

OIL CONSERVATION DIVISION

MEMORANDUM

TO: William J. LeMay, Director

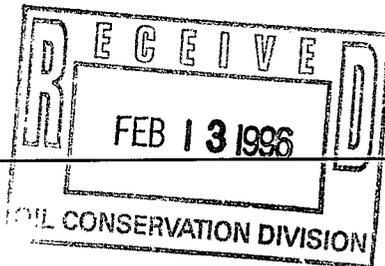
FROM: Michael E. Stogner, Chief Hearing Officer/Engineer *MS*

SUBJECT: Administrative application filed by John L. Cox for a non-standard 80-acre oil spacing and proration unit (see copy attached).

DATE: February 15, 1996

The attached application was filed yesterday and is subject to special rules and regulations written in 1949 (see copy of Commission Order No. 846 also attached), I need some direction - can this application be processed under the subject rules and per Division Memorandum dated 4-86. Thank you.

JOHN L. COX



P. O. BOX 2217
400 WEST WALL
PHONE 915 - 682-9435

MIDLAND, TEXAS 79702-2217

February 12, 1996

FAX: 1-505-827-8177

FEDERAL EXPRESS

Commission of Public Lands
New Mexico State Land Office
2040 South Pacheco
Santa Fe, New Mexico 87505

1-800-

Attention: Mr. Michael Stogner

Re: John L. Cox-Phillips 26 State
Well No. 1
940' FNL, 2650' FEL
Section 26, T-12-S, R-33-E
Lea County, New Mexico

Dear Mr. Stogner:

John L. Cox has filed Application to Drill (Form C-101) the captioned well based on the footages shown on the attached plat. This well is located approximately in the center of two 40 acre units. We have designated UL B and C as our 80 acre drilling unit in the Hightower; Devonian Pool. The Phillips 26 State #1 is a 3-D selected location and will require administrative approval. There are no producing wells in this pool at the present time, therefore, we have no offset operators to notify. Amerada-Hess has a well producing from the Hightower; Perma Penn Pool in the southwest quarter (SW/4) of Section 26.

John L. Cox is operating under strict time limitations for the drilling operations of this well, and we would appreciate your early consideration of this location. All required forms have been filed with Hobbs Oil Conservation Office and Improvement Damage Bond has been filed with Anna Villa of your office in Santa Fe. Please call the undersigned for additional information and/or approval of this request at 1-800-633-0275.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Martha Wittenbach".

Martha Wittenbach

mw
Attach.

JOHN L. COX-PHILLIPS 26 STATE #1
940' FNL, 2650' FEL
SECTION 26, T-12-S, R-33-E
LEA COUNTY, TEXAS

ATTACHMENTS FOR UNORTHODOX LOCATION APPROVAL:

1. New Mexico Application to Drill (Form 101) and Well Location and Acreage Dedication Plat (Form 102)
2. Copy of Farmout Agreement Phillips Petroleum Company and Kerry E. Blair of Midland, Texas covering State Lease NM-V-3639 among other leases
3. Letter from Kerry E. Blair dated January 26, 1996 requesting permission from Phillips Petroleum Company to assign his rights under farmout agreement to John L. Cox
4. Copy of letter agreement dated January 31, 1996 by and between Kerry E. Blair and John L. Cox which assigns all Mr. Blair's interest to Mr. Cox
5. Copy of letter dated February 1, 1996 from Phillips Petroleum Company consenting to Mr. Blair's assignment to Mr. Cox.
6. Copy of 3-D data with geological data (Isochron: Tubb to Silurian) supporting our request for this location.

District I
 PO Box 1980, Hobbs, NM 88241-1980
 District II
 PO Drawer DD, Aztec, NM 88211-0719
 District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 District IV
 PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
 Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
 PO Box 2088
 Santa Fe, NM 87504-2088

Form C-101
 Revised February 10, 1994
 Instructions on back
 Submit to Appropriate District Office
 State Lease - 6 Copies
 Fee Lease - 5 Copies

AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

Operator Name and Address: JOHN L. COX BOX 2217 MIDLAND, TEXAS 79702		OGRID Number 012079
		API Number 30 - 0
Property Code	Property Name PHILLIPS STATE "26"	Well No. 1

7 Surface Location

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
C	26	12S	33E		940	North	2650	East	Lea

8 Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
Proposed Pool 1 Hightower (Devonian)					Proposed Pool 2 Hightower (Penn. East)				

Work Type Code N	Well Type Code O	Cable/Retary R	Lease Type Code S	Ground Level Elevation 4243
Multiple	Proposed Depth 10,500	Formation Devonian	Contractor ZIADRIL	Spud Date Upon Approval

21 Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/feet	Setting Depth	Sacks of Cement	Estimated TOC
17 1/2"	13 3/8"	43#	500'	550	Surface
11"	8 5/8"	32#	4,500'	1420	500'
7 7/8"	5 1/2"	17,20#	10,500'	440	
	DV Tool		8,300'	530	4300'

Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

See attached

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Signature:

Martha Wittenbach

Printed name:

MARTHA WITTENBACH

Title:

Prod'n. Acct'ng. Mgr.

Date:

2/12/96

Phone:

915 682-9435

OIL CONSERVATION DIVISION

Approved by:

Title:

Approval Date:

Expiration Date:

Conditions of Approval:

Attached

PROPOSED DRILLING PROGRAM
JOHN L. COX-PHILLIPS STATE "26" NO. 1
SECTION 26, T-12-S, R-33-E
LEA COUNTY, NEW MEXICO

1. Spud 17 1/2" hole and drill to depth of 500'.
2. Set 500' of 13 3/8", 43#, J55 casing, cemented with 550 sacks of Halliburton Premium Plus, circulated to surface.
3. Drill 11" hole to a depth of 4,500'.
4. Set 4,500' of 8 5/8", 32#, J55 casing, cemented with 1170 sacks Halliburton Lite Premium Plus and 250 sacks Premium Plus. Top of cement estimated to be 500'.
5. Drill 7 7/8" hole to a total depth of 10,500'.
6. Set 10,500' of 5 1/2", 17# and 20#, J55 and N80 casing cemented with 440 sacks of Halliburton Premium 50/50 poz A.
7. DV tool at 8,300' with 530 sacks Halliburton Lite Premium. Top of cement estimated to be 4,300'.
8. Well will be logged and tested for a Hightower; Devonian completion. Alternative completion would be the Hightower; Penn, East.
9. BLOWOUT PREVENTERS: Shaffer LWS hydraulic double 11" x 5000 psi as illustrated in attached diagram.

4 3/4" - 7 3/4" liners, 16" stroke. Compound driven
 Pump No. 2: Emsco DB500 500 H.P. powered by D379
 Caterpillar Diesel.

DRILL STRING

4,500' 4 1/2" Grade E, 20-lb.
 9,000' 4 1/2" Grade E, 18.80-lb.
 Tool Joints: 4 1/2" XH, 8 1/4" OD.
 Twenty-Seven drillcollars 8 1/2" OD, 2 1/4" ID.
 Twenty-One 8" OD x 2 1/2" ID Drill Collars
 Other sized drillpipe and drillcollars available.

BLOWOUT PREVENTERS

One Shaffer LWS hydraulic double 11" x 5,000 p.s.i. One
 Hydril 11" x 5,000 p.s.i. Choke manifold 4" x 5,000 p.s.i.
 flanged connections. Koomey Type 80, 7-station
 accumulator closing unit with remote control.

SWIVEL. Brewer NDB 350 10H

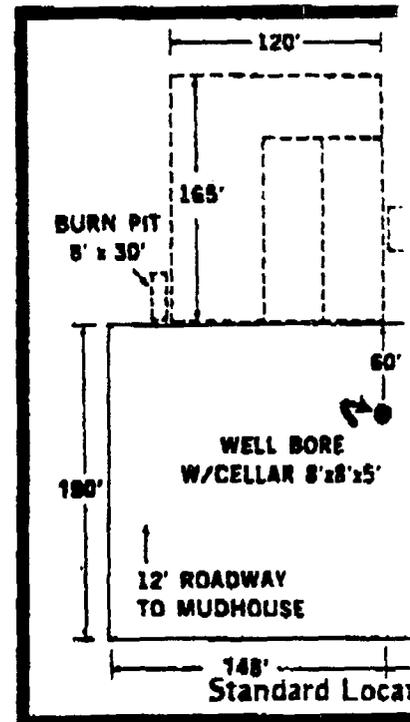
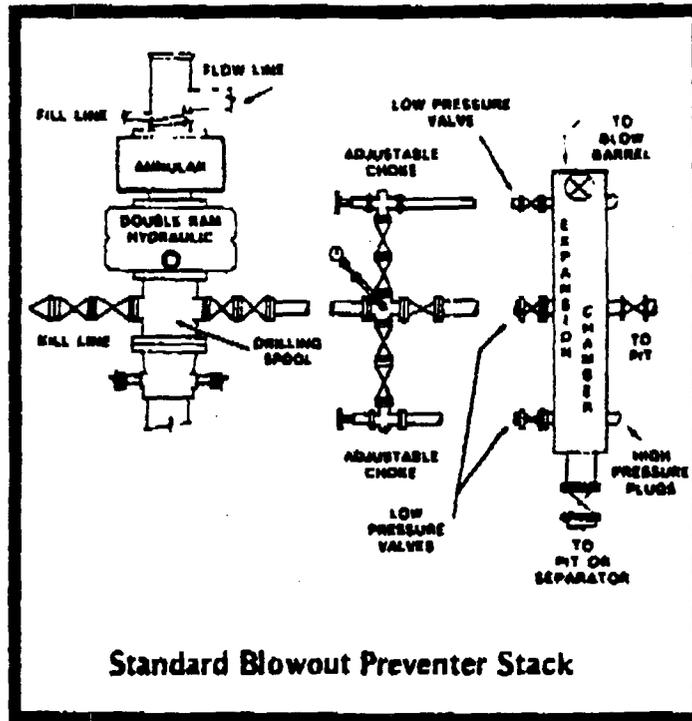
ROTARY TABLE. Oilwell 20 1/2"

SHALE SHAKER. Totco double scr

ELECTRICAL POWER. Two 135-kw
 powered by diesel engines. AC fluo
 mercury vapor lights. All vapor-proo

FRESH WATER STORAGE. Two 50

HOUSING. One 10' x 44' refrigera
 house with sleeping and cooking fac



DISTRICT I
P.O. Box 1980, Hobbs, NM 88241-1980

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised February 10, 1994
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

DISTRICT II
P.O. Drawer DD, Artesia, NM 88211-0719

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
P.O. BOX 2088, SANTA FE, N.M. 87504-2088

OIL CONSERVATION DIVISION
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name
		Hightower; Devonian
Property Code	Property Name	Well Number
	PHILLIPS STATE 26	1
OGRID No.	Operator Name	Elevation
012079	JOHN L. COX	4243

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
C	26	12 S	33 E		940	NORTH	2650	EAST	LEA

Bottom Hole Location If Different From Surface

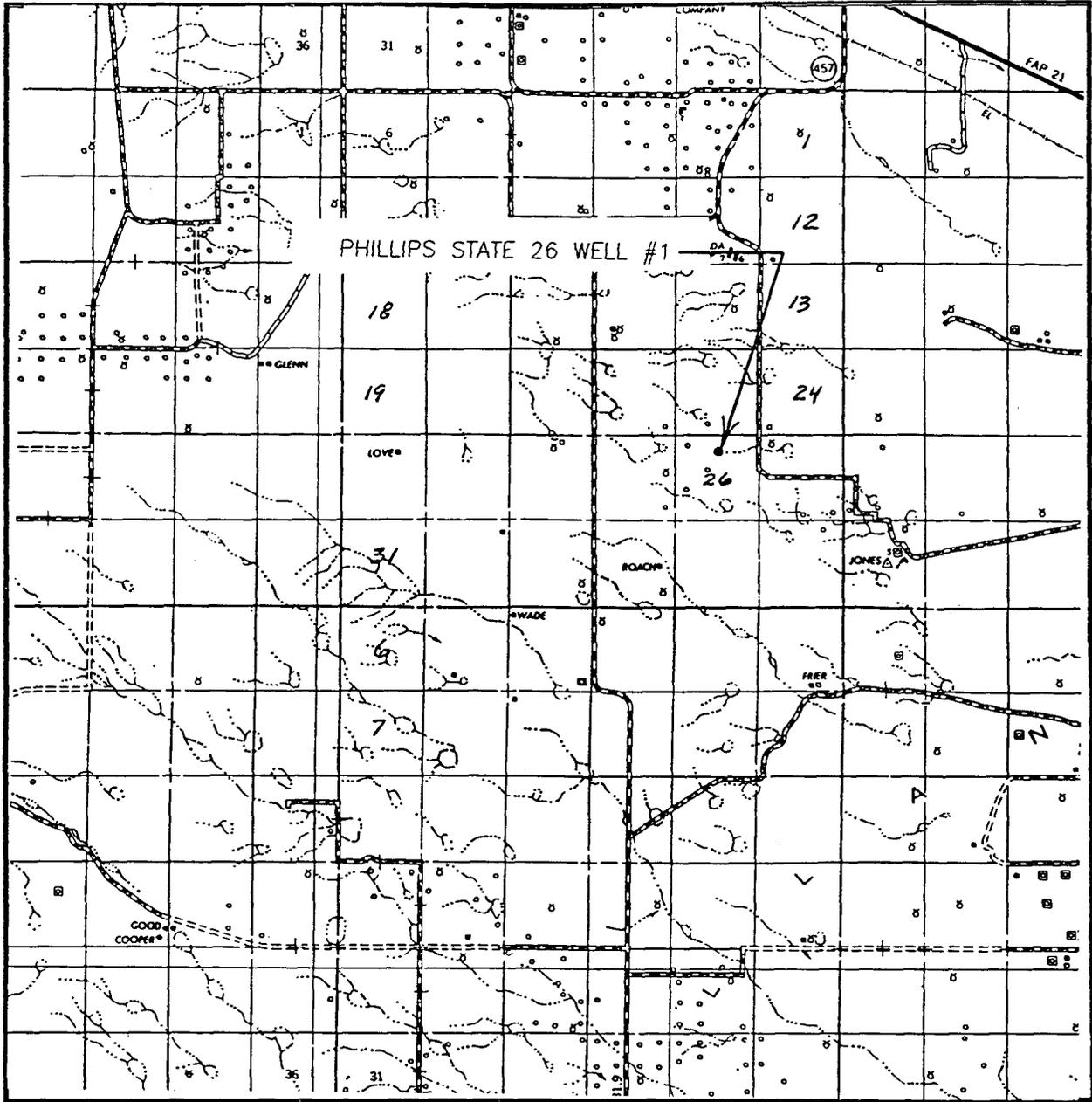
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
80			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Martha Wittenbach</i> Signature</p> <p>Martha Wittenbach Printed Name</p> <p>Prodn.Acctng.Mgr. Title</p> <p>2-12-96 Date</p>
	<p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>FEBRUARY 05, 1996</p> <p>Date Surveyed SJA</p> <p>Signature & Seal Professional Surveyor</p> <p><i>Ronald F. Eidson</i> Professional Surveyor</p> <p>3239 N.O. Num 96-12-0161</p> <p>Certificate No. JOHN W. WEST 676 RONALD F. EIDSON 3239 PROFESSIONAL SURVEYOR EIDSON 12641</p>

VICINITY MAP



SCALE: 1" = 2 MILES

SEC. 26 TWP. 12-S RGE. 33-E

SURVEY N.M.P.M.

