750%

PLAINS RADIO BROADCASTING COMPANY, a Texas corporation

BY _____

DATE _____

25.%

S. B. Whittenburg President

March 18, 1982

Fred Pool Jr.

DATE _____

11.250%

Jack Cargill

DATE _____

1.000%

James Lusk

DATE _____

1.000%

Kemp McMillan

DATE _____

.5000%

TEX-MEX DRILLING

BY _____

DATE _____

1.5000%

M.C.F. MICROGRAPHICS



BEST AVAILABLE COPY

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MESA PETROLEUM

SHARE

BY _____

DATE _____

25.5%
12.5

Jack Grynberg

DATE _____

25.5%

MERCURY EXPLORATION

BY _____

DATE _____

9.750%

PLAINS RADIO BROADCASTING

BY _____

DATE _____

25.5%

Fred Pool Jr.

DATE _____

11.250%

Jack Cargill

DATE _____

1.000%

James Lusk

DATE _____

1.000%

Kemp McMillan

DATE _____

.5000%

TEX-MEX DRILLING

BY _____

DATE _____

1.5000%

CORONA OIL COMPANY

BY _____

DATE _____

12.500%

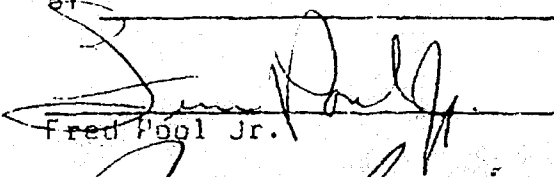
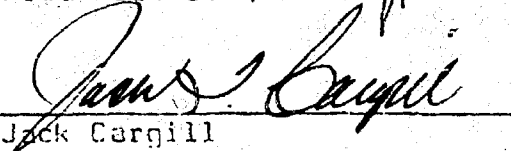
Don Williams

M.C.F. MICROGRAPHICS



BEST AVAILABLE COPY

Approval of this AFE constitutes approval of the Operator's option to charge the joint account with tubular goods from Operator's warehouse stock at the rates stated above, unless the Non-Operator gives notification on this form of his intent to furnish his proportionate share in kind.

		<u>SHARE</u>
MESA PETROLEUM		
BY _____	DATE _____	25.0%
_____	DATE _____	25.0%
Jack Grynberg		
MERCURY EXPLORATION		
BY _____	DATE _____	9.750%
PLAINS RADIO BROADCASTING		
BY _____	DATE _____	25.0%
 Fred Pool Jr.	DATE _____	11.250%
 Jack Cargill	DATE <u>3-8-82</u>	1.000%
_____	DATE _____	1.000%
James Lusk		
_____	DATE _____	.5000%
Kemp McMillan		
TEX-MEX DRILLING		
BY _____	DATE _____	1.5000%

M.C.F. MICROGRAPHICS



BEST AVAILABLE COPY

Approval of this AFC constitutes approval of the Operator's option to charge the joint account with tubular goods from Operator's warehouse stock at the rates stated above, unless the Non-Operator gives notification on this form of his intent to furnish his proportionate share in kind.

MESA PETROLEUM

SHARE

BY _____

DATE _____

25.%

Jack Grynberg

DATE _____

25.%

MERCURY EXPLORATION

BY _____

DATE _____

9.750%

PLAINS RADIO BROADCASTING

BY _____

DATE _____

25.%

Fred Pool Jr.

DATE _____

11.250%

Jack Cargill

DATE _____

1.000%

James Lusk

DATE _____

1.000%

Kemp McMillan

DATE _____

.5000%

TEX-MEX DRILLING

BY _____

DATE _____

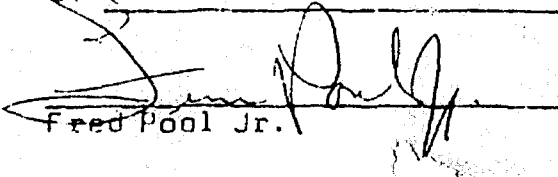
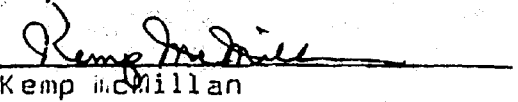
1.5000%

M.C.F. MICROGRAPHICS



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		SHARE
MESA PETROLEUM		
BY _____	DATE _____	25.%
_____	DATE _____	25.%
Jack Grynberg		
MERCURY EXPLORATION		
BY _____	DATE _____	9.750%
PLAINS RADIO BROADCASTING		
BY _____	DATE _____	25.%
 Fred Pool Jr.	DATE _____	11.250%
_____	DATE _____	1.000%
Jack Cargill		
_____	DATE _____	1.000%
James Lusk		
 Kemp McMillan	DATE <u>3-10-82</u>	.5000%
TEX-MEX DRILLING		
BY _____	DATE _____	1.5000%

M.C.F. MICROGRAPHICS



BEST AVAILABLE COPY

Approval of this AFE constitutes approval of the Operator's option to charge the joint account with tubular goods from Operator's warehouse stock at the rates stated above, unless the Non-Operator gives notification on this form of his intent to furnish his proportionate share in kind.

MESA PETROLEUM

BY _____

DATE _____

SHARE

25.%

Jack Grynberg

DATE _____

25.%

MERCURY EXPLORATION

BY _____

DATE _____

9.750%

PLAINS RADIO BROADCASTING

BY _____

DATE _____

25.%

Fred Pool Jr.
Fred Pool Jr.

DATE _____

11.250%

Jack Carroll

DATE _____

1.000%

James Lusk

DATE _____

1.000%

Kemp McMillan

DATE _____

.5000%

TEX-MEX DRILLING

BY _____

Gerald L. Cockrell

DATE March 15, 1982

1.5000%

Gerald L. Cockrell, Vice-President

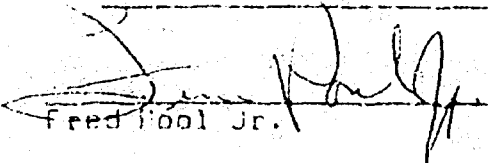
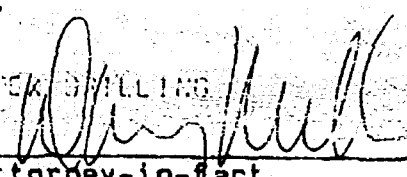
M.C.F. MICROGRAPHICS



ST AVAILABLE COPY

Corn Bros. Inc. #2
Sec. 17-T68-325C
Chaves County, New Mexico
Page 2

Approval of this AFE constitutes approval of the Operator's option to charge the joint account with tubular goods from Operator's warehouse stock at the rates stated above, unless the Non-Operator gives notification on this form of his intent to furnish his proportionate share in kind.

		<u>SHARE</u>
MESA PETROLEUM		
BY _____	DATE _____	28.5% 18.5%
_____	DATE _____	25.0%
Jack Gryenberg		
MERCURY EXPLORATION		
BY _____	DATE _____	9.750%
PLAINS RADIO BROADCASTING		
BY _____	DATE _____	25.0%
 Fred Pool Jr.	DATE _____	11.250%
_____	DATE _____	1.000%
Jack Cargill		
_____	DATE _____	1.000%
James Lusk		
_____	DATE _____	.5000%
Kemp McMillan		
TEX-TEX DRILLING		
BY  Attorney-in-fact	DATE March 24, 1982	1.5000%
CORONA OIL COMPANY		
BY _____	DATE _____	12.500%
Don Williams		

M.C.F. MICROGRAPHICS



BEST AVAILABLE COPY



March 26, 1982

Fred Pool Operating Company
P. O. Box 1300
Clovis Star Route
Roswell, NM 88201

Attention: John Klee

Gentlemen:

Subject: Letter of Joinder
Corn Bros. Inc. #2
SW/4 Section 17,
T-6-S, R-25-E
Pecos Slope Prospect
Mesa OP 05-NM-0138

With reference to your letter dated January 28, 1982 and our prior telephone conversations, this is to advise that Mesa Petroleum Co. desires to join you in drilling the captioned well, subject to a mutually agreeable operating agreement.

Yours very truly,


Mark Hannifin

cs

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7553 Exhibit No. 4

Submitted by Pool

Hearing Date _____

RECEIVED MAR 15 1982

FRED POOL OPERATING

March 11, 1982

Box 1300, Clovis Star Route
Roswell, New Mexico 88201

Mercury Exploration
Suite 1212
Ridglea Bank Building
Fort Worth, Texas 76112

RE: Corn Bros. Inc. #2
Section 17
T6S, R25E


ATTENTION: Frank Darden

Dear Frank,

Fred Pool Operating Company proposes the drilling of an ABO test well in the captioned acreage. If you are in agreement to join in the drilling of this well please indicate so by signing below.

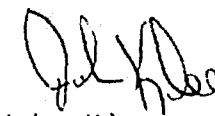
I have also enclosed an AFE for your approval; please execute and return one executed original to this office.

The undersigned hereby agrees to ☒ join,
not join _____, in the drilling of the captioned
well.


Mercury Exploration
By: Frank Darden

Thank you for your time and cooperation in this matter.

Sincerely,


John Klee

JK/jh
Enc

FRED POOL OPERATING

March 11, 1982

Box 1300, Clovis Star Route
Roswell, New Mexico 88201

Plains Radio Broadcasting
P.O. Box 9354
Amarillo, Texas 79105

RE: Corn Bros. Inc. #2
Section 17
T6S, R25E

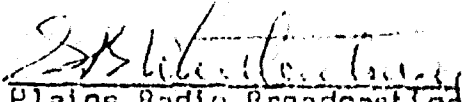
ATTENTION: S.B. Whittenburg

Dear Mr. Whittenburg,

Fred Pool Operating Company proposes the drilling of an ABO test well in the captioned acreage. If you are in agreement to join in the drilling of this well please indicate so by signing below.

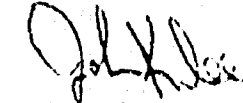
I have also enclosed an AFE for your approval; please execute and return one executed original to this office.

The undersigned hereby agrees to ☒ join,
not join ☐ , in the drilling of the captioned
well.


Plains Radio Broadcasting
By: S.B. Whittenburg

Thank you for your time and cooperation in this matter.

Sincerely,


John Klee

JK/jb
Enc.

FRED POOL OPERATING

March 10, 1982

Box 1300, Clovis Star Route
Roswell, New Mexico 88201

Jack Cargill
P.O. Box 2057
Roswell, New Mexico 88201

RE: Corn Bros. Inc. #2
Section 17
T6S, R25E

Dear Jack,

Fred Pool Operating Company proposes the drilling of an ABO test well in the captioned acreage. If you are in agreement to join in the drilling of this well please indicate so by signing below.

I have also enclosed an AFE for your approval; please execute and return one executed original to this office.

The undersigned hereby agrees to ✓ join,
not join , in the drilling of the captioned
well.

by:


Jack Cargill

Thank you for your time and cooperation in this matter.

Very truly yours,


John Klee

JK/jb
Enclosure

FRED POOL OPERATING

March 10, 1982

Box 1300, Clovis Star Route
Roswell, New Mexico 88201

James Lusk
P.O. Box 2057
Roswell, New Mexico 88201

RE: Corn Bros. Inc. #2
Section 17
T6S, R25E

Dear Jim,

Fred Pool Operating Company proposes the drilling of an ABO test well in the captioned acreage. If you are in agreement to join in the drilling of this well please indicate so by signing below.

I have also enclosed an AFE for your approval; please execute and return one executed original to this office.

The undersigned hereby agrees to ✓ join, not join
 , in the drilling of the captioned well.

by: James K. Lusk
James Lusk

Thank you for your time and cooperation in this matter.

Very truly yours,

John Klee
John Klee

JK/jb

FRED POOL OPERATING

March 10, 1982

Box 1300, Clovis Star Route
Roswell, New Mexico 88201

Kemp McMillan
726 Three Cross Drive
Roswell, New Mexico 88201

RE: Corn Bros. Inc. #2
Section 17
T65, R25E

Dear Kemp,

Fred Pool Operating Company proposes the drilling of an ABO test well in the captioned acreage. If you are in agreement to join in the drilling of this well please indicate so by signing below.

I have also enclosed an AFE for your approval; please execute and return one executed original to this office.

The undersigned hereby agrees to ☒ join,
not join ☐, in the drilling of the captioned
well.

By: Kemp McMillan

Kemp McMillan

Thank you for your time and cooperation in this matter.

Very truly yours,

John Klee
John Klee

JK/jb
Enclosures

RECEIVED

FRED POOL OPERATING

MAR 15 1982

March 11, 1982

Appr. by /
Pd. Ck. # Voc. #

Box 1300, Clovis Star Route
Roswell, New Mexico 88201

Tex-Mex Drilling
Box 2895
Abilene, Texas 79604

RE: Corn Bros. Inc. #2
Section 17
T6S, R25E

ATTENTION: Gerald Cockrell

Dear Mr. Cockrell,

Fred Pool Operating Company proposes the drilling of an ABO test well in the captioned acreage. If you are in agreement to join in the drilling of this well please indicate so by signing below.

I have also enclosed an AFE for your approval; please execute and return one executed original to this office.

The undersigned hereby agrees to ✓ join,
not join , in the drilling of the captioned
well.

Gerald L. Cockrell
Tex-Mex Drilling

By: Gerald Cockrell
Vice-President
March 15, 1982

Thank you for your time and cooperation in this matter.

Sincerely,

John Klee
John Klee

JK/jb
Enc

FRED POOL OPERATING

March 24, 1982

Box 1300, Clovis Star Route
Roswell, New Mexico 88201

Tex-Mex Drilling
Box 2895
Abilene, Texas 79604

RE: Corn Bros. Inc. #2
Section 17
T6S, R25E

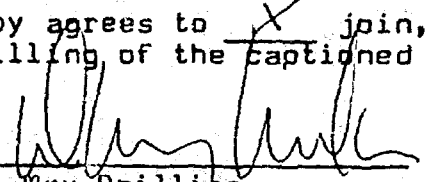
ATTENTION: Danny Mullen

Dear Danny,

Fred Pool Operating Company proposes the drilling of an A80 test well in the captioned acreage. If you are in agreement to join in the drilling of this well please indicate so by signing below.

