

AGE 7432: MADDOX ENERGY CORPORATION
FOR COMPUTERS POOLING, EDDY COUNTY,
NEW MEXICO

3500.00/mo July
350.00/mo (prod)

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CASE NO.

7432

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
2 December 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Maddox Energy Cor-
poration for compulsory pooling,
Eddy County, New Mexico.

CASE
7432

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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For the Applicant:

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A P P E A R A N C E S

For Mr. Ron Ward and
Mr. Royce Woolard:

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I N D E X

GEORGE ZAHN

Direct Examination by Mr. Lunsford	4
Cross Examination by Mr. Kellahin	17
Cross Examination by Mr. Nutter	32
Redirect Examination by Mr. Lunsford	34
Recross Examination by Mr. Kellahin	36
Redirect Examination by Mr. Lunsford	37

CHARLES CUNARD

Direct Examination by Mr. Lunsford	38
Cross Examination by Mr. Kellahin	49

STATEMENT BY MR. KELLAHIN	52
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STATEMENT BY MR. LUNSFORD	54
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2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

Applicant Exhibit One, Plat	6
Applicant Exhibit Two, Operating Agreement	8
Applicant Exhibit Three, Document	9
Applicant Exhibit Three-A, Correspondence	10
Applicant Exhibit Three-B, Correspondence	12
Applicant Exhibit Three-C Correspondence	13
Applicant Exhibit Four, AFE	13
Applicant Exhibit Five, Plat	39
Applicant Exhibit Six, Cross Section	42

1
2 MR. NUTTER: We'll next call Case Number
3 7432.

4 MR. PEARCE: Application of Maddox
5 Energy Corporation for compulsory pooling, Eddy County, New
6 Mexico.

7 MR. LUNSFORD: Mr. Examiner, I am Doug
8 Lunsford with the Hinkle Law Firm in Roswell, New Mexico, and
9 I'm the attorney for the applicant.

10 We have two witnesses to call.

11
12 (Witnesses sworn.)

13
14 MR. KELLAHIN: If the Examiner please,
15 I'd like to enter my appearance in this case.

16 Tom Kellahin of Santa Fe, New Mexico,
17 and I represent Mr. Ron Ward and Mr. Royce Woolard, W-O-O-L-A-R-D.

18
19 GEORGE ZAHN
20 being called as a witness and being duly sworn upon his oath,
21 testified as follows, to-wit:

22
23 DIRECT EXAMINATION

24 BY MR. LUNSFORD:

25 Q Please state your name, address, occupa-

1
2 tion and employer for the record.

3 A. George W. Zahn, 701 Ross Drive, Euless,
4 Texas. I am Vice President of Maddox Energy Corporation in
5 Dallas.

6 Q Mr. Zahn, have you previously testified
7 before the Oil Conservation Division in connection with land
8 matters?

9 A. I have not.

10 Q For the Commission's benefit, would you
11 please state your educational background and experience which
12 would allow you to testify as to land matters?

13 A. I have BBA in accounting from Baylor
14 University. I have worked with land matters for six years
15 with Maddox Energy Corporation.

16 Q In your position are you charged with
17 responsibility of ordering and reading attorneys' title
18 opinions dealing with other working interest owners, nego-
19 tiating and preparation of farmout agreements, operating agree-
20 ments, and the like?

21 A. Yes.

22 Q Are you familiar with the title to this
23 property?

24 A. Yes.

25 Q Are you familiar with this application?

1
2 A. Yes.

3 Q And are you familiar with the land owner-
4 ship and history of negotiations on the drilling of the well
5 in this application?

6 A. Yes.

7 MR. LUNSFORD: Are his qualifications
8 acceptable?

9 MR. NUTTER: They are.

10 MR. LUNSFORD: Okay.

11 Q What does Maddox Energy Corporation
12 seek by its application?

13 A. Applicant seeks an order pooling all
14 mineral interests in the Bone Springs formation underlying the
15 south half southwest quarter, Section 27, Township 23 South,
16 Range 28 East, to be dedicated to a well drilled at a loca-
17 tion 776 feet from the south line, 1874 feet from the west
18 line of said Section 27, and consideration of the cost of
19 drilling and completing said well, and the allocation of the
20 cost thereof, as well as actual operating costs and charges
21 for supervision, and consideration of the designation of the
22 applicant as operator of the well, and a charge for risk in-
23 volved in drilling said well.

24 Q Please refer to Exhibit One and I ask
25 you to state what that represents.

1
2 A This Exhibit One represents a plat of the
3 south half of the southwest quarter of Section 27, and the
4 two colored areas there represent the acreages in question.

5 Q Is the area shaded in green the area in
6 which the applicant controls the working interest?

7 A That is correct, yes.

8 Q And the area shaded in pink is a 5-acre
9 tract described as east half southwest quarter ^{southeast} (southwest)
10 quarter southwest quarter of that section?

11 A That's correct.

12 Q And that is an unleased mineral interest
13 owned by Michael P. Grace and wife, Corinne Grace.

14 A That's correct.

15 Q The -- is the yellow shaded area a 5-
16 acre tract described as east half southeast quarter southwest
17 quarter southwest quarter of that section?

18 A That's correct.

19 Q And is that a tract in which Ronnie
20 Ward and Royce Woolard own uncommitted working interests?

21 A That is correct.

22 Q Okay. The red dot shown on the plat,
23 is that the well location?

24 A It is.

25 Q And that is on acreage in which applicant

controls the working interest?

A. That is correct.

Q. Mr. Zahn, has Maddox Energy Corporation dedicated the south half southwest quarter of this section as the unit for this well?

A. Yes.

Q. Is this the -- is this acreage dedication in accord with local field rules and Statewide rules relative to spacing?

A. It is.

Q. Is a pooling agreement in the process of being prepared and circulated to the record owners of working interests in this drilling unit?

A. Yes, it is being prepared.

Q. Refer to Exhibit Two, please, and tell me what this represents.

A. Exhibit Two is the joint operating agreement on the well in the south half.

Q. What is the contract area shown in the operating agreement?

A. The contract area is the south half of the southwest quarter of Section 27, Township 23 South, Range 28 East, Eddy County, New Mexico.

Q. Does this have a COPAS accounting form

1
2 attaChed to it?

3 A. It does.

4 Q Is this the form which is intended to be
5 used for accounting purposes with respect to this well?

6 A. It is.

7 Q Mr. Zahn, what percentage of working
8 interest in this 80-acre unit have been committed to the well?

9 A. There's been approximately 7/8ths of the
10 working interest committed to the well.

11 Q Let me -- let me rephrase that question.
12 Has -- refer to Exhibit Three and tell me what that repre-
13 sents.

14 A. Exhibit Three is a schedule of owners
15 to be force pooled.

16 Q Are these the only owners that have not
17 committed their working interest either by way of joining or
18 farming out?

19 A. That is correct.

20 Q So the total working interest, except
21 for those interests shown on Exhibit Three are committed to
22 the well.

23 A. That's correct.

24 Q Okay. Has Maddox Energy Corporation
25 been designated the operator of the well in the operating

1
2 agreement?

3 A. Yes.

4 Q And by the other working interest owners?

5 A. Yes.

6 Q In fact, is this well located on a lease
7 owned exclusively by Maddox --

8 A. It is.

9 Q -- Energy Corporation?

10 Referring again to Exhibit Three, I be-
11 lieve you testified that this was a schedule of owners to be
12 force pooled.

13 A. That is correct.

14 Q Refer to Exhibit Three-A and tell me
15 what that -- that represents.

16 A. Exhibit Three-A is the correspondence
17 between Maddox Energy and Michael P. Grace.

18 Q The -- if I may, for the Hearing Examiner,
19 this correspondence is listed in reverse order of the date
20 it was sent out, so the latest correspondence is on top.

21 What was the first contact with the
22 Grace interest?

23 A. There was a letter dated July 28th, 1981.

24 Q And does that refer to a prior phone
25 conversation?

1

2

A. Yes, it does.

3

4

Q Now this letter, and some of the other letters, have been -- have been signed by Robert B. ^{Schneider} (Snyder) Was he an attorney with Maddox?

5

6

A. He was.

7

8

Q Was he writing these letters under your authorization and supervision?

9

A. He was.

10

11

Q If you would, just briefly for the Hearing Examiner, give us an idea as what kind of correspondence you've had with Grace interest.

12

13

14

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25

A. The letter from Mr. ^{Schneider} Snyder to the Grace interest went out on July 28th. It spoke of the conversation wherein the Grace interest didn't know whether they wanted to join or participate; that they would like some information on wells in the area which was provided in the letter. An AFE was completed at that time and as mentioned in the letter, was sent at a subsequent date.

The next correspondence would be August the 4th, wherein the AFE was completed and per their request was submitted to the Grace interest.

And then on September the 10th the correspondence having not received response by September 10th, we herein requested that Maddox be advised of what their posi-

1
2 tion was with regard to the drilling of this well.

3 Q Is the September 10th, 1981, correspondence
4 the last contact you had with the Grace interest?

5 A Yes.

6 Q Okay. Refer to Exhibit Three-B and tell
7 me what that represents, please, sir.

8 A Three-B is the correspondence between
9 Maddox Energy Corporation and Royce Woolard.

10 Q What was the earliest contact made with
11 Mr. Woolard?

12 A The letter of August the 4th was the
13 first written contact that was between Maddox Energy and
14 Royce Woolard.

15 Q Was there prior telephonic contact be-
16 tween someone with Maddox and Mr. Woolard?

17 A Yes, here again Mr. ^{Schneider} (Snyder) talked to Mr.
18 Woolard and Mr. Woolard requested information. That conver-
19 sation was on July the 30th.

20 Q Okay. And the rest of the correspondence
21 in there reflects the remaining contacts with Mr. Woolard?

22 A Yes. Mr. Woolard received our letter
23 and acknowledges same and we replied to his letter by letter
24 of August the 20th.

25 Q Does the letter of August 4th also --

1
2 August 4th, 1981, to Mr. Woolard, also reflect a farmout
3 proposal?

4 A. Yes, it does.

5 Q. Okay. Refer to Exhibit Three-C and tell
6 me what that represents.

7 A. Three-C is correspondence between Maddox
8 Energy Corporation and Ronnie Ward.

9 Q. Okay, what is the date of the first cor-
10 respondence?

11 A. The first correspondence was August the
12 4th. Here again. Bob Snyder talked to Mr. Ward on July 30th,
13 and Mr. Ward indicated that he would like to -- AFE and in-
14 formation; he didn't know what he wanted to do.

15 Q. Okay. And this letter of August 4th
16 also contains a farmout proposal, does it not?

17 A. It does.

18 Q. Are these farmout proposals similar to
19 or identical to other farmouts offered by Maddox to other
20 working interest owners in this unit?

21 A. Yes.

22 Q. And have some of them accepted this
23 proposal? As opposed to joining or being force pooled?

24 A. Yes.

25 Q. Please refer to Exhibit Four and tell me

what this -- the Examiner what this represents.

A. The Exhibit Four is a copy of the AFE on the Pardue Farms 27 No. 6 Well.

Q Is this the well in question?

A. Yes, it is.

Q. What is the actual status of this well?

A. This well was completed last week and is in the process of being tested.

Q What was the spud date on the well?

A. The well was spudded August 5th.

Q. Was the well spudded after initial contact had been made with each of the parties we are seeking a forced pooling order against?

A. Yes, it was.

Q And how long did it take to -- for the well to reach total depth?

A. It reached total depth in approximately thirty days.

Q. So they had approximately how long to make a decision on to join or to farmout or be force pooled?

Q. They -- approximately six weeks.

Q Okay. What is the actual cost of the well to date?

A. The cost of the well approximates \$675,000

1 to date.

2
3 Q Does that include completion of production
4 equipment?

5 A That includes everything except the tank
6 battery.

7 Q Will the -- the cost will be substantially
8 in line with the AFE?

9 A It should be, yes, in line with the AFE.

10 Q Is the cost of drilling this well in
11 line with the cost of other Bone Springs oil wells drilled in
12 the area by applicant?

13 A Yes, it is.

14 Q Is it in line with cost of other Bone
15 Springs oil wells drilled by others in the area?

16 Or do you have that information?

17 A I don't have that information.

18 Q Okay. Do you have a, Mr. Zahn, do you
19 have a recommendation to make with respect to charges for
20 supervision to be included in the requested order?

21 A Yes.

22 Q How about a drilling well supervision
23 charge?

24 A We'd recommend \$3500 for a drilling well.

25 Q How about a completed well supervision

1
2 charge?

3 A. We're recommending \$350 for a completed
4 well.

5 Q Are these charges in accordance with the
6 COPAS accounting procedure attached to the operating agreement?

7 A. It is.

8 Q And are they also in line with those
9 charged for wells, other Bone Springs oil wells in this area?

10 A. It is.

11 Q Mr. Zahn, have the Exhibits numbered
12 One through Four been either prepared by you or under your
13 supervision, or taken from files of which you have supervision?

14 A. They have been.

15 Q Mr. Zahn, in your opinion would the ap-
16 proval of the application by Maddox Energy Corporation pre-
17 vent the drilling of unnecessary wells and otherwise prevent
18 waste and protect correlative rights?

19 A. Yes.

20 MR. LUNSFORD: Mr. Examiner, we would
21 move the admission of Exhibits Numbers One through Four, all
22 those which we have previously discussed at this time.

23 MR. NUTTER: Are these both a part of
24 Exhibit Number Four?

25 MR. ZAHN: Yes, they should have been

1
2 stapled together.