COUNTY LEA

DESCRIPTION 940' FNL & 2650' FEL

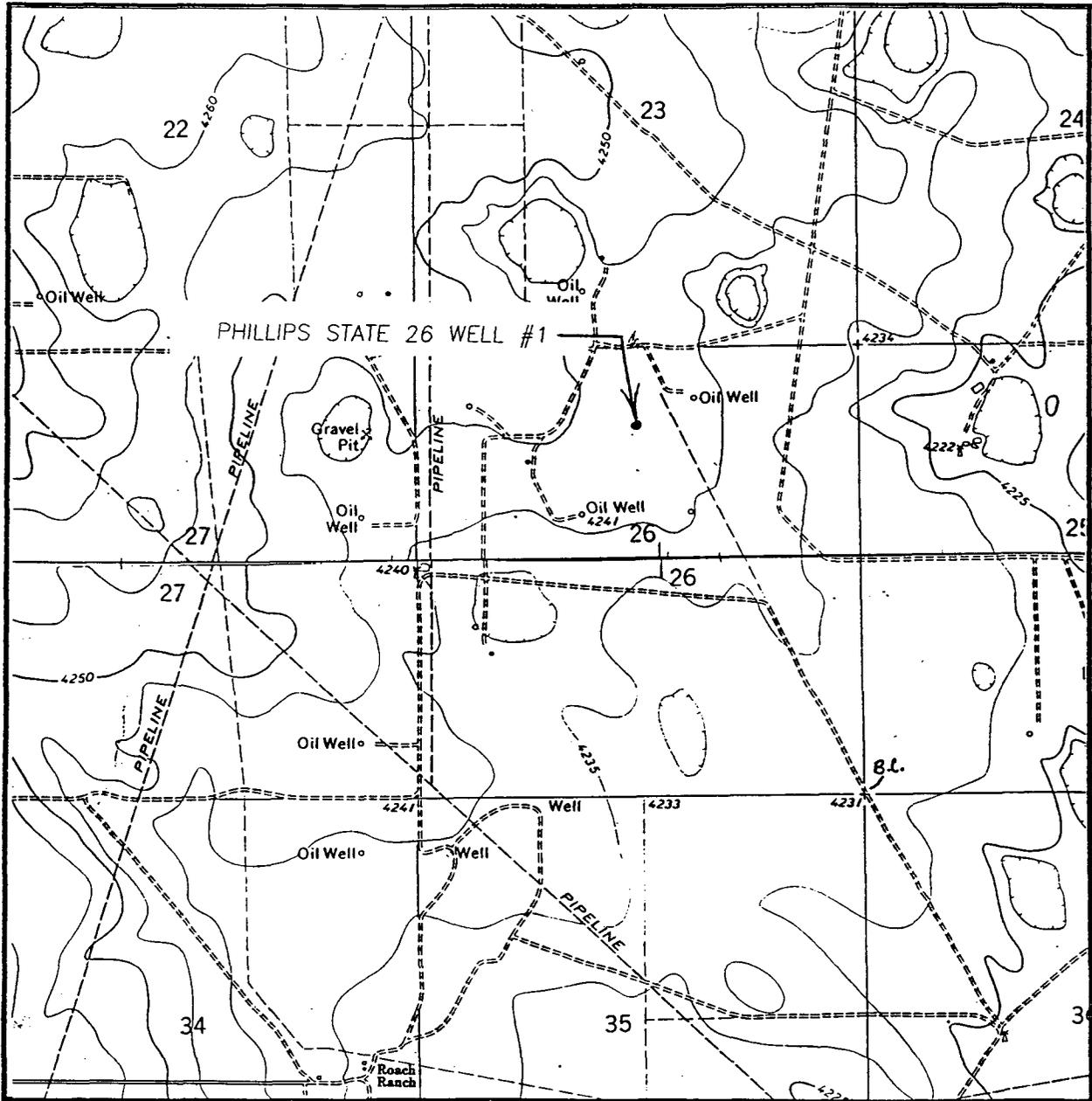
ELEVATION 4243

OPERATOR JOHN L. COX

LEASE PHILLIPS STATE 26

JOHN WEST ENGINEERING
HOBBS, NEW MEXICO
(505) 393-3117

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL - 5'

SEC. 26 TWP. 12-S RGE. 33-E

SURVEY _____ N.M.P.M.

COUNTY _____ LEA

DESCRIPTION 940' FNL & 2650' FEL

ELEVATION _____ 4243

OPERATOR _____ JOHN L. COX

LEASE _____ PHILLIPS STATE 26

U.S.G.S. TOPOGRAPHIC MAP

DALLAS STORE, FRIER RANCH, N.M.

**JOHN WEST ENGINEERING
HOBBS, NEW MEXICO**

(505) 393-3117

AGREEMENT

THIS AGREEMENT is made and entered into this 25th day of October, 1995, by and between PHILLIPS PETROLEUM COMPANY, a Delaware corporation, with an operating office at 4001 Penbrook, Odessa, Texas 79762, (hereinafter called "Phillips"), and KERRY E. BLAIR with an office at P. O. Box 124, Midland, Texas 79702, (hereinafter called "Second Party"), concerning Phillips' interest in a certain oil and gas lease (or leases) which is briefly described in Exhibit "1" insofar as the same covers the lands described in Exhibit "1" (hereinafter sometimes referred to as the "lease acreage"). Reference is made to said lease (or leases) and to the records thereof for all the terms and conditions thereof.

WITNESSETH:

WHEREAS, Phillips desires to have the lease acreage tested for oil and gas production; and

WHEREAS, Second Party has expressed its willingness to make such test on the terms and conditions hereof;

NOW, THEREFORE, for and in consideration of the premises and the mutual promises and covenants herein contained to be kept and performed by the parties hereto and other good and valuable consideration, the receipt and adequacy of which is hereby confessed and acknowledged, the parties hereto do hereby agree as follows:

Article I
TEST WELL

Second Party agrees that on or before March 31, 1996, it will commence or cause to be commenced the actual drilling of a well for oil and/or gas, hereinafter sometimes referred to as "Test Well", at a location of his choice on the lease acreage and that he will thereafter prosecute the drilling of said well with due diligence to a depth sufficient to test the Devonian formation, or to a depth of 10,500 feet below the surface of the ground, whichever is the shallower depth (hereinafter called "Contract Depth"); provided, however, Second Party shall in no event drill deeper than the base of said Devonian formation without written approval of Phillips. The Test Well shall be drilled, tested and completed within ninety (90) days from commencement of actual drilling or, if a non-commercial well, shall be properly plugged and abandoned, which shall include the restoration of the premises as nearly as practicable to its original condition within one hundred twenty (120) days from the date of drilling rig release including, but not limited to the removal of all leasehold material and debris placed on said premises by Second Party and the plugging and abandonment of the property by filling and leveling the cellar and slush pits. All drilling, testing, equipping, plugging and abandonment, and other operations shall be performed at the sole cost, risk, and expense of Second Party.

Article II

CONTINUOUS DRILLING OPTION

In the event the Test Well is commenced, drilled and completed as a producing well or plugged and abandoned as a dry hole in accordance with this Agreement, Second Party shall have the option, but not the obligation within one hundred eighty (180) days from the date of drilling rig release from said Test Well, to commence the actual drilling of an additional well or wells at a location of its choice on the lease acreage or acreage pooled therewith that is currently not included in a spacing or proration unit established for the Test Well, or any previous additional wells. The additional well or wells shall be drilled at Second Party's sole cost, risk and expense and unless mutually agreed to otherwise, shall be drilled, tested and completed and/or plugged and abandoned pursuant to the same terms and provisions as contained herein for the drilling of the Test Well, specifically including, but without limitation Articles I and V. At any time should Second Party allow more than one hundred eighty (180) days to elapse between the time of drilling rig release on one additional well and the commencement of the actual drilling of another additional well on the lease acreage, then and thereupon, this Agreement shall terminate as to all lease acreage except that portion thereof as is then included in a spacing or proration unit having thereon a well capable of producing oil and gas in commercial quantities.

Article III

SUBSTITUTE WELLS

If, because of encountering impenetrable substances or because of mechanical conditions making further drilling impractical, Second Party should discontinue the drilling of any well for which provision is made herein, before Contract Depth has been reached, Second Party shall properly plug and abandon such well and shall have the right to drill a substitute well at a location mutually acceptable to Phillips and Second Party, provided the actual drilling of said substitute well shall be commenced not later than thirty (30) days from the cessation of operations of such well. Such substitute well shall be drilled in the manner and to the depth specified herein for such well. If such substitute well is commenced, drilled, and completed and/or plugged and abandoned as herein provided, Second Party shall have complied with this Agreement to the same extent as if the well for which it is a substitute had been commenced, drilled, and completed or plugged and abandoned in accordance herewith. Each reference herein to such well shall constitute a reference to the substitute well therefor if such a substitute well is timely commenced hereunder.

Article IV

ASSIGNMENT

In the event a well hereunder is drilled to Contract Depth, tested and completed as a commercial producer of oil and/or gas, and the spacing or proration unit surrounding such well encompasses any portion of the lease acreage, Phillips, subject to the conditions, exceptions, reservations, covenants and agreements hereinafter set forth shall assign and transfer unto Second Party, without representation or warranty of

title, either express or implied, one-hundred percent (100%) of its right, title and interest in and to the oil and gas lease (or leases) described in Exhibit "1" insofar as said oil and gas lease (or leases) covers and pertains to the oil, gas and casinghead gas, and all rights pertaining thereto in those certain lands and only those lands specifically described in Exhibit "1" which are contained in the spacing or proration unit attributable to such well from the surface of the ground to the base of the producing formation. Each such spacing or proration unit shall be no larger than forty (40) acres for an oil well and one hundred sixty (160) acres for a gas well unless otherwise prescribed by law or regulation. Each spacing or proration unit tract shall, as nearly as possible be formed in the shape of a square with the relevant well located in the center thereof. Each spacing or proration unit designated by Second Party shall be subject to the prior approval of Phillips.

Each assignment hereunder shall be made subject to its proportionate part of all valid and existing overriding royalties, and production payments, and to any encumbrances, including but not limited to easements, rights-of-way, salt water disposal agreements, and any other surface leases and contracts which may appear of record or in place, owned or possessed by Phillips or by its affiliated or subsidiary companies on the lands covered by the oil and gas lease (or leases) described in Exhibit "1". It is expressly understood that all rights not herein specifically described shall be excepted from said assignment and reserved and retained unto Phillips, its successors and assigns. Such assignment also shall be made expressly subject to all of the terms and provisions of this Agreement.

Second Party shall within sixty (60) days from completion of any well provided for herein make a written request for the assignment of acreage so earned, accompanied by a State of New Mexico completion report. It shall be a condition precedent to Phillips' obligation to deliver an assignment hereunder that Second Party shall make such a written request for the assignment of acreage so earned, that Second Party has fully and faithfully performed its obligations under this Agreement as of such date, and if requested by Phillips, that Second Party provide adequate assurances that all bills have been paid with respect to Second Party's operations.

Article V OVERRIDE RESERVATION

Any assignment by Phillips to Second Party pursuant to Article IV hereof, shall be subject to the reservation by Phillips of an overriding royalty interest equal to the difference between twenty-two percent (22%) and lease burdens existing as of the date of this Agreement of all oil, gas and casinghead gas produced and saved from such lease acreage upon which the well is located. In the event the working interest of Phillips in the lease acreage to be assigned pursuant to Article IV is less than the full working interest in such lease acreage, the overriding royalty interest retained by Phillips shall be reduced to the proportion thereof which Phillips' working interest bears to the full working interest. In the event the lease acreage upon which such well is located is included in a pooled spacing or proration unit, the overriding royalty interest of Phillips in the production from said unit shall be determined by multiplying said reserved

overriding royalty by a fraction, the numerator of which is the net lease acreage in said unit and the denominator of which is the entire acreage of such unit.

Said overriding royalty shall be delivered to Phillips in the tanks or pipeline to which such well may be connected, free and clear of all liens, transportation charges, storage charges, and other charges and expenses, and free and clear of all taxes, except that said overriding royalty interest shall bear its proportionate part of any gross production, severance and ad valorem taxes. Any proceeds of said overriding royalty interest shall be paid monthly by Second Party or by the purchaser or purchasers of said production directly to Phillips at Bartlesville, Oklahoma 74004, or to such other location as may be designated by Phillips.