I have also enclosed an AFE for your approval; please execute and return one executed original to this office.

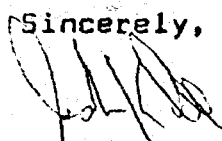
The undersigned hereby agrees to X join,
not join _____, in the drilling of the captioned
well.



Tex-Mex Drilling
By: Danny Mullen
Attorney-in-fact

Thank you for your time and cooperation in this matter.

Sincerely,


John Klee

JK/jb
Enc

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

March 3, 1982,

OPERATOR Fred Pool Operating Company

CONTRACT AREA SW/4 Section 17, T6S, R25E

COUNTY OR PARISH OF Chaves STATE OF New Mexico

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 2553 Exhibit No. 5

Submitted by Pool

Hearing Date _____

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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, OK 74101

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.

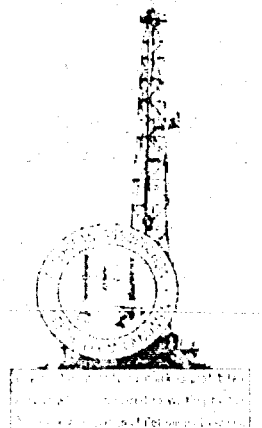


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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Fred Pool, Jr., 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:

Fred Pool Operating Company 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 June, 1982, Operator shall commence the drilling of a well for oil and gas at the following location:

Section 17; SW/4 Township 6s Range 25e

and shall thereafter continue the drilling of the well with due diligence to

adequately test the ABC formation

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.L. hereof.

1 **B. Subsequent Operations:**

2
3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any
15 notice or response given by telephone shall be promptly confirmed in writing.

16
17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed
23 operation and complete it with due diligence. Operator shall perform all work for the account of the
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms
29 and conditions of this agreement.

30
31 If less than all parties approve any proposed operation, the proposing party, immediately after the
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)
35 hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify
39 all parties of such decision.

40
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions
47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,
55 calculated at the well, or market value thereof if such share is not sold (after deducting production
56 taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of
57 or measured by the production from such well accruing with respect to such interest until it reverts)
58 shall equal the total of the following:

59
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the
63 cost of operation of the well commencing with first production and continuing until each such Non-
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-
67 ginning of the operation; and

68
69 (b) 200 % of that portion of the costs and expenses of drilling reworking, deepening, or plugging
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

1 ~~22%~~ of that portion of the cost of newly acquired equipment in the well (to and including the well-
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-
3 pated therein.

4
5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-
7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-
9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of
16 all production, severance, gathering and other taxes, and all royalty, overriding royalty and other
17 burdens applicable to Non-Consenting Party's share of production.

18
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of
24 salvage.

25
26 Within sixty (60) days after the completion of any operation under this Article, the party con-
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the
35 amount of proceeds realized from the sale of the well's working interest production during the preceding
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any
39 such operation which would have been owned by a Non-Consenting Party had it participated therein
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52
53 Notwithstanding the provisions of this Article VI.B.2, it is agreed that without the mutual consent
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing
56 well spacing pattern for such source of supply.

57
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article
62 VI.A.

63 64 C. Right to Take Production in Kind:

65
66 Each party shall have the right to take in kind or separately dispose of its proportionate share of
67 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-
68 velopment and producing operations and in preparing and treating oil for marketing purposes and
69 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-
70 sition by any party of its proportionate share of the production shall be borne by such party. Any

1 party taking its share of production in kind shall be required to pay for only its proportionate share
2 of such part of Operator's surface facilities which it uses.

3
4 Each party shall execute such division orders and contracts as may be necessary for the sale of its
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled
6 to receive payment direct from the purchaser thereof for its share of all production.

7
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-
13 erator shall be subject always to the right of the owner of the production to exercise at any time its
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's
19 share of gas production without first giving such other party thirty (30) days notice of such intended
20 sale.

21
22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-
23 liveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the
25 balancing or accounting between the respective accounts of the parties shall be in accordance with
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as
27 Exhibit "E", or is a separate Agreement.

28 29 D. Access to Contract Area and Information:

30
31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect
32 or observe operations, and shall have access at reasonable times to information pertaining to the de-
33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon
34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-
35 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports
36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings
37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to
38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the
39 information.

40 41 E. Abandonment of Wells:

42
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent
46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct
52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

53
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvageable
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the
67 formation or formations then open to production. If the interest of the abandoning party is or includes
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party ~~an oil and gas~~
69 ~~oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-~~
70 ~~tion, 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 five thousand Dollars (\$ 5,000.00) 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 1/8 of 8/8 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.

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 severally 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 five thousand Dollars (\$ 5,000.00) 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.

1 ☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled
 2 under any provision of this agreement, results in production of oil and or gas in paying quantities, this
 3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-
 4 tion, and for an additional period of 180 days from cessation of all production; provided, however,
 5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in
 6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-
 7 erations have been completed and if production results therefrom, this agreement shall continue in
 8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well
 9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil
 10 and or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-
 11 tions are commenced within 120 days from the date of abandonment of said well.

12
 13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from
 14 any liability which has accrued or attached prior to the date of such termination.

15
 16 **ARTICLE XIV.**
 17 **COMPLIANCE WITH LAWS AND REGULATIONS**

18
 19 **A. Laws, Regulations and Orders:**

20
 21 This agreement shall be subject to the conservation laws of the state in which the committed
 22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of
 23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and
 24 orders.

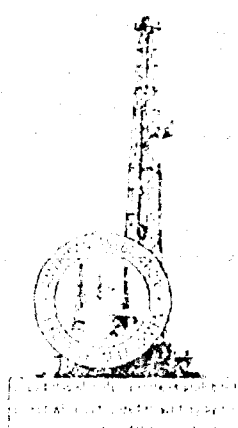
25
 26 **B. Governing Law:**

27
 28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-
 29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-
 30 terpretation or construction, shall be governed and determined by the law of the state in which the
 31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most
 32 of the land in the Contract Area is located shall govern.

33
 34 **ARTICLE XV.**
 35 **OTHER PROVISIONS**

36
 37
 38
 39
 40 **A. Covenants running with the land:**

41
 42 The terms, provisions, covenant and conditions of this agreement
 43 shall be deemed to be covenants running with the land, lease, or
 44 leases and leasehold estates covered hereby, and conditions of
 45 this agreement shall be binding upon and inure to the benefit of
 46 the parties, their successors and assigns.



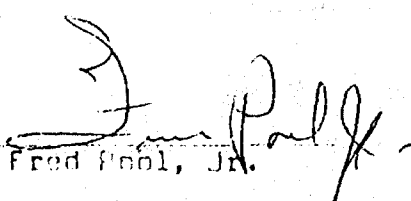
ARTICLE XVI
MISCELLANEOUS

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 3 day of March, 1982.

OPERATOR


Fred Pool, Jr.

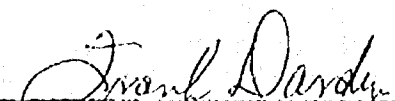
NON-OPERATORS

Mesa Petroleum
by: Marion E. Causey

Jack Cargill

Plains Radio Broadcasting
by: G.B. Whittenburg

Kemp McMillan


Mercury Exploration
by: Frank Darden

Jack J. Grynberg

Tex Mex Drilling
by: Jerry Crookrell

Corona Oil Company
by:

James Lusk

W.N.M.C.F. MICROGRAPHICS



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OPERATOR

Fred Pool, Jr.
Fred Pool, Jr.

NON-OPERATORS

Mesa Petroleum
by: Marion E. Causey

Jack Cargill
Jack Cargill

Plains Radio Broadcasting
by: S.B. Whittenburg

Kemp McMillan
Kemp McMillan

Mercury Exploration
by: Frank Darden

Jack J. Grynberg
Jack J. Grynberg

Tex Mex Drilling
by: Jerry Crockrell

Corona Oil Company
by:

James Lusk
James Lusk

Addresses of Parties named herein for notification purposes
and their respective interests in the drillsite acreage.

Fred Paul Drilling Company P.O. Box 1300 Clovis Star Route Roswell, New Mexico 88201	11.250%
Plains Radio Broadcasting P.O. Box 783 Amarillo, Texas 79105	25.000%
Mercury Exploration Suite 1212 Ridglea Bank Building Fort Worth, Texas 76116	9.750%
Tex-Mex Drilling Company P.O. Box 2895 Abilene, Texas 79604	1.500%
James Lusk P.O. Box 2057 Roswell, New Mexico 88201	1.000%
Jack Cargill P.O. Box 2057 Roswell, New Mexico 88201	1.000%
Kemp McMillan 726 Three Cross Drive Roswell, New Mexico 88201	0.500%
Mesa Petroleum Vaughn Building Suite 1000 Midland, Texas 79701	12.500%
Corona Oil Company 4835 LBJ Freeway, Suite 635 Dallas, Texas 75234	12.500%
Jack J. Grynberg 1050 Seventeenth Street, Suite 1950 Denver, Colorado 82065	25.000%

W.N.M.C.F. MICROGRAPHICS



EXHIBIT " "

Attached to and made a part of their certain operating agreement covering the SW/4 Sec 17 T6S R25E naming Fred Pool, Jr. as operator and Plains Radio Broadcasting, Mesa Petroleum, Jack Grynberg and others as non-operators.

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:

(XX) 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 \$ 3,000.00
Producing Well Rate \$ 300.00

- (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 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 \$25,000.00:

- A. 5 % of total costs if such costs are more than \$25,000.00 but less than \$100,000.00 plus
 B. 3 % of total costs in excess of \$100,000.00 but less than \$1,000,000; plus
 C. 2 % 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"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT
DATED March 3, 1982
BETWEEN FRED POOL, JR., "OPERATOR," AND
PLAINS RADIO BROADCASTING COMPANY, ET AL, "NON-OPERATORS".

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

- (A) Workmen's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$100,000.00 per employee.
- (B) Public Liability Insurance:
 - Bodily Injury - \$500,000.00 each occurrence.
- (C) Automobile Public Liability Insurance:
 - Bodily Injury - \$250,000.00 each person.
\$500,000.00 each occurrence.
 - Property Damage - \$100,000.00 each occurrence.

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this Agreement is attached own the working interest in the gas rights underlying the Unit Area covered by such Agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

Each Party shall have the right to take in kind its share of the gas produced from the Unit Area. However, there may be periods when one or more of the Parties have no market for, or its purchaser is unable to take, or for any other reason, it may not dispose of its interest, or a portion thereof, in the gas production. Therefore, to permit each Party to produce and dispose of its interest in the gas production from the Unit Area with as much flexibility as possible, the Parties hereto agree to this Gas Balancing Agreement as hereinafter set forth:

1. DEFINITIONS:

For the purposes of this Agreement, the following terms shall be defined as hereafter set out:

- (a) "Operating Agreement" shall mean the Operating Agreement to which this Gas Balancing Agreement is attached.
- (b) "Gas" shall mean natural gas or oil well gas obtained from primary field separation.
- (c) "Liquid Hydrocarbons" are those liquids obtained from primary field separation.
- (d) "Percentage Ownership" is the percentage interest of each party as set forth in the Operating Agreement.
- (e) "Over-produced Party" is a party who has utilized or sold a greater volume of gas at any given time (individually or through its gas purchaser) than a volume determined by multiplying the total cumulative volume of gas produced and utilized or sold from a proration unit within the Unit Area by such Party's Percentage Ownership.
- (f) "Under-produced Party" is a party who has utilized or sold a lesser volume of gas at any given time (individually or through its gas purchaser) than a volume determined by multiplying the total cumulative volume of gas produced and utilized or sold from a proration unit within the Unit Area by such Party's Percentage Ownership.
- (g) "MER" is the total daily maximum efficient rate of hydrocarbon withdrawal from each separately produced proration unit, which, if exceeded for a sustained period of time, would lead to underground waste in the form of reduced ultimate recovery from the proration unit.

2. OWNERSHIP OF PRODUCTION:

- (a) SALE BY LESS THAN ALL OWNERS: All gas produced from the Unit Area shall be produced and utilized or sold by those parties having a use or market for such gas. If fewer than all the parties are producing gas, the parties so producing shall have the right and option, but not the obligation, to produce and dispose of all or any part of such gas that may be produced up to the MER. The parties hereto shall share in and own the liquid hydrocarbons, as produced, in accordance with their respective interests, as set forth in and subject to the terms of the Operating Agreement. It is agreed that the gas attributable to the interest of each Under-produced party shall remain in the reservoir for production at a later date.
- (b) SALE BY UNDER-PRODUCED OWNERS: Each Under-produced Party shall, upon commencing the sale of gas, have the right to take a greater percentage of the current gas production than such Under-produced Party's Percentage Ownership, subject to the following limitations:

- (1) For the purposes of balancing gas production accounts, as soon as practical, any Over-produced Party or Parties will make available to any Under-produced Party or Parties a portion of the Over-produced Party's or Parties' share of gas production at the current MER, but Over-produced Parties shall not be liable to Under-produced Parties under this paragraph except as provided in Section 3 hereof. In no event will any Over-produced Party be required to reduce the volume of gas which it is entitled to take from a proration unit during any calendar month to less than 50% of such Over-produced Party's Percentage Ownership in the gas produced. If at any time more than one Under-produced Party is taking in excess of its Percentage Ownership share of gas production, then each such Under-produced Party shall be entitled to a share of the gas production made available by the Over-produced Parties in the ratio that the under-production of each Under-produced Party bears to the total under-production of all Under-produced Parties currently taking gas; provided that if any Under-produced Party is taking less than its full share of the gas production made available by the Over-produced Parties, then each of the other Under-produced Parties shall be entitled to share, pro rata, in such available gas production.
- (2) For the purpose of balancing production accounts as provided in Section 3 hereof, the Under-produced Party, to the extent it is taking gas in excess of that attributable to its Percentage Ownership, shall be deemed to be recovering volumes of gas offsetting prior over-production by the Over-produced Party on a last in, first out basis.
- (3) Each party's gas production account is in balance when such party has utilized or sold the same percentage of the total cumulative production from a proration unit as such party's Percentage Ownership.
- (4) It is contemplated that some of the parties may arrange to have their gas processed in a gas processing plant for the recovery of liquefiable hydrocarbons. This Balancing Agreement shall not provide a basis for balancing any liquefiable hydrocarbons recovered from a gas processing plant.
- (5) Only produced gas actually utilized or sold by a party shall be owned by it and charged against its share of the total recoverable reserves.