3 MR. NUTTER: Okay. Exhibits One through
4 Four will be admitted in evidence.

5 MR. LUNSFORD: That's all the questions
6 we have at this time.

7 MR. NUTTER: Are there any questions of
8 the witness?

9 MR. KELLAHIN: Yes, Mr. Examiner.

10 MR. NUTTER: Mr. Kellahin.

11
12 CROSS EXAMINATION

13 BY MR. KELLAHIN:

14 Q Mr. Zahn, your first written communica-
15 tion with Mr. Ward or Mr. Woolard is your letter of August
16 4th of '81. If you'll turn to that. I think it's a portion
17 of your Exhibit Number Three.

18 A Yes.

19 Q Is that a correct statement? Is that
20 your first written communication?

21 A That is the first written communication,
22 yes, sir.

23 Q And you told us that you spudded the well
24 on August 5th, the day after this letter is dated?

25 A That's correct.

Q What's your reason for starting the well on that date?

A The rig was available. Maddox Energy had substantial acreage and had we let the rig go till we could clear this up we possibly would not have gotten it back before the expiration of our lease.

Q What's your earliest lease expiration date?

A January 5th.

Q Of '82?

A Of '82.

Q When did you first commence planning for the drilling of this Bone Springs well?

A The wells were being drilled in Section 27, moving through the section; May, we forecasted, or looked at this well, and the commitment was not made until the middle of July, at which time we had -- we received a leasehold opinion to see who our owners were.

Q When did you first become aware that Mr. Ward or Mr. Woolard had interest in the proration unit?

A I don't have personal knowledge of that. That was handled by Mr. ^{Schneider} Snyder. I'm speaking from his notes.

Q Did you -- I've read through your letter of August 4th. It doesn't appear to tell Mr. Ward or Mr.

1 Woolard that you were going to commence the well the next day.

2 Did you make either one of those gentle-
3 men aware at the time that you were going to spud the well
4 the following day?
5

6 A. No, sir.

7 MR. NUTTER: Mr. Kellahin, you keep
8 saying the next day. I think the record, the exhibits, ac-
9 tually show it was spudded on the 6th and the letter was sent
10 the 4th, so it --

11 A. Yes, I'm sorry.

12 MR. KELLAHIN: I'm sorry, I didn't look
13 at the record. I was relying on the witness' testimony and
14 he had said the 5th, I think.

15 A. I'm sorry, it was the 6th.

16 MR. NUTTER: The 6th, I think.

17 A. I apologize.

18 Q. My error, we're referring about two days
19 instead of one.

20 MR. NUTTER: Two days instead of one.

21 All right.

22 Q. All right, sir. You said the well was
23 completed last week. What is your meaning of completion, Mr.
24 Zahn?

25 A. The well was drilled to total depth,

1 casing was set, and the well was shut-in awaiting completion.
2 It was -- we had a completion unit working in the area. We
3 had drilled a number of wells out there and it was not sched-
4 uled to get back to this well until last week.
5

6 Q You've run a production test on this
7 well as of this time, haven't you?

8 A I don't have that first information.

9 Q You don't know of your own personal
10 knowledge of the test or any test results?

11 A No.

12 Q The Exhibit Number Two is your proposed
13 operating agreement, Mr. Zahn. What, if any, other non-
14 operating working interests have executed this agreement?

15 A This agreement has not been executed
16 by any of the non-operating working interest owners. It is
17 a part of several farmout agreements that have been executed
18 and returned to Maddox.

19 Q Let me see if I understand. Other than
20 the people involved in this pooling, the Graces, Mr. Ward,
21 and Mr. Woolard, will there be non-operating working interests
22 in this proration unit?

23 A There is one non-operating working in-
24 terest.

25 Q And who will that be?

1

2

A. Brad Bennett.

3

Q. Brad Bennett.

4

A. Yes.

5

Q. Upon what do you base the overhead

6

charges in the COPAS instructions of \$3500 a month and then

7

\$350?

8

A. This is based on our experience in wells

9

that we operate in the area.

10

Q. Do you operate other Bone Springs wells

11

in the area?

12

A. Yes, we do.

13

Q. Let's look at your AFE for a minute.

14

It's your Exhibit Number: Four.

15

I believe it's dated July 28th of '81.

16

A. It is.

17

Q. And it shows a total projected completed

18

well cost of about \$630,000.

19

A. That's correct.

20

Q. And this was prepared at the time, I

21

assume, based upon what your other costs have been for other

22

Bones drilled -- Bone Springs wells.

23

A. Bone Springs wells, that's correct, yes,

24

sir.

25

Q. And then you told us that the actual

costs as of now, less was it tank batteries?

A. Yes, less the tank batteries.

Q. Less the tank batteries, is \$675,000, approximately.

A. That's correct.

Q. The cost of the tank batteries is estimated to be about \$9,200?

A. That's correct.

Q. What do you -- do you know what the actual cost of the tank battery is going to be now?

A. I don't. They're not being built. They're contract -- they have not been built yet; they have been contracted.

Q. Is that number still a fair and reasonable expectation?

A. Assuming the sign of the times, I would think that it may be a bit more than that.

Q. If we use that number and then the actual costs you've given us, the well is some \$5,000 in excess of the AFE.

A. That -- that's correct.

Q. Based upon your experience in the Bone Springs wells is that an unreasonable occurrence?

A. It is not. It is a determination made

1
2 by engineers and when actual costs are incurred there are
3 other charges that fall into place.

4 Q Is there any particular item on the
5 estimate that you can identify for which you can attribute
6 this increase, or is it spread among all the costs?

7 A Speaking within my expertise, I really
8 don't have ready knowledge of the --

9 Q You don't know where the --

10 A I don't know where the extra cost is.

11 Q Have you examined the title information
12 on Mr. Ward's and Mr. Woolard's interests?

13 A I have.

14 Q Can you describe how they -- what their
15 interest is and how it came to be?

16 A Well --

17 MR. LUNSFORD: May it please the Commis-
18 sion, I have a copy of that title opinion which he could
19 refer to, if it's okay.

20 MR. NUTTER: Would you like to see the
21 title opinion, Mr. Kellahin?

22 MR. LUNSFORD: We'll be happy to produce
23 it.

24 MR. KELLAHIN: Unless Mr. Zahn knows
25 from his information.

1
2 A. I do. There is a -- I don't have the
3 lease information. It's an undivided one-third interest in
4 this 5-acre tract; Brad Bennett, a third; Mr. Ward, a third;
5 Mr. Woolard a third.

6 Q. These gentlemen are lessees from some
7 particular lessor?

8 A. Yes. I would have to refer to see who
9 that lessor is.

10 Q. Do you know what, if any, overriding
11 royalty they have committed themselves to on the 5-acre
12 lease?

13 A. No.

14 Q. Your -- have you made a review of the
15 forced pooling rules and regulations of the Division in pre-
16 paration of the hearing, Mr. Zahn?

17 A. I have not personally made a review.

18 Q. Are you generally familiar with what
19 the terms and conditions of a pooling order are?

20 A. Not in detail, no.

21 Q. Are you familiar with the fact that the
22 pooling order will require one-eighth to be dedicated as an
23 overriding royalty interest and the other seven-eighths as
24 a working interest, pooled interest?

25 A. No, sir, I personally was not aware of

1
2 that.

3 Q Did you prepare this letter to Mr. Ward
4 and Mr. Zahn of August 4th?

5 A ^{The letter of August the 4th was prepared}
6 by Mr. ~~Snyder~~ ^{Schneider} Mr. Snyder left us approximately that time,
7 and I signed it.

8 Q I see. It offers to the gentlemen a
9 one-sixteenth overriding royalty, is that not correct?

10 A That's correct.

11 Q And that would be fifty percent less
12 than what would be provided under the pooling order, would
13 it not?

14 A Yes.

15 MR. LUNSFORD: Mr. Examiner, I have an
16 objection. I think the statutes provide that an unleased
17 fee mineral interest, there is a one-eighth/seven-eighths
18 distinction made. That statute does not speak to working
19 interests. I don't think that this -- this line of question-
20 ing is relevant.

21 MR. KELLAHIN: I was asking this gentle-
22 man what his understanding of the rules and regulations was
23 and what he -- I intend to get to the question about what
24 he intended to offer these gentlemen.

25 MR. LUNSFORD: Well, I think that you're

1
2 misleading him. I think that if he wishes to be advised of
3 those points he can ask his attorneys.

4 The operator is in a position of having
5 to do something with these people.

6 MR. KELLAHIN: Is there an objection
7 pending to a question and answer?

8 MR. NUTTER: Well, there is, I think.
9 You're referring to the -- what they were offered as an over-
10 riding royalty, and there's no statutory reference whatsoever
11 to overriding royalties. It's simply to royalties.

12 There's no statutory reference to over-
13 riding at all.

14 Q Mr. Zahn, whom else have executed leases
15 with a one-sixteenth overriding royalty?

16 A I'm sorry --

17 Q For this proration unit have you ob-
18 tained leases from anyone else using that sixteenth over-
19 riding royalty?

20 MR. LUNSFORD: Leases provide for
21 royalty, not overrides. I object to that question.

22 Q Have you obtained any interest using
23 a sixteenth overriding royalty?

24 A We have accepted farmout agreements,
25 accepting or providing for a sixteenth overriding royalty.

1

2

Q For this proration unit?

3

MR. NUTTER: For this proration unit?

4

A Yes.

5

Q From whom?

6

A Roy G. Barton.

7

Q Can you approximate for us how large

8

an interest he has in the proration unit?

9

A Two and a half acres.

10

Earl Guitar. He has an undivided five

11

acres.

12

Myself, three and three-quarters acres.

13

Sharon Francis, three and three-quarters

14

acres.

15

MR. NUTTER: And those were all farm-

16

ins to Maddox based on one-sixteenth overriding royalty.

17

A That is correct.

18

Q What additional consideration, if any,

19

was paid to those people?

20

A Pardon me?

21

Q What, if any, additional consideration

22

other than the one-sixteenth overriding royalty was committed

23

to those people?

24

Did you pay them a bonus?

25

A No bonus.

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Q No bonus?

A No bonus.

Q Other than -- do you have an interest in Maddox Energy Corporation?

A I do not have an interest.

Q You are an employee?

A I am an employee.

Q Do any of these other people have interests in Maddox Energy?

A No, Maddox Energy Corporation is owned one hundred percent by Ned Maddox.

Q Do you have any correspondence, Mr. Zahn, notifying Mr. Woolard or Mr. Ward of the application or the hearing today before the Division?

MR. LUNSFORD: I object to that. That's the Commission's responsibility to make that notification.

MR. KELLAHIN: I think that's argumentative. I asked him if he had made the notification. I think that's an entirely appropriate question to ask.

MR. NUTTER: Notification of this hearing?

MR. KELLAHIN: Yes, sir. If he sent to any of these people a copy of the application or notified them that their interest was to be pooled at this hearing.

MR. NUTTER: I don't know if the witness

1
2 did or not.

3 MR. KELLAHIN: That was my question.

4 MR. NUTTER: Mr. Lunsford, in your letter
5 of transmittal to us dated November the 12th, 1981, you
6 stated that the list of various owners to be pooled is as
7 follows, and named Michael and Corinne Grace and Ronnie Ward,
8 Debra Ward, Joyce Woolard and Jerry Woolard; however, those
9 persons are not shown to actually receive a carbon copy of
10 the application.

11 Did you send a copy of the application
12 to those parties?

13 A. I did not personally. I assumed that
14 the Commission would make -- give notice to those parties.

15 MR. NUTTER: You didn't send an appli-
16 cation. Okay. While we're on the subject of giving notice,
17 I notice that the correspondence which you had with Mrs.
18 Grace, in all of the letters you addressed to her from July
19 on into September, were sent to Box 1418 in Carlsbad, and
20 you had been in contact with her, or Mr. --- these were
21 letters that Mr. Zahn mailed.

22 Mr. Zahn had been in contact with her
23 by telephone, apparently, from his testimony and from the
24 first letter, but in Carlsbad.

25 Now, in the letter that you sent us

1
2 with your application on November 12th, you gave an address
3 of Beverly Hills, California.

4 A. I'll explain that. That is the most
5 recent address we had for them in our office. We have had
6 recent dealings with them.

7 MR. NUTTER: Well, this letter that we
8 sent them containing a docket for today's hearing was returned
9 to us by the post office saying not deliverable as addressed,
10 unable to forward, so I'm not sure they've gotten the actual
11 written notice of the hearing or not.

12 A. Okay.

13 MR. NUTTER: Now, you do have the cor-
14 rect address for Mr. Woolard and Mr. Ward, don't you, Mr.
15 Zahn?

16 A. That's correct.

17 MR. NUTTER: And they apparently knew
18 about the hearing because they're here today.

19 MR. KELLAHIN: Yes, sir.

20 A. Yes.

21 MR. NUTTER: But the Graces aren't
22 here today, so I don't know if they know about the hearing
23 or not. They've been given notice in a newspaper, of course.

24 MR. KELLAHIN: Mr. Ward learned of the
25 hearing through Mr. Woolard, who is the only gentleman I'm

1
2 aware of that had a notice from them.

3 MR. NUTTER: Did he get a copy of our
4 docket.

5 A SPECTATOR: We got the notice of the
6 proceeding.

7 MR. KELLAHIN: Apparently he got the
8 notice from the Oil Commission.

9 MR. LUNSFORD: Mr. Hearing Examiner,
10 does the Commission not send out notices to those for whom
11 they are furnished addresses except in unusual situations
12 where there are just a lot of them and the applicant takes
13 it upon himself?

14 MR. NUTTER: We send a copy of the
15 docket with the case marked on it.

16 MR. LUNSFORD: Right.

17 MR. NUTTER: To all of the known poolees
18 when we have an address for them.

19 MR. LUNSFORD: Right.

20 MR. KELLAHIN: You, Mr. Zahn, did not
21 send a copy of the docket or the application to Mr. Ward and
22 Mr. Woolard?

23 A. No.

24 MR. KELLAHIN: I have nothing further.
25

CROSS EXAMINATION

BY MR. NUTTER:

Q I believe, Mr. Zahn, you stated that you didn't know why the well costs had gone over the estimate; no particular reason.