Article VI DEFAULT

Second Party shall be under no obligation to drill any well provided for in this Agreement and the only penalty for failure to commence drilling any well provided for herein shall be the forfeiture of this Agreement and any and all rights Second Party would have earned for the drilling of any such well, provided, however, that nothing contained in this Article VI shall modify Second Party's duty to perform and fulfill the covenants, obligations, and conditions of any oil and gas lease (or leases) assigned or which may be assigned pursuant hereto.

Article VII NOTICE OF LOCATION

Second Party shall notify Phillips in writing, at once of (a) the location of each well for which provisions are herein made, when fixed, by giving the distances and directions thereof from at least two (2) valid governmental survey monuments or valid survey lines, and (b) the date of spudding (commencement of actual drilling) of said well(s).

Article VIII DELAY RENTALS, MINIMUM ROYALTIES AND SHUT-IN WELL PAYMENTS

Phillips shall pay all delay rentals which may become due and payable under the terms of the oil and gas lease (or leases) covering the lease acreage. Second Party shall pay Phillips upon being billed therefor for 100% of all such delay rentals paid on the lease acreage. Phillips shall not be liable to Second Party for erroneous payment or failure to pay any such delay rentals.

Second Party at its sole cost agrees to timely pay any and all shut-in well payments and minimum royalties which may be permitted by the terms of the oil and gas lease (or leases) covering the lease acreage for the Test Well or any additional well hereunder.

Second Party agrees to notify Phillips immediately at any time a well hereunder is completed on the lease acreage which is capable of producing but is not produced, and at any time production from any such well on the lease acreage ceases for any reason.

Second Party agrees to immediately furnish to Phillips at P.O. Box 7500, Bartlesville, OK 74005-7500 Attention: Lease Administration, the original or a photostatic copy of any and all instruments of whatsoever character received by Second Party which evidence a change in the ownership of delay rentals or royalties payable under any oil and gas lease (or leases) covering the lease acreage.

If after the completion of the Test Well provided for above one party hereto desires to continue any assigned lease in force and effect by the payment of delay rentals and the other party does not desire to join in the payment of such rentals, then the party not desiring to join in the payment of such rentals shall notify the other party in writing at least thirty (30) days prior to the rental payment date given in said lease. The party receiving said notice shall have fifteen (15) days after receipt thereof within which to elect to receive an assignment of the lease insofar as the same covers lands described in Exhibit "1" from the party who elects not to pay delay rentals. In the event Second Party does not elect to pay delay rentals and it is not then in default in the performance of its duties and obligations under the terms of said lease and under the terms of this Agreement, and Phillips shall have elected to receive an assignment from Second Party, then Second Party, upon receipt of notice thereof, shall execute, acknowledge and deliver unto Phillips an assignment of said lease covering its entire interest therein, warranting the same to be free and clear of all liens, claims, clouds and encumbrances caused, suffered or created by, through or under Second Party. In the event Phillips shall elect not to pay delay rentals, then upon receipt of notice that Second Party desires an assignment, Phillips shall execute, acknowledge and deliver unto Second Party an assignment without representation or warranty of title, either express or implied, of the leasehold estate not assigned to Second Party pursuant to the provisions hereof in and to said lease insofar as the same covers the lands described in Exhibit "1"; such assignment shall not affect any other interest, reservations or rights of Phillips provided for in this Agreement, including but not limited to overriding royalty interest reserved in Article V hereinabove.

Article IX
SURRENDER, ABANDONMENT, OR RELINQUISHMENT
OF LEASE (OR LEASES)

Second Party shall not at any time abandon, relinquish, surrender or otherwise permit to expire its leasehold estate in any part or all of the lease acreage or plug and abandon the last producing well or wells capable of producing on the lease acreage without first giving Phillips written notice of such desire and intention at least sixty (60) days before said leasehold estate is to be abandoned, relinquished, surrendered or otherwise permitted to expire or the last producing well or wells capable of producing is to be plugged and abandoned, and Phillips shall have thirty (30) days after receipt of such notice within which to notify Second Party whether or not Phillips elects to take over the leasehold estate of Second Party, it being understood that in the event Phillips shall elect to take over said leasehold estate of Second Party and there shall be a well or wells thereon belonging to Second Party, Phillips shall have the right to take over any such well or wells by paying for the reasonable salvage value of Second Party's interest in the well, materials and equipment associated therewith at the time of takeover less Second Party's interest

in all reasonable costs of salvaging and all reasonable costs of plugging and abandoning, however, Phillips shall not be required to make payment therefor until Phillips shall have approved or accepted title to said leasehold estate of Second Party. If Phillips shall fail or neglect to so notify Second Party of its election within said thirty (30) day period it shall be deemed that Phillips does not elect to take over said leasehold estate. If Phillips shall elect to take over said leasehold estate, covering any part or all of said premises and accept an assignment thereof from Second Party, but Phillips elects not to take over any particular well or wells located thereon, then before assigning said leasehold estate to Phillips, Second Party shall in compliance with all relevant statutes, regulations and lease obligations properly plug and abandon any and all wells which Phillips does not elect to take over, and shall, within a reasonable time thereafter, remove all leasehold material and debris placed on said premises by Second Party and restore the property by filling and leveling the cellar and slush pits, all at the sole risk and expense of Second Party. Upon the election of Phillips to take over the leasehold estate of Second Party in any part or all of said lease acreage, Second Party shall deliver unto Phillips a proper assignment of such lease acreage warranting the same to be free and clear of all liens, claims, clouds and encumbrances caused, suffered or created by, through or under Second Party. Nothing herein contained, express or implied, shall ever be construed as relieving Second Party from any of its obligations under this Agreement.

Article X
PERFORMANCE OF LEASE COVENANTS

Second Party agrees to accept the assignment(s) of certain interests in the lease acreage herein provided for, subject to all of the terms, provisions, conditions, and covenants of the oil and gas lease (or leases) and of intermediate assignments thereof, if any. Second Party further assumes and agrees to comply fully with and to perform timely each and every duty, obligation and covenant (both express and implied), provision, and condition of the oil and gas lease (or leases) and of intermediate assignments thereof, if any, imposed upon the lessee and/or assignee thereby, insofar as same concerns any interests assigned or which may be assigned pursuant to the terms of this Agreement. Second Party agrees to drill any and all wells which may be necessary to protect the lease acreage from drainage by wells on adjacent lands. Second Party further agrees to save, protect and hold Phillips harmless at all times from all damages and all penalties which may arise or be adjudged against it on Second Party's failure or refusal to comply fully and faithfully with each and every duty, obligation and covenant of said lease (or leases) and of intermediate assignments thereof, if any, imposed upon the lessee/or assignee thereby insofar as it concerns the lease acreage.

Article XI
CONCURRENT RIGHTS OF INGRESS AND EGRESS

The parties hereto, their successors and assigns, shall have equal and concurrent rights of ingress and egress on the lease acreage for the purpose of exploring for, drilling for, mining, producing, and marketing the minerals owned by each of the parties hereto, in their respective depths and, further,

said parties shall own and hold equally any and all rights granted by said oil and gas lease (or leases) as incident to and for the purpose of exploring for, drilling for, mining and producing the minerals owned by them in their respective depths, including the right to lay and maintain pipelines, water lines, dig pits, erect structures and to do and perform any and all other things incident to the rights and interests of the parties hereto in their respective depths. The aforesaid rights shall be exercised in such a manner as not to interfere unduly with the similar rights of the other party hereto.

Article XII
EXTENSIONS AND RENEWALS

All interests, reservations, and rights of Phillips in and to the lease acreage and the production therefrom provided for in this Agreement shall apply to any and all extensions or renewals of the oil and gas lease (or leases) described in Exhibit "1" which may be acquired by Second Party. The term "extensions" as used herein shall be deemed to include, but not by way of limitation, any agreement(s) of whatsoever character acquired by Second Party under and by virtue of which said oil and gas lease (or leases) are continued in force. The term "renewals" as used herein shall be deemed to include, but not by way of limitation, any lease (or leases) acquired by Second Party on all or part of the lease acreage within twelve (12) months before or after the date of termination or expiration of said lease (or leases) or any extensions or renewals thereof. Second Party agrees to execute, without charge or cost to Phillips, such further grants and assurances as may be requisite to vest in Phillips under any such extensions or renewals the same rights and interests in and to the lease acreage and the production therefrom as are reserved by or granted to Phillips under the provisions of this Agreement.

Article XIII
WELL TAKE OVER

If, after drilling and testing operations are completed for the Test Well as herein provided and Second Party elects to plug and abandon said Test Well, Second Party shall give prompt notice to Phillips of Second Party's intention to do so. Phillips shall then have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of said notice to elect at its sole option to take over the well. Phillips and Second Party may tender said notice and/or response by telephone, telecopy or telegram within the time period prescribed herein, and later confirm said notice and/or response with a signed document. Failing receipt of response from Phillips during said period, Phillips shall be deemed to have declined, and Second Party shall proceed to plug and abandon the well. If Phillips elects to take over said well, Second Party shall convey to Phillips, Second Party's interest in the well, material and equipment associated therewith, free and clear of all liens, and Phillips shall pay for the reasonable salvage value of Second Party's interest in the well, materials and equipment associated therewith at the time of take over less Second Party's interest in all reasonable costs of salvaging and all reasonable costs of plugging and abandoning. In the event of take over, Phillips' operations on such well from and after the date of take over shall be at Phillips' sole cost, risk and expense. In the event of take over, Second Party shall

immediately relinquish to Phillips in written form acceptable to Phillips any and all rights to which Second Party would have been entitled in the well and all acreage and production associated therewith under the terms of this Agreement without express or implied warranty of title but free and clear of all liens, claims, clouds or encumbrances caused, suffered or created by, through or under Second Party. This option shall also apply to any additional wells as may be drilled pursuant to the provisions of this Agreement.

Article XIV
TITLES

Any assignment(s) from Phillips to Second Party as provided for in this Agreement shall be made without representation or warranty of title, express or implied. Phillips will, upon written request furnish Second Party copies of rental receipts, contracts, assignments, and title data from lessor(s) pertaining to the lease acreage, but shall not be liable for the completeness of such information or for inadvertent error in omitting such materials. Any title work as may be necessary shall be performed at the sole cost, direction and responsibility of Second Party.

Second Party agrees, at no cost to Phillips, to furnish Phillips with copies of all title opinions of whatever nature or other title data relating thereto, and any abstracts (for review by Phillips) which Second Party obtains on the lease acreage prior to the commencement of any well under this Agreement. Second Party further agrees to furnish copies of any division order title opinions and related curative material, as soon as practicable, to Phillips at no cost to Phillips. Second Party shall promptly forward to Phillips copies of all correspondence and materials relating to title received from third parties concerning the lease acreage.

Article XV
GEOLOGICAL DATA

In conjunction with the drilling of any well hereunder, Second Party shall conduct or cause to be conducted the geological and geophysical requirements as set out in Exhibit "4" attached hereto and by this reference made a part hereof and shall at its sole cost, risk, and expense (except as otherwise specified in said Exhibit "4") furnish to Phillips all the samples, logs, and other information and data, as specified in said Exhibit "4".

Article XVI
AD VALOREM TAXES

If the lease acreage has been assessed for ad valorem taxes, such taxes shall be prorated on a calendar year basis and Phillips shall pay such taxes for the current year. Second Party shall be liable for its proportionate share of the full amount of taxes so paid and shall pay Phillips upon being billed therefor. Second Party assumes the responsibility for the payment of all ad valorem taxes, if any, on any well hereunder and all acreage earned by drilling said well for all subsequent years.

Article XVII
DISCLAIMER OF JOINT LIABILITY

It is understood and agreed that this Agreement shall not create the relationship of a partnership or joint venture between the parties hereto, and that no act done by any party, pursuant to the provisions hereof, shall operate to create such relationship, nor shall the provisions of this Agreement be construed as creating such relationship. The liability of the parties shall be several and not joint or collective, and each party shall be responsible only for its obligations as herein set forth, and shall be liable only for its proportionate share of the costs, expenses, and liabilities incurred pursuant to the terms and provisions of this Agreement or the exhibits attached hereto.

Article XVIII
INSURANCE AND INDEMNITY

Second Party at all times during the term of this Agreement shall comply with all applicable Federal and State Workers' Compensation act or acts, and shall purchase and maintain the following insurance:

- (a) General Public Liability Insurance, covering liabilities for death and personal injury and liabilities for loss of or damages to property with combined single limit of not less than \$1,000,000 per occurrence. This insurance must cover all operations of Second Party required to fulfill this Agreement.
- (b) Automobile Public Liability Insurance with bodily injury limits of not less than \$1,000,000 each person, and \$1,000,000 any one accident and property damage limit of not less than \$1,000,000 any one accident.

No recitation of any amount or amounts herein shall be construed to in any manner limit Second Party's liability under this Agreement.

Prior to commencing any operations on the lease acreage Second Party shall furnish certificates satisfactory to Phillips certifying full compliance with the above requirements. Certificates of insurance shall specify that in the event of cancellation or material change in coverage at least ten (10) days prior written notice shall be given to Phillips. All required insurance policies shall be so written or endorsed to provide that the insurance company shall have no right of recovery against Phillips, its affiliated and subsidiary companies and that Phillips, its affiliated and subsidiary companies are additional assured under such policies.

Second Party agrees to indemnify and defend Phillips and all of its affiliated and subsidiary companies and their respective agents, servants and employees (hereinafter collectively referred to as Phillips) and to save and hold all of them harmless from and against any and all claims for property damage of all character including, but not limited to, damages caused to land, stock, crops, fences, buildings, structures and other improvements from and against any and all claims for death or injury to persons including, but not limited to, employees of Second Party resulting from or arising out of the operations conducted or caused or permitted to be conducted by Second Party on or in connection with the lease acreage and from and against any and all claims for labor and materials and any other costs and expenses in connection with Second Party's operations hereunder. It is intended that this indemnity shall apply even

where it is alleged that the harm was caused by Phillips' concurrent negligence but shall not apply to harm caused by Phillips' sole negligence. Second Party releases Phillips from any claim for personal injury or property damage arising from operations conducted pursuant to this Agreement.

Article XIX
AUDITS

Second Party shall, and shall procure that its subcontractors shall, maintain a true and correct set of records pertaining to all activities relating to its performance under this Agreement and all transactions related thereto. Second Party further agrees and shall procure that its subcontractors agree to retain all such records for a period of not less than two (2) years after completion of performance under this Agreement. Phillips and any representative or representatives authorized by Phillips at any and all times during such term upon notice in writing to Second Party, shall have the right to audit Second Party's accounts and records hereunder. Second Party agrees to make adjustments of its records and accounts to correct and clarify deficiencies revealed by Phillips' audit. In addition, Second Party shall also retain the required records for such period of time as is sufficient to allow for the audit of those records by the Internal Revenue Service, as provided by the Internal Revenue Code of 1986, as amended from time to time and for such period of time which is sufficient to allow for the audit of those records by the appropriate state taxing authority as provided by similar provisions of state tax laws.

Article XX
CONFLICT OF INTEREST

Second Party represents and warrants that to the knowledge of Second Party no employee of Phillips will acquire a personal interest in the property covered by this Agreement or in other property of Second Party or receive, for said employee's personal use and benefit, a payment or other thing of value from Second Party in connection with this Agreement. It is understood by Second Party that the foregoing representation and warranty is part of the consideration for Phillips entering into this Agreement and that Phillips would not have entered this Agreement without the foregoing representation and warranty of Second Party.

Article XXI
PREFERENTIAL RIGHT TO PURCHASE

In the event, Second Party shall at any time after the commencement of actual drilling of the Test Well desire to sell, assign or transfer all or any part of its interest and shall have a bona fide offer from a purchaser to purchase all or any part of such interest at a price that is acceptable to Second Party, then Second Party shall furnish to Phillips a copy of the signed bona fide offer which shall disclose all the terms of the transaction including a legal description of the property and/or wells. Phillips shall have fifteen (15) days after receipt of such notice within which to notify Second Party of its election to purchase said interest at the same price and under the same terms and conditions as offered by said prospective purchaser. If Phillips shall elect to purchase said interest, Second Party shall promptly execute,

acknowledge, and deliver unto Phillips a proper assignment of such interest and Phillips, upon approval of title thereto, shall pay the stipulated price therefor. If, within the time above specified, Phillips shall notify Second Party that it does not elect to purchase such interest or Phillips shall fail or neglect to notify Second Party, which failure or neglect shall be construed to mean that Phillips does not elect to purchase such interest, then, in either event, Second Party shall be at liberty to sell and assign such interest to some other purchaser at the same bona fide price and under the same terms and conditions as offered to Phillips for such interest provided, however, that if such interest is not disposed of by Second Party within thirty (30) days after the expiration of said fifteen (15) day period Second Party shall not thereafter dispose of all or any part of its interest without again offering the same to Phillips as above provided.

Phillips' preferential right to purchase and its right to approve sales, assignments or transfers as provided herein shall extend to any subsequent sales, assignments or transfers by Second Party or any third party(ies).

Article XXII
CONSENT TO ASSIGN

Prior to the commencement of actual drilling of the Test Well, any assignment, sale or transfer of, or agreement to sell, assign or transfer any interest or interests in or under this Agreement may be made by Second Party provided any such sale, assignment or transfer is made with the prior written consent of Phillips, is made expressly subject to all the terms and provisions of this Agreement, and the assignee expressly agrees to be bound by the terms hereof in writing. Second Party shall promptly furnish Phillips a fully-executed copy of any such sale, assignment or transfer.

Article XXIII
CALL ON PRODUCTION

The disposition of all oil and gas produced from the lease acreage shall be governed by the terms and provisions of Exhibit "2" attached hereto and by this reference incorporated herein and made a part hereof.

Article XXIV
NON-DISCRIMINATION

In connection with the performance of work under this Agreement, Second Party agrees to comply with all of the provisions contained in Exhibit "3" attached hereto and incorporated by reference to this Agreement.

Article XXV
APPLICABLE LAWS

THIS AGREEMENT AND THE RESPECTIVE RIGHTS AND OBLIGATIONS OF THE PARTIES HERETO SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW MEXICO, AND SHALL BE SUBJECT TO ALL VALID AND APPLICABLE STATE, FEDERAL, AND LOCAL LAWS, RULES, REGULATIONS, AND ORDERS AND, IN THE EVENT THIS AGREEMENT OR ANY PROVISION HEREOF IS,

OR THE OPERATIONS CONTEMPLATED HEREBY, ARE FOUND TO BE INCONSISTENT WITH OR CONTRARY TO ANY SUCH LAWS, RULES, REGULATIONS AND ORDERS, THE LATTER SHALL BE DEEMED TO CONTROL. THIS AGREEMENT SHALL BE REGARDED AS MODIFIED ACCORDINGLY AND SHALL, AS SO MODIFIED, CONTINUE IN FULL FORCE AND EFFECT, PROVIDED HOWEVER, THIS AGREEMENT SHALL NOT BECOME EFFECTIVE UNTIL IT HAS BEEN EXECUTED BY ALL PARTIES NAMED HEREIN.

**Article XXVI
NOTICES**

All notices that are required or authorized to be given hereunder, except as otherwise specifically provided herein, shall be given in writing by mail, overnight courier service, telex or telecopier, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

PHILLIPS:

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762
Attn: J. S. Welin
Land Director
Permian Basin Region

Telephone: (915) 368-1373
Telecopy: (915) 368-1554

SECOND PARTY:

Kerry E. Blair
P. O. Box 124
Midland, TX 79702

Telephone: (915) 683-5643
Telecopy: (915) 683-5753

The originating notice given under any provisions 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 response thereto shall run from the date the originating notice is received. The second or any subsequent responsive notice shall be deemed given when deposited in the U.S. mail or overnight courier service, with postage or charges prepaid or when actually received if sent by telex or telecopier. Each party shall have the right to change its address at anytime, and from time to time, by giving written notice thereof to the other party.

**Article XXVII
SUCCESSORS AND ASSIGNS**

The terms, covenants, and conditions hereof shall be deemed to be covenants running with the leasehold estate(s) herein above referred to and as such shall extend to, bind and inure to the benefit of the parties hereto, their successors and assigns.

**Article XXVIII
TERM**

Subject to the other provisions of this Agreement, this Agreement shall remain in force for the life of the oil and gas lease (or leases) covering the lease acreage and any extensions or renewals thereof, whether by production or otherwise. Notwithstanding termination of this Agreement, all debts, liabilities, accounting duties and indemnities arising from events occurring prior to such termination shall survive until their satisfaction or completion.

**Article XXIX
HEADINGS FOR CONVENIENCE**

The paragraph headings used in this Agreement are inserted for convenience only and shall be disregarded in construing this Agreement.

**Article XXX
ENTIRE AGREEMENT**

This Agreement and its exhibits shall constitute the entire contract of the parties and there are no agreements, undertakings, obligations, promises, assurances or conditions, whether precedent or otherwise, except those specifically set forth. In the event of any conflict between the provisions of the attached exhibits and the provisions of this Agreement, the latter shall govern.

EXECUTED as of the 27th day of October, 1995.

PHILLIPS PETROLEUM COMPANY

By: J. S. Welin
J. S. Welin, Attorney-in-Fact
Tax ID No: 73-0400345

WITNESS OR ATTEST:

KERRY E. BLAIR

By: Kerry E. Blair
Title: _____
Tax ID or S.S. No: 464-82-7943

ACKNOWLEDGEMENTS

STATE OF TEXAS)
) ss.
COUNTY OF ECTOR)

Before me, the undersigned, a Notary Public, in and for said County and State, on this 27th day of October, 1995, personally appeared J. S. Welin, known to me to be the person whose name is subscribed to the within instrument as Attorney-in-Fact of PHILLIPS PETROLEUM COMPANY and acknowledged to me that he subscribed the name of PHILLIPS PETROLEUM COMPANY thereto as principal and his own name as Attorney-in-Fact.

In witness whereof I have hereunto set my hand and affixed my official seal the day and year last above written.

Marianne Mcewin
Notary Public

My Commission Expires:
1-16-99



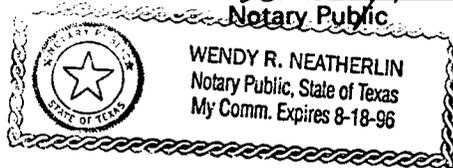
STATE OF TEXAS)
) ss.
COUNTY OF MIDLAND)

Before me, the undersigned, a Notary Public, in and for said County and State, on this 3rd day of November, 1995, personally appeared Kerry E. Blair, to me known to me to be the person, described in and who executed the within and foregoing instrument of writing and acknowledged to me that he duly executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

In witness whereof I have hereunto set my hand and affixed my official seal the day and year last above written.

Wendy R. Neatherlin
Notary Public

My Commission Expires:
8/18/96



1995\phlg54267.foa

EXHIBIT "1"

Attached to and made a part of Farmout Agreement dated the 25th day of October, 1995, between Phillips Petroleum Company and Kerry E. Blair.

A. DESCRIPTION OF LEASE ACREAGE

Township 12 South, Range 33 East
 Section 23: All
 Section 26: N/2, SE/4
 Containing 1120 gross acres, more or less,
 All lands being located in Lea County, New Mexico.

B. RESTRICTIONS, IF ANY, AS TO DEPTHS, FORMATIONS OR SUBSTANCES

This Agreement is limited to include only those intervals from the surface of the earth to the base of the Devonian formation or stratigraphic equivalent thereof.

C. DESCRIPTION OF OIL AND GAS LEASE (OR LEASES)

Lease No: 216688-000
 Date of Lease: 4/1/91
 Lessor: State of New Mexico NM-V-3638
 Lessee: Doug J. Schutz
 Covering: NE/4, S/2 Sec. 23-T12S-R33E, Lea County, NM
 Recorded: Unrecorded

Lease No: 216689-000
 Date of Lease: 4/1/91
 Lessor: State of New Mexico NM-V-3639
 Lessee: Doug J. Schutz
 Covering: N/2, N/2 SE/4 Sec. 26-T12S-R33E, Lea County, NM
 Recorded: Unrecorded

Lease No: 221502-000
 Date of Lease: 11/1/93
 Lessor: State of New Mexico NM-V-4225
 Lessee: Phillips Petroleum Company
 Covering: NW/4 Sec. 23-T12S-R33E, Lea County, NM
 Recorded: Unrecorded

Lease No: 221527-000
 Date of Lease: 2/4/94
 Lessor: Luther Eugene Roach
 Lessee: Phillips Petroleum Company
 Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea County, NM
 Recorded: Book 497 Page 720

Lease No: 221527-A01
 Date of Lease: 2/4/94
 Lessor: Regina Gail Hamman
 Lessee: Phillips Petroleum Company
 Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea County, NM
 Recorded: Book 497 Page 722

Lease No: 221527-B01
 Date of Lease: 2/4/94
 Lessor: Charles Lewis Roach
 Lessee: Phillips Petroleum Company
 Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea County, NM
 Recorded: Book 497 Page 724

EXHIBIT "1" (CONT.)

Lease No: 221527-C01
Date of Lease: 2/4/94
Lessor: William W. Roach
Lessee: Phillips Petroleum Company
Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea
County, NM
Recorded: * Book 497 Page 726

Lease No: 221527-C02
Date of Lease: 8/24/94
Lessor: June Danglede Speight
Lessee: Phillips Petroleum Company
Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea
County, NM
Recorded: Book 507 Page 44

Lease No: 221527-D01
Date of Lease: 2/4/94
Lessor: Mary L. Roach
Lessee: Phillips Petroleum Company
Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea
County, NM
Recorded: Book 497 Page 728

Lease No: 221527-I01
Date of Lease: 2/4/94
Lessor: Carl Lowell Roach
Lessee: Phillips Petroleum Company
Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea
County, NM
Recorded: Book 497 Page 736

Lease No: 221527-Y01
Date of Lease: 2/4/94
Lessor: Larry Thomas Jennings
Lessee: Phillips Petroleum Company
Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea
County, NM
Recorded: Book 499 Page 548

KERRY E. BLAIR
P.O. BOX 124
MIDLAND, TEXAS 79702

COF

January 26, 1996

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

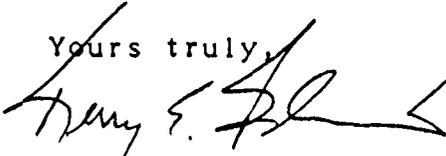
Re: Farmout Agreement
Your No. GF 054267

Gentlemen:

In accordance with Article XXII of the above referenced farmout agreement, I am hereby requesting permission to assign my rights under said farmout agreement to John L. Cox, 400 W. Wall, Midland, Texas 79701.

Please advise.

Yours truly,



Kerry E. Blair

KERRY E. BLAIR
P.O. BOX 124
MIDLAND, TEXAS 79702

January 31, 1996

John L. Cox
400 W. Wall
Midland, Texas 79701

Re: Pearl Prospect
Assignment of Farmout Agreement
Lea County, New Mexico

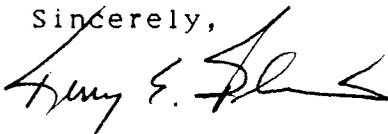
Gentlemen:

Subject to the terms of that certain letter agreement dated January 31, 1996 by and between Kerry E. Blair and John L. Cox covering the captioned prospect, Kerry E. Blair hereby assigns all of his right, title and interest in and to that certain Farmout Agreement dated October 25, 1995 by and between Phillips Petroleum Company, as Assignor and Kerry E. Blair, as Assignee insofar as said farmout agreement covers and includes the South 1/2 of Section 23 and the North 1/2 and the Southeast 1/4 of Section 26, Township 12 South, Range 33 East, Lea County, New Mexico.