3. BALANCING OF PRODUCTION ACCOUNTS:

When production from a proration unit permanently ceases, there shall be an accounting between the parties hereto so that any Under-produced Party shall receive a sum of money equal to the amount actually received, less applicable taxes, royalty, and the cost of dehydration and compression if not participated in by the Under-produced Party, by any Over-produced Party from the sale of that part of the total cumulative volume of gas produced from the unit to which any Under-produced Party was entitled, but which was utilized or sold by the Over-produced Parties. For the purposes of this paragraph, the "amount actually received" shall be the dollar amount received by an Over-produced Party for any unbalanced over-production of such party. If a portion of a party's gas is taken for its own use and a portion thereof is sold, the gas value will be based on the price received simultaneously by such party for gas being sold from the proration unit. During periods in which a party is taking all of its gas for its own use, any gas so taken will be valued at the maximum price which such party could have received for such gas if actually delivered under such party's contract, or if none, the weighted average price received simultaneously by all parties for gas sold from the proration unit. If gas is processed for the recovery of liquefiable hydrocarbons, the gas value will be based on the amount which would have been received for the sale of such gas without processing.

4. STATEMENTS:

During the term hereof, each party selling gas from a well within the Unit Area in any month will furnish or cause to be furnished to the Operator a statement showing the volume and value of gas utilized and the volume and proceeds if sold. The Operator under the Operating Agreement shall furnish monthly to each party a statement showing the status of the over and short accounts of all parties.

5. PRODUCTION TAXES:

Each Party taking gas shall pay any and all production taxes due on such gas.

6. PAYMENT OF ROYALTY:

At all times while gas is produced from the Unit Area, each party hereto shall make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to its purchaser its share, and its share only, of the total gas production exclusive of gas used in lease operations, vented or lost. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

7. OPERATING EXPENSES:

The operating expenses are to be borne as provided in the Operating Agreement, regardless of whether all parties are selling or using gas or whether the sales and use of each are in proportion to Percentage Ownership.

8. SCOPE AND TERM:

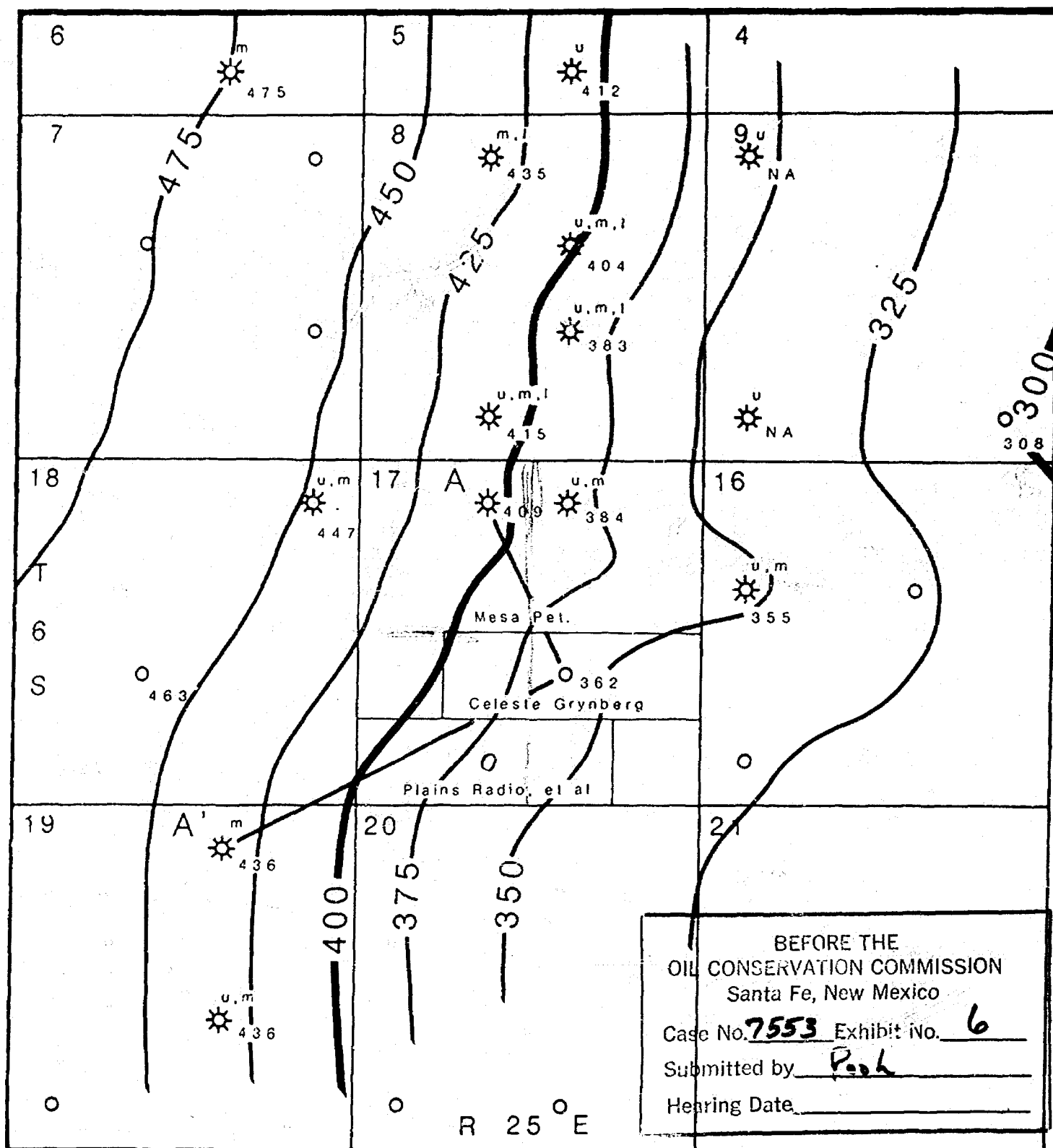
This Agreement shall constitute a separate agreement as to each well and as to each separately metered reservoir produced from each well within the Unit Area and shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

9. INDEMNITY:

Each party hereby indemnifies the other parties hereto against all liability for and agrees to defend the parties hereto against all claims which may be asserted by third parties who now or hereafter stand in a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under its provisions, and further agrees to save the other parties hereto harmless from all judgments or damages sustained and costs incurred in connection therewith.

10. OPERATOR'S LIABILITY:

The Operator under the Operating Agreement is authorized to carry out the provisions of this Agreement, but shall not be liable for its failure to do so as long as it acts in good faith and as would a reasonably prudent Operator in the same or similar circumstances.



FRED POOL OPERATING COMPANY

PECOS SLOPE

CHAVES COUNTY, NEW MEXICO

STRUCTURE CONTOUR MAP

CONTOUR HORIZON:

T/ ABO

CONTOUR INTERVAL:

25 FEET

DATUM:

MEAN SEA LEVEL

SCALE:

1 INCH = 2000 FEET

MARCH 1982

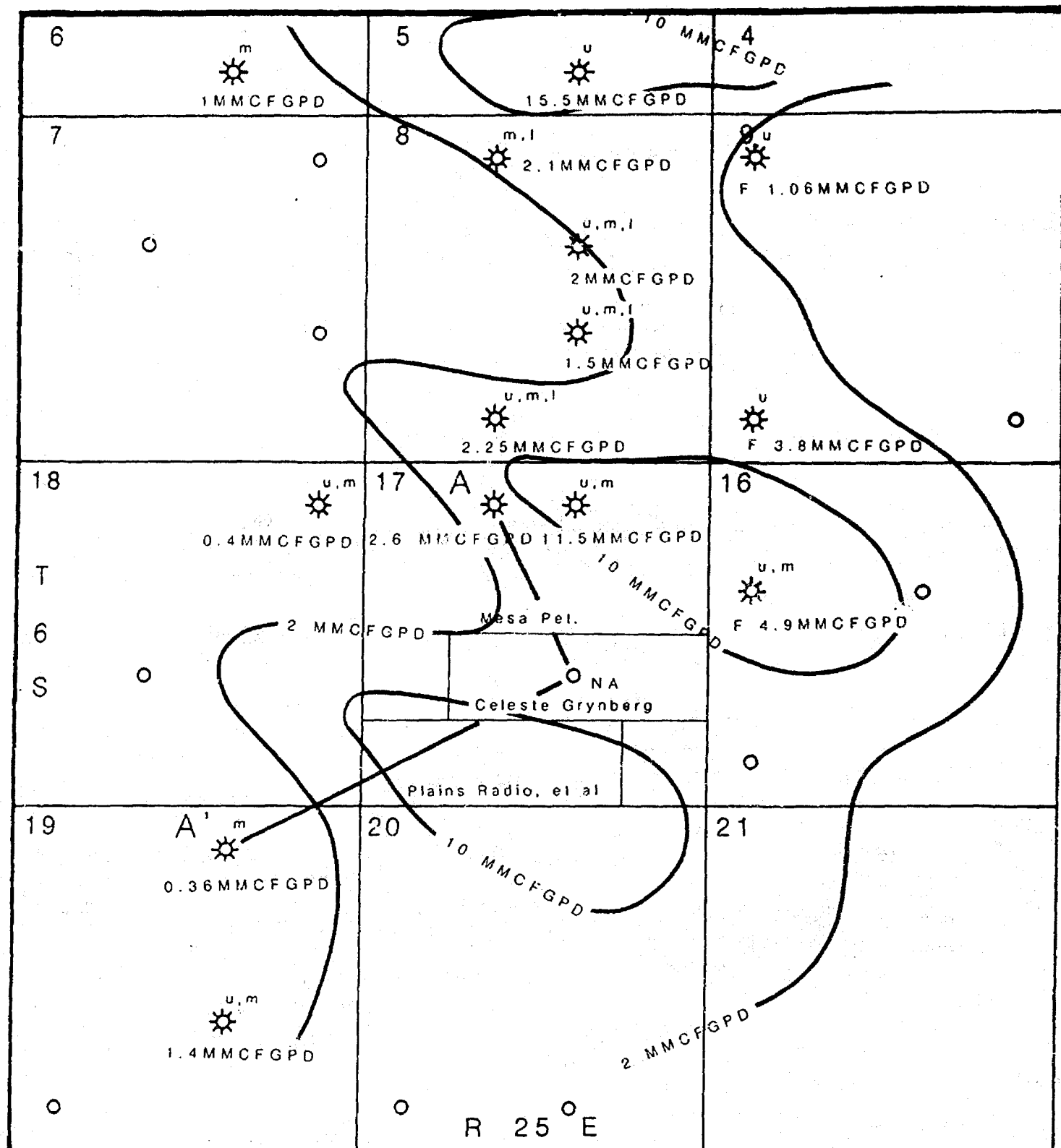
S. D. HANSON, GEOLOGIST

Reported Well Perforations:

u - upper Abo interval

m - middle Abo interval

l - lower Abo interval



FRED POOL OPERATING COMPANY

PECOS SLOPE

CHAVES COUNTY, NEW MEXICO

CONTOUR MAP

CONTOURED VALUE: INITIAL POTENTIAL (CAOF)

CONTOUR INTERVAL: AS MARKED

DATUM: MEAN SEA LEVEL

SCALE: 1 INCH = 2000 FEET

MARCH 1982

S. D. HANSON, GEOLOGIST

Reported Well Perforations:

u - upper Abo interval

m - middle Abo interval

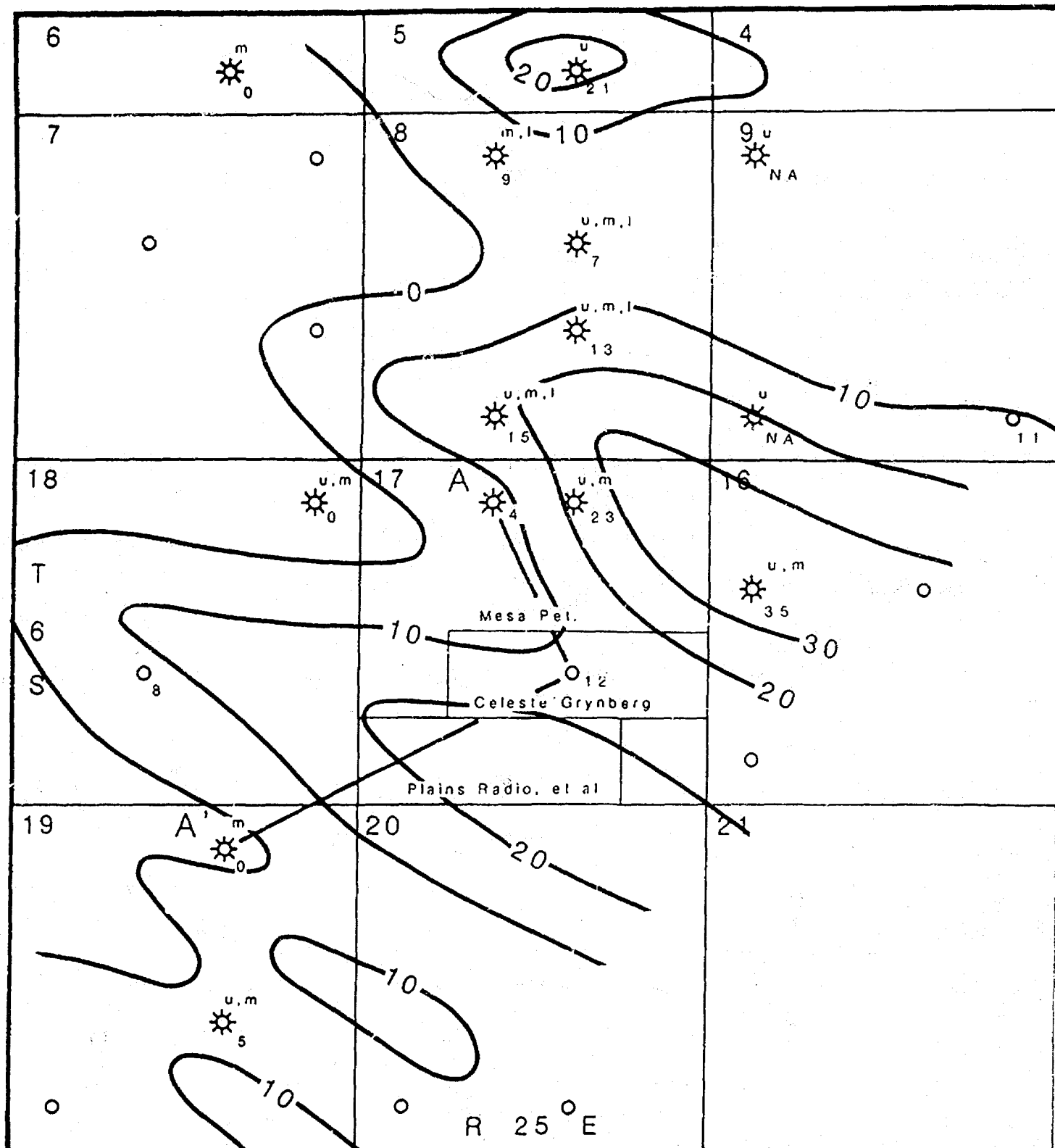
l - lower Abo interval

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7553 Exhibit No. 7

Submitted by Pook

Hearing Date _____



FRED POOL OPERATING COMPANY

PECOS SLOPE

CHAVES COUNTY, NEW MEXICO

ISOPACHOUS MAP

ISOPACHED INTERVAL: UPPER ABO NET POROSITY
(Porosity > 7.5%)

CONTOUR INTERVAL: 10 FEET

DATUM: MEAN SEA LEVEL

SCALE: 1 INCH = 2000 FEET

MARCH 1982

S. D. HANSON, GEOLOGIST

Reported Well Perforations:

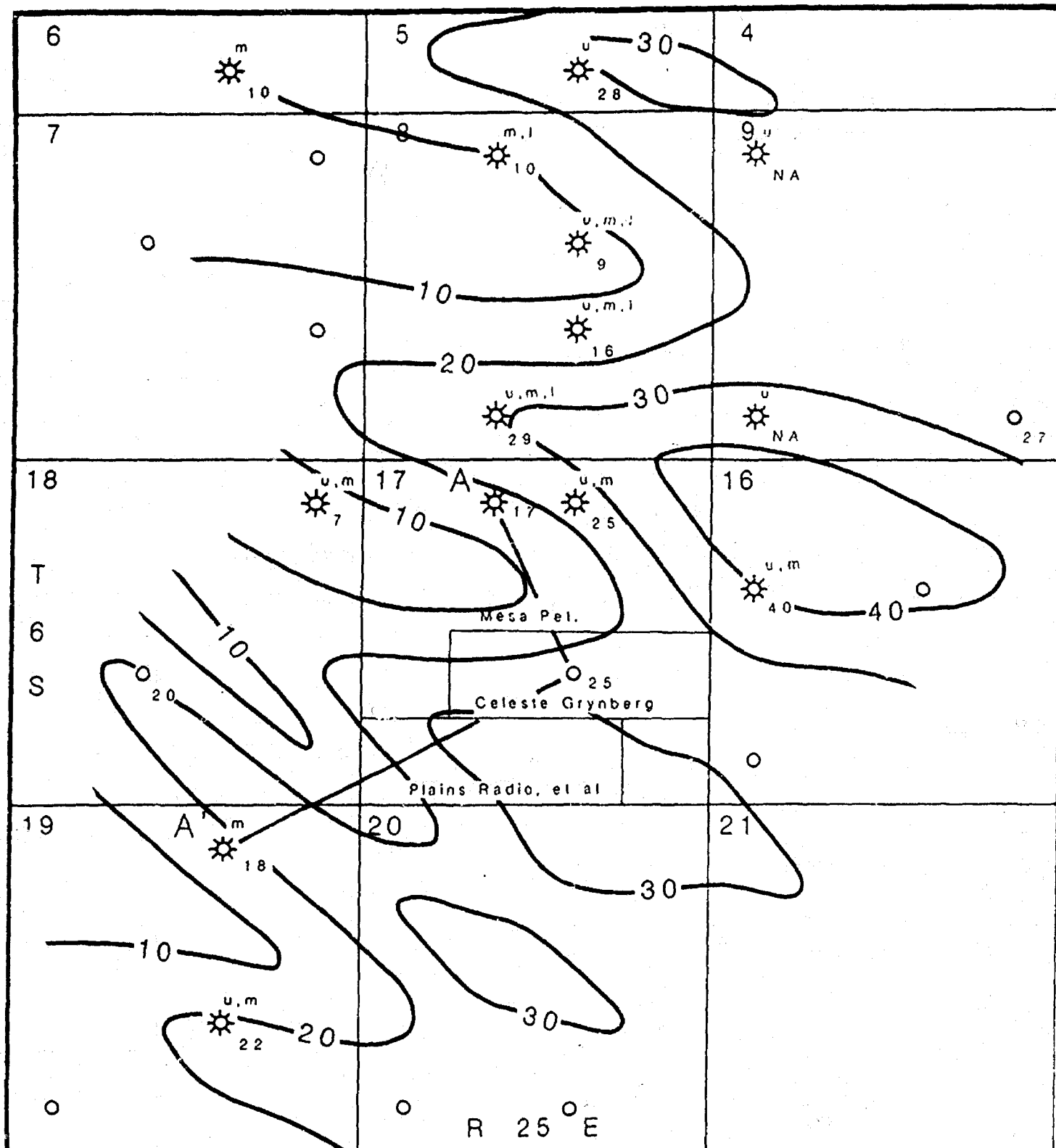
u - upper Abo interval
m - middle Abo interval
l - lower Abo interval

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7553 Exhibit No. 8

Submitted by Pool

Hearing Date _____



FRED POOL OPERATING COMPANY

PECOS SLOPE

CHAVES COUNTY, NEW MEXICO

ISOPACHOUS MAP

ISOPACHED INTERVAL: UPPER ABO CLEAN SAND
(Gamma Ray < 75 GAPI)

CONTOUR INTERVAL: 10 FEET

DATUM: MEAN SEA LEVEL

SCALE: 1 INCH = 2000 FEET

MARCH 1982

S. D. HANSON, GEOLOGIST

Reported Well Perforations:

u - upper Abo interval

m - middle Abo interval

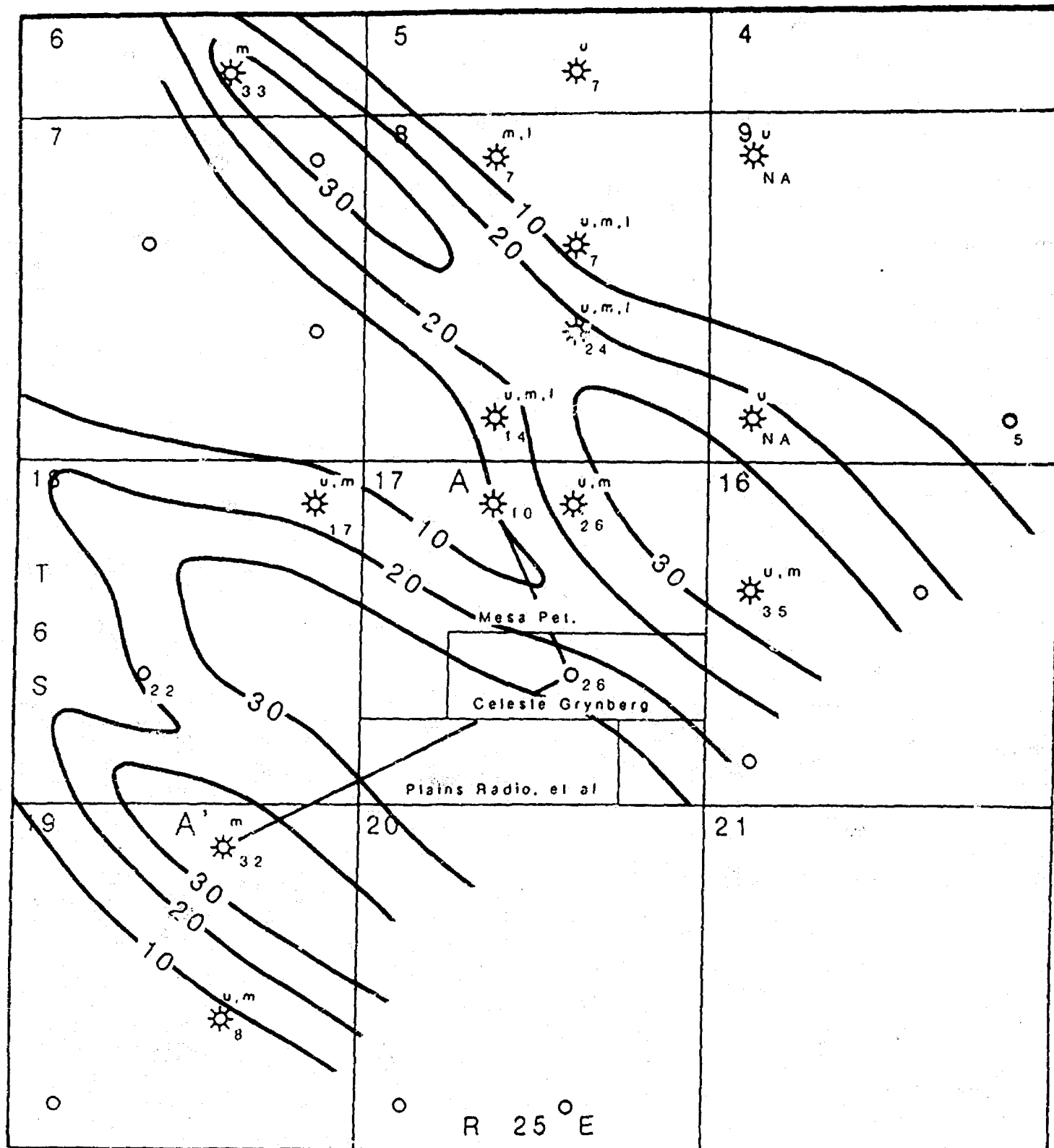
l - lower Abo interval

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7553 Exhibit No. 9

Submitted by Pook

Hearing Date _____



FRED POOL OPERATING COMPANY

PECOS SLOPE

CHAVES COUNTY, NEW MEXICO

ISOPACHOUS MAP

ISOPACHED INTERVAL: MIDDLE ABO NET POROSITY
(Porosity > 7.5%)

CONTOUR INTERVAL: 10 FEET

DATUM: MEAN SEA LEVEL

SCALE: 1 INCH = 2000 FEET

MARCH 1982

S. D. HANSON, GEOLOGIST

Reported Well Perforations:

u - upper Abo interval

m - middle Abo interval

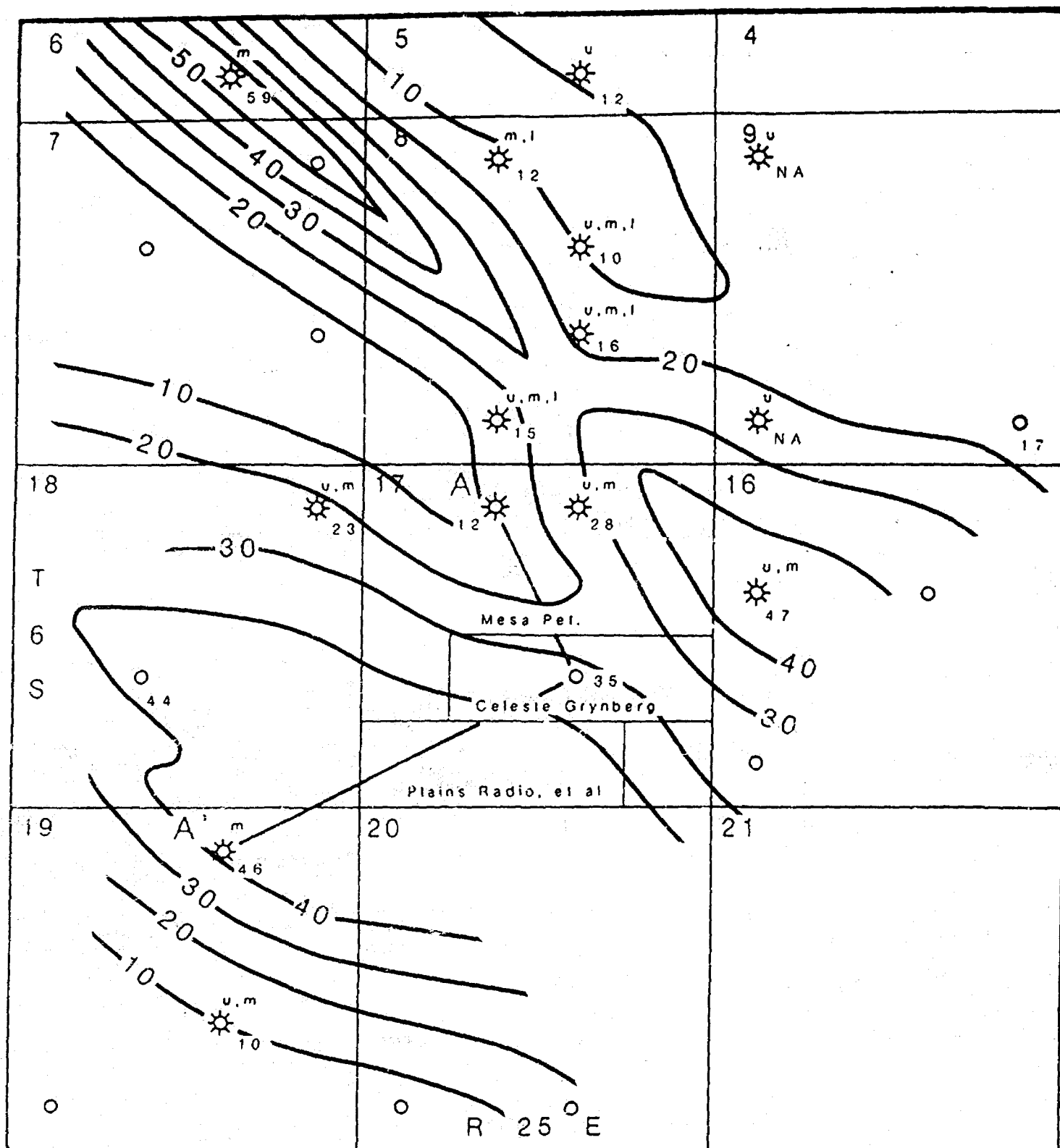
l - lower Abo interval

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7553 Exhibit No. 10

Submitted by Pool

Hearing Date _____



FRED POOL OPERATING COMPANY

PECOS SLOPE

CHAVES COUNTY, NEW MEXICO

ISOPACHOUS MAP

ISOPACHED INTERVAL: MIDDLE ABO CLEAN SAND
(Gamma Ray < 75 GAPI)