A No. The inflation, there has been a period of time since the date of the AFE and the actual completion.

Q You didn't run into any particular trouble in drilling the well?

A No, sir.

Q What stage is the well at right now?

A The well has been completed. The tank battery is being built. It was treated, I think Mr. Cunard could better testify to that than I.

Q Has a potential test been made on the well?

A Not to my knowledge. I don't know.

MR. LUNSFORD: I believe the next witness could testify to that.

Q Now as I understand it, Mr. Zahn, Mr. and Mrs. Grace own that five acre tract that is marked in pink on your Exhibit Number One in fee, is that correct?

1

2

A. That's correct.

3

Q

4

And Mr. Bennett and Mr. Ward and Mr. Woolard all own a one-third interest in the minerals only under the five acre tract.

5

6

MR. LUNSFORD: No, leasehold interest.

7

A.

Leasehold.

8

Q

9

Okay, a one-third interest in the leasehold estate under the five acre tract shown on Exhibit One.

10

A.

That's correct.

11

Q

In yellow.

12

A.

Yes.

13

Q

14

And there are other interest owners in this tract other than Maddox but they've all been voluntarily communitized to form the unit.

15

16

A.

That's correct.

17

Q

18

And you have operating agreements with them.

19

A.

Yes.

20

Q

21

And the \$3500 and the \$350 per month combined fixed rates are from the COPAS accounting procedure attached to the operating agreement which these other parties have agreed to.

22

23

24

A.

That's correct.

25

Q

Have all of the other parties in the

1
2 voluntary agreement agreed to pay their share of the well in
3 advance of the drilling of the well, or are they paying on
4 production?

5 A. The only party that has committed to
6 paying the cost of the well is Mr. Bennett, and he has agreed
7 to pay upon receipt of invoice.

8 Q. So it won't be coming out of production?

9 A. No.

10 Q. And you say the only party that has
11 agreed to pay.

12 A. The other interests have farmed their
13 acreage out to Maddox.

14 Q. So you have the entire working interest.
15 You're the working interest owner.

16 A. Yes.

17 Q. Okay.

18 MR. LUNSFORD: I have a couple more
19 questions, if I may.

20 MR. NUTTER: All right, sir.

21
22 REDIRECT EXAMINATION

23 BY MR. LUNSFORD:

24 Q. Concerning contacts with other working
25 interests in this 80-acre unit which Maddox did not -- Maddox

1
2 Energy Corporation did not actually own, was the same sort
3 of contact made with them as was made with the -- the people
4 we are seeking a forced pooling order against today?

5 A. Yes.

6 Q. Were they able to respond either by
7 farming out or joining prior to the well reaching total depth?

8 Let me rephrase that. Have they -- was
9 there any problem with their making their decision prior to
10 the -- the well going down to total depth?

11 A. No.

12 Q. Concerning the AFE, which is Exhibit
13 Four, is the AFE only an estimate based upon your experience
14 to date? It's not intended to be an iron-clad estimate of
15 costs?

16 A. That's correct.

17 Q. Is a 10 percent variance abnormal?

18 A. Not based on the experience we've had
19 in drilling these wells.

20 Q. I have another question. Concerning
21 the farmouts that Maddox Energy Corporation has accepted,
22 I believe Mr. Kellahin asked you if any consideration other
23 than the one-sixteenth override had been paid, is that cor-
24 rect? Did he ask you that question?

25 A. Yes, he did ask me that.

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Q Is it customary in the industry when a farmout agreement is accepted to pay bonus consideration for accepting a farmout?

A No.

Q Is normally the consideration the bearing of the risk of the well with a reservation of override to the farmor with a carried working interest after payout?

A That's correct.

Q Okay.

MR. LUNSFORD: I have no further questions.

MR. NUTTER: Are there any other questions of the witness? He may be excused.

MR. KELLAHIN: Let me ask him one question.

MR. NUTTER: Okay.

RE CROSS EXAMINATION

BY MR. KELLAHIN:

Q So I understand what happens to the override royalty.

Are there any situations where the overriding royalty is going to be converted to a working interest

1
2 that is greater than a one-sixteenth?

3 A The farmout agreements provide for con-
4 version of that working interest at payout.

5 Q Okay, and what does it provide?

6 A It provides for a 40 percent back-in.

7 Q Anything else? 40 percent back-in after
8 payout?

9 A After payout.

10 Q Thank you.

11 MR. LUNSFORD: May I clarify that?

12
13 REDIRECT EXAMINATION

14 BY MR. LUNSFORD:

15 Q You say 40 percent after payout. Does
16 that mean just 40 percent of the interest being farmed out?

17 A That's correct, it would be.

18 Q And that 40 percent would be a working
19 interest and bear part of the costs from then on?

20 A Yes, that's correct.

21 Q And is it customary for the -- for the
22 carried working interest to be larger than the reserved over-
23 riding royalty?

24 A That's correct.

25 Q Okay, no further questions.

1
2 MR. NUTTER: If there are no further
3 questions, the witness may be excused.

4 MR. LUNSFORD: The applicant's next wit-
5 ness is Mr. Charles Cunard.

6 MR. NUTTER: How do you spell Cunard?

7 MR. CUNARD: C-U-N-A-R-D.

8
9 CHARLES CUNARD

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

12
13 DIRECT EXAMINATION

14 BY MR. LUNSFORD:

15 Q Please state your name, address, occupa-
16 tion, and employer, Mr. Cunard.

17 A My name is Charles Cunard and I reside
18 in Midland, Texas, at 1003 Shell Avenue. And I'm an inde-
19 pendent petroleum geologist.

20 Q Mr. Cunard, have you previously testi-
21 fied before the Oil Conservation Division as a geologist?

22 A Yes, I have.

23 Q And are you personally familiar with the
24 application of Maddox Energy Corporation in this matter?

25 A Yes, I am.

1
2 MR. LUNSFORD: Are his qualifications
3 acceptable?

4 MR. NUTTER: They are.

5 Q Mr. Cunard, refer to Exhibit Five and
6 please state to the Hearing Examiner what that is.

7 A This is a land plat on a scale of one
8 inch equal 4000 feet on which are depicted contours repre-
9 senting the structural configuration at the top of the Bone
10 Springs formation, which is part of the lettered series,
11 Middle Permian, in Eddy County, New Mexico, specifically
12 Township 23 South, Range 28 East.

13 Q Go on.

14 A And it also shows encircled the wells
15 that have been either completed from the Bone Springs forma-
16 tion to date or are currently in the process of being com-
17 pleted or locations, to be drilled.

18 Q Is the area outlined or colored in
19 yellow the 80-acre unit in question?

20 A Yes, sir, it is.

21 Q And is the dot located in the -- located
22 therein the well in question?

23 A Yes, it is.

24 Q Okay, continue.

25 A The map represents a small nosing with

1
2 a relatively small amount of structural closure at Bone
3 Springs level.

4 What we know about this reservoir is at
5 this stage in its infancy. The oldest well in the field
6 being approximately two years old, which is up in Section 23.

7 Q Which well is that?

8 A That would be the Delta Drilling Com-
9 pany No. 1 -- I think it's called the No, let's see, the No.
10 1-A South Culebra Bluff Unit, I think is what it's called.

11 Anyway, it's located in the southwest
12 quarter of the northeast quarter of Section 23.

13 Q Okay, please continue.

14 A These wells have proceeded since the
15 initial well was drilled about a year ago -- excuse me, the
16 initial Maddox Energy Corporation development occurred in
17 the northwest quarter of the northwest quarter of Section 26,
18 approximately a year ago, and since that time has proceeded
19 in an orderly development until it has reached the point it
20 is today with the culmination of the drilling of No. 6 and
21 the completion attempt on No. 5.

22 These have all been drilled -- just as
23 soon as one was drilled the other -- the location was prepared
24 for the other during the course of that drilling and came
25 right on down to where it's at today.

1
2 MR. NUTTER: Is No. 5 a well that's been
3 in the process of being completed quite awhile?

4 A. It's down. Pipe casing has been run and
5 cemented, and it presently has a workover unit on it that
6 just came off of No. 6 to -- for treatment and completion.

7 MR. NUTTER: Was it spudded prior to the
8 time No. 6 was?

9 A. It was completed -- drilled before.
10 That's absolutely right.

11 MR. NUTTER: So you've had a little
12 problem with it, or delay?

13 A. No, well, yeah, the problem we've had
14 here is we had other commitments with this rig we had. We
15 started this development and we drilled one, two, three wells
16 down several miles south of this area under some commitments
17 we had, and came back to this and drilled 5 and 6. The --
18 the workover unit, workover units which are in demand and
19 are hard to come by in this area, has also kind of followed
20 that pattern, too, and is just now coming back to this.

21 MR. NUTTER: So the reason you moved
22 off of No. 5 --

23 A. Moved onto No. 6 and drilled it and then
24 went down to south of Malaga on what we call the Union Fed-
25 eral No. 1, and after the drilling of that well, was released.

1
2 The workover unit followed the same
3 pattern. It came down to a well we had, deep test we had
4 drilled down at Flower Draw about 15 miles south of Malaga
5 and then it was on there a considerable amount of time while
6 this well -- after this well was drilled. It came back to
7 the Union Federal, which in the meantime this had been
8 drilled, and is just getting back here. It's just sort of
9 a logistics problem with one workover unit and a number of
10 wells down and ready to be completed.

11 MR. NUTTER: So the workover unit went
12 to the No. 6 before it went to the No. 5, then?

13 A. Yes, sir.

14 MR. NUTTER: So that's why the No. 6
15 got completed before the No. 5.

16 A. Absolutely right.

17 MR. NUTTER: Okay.

18 A. I might point out a little bit about
19 this -- this development.

20 The formations are in the Bone Springs
21 formation, as you'll notice on Exhibit Six. There's a
22 little correlation section that passes from Well No. 5 to
23 Well No. 6 over to Well No. 4, from your left to right, with
24 the Bone Springs formation divided into the upper part, the
25 first Bone Springs lime, the first Bone Springs sand, and

second Bone Springs sands.

Now these sands, so-called, are somewhat of a misnomer. They're siltstones, carbonaceous shales, extremely dense, black, deep water, marine limestones that are highly fractured. The whole formation is generally fractured and hence the avenue for accumulation. The matrix porosity in the siltstones and in the shales and in the limestones themselves, offer very little in their capacity to hold and contain hydrocarbons.

And consequently, in the course of drilling a fractured reservoir of this nature, each well becomes essentially a semi-wildcat as far as its commercial ability to produce is concerned. Not so much the fact that you'll get some kind of producing well, but you can have great flows, prolific flows from reservoir rocks like this, or you can have just minor flows, and this we've experienced in this area of development.

The entire section encompasses something like 8 or 900 gross feet of section. It is selectively perforated through casing and treated with various and sundry chemical means, acid, and then fraced, and they're relatively expensive to complete and consequently, the costs will vary depending on whether you have to frac three different zones at one time, at different times, or the whole thing at

one time, and some of the cost variance you see is attributed to that, and it's not foreseen prior to drilling the well.

Q Mr. Cunard, has the well in question actually been tested?

A Yes, it has.

Q What did that test reflect?

A The last 24-hour test, it made approximately -- this I was given by the engineer who received the report from the field, so it's thirdhand information to me, I don't know it for a fact -- it flowed 178 barrels of oil and 215 barrels of water, which I presume was load water. It had just been fracture treated.

Q What has been your --

MR. NUTTER: What period of time was that?

A 24-hour period.

MR. NUTTER: 24 hours.

Q What has been your experience with the deliverability of these wells?

A This is not uncommon. It has been my experience in the completion of these wells in here that you get a tremendously high after -- high volume after fracing. The decline is very rapid, usually to the point where it ceases to flow by the time you recover all your load fluid,

1 and require placing on artificial lift.

2 And depending on how well your formation
3 responded to treatment, apparently dictates the capacity of
4 the well after it stabilizes. For instance, some wells will
5 stabilize at 90 barrels a day, 120 barrels a day, for some,
6 hopefully, lengthy period of time. Others are not quite so
7 fortunate. They' down to 15, 16, 13 barrels a day.

8 So the average is somewhere in the neigh-
9 borhood of 35 to 40 barrels for the whole suite of wells,
10 but there are some on the upper and on the lower extreme.

11 Q Is it your opinion that each well will
12 be put on artificial lift within a short period after com-
13 pletion?
14

15 A Yes, it is.

16 Q Okay. Mr. Cunard, would you testify as
17 to the -- as to your experience as to how well the production
18 from these wells has held up?

19 A Well, the -- of course it's a little
20 early to tell on the wells that have been drilled this year
21 on the Section 26 and 27, with the exception of the one that's
22 in the northwest quarter of the northwest quarter of Section
23 26, No. 2-26 Pardue Farms. That one's been on approximately
24 a year and it has averaged approximately 50 barrels a day
25 since its completion after stabilizing.

1
2 The other well, the Delta well, that I
3 referred to earlier in Section 23, it's in the southwest
4 quarter of the northeast quarter of Section 23, has been on
5 production approximately a year, and it also has averaged
6 about 50 barrels a day for two years.

7 So it's not unreasonable in my mind to
8 believe that the production from these wells should have
9 some sort of average in that range, 40 to 50 barrels a day.

10 Q Mr. Cunard, which of the wells on Exhibit
11 Five have been operated by Maddox?

12 A On Exhibit Five, all of the wells in
13 Section -- the west half of Section 26; all the wells in the
14 east half of Section 27; and all the wells in the southwest
15 quarter of Section 27 are operated by Mr. Maddox, or Maddox
16 Energy Corporation.