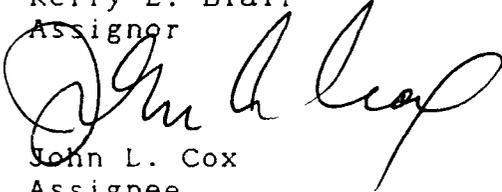
By acceptance of this letter of assignment, John L. Cox agrees to assume the terms and conditions contained in said farmout agreement and the obligations of the leases subject to such farmout agreement, insofar as said leases cover the lands described above.

Kerry E. Blair hereby further agrees to execute any documents which may be necessary, beyond this agreement, to facilitate the assignment of said farmout agreement to John L. Cox.

Sincerely,



Kerry E. Blair
Assignor



John L. Cox
Assignee



PHILLIPS PETROLEUM COMPANY

4001 PENBROOK
ODESSA, TEXAS 79762

EXPLORATION AND PRODUCTION
Permian Basin Region

February 1, 1996

Kerry E. Blair
P. O. Box 124
Midland, TX 79702

RE: Request for approval to assign
GF 054267
Lea County, New Mexico

Dear Mr. Blair:

Pursuant to your request of January 26, 1996, and Article XXII, of that certain Agreement dated October 25th, 1995, between Phillips Petroleum Company and Kerry E. Blair, Phillips hereby consents to your request to assign the rights under said Agreement to:

John L. Cox
400 West Wall
Midland, Texas 79701.

Please provide a fully executed copy of the assignment of such rights to John L. Cox to my attention at the address above.

Yours truly,

A handwritten signature in cursive script, appearing to read "J. S. Welin".

J. S. Welin
Land Director

JOHN L. COX

P. O. BOX 2217
400 WEST WALL
PHONE 915 • 682-9428

MIDLAND, TEXAS 79702-2217

DATE: 2-12-96

TO: MICHAEL STOGNER 505 827 8177
FAX No.

WITH: _____

FROM: MARINA WITTENBACH 1-915-682-8925
FAX No.

WITH: _____

RE: John L. Cox - Phillips 16 State #1

No. of Pages: _____ (including cover page)

MESSAGE AND/OR INSTRUCTIONS:

*Some DOCS
HAD IN FILE*

*REMAINDER OF MY
FILING TO YOU -
LAST FAX*

KERRY E. BLAIR
P.O. BOX 124
MIDLAND, TEXAS 79702

CO:

January 26, 1996

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

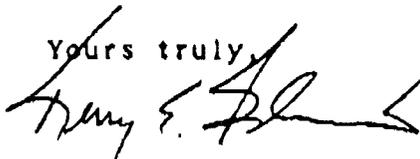
Re: Farmout Agreement
Your No. GP 054267

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Please advise.

Yours truly,



Kerry E. Blair

PHONE: 915-683-5643

FAX: 915-683-3753

KERRY E. BLAIR
P.O. BOX 124
MIDLAND, TEXAS 79702

January 31, 1996

John L. Cox
400 W. Wall
Midland, Texas 79701

Re: Pearl Prospect
Assignment of Farmout Agreement
Lea County, New Mexico

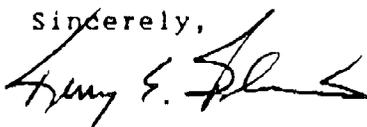
Gentlemen:

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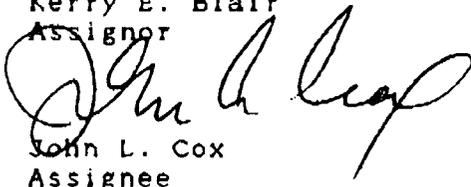
By acceptance of this letter of assignment, John L. Cox agrees to assume the terms and conditions contained in said farmout agreement and the obligations of the leases subject to such farmout agreement, insofar as said leases cover the lands described above.

Kerry E. Blair hereby further agrees to execute any documents which may be necessary, beyond this agreement, to facilitate the assignment of said farmout agreement to John L. Cox.

Sincerely,



Kerry E. Blair
Assignor



John L. Cox
Assignee

**PHILLIPS PETROLEUM COMPANY**4001 PENBROOK
ODESSA, TEXAS 79762EXPLORATION AND PRODUCTION
Permian Basin Region

February 1, 1996

Kerry E. Blair
P. O. Box 124
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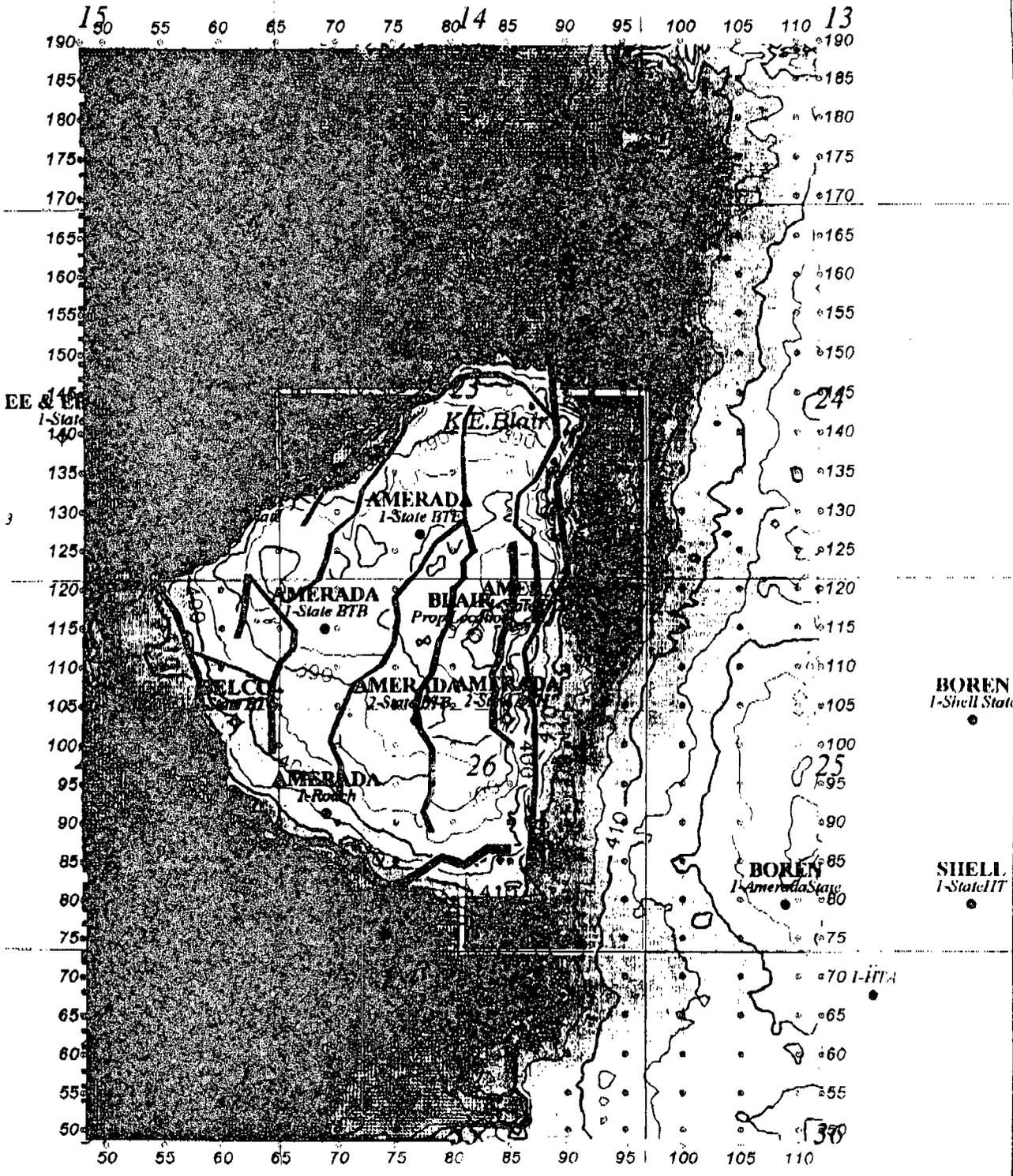
John L. Cox
400 West Wall
Midland, Texas 79701.

Please provide a fully executed copy of the assignment of such rights to John L. Cox to my attention at the address above.

Yours truly,

A handwritten signature in cursive script, appearing to read "J. S. Welin".

J. S. Welin
Land Director



BLAIR - CHENEY
 Midland, Texas
 PEARL 3D
 Lea county, New Mexico

T12S R33E
 T13S R33E

F.R. Scheubel map scale: 1" = 2,000'

in all reasonable costs of salvaging and all reasonable costs of plugging and abandoning, however, Phillips shall not be required to make payment therefor until Phillips shall have approved or accepted title to said leasehold estate of Second Party. If Phillips shall fail or neglect to so notify Second Party of its election within said thirty (30) day period it shall be deemed that Phillips does not elect to take over said leasehold estate. If Phillips shall elect to take over said leasehold estate, covering any part or all of said premises and accept an assignment thereof from Second Party, but Phillips elects not to take over any particular well or wells located thereon, then before assigning said leasehold estate to Phillips, Second Party shall in compliance with all relevant statutes, regulations and lease obligations properly plug and abandon any and all wells which Phillips does not elect to take over, and shall, within a reasonable time thereafter, remove all leasehold material and debris placed on said premises by Second Party and restore the property by filling and leveling the cellar and slush pits, all at the sole risk and expense of Second Party. Upon the election of Phillips to take over the leasehold estate of Second Party in any part or all of said lease acreage, Second Party shall deliver unto Phillips a proper assignment of such lease acreage warranting the same to be free and clear of all liens, claims, clouds and encumbrances caused, suffered or created by, through or under Second Party. Nothing herein contained, express or implied, shall ever be construed as relieving Second Party from any of its obligations under this Agreement.

Article X
PERFORMANCE OF LEASE COVENANTS

Second Party agrees to accept the assignment(s) of certain interests in the lease acreage herein provided for, subject to all of the terms, provisions, conditions, and covenants of the oil and gas lease (or leases) and of intermediate assignments thereof, if any. Second Party further assumes and agrees to comply fully with and to perform timely each and every duty, obligation and covenant (both express and implied), provision, and condition of the oil and gas lease (or leases) and of intermediate assignments thereof, if any, imposed upon the lessee and/or assignee thereby, insofar as same concerns any interests assigned or which may be assigned pursuant to the terms of this Agreement. Second Party agrees to drill any and all wells which may be necessary to protect the lease acreage from drainage by wells on adjacent lands. Second Party further agrees to save, protect and hold Phillips harmless at all times from all damages and all penalties which may arise or be adjudged against it on Second Party's failure or refusal to comply fully and faithfully with each and every duty, obligation and covenant of said lease (or leases) and of intermediate assignments thereof, if any, imposed upon the lessee/or assignee thereby insofar as it concerns the lease acreage.

Article XI
CONCURRENT RIGHTS OF INGRESS AND EGRESS

The parties hereto, their successors and assigns, shall have equal and concurrent rights of ingress and egress on the lease acreage for the purpose of exploring for, drilling for, mining, producing, and marketing the minerals owned by each of the parties hereto, in their respective depths and, further,

said parties shall own and hold equally any and all rights granted by said oil and gas lease (or leases) as incident to and for the purpose of exploring for, drilling for, mining and producing the minerals owned by them in their respective depths, including the right to lay and maintain pipelines, water lines, dig pits, erect structures and to do and perform any and all other things incident to the rights and interests of the parties hereto in their respective depths. The aforesaid rights shall be exercised in such a manner as not to interfere unduly with the similar rights of the other party hereto.

Article XII
EXTENSIONS AND RENEWALS

All interests, reservations, and rights of Phillips in and to the lease acreage and the production therefrom provided for in this Agreement shall apply to any and all extensions or renewals of the oil and gas lease (or leases) described in Exhibit "1" which may be acquired by Second Party. The term "extensions" as used herein shall be deemed to include, but not by way of limitation, any agreement(s) of whatsoever character acquired by Second Party under and by virtue of which said oil and gas lease (or leases) are continued in force. The term "renewals" as used herein shall be deemed to include, but not by way of limitation, any lease (or leases) acquired by Second Party on all or part of the lease acreage within twelve (12) months before or after the date of termination or expiration of said lease (or leases) or any extensions or renewals thereof. Second Party agrees to execute, without charge or cost to Phillips, such further grants and assurances as may be requisite to vest in Phillips under any such extensions or renewals the same rights and interests in and to the lease acreage and the production therefrom as are reserved by or granted to Phillips under the provisions of this Agreement.

Article XIII
WELL TAKE OVER

If, after drilling and testing operations are completed for the Test Well as herein provided and Second Party elects to plug and abandon said Test Well, Second Party shall give prompt notice to Phillips of Second Party's intention to do so. Phillips shall then have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of said notice to elect at its sole option to take over the well. Phillips and Second Party may tender said notice and/or response by telephone, telecopy or telegram within the time period prescribed herein, and later confirm said notice and/or response with a signed document. Failing receipt of response from Phillips during said period, Phillips shall be deemed to have declined, and Second Party shall proceed to plug and abandon the well. If Phillips elects to take over said well, Second Party shall convey to Phillips, Second Party's interest in the well, material and equipment associated therewith, free and clear of all liens, and Phillips shall pay for the reasonable salvage value of Second Party's interest in the well, materials and equipment associated therewith at the time of take over less Second Party's interest in all reasonable costs of salvaging and all reasonable costs of plugging and abandoning. In the event of take over, Phillips' operations on such well from and after the date of take over shall be at Phillips' sole cost, risk and expense. In the event of take over, Second Party shall

immediately relinquish to Phillips in written form acceptable to Phillips any and all rights to which Second Party would have been entitled in the well and all acreage and production associated therewith under the terms of this Agreement without express or implied warranty of title but free and clear of all liens, claims, clouds or encumbrances caused, suffered or created by, through or under Second Party. This option shall also apply to any additional wells as may be drilled pursuant to the provisions of this Agreement.

Article XIV TITLES

Any assignment(s) from Phillips to Second Party as provided for in this Agreement shall be made without representation or warranty of title, express or implied. Phillips will, upon written request furnish Second Party copies of rental receipts, contracts, assignments, and title data from lessor(s) pertaining to the lease acreage, but shall not be liable for the completeness of such information or for inadvertent error in omitting such materials. Any title work as may be necessary shall be performed at the sole cost, direction and responsibility of Second Party.

Second Party agrees, at no cost to Phillips, to furnish Phillips with copies of all title opinions of whatever nature or other title data relating thereto, and any abstracts (for review by Phillips) which Second Party obtains on the lease acreage prior to the commencement of any well under this Agreement. Second Party further agrees to furnish copies of any division order title opinions and related curative material, as soon as practicable, to Phillips at no cost to Phillips. Second Party shall promptly forward to Phillips copies of all correspondence and materials relating to title received from third parties concerning the lease acreage.

Article XV GEOLOGICAL DATA

In conjunction with the drilling of any well hereunder, Second Party shall conduct or cause to be conducted the geological and geophysical requirements as set out in Exhibit "4" attached hereto and by this reference made a part hereof and shall at its sole cost, risk, and expense (except as otherwise specified in said Exhibit "4") furnish to Phillips all the samples, logs, and other information and data, as specified in said Exhibit "4".

Article XVI AD VALOREM TAXES

If the lease acreage has been assessed for ad valorem taxes, such taxes shall be prorated on a calendar year basis and Phillips shall pay such taxes for the current year. Second Party shall be liable for its proportionate share of the full amount of taxes so paid and shall pay Phillips upon being billed therefor. Second Party assumes the responsibility for the payment of all ad valorem taxes, if any, on any well hereunder and all acreage earned by drilling said well for all subsequent years.

Article XVII
DISCLAIMER OF JOINT LIABILITY

It is understood and agreed that this Agreement shall not create the relationship of a partnership or joint venture between the parties hereto, and that no act done by any party, pursuant to the provisions hereof, shall operate to create such relationship, nor shall the provisions of this Agreement be construed as creating such relationship. The liability of the parties shall be several and not joint or collective, and each party shall be responsible only for its obligations as herein set forth, and shall be liable only for its proportionate share of the costs, expenses, and liabilities incurred pursuant to the terms and provisions of this Agreement or the exhibits attached hereto.

Article XVIII
INSURANCE AND INDEMNITY

Second Party at all times during the term of this Agreement shall comply with all applicable Federal and State Workers' Compensation act or acts, and shall purchase and maintain the following insurance:

- (a) General Public Liability Insurance, covering liabilities for death and personal injury and liabilities for loss of or damages to property with combined single limit of not less than \$1,000,000 per occurrence. This insurance must cover all operations of Second Party required to fulfill this Agreement.
- (b) Automobile Public Liability Insurance with bodily injury limits of not less than \$1,000,000 each person, and \$1,000,000 any one accident and property damage limit of not less than \$1,000,000 any one accident.

No recitation of any amount or amounts herein shall be construed to in any manner limit Second Party's liability under this Agreement.

Prior to commencing any operations on the lease acreage Second Party shall furnish certificates satisfactory to Phillips certifying full compliance with the above requirements. Certificates of insurance shall specify that in the event of cancellation or material change in coverage at least ten (10) days prior written notice shall be given to Phillips. All required insurance policies shall be so written or endorsed to provide that the insurance company shall have no right of recovery against Phillips, its affiliated and subsidiary companies and that Phillips, its affiliated and subsidiary companies are additional assured under such policies.

Second Party agrees to indemnify and defend Phillips and all of its affiliated and subsidiary companies and their respective agents, servants and employees (hereinafter collectively referred to as Phillips) and to save and hold all of them harmless from and against any and all claims for property damage of all character including, but not limited to, damages caused to land, stock, crops, fences, buildings, structures and other improvements from and against any and all claims for death or injury to persons including, but not limited to, employees of Second Party resulting from or arising out of the operations conducted or caused or permitted to be conducted by Second Party on or in connection with the lease acreage and from and against any and all claims for labor and materials and any other costs and expenses in connection with Second Party's operations hereunder. It is intended that this indemnity shall apply even

where it is alleged that the harm was caused by Phillips' concurrent negligence but shall not apply to harm caused by Phillips' sole negligence. Second Party releases Phillips from any claim for personal injury or property damage arising from operations conducted pursuant to this Agreement.

**Article XIX
AUDITS**

Second Party shall, and shall procure that its subcontractors shall, maintain a true and correct set of records pertaining to all activities relating to its performance under this Agreement and all transactions related thereto. Second Party further agrees and shall procure that its subcontractors agree to retain all such records for a period of not less than two (2) years after completion of performance under this Agreement. Phillips and any representative or representatives authorized by Phillips at any and all times during such term upon notice in writing to Second Party, shall have the right to audit Second Party's accounts and records hereunder. Second Party agrees to make adjustments of its records and accounts to correct and clarify deficiencies revealed by Phillips' audit. In addition, Second Party shall also retain the required records for such period of time as is sufficient to allow for the audit of those records by the Internal Revenue Service, as provided by the Internal Revenue Code of 1986, as amended from time to time and for such period of time which is sufficient to allow for the audit of those records by the appropriate state taxing authority as provided by similar provisions of state tax laws.

**Article XX
CONFLICT OF INTEREST**

Second Party represents and warrants that to the knowledge of Second Party no employee of Phillips will acquire a personal interest in the property covered by this Agreement or in other property of Second Party or receive, for said employee's personal use and benefit, a payment or other thing of value from Second Party in connection with this Agreement. It is understood by Second Party that the foregoing representation and warranty is part of the consideration for Phillips entering into this Agreement and that Phillips would not have entered this Agreement without the foregoing representation and warranty of Second Party.

**Article XXI
PREFERENTIAL RIGHT TO PURCHASE**

In the event, Second Party shall at any time after the commencement of actual drilling of the Test Well desire to sell, assign or transfer all or any part of its interest and shall have a bona fide offer from a purchaser to purchase all or any part of such interest at a price that is acceptable to Second Party, then Second Party shall furnish to Phillips a copy of the signed bona fide offer which shall disclose all the terms of the transaction including a legal description of the property and/or wells. Phillips shall have fifteen (15) days after receipt of such notice within which to notify Second Party of its election to purchase said interest at the same price and under the same terms and conditions as offered by said prospective purchaser. If Phillips shall elect to purchase said interest, Second Party shall promptly execute,

acknowledge, and deliver unto Phillips a proper assignment of such interest and Phillips, upon approval of title thereto, shall pay the stipulated price therefor. If, within the time above specified, Phillips shall notify Second Party that it does not elect to purchase such interest or Phillips shall fail or neglect to notify Second Party, which failure or neglect shall be construed to mean that Phillips does not elect to purchase such interest, then, in either event, Second Party shall be at liberty to sell and assign such interest to some other purchaser at the same bona fide price and under the same terms and conditions as offered to Phillips for such interest provided, however, that if such interest is not disposed of by Second Party within thirty (30) days after the expiration of said fifteen (15) day period Second Party shall not thereafter dispose of all or any part of its interest without again offering the same to Phillips as above provided.

Phillips' preferential right to purchase and its right to approve sales, assignments or transfers as provided herein shall extend to any subsequent sales, assignments or transfers by Second Party or any third party(ies).

**Article XXII
CONSENT TO ASSIGN**

Prior to the commencement of actual drilling of the Test Well, any assignment, sale or transfer of, or agreement to sell, assign or transfer any interest or interests in or under this Agreement may be made by Second Party provided any such sale, assignment or transfer is made with the prior written consent of Phillips, is made expressly subject to all the terms and provisions of this Agreement, and the assignee expressly agrees to be bound by the terms hereof in writing. Second Party shall promptly furnish Phillips a fully-executed copy of any such sale, assignment or transfer.

**Article XXIII
CALL ON PRODUCTION**

The disposition of all oil and gas produced from the lease acreage shall be governed by the terms and provisions of Exhibit "2" attached hereto and by this reference incorporated herein and made a part hereof.

**Article XXIV
NON-DISCRIMINATION**

In connection with the performance of work under this Agreement, Second Party agrees to comply with all of the provisions contained in Exhibit "3" attached hereto and incorporated by reference to this Agreement.

**Article XXV
APPLICABLE LAWS**

THIS AGREEMENT AND THE RESPECTIVE RIGHTS AND OBLIGATIONS OF THE PARTIES HERETO SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW MEXICO, AND SHALL BE SUBJECT TO ALL VALID AND APPLICABLE STATE, FEDERAL, AND LOCAL LAWS, RULES, REGULATIONS, AND ORDERS AND, IN THE EVENT THIS AGREEMENT OR ANY PROVISION HEREOF IS,

OR THE OPERATIONS CONTEMPLATED HEREBY, ARE FOUND TO BE INCONSISTENT WITH OR CONTRARY TO ANY SUCH LAWS, RULES, REGULATIONS AND ORDERS, THE LATTER SHALL BE DEEMED TO CONTROL. THIS AGREEMENT SHALL BE REGARDED AS MODIFIED ACCORDINGLY AND SHALL, AS SO MODIFIED, CONTINUE IN FULL FORCE AND EFFECT, PROVIDED HOWEVER, THIS AGREEMENT SHALL NOT BECOME EFFECTIVE UNTIL IT HAS BEEN EXECUTED BY ALL PARTIES NAMED HEREIN.

**Article XXVI
NOTICES**

All notices that are required or authorized to be given hereunder, except as otherwise specifically provided herein, shall be given in writing by mail, overnight courier service, telex or telecopier, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

PHILLIPS:

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762
Attn: J. S. Walin
Land Director
Permian Basin Region

Telephone: (915) 368-1373
Telecopy: (915) 368-1554

SECOND PARTY:

Kerry E. Blair
P. O. Box 124
Midland, TX 79702

Telephone: (915) 683-5643
Telecopy: (915) 683-5753

The originating notice given under any provisions 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 response thereto shall run from the date the originating notice is received. The second or any subsequent responsive notice shall be deemed given when deposited in the U.S. mail or overnight courier service, with postage or charges prepaid or when actually received if sent by telex or telecopier. Each party shall have the right to change its address at anytime, and from time to time, by giving written notice thereof to the other party.

**Article XXVII
SUCCESSORS AND ASSIGNS**

The terms, covenants, and conditions hereof shall be deemed to be covenants running with the leasehold estate(s) herein above referred to and as such shall extend to, bind and inure to the benefit of the parties hereto, their successors and assigns.

**Article XXVIII
TERM**

Subject to the other provisions of this Agreement, this Agreement shall remain in force for the life of the oil and gas lease (or leases) covering the lease acreage and any extensions or renewals thereof, whether by production or otherwise. Notwithstanding termination of this Agreement, all debts, liabilities, accounting duties and indemnities arising from events occurring prior to such termination shall survive until their satisfaction or completion.

**Article XXIX
HEADINGS FOR CONVENIENCE**

The paragraph headings used in this Agreement are inserted for convenience only and shall be disregarded in construing this Agreement.

**Article XXX
ENTIRE AGREEMENT**

This Agreement and its exhibits shall constitute the entire contract of the parties and there are no agreements, undertakings, obligations, promises, assurances or conditions, whether precedent or otherwise, except those specifically set forth. In the event of any conflict between the provisions of the attached exhibits and the provisions of this Agreement, the latter shall govern.

EXECUTED as of the 27th day of October, 1995.

PHILLIPS PETROLEUM COMPANY

By: J. S. Welin
J. S. Welin, Attorney-in-Fact
Tax ID No: 73-0400345

WITNESS OR ATTEST:

KERRY E. BLAIR

By: Kerry E. Blair
Title: _____
Tax ID or S.S. No: 464-82-7943

ACKNOWLEDGEMENTS

STATE OF TEXAS)
) ss.
COUNTY OF ECTOR)

Before me, the undersigned, a Notary Public, in and for said County and State, on this 27th day of October, 1995, personally appeared J. S. Welin, known to me to be the person whose name is subscribed to the within instrument as Attorney-in-Fact of PHILLIPS PETROLEUM COMPANY and acknowledged to me that he subscribed the name of PHILLIPS PETROLEUM COMPANY thereto as principal and his own name as Attorney-in-Fact.

In witness whereof I have hereunto set my hand and affixed my official seal the day and year last above written.

Marianne McEwin
Notary Public

My Commission Expires:
1-16-99



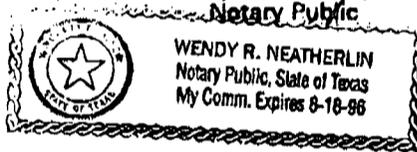
STATE OF TEXAS)
) ss.
COUNTY OF MIDLAND)

Before me, the undersigned, a Notary Public, in and for said County and State, on this 3rd day of November, 1995, personally appeared Larry E. Blais, to me known to me to be the person, described in and who executed the within and foregoing instrument of writing and acknowledged to me that he duly executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

In witness whereof I have hereunto set my hand and affixed my official seal the day and year last above written.

Wendy R. Neatherlin
Notary Public

My Commission Expires:
8/18/96



1995\phlg54267.foa

G. F. 054267**EXHIBIT "1"**

Attached to and made a part of Farmout Agreement dated the 25th day of October, 1995, between Phillips Petroleum Company and Kerry E. Blair.

A. DESCRIPTION OF LEASE ACREAGE

Township 12 South, Range 33 East
 Section 23: All
 Section 26: N/2, SE/4
 Containing 1120 gross acres, more or less,
 All lands being located in Lea County, New Mexico.

B. RESTRICTIONS, IF ANY, AS TO DEPTHS, FORMATIONS OR SUBSTANCES

This Agreement is limited to include only those intervals from the surface of the earth to the base of the Devonian formation or stratigraphic equivalent thereof.

C. DESCRIPTION OF OIL AND GAS LEASE (OR LEASES)

Lease No: 216688-000
 Date of Lease: 4/1/91
 Lessor: State of New Mexico NM-V-3638
 Lessee: Doug J. Schutz
 Covering: NE/4, S/2 Sec. 23-T12S-R33E, Lea County, NM
 Recorded: Unrecorded

Lease No: 216689-000
 Date of Lease: 4/1/91
 Lessor: State of New Mexico NM-V-3639
 Lessee: Doug J. Schutz
 Covering: N/2, N/2 SE/4 Sec. 26-T12S-R33E, Lea County, NM
 Recorded: Unrecorded

Lease No: 221502-000
 Date of Lease: 11/1/93
 Lessor: State of New Mexico NM-V-4225
 Lessee: Phillips Petroleum Company
 Covering: NW/4 Sec. 23-T12S-R33E, Lea County, NM
 Recorded: Unrecorded

Lease No: 221527-000
 Date of Lease: 2/4/94
 Lessor: Luther Eugene Roach
 Lessee: Phillips Petroleum Company
 Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea County, NM
 Recorded: Book 497 Page 720

Lease No: 221527-A01
 Date of Lease: 2/4/94
 Lessor: Regina Gail Hamman
 Lessee: Phillips Petroleum Company
 Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea County, NM
 Recorded: Book 497 Page 722

Lease No: 221527-B01
 Date of Lease: 2/4/94
 Lessor: Charles Lewis Roach
 Lessee: Phillips Petroleum Company
 Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea County, NM
 Recorded: Book 497 Page 724

EXHIBIT "1" (CONT.)

Lease No: 221527-C01
Date of Lease: 2/4/94
Lessor: William W. Roach
Lessee: Phillips Petroleum Company
Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea County, NM
Recorded: Book 497 Page 726

Lease No: 221527-C02
Date of Lease: 8/24/94
Lessor: June Danglede Speight
Lessee: Phillips Petroleum Company
Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea County, NM
Recorded: Book 507 Page 44

Lease No: 221527-D01
Date of Lease: 2/4/94
Lessor: Mary L. Roach
Lessee: Phillips Petroleum Company
Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea County, NM
Recorded: Book 497 Page 728

Lease No: 221527-I01
Date of Lease: 2/4/94
Lessor: Carl Lowell Roach
Lessee: Phillips Petroleum Company
Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea County, NM
Recorded: Book 497 Page 736

Lease No: 221527-Y01
Date of Lease: 2/4/94
Lessor: Larry Thomas Jennings
Lessee: Phillips Petroleum Company
Covering: S/2 SE/4 Sec. 26-T12S-R33E, among other lands not herein included, Lea County, NM
Recorded: Book 499 Page 548

New Mexico Oil Conservation Division

Please Deliver This Fax:

TO: Martha Wittenbach

WITH: John L. Cox

FROM: Michael E. Stogner

DATE: February 22, 1996

SUBJECT: Administrative application to drill the Phillips "26" State Well No. 1 at an unorthodox oil well location 940' FNL & 2650' FEL (Unit C) of Section 26, Township 12 South, Range 33 East, NMPM, Hightower-Devonian Pool, Lea County, New Mexico. Said well to be dedicated to a standard 80-acre oil spacing and proration unit comprising the N/2 NW/4 of said Section 26.

MESSAGE: Please proceed accordingly.

PAGES: Including Cover Sheet - 3

*If you should have any trouble receiving
this "Fax" Please call: 505-827-7133*

JOHN L. COX

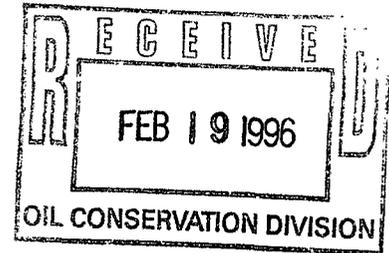
P. O. BOX 2217
400 WEST WALL
PHONE 915 - 682-9435

MIDLAND, TEXAS 79702-2217

February 16, 1996

FEDERAL EXPRESS

State of New Mexico
Oil Conservation Commission
2040 South Pacheco
Santa Fe, New Mexico 87505



Attention: Mr. Michael Stogner

Re: John L. Cox-Phillips 26 State
Well No. 1
940' FNL, 2650' FEL
Section 26, T-12-S, R-33-E
Lea County, New Mexico

Dear Mr. Stogner:

Pursuant to my conversation with your office this date, I am enclosing copy of Form C-102 (Dedication Plat) which will adjust the 80 acre dedication from UL B and C to UL C and D. for the captioned well. I understand this will eliminate the necessity for a sub-standard location, however, the unorthodox location approval will be required. Please place this information in the file given to Mr. Le May for his consideration.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Martha Wittenbach".

Martha Wittenbach

mw

Encl.

cc: Oil Conservation Commission
Hobbs, New Mexico
Attention: Donna

DISTRICT I
P.O. Box 1980, Hobbs, NM 88241-1980

State of New Mexico

Energy, Minerals and Natural Resources Department

Form C-102
Revised February 10, 1994
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

DISTRICT II
P.O. Drawer DD, Artesia, NM 88211-0719

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
P.O. BOX 2088, SANTA FE, N.M. 87504-2088

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number		Pool Code	Pool Name
			Hightower; Devonian
Property Code	Property Name		Well Number
	PHILLIPS 26 STATE		1
OGRID No.	Operator Name		Elevation
012079	JOHN L. COX		4243

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
C	26	12 S	33 E		940	NORTH	2650	EAST	LEA

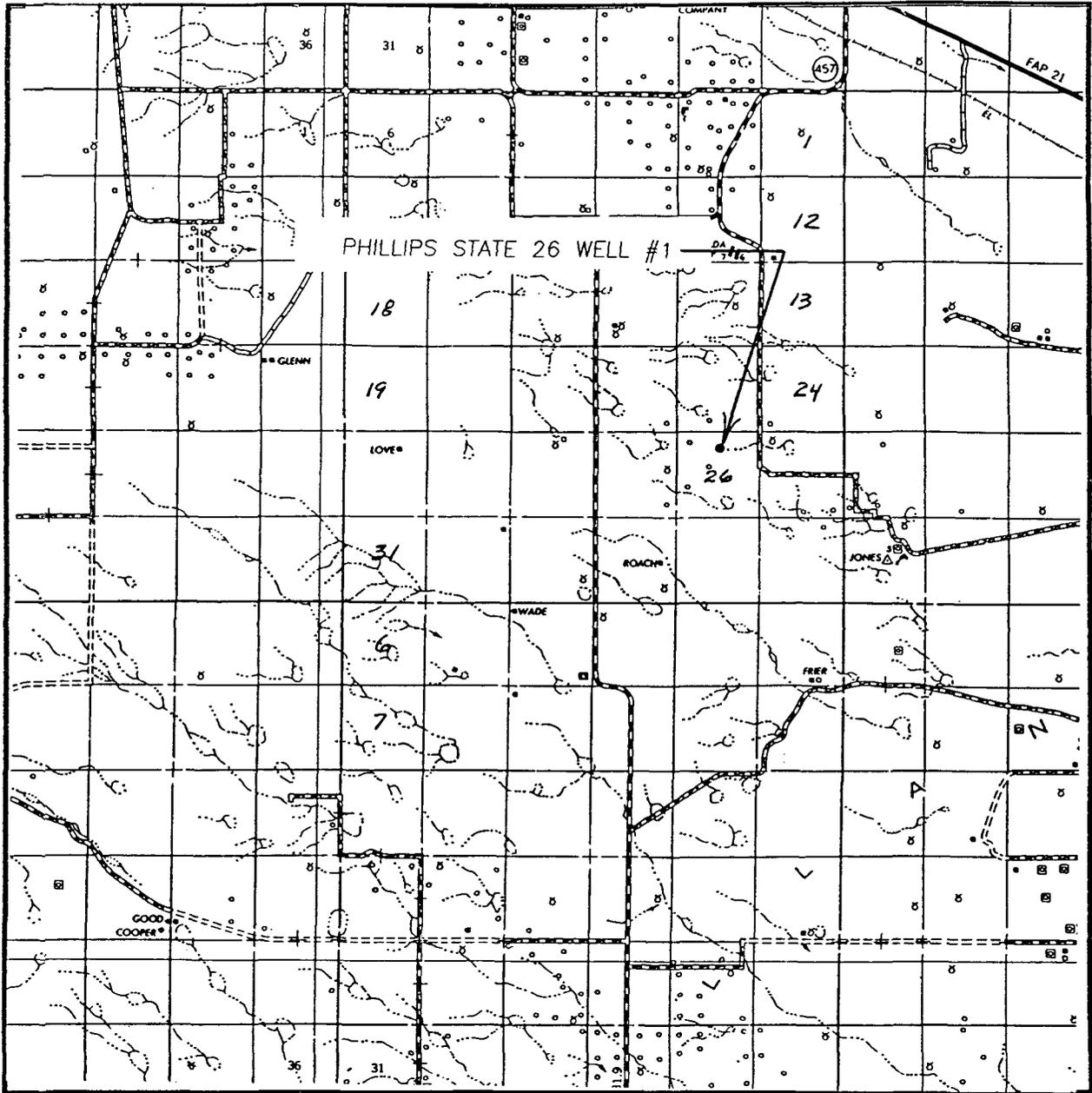
Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres		Joint or Infill	Consolidation Code		Order No.				

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Martha Wittenbach</i> Signature</p> <p>MARTHA WITTENBACH Printed Name</p> <p>Prodn. Acctng.Mgr. Title</p> <p>2-16-96 Date</p>
	<p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>FEBRUARY 05, 1996</p> <p>Date Surveyed SJA</p> <p>Signature & Seal of Professional Surveyor</p> <p><i>Ronald B. Edson</i> 2-06-96</p> <p>W.O. Num. 96-44-0161</p>
	<p>Certificate No. JOHN G. WEST 576 RONALD B. EDSON 3239 PROFESSIONAL SURVEYOR EDSON 12641</p>

VICINITY MAP



SCALE: 1" = 2 MILES

SEC. 26 TWP. 12-S RGE. 33-E

SURVEY N.M.P.M.

COUNTY LEA

DESCRIPTION 940' FNL & 2650' FEL

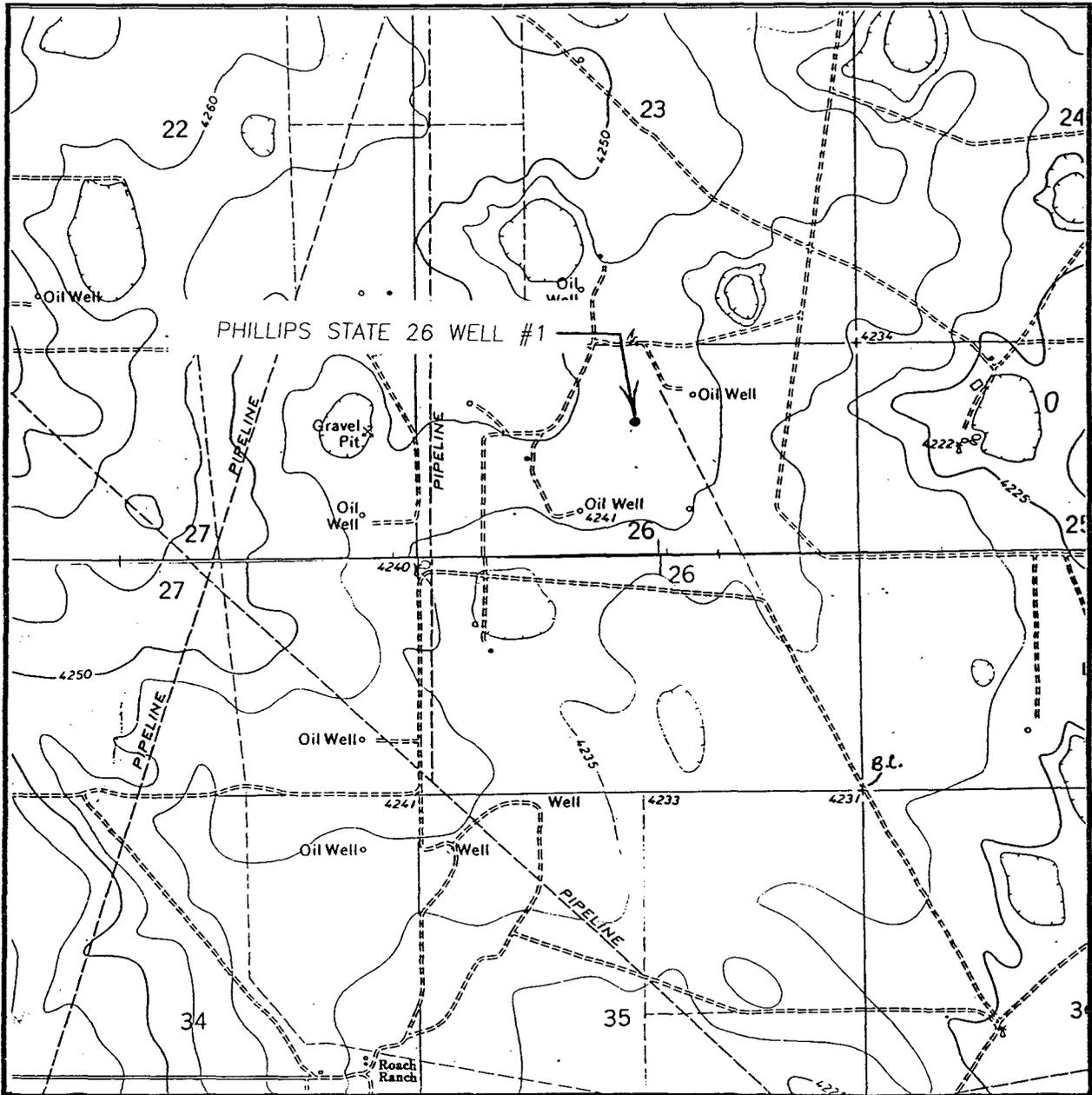
ELEVATION 4243

OPERATOR JOHN L. COX

LEASE PHILLIPS STATE 26

JOHN WEST ENGINEERING
HOBBS, NEW MEXICO
(505) 393-3117

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL - 5'

SEC. 26 TWP. 12-S RGE. 33-E

SURVEY N.M.P.M.

COUNTY LEA

DESCRIPTION 940' FNL & 2650' FEL

ELEVATION 4243

OPERATOR JOHN L. COX

LEASE PHILLIPS STATE 26

U.S.G.S. TOPOGRAPHIC MAP

DALLAS STORE, FRIER RANCH, N.M.

**JOHN WEST ENGINEERING
HOBBS, NEW MEXICO**

(505) 393-3117

**HIGHTOWER POOL
(BAGLEY-HIGHTOWER POOL)**

Lea County, New Mexico

Order No. 846, Adopting Rules for the Hightower Pool, Lea County, New Mexico, November 18, 1949. (As Reissued in Order No. 850, Effective January 1, 1950.)

Relating to spacing in the Hightower Pool, Lea County, issued November 18, 1949.

IT IS THEREFORE ORDERED:

1. That the Amerada-State BTB No. 1 well located in the center of NW/4 NW/4 of Section 26, Township 12 South, Range 33 East, N.M.P.M., is producing oil from the Devonian formation, a newly discovered common source of supply not heretofore discovered and produced in New Mexico, and that the probable area for such production is as follows:

All of Sections 22, 23, 26 and 27, in Township 12 South, Range 33 East, N.M.P.M. (Hightower Pool)
Lea County, New Mexico.

2. That it is the intent of this order to cover all of the Devonian formation common source of supply within the area designated herein, and upon any regular additions to the Hightower Pool which may from time to time be made, and that any well within said designated area to the same common source of supply shall be drilled on the pattern herein provided.

3. That 80-acre spacing and drilling units be established as hereinafter provided, for the production of oil and gas from the Devonian formation underlying the area as hereinabove described.

4. That each governmental quarter section be divided into two equal rectangular spacing units by a line drawn north-south through such quarter section, and with wells to be drilled in the center of the northwest and southeast forty acre tracts

of each such spacing unit, with a tolerance of not in excess of 150 feet provided, however, that the units within may be changed by agreement of operators within any quarter section of the designated area upon proper showing before the Commission.

5. That allowable shall be assigned on the basis of proration units as herein established, and any proration unit of less than the normal one-half of a governmental quarter section as the result of an exception granted by the Commission after notice and hearing, shall be assigned an allowable in proportion that the acreage thereof bears to the 80-acre spacing unit — or one-half of a quarter section.

6. That the daily oil allowable for an 80-acre unit provided for herein shall be assigned to the Amerada-State BTB No. 1 well, the discovery well, located in the approximate center of NW/4 NW/4 of Section 26, Township 12 South, Range 33 East, N.M.P.M., Lea County, New Mexico, and to all other wells hereafter drilled and produced in accordance with the provisions of this order based upon the proportional factor of 4.67 times the regular top allowable until such time as the Commission may issue further and additional orders as may be deemed necessary herein.

7. All rules, regulations and orders heretofore issued by this Commission which may conflict herewith are superseded, only with respect to the Devonian formation production at the approximate depth of 10,090 ft-10,200 ft. in the Hightower Pool

8. That this Order shall be in full force and effect from and after December 1, 1949.

9. That the Commission retains jurisdiction of this case for the purpose of issuing such further and additional orders as may seem necessary to meet changed conditions, preclude inequities and preserve correlative rights; all upon the motion of the Commission or upon the petition of any interested operator upon public hearing, after notice as provided by law.

08:00

BEFORE THE OIL CONSERVATION COMMISSION OF THE
STATE OF NEW MEXICO

00221

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

CASE NO. 198
ORDER NO. 846

THE APPLICATION OF AMERADA PETROLEUM CORPORATION FOR AN ORDER ESTABLISHING EIGHTY ACRE PRORATION UNITS; ESTABLISHING A UNIFORM PATTERN FOR THE SPACING AND DRILLING WITH ALLOWANCE FOR TOLERANCE FOR SURFACE OBSTRUCTIONS; AND FOR AN ORDER FIXING AND ESTABLISHING ALLOWABLES FOR WELLS DRILLED OR TO BE DRILLED IN THE HIGHTOWER POOL TO THE COMMON SOURCE OF SUPPLY DISCOVERED IN AMERADA STATE BTB NO. 1 WELL (DEVONIAN), LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 10:00 o'clock A.M., November 1, 1949 at Santa Fe, New Mexico, before the Oil Conservation Commission of the State of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 18th day of November, 1949, the Commission having before it for consideration the testimony adduced at the hearing of said cause and being fully advised in the premises,

FINDS:

1. That the applicant, Amerada Petroleum Corporation has drilled and completed Amerada-State BTB No. 1 well located in the approximate center of NW/4 NW/4 of Section 26, Township 12 south, Range 33 east, N.M.P.M. and discovered a new common source of supply at the approximate depth of 10,090-10,200 ft., in the Devonian formation.

2. That the initial production from said well was 781 barrels of 56.9 gravity pipe line oil in 19 3/4 hours through 1/4 in. tubing choke from 10,155 ft. - 10,165 ft. and with a gas-oil ratio of 280.

3. That the probable area has been delineated and recommended by the Nomenclature Committee and approved by the Commission for Devonian production as discovered by the above described well as follows;

All of sections, 22,23,26 and 27 in Township 12 south,
Range 33 east, N.M.P.M.

4. That Gulf Oil Company is now drilling a well in SE/4 SE/4 section 22, and Amerada Petroleum Corporation is also drilling a well in the NW/4 SW/4 of section 26, all in Township 12 south, Range 33 east; both being at a present depth of approximately 9000 ft. and projected to the Devonian pay discovered in Amerada-State BTB No. 1 within the "Hightower" pool as lately designated, and described hereinabove.

5. That this order shall cover all wells now or hereafter drilled to the common source of supply (Devonian) to which the discovery well, Amerada-State BTB No. 1 was drilled and is producing from within the pool described in paragraph 3 above, so as to insure a proper and uniform spacing, developing and producing plan for all wells drilled to the common source of supply.

6. That recognizing the conditions indicated by the discovery well, the Commission finds it advisable to amend and supplement its present rules, regulations and orders to properly cover the matter of lease development and well spacing now or hereafter drilled to, into and producing from the Hightower-Devonian formation encountered at a depth between 10,090 ft. and 10,200 ft. in the "Hightower" pool.

7. That the present rules and regulations of the Commission are adequate and sufficient to properly cover the drilling, equipping and operation of wells to the newly discovered common source of supply as found in Amerada-State BTB No. 1 well, and therefore, the general statewide rules and the special rules should remain in full force and effect except as hereinafter modified, amended or superceded.

8. That the "Hightower" Devonian formation as found in the Amerada-State BTB No. 1 well, is apparently a common source of supply which should be drilled and developed under a special program, other than that ordinarily required in compliance with existing Commission regulations particularly Order No. 637 effective March 1, 1946 with respect to proration units, spacing and assignment of allowables due to the depth of such wells, drilling time required, the high costs attached thereto, in addition to the hazards of deep exploration.

9. That the best interest of the State of New Mexico seems to require encouragement of operators in the exploration and development of the States' natural resources, particularly oil and gas, by the authorization of a reasonable, proper and equitable spacing and development pattern for the "Hightower" pool.

IT IS THEREFORE ORDERED:

1. That the Amerada-State BTB No. 1 well located in the center of NW/4 NW/4 of section 26, Township 12 south, Range 33 east, N.M.P.M. is producing oil from the Devonian formation, a newly discovered common source of supply not heretofore discovered and produced in New Mexico, and that the probable area for such production is as follows:

All of sections 22, 23, 26 and 27, in Township 12 south, Range 33 east, N.M.P.M. (Hightower pool) Lea County, New Mexico.

2. That it is the intent of this order to cover all of the Devonian formation common source of supply within the area designated herein, and upon any regular additions to the Hightower pool which may from time to time be made, and that any well within said designated area to the same common source of supply shall be drilled on the pattern herein provided,

3. That 80-acre spacing and drilling units be established as hereinafter provided, for the production of oil and gas from the Devonian formation underlying the area as hereinabove described.

4. That each governmental quarter section be divided into two equal rectangular spacing units by a line drawn north-south through such quarter section, and with wells to be drilled in the center of the northwest and southeast forty acre tracts of each such spacing unit, with a tolerance of not in excess of 150 ft. provided, however, that the units within may be changed by agreement of operators within any quarter section of the designated area upon proper showing before the Commission.

5. That allowable shall be assigned on the basis of proration units as herein established, and any proration unit of less than the normal one-half of a governmental quarter section as the result of an exception granted by the Commission after notice and hearing, shall be assigned an allowable in proportion that the acreage thereof bears to the 80-acre spacing unit - or one-half of a quarter section.

6. That the daily oil allowable for an 80-acre unit provided for herein shall be assigned to the Amerada-State BTB No. 1 well, the discovery well, located in the approximate center of NW/4 NW/4 of section 26, Township 12 south, Range 33 east, N.M.P.M., Lea County, New Mexico and to all other wells hereafter

drilled and produced in accordance with the provisions of this order based upon the proportional factor of 4.67 times the regular top allowable until such time as the Commission may issue such further and additional orders as may be deemed necessary herein.

7. All rules, regulations and orders heretofore issued by this Commission which may conflict herewith are superceded, only with respect to the Devonian formation production at the approximate depth of 10,090 ft.-10,200 ft. in the Hightower pool.

8. That this Order shall be in full force and effect from and after December 1, 1949.

9. That the Commission retains jurisdiction of this case for the purpose of issuing such further and additional orders as may seem necessary to meet changed conditions, preclude inequities and preserve correlative rights; all upon the motion of the Commission or upon the petition of any interested operator upon public hearing, after notice as provided by law.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

THOMAS J. MABRY, CHAIRMAN

GUY SHEPARD, MEMBER

R. R. SPURRIER, SECRETARY



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONY ANAYA
GOVERNOR

June 2, 1986

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501-2088
(505) 827-5800

MEMORANDUM NO. 4-86

TO: ALL OPERATORS AND INTERESTED PARTIES

FROM: R. L. STAMETS, DIRECTOR 

SUBJECT: CLARIFICATION OF ADMINISTRATIVE APPROVAL PROCESSES IN CERTAIN
POOLS WITH SPECIAL RULES

Division Rule 1 provides in part that: "Special rules, regulations and orders have been and will be issued when requested and shall prevail as against General Rules, Regulations and Orders if in conflict therewith. However, whenever these General Rules do not conflict with special rules heretofore or hereafter adopted, these General Rules shall apply."

Over the years, many special pool rules have been written. Many of these contained special rules providing for administrative exceptions to such matters as location requirements or spacing unit size while others did not. One prevailing opinion is that the intent of those special rules without administrative exception provisions was to preclude such exceptions. The counter opinion is that when read with Rule 1, if nothing is said, then the administrative exception provisions in the General Rules shall apply.

Notice is hereby provided that it is henceforth to be Division policy to utilize the administrative exceptions or approval procedures of the General Rules when special pool rules are silent as to such exceptions. This policy will save both the Division and operators the cost of unnecessary hearings.

Any person who is aware of any pool with special rules which should preclude any of the administrative exceptions or approvals provided in the General Rules should notify this office of such situation at the earliest possible date providing the reasoning for precluding administrative exceptions. Thereafter, we would suspend this policy for such pool and schedule a case to modify such special rules to incorporate the necessary prohibitions.

RLS:dp

CMD :
OG5SECT

ONGARD
INQUIRE LAND BY SECTION

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PAGE NO: 1

Sec : 26 Twp : 12S Rng : 33E Section Type : NORMAL

D	C	B	A
40.00	40.00	40.00	40.00
CS	CS	CS	CS
V03639 1 04/96	V03639 1 04/96	V03639 1 04/96	V03639 1 04/96
PHILLIPS PETROLEU	PHILLIPS PETROLEU	PHILLIPS PETROLEU	PHILLIPS PETROLEU
E	F	G	H
40.00	40.00	40.00	40.00
CS	CS	CS	CS
V03639 1 04/96	V03639 1 04/96	V03639 1 04/96	V03639 1 04/96
PHILLIPS PETROLEU	PHILLIPS PETROLEU	PHILLIPS PETROLEU	PHILLIPS PETROLEU

PF01 HELP PF02 PF03 EXIT PF04 GoTo PF05 PF06
PF07 BKWD PF08 FWD PF09 PRINT PF10 SDIV PF11 PF12

Sec : 26 Twp : 12S Rng : 33E Section Type : NORMAL

L	K	J	I
40.00	40.00	40.00	40.00
		CS	CS
Fee owned	Fee owned	V03639 1 04/96 PHILLIPS PETROLEU	V03639 1 04/96 PHILLIPS PETROLEU
A			
M	N	O	P
40.00	40.00	40.00	40.00
Fee owned	Fee owned	Fee owned	Fee owned

PF01 HELP PF02 PF03 EXIT PF04 GoTo PF05 PF06
PF07 BKWD PF08 FWD PF09 PRINT PF10 SDIV PF11 PF12