CONTOUR INTERVAL: 10 FEET

DATUM: MEAN SEA LEVEL

SCALE: 1 INCH = 2000 FEET

MARCH 1982

S. D. HANSON, GEOLOGIST

Reported Well Perforations:

u - upper Abo interval

m - middle Abo interval

l - lower Abo interval

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7953 Exhibit No. 11

Submitted by Pool

Hearing Date _____

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7553 Exhibit No. 12

Submitted by PerL

Hearing Date _____

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7553 Exhibit No. 13

Submitted by Paul

Hearing Date _____

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7535 Exhibit No. 2
Submitted by JG & A
Hearing Date 4/22/82

RE: 6 S - 25 E, Section 17: SW/4
ATTACHED TO AND MADE PART OF APPLICATION

EXHIBIT B

JACK J. GRYNBERG	25.000%
MTS, LIMITED PARTNERSHIP	12.500%
CORONA OIL COMPANY	12.500%
PLAINS RADIO BROADCASTING	25.000%
MERCURY EXPLORATION	9.750% ✓
TEX-MEX DRILLING COMPANY	1.500%
JAMES LUSK	1.000%
JACK CARGILL	1.000%
KEMP McMILLAN	0.500%
FRED POOL DRILLING COMPANY	11.250%

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7535 Exhibit No. 3
Submitted by SGI
Hearing Date 4/27/82

AFE # 02-081
Revision #
Date March 8, 1982

Lease Name Corn Bros. Inc. #2 formerly
Ina Lee #1
County Chaves
Horizon Abo
Est. Completion Date
Drilling Contractor Tex-Mex Drilling

Location SW1/4 Sec 17-T6S-R25E
Field Pecos Slope- Abo Gas
Est. Spud date
Est. T.O. 4300'

Primary Objective: () Oil (X) Gas () Oil and/or Gas
Purpose: (X) Drilling-New () Recompletion () Other (Supple-
Type Well: () Development (X) Exploratory ment AFE, Etc.

INTANGIBLE COSTS:

Staking Permit & Legal Fees
Location, Right-of-Way
Drilling Footage @
Drilling, Daywork 15 days @ \$5500/day
Moving in, Rigging up, Rigging down
Bits, Tools & Supplies
Drilling Water
Drilling Mud & Additives
Mud Logging Unit
Cement, Tools & Services, Temp. Surveys
Drill Stem Testing
Electric Logs & Perforating
Tool & Equip. Rental, Trucking, Welding
Supervision & Overhead
Coring, Tools & Services
Completion Unit 3 days @ \$1150 /day
Stimulation
Contingency

DRY HOLE

COMPLETION

1000	1000
12000	12000
-	-
82500	82500
20000	20000
10000	10000
10000	10000
12000	12000
-	-
12000	17000
-	-
15000	21000
5500	8000
2300	3000
-	-
-	3400
-	35000
9400	11100
191700	246000

TOTAL INTANGIBLES

WELL EQUIPMENT COSTS:

Christmas Tree and Well Head
Casing: 10-3/4" 40.5# K-55 @900'
4-1/2" 9.5# K-55 @4300'
Tubing: 2-3/8" 4.7# J-55 @4000'
Packer & Special Equipment
Contingency

1200	12000
21300	21300
-	-
-	27200
-	17000
-	4000
1500	3500
24000	85000

TOTAL WELL EQUIPMENT

LEASE & BATTERY EQUIPMENT COSTS:

Pumping Equipment
Storage 1-210 b. welded w/stair, walk, tank.
Separation Eq., Flowlines, Valves & Fittings
Trucking & Construction Costs

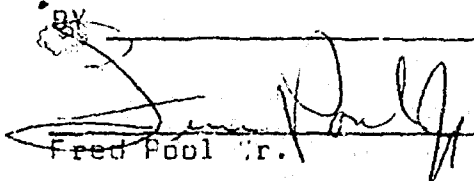
-	-
-	7900
-	19800
-	4300
-	32000

TOTAL LEASE & BATTERY EQUIP.

TOTALS

\$215700	\$363000
----------	----------

Approval of this AFE constitutes approval of the Operator's option to charge the joint account with tubular goods from Operator's warehouse stock at the rates stated above, unless the Non-Operator gives notification on this form of his intent to furnish his proportionate share in kind.

		<u>SHARE</u>
MESA PETROLEUM		
BY _____	DATE _____	25.%
_____	DATE _____	25.%
Jack Grynberg		
MERCURY EXPLORATION		
BY _____	DATE _____	9.750%
PLAINS RADIO BROADCASTING		
BY _____	DATE _____	25.%
 Fred Pool Jr.	DATE _____	11.250%
_____	DATE _____	1.000%
Jack Cargill		
_____	DATE _____	1.000%
James Lusk		
_____	DATE _____	.5000%
Kemp McMillan		
TEX-MEX DRILLING		
BY _____	DATE _____	1.5000%

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

March 12, 1982,

OPERATOR JACK J. GRYNBERG

CONTRACT AREA T 6 S - R 25 E, Sec. 17: SW/4

COUNTY OR PARISH OF CHAVES STATE OF NEW MEXICO

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APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
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KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between JACK J. GRYNBERG, 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.

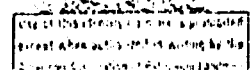
☒ C. Exhibit "C", Accounting Procedure.

☒ 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

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1 or operating costs which it may have theretofore paid, but there shall be no monetary liability on its
2 part to the other parties hereto for drilling, development, operating or other similar costs by reason of
3 such title failure; and

4 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the
5 operation of the interest which has been lost, but the interests of the parties shall be revised on an acre-
6 age basis, as of the time it is determined finally that title failure has occurred, so that the interest of
7 the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract
8 Area by the amount of the interest lost; and

9 (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled
10 on the Contract Area is increased by reason of the title failure, the party whose title has failed shall
11 receive the proceeds attributable to the increase in such interests (less costs and burdens attributable
12 thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;
13 and

14 (d) Should any person not a party to this agreement, who is determined to be the owner of any in-
15 terest in the title which has failed, pay in any manner any part of the cost of operation, development,
16 or equipment, such amount shall be paid to the party or parties who bore the costs which are so refund-
17 ed; and

18 (e) Any liability to account to a third party for prior production of oil and gas which arises by
19 reason of title failure shall be borne by the party or parties in the same proportions in which they shared
20 in such prior production; and

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection
22 with the defense of the interest claimed by any party hereto, it being the intention of the parties
23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.

24
25 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight,
26 any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously
27 paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against
28 the party who failed to make such payment. Unless the party who failed to make the required payment
29 secures a new lease covering the same interest within ninety (90) days from the discovery of the fail-
30 ure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of
31 the parties shall be revised on an acreage basis, effective as of the date of termination of the lease in-
32 volved, and the party who failed to make proper payment will no longer be credited with an interest in
33 the Contract Area on account of ownership of the lease or interest which has terminated. In the event
34 the party who failed to make the required payment shall not have been fully reimbursed, at the time of
35 the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an
36 acreage basis, for the development and operating costs theretofore paid on account of such interest, it
37 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the
38 cost of any dry hole previously drilled or wells previously abandoned) from so much of the following
39 as is necessary to effect reimbursement:

40 (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost
41 interest, on an acreage basis, up to the amount of unrecovered costs;

42 (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an
43 acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production
44 from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable
45 to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said
46 portion of the oil and gas to be contributed by the other parties in proportion to their respective in-
47 terests; and

48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-
50 coming a party to this agreement.

51
52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
55 the Contract Area.

56 57 ARTICLE V. 58 OPERATOR

59 60 A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

61
62 Jack J. Grynberg, 1050 17th St., Ste. 1950, Denver, CO 80265 shall be the
63 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on
64 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-
65 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator
66 to the other parties for losses sustained or liabilities incurred, except such as may result from gross
67 negligence or willful misconduct.

68
69
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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, 19 82, Operator shall commence the drilling of a well for oil and gas at the following location:

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and shall thereafter continue the drilling of the well with due diligence to

Abo formation

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.

1 B. Subsequent Operations:

2
3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any
15 notice or response given by telephone shall be promptly confirmed in writing.

16
17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed
23 operation and complete it with due diligence. Operator shall perform all work for the account of the
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms
29 and conditions of this agreement.

30
31 If less than all parties approve any proposed operation, the proposing party, immediately after the
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)
35 hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify
39 all parties of such decision.

40
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions
47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,
55 calculated at the well, or market value thereof if such share is not sold (after deducting production
56 taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of
57 or measured by the production from such well accruing with respect to such interest until it reverts)
58 shall equal the total of the following:

59
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the
63 cost of operation of the well commencing with first production and continuing until each such Non-
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-
67 ginning of the operation; and

68
69 (b) 300% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

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1 300 of that portion of the cost of newly acquired equipment in the well (to and including the well-
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-
3 pated therein.

4
5 Gas production attributable to any Non-Consenting Party's relinquished interest upon such Party's
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-
7 tract. Such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-
9 ered from the Non-Consenting Party's relinquished interest. If such Non-Consenting Party has not
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of
16 all production, severance, gathering and other taxes, and all royalty, overriding royalty and other
17 burdens applicable to Non-Consenting Party's share of production.

18
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of
24 salvage.

25
26 Within sixty (60) days after the completion of any operation under this Article, the party con-
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the
35 amount of proceeds realized from the sale of the well's working interest production during the preceding
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any
39 such operation which would have been owned by a Non-Consenting Party had it participated therein
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52
53 Notwithstanding the provisions of this Article VI.B.2, it is agreed that without the mutual consent
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing
56 well spacing pattern for such source of supply.

57
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article
62 VI.A.

63 C. Right to Take Production in Kind:

64
65 Each party electing to take in kind or separately dispose of its proportionate
66 share of production from the Contract Area shall keep accurate records of the volume,
67 selling price, royalty and taxes relative to its share of production. Non-operators
68 shall, upon request, furnish Operator with true and complete copies of the records re-
69 quired to be kept hereunder whenever, under the terms of this agreement or any agree-
70 ment executed in connection herewith, it is necessary for Operator to obtain said inform-
ation. Any information furnished to Operator hereunder shall be used by Operator only
to the extent necessary to carry out its duties as Operator and shall otherwise be kept
confidential.

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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 the 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 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 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 any party hereto is not at any time taking or marketing its share of gas production and Operator is either (i) unwilling to purchase or sell or (ii) unable to obtain the prior written consent to purchase or sell such party's share of gas production, or in the event any party has contracted to sell its share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, then in any such event the terms and conditions of the Gas Balancing Agreement attached hereto as Exhibit "E" and incorporated herein shall automatically become effective.

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 re-worked 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 salvageable 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-

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vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases or 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. It is not the intention of the parties that this contract is made or intended for the benefit of any third person.

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.

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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, completion and equipping of the well, including necessary tankage and/or surface facilities.~~

X. 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 TWENTY FIVE THOUSAND Dollars (\$ 25000) 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 FIFTEEN THOUSAND Dollars (\$ 15,000).

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 12.5% of 8/8 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 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.

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

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 of 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.

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

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1 of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article
2 IV.B.3.

3
4 **G. Taxes:**

5
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad
7 valorem taxation all property subject to this agreement which by law should be rendered for such
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments in the man-
16 ner provided in Exhibit "C".

17
18 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within
19 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all
20 parties agree to abandon the protest prior to final determination. During the pendency of administrative
21 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and
22 penalty. When any such protested assessment shall have been finally determined, Operator shall pay
23 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then
24 be assessed against the parties, and be paid by them, as provided in Exhibit "C".

25
26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-
27 posed upon or with respect to the production or handling of such party's share of oil and/or gas pro-
28 duced under the terms of this agreement.

29
30 **II. Insurance:**

31
32 At all times while operations are conducted hereunder, Operator shall comply with the Workmen's
33 Compensation Law of the State where the operations are being conducted; provided, however, that Op-
34 erator may be a self-insurer for liability under said compensation laws in which event the only charge
35 that shall be made to the joint account shall be an amount equivalent to the premium which would have
36 been paid had such insurance been obtained. Operator shall also carry or provide insurance for the
37 benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof.
38 Operator shall require all contractors engaged in work on or for the Contract Area to comply with the
39 Workmen's Compensation Law of the State where the operations are being conducted and to maintain
40 such other insurance as Operator may require.