17 Q What is the longest, or how long has
18 the first one been on -- been on production?

19 A In Section -- in the whole group?

20 Q Yes.

21 A The one in the northwest quarter of the
22 northwest quarter of Section 26.

23 Q How long has that been producing?

24 A Approximately a year.

25 Q Have any of these wells paid out? That

1
2 is, has the operator recovered his cost on any of these wells
3 in that period of time?

4 A. I can't answer that, but I would not
5 suspect so.

6 Q. Okay. What do you estimate as far as
7 reserves for each well, or for the well in question?

8 A. Well, the -- that's an interesting point.
9 In a fractured reservoir it's very difficult to estimate re-
10 serves, as anyone who's dealt with one knows, but based upon
11 the production, producing rate of the Delta well and the one
12 in the northwest quarter of Section 26, we're projecting
13 approximately 75,000 barrels per well. This may come over
14 a period of 20 years, so the rate of return may not be fan-
15 tastically great. So what you're dealing with is -- hope-
16 fully what you're dealing with is a fast recovering, maybe
17 a third of the oil within a year and a half or two years or
18 two and a half, in which case you'd get a payout and make a
19 profit.

20 Q. So on these Bone Springs wells, including
21 the well in question, you're not -- the operator is not
22 looking at a fast return on his investment?

23 A. No, sir, I wouldn't think so.

24 Q. Can you give us any estimate as to how
25 long you think it would take for the well in question to pay

1 out?

2 A. I think it would take in excess of two
3 years.
4

5 Q Mr. Cunard, based upon the geology which
6 you have just testified to and the economics which you have
7 just testified to, do you have a recommendation to make to
8 the Commission as to risk factor to be awarded to applicant
9 in this case?

10 A. Yes, sir. I -- I think that 100 percent
11 would not be too severe at all.

12 Q Is that based upon the fact that the
13 risk factor is --

14 MR. KELLAHIN: I'm going to object as
15 to what it's based upon. That's a leading question. He may
16 rephrase his question.

17 MR. NUTTER: Would you rephrase your
18 question?

19 MR. LUNSFORD: Yes.

20 Q Would you please testify as to the basis
21 of that factor that you have chosen?

22 A. I think 100 percent would be a reason-
23 able risk because of the fact that we are in a developing
24 area. It's not in a extremely high risk geological situation
25 where you would be denied of getting a producing well. The

1
2 big risk in this case would be whether it's a commercial well,
3 however, you would define a commercial well, or how much re-
4 turn on your investment that you would care to -- to receive.

5 Q Mr. Cunard, have Exhibits Five and Six
6 been prepared by you?

7 A Yes, sir, they have.

8 Q Mr. Cunard, would the approval of the
9 application by applicant, in your opinion prevent the drilling
10 of unnecessary wells and otherwise prevent waste and protect
11 correlative rights?

12 A Yes, sir.

13 MR. LUNSFORD: Mr. Examiner, we would
14 move the admission of Exhibits Five and Six at this time.

15 MR. NUTTER: Maddox Exhibits Five and
16 Six will be entered in evidence.

17 MR. LUNSFORD: We have no further ques-
18 tions at this time.

19 MR. NUTTER: Are there any questions of
20 the witness?

21 MR. KELLAHIN: Just a few, Mr. Nutter.

22
23 CROSS EXAMINATION

24 BY MR. KELLAHIN:

25 Q Mr. Cunard, in the drilling of this area

1
2 by Maddox Energy for the Bone Springs, if I remember correct-
3 ly, Mr. Maddox has drilled eight wells?

4 A. Drilled seven and re-entered an old
5 Amoco dry hole in Section 26.

6 Q The Amoco well is a re-entry and he made
7 a Bone Springs well out of it?

8 A. That's correct.

9 Q All right. Those wells that Mr. Maddox
10 has drilled or recompleted in the Bone Springs, has he drilled
11 any Bone Springs wells that did not produce Bone Springs oil?
12 In other words, did he have any dry holes in the Bone Springs?

13 A. No.

14 Q Of any of the wells that he's drilled
15 in this area did he have to abandon the wells because of any
16 mechanical problems in the drilling of the well?

17 A. No.

18 Q If I understood your testimony correctly,
19 Mr. Cunard, based upon the production history from Mr. Mad-
20 dox's wells, it would -- you estimate that the production is
21 going to average out at about 40 to 50 barrels a day. That
22 was the approximation I think you made.

23 A. Hopefully, yes.

24 Q All right, sir. And that if it hit that
25 production rate on a daily basis, that the wells would pay

1
2 out in a two-year period, is that correct?

3 A. Correct.

4 Q. Based upon your experience is that a
5 reasonable time in which to receive payout for Bone Springs
6 wells?

7 A. Yes.

8 Q. In studying your economics, Mr. Cunard,
9 what was the oil price that you used?

10 A. I just used \$25.00 a barrel as a --
11 after severance and windfall profit taxes. That's before
12 income taxes.

13 Q. Was that projection made by taking into
14 consideration the reserves that you'd attributed to the well?

15 A. Yes, sir.

16 Q. And that reserve figure that you were
17 using was the 75,000 barrels of oil per well?

18 A. Approximately.

19 MR. KELLAHIN: I have nothing further,
20 thank you.

21 MR. NUTTER: Are there any other ques-
22 tions of the witness?

23 MR. LUNSFORD: I have no further ques-
24 tions.

25 MR. NUTTER: He may be excused. Do

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you have anything further, Mr. Lunsford?

MR. LUNSFORD: No further witnesses.

MR. NUTTER: Do you have any witnesses,
Mr. Kellahin?

MR. KELLAHIN: No, sir.

MR. NUTTER: I'll call for closing
statements. Mr. Lunsford, you may go last.

MR. LUNSFORD: Okay, thank you, sir.

MR. KELLAHIN: Mr. Nutter, I think the
question we have in dispute for my clients is whether or not
it's appropriate to assess any risk factor penalty at all.

In listening to Mr. Cunard today, I was
trying to recall whether or not we had any similar situations
such as this as to having a risk factor charged, and it's
my recollection that there aren't any.

I think this is a case where there --
the operator has assumed and undertaken the entire risk, if
there was any; that when he made his decision to spud his
well on August 6th of '81, and the hearing is here on Decem-
ber 2nd of '81, that there would have been a sufficient period
of time in which the operator could have pooled my clients
interest and made them subject to some penalty prior to ac-
tually completing the well.

The operator having undertaken and as-

1
2 sumed that burden, I believe it's unreasonable to -- to exer-
3 cise that portion of the statute that says the Oil Commission
4 may in an appropriate case include a charge for risk involved
5 in the drilling of the well.

6 There are several cases that come to
7 mind. One is the C&K Petroleum Case. It's Order No. R-5452.
8 The operator completed a well and there was no penalty charged.

9 A similar case in Burleson & Huff,
10 which is Order No. R-5286. Again the operator assumed the
11 entire risk of drilling the well.

12 I asked Mr. Cunard if he had any parti-
13 cular difficulty with drilling dry holes and they've been
14 100 percent successful in getting Bone Springs production.
15 I asked him about mechanical difficulties in completion of a
16 well and the operator has obviously undertaken both those
17 factors and there is no risk.

18 I guess the last conceivable point at
19 which he might project a penalty is the question of whether
20 or not this well is going to an economic well or a commercial
21 success, and I believe from the testimony of Mr. Cunard that
22 we can reasonably conclude that even if the operator has as-
23 sumed the entire risk, that at least in this case the preponder-
24 ance of the evidence shows that it is going to be economic.
25 He estimates that these wells average between 40 and 50 bar-

1
2 rels a day; that he attributes reserves at 75,000 barrels of
3 oil; that it's got a two-year payout. I'm glad that he's got
4 an economic, successful well. I don't believe that in this
5 case that we ought to be penalized for it.

6 MR. LUNSFORD: I'll try and make my
7 comments brief.

8 Applicant in this case is seeking two
9 things against the persons specified as being force pooled.

10 Number one, an order force pooling them;
11 in this case applicant is the operator of the well, holds the
12 vast majority of the working interest, and in fact, has
13 done this test to force pool them for the purpose of forming
14 the proration spacing unit for this well.

15 The second part of the case involves
16 the risk to be assigned. This is a somewhat unusual case,
17 I'll agree, in that the well has physically been completed,
18 although it has not produced into the tanks. There is no
19 actual production history on this well.

20 What we have had is testimony by Mr.
21 Cunard as to projections based upon other wells. He did
22 specify, however, or did testify, however, that this is a
23 fractured reservoir system. There is a possibility that --
24 that each -- well, he stated that each well would stand on
25 its own; therefor, there's a possibility that this well may

1 not produce up to the standards of the others.

2
3 There is no doubt, as he said, that this
4 well will be completed as a producing well. I believe this
5 is testimony that they hope to recover approximately a third
6 of the well within two to three years, but it could take as
7 long as twenty years to recover all of the primary reserves.
8 It is still a matter of doubt as to what this well will ac-
9 tually perform at.

10 I believe that in assessing the risk
11 factor you have to look not only as to how risky the prospect
12 is geologically but also the monetary risk the operator is
13 taking in assuming the interest of others who have not com-
14 mitted to a unit. I think both are cognizable by this Com-
15 mission and that both should be considered and that some risk
16 factor should be assessed, as Mr. Cunard testified, full
17 statutory 200 percent rate is not appropriate here, but some-
18 thing less, say, 100 percent, should be assessed.

19 I have no further.

20 MR. NUTTER: Okay, I'd like to ask Mr.
21 Cunard one question before we close this case.

22 I notice on your Exhibit Number Five you
23 have a location for a No. 4 shown in the northwest of the
24 southwest of 26.

25 MR. CUNARD: Yes, sir.

1
2 MR. NUTTER: Do you have plans to drill
3 that well --

4 MR. CUNARD: Yes, sir.

5 MR. NUTTER: -- in the near future?

6 MR. CUNARD: Yes, sir. We just tempo-
7 rarily suspended drilling for budgetary reasons and presumably
8 we'll drill sometime next year.

9 MR. NUTTER: That's all I have.
10 He may be excused.

11 Does anyone have anything further to
12 offer in Case Number 7432?

13 If not, we'll take the case under ad-
14 visement and the hearing is adjourned.

15
16 (Hearing concluded.)
17
18
19
20
21
22
23
24
25

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that
the foregoing Transcript of Hearing before the Oil Conserva-
tion Division was reported by me; that the said transcript
is a full, true, and correct record of the hearing, prepared
by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 7483
heard by me on 12/2 1951.
[Signature], Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

MADDOX ENERGY CORPORATION
SUITE 3030
717 N. HARWOOD
DALLAS, TEXAS 75201
214 745-1653

MAY 12 1982

May 10, 1982

State of New Mexico
Energy & Mineral Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Dan Nutter

Re: ~~Force Pool Application~~
Case No. 7432
Order No. R-6946

File

Dear Mr. Nutter:

For your files please find a copy of a letter received by Maddox Energy Corporation from Royce Woolard.

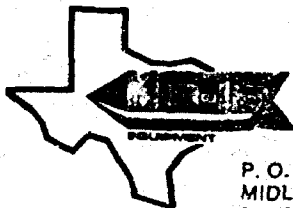
Very truly yours;

MADDOX ENERGY CORPORATION

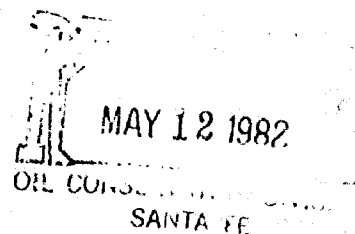
George W. Zahn
George W. Zahn
Vice President

GWZ/rmb

cc: Douglas L. Lunsford



P. O. BOX 8103
MIDLAND, TEXAS 79703
915/694-0061



May 5, 1982

Maddox Energy Corp.
Suite 3030
717 N. Harwood
Dallas, Texas 75201

Dear Mr. Zahn:

In response to your letter of April 26, 1982, we do not wish to participate or farm out. We will abide by the order of the Force Pool Application, Case No. 7432, Order No. R-6946. We would also like to request monthly production reports sent to P. O. Box 8103, Midland, Texas 79703.

Sincerely,

Royce Woolard
Mid-Tex Equipment

RW/jw

MADDOX ENERGY CORPORATION MAY 10 1982
SUITE 3030
717 N. HARWOOD
DALLAS, TEXAS 75201
214 745-1833

May 6, 1982

State of New Mexico
Energy & Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Dan Nutter

Re: ~~Force-Pool Application~~
Case No. 7432
~~Order No.~~ R-6946

Dear Mr. Nutter:

For your files please find copies of the return receipts that accompanied my letter of April 26, 1982. Also enclosed is a copy of a letter received by Maddox Energy Corporation from Ronnie Ward.

Very truly yours;

MADDOX ENERGY CORPORATION


George W. Zahn
Vice President

GWZ/rmb

cc: Douglas L Lunsford

UNITED STATES POSTAL SERVICE

OFFICIAL BUSINESS

SENDER INSTRUCTIONS

- Print your name, address, and ZIP Code in the space below.
- Complete items 1, 2, and 3 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.

RETURN TO



Manassas Lumber Corporation
(Name of Sender)

717 N. Howard St.
(Street or P.O. Box)

Bellevue, Texas 75201
(City, State, and ZIP Code)

PENALTY FOR PRIVATE USE TO AVOID PAYMENT OF POSTAGE \$300



UNITED STATES POSTAL SERVICE

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- Endorse article "Return Receipt Requested" adjacent to number.

RETURN TO

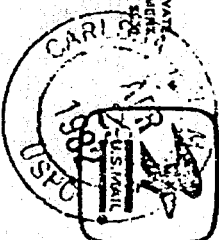


Manassas Lumber Corporation
(Name of Sender)

717 N. Howard St.
(Street or P.O. Box)

Bellevue, Texas 75201
(City, State, and ZIP Code)

PENALTY FOR PRIVATE USE TO AVOID PAYMENT OF POSTAGE \$300



PS Form 3811, Jan. 1978
SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

- The following service is requested (check one.)
 - ☒ Show to whom and date delivered.....
 - ☐ Show to whom, date and address of delivery.....
 - ☐ RESTRICTED DELIVERY
 - Show to whom and date delivered.....
 - ☐ RESTRICTED DELIVERY
 - Show to whom, date, and address of delivery. \$

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Ryce Woolard & Jerry L. Woolard
705 Upland
Midland, Texas 79701

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
PS-2144180

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY: *MAY 1 1982*
5. ADDRESS (Complete only if registered)

6. UNABLE TO DELIVER BECAUSE:

CLERK'S INITIALS

PS Form 3811, Jan. 1978
SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

- The following service is requested (check one.)
 - ☒ Show to whom and date delivered.....
 - ☐ Show to whom, date and address of delivery.....
 - ☐ RESTRICTED DELIVERY
 - Show to whom and date delivered.....
 - ☐ RESTRICTED DELIVERY
 - Show to whom, date, and address of delivery. \$

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
MICHAEL P. GRACE & CORINE B. GRACE
Box 1418
CARLSBAD, NEW MEXICO 88220

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
PS-2144177

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY: *APR 29 1982*
5. ADDRESS (Complete only if registered)

6. UNABLE TO DELIVER BECAUSE:



RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

PS Form 3811, Jan. 1978

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one.)
☒ Show to whom and date delivered.....
☐ Show to whom, date and address of delivery.....
☐ RESTRICTED DELIVERY
 Show to whom and date delivered.....
☐ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery.\$____

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
OIL CONSERVATION DIVISION
P.O. BOX 2088
SANTA FE, NEW MEXICO 87501

3. ARTICLE DESCRIPTION:
 REGISTERED NO. _____ CERTIFIED NO. _____ INSURED NO. _____
P22-2144179
 (Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☒ Addressee ☐ Authorized agent
[Signature]

4. DATE OF DELIVERY _____ POSTMARK _____
1982

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: _____ CLERK'S INITIALS _____

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

☆ GPO : 1979-288-848

PS Form 3811, Jan. 1978

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one.)
☒ Show to whom and date delivered.....
☐ Show to whom, date and address of delivery.....
☐ RESTRICTED DELIVERY
 Show to whom and date delivered.....
☐ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery.\$____

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
BENNIE WARD & OLBRA WARD
P.O. Box 2371
MIDLAND, TEXAS 79702

3. ARTICLE DESCRIPTION:
 REGISTERED NO. _____ CERTIFIED NO. _____ INSURED NO. _____
P22-2144178
 (Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☒ Authorized agent
[Signature]

4. DATE OF DELIVERY _____ POSTMARK _____
MID MAY 3 1982

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: _____ CLERK'S INITIALS _____

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

☆ GPO : 1979-288-848

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- Endorse article "Return Receipt Requested" adjacent to number.

RETURN TO



Oil Conservation Division
 (Name of Sender)

919 N. Hillwood
 (Street or P.O. Box)

151105 Texas 75201
 (City, State, and ZIP Code)

PENALTY FOR PRIVATE
 USE TO AVOID PAYMENT
 OF POSTAGE: \$300



UNITED STATES POSTAL SERVICE

OFFICIAL BUSINESS

SENDER INSTRUCTIONS

Print your name, address, and ZIP Code in the space below.

- Complete items 1, 2, and 3 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.

RETURN TO



Oil Conservation Division
 (Name of Sender)

919 N. Hillwood
 (Street or P.O. Box)

151105 Texas 75201
 (City, State, and ZIP Code)

PENALTY FOR PRIVATE
 USE TO AVOID PAYMENT
 OF POSTAGE: \$300



RONNIE WARD

Independent Landman

MAY 10 1982

PHONE
915/604-4829

P. O. BOX 2371
MIDLAND, TEXAS 79702

May 3, 1982

Maddox Energy Corporation
Suite 3030
717 N. Harwood
Dallas, Texas 75201

Re: Force Pool Application,
Case No. 7432, Order No.
R - 6946, Eddy Co., N.M.

Gentlemen:

I am in receipt of your letter dated April 26, 1982, wherein you enclosed your itemized schedule of actual well costs incurred while drilling the Pardue Farms 27-6 well.

This letter will serve to advise Maddox Energy that I do not wish to Farm-Out or Participate in your 27-6 well, but that I will be force pooled under the terms of the above mentioned Case and Order wherein Maddox will recover drilling costs plus a 50% penalty.

It would be very helpful if you could furnish me with past, present and future production reports in order that I might determine when pay-out and penalty occurs and request that I start receiving my part of production.

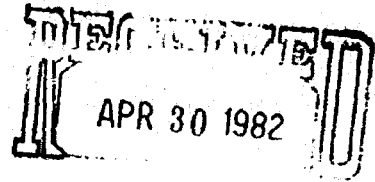
Yours truly,

Ronnie Ward

Ronnie Ward

MADDOX ENERGY CORPORATION

SUITE 3030
717 N. HARWOOD
DALLAS, TEXAS 75201
214 745-1653



April 26, 1982

State of New Mexico
Energy & Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Attention: Dan Nutter

RE: ~~Force Pool Application~~
Case No. 7432
Order No. R-6946

Jul

Don

Dear Mr. Nutter;

Enclosed, as provided for in the captioned Order of the Oil Conservation Division, is an itemized schedule of actual well costs incurred while drilling the Pardue Farms 27 Well # 6, S/2 SW/4 Section 27, Township 23 South, Range 28 East, N.M.P.M., Eddy County, New Mexico.

Sincerely yours;

MADDOX ENERGY CORPORATION

George W. Zahn
George W. Zahn
Vice President

cc: W. Thomas Kellahin
Douglas L. Lunsford

Summary of Actual Well Costs
Pardue Farms 27 #6

Rig Costs	\$ 172,598.93
Location/Damages	25,102.40
Fuel, Chemicals, Cementing	63,124.20
Rentals	24,649.49
Technical Services	902.17
Overhead District Expense	4,316.79
Labor/Miscellaneous	45,020.18
Bits, Coreheads	10,517.34
Logging, Testing	9,877.50
Perf/Acid/Frac	92,844.54
Transportation	10,949.73
Casing	56,035.08
Wellhead Equipment	11,600.00
Subsurface Equipment	5,971.47
Tubing	26,883.15
Pumping Unit, Etc.	47,702.85
Tanks, Separators	21,416.74
Heater Treater	5,228.74
Lease Lines	1,228.26
Installation (Labor)	2,581.96
Miscellaneous Connections	5,617.58
Leasehold Costs	<u>11,608.98</u>
TOTAL COSTS	<u>\$ 655,778.08</u>



BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

April 15, 1982

Mr. Douglas Lunsford
Hinkle, Cox, Eaton, Coffield
& Hensley
Attorneys at Law
Post Office Box 10
Roswell, New Mexico 88201

Re: CASE NO. 7432
ORDER NO. R-6946

Applicant:

Maddox Energy Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Division order recently entered in the subject case.

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Tom Kellahin

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7432
Order No. R-6946

APPLICATION OF MADDOX ENERGY CORPORATION
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on December 2, 1981, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 14th day of April, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Maddox Energy Corporation, seeks an order pooling all mineral interests down through the Bone Spring formation underlying the S/2 SW/4 of Section 27, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.
- (3) That the applicant has the right to drill and has drilled a well at a standard location thereon.
- (4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.
- (5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil and gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

-2-

Case No. 7432

Order No. R-6946

(6) That the applicant should be designated the operator of the subject well and unit.

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

(8) That any non-consenting working interest owner who does not pay his share of actual well costs should have withheld from production his share of the reasonable well costs plus an additional 50 percent thereof as a reasonable charge for the risk involved in the drilling of the well and the risk involved in obtaining a payout, even though production has been encountered in the unit well.

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

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

(11) That \$3500.00 per month while drilling and \$350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, down through the Bone Spring formation underlying the S/2 SW/4 of Section 27, Township 23 South, Range 28 East, NMPM, South Culebra Bluff-Bone Spring Pool, Eddy County, New Mexico, are

-3-

Case No. 7432

Order No. R-6946

hereby pooled to form a standard 80-acre oil spacing and proration unit to be dedicated to a well drilled at a standard location thereon.

(2) That Maddox Energy Corporation is hereby designated the operator of the subject well and unit.

(3) That within 30 days after the effective date of this order, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of actual well costs.

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

(5) That any non-consenting working interest owner may, at least 45 days after receiving the schedule of actual well costs but not more than 90 days after such receipt, file with the Division an objection to such costs; that if no objection to the actual well costs is received by the Division and the Division has not objected within the period from at least 45 days to within 90 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within the aforesaid 45th to 90th day period, the Division will determine reasonable well costs after public notice and hearing.

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

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

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

- (B) As a charge for the risk involved in the drilling of the well, 50 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$3500.00 per month while drilling and \$350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths ($7/8$) working interest and a one-eighth ($1/8$) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

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

-5-
Case No. 7432
Order No. R-6946

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



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY,
Director

S

ENERGY and MINERALS DEPARTMENT

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

GRA 23 752320N1 11/23/81

RETURN TO SENDER
NOT DELIVERABLE AS ADDRESSED
UNABLE TO FORWARD

Michael P. Grace, II
Corinne B. Grace
123 South Spalding Drive
Suite 110
Beverly Hills, California 90212

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT



Use of this operating form is prohibited
except when authorized in writing by the
American Association of Petroleum Landmen

OPERATING AGREEMENT

DATED

August 1 , 1981 ,

OPERATOR Maddox Energy Corporation

CONTRACT AREA S/2 SW/4 Section 27,

Township 23 South, Range 28 East N.M.P.M.

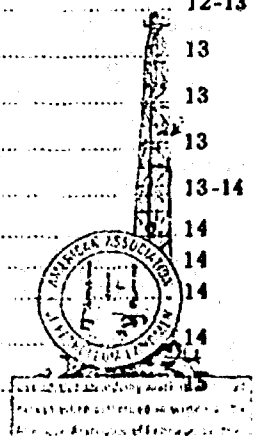
COUNTY OR PARISH OF Eddy STATE OF New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101.

BEFORE EXAMINER INITIALS
OIL CONSERVATION
APPLICANT EXHIBIT NO. 2
CASE NO. 7432

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
I.	DEFINITIONS	1
II.	EXHIBITS	1
III.	INTERESTS OF PARTIES	2
	A. OIL AND GAS INTERESTS	2
	B. INTEREST OF PARTIES IN COSTS AND PRODUCTION	2
IV.	TITLES	2
	A. TITLE EXAMINATION	2
	B. LOSS OF TITLE	2
	1. Failure of Title	2-3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
V.	OPERATOR	3
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR	3
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR	4
	1. Resignation or Removal of Operator	4
	2. Selection of Successor Operator	4
	C. EMPLOYEES	4
	D. DRILLING CONTRACTS	4
VI.	DRILLING AND DEVELOPMENT	4
	A. INITIAL WELL	4
	B. SUBSEQUENT OPERATIONS	5
	1. Proposed Operations	5
	2. Operations by Less than All Parties	5-6
	C. RIGHT TO TAKE PRODUCTION IN KIND	6-7
	D. ACCESS TO CONTRACT AREA AND INFORMATION	7
	E. ABANDONMENT OF WELLS	7
	1. Abandonment of Dry Holes	7
	2. Abandonment of Wells that have Produced	7-8
VII.	EXPENDITURES AND LIABILITY OF PARTIES	8
	A. LIABILITY OF PARTIES	8
	B. LIENS AND PAYMENT DEFAULTS	8
	C. PAYMENTS AND ACCOUNTING	8
	D. LIMITATION OF EXPENDITURES	9
	1. Drill or Deepen	9
	2. Rework or Plug Back	9
	3. Other Operations	9
	E. ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS	9
	F. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES	9-10
	G. TAXES	10
	H. INSURANCE	10
VIII.	ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST	10
	A. SURRENDER OF LEASES	10-11
	B. RENEWAL OR EXTENSION OF LEASES	11
	C. ACREAGE OR CASH CONTRIBUTION	11
	D. SUBSEQUENTLY CREATED INTEREST	11-12
	E. MAINTENANCE OF UNIFORM INTEREST	12
	F. WAIVER OF RIGHT TO PARTITION	12
	G. PREFERENTIAL RIGHT TO PURCHASE	12
IX.	INTERNAL REVENUE CODE ELECTION	12-13
X.	CLAIMS AND LAWSUITS	13
XI.	FORCE MAJEURE	13
XII.	NOTICES	13
XIII.	TERM OF AGREEMENT	13-14
XIV.	COMPLIANCE WITH LAWS AND REGULATIONS	14
	A. LAWS, REGULATIONS AND ORDERS	14
	B. GOVERNING LAW	14
XV.	OTHER PROVISIONS	14
XVI.	MISCELLANEOUS	14



OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Maddox Energy Corporation, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:

- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ B. Exhibit "B", Form of Lease.

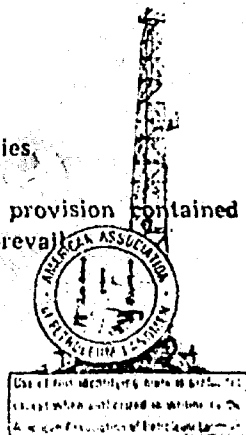
☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☐ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

If any provision of any exhibit, except Exhibit "E", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.



**ARTICLE III.
INTERESTS OF PARTIES**

A. Oil and Gas Interests:

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties which will be borne by the Joint Account, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

**ARTICLE IV.
TITLES**

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests.