41
42 In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently
43 receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for
44 such insurance for Operator's fully owned automotive equipment.

45
46 **ARTICLE VIII.**

47 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

48
49 **A. Surrender of Leases:**

50
51 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall
52 not be surrendered in whole or in part unless all parties consent thereto.

53
54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and
55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express
56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and
57 equipment which may be located thereon and any rights in production thereafter secured, to the parties
58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-
59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas
60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas
61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".
62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,
63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,
64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-
65 duction other than the royalties retained in any lease made under the terms of this Article. The parties
66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells
67 and equipment on the assigned acreage. The value of all material shall be determined in accordance
68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plug-
69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall,

70

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1 be shared by the parties assignee in the proportions that the interest of each bears to the interest of all
2 parties assignee.

3
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter
7 be subject to the terms and provisions of this agreement.

8
9 **B. Renewal or Extension of Leases:**

10
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23
24 Each party who participates in the purchase of a renewal lease shall be given an assignment ^{without warranty} of its
25 proportionate interest therein by the acquiring party.

26
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal
32 lease and shall not be subject to the provisions of this agreement.

33
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas
35 leases. The provisions of this Article VIII-B shall apply to leases or portions
36 of leases located within the Contract Area

37 **C. Acreage or Cash Contributions:**

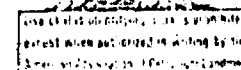
38
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-
48 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or
49 any other operation on the Contract Area.

50
51 If any party contracts for any consideration relating to disposition of such party's share of substances
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this
53 Article VIII.C. This paragraph shall not be applicable to the contribution of acreage
54 by the Contributing Parties toward the initial or any substitute well.

55 **D. Subsequently Created Interest:**

56
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as
61 follows:

62
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the
64 party conducting such operations becomes entitled to receive the production attributable to the interest
65 out of which the subsequently created interest is derived, such party shall receive same free and clear
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and
68 all liability resulting therefrom.



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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 VII.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 FIFTEEN THOUSAND Dollars (\$ 15,000.00) 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 in force and effect, this agreement shall remain in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and for so long as oil and/or gas production continues from any lease or oil and gas interest.~~

1 X Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled
 2 under any provision of this agreement, results in production of oil and or gas in paying quantities, this
 3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-
 4 tion, and for an additional period of 180 days from cessation of all production; provided, however,
 5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in
 6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-
 7 erations have been completed and if production results therefrom, this agreement shall continue in
 8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well
 9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil
 10 and or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-
 11 tions are commenced within 120 days from the date of abandonment of said well.

12
 13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from
 14 any liability which has accrued or attached prior to the date of such termination.

15
 16 **ARTICLE XIV.**
 17 **COMPLIANCE WITH LAWS AND REGULATIONS**

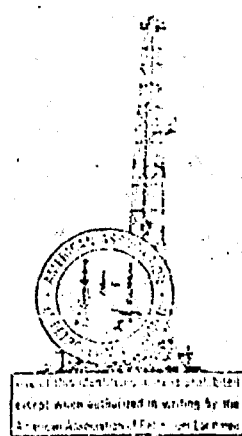
18
 19 **A. Laws, Regulations and Orders:**

20
 21 This agreement shall be subject to the conservation laws of the state in which the committed
 22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of
 23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and
 24 orders.

25
 26 **B. Governing Law:**

27
 28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-
 29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-
 30 terpretation or construction, shall be governed and determined by the law of the state in which the
 31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most
 32 of the land in the Contract Area is located shall govern.

33
 34 **ARTICLE XV.**
 35 **OTHER PROVISIONS**



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 _____ day of _____, 19____.

OPERATOR

JACK J. GRYNBERG

NON-OPERATORS

MTS, LIMITED PARTNERSHIP

CORONA OIL COMPANY

PLAINS RADIO BROADCASTING

MERCURY EXPLORATION

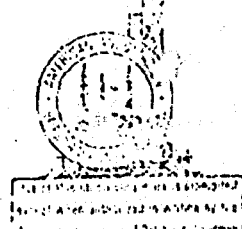
TEX-MEX DRILLING COMPANY

JAMES LUSK

JACK CARGILL

KEMP MC MILLAN

FRED POOL DRILLING COMPANY



N.M.C.F. MICROGRAPHICS



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EXHIBIT " C "

Attached to and made a part of Operating Agreement.

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%) , or percentage most recently recommended by COPAS.

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:

- (XX) 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 services, 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 \$ 3700
Producing Well Rate \$ 370

- (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 Worker 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 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 \$ 25,000 _____:

A. 5 % of total costs if such costs are more than \$ 25,000 _____ but less than \$ 100,000 _____; plus

B. 3 % of total costs in excess of \$ 100,000 _____ but less than \$ 1,000,000; plus

C. 2 % 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"

ATTACHED TO AND MADE A PART OF
OPERATING AGREEMENT

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

- (A) Workmen's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$100,000.00 per employee.
- (B) Public Liability Insurance:
Bodily Injury - \$500,000.00 each occurrence.
- (C) Automobile Public Liability Insurance:
Bodily Injury - \$250,000.00 each person.
\$500,000.00 each occurrence.
Property Damage - \$100,000.00 each occurrence.

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

M.C.F. MICROGRAPHICS



BEST AVAILABLE COPY

EXHIBIT "E"

Attached to and made a part of Operating Agreement

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the Unit Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from any proration unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred per cent (100%) of the allowable gas production assigned to such proration unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production; however, no party shall be entitled to take or deliver to a purchaser gas production in excess of 300% of its current share of the volumes capable of being delivered or its current share of allowable gas production if regulated thereto by State regulatory body having jurisdiction, unless that party has gas in place. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

At all times while gas is produced from the Unit Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying fifty percent (50%) of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in place and the denominator of which is the total percentage interest in such proration unit of all parties with gas in place currently taking or delivering to a purchaser.

Each party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser, provided that said test should be reasonable length, normally not to exceed 72 hours.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by Federal, State or other Governmental Agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by Federal, State or other Governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other Governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority. Such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

Notwithstanding the provisions of the last preceding paragraph, it is expressly agreed that any underproduced party hereunder shall have the optional right, with respect to each proration unit separately, to receive a cash settlement bringing such underproduced party's gas account into balance at any time prior to the permanent discontinuance of gas production, by first giving each overproduced party ninety (90) days written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 O'clock A.M. on the 1st day of the calendar month following the date of such written demands) within ninety (90) days following the actual receipt of such written demands by the overproduced parties, in the same manner provided in the last preceding paragraph hereof. The optional right provided for in this paragraph can only be exercised one (1) time by any particular underproduced party on the same proration unit; and each underproduced party agrees that it will not exercise such option unless it is of the opinion that the remaining underproduced recoverable gas reserves are inadequate for its gas account to be brought into balance by actual production prior to permanent discontinuance of gas production from such proration unit.

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

This agreement shall constitute a separate agreement as to each proration unit within the Unit Area and shall become effective in accordance with its terms and shall remain in force and effect so long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

N.M.C.F. MICROGRAPHICS



BEST AVAILABLE COPY

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. 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, national origin or sex. 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 for the contracting officer setting forth the provisions of this non-discrimination 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, national origin or sex.
- (3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a 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 its 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 non-compliance with the non-discrimination 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 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 take 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 non-compliance: 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 interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators 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 or September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. S 1001.



EXHIBIT "A"

Attached to and made a part of Operating Agreement dated March 10, 1982, between JACK J. GRYNBERG as Operator, and MTS, Limited Partnership, Corona Oil Company, Plains Radio Broadcasting, Mercury Exploration, Tex-Mex Drilling Company, James Lusk, Jack Cargill, Kemp McMillian, Fred Pool Drilling Company, as non-operator.

I. 1. Lands Subject to Agreement:

Township 6 South, Range 25 East, N.M.P.M.
Sec. 17: SW/4
 Containing 160 acres, more or less
 Chaves County, New Mexico

2. Depth Restriction:

Abo formation

3. Drilling Unit for the First Well:

Proration Unit established by the New Mexico OCC.

II. Percentage Interests of Parties Under Agreement:

NAME	ACRES	WORKING INTEREST
Jack J. Grynberg	40	25.000%
MTS, Limited Partnership	40	12.500%
Corona Oil Company		12.500%
Plains Radio Broadcasting		25.000%
Mercury Exploration		9.750%
Tex-Mex Drilling Company	80	1.500%
James Lusk		1.000%
Jack Cargill		1.000%
Kemp McMillian		0.500%
Fred Pool Drilling Company		11.250%

III. Leasehold Interest of Parties to Operating Agreement:

1. Lessor: United States

Original Lessee:

Present Lessee: Celeste C. Grynberg

Expiration Date of Lease: 12-1-82 HBP

Serial No. of Lease: USA-NM-17037

Description: T6S - R25E, N.M.P.M.

(Limited to portion Sec. 17: NE/4SW/4
 included in Contract
 Area)

2. Lessor: United States

Original Lessee:

Present Lessee: MTS, Limited Partnership 50%, Corona
 Oil Company 50%

Expiration Date of Lease: HBP

Serial No. of Lease: USA-NM-14754

Description: T6S-R25E, N.M.P.M.

(Limited to portion Sec. 17: NW/4SW/4
 included in Contract
 Area)

F. MICROGRAPHICS

AVAILABLE COPY

3. Lessor: E. L. Foreman
Original Lessee:
Present Lessee: Plains Radio, et al.

Expiration Date of Lease: 10-25-82
Description: T6S - R25E, N.M.P.M.
(Limited to portion included in Contract Area) Sec. 17: S/2SW/4

4. Lessor: S. W. Corn
Original Lessee:
Present Lessee: Plains Radio, et al.

Expiration Date of Lease: 10-9 -82
Description: T6S - R25E, N.M.P.M.
(Limited to portion included in Contract Area) Sec. 17: S/2SW/4

IV. Addresses of Parties:

Jack J. Grynberg
1050 Seventeenth Street, Suite 1950
Denver, CO 82065-1997

MTS, Limited Partnership
P.O. Box 2009
Amarillo, TX 79189

Corona Oil Company
4835 LBJ Freeway, Suite 635
Dallas, TX 75234

Plains Radio Broadcasting
P.O. Box 783
Amarillo, TX 79105

Mercury Exploration
Suite 1212
Ridglea Bank Bldg.
Fort Worth, TX 76116

Tex-Mex Drilling Company
P.O. Box 2895
Abilene, TX 79604

James Lusk
P.O. Box 2057
Roswell, NM 88201

Jack Cargill
P.O. Box 2057
Roswell, NM 88201

Kemp McMillian
726 Three Cross Drive
Roswell, NM 88201

Fred Pool Drilling Company
P.O. Box 1300
Clovis Star Route
Roswell, NM 88201

FEB 24 1982

AUTHORITY FOR EXPENDITURE

AFE# 81-NM-7

REVISION#

DATE December 17, 1981

LEASE NAME #1 Corn-Foreman 17 'COM' LOCATION S17,65-2SE,660'S,1980'1/4

COUNTY Chaves STATE New Mexico FIELD

HORIZON Abo EXT. T.D. 4300' EST. SPUD DATE

EST. COMPLETION DATE DRILLING CONTRACTOR

PRIMARY OBJECTIVE: OIL ☒ GAS ☐ OIL and/or GASPURPOSE : ☒ DRILLING-NEW ☐ RECOMPLETION ☐ OTHER (SUPPLEMENT AFE, Etc.)TYPE WELL : ☒ DEVELOPMENT ☐ EXPLORATORY

INTANGIBLE COSTS:

	DRY HOLE	COMPLETION
Staking Permit & Legal Fees	\$ 1000	\$ 1000
Location, Right-of-Way	11300	12000
Drilling, Footage	---	---
Drilling, Daywork 12 Days @ \$5500 / Day	66000	66000
Bits, Tools & Supplies	10000	10000
Drilling Water	16500	16500
Drilling Mud & Additives	10000	10000
Mud Logging Unit	---	---
Cement, Tools & Services, Temp. Surveys	12000	17000
Drill Stem Testing	---	---
Electric Logs & Perforating	14700	20700
Tool & Equip. Rental, Trucking, Welding	5500	8000
Supervision & Overhead	2500	3200
Coring, Tools & Services	---	---
Completion Unit 5 Days @ \$1150 / Day	---	5800
Stimulation	---	35000
Contingency	8400	11200
Moving In, Rigging Up, Rigging Down	20000	20000
TOTAL INTANGIBLES	177900	236400

WELL EQUIPMENT COSTS:

Christmas Tree and Well Head	1200	12000
Casing: 10-3/4" 40.5 #K-55 @ 900'	20400	20400
4-1/2" 9.5 #K-55 @ 4200'	---	25200
Tubing: 2-3/8" 4.7 #J-55 @ 4000'	---	16200
Packer & Special Equipment	---	4000
Contingency - Intermediate casing string:		
8-5/8" @ 1500'	20400	21200
TOTAL WELL EQUIPMENT	42000	99000

LEASE & BATTERY EQUIPMENT COSTS:

Pumping Equipment	---	---
Storage	---	7900
Separation Eq., Flowlines, Valves & Fittings	---	19800
Trucking & Construction Costs	---	4300
TOTAL LEASE & BATTERY EQUIP.	---	32000

TOTALS

\$ 219,900

\$ 367,400

APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF THE OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE, UNLESS THE NON-OPERATOR GIVES NOTIFICATION ON THIS FORM OF HIS INTENT TO FURNISH HIS PROPORTIONATE SHARE IN KIND.