(a) The party whose oil and gas lease or interest is affected by the title failure, shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost; and

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded; and

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties in the same proportions in which they shared in such prior production; and

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V. OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

MADDOX ENERGY CORPORATION shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI. DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of September, 1981, Operator shall commence the drilling of a well for oil and gas at the following location:

766 feet from the south line and 1874 feet from the west line
Section 27, Township 23 South, Range 28 East N.M.P.M. Eddy
County, New Mexico.

and shall thereafter continue the drilling of the well with due diligence to a subsurface depth of 9,000 feet or that subsurface depth at which the Bone Springs formation is penetrated and adequately tested, whichever is the lesser depth.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) 300% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

____% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased. In determining when the interest of such Non-Consenting Party shall revert to it as above provided: and if there is a credit balance, it shall be paid to such Non-Consenting party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected; or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any

1 party taking its share of production in kind shall be required to pay for only its proportionate share
2 of such part of Operator's surface facilities which it uses.

3
4 Each party shall execute such division orders and contracts as may be necessary for the sale of its
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled
6 to receive payment direct from the purchaser thereof for its share of all production.

7
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-
13 erator shall be subject always to the right of the owner of the production to exercise at any time its
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's
19 share of gas production without first giving such other party thirty (30) days notice of such intended
20 sale.

21
22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-
23 liveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the
25 balancing or accounting between the respective accounts of the parties shall be in accordance with
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as
27 Exhibit "E", or is a separate Agreement.

28 29 D. Access to Contract Area and Information:

30
31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect
32 or observe operations, and shall have access at reasonable times to information pertaining to the de-
33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon
34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-
35 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports
36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings
37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to
38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the
39 information.

40 41 E. Abandonment of Wells:

42
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent
46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct
52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

53
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-
61 eration shall tender to each of the other parties its proportionate share of the value of the well's value, its
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the
67 formation or formations then open to production. If the interest of the abandoning party is or includes
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties a
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-
70 tion, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

☒ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

☐ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-five thousand & no/100 Dollars (\$ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Twenty-five thousand & no/100 Dollars (\$ 25,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of one-quarter (1/4) due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

F. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator, to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

THIS AGREEMENT IS SUBJECT TO THE
PROVISIONS OF THE OIL AND GAS
ACT OF 1937, AS AMENDED.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or
2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

F. Waiver of Right to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~G. Preferential Right to Purchase:~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

ARTICLE IX. INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X. CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand and no/100 Dollars (\$ 10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

ARTICLE XIII. TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subjected hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease, or oil and gas interest contributed by any other party beyond the term of this agreement.

☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 120 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 120 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

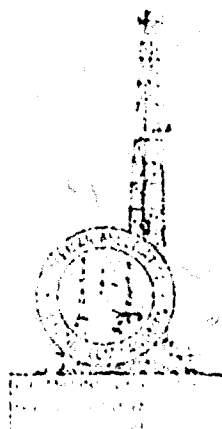
A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV. OTHER PROVISIONS



ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____, 19____.

OPERATOR

MADDOX ENERGY CORPORATION

Ned Maddox
Ned Maddox, President

NON-OPERATORS



EXHIBIT "C"

Attached to and made a part of that certain Operating
Agreement dated August 1, 1981.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of ~~twelve percent (12%)~~ per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section 1. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

2. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD**1. Overhead - Drilling and Producing Operations**

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- (☒) Fixed Rate Basis, Paragraph 1A, or
() Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not () be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 3,500.00

Producing Well Rate \$ 350.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
 - [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
 - [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
 - [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
 - [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

A. 5 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00 ; plus

B. 3 % of total costs in excess of \$ 100,000.00 but less than \$ 1,000,000 ; plus

C. 2 % of total costs in excess of \$ 1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

A. 5 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00 ; plus

B. 3 % of total costs in excess of \$ 100,000.00 but less than \$ 1,000,000 : plus

C. 2 % of total costs in excess of \$ 1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

- (b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

SCHEDULE OF OWNERS TO BE FORCE POOLED

S $\frac{1}{4}$ SW $\frac{1}{4}$ Section 27 - 23S - 28E

Maddox Energy Corporation Applicant

OCD Case No. 7432

<u>Owner</u>	<u>Type of Interest</u>	<u>Land Covered</u>	<u>Net Uncommitted % of Unit</u>
Michael P. Grace II and wife, Corrine B. Grace	100%-ULMI	E $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$	6.250%
Ronnie Ward and wife, Debra Ward	33%-Leasehold	E $\frac{1}{4}$ SE $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$	2.083%
Royce Woolard and wife, Jerry L. Woolard	33%-Leasehold	E $\frac{1}{4}$ SE $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$	2.083%
	Total Uncommitted		10.416%

BEFORE EXAMINED BY THE
OIL COMMISSIONER OF TEXAS

Applicant's EXHIBIT NO. 3

CASE NO. 7432

MADDOX ENERGY CORPORATION
SUITE 3030
717 N. HARWOOD
DALLAS, TEXAS 75201
214 745.1653

September 10, 1981

Mrs. Michael P. Grace
Box 1418
Carlsbad, New Mexico 88220

E/2 SW/4 SE/4 SW/4
Sec. 27, T23S, R28E
Eddy County, New Mexico

Dear Mrs. Grace:

On August 4, 1981, you were sent an AFE on the proposed well in the S/2 SW/4 of Section 27.

If you wish to join Maddox in the drilling of this well please sign and return the AFE. If you decide to lease your interest please let me know.

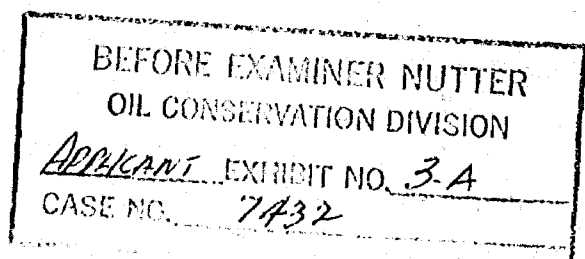
Your prompt attention to this matter will be appreciated.

Yours very truly,

MADDOX ENERGY CORPORATION


George W. Zahn
Vice President

GWZ/trm



MADDOX ENERGY CORPORATION

SUITE 3030

717 N. HARWOOD

DALLAS, TEXAS 75201

214 745.1653

August 4, 1981

Mrs. Michael P. Grace
Box 1418
Carlsbad, New Mexico 88220

Tract 738-5 acres
E/2 SW/4 SE/4 SW/4 Sec. 27
T23S, R28E, N.M.P.M.
Eddy County, New Mexico

Dear Mrs. Grace:

In accordance with Mr. Schneider's letter to you dated July 28, 1981, I have attached a copy of our AFE for the proposed well. Please review this attachment and direct any questions you might have to me at your convenience.

Sincerely yours,

MADDOX ENERGY CORPORATION

Kelcy L. Warren

KLW/trm

Encls.

MADDC (ENERGY CORPORATION

Page 2 of 2

AUTHORIZATION FOR EXPENDITURE DETAIL OF ESTIMATED COST

OPERATOR	LEASE NAME	DATE	AFE NO.
Maddox Energy Corporation	Pardue Farms 27	7/28/81	
PROSPECT NAME	COUNTY/PARISH	WELL NO.	LEASE NO.
	Eddy	6	
LEGAL DESCRIPTION/LOCATION	STATE	AFE TYPE	FORMATION
660' FSL, 1930' FWL of Section 27, T23S, R28E	New Mexico		Bone Spring
		DEPTH	OIL
		7500	X
PROJECT/JOB DESCRIPTION			GAS
	Drill and complete Well No. 6		

ITEM AND DESCRIPTION	CODE	DRY HOLE	CODE	COMPLETION	TOTAL
INTANGIBLE COST: 312 -					
DRILLING COSTS - FOOTAGE	01	\$	01	\$	\$
DRILLING COSTS - DAYWORK	02	162,400	30	162,400	
COMPLETION RIG	30	8,000	30	8,000	
MI, RU, MO LL) MI, RU, MO	03	10,000	03	10,000	
FUEL, WATER AND POWER	06	32,000	06	32,000	
MUD AND CHEMICALS	08	15,000	08	15,000	
BITS AND COREHEADS	16	33,000	16	33,000	
SURVEY, ROADS, LOCATION AND DAMAGES	04/05	18,000	04/05	18,000	
GEOLOGICAL AND ENGINEERING SUPERVISION	11	4,000	11	4,000	
TESTING (DRILL STEM AND WIRELINE)	23		23		
LOGGING AND TEMPERATURE SURVEY	22	24,000	22	24,000	
CORING AND CORE ANALYSIS	21		21		
LABOR - COMPANY AND CONTRACT	17/18	4,500	17/18	4,500	
CEMENT AND CEMENTING SERVICES	07	3,000	31	21,000	
FRACTURING	34		34	87,000	
ACIDIZING	33		33	7,500	
PERFORATING AND CASED HOLE LOGGING	32		32	9,000	
OVERHEAD AND DISTRICT EXPENSE	12		12		
RENTAL TOOLS AND EQUIPMENT	09	4,000	09	6,000	
INSURANCE	15		15		
TRANSPORTATION	35	10,000	35	14,000	
PLUGGING AND ABANDONING	10	5,500	10		
MISCELLANEOUS AND CONTINGENCIES	14	16,670	14	23,195	
MUD LOGGER	13		13		
TOTAL INTANGIBLE COST		\$ 350,070		\$ 478,595	\$ 478,595
TANGIBLE COST: 313 -					
CASING - CONDUCTOR	01	\$ 500	01	\$ 500	\$
CASING - SURFACE	02	6,240	02	6,240	
CASING - INTERMEDIATE	03		03		
CASING - PRODUCTION	10		10	43,950	
CASING - LINER	11		11		
TUBING AND TUBING SUBS	13		13	26,950	
SUBSURFACE EQUIPMENT	12		12	2,500	
WELL HEAD EQUIPMENT	04		14	3,000	
MISCELLANEOUS	15	2,500	15	4,400	
TOTAL TANGIBLE COST		\$ 9,240		\$ 93,540	\$ 93,540
TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS:					
PUMPING UNIT AND PRIME MOVER 313 -	30		30	\$ 39,600	\$
TANKS, SEPARATORS, ETC.	31		31	9,200	
HEATER TREATER, FLOW LINE HEATER, LTX	32		32	5,000	
LEASE LINES	33		33	600	
MISCELLANEOUS CONNECTIONS	35		35	1,500	
INSTALLATION (LABOR)	34		34	1,750	
TOTAL TANGIBLE INSTALLATION, ETC.				\$ 57,650	\$ 57,650
TOTAL AFE COSTS (100%)		\$ 359,310		\$ 629,785	\$ 629,785
MADDOX ENERGY W.I.	%				
ADDITIONAL COST DATA					

MADDOX ENERGY CORPORATION

SUITE 3030
717 N. HARWOOD
DALLAS, TEXAS 75201
—
214 745-1653

July 28, 1981

Mrs. Michael P. Grace
Box 1418
Carlsbad, New Mexico 88220

Tract 738-5 acres
E/2 SW/4 SE/4 SW/4 Sec. 27
T23S, R28E, N.M.P.M.
Eddy County, New Mexico

Dear Mrs. Grace:

In follow up to our conversation of Monday, July 27, 1981, this letter is to confirm that Maddox Energy Corporation is willing to pay \$200/acre bonus money and one-fourth royalty on a three year term oil and gas lease covering the above referenced property. A lease form has not been enclosed since you indicated that you would most likely join in the drilling of the well.

With regard to your questions concerning Bone Springs production in the area please be advised that the well will be drilled to approximately 7300 feet and completed by fracturing simultaneously the best zones over approximately a 900 foot interval. Our other wells in the area have begun producing at approximately 125 to 150 bpd and declined to 40 to 60 bpd within a couple of months. Our 27-4 well in the S/2 of the SE/4 of Section 27 is being completed at this time and no production information is available. Our 27-3 well (N/2 SE/4) and 27-1 well (S/2 NE/4) are both producing into the same tank battery and produced at a combined average rate of 119 bpd for the period from July 13 thru July 23. The 27-1 well is on artificial lift. This battery had about an equal amount of water production. Gas production for the period was approximately 3000 cubic feet per barrel with a BTU content of slightly over 1100 BTU/cu. ft. The gravity of the crude is slightly over 40 degrees, higher than I had indicated.

An AFE for the well has not been completed, but our most recent experience indicates a completed cost with pumping unit, separator and tank battery of approximately \$700,000. I will forward to you our AFE when it becomes available.

If you wish to join in the drilling of the well given the above information please let me know and I will prepare an operating agreement for your review. On the other hand, if you decide to lease please let me know. Your prompt attention to this matter will be greatly appreciated as we anticipate spudding the well within the next week.

Sincerely yours,

MADDOX ENERGY CORPORATION

Robert D. Schneider

RDS/trm

August 20, 1981

Royce Woolard
P.O. Box 8103
Midland, Texas 79703

Pardue Farms 27-6
S/2 SW/4 Section 27
T23S, R28E, NMPM
Eddy County, New Mexico

Dear Mr. Woolard:

The Pardue Farms 27 #6 well was spudded on August 6, 1981 and is currently drilling below 5,000'.

Please advise Maddox of your intent with regard to this well.

Yours very truly,

MADDOX ENERGY CORPORATION

George W. Zahn
Vice President

GWZ/trm

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION

APPLICANT EXHIBIT NO. 3B
CASE NO. 2432

MID-TEX EQUIPMENT

P. O. BOX 8103
MIDLAND, TEXAS 79703

OFFICE 915/694-0061

August 17, 1981

Maddox Energy Corporation
Suite 3030
717 N. Harwood
Dallas, Texas 75201

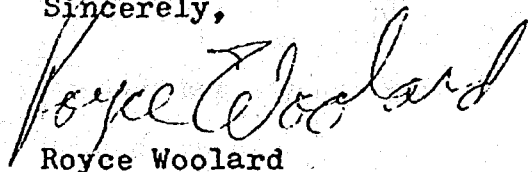
Pardue Farms #27-6
S/2 SW/4 Section 27
T-23-S, R-28-E
Eddy County, New Mexico

Dear Mr. Zahn;

I would like to advise you that I have received your letter concerning the above referenced well to be drilled in the near future. Please advise me when you intend to spud the proposed well because I have taken this proposal to my accountant for his recommendation for tax consideration.