SHARE -

25.000%

JACK J. GRYNBERG

BY

DATE

DEC 18 1981

MTS, LIMITED PARTNERSHIP

12.500%

BY: _____ DATE _____

CORONA OIL COMPANY

12.500%

BY: _____ DATE _____

PLAINS RADIO BROADCASTING

25.000%

BY: _____ DATE _____

MERCURY EXPLORATION

9.750%

BY: Frank Darden DATE 2-18-82

TEX-MEX DRILLING COMPANY

1.500%

BY: _____ DATE _____

JAMES LUSK

1.000%

BY: _____ DATE _____

JACK CARGILL

1.000%

BY: _____ DATE _____

KEMP MCMILLAN

0.500%

BY: _____ DATE _____

FRED POOL DRILLING COMPANY

11.250%

BY: _____ DATE _____

AUTHORITY FOR EXPENDITURES

APP#

REVISION #

DATE 3/12/82

LEASE NAME _____ LOCATION: T6S-R25E, Sec. 17: SW/4

COUNTY Chaves STATE New Mexico FIELD _____

HORIZON Abo EXT. T.D. 4000' EST. SPUD DATE _____

EST. COMPLETION DATE _____ DRILLING CONTRACTOR _____

PRIMARY OBJECTIVE: _____ OIL _____ ☒ GAS _____ OIL and/or GAS

PURPOSE: _____ ☒ DRILLING - NEW _____ RECOMPLETION _____ OTHER (SUPPLEMENT, AFF, ETC.)

TYPE WELL: _____ ☒ DEVELOPMENT _____ EXPLORATORY

INTANGIBLE COSTS:

	DRY HOLE	COMPLETION
Staking Permit & Legal Fees	\$ 1000	\$ 1000
Location, Right-of-Way	7100	7100
Drilling, Footage	-	-
Drilling, Daywork 10 Days @ \$ 6500 /Day	65000	65000
Moving In, Rigging Up, Rigging Down	23000	23000
Bits, Tools & Supplies	10000	10000
Drilling Water	8000	8000
Drilling Mud & Additives	5000	5000
Mud Logging Unit	-	-
Cement, Tools & Services, Temp. Surveys	9000	15000
Drill Stem Testing	-	-
Electric Logs & Perforating	20000	30000
Tool & Equip. Rental, Trucking, Welding	5500	8000
Supervision & Overhead	2300	3000
Coring, Tools & Services	-	-
Completion Unit 5 Days @ \$ 1150 /Day	-	5800
Stimulation	-	35000
Contingency	7400	10700

TOTAL INTANGIBLES: 163300 232100

WELL EQUIPMENT COSTS:

Christmas Tree and Well Head	1200	12000
Casing:	12000	-
	-	-
	-	19000
Tubing:	-	16200
Packer & Special Equipment	-	4000
Contingency - Intermediate Casing String 8-5/8" @ 1500'	20400	21200

TOTAL WELL EQUIPMENT: 33600 50800

LEASE & BATTERY EQUIPMENT COSTS:

Pumping Equipment	-	-
Storage	-	7900
Separation Eq., Flowlines, Valves & Fittings	-	19800
Trucking & Construction Costs	-	4300

TOTAL LEASE & BATTERY EQUIP: 32000

TOTALS: \$ 196900 \$ 348500

APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF THE OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE, UNLESS THE NON-OPERATOR GIVES NOTIFICATION ON THIS FORM OF HIS INTENT TO FURNISH HIS PROPORTIONATE SHARE IN KIND.

JACK J. GRYNBERG

SHARE

BY: _____ DATE 3/12/82

25.00%

NON-OPERATORSSHAREMTS, LIMITED PARTNERSHIP

12.50%

BY: _____

CORONA OIL COMPANY

12.50%

BY: _____

PLAINS RADIO BROADCASTING

25.00%

BY: _____

MERCURY EXPLORATION

9.75%

BY: _____

TEX MEX DRILLING COMPANY

1.50%

BY: _____

FRED POOL DRILLING

11.25%

BY: _____

JAMES LUSK

1.00%

BY: _____

JACK CARGILL

1.00%

BY: _____

KEMP McMILLAN

0.50%

BY: _____

OPERATING COST CHART, ABO FIELD, CHAVES COUNTY, NEW MEXICO (THRU 4/16/82)

Well Name, Location & Status	ESTIMATED COSTS (Authority for Expenditure)			ACTUAL COSTS			DIFFERENCE
	Drilling Costs	Completion Costs	Total Estimated Costs	Drilling Costs	Completion Costs	Total Actual Costs	(Total Estimated Costs Minus Total Actual Costs)
T 5 S - R 24 E							
12 State #1 (5)	6	-	-	-	-	-	N/A
14 State Com #1 (1)	207,000	148,000	355,000	190,330.32	98,154.21	288,484.53	66,515.47
16 State #1 (2)	6	-	-	215,477.66	71,711.13	287,188.79	N/A
16 State #2 (2)	6	-	-	229,319.54	96,283.97	325,603.51	N/A
16 State #3 (2)	6	-	-	157,476.77	116,870.94	274,347.71	N/A
16 State #4 (1)	6	-	-	167,488.19	68,126.58	235,614.77	N/A
29 Fed #1 (1)	6	-	-	152,755.89	74,072.22	226,828.99	N/A
31 Fed #1 (2)	6	-	-	137,608.60	51,617.82	189,226.42	N/A
32 State #2 (1)	6	-	-	171,165.64	85,895.38	257,546.02	N/A
32 State #3 (1)	6	-	-	187,499.61	69,726.76	257,226.37	N/A
32 State #4 (1)	6	-	-	172,651.61	46,525.79	219,291.40	N/A
35 Fed Com #1 (1)	207,000	148,000	355,000	174,355.63	80,996.52	255,352.15	99,647.85
T 6 S - R 24 E							
#1 Youngman 11 Fed Com (5)	219,900	147,500	367,400	212.28	-	-	N/A
#2 Youngman 11 Fed Com (5)	196,900	151,100	348,500	212.28	-	-	N/A
#2 Hobbs Canyon Fed (5)	6	-	-	356.62	-	-	N/A
Section 12							
#1 Hobbs Canyon Fed (1)	6	-	-	138,209.22	67,719.78	205,929.07	N/A
#3 Hobbs Canyon Fed (2)	6	-	-	97,000.34	9,916.57	-	N/A
#4 Hobbs Canyon Fed (3)	6	-	-	11,911.68	-	-	N/A
#5 Hobbs Canyon Fed (4)	6	-	-	-	-	-	N/A
T 6 S - R 25 E							
17 Fed Com #1	207,000	148,000	355,000	192,540.25	45,865.95	238,406.20	116,593.80
#1 McDermott 30 Fed Com (2)	221,100	147,500	368,600	203,380.94	85,152.13	288,533.07	80,066.93
<div>BEFORE THE OIL CONSERVATION COMMISSION San Antonio, Texas</div> <div>Case No. <u>7535</u> Exhibit No. <u>4</u> Submitted by <u>JG&A</u> Hearing Date <u>4/22/82</u></div>							
(1) Well Completed							
(2) Completing							
(3) Awaiting Completing Rig							
(4) Drilling							
(5) Location Staked							
(6) No Est. Prepared; 100% W.I. w/JG&A							

BEFORE THE OIL CONSERVATION COMMISSION	
One Santa Fe, New Mexico 80066.93	
Case No. <u>7535</u>	Exhibit No. <u>4</u>
Submitted by <u>JCA</u>	
Hearing Date <u>4/22/82</u>	

OPERATING COST CHART, ABO FIELD, CHAVES COUNTY, NEW MEXICO (THRU 4/16/82)

Well Name, Location & Status	ESTIMATED COSTS (Authority for Expenditure)			ACTUAL COSTS			DIFFERENCE
	Drilling Costs	Completion Costs	Total Estimated Costs	Drilling Costs	Completion Costs	Total Actual Costs	(Total Estimated Costs Minus Total Actual Costs)
<u>T 5 S - R 24 E</u>							
14 State Com #1 (Completed)	207,000	148,000	355,000	190,330.32	98,154.21	288,484.53	66,515.47
35 Fed Com #1 (Completed)	207,000	148,000	355,000	174,355.63	80,996.52	255,352.15	99,647.88
<u>T 6 S - R 25 E</u>							
17 Fed Com #1 (Completed)	207,000	148,000	355,000	192,540.25	45,865.95	238,406.20	116,593.80
#1 McDermott 30 Fed Com (Well being completed)	221,100 129,500* <u>350,600</u>	147,500 - <u>147,500</u>	368,600 129,500 <u>498,100</u>	203,380.94	85,152.13	288,533.07	Well not complete. No comparison of Estimated and Actual Costs possible.

*Supplemental Authority for Expenditure
submitted 3/5/82

Case 7535 Exhibit 5
Submitted by JGA
Hearing Date 4/22/82

4/16

PECOS SLOPE ABO GAS DEVELOPMENT
Billing Chart for Drilling Operations
November 1, 1981 - Present

Bills Paid Thru 4/15/82	\$3,669,215.77
Outstanding Bills Due (undisputed)	187,424.95
Outstanding Bills (disputed)*	<u>132,578.00</u>
<u>TOTAL ACCOUNTS PAYABLE:</u>	<u>\$3,989,218.72</u>

*Disputed bills total 3.3% of total bills.

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. <u>2535</u>	Exhibit No. <u>5</u>
Submitted by <u>JG/A</u>	
Hearing Date <u>4/22/82</u>	

PAYMENTS BY FRED POOL DRILLING

GRYNBERG 14 STATE #1

DRY HOLE

Requested

12/8/81

Received

1/4/82

Elapsed Time

23 Days

COMPLETION

1/12/82

2/16/82

35 Days

GRYNBERG 35 FEDERAL #1

DRY HOLE

12/8/81

2/16/82

80 Days

COMPLETION

1/29/82

3/29/82

59 Days

GRYNBERG 17 FEDERAL #1

DRY HOLE

12/19/81

3/29/82

100 Days

COMPLETION

3/5/82

3/29/82

24 Days

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. <u>2535</u>	Exhibit No. <u>6</u>
Submitted by <u>JG/A</u>	
Hearing Date <u>4/22/82</u>	

Dockets Nos. 13-82 and 14-82 are tentatively set for May 12 and May 26, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - THURSDAY - APRIL 22, 1982

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

CASE 7509: (Continued and Readvertised)

Application of Supron Energy Corporation for a non-standard proration unit or compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard proration unit for the Dakota and Mesaverde formations comprising the SW/4 of Section 2, Township 31 North, Range 8 West, or in the alternative, an order pooling all mineral interests from the surface down through the Dakota formation underlying the S/2 of said Section 2, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7535: (Continued and Readvertised)

Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through the Abo formation underlying the SW/4 of Section 17, Township 6 South, Range 25 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, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7553: (Continued from April 14, 1982, Examiner Hearing)

Application of Fred Pool Drilling Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Abo formation underlying the SW/4 of Section 17, Township 6 South, Range 25 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, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

Dockets No. 11-82 and 12-82 are tentatively set for April 28 and May 12, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 14, 1982

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 May, 1982, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for May, 1982, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 7536: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit A. H. Bernstein and all other interested parties to appear and show cause why the Allan Well No. 1 located in Unit F, Section 23, Township 29 North, Range 13 West, San Juan County, should not be re-entered and plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7537: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit F. B. Umbarger, Trustee and all other interested parties to appear and show cause why the Davis Pooled Unit Well No. 1, located in Unit I, Section 27, Township 29 North, Range 11 West, San Juan County, should not be re-entered and plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7538: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Francis L. Harvey and all other interested parties to appear and show cause why the Pinkstaff Estate Well No. 1, located in Unit A, Section 29, Township 29 North, Range 10 West, San Juan County, should not be re-entered and plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7539: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit B.M.N.S. Company, American Employers Insurance and all other interested parties to appear and show cause why the following wells: Waggoner No. 1, Brown No. 2, Wyper No. 2, located in Units K, M, and O, respectively, of Section 29, Township 30 North, Range 12 West, San Juan County, should not be plugged and abandoned in accordance with Division-approved plugging programs.

CASE 7540: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Pauly-Anderson-Pritchard and all other interested parties to appear and show cause why the Roy Well No. 1, located in Unit P, Section 16, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7541: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit E. J. Miley and all other interested parties to appear and show cause why the Hare (Ransom) Well No. 1, located in Unit N, Section 14, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7542: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Benson-Montin-Greer Drilling Corporation, Hartford Accident and Indemnity Company, and all other interested parties to appear and show cause why the following wells: Dustin No. 1, located in Unit K, Section 6, and the Gallegos Canyon Unit No. 2, located in Unit K, Section 35, both in Township 29 North, Range 12 West, and the Segal No. 1, located in Unit K, Section 10, and the Price No. 1, located in Unit N, Section 15, both in Township 31 North, Range 13 West, San Juan County, should not be plugged and abandoned in accordance with Division-approved plugging programs.

CASE 7543: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Calvin Petroleum Corporation, United States Fidelity and Guaranty Co., and all other interested parties to appear and show cause why the Kaempf SWD Well No. 1, located in Unit N, Section 19, Township 30 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

- CASE 7544:** Application of Dinero Operating 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 well to be drilled 660 feet from the North and East lines of Section 20, Township 22 South, Range 28 East, Morrow formation, the N/2 of said Section 20, to be dedicated to the well.
- CASE 7545:** Application of Baker Engineering for a non-standard gas proration unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 258.16-acre non-standard gas proration unit for the Morrow formation comprising all of partial Section 32, Township 26 South, Range 30 East.
- CASE 7546:** Application of Sonny's Oil Field Services, Inc. for an oil treating plant permit, Lea 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 its salt water disposal site in the NW/4 NE/4 of Section 29, Township 18 South, Range 38 East.
- CASE 7547:** Application of Anadarko Production Company for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox location 2550 feet from the North line and 1350 feet from the West line of Section 15, Township 22 South, Range 37 East, Penrose Skelly Pool, the SE/4 NW/4 of said Section 15 to be dedicated to the well.
- CASE 7517:** (Continued from March 31, 1982, Examiner Hearing)
- Application of Anadarko Production Company for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox location 1450 feet from the South line and 1400 feet from the West line of Section 15, Township 22 South, Range 37 East, Penrose Skelly Pool, the NE/4 SW/4 of said Section 15 to be dedicated to the well.
- CASE 7548:** Application of Tahoe Oil & Cattle Co. for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the San Andres formation in the perforated interval from 4932 feet to 4992 feet in its Schwalbe Well No. 1, located in Unit P of Section 21, Township 9 South, Range 37 East, West Sawyer-San Andres Pool.
- CASE 7549:** Application of H. L. Brown for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox Pennsylvanian gas well location 609 feet from the South line and 1665 feet from the East line of Section 32, Township 15 South, Range 32 East, the S/2 of said Section 32 to be dedicated to the well, an existing well which is to be deepened.
- CASE 7550:** Application of Harvey E. Yates Company for the Rescission of Order No. R-6918, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks the rescission of Order No. R-6918, which compulsorily pooled the Atoka-Morrow formation underlying the N/2 of Section 19, Township 8 South, Range 30 East, Chaves County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Applicant now seeks the rededication of the E/2 of said Section 19 to the aforesaid well without compulsory pooling.
- CASE 7551:** Application of Harvey E. Yates Company for compulsory pooling, Chaves 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 21, Township 11 South, Range 31 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, designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 7552:** Application of Merriam Oil & Gas Company for compulsory pooling, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Gallup formation underlying the S/2 SE/4 of Section 20, Township 23 North, Range 6 West, 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, designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 7553:** Application of Fred Pool Drilling Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Abo formation, underlying the SW/4 of Section 17, Township 6 South, Range 25 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, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7520: (Continued and Readvertised)

Application of Lewis B. Burleson, Inc. for compulsory pooling and a non-standard oil proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Jalmat Pool underlying a 30-acre non-standard oil proration unit comprising the N/2 of the Easternmost 60 acres of the NW/4 of Section 15, Township 24 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, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7554: Application of Morris R. Antweil for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the top of the Drinkard formation underlying the NW/4 SW/4 of Section 5, Township 20 South, Range 38 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, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7555: Application of Morris R. Antweil for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the top of the Drinkard formation underlying the SW/4 NW/4 of Section 5, Township 20 South, Range 38 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, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7556: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the San Andres formation underlying the NE/4 NW/4 of Section 5, Township 20 South, Range 39 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, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7557: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Seven Rivers formation underlying the SW/4 of Section 32, Township 19 South, Range 39 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, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7558: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Seven Rivers formation underlying the SE/4 of Section 31, Township 19 South, Range 39 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, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7515: (Continued from March 31, 1982 Examiner Hearing)

Application of Four Corners Gas Producers Association for designation of a tight formation, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Dakota formation underlying all or portions of Townships 26 and 27 North, Range 12 and 13 West, Township 28 North, Range 13 West, Township 29 North, Ranges 13 through 15 West, and Township 30 North, Ranges 14 and 15 West, containing 164,120 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271. 701-705.

CASE 7559: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, abolishing, and extending certain pools in Lea and Roosevelt Counties, New Mexico.

(a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Mississippian production and designated as the Caudill-Mississippian Gas Pool. The discovery well is the Moran Exploration, Inc. Gann Well No. 1 located in Unit D of Section 9, Township 15 South, Range 36 East, NMPM. Said pool would comprise:

TOWNSHIP 15 SOUTH, RANGE 36 EAST, NMPM
Section 9: NW/4

(b) CREATE a new pool in Roosevelt County, New Mexico, classified as an oil pool for Pennsylvanian production and designated as the North Dora-Pennsylvanian Pool. The discovery well is the Enserch Exploration, Inc. Collier Well No. 1 located in Unit I of Section 29, Township 4 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 4 SOUTH, RANGE 33 EAST, NMPM
Section 29: E/2

(c) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the Johnson Ranch-Morrow Gas Pool. The discovery well is the Mesa Petroleum Company Jackson Unit Well No. 1 located in Unit G of Section 22, Township 24 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 24 SOUTH, RANGE 33 EAST, NMPM
Section 22: E/2

(d) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Delaware production and designated as the East Triste Draw-Delaware Pool. The discovery well is the Getty Oil Company Getty 28 State Well No. 1 located in Unit J of Section 28, Township 24 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 24 SOUTH, RANGE 33 EAST, NMPM
Section 28: SE/4

(e) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the Triste Draw-Morrow Gas Pool. The discovery well is the Amoco Production Company State IG Com Well No. 1 located in Unit B of Section 32, Township 23 South, Range 32 East, NMPM. Said pool would comprise:

TOWNSHIP 23 SOUTH, RANGE 32 EAST, NMPM
Section 32: N/2

(f) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the Vaca Draw-Wolfcamp Gas Pool. The discovery well is the HNG Oil Company Bell Lake 11 Federal Well #1 located in Unit B of Section 11, Township 25 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 25 SOUTH, RANGE 33 EAST, NMPM
Section 11: N/2

(g) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Bone Spring production and designated as the West Vacuum-Bone Spring Pool. The discovery well is the Amoco Production Company State HS Com Well No. 1 located in Unit K of Section 9, Township 18 South, Range 34 East, NMPM. Said pool would comprise:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 9: SW/4

(h) CREATE a new pool in Roosevelt County, New Mexico, classified as a gas pool for Granite Wash production and designated as the South Tanneyhill-Granite Wash Gas Pool. The discovery well is the Threshold Development Company Harris 14 Well No. 1 located in Unit B of Section 14, Township 6 South, Range 33 East, NMPM, currently classified as producing from the Pennsylvanian formation and in the Tanneyhill-Pennsylvanian Gas Pool. The well has been re-evaluated and the producing interval is more correctly defined as Granite Wash. Said pool would comprise:

TOWNSHIP 6 SOUTH, RANGE 33 EAST, NMPM
Section 14: N/2

- (i) ABOLISH the Tanneyhill-Pennsylvanian Gas Pool in Roosevelt County, New Mexico, as heretofore classified, defined, and described as:

TOWNSHIP 6 SOUTH, RANGE 33 EAST, NMPM
Section 14: All

- (j) EXTEND the Baum-Upper Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 14 SOUTH, RANGE 33 EAST, NMPM
Section 7: SE/4

- (k) EXTEND the Bilbrey-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 32 EAST, NMPM
Section 4: N/2
Section 5: NE/4

- (l) EXTEND the Blinebry Oil and Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 33: NW/4

- (m) EXTEND the Bootleg Ridge-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 33 EAST, NMPM
Section 17: W/2

- (n) EXTEND the Buffalo-Pennsylvanian Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 33 EAST, NMPM
Section 9: N/2

- (o) EXTEND the North Peterson-Pennsylvanian Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 4 SOUTH, RANGE 33 EAST, NMPM
Section 16: SE/4
Section 20: NE/4

- (p) EXTEND the South Peterson-Pennsylvanian Associated Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 6 SOUTH, RANGE 33 EAST, NMPM
Section 14: All

- (q) EXTEND the Sowell-Morrow Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 15 SOUTH, RANGE 32 EAST, NMPM
Section 11: NW/4

- (r) EXTEND the Wantz-Abo Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM
Section 9: NE/4

KELLAHIN and KELLAHIN

Attorneys at Law

500 Don Gaspar Avenue

Post Office Box 1769

Santa Fe, New Mexico 87501

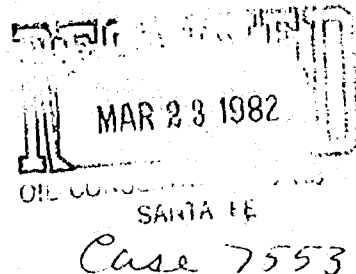
Jason Kellahin
W. Thomas Kellahin

Karen Aubrey

Telephone 982-4285
Area Code 505

March 23, 1982

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



Re: Fred Pool Drilling Company

Dear Mr. Ramey:

On behalf of Fred Pool Drilling Company, please find enclosed our application for compulsory pooling. We would appreciate you setting this for the examiner hearing scheduled for April 14, 1982.

Very truly yours,

KELLAHIN & KELLAHIN

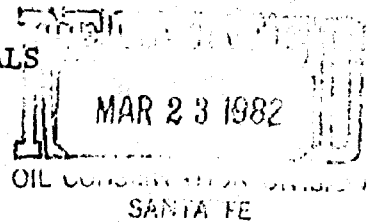
W. Thomas Kellahin
W. Thomas Kellahin

WTK:rb

Enclosure

cc: Mr. Fred Pool
Jack J. Grynberg & Associates
J. E. Gallegos, Esq.

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION DIVISION



IN THE MATTER OF THE APPLICATION
OF FRED POOL DRILLING COMPANY,
FOR COMPULSORY POOLING, CHAVES
COUNTY, NEW MEXICO

Case 7553

APPLICATION

COMES NOW FRED POOL DRILLING COMPANY, by its attorneys
KE LAHIN & KELLAHIN, and in accordance with Section 70-2-17
(NMSA 1978) applies to the Oil Conservation Division of
New Mexico for an order pooling all mineral interests underlying
the SW/4 of Section 17, Township 6 South, Range 25 East, NMPM,
Chaves County, New Mexico, for the formation of a standard gas
proration and spacing unit for all gas formations from the
surface to the base of the Abo formation, and in support thereof
would show the Commission:

1. Applicant is one of the owners of the right to drill
and develop the SW/4 of Section 17, Township 6 South, Range 25
East, and desires to form a 160 acre unit composed of the SW/4
of said Section.
2. Applicant proposes to drill a well to test the Abo
formation at a standard location in the SW/4 of Said Section 17.
3. Applicant has sought to obtain the cooperation of
all parties.
4. In order to obtain its just and equitable share of
the production underlying the above lands, Applicant needs an

order pooling the mineral interest involved.

MAR 23 1982

5. The only interest owner who has not consented to join the applicant in the drilling of the well, is as follows:

<u>NAME</u>	<u>ADDRESS</u>	<u>INTEREST</u>
Jack J. Grynberg	1050 17th St., Suite 1950 Denver, CO 80265	NE/4SW/4 (40 Acres)


6. The party named in paragraph 5 above has been furnished a copy of this application.

WHEREFORE applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling all of the mineral interests underlying the SW/4 of Section 17, Township 6 South, Range 25 East, NMPM. Applicant further prays that it be named operator of the well, and that the order make provision for application to recover out of production its costs of drilling the subject well, completing and equipping it, costs of operation, including costs of supervision and a risk factor for the drilling of the well, for such other and further relief as may be proper.

Respectfully submitted,

FRED POOL DRILLING COMPANY

By


KELLAHIN & KELLAHIN
P. O. Box 1769
Santa Fe, New Mexico 87501
(505) 982-4285
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
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. ~~7476~~ 7553
Order No. R-~~6920~~ 6975

APPLICATION OF ~~MESA~~ ^{FRED POOL DRILLING} PETROLEUM COMPANY
FOR COMPULSORY POOLING, CHAVES COUNTY,
NEW MEXICO.

COMMISSION
BY THE DIVISION
ORDER OF THE DIVISION

This cause came on for hearing at 9 a.m. on ~~March 16~~ ^{April 22,} 1982,
at Santa Fe, New Mexico, before ~~Examiner, Richard B. Stamets.~~
~~hereinafter referred to as the "Commission."~~

NOW, on this ~~16th~~ ^{22nd} day of ~~March~~ ^{April}, 1982, the ~~Division~~ ^{Commission}
~~Director~~, having considered the testimony, the record, and the
~~recommendations of the Examiner~~, and being fully advised in the
premises,

FINDS:

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

(2) That on ~~February 22~~ ^{March 23}, 1982, the applicant, ~~Mesa~~ ^{Fred Pool}
~~Petroleum Company~~, filed an application seeking an order pooling
all mineral interests in the Abo Formation underlying the ~~SW 1/4~~
of Section ~~20~~ ¹⁷, Township 6 South, Range 25 East, NMPM, Chaves
County, New Mexico.

(3) That as of ~~December 31~~ ^{March 8,} 1981, Jack J. Grynberg had
filed an application also seeking an order pooling all mineral
interests in the Abo formation underlying the ~~SW 1/4~~ of said
Section ~~20~~ ¹⁷.

(4) That the Jack J. Grynberg application was set as Case
No. ~~7476~~ ⁷⁵³⁵ and was consolidated for purposes of testimony with the
subject case.

(5) That by its Order No. R-~~6920~~ ^{May} dated ~~April 2~~ ^{April 2}, 1982, the
Division approved the application of Jack J. Grynberg in said
Case No. ~~7476~~ ⁷⁵³⁵.

-2-
Case No. 7513
Order No. R-6930

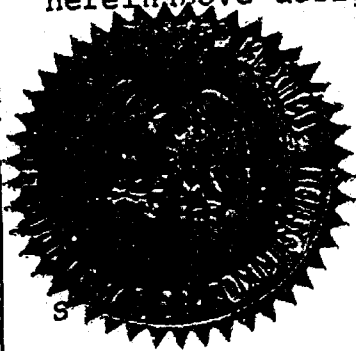
Fred Pool Drilling
(6) That the application of ~~Mesa Petroleum~~ Company in this concomitant case should be denied.

IT IS THEREFORE ORDERED:

Fred Pool Drilling
(1) That the application of ~~Mesa Petroleum~~ Company for an order pooling all mineral interests, whatever they may be, in the Abo formation underlying the ~~25~~²⁵/₄ of Section ~~14~~¹⁴, Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico, to form a standard 160-acre gas spacing and proration unit is hereby denied.

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

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



STATE OF NEW MEXICO
OIL CONSERVATION ~~DIVISION~~ COMMISSIONER

Joe D. Ramey
JOE D. RAMEY,
Director

Army
Arnold

*Don't we
need
the other
commissions
signature*

*Visit in
the Abo
through
Abo
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through Abo*

yes

new
address
of
parent