I will be awaiting your reply.

Sincerely,


Royce Woolard

RW/jw

AUG 20 1981

MADDOX ENERGY CORPORATION

SUITE 3030

717 N. HARWOOD

DALLAS, TEXAS 75201

214 745-1653

August 4, 1981

Royce Woolard
3610 W. Wall Street
Suite 113
Midland, Texas 79701

Pardue Farms # 27-6
S/2 Sw/4 Section 27
T-23-S, R-28-E
Eddy County, New Mexico

Mr. Woolard:

As per your recent conversation Maddox Energy Corporation plans to begin operations for the drilling of the above referenced well in the very near future. The location for such well will be 776 feet from the south line and 1874 feet from the west line of section 27. Proposed total depth is to the base of the Bone Springs formation at approximately 7300 feet. You hold an undivided one-third interest in a lease covering a five acre tract described as the E/2, SE/4, SW/4 SW/4 of Section 27. Your proportionate share of costs on the 80 acre proration unit (S/2 SW/4) would be (5 acres + 3) divided by 80 which equals .02083333. An AFE is enclosed for our review and execution if you wish to participate. We will then forward an operating agreement for your review.

If you should decide not to participate in the drilling of the well, Maddox Energy Corporation will farm-in your interest with you reserving a one-sixteenth overriding royalty. Your reserved override would be convertible at payout of the well to an undivided forty percent working interest.

Your prompt attention to this matter will be appreciated.

Sincerely yours,

MADDOX ENERGY CORPORATION

George W. Zahn
Vice President

GWZ/trm

Encls.

MADDOX ENERGY CORPORATION

SUITE 3030

717 N. HARWOOD

DALLAS, TEXAS 75201

214 745-1053

October 9, 1981

Ronnie Ward
P.O. Box 2371
Midland, TX 79702

Pardue Farms 27-6
S/2 SW/4 Section 27
T23S, R28E, NMPM
Eddy County, New Mexico

Dear Ronnie:

The Pardue Farms 27 #6 well was spudded on August 6, 1981 and has reached TD. We are now waiting on completion.

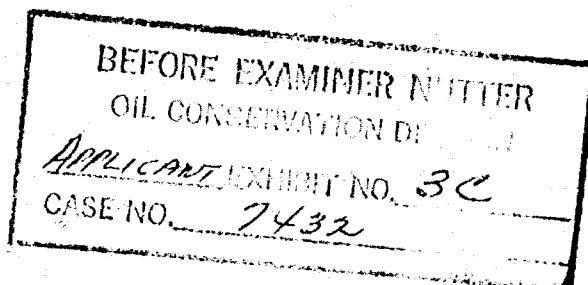
Please advise Maddox of your intent with regard to this well.

Yours very truly,

MADDOX ENERGY CORPORATION

George W. Zahn
Vice President

GWZ/trm



RONNIE WARD

Independent Landman

P. O. BOX 2371
MIDLAND, TEXAS 79702

PHONE
915/684-4829

September 23, 1981

Maddox Energy Corporation
Suite 3030
717 N. Harwood
Dallas, Texas 75201

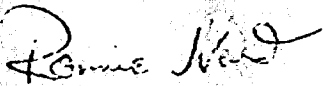
Re: Pardue Farms 27 - 6 Well,
S/2 SW/4 of Section 27, 23S-
28E, Eddy County, New Mexico.

Gentlemen:

I am in receipt of your letters dated August 4, 1981 and September 14, 1981. I have had a death in the family and that is the reason I have not been in touch with you. I have been out of my office for about the last month. I will give this matter my early attention, and will you please advise me when you plan to spud this well.

My mother Blossom R. Ward is now deceased, and in the near future I will perpare a deed into my father C. R. Ward for her interest inasmuch as her interest reverted back to me upon her death. I will send you a copy of the deed and a copy of the Death Certificate when I get them ready.

Yours truly,



Ronnie Ward

1981

MADDOX ENERGY CORPORATION

SUITE 3030

717 N. HARWOOD

DALLAS, TEXAS 75201

214 745-1653

September 14, 1981

Ronnie Ward
P.O. Box 2371
Midland, TX 79702

Pardue Farms 27-6
S/2 SW/4 Section 27
T23S, R28E, NMPM
Eddy County, New Mexico

Dear Ronnie:

On August 4, 1981, I sent you a copy of the A.F.E. on the captioned well and requested you participate or farmout your interest. As of today I have not had a response from you.

Please advise me of your intent with regard to this well.

Sincerely yours,

MADDOX ENERGY CORPORATION

George W. Zahn
Vice President

GWZ/trm

MADDOX ENERGY CORPORATION

SUITE 3030
717 N. HARWOOD
DALLAS, TEXAS 75201
—
214 745.1653

August 4, 1981

Mr. Ronnie Ward
P.O. Box 2371
Midland, Texas 79702

Pardue Farms #27-6
S/2 Sw/4 Section 27
T-23-S, R-28-E
Eddy County, New Mexico

Mr. Ward:

As per your recent conversation Maddox Energy Corporation plans to begin operations for the drilling of the above referenced well in the very near future. The location for such well will be 776 feet from the south line and 1874 feet from the west line of section 27. Proposed total depth is to the base of the Bone Springs formation at approximately 7300 feet. You hold an undivided one-third interest in a lease covering a five acre tract described as the E/2, SE/4, SW/4 SW/4 of section 27. Your proportionate share of costs on the 80 acre proration unit (S/2 SW/4) would be $(5 \text{ acres} \div 3)$ divided by 80 which equals .02083333. An AFE is enclosed for our review and execution if you wish to participate. We will then forward an operating agreement for your review.

If you should decide not to participate in the drilling of the well, Maddox Energy Corporation will farm-in your interest with you reserving a one-sixteenth overriding royalty. Your reserved override would be convertible at payout of the well to an undivided forty percent working interest.

Your prompt attention to this matter will be appreciated.

Sincerely yours,

MADDOX ENERGY CORPORATION

George W. Zahn
Vice President

GWZ/trm

Encls.

MADDOX ENERGY CORPORATION

AUTHORIZATION FOR EXPENDITURE		DATE 7/28/81	AFE NO.
OPERATOR Maddox Energy Corporation	LEASE NAME Pardue Farms 27	WELL NO. 6	LEASE NO.
PROSPECT NAME	COUNTY/PARISH Eddy	STATE New Mexico	
LEGAL DESCRIPTION/LOCATION 660' FSL, 1980' FWL of Section 27, T23S, R28E		AFE TYPE	FORMATION Bone Spring
PROJECT/JOB DESCRIPTION Drill and complete Well No. 6		DEPTH 7500	OIL X GAS

REMARKS

	SUMMARY OF ESTIMATED COSTS	100% WORKING INTEREST			MADDOX ENERGY INTEREST -		
		ORIGINAL AFE	SUPPLEMENT	TOTAL	ORIGINAL AFE	SUPPLEMENT	TOTAL
COMPLETED WELL COST	INTANGIBLE DRY-HOLE COST	\$ 359,310	\$	\$	\$	\$	\$
	INTANGIBLE COMPLETION COST	478,595					
	TANGIBLE DRY-HOLE COST	9,240					
	TANGIBLE COMPLETION COST	93,540					
	LEASE EQUIP AND INSTALLATION	57,650					
	TOTAL COMPLETED COST	629,785					
DRY-HOLE COST	INTANGIBLE DRY-HOLE COST	350,070					
	TANGIBLE DRY-HOLE COST	9,240					
	TOTAL DRY-HOLE COST	359,310					
	LEASEHOLD GEOLOGICAL-LAND-LEGAL						

APPROVED BY	DATE	APPROVED BY	DATE
ORIGINATOR <i>Brad Bennett</i>	7/28/81		

This Authority for Expenditure is limited to the highest amount shown above plus no more than 5% contingencies. Additional expenditures must be submitted in a supplemental AFE for approval.

by M. Brad Bennett.

BY EXECUTION HEREOF THE UNDERSIGNED RECOGNIZES AND ACKNOWLEDGES THAT THE ABOVE COST FIGURES ARE ESTIMATES ONLY AND THAT THE UNDERSIGNED IS RESPONSIBLE FOR ITS OR HIS SHARE OF THE ACTUAL COSTS INCURRED EVEN IF SUCH ACTUAL COSTS EXCEED OUR ESTIMATES.

NON-OPERATOR INTEREST OWNER	% INTEREST	NET AMOUNT	APPROVED	DATE APPROVED
<i>M. BRAD BENNETT</i>			<i>M. Brad Bennett</i>	8/11/81
<div style="border: 1px solid black; padding: 5px; text-align: center;"> BEFORE EXAMINER NOTTER OIL CONSERVATION DIVISION APPLICANT EXHIBIT NO. <i>24</i> CASE NO. <i>7432</i> </div>				

MADDOX ENERGY CORPORATION

Page 2 of 2

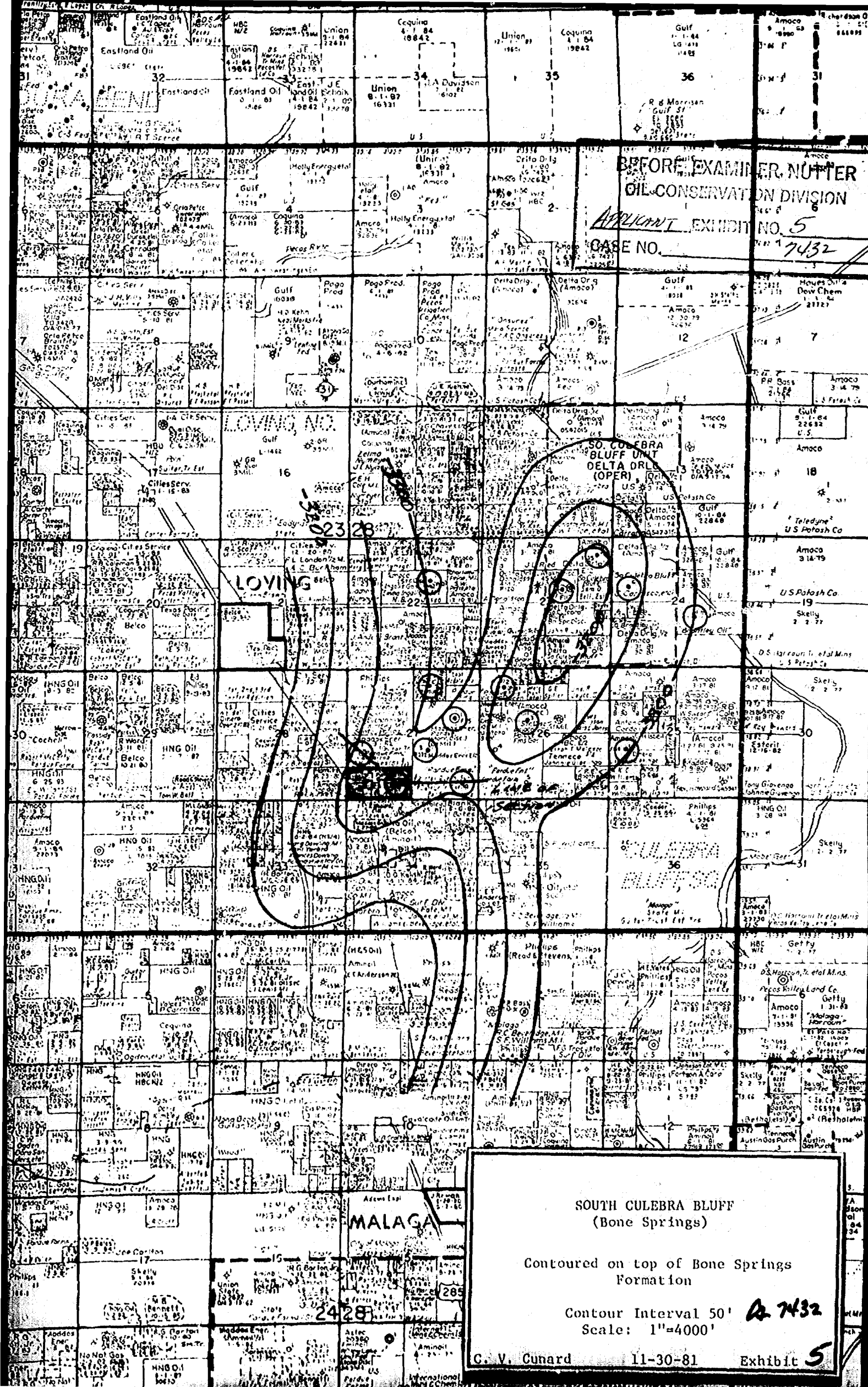
AUTHORIZATION FOR EXPENDITURE DETAIL OF ESTIMATED COST

OPERATOR	LEASE NAME	DATE	AFE NO.
Maddox Energy Corporation	Pardue Farms 27	7/28/81	
PROSPECT NAME	COUNTY/PARISH	WELL NO.	LEASE NO.
	Eddy	6	
LEGAL DESCRIPTION/LOCATION	STATE	AFE TYPE	FORMATION
660' PSL, 1980' FWL of Section 27, T23S, R28E	New Mexico		Bone Spring
	DEPTH	OIL	GAS
	7500	X	

PROJECT/JOB DESCRIPTION

Drill and complete Well No. 6

ITEM AND DESCRIPTION	CODE	DRY HOLE	CODE	COMPLETION	TOTAL
INTANGIBLE COST: 312 -					
DRILLING COSTS - FOOTAGE	01	\$	01	\$	\$
DRILLING COSTS - DAYWORK	02	162,400	30	162,400	
COMPLETION RIG	30	8,000	30	8,000	
MI, RU, MO (LL) MI, RU, MO	03	10,000	03	10,000	
FUEL, WATER AND POWER	06	32,000	06	32,000	
MUD AND CHEMICALS	08	15,000	08	15,000	
BITS AND COREHEADS	16	33,000	16	33,000	
SURVEY, ROADS, LOCATION AND DAMAGES	04/05	18,000	04/05	18,000	
GEOLOGICAL AND ENGINEERING SUPERVISION	11	4,000	11	4,000	
TESTING (DRILL STEM AND WIRELINE)	23		23		
LOGGING AND TEMPERATURE SURVEY	22	24,000	22	24,000	
CORING AND CORE ANALYSIS	21		21		
LABOR - COMPANY AND CONTRACT	17/18	4,500	17/18	4,500	
CEMENT AND CEMENTING SERVICES	07	3,000	31	21,000	
FRACTURING	34		34	87,000	
ACIDIZING	33		33	7,500	
PERFORATING AND CASED HOLE LOGGING	32		32	9,000	
OVERHEAD AND DISTRICT EXPENSE	12		12		
RENTAL TOOLS AND EQUIPMENT	09	4,000	09	6,000	
INSURANCE	15		15		
TRANSPORTATION	35	10,000	35	14,000	
PLUGGING AND ABANDONING	10	5,500	10		
MISCELLANEOUS AND CONTINGENCIES	14	16,670	14	23,195	
MUD LOGGER	13		13		
TOTAL INTANGIBLE COST		\$ 350,070		\$ 478,595	\$ 478,595
TANGIBLE COST: 313 -					
CASING - CONDUCTOR	01	\$ 500	01	\$ 500	\$
CASING - SURFACE	02	6,240	02	6,240	
CASING - INTERMEDIATE	03		03		
CASING - PRODUCTION	10		10	43,950	
CASING - LINER	11		11		
TUBING AND TUBING SUBS	13		13	26,950	
SUBSURFACE EQUIPMENT	12		12	2,500	
WELL HEAD EQUIPMENT	04		14	9,000	
MISCELLANEOUS	15	2,500	15	4,400	
TOTAL TANGIBLE COST		\$ 9,240		\$ 93,540	\$ 93,540
TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS:					
PUMPING UNIT AND PRIME MOVER 313 -	30		30	\$ 39,600	\$
TANKS, SEPARATORS, ETC	31		31	9,200	
HEATER TREATER, FLOW LINE HEATER, LTX	32		32	5,000	
LEASE LINES	33		33	600	
MISCELLANEOUS CONNECTIONS	35		35	1,500	
INSTALLATION (LABOR)	34		34	1,750	
TOTAL TANGIBLE INSTALLATION, ETC				\$ 57,650	\$ 57,650
TOTAL AFE COSTS (100%)		\$ 359,310		\$ 629,785	\$ 629,785
MADDOX ENERGY W.I.					
ADDITIONAL COST DATA					



BEFORE EXAMINER, NUTTER
OIL CONSERVATION DIVISION
APPLICANT EXHIBIT NO. 5
CASE NO. 7432

LOVING NO.

SO. CULEBRA
BLUFF UNIT
DELTA DRILL
(OPER)

LOVING

CULEBRA
BLUFF

MALAGA

SOUTH CULEBRA BLUFF
(Bone Springs)

Contoured on top of Bone Springs
Formation

Contour Interval 50'
Scale: 1"=4000'

G. V. Cunard

11-30-81

Exhibit 5

Docket No 40-81 is tentatively set for December 16, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - DECEMBER 2, 1981

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

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

CASE 7396: (Continued from November 4, 1981, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Sentry Oil Exploration Company and Lawyers Surety Corporation to appear and show cause why Farr Well No. 1, located in Unit G of Section 6, Township 31 North, Range 34 East, Union County, New Mexico, should not be ordered plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7429: Application of Mark D. Wilson for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 660 feet from the North line and 1650 feet from the East line of Section 12, Township 17 South, Range 27 East, Wolfcamp-Pennsylvanian formations, the N/2 of said Section 12 to be dedicated to the well.

CASE 7430: Application of Amoco Production Company for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of the Fruitland and Pictured Cliffs formations in the wellbore of its Gutierrez Gas Com "C" Well No. 1, located in the NE/4 of Section 4, Township 29 North, Range 9 West.

CASE 7431: Application of Wainoco Oil & Gas Company for compulsory pooling and a non-standard oil proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Northeast Lovington Penn Pool underlying a 191.65-acre non-standard oil proration unit comprising Lots 3 & 4 of Section 18, Township 16 South, Range 37 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7425: (Continued and Readvertised)

Application of H. L. Brown, Jr. for compulsory pooling and an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the top of the San Andres formation to the base of the Pennsylvanian formation underlying the S/2 of Section 26, Township 16 South, Range 37 East, to be dedicated to a well to be drilled at a standard location thereon, provided that in the event the subject well encounters production in the Casey-Strawn Pool and/or the West Knowles Drinkard Pool, the lands pooled would be the S/2 SW/4 of said Section 26. Applicant further seeks approval for the commencement of a second well within 120 days after completion of the first well, said well to be drilled at an unorthodox location 1650 feet from the South line and 660 feet from the West line of Section 26, and dedicated to the N/2 SW/4 of said Section 26 which applicant also seeks to be pooled. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.

CASE 7402: (Continued and Readvertised)

Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down to and including the Abo formation underlying the NW/4 NW/4 of Section 5, Township 20 South, Range 39 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7432: Application of Maddox Energy Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through the Bone Spring formation underlying the S/2 SW/4 of Section 27, Township 23 South, Range 28 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charge for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7421: (Readvertised)

Application of Doyle Hartman for compulsory pooling, unorthodox well location and non-standard spacing unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Eumont Gas Pool underlying a 120-acre non-standard spacing unit consisting of the S/2 SW/4 and the NW/4 SW/4 of Section 3, Township 20 South, Range 37 East, to be dedicated to a well to be drilled at an unorthodox location 2,310 feet from the South line and 330 feet from the West line of Section 3. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

LAW OFFICES

HINKLE, COX, EATON, COFFIELD & HENSLEY

600 HINKLE BUILDING

POST OFFICE BOX 10

ROSWELL, NEW MEXICO 88201

(505) 622-6510

MIDLAND, TEXAS OFFICE

1000 FIRST NATIONAL BANK TOWER

(915) 681-4691

AMARILLO, TEXAS OFFICE

1701 AMERICAN NATIONAL BANK BUILDING

(806) 372-5569

*NOT LICENSED IN

NEW MEXICO

W. E. BONDURANT, JR.
(1914-1973)

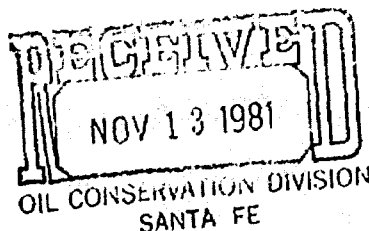
OF COUNSEL
ARENCE E. HINKLE
ROBERT A. STONE*

LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN

PAUL J. KELLY, JR.
JAMES H. BOZARTH
DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
ERNEST R. FINNEY, JR.*
J. DOUGLAS FOSTER

K. DOUGLAS PERRIN
C. RAY ALLEN*
T. CALDER EZZELL, JR.
WILLIAM B. BURFORD*
JOHN S. NELSON
RICHARD E. OLSON
ANDERSON CARTER, II
STEVEN D. ARNOLD
JEFFREY L. BOWMAN
JOHN C. HARRISON

November 12, 1981



Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

Case 7432

Re: Application for Compulsory
Pooling by Maddox Energy
Corporation in Eddy County,
New Mexico
December 2, 1981 Docket

Gentlemen:

I am transmitting herewith, executed in triplicate, copies of an Application by Maddox Energy Corporation for Compulsory Pooling of all interests in S $\frac{1}{4}$ SW $\frac{1}{4}$ Section 27, Township 23 South, Range 28 East, N.M.P.M., Eddy County, New Mexico, as to the Bone Springs formation.

The list of the various interest owners to be pooled is as follows:

NAME

TYPE OF INTEREST

Michael P. Grace, II
Corrine B. Grace
123 South Spalding Drive
Suite 110
Beverly Hills, California 90212

Unleased Mineral Interest

Ronnie Ward
Debra Ward
501 Permian Building
Midland, Texas 79701

Leasehold Interest

Oil Conservation Division
November 12, 1981
Page 2

Royce Woolard
Jerry L. Woolard
705 Upland
Midland, Texas 79701

Leasehold Interest

If it should develop that there are other uncommitted interest owners to this unit, we will advise you at least 10 days prior to the date of the Hearing.

Please arrange to have this case set on the Docket for Hearing on December 2, 1981 as I have already requested by telephone.

If anything in addition is needed in order to have this matter set for hearing, please let me know.

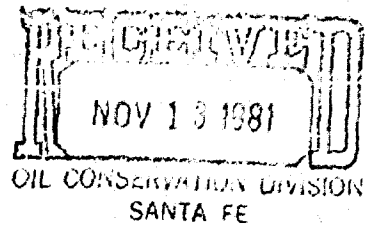
Yours very truly,

HINKLE, COX, EATON, COFFIELD & HENSLEY


Douglas L. Lunsford

DLL:h1

Enclosures



BEFORE THE OIL CONSERVATION DIVISION OF
THE DEPARTMENT OF ENERGY AND MINERALS
STATE OF NEW MEXICO

APPLICATION OF)
MADDOX ENERGY CORPORATION)
FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

APPLICATION

Case 7432

Maddox Energy Corporation, by its undersigned attorneys, hereby makes application for an Order pooling all mineral interests in the Bone Springs formation underlying S $\frac{1}{2}$ SW $\frac{1}{4}$ Section 27, Township 23 South, Range 28 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show:

1. Applicant is entitled to drill well located on S $\frac{1}{2}$ SW $\frac{1}{4}$ Section 27, Township 23 South, Range 28 East, N.M.P.M., Eddy County, New Mexico, under the authority of Applicant's ownership of oil and gas leasehold interests therein.

2. Applicant is currently drilling its Pardue Farms 27 Well No. 6 at a location 766 feet from the South line and 1,874 feet from the West line of said Section 27, to a depth sufficient to test the Bone Springs formation and seeks to dedicate the S $\frac{1}{2}$ SW $\frac{1}{4}$ of Section 27 to the well. Applicant has requested the owners of the remaining working interest in S $\frac{1}{2}$ SW $\frac{1}{4}$ Section 27 and royalty, overriding royalty and unleased mineral interest owners in S $\frac{1}{2}$ SW $\frac{1}{4}$ Section 27 to agree to participate in the drilling of said well or to farmout or otherwise commit their interest to said well, but certain owners so far have refused to do so.

3. The pooling of all interests in the Bone Springs formation in S $\frac{1}{2}$ SW $\frac{1}{4}$ Section 27 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

4. Applicant respectfully requests the setting of this matter for a hearing on December 2, 1981.

DATED this 12th day of November, 1981.

HINKLE, COX, EATON, COFFIELD & HENSLEY

By: Douglas L. Lunsford
Douglas L. Lunsford
Post Office Box 10
Roswell, New Mexico 88201

Attorneys for Maddox Energy
Corporation

Memo

From

FLORENE DAVIDSON
ADMINISTRATIVE SECRETARY

To Called in & on November
12, 1981

Maddox Energy Corporation
Compulsory Pooling

5/2 SW/4 27-235-28E

Eddy County

Bone Spring formation

HERBIE
ORDERS

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7432

Order No. R-6946

APPLICATION OF MADDOX ENERGY CORPORATION
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

[Signature]
11/88

RF
MS.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on December 2,
1981, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this April, 1982 day of ~~December, 1981~~, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

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

(2) That the applicant, Maddox Energy Corporation, seeks an order pooling all mineral interests down through the Bone Spring formation underlying the S/2 SW/4 of Section 27, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.

(3) That the applicant has the right to drill and ~~proposes to drill~~ ^{has drilled} a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the ^{oil and} gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of ^{actual} ~~estimated~~ well costs to the operator in lieu of paying his share of ^{OK} ~~reasonable~~ well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of ^{actual} ~~estimated~~ well costs should have withheld from production his share of the ^{OK} ~~reasonable~~ well costs plus an additional 50 percent thereof as a reasonable charge for the risk involved in the drilling of the well ^{and the risk involved in obtaining a payout, even though production has been encountered in the unit well.}

(9) That any non-consenting interest owner should be

afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

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

(11) That \$ 3500.00 per month while drilling and \$ 350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

~~(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before _____, the order pooling said unit should become null and void and of no effect whatsoever.~~

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, down through the Bone Spring formation underlying the S/2 SW/4 of Section 27, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 80-acre ^{oil} ~~gas~~ spacing and proration unit to be dedicated to a well ~~to be~~ drilled at a standard location thereon..

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the _____ day of _____, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Bone Spring formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the _____ day of _____, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Maddox Energy Corporation is hereby designated the operator of the subject well and unit.

^{within 30 days}
(3) That ³⁰ after the effective date of this order, ~~and within 90 days prior to commencing said well,~~ the operator

shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of ~~estimated~~ ^{actual} well costs.

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

That any non-consenting working interest owner may, at least 45 days after receiving the schedule of actual well costs but not more than 90 days after well costs within 90 days following completion of the well, file with the Division an objection to such costs; that if no objection to the actual well costs is received by the Division and the Division has not objected within 90 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within the afore said 45th to 90th day the Division will determine reasonable well costs after public notice and hearing.

(5) ~~That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well~~

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

(7) That the operator is hereby authorized to withhold

the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 50 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$ 3500.00 per month while drilling and \$ 350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 10 days from the date of first deposit with said escrow agent.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION