Dest for Hrg
on 9/10

Cont'd
Oct 8

CASE 5551: DALPORT OIL CORP. AND BURK ROYALTY CO. FOR COMPULSORY POOLING AND UNORTHODOX GAS WELL

SEND DOCKETS
TO EVERYBODY
LISTED ON P.2
OF APPLICATION

CASE NO.

5551

APPLICATION,

TRANSCRIPTS,

SMALL EXHIBITS,

ETC.

File
Ca 5551

DALPORT OIL CORPORATION
3471 FIRST NATIONAL BANK BLDG.
DALLAS, TEXAS 75202

February 2, 1976

RECEIVED
FEB - 4 1976
OIL CONSERVATION COMM.
Santa Fe

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

Re: Order No. R-5156

Attention: Mr. Joe D. Ramey, Secretary

Gentlemen:

Reference is made to the New Mexico Oil Conservation Commission order dated January 21, 1976. Under item 2, Page 3, Reading and Bates Oil and Gas Company was designated the operator. They have requested for themselves and their partners, that Dalport Oil Corporation become the operator of this well and unit.

Subject to approval of the Commission, Dalport has agreed to be the operator.

Please advise if this is satisfactory.

Yours very truly,

DALPORT OIL CORPORATION

W. L. Todd, Jr.,
President

WLTJr:sd

cc: Reading & Bates, Inc.
1100 Philtower Building
Tulsa, Oklahoma 74103

cc: Burk Royalty Company
800 Oil & Gas Building
Wichita Falls, Texas 76301

cc: Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 76901

cc: Dr. James C. Womack
Suite 8 Medical Arts
Building
San Angelo, Texas 76901

cc: Mr. J. A. March III
2509 Nasworthy Drive
San Angelo, Texas 76901

cc: Mr. Edwin S. Mayer, Jr.
P. O. Box 1741
San Angelo, Texas 76901

cc: Mr. Guy A. Swartz
P. O. Box 3037
San Angelo, Texas 76901

cc: Dalport Oil Corporation
% Leon M. Lampert
1134 the 600 Building
Corpus Christ, Texas 78401

cc: Jennings, Christy & Copple
P. O. Box 1180
Roswell, New Mexico 88201

cc: Mr. Paul Cooter, Attorney
P. O. Drawer 700
Roswell, New Mexico 88201

OIL CONSERVATION COMMISSION
P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

May 3, 1976

File
Case 5551

COPY

Dalport Oil Corporation
3471 First National Bank Bldg.
Dallas, Texas 75202

Attention: Mr. W. L. Todd, Jr.

Gentlemen:

This is to advise that the Oil Conservation Commission of New Mexico this date approves change of operator from Reading & Bates Oil and Gas Co. to Dalport Oil Corporation for the property described as the W/2 of Section 17, Township 12 South, Range 31 East, NMPM, Southeast Chaves Queen Gas Area, which property is subject to Commission Order No. R-5156, dated January 21, 1976.

Very truly yours,

JOE D. RAMEY,
Secretary-Director

JDR/DSN/dr

cc: Oil Conservation Commission - Hobbs
Reading & Bates Oil and Gas Co.
Case File 5551

DALPORT OIL CORPORATION
3471 FIRST NATIONAL BANK BLDG.
DALLAS, TEXAS 75202

RECEIVED
MAY - 3 1976
OIL CONSERVATION COMM.
Santa Fe

April 29, 1976

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

Attention: Mr. Daniel S. Nutter

Re: Case No. 5551
Order No. R-5156

Gentlemen:

We enclose copies of letters from the non-operators and Reading & Bates, Operator, requesting that Dalport Oil Corporation assume the duties of operator under the above NMOCC order.

Dalport accepts as Operator and requests the Commission's approval.

Yours very truly,

DALPORT OIL CORPORATION

W. L. Todd, Jr.

W. L. Todd, Jr., President

WLTJr:sd

Enclosure

cc: Reading & Bates Oil and Gas Company
Attention: Mr. R. C. Little

READING & BATES OIL AND GAS CO.
GENERAL OFFICE: 3800 FIRST PLACE, TULSA, OKLAHOMA 74103, CABLE ADDRESS: REBAT-TULSA, PHONE: AC/ 918 583-8521

RECEIVED
MAY - 3 1976
OIL CONSERVATION COMM.
Santa Fe

April 27, 1976

New Mexico Oil Conservation Commission
Santa Fe, New Mexico

Re: Change of Operator - W2 Sec. 17-12S-31E
Chaves County, New Mexico

Gentlemen:

We are enclosing copies of letters showing approval by all working interest owners to change the operator of the captioned property from Reading & Bates Oil and Gas Co. to Dalport Oil Corporation.

Please accept this letter as our request to change the operator.

Yours very truly,

READING & BATES OIL AND GAS CO.

R. C. Little

R. C. Little, Manager of Lands

Dalport Oil Corporation hereby accepts as Operator.

DALPORT OIL CORPORATION

By W. L. Toad Jr

Date 4/29/76

READING & BATES OIL AND GAS CO.
GENERAL OFFICE: 3800 FIRST PLACE, TULSA, OKLAHOMA 74103, CABLE ADDRESS: REBAT-TULSA, PHONE: AC/ 918 583-8521

March 23, 1976

Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 76901

Dr. James C. Womack
Suite 8 Medical Arts Building
San Angelo, Texas 76901

Mr. Edwin S. Mayer, Jr.
P. O. Box 1741
San Angelo, Texas 76901

Mr. J. A. March, III
2509 Nasworthy Drive
San Angelo, Texas 76901

Mr. Guy A. Swartz
P. O. Box 3037
San Angelo, Texas 76901

Re: L-17241 - W/2 Sec. 17-12S-31E
Chaves County, New Mexico

Gentlemen:

Reading & Bates has been appointed Operator of the captioned property by an order of the Oil Conservation Commission of the State of New Mexico. Reading & Bates' interest is so small that we prefer that Dalport Oil Corporation operate this property. In order for them to do so, I will need your approval and then I will need to write a letter to the Oil Conservation Commission asking that Dalport be allowed to operate in our stead. I will further ask Dalport by copy of this letter to furnish each of us with a proposed Operating Agreement in order to finalize this matter.

If you agree that Dalport should operate this property, subject to an approved Operating Agreement, please indicate your approval below and return a copy of this letter to me.

Very truly yours,

READING & BATES OIL AND GAS CO.

R. C. Little
Manager - Lands

RCL/vlh
Enc.

RECEIVED
MAR 25 1976
RECEIVED

Agreed to this 21 day of April, 1976.

Rouds L Oil
Stringer Oil

cc: Dalport Oil Corporation - Mr. W. L. Todd

READING & BATES OIL AND GAS CO.
GENERAL OFFICE: 3800 FIRST PLACE, TULSA, OKLAHOMA 74103, CABLE ADDRESS: RESAT-TULSA, PHONE: AC/ 918 583-8521

March 23, 1976

Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 76901

Dr. James C. Womack
Suite 8 Medical Arts Building
San Angelo, Texas 76901

Mr. Edwin S. Mayer, Jr.
P. O. Box 1741
San Angelo, Texas 76901

Mr. J. A. March, III
2509 Nasworthy Drive
San Angelo, Texas 76901

Mr. Guy A. Swartz
P. O. Box 3037
San Angelo, Texas 76901

Re: L-17241 - W/2 Sec. 17-12S-31E
Chaves County, New Mexico

Gentlemen:

Reading & Bates has been appointed Operator of the captioned property by an order of the Oil Conservation Commission of the State of New Mexico. Reading & Bates' interest is so small that we prefer that Dalport Oil Corporation operate this property. In order for them to do so, I will need your approval and then I will need to write a letter to the Oil Conservation Commission asking that Dalport be allowed to operate in our stead. I will further ask Dalport by copy of this letter to furnish each of us with a proposed Operating Agreement in order to finalize this matter.

If you agree that Dalport should operate this property, subject to an approved Operating Agreement, please indicate your approval below and return a copy of this letter to me.

Very truly yours,

READING & BATES OIL AND GAS CO.

R. C. Little
Manager - Lands

RCL/vlh
Enc.

Agreed to this 2 day of April, 1976.

Edwin S. Mayer, Jr.

cc: Dalport Oil Corporation - Mr. W. L. Todd

READING & BATES OIL AND GAS CO.
GENERAL OFFICE: 3800 FIRST PLACE, TULSA, OKLAHOMA 74103. CABLE ADDRESS: REBAT-TULSA, PHONE: AC/ 918 583-8521

March 23, 1976

Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 76901

Dr. James C. Womack
Suite 8 Medical Arts Building
San Angelo, Texas 76901

Mr. Edwin S. Mayer, Jr.
P. O. Box 1741
San Angelo, Texas 76901

Mr. J. A. March, III
2509 Nasworthy Drive
San Angelo, Texas 76901

Mr. Guy A. Swartz
P. O. Box [redacted] P. O. Box 3541
San Angelo, Texas 76901

Re: L-17241 - W/2 Sec. 17-12S-31E
Chaves County, New Mexico

Gentlemen:

Reading & Bates has been appointed Operator of the captioned property by an order of the Oil Conservation Commission of the State of New Mexico. Reading & Bates' interest is so small that we prefer that Dalport Oil Corporation operate this property. In order for them to do so, I will need your approval and then I will need to write a letter to the Oil Conservation Commission asking that Dalport be allowed to operate in our stead. I will further ask Dalport by copy of this letter to furnish each of us with a proposed Operating Agreement in order to finalize this matter.

If you agree that Dalport should operate this property, subject to an approved Operating Agreement, please indicate your approval below and return a copy of this letter to me.

Very truly yours,

READING & BATES OIL AND GAS CO.

R. C. Little
Manager - Lands

RCL/vlh
Enc.

Agreed to this 29th day of March, 1976.

cc: Dalport Oil Corporation - Mr. W. L. Todd

READING & BATES OIL AND GAS CO.
GENERAL OFFICE: 3800 FIRST PLACE, TULSA, OKLAHOMA 74103, CABLE ADDRESS: REBAT-TULSA, PHONE: AC/ 918 583-8521

March 23, 1976

Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 76901

Dr. James C. Womack
Suite 8 Medical Arts Building
San Angelo, Texas 76901

Mr. Edwin S. Mayer, Jr.
P. O. Box 1741
San Angelo, Texas 76901

Mr. J. A. March, III
2509 Nasworthy Drive
San Angelo, Texas 76901

Mr. Guy A. Swartz
P. O. Box 3037
San Angelo, Texas 76901

Re: L-17241 - W/2 Sec. 17-12S-31E
Chaves County, New Mexico

Gentlemen:

Reading & Bates has been appointed Operator of the captioned property by an order of the Oil Conservation Commission of the State of New Mexico. Reading & Bates' interest is so small that we prefer that Dalport Oil Corporation operate this property. In order for them to do so, I will need your approval and then I will need to write a letter to the Oil Conservation Commission asking that Dalport be allowed to operate in our stead. I will further ask Dalport by copy of this letter to furnish each of us with a proposed Operating Agreement in order to finalize this matter.

If you agree that Dalport should operate this property, subject to an approved Operating Agreement, please indicate your approval below and return a copy of this letter to me.

Very truly yours,

READING & BATES OIL AND GAS CO.

R. C. Little
Manager - Lands

RCL/vlh
Enc.

Agreed to this ____ day of _____, 1976.

_____

cc: Dalport Oil Corporation - Mr. W. L. Todd

READING & BATES OIL AND GAS CO.
GENERAL OFFICE: 3800 FIRST PLACE, TULSA, OKLAHOMA 74103, CABLE ADDRESS: REBAT-TULSA, PHONE: AC/ 918 583-8521

March 23, 1976

Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 76901

Mr. Edwin S. Mayer, Jr.
P. O. Box 1741
San Angelo, Texas 76901

Mr. Guy A. Swartz
P. O. Box 3037
San Angelo, Texas 76901

Dr. James C. Womack
Suite 8 Medical Arts Building
San Angelo, Texas 76901

Mr. J. A. March, III
2509 Nasworthy Drive
San Angelo, Texas 76901

Re: L-17241 - W/2 Sec. 17-12S-31E
Chaves County, New Mexico

Gentlemen:

Reading & Bates has been appointed Operator of the captioned property by an order of the Oil Conservation Commission of the State of New Mexico. Reading & Bates' interest is so small that we prefer that Dalport Oil Corporation operate this property. In order for them to do so, I will need your approval and then I will need to write a letter to the Oil Conservation Commission asking that Dalport be allowed to operate in our stead. I will further ask Dalport by copy of this letter to furnish each of us with a proposed Operating Agreement in order to finalize this matter.

If you agree that Dalport should operate this property, subject to an approved Operating Agreement, please indicate your approval below and return a copy of this letter to me.

Very truly yours,
READING & BATES OIL AND GAS CO.

R. C. Little
Manager - Lands

RCL/vlh
Enc.

Agreed to this 25 day of Mar., 1976.

cc: Dalport Oil Corporation - Mr. W. L. Todd

DALPORT OIL CORPORATION
3471 FIRST NATIONAL BANK BLDG.
DALLAS, TEXAS 75202

March 25, 1976

Reading & Bates Oil and Gas Company
3800 First Place
Tulsa, Oklahoma 74103

Re: W/2 Section 17,
T-12-S, R-31-E

Gentlemen:

We are enclosing a copy of the Joint Operating Contract dated July 25, 1973 which we have with J. Frank Stringer et al covering the E/2 Section 17, T-21-S, R-31-E, Chaves County, New Mexico.

Subject to approval of the New Mexico Oil Conservation Commission and the other non-operators, Dalport will assume the operations under the above mentioned contract.

By your acceptance of this letter you agree to having your name added to the list of non-operators and to the terms and conditions of the above mentioned contract. Your interest in this property being 12.5%.

Yours very truly,

DALPORT OIL CORPORATION

W. L. Todd, Jr., President

WLTJr:sd

Enclosure

Agreed to this 23 day of April, 1976

Reading and Bates Oil & Gas Company

OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

DIRECTOR
JOE D. RAMEY

LAND COMMISSIONER
PHIL R. LUCERO

STATE GEOLOGIST
EMERY C. ARNOLD

January 22, 1976

Sim B. Christy, Esq.
Jennings, Christy & Copple
Suite 1012
Security National Bank Bldg.
Roswell, New Mexico

Re: CASE NO. 5551
ORDER NO. R-5156

Applicant: Dalport Oil Corp.

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC X
Artesia OCC X
Aztec OCC

Other Paul Cooter

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 5551
Order No. R-5156

APPLICATION OF DALPORT OIL CORPORATION
AND BURK ROYALTY CO. FOR COMPULSORY
POOLING AND AN UNORTHODOX GAS WELL
LOCATION, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 8, 1975, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 21st day of January, 1976, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicants, Dalport Oil Corporation and Burk Royalty Company, seek an order pooling all mineral interests in the Queen formation underlying the W/2 of Section 17, Township 12 South, Range 31 East, NMPM, Southeast Chaves Queen Gas Area, Chaves County, New Mexico, and dedicating said lands to the Reading & Bates Oil and Gas Company Terra Federal Well No. 1, situate at an unorthodox location for said gas area 660 feet from the South line and 660 feet from the West line of said Section 17.

(3) That said well was drilled by J. Frank Stringer and completed as a gas well capable of production from the Queen formation in August, 1970.

(4) That said well was drilled to a total depth of 4064 feet to test the San Andres formation, which was found to be nonproductive, and then plugged back to a total depth of 2,576 feet and completed in the Queen formation through the perforated interval from 2,535 feet to 2,542 feet.

(5) That from the date of completion to the present time said well has been classified as a shut-in gas well awaiting a pipe line connection.

(6) That it now appears that a pipe line connection will be available to said well within the near future.

(7) That the location of said well, although unorthodox for the Southeast Chaves Queen Gas Area, was a standard location for the well when projected to the San Andres formation; that said location will not cause waste nor impair correlative rights and should be approved.

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

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

(10) That each working interest owner in said unit should be required to pay his proportionate share of the actual expenditures required for the purpose of development and operation of the unit, not in excess of what are reasonable, and to pay his proportionate share of reasonable costs of supervision.

(11) That the subject well was drilled and completed in 1970 at an alleged cost of $58,553.62.

(12) That said $58,553.62 includes the cost of drilling said well to the San Andres formation, some 1522 feet below the lowermost Queen formation perforations in the well.

(13) That said $58,553.62 appears to include numerous items of questionable applicability to the determination of reasonable well costs for a Queen formation gas well in the subject area.

(14) That although a similar Queen gas well could be drilled and completed in the subject area in 1973 for $32,887.34, including tubing, under today's conditions such a well would cost $47,124.12, less tubing, which appears to be a reasonable cost for such a well drilled and completed under today's conditions.

(15) That even though $58,553.62 may have been total costs paid for drilling the subject well, this amount is in excess of current reasonable well costs, even considering the higher cost of drilling and completing wells today.

(16) That $47,124.12 should be fixed by the Commission as reasonable well costs for the subject well, to be shared by each working interest owner in the unit in the proportion that his interest in the unit bears to total working interest in the unit.

(17) That each working interest owner who has not heretofore paid his share of the reasonable well costs should be afforded the opportunity of paying, within 30 days after entry of this order, his share of said reasonable well costs to the parties advancing the well costs, in lieu of paying his share of reasonable well costs out of production.

(18) That each working interest owner who, within 30 days after entry of this order, has not paid his share of reasonable well costs should have withheld from production his share of the reasonable well costs plus an additional 100 percent thereof as a reasonable charge for the risk involved in the drilling of the subject well.

(19) That $75.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator of the well should be authorized to withhold from production the proportionate share of such supervision charge attributable to each working interest owner, 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 working interest owner.

(20) 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.

(21) That Reading & Bates Oil and Gas Company should be designated as operator of the subject well and unit.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Queen formation underlying the W/2 of Section 17, Township 12 South, Range 31 East, NMPM, Southeast Chaves-Queen Gas Area, Chaves County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to the Reading & Bates Oil and Gas Company Terra Federal Well No. 1, situate at an unorthodox location 660 feet from the South line and 660 feet from the West line of said Section 17, which unorthodox location is hereby approved.

(2) That Reading & Bates Oil and Gas Company is hereby designated the operator of the subject well and unit.

(3) That $47,124.12 is hereby fixed by the Commission as reasonable well costs for drilling and completing said well, less tubing, and each working interest owner in the unit shall pay his proportionate share of said costs, being an amount of said costs in the proportion that his interest in the unit bears to total working interest in the unit.

(4) 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 working interest owner who has not paid his share of reasonable well costs within 30 days after entry of this order.

(B) As a charge for the risk involved in the drilling of the well, 100 percent of the pro rata share of reasonable well costs attributable to each working interest owner who has not paid his share of reasonable well costs within 30 days after entry of this order.

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

(6) That each working interest owner who has not heretofore paid his proportionate share of reasonable well costs, but who, within 30 days after entry of this order, pays his proportionate share of said costs to the parties advancing the costs of development shall not be liable for the above charge for risk.

(7) That $75.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each working interest owner, 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 working interest owner.

(8) 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.

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

(10) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Chaves County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

Phil R. Lucero

PHIL R. LUCERO, Chairman

EMERY C. ARNOLD, Member

Joe D. Ramey

JOE D. RAMEY, Member & Secretary

S E A L

jr/

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
September 10, 1975

EXAMINER HEARING

IN THE MATTER OF:

Application of Dalport Oil Corporation and Burk Royalty Co. for compulsory pooling and an unorthodox gas well location, Chaves County, New Mexico. CASE 5551

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission: William F. Carr, Esq.
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico

For Dalport Oil Corp.: Sim B. Christy, Esq.
JENNINGS, CHRISTY & COPPLE
Suite 1012
Security National Bank Building
Roswell, New Mexico

For Reading & Bates: Paul Cooter, Esq.
ATWOOD, MALONE, MANN & COOTER
P. O. Drawer 700
Security National Bank Building
Roswell, New Mexico

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

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sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

MR. NUTTER: We will now call Case Number 5551.

MR. CARR: Case 5551, application of Dalport Oil Corporation and Burk Royalty Company for compulsory pooling and an unorthodox gas well location, Chaves County, New Mexico.

MR. CHRISTY: Sim Christy, Jennings, Christy and Copple for the Applicant, Dalport Oil Corporation, we have one witness. I said Dalport, and also Burk Royalty.

MR. COOTER: Paul Cooter with Atwood and Malone, Roswell, appearing on behalf of Reading and Bates and the other owners of the working interests of the well in the southwest quarter of the southwest quarter.

MR. CARR: Mr. Cooter, will you have any witnesses?

MR. COOTER: I have one witness.

MR. NUTTER: Will all of the witnesses stand and be sworn at the same time, please?

(THEREUPON, the witnesses were duly sworn.)

MR. CHRISTY: Mr. Examiner, perhaps a short statement might be of help in this Case to see the issues as I understand them. I'm sure that my worthy colleague, Mr. Cooter, can comment on them too.

This Case is an application by the non-operator to force pool into a well completed in the Queen Gas of Chaves County that are subject to the Chaves Queen Gas Area Rules under Order R-4435 which establishes three hundred and twenty acre spacing.

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 983-9212

It is my understanding, and I believe the testimony will show that the well was initially drilled to the Clear Fork, or at a depth somewhere around a little below four thousand feet and then completed back up the hole in the Queen at approximately twenty-six hundred feet.

The issues are, one, can the deeper drilling costs be put upon or be considered a part of the cost of the drilling the Queen well. We maintain they cannot, that only the costs relative to drilling to the Queen may be considered.

Secondly, of course, the question is what the actual costs, not to exceed the reasonable costs, are. That is an issue among us as to what those actual elements of, are of cost.

And, thirdly, the well having been drilled in 1970, the question is whether or not the cost should be determined as of 1970 or as of the date of the application. Realizing, of course, the additional expense. We will put on evidence both ways.

Those, I believe, are the three issues.

Do you want me to go forward now?

MR. NUTTER: Go ahead. Mr. Cooter, did you want to say anything at this time?

MR. COOTER: No, sir.

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

LEON M. LAMPERT

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CHRISTY:

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

A. Leon M. Lampert, I'm a geologist with Dalport Oil Corporation, 1134 Six Hundred Building, Corpus Christi, Texas.

Q. Mr. Lampert, are you familiar with the application in Case 5551 and what is sought in the application?

A. Yes, sir.

Q. I believe it involves a well in the Chaves Queen Gas Area in southeast Chaves, New Mexico?

A. That's right.

Q. Are you familiar with the area and the wells within the area?

A. Yes, sir, I have testified on a number of occasions relative to this area.

Q. As a matter of fact, you testified in the case that established the Queen Gas Area in Case 4843, Order R-4435, is that correct?

A. That's correct, we proposed that Order.

Q. This application also involves an unorthodox well location, is that correct?

A. That is correct.

Q. Now, what is the location of the well, please?

A. It is six hundred and sixty feet from the south and west lines of Section 17, of 13 South, 31 East, Chaves.

Q. Which would violate the spacing rules under the rules for the Chaves Queen Gas Area, is that correct?

A. That is correct.

Q. Why do you now want an unorthodox location rather than an orthodox location?

A. Well, simply because it has already been previously drilled and we want a pool, one hundred and sixty acres owned by Dalport, with one hundred and sixty acres owned by Reading and Bates and Stringer, et al, in the west half of Section 17.

Q. But as I understand the reason for wanting an unorthodox location is because the well has already been drilled?

A. Correct.

Q. Now, you mentioned that the well was in the west half of Section 17, let's identify it from an exhibit. Do you have an exhibit, plat map on that, please? If so, give me the exhibit number.

A. Exhibit One.

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Q. Now, turning to Exhibit One, you have colored in yellow certain acreage, and red certain acreage, certain blue, would you identify those for us, please?

A. In the east half of Section 17, there is a three hundred and twenty acre unit that was formed in August and September of 1973, just prior to drilling a well nineteen eighty from the north and nineteen eighty from the east in that section. This is a case that you referred to a minute ago where we went to a forced pool in order to form this three hundred and twenty acre unit.

MR. CHRISTY: Mr. Examiner, I advise you that the case is Number 4986, Order R-4553, as amended, Order R-4553-A.

MR. NUTTER: That was a forced pooling?

MR. CHRISTY: That was a forced pooling on the east half of Section 17, which is colored in blue in Exhibit One.

A. And the date of that was, I believe, June, the date of the Hearing was --

MR. CHRISTY: The date of the Order is June 15, 1973.

A. Prior to these activities Stringer, et al drilled a well six sixty from the south and west of Section 17. This was completed August 30th, 1970. This was their Number 1 Terra Federal and shows on it, our Exhibit One, as R-B, Stringer. The well was drilled into the four thousand

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and sixty-four feet, into the Clear Fork, or lower San Andres, and then plugged back and completed in the Queen section shown on the Exhibit One at twenty-five, thirty-five to forty-two.

As I said the well was then shut in and the reason for trying to force pool this west half is that a pipeline now, after all of these years, is now approaching the area and the well can be hooked up, supposedly sometime in October or sometime in November.

Q. (Mr. Christy continuing.) Now, I don't believe you completed your answer on Exhibit One, the yellow acreage?

A. Dalport bought the two yellow tracts from Terra Resources.

Q. Dalport owns the two yellow tracts?

A. Dalport owns, and this was done approximately a year or a year and a half ago. Stringer, et al turned (earned) the two red tracts. As I understand it, when they drilled their well they validated their interest in the south half northwest and the south half, southwest.

Q. All right, so we will refer to those as the Stringer, et al tracts, if we may, please, and, now returning for the moment to the east half of Section 17, which you mentioned was a portion of -- was the subject matter of a forced pooling order. What was the agreement reached with respect to the drilling and operating costs of

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that well between Dalport and Stringer, et al?

A. Yes, sir, after the Order was promulgated the Stringer interest, this is afterwards, joined in this well, according to an operating contract that is Exhibit Five here. And there was no problem after the Order was out, and the cost of this Terra well, the Dalport Terra well, was all submitted to the Commission as per the instructions in the forced pool order.

Q. Those costs on the Dalport Terra are a matter of record in the Case 4986?

A. That is correct.

Q. And your Exhibit Five is the joint operating agreement between Stringer, et al and Dalport, relating to the operation of that well?

A. That is correct and Exhibit Two is --

Q. We'll come to Exhibit Two in just a minute.

Now, I believe you mentioned that in the east half of 17, forced pooling hearing, you submitted an AFE and later you had the actual drilling costs, what it really cost in 1973 to drill that well, is that correct?

A. That is correct.

Q. By the way, is that well drilled to the same source of supply as the well in question here?

A. Correct, to the same depth, same formation, and almost the same kind of gas well.

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Q. All right. Now, we will take up your Exhibit Two and if you will please identify what that is?

A. Exhibit Two is a joint operations statement and invoice mailed out in August of 1973 after the drilling of the Dalport Terra Federal Number 1 in the east half of Section 17, and these are the exact costs. The first page is -- the total is thirty-one thousand, seven eighteen point fifty-six dollars and the second page of that exhibit shows the billing of that figure out to the interested parties.

Let me state that Reading and Bates did not join in the well and they are being carried on this hundred percent penalty that the Commission ordered, the forced pooling order. So the other party, the Stringer, et al parties are billed there on that second page. The third page of that same exhibit is some additional expense on that same well, eleven hundred and sixty-eight dollars and seventy-eight cents, and the total of the three pages altogether is thirty-two thousand eight eight seven, point thirty-four, the total cost of the well including Dalport's overhead and geologic expense and it includes tubing.

Q. That was in 1973?

A. That was the latter part of August of '73, and it looks like the last billing was September of 1973.

Q. Have you made, before filing this application, has Dalport made efforts to obtain pooling, voluntary pooling,

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with the Stringer, et al interests?

A. Yes, we certainly did and we couldn't agree on a price figure of -- we couldn't agree on an evaluation of their shut-in well.

MR. NUTTER: Excuse me. Referring to Exhibit Number Two and the distribution of costs, and so forth, I notice that fifty percent is owned by K-Mex, is that under Dalport on the operation of this well?

A. Yes, sir, that is part.

MR. CHRISTY: We operate it for K-Mex, see.

MR. NUTTER: That would be the Dalport operation on this well?

MR. CHRISTY: That's right.

Q. (Mr. Christy continuing.) All right, as I understand you then, the reason you were unable to obtain voluntary pooling with Stringer, et al is because of costs?

A. The reason we cannot --

Q. At this time?

A. Correct, we cannot agree on the cost of their 1970 well.

Q. Did they submit to you certain cost figures?

A. Yes, sir.

Q. First, did you then prepare cost figures on what it would cost on today's market to drill that well?

A. Yes, sir. Exhibit Three shows what the well could

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be drilled for as of today, based on prices that we know are correct since we are drilling continuously there, we are drilling a well right now at this moment. We know that we can drill for, the figures mentioned in this Exhibit Three, which would be forty-seven thousand dollars, one hundred and twenty-four dollars and twelve cents which is more than what it cost two years ago, exactly two years ago, in our own Terra Number 1 which was thirty-two thousand, eight eight seven, as shown in Exhibit Two.

But we know that this forty-seven thousand plus figure in Exhibit Three is correct and is valid as of today for a well to this depth in that Section 17.

Q. Now, you said that Stringer, et al had submitted to you certain cost figures, did you itemize out the ones that you object to, the areas in which you have objection to their costs?

A. Yes, I received from invoice cost from you and Exhibit Four is an exhibit showing what the excess cost would be in their well, based on depth, not only on depth, but on a few other things and if you would like --

Q. I would like to have you go over these particular items.

A. Their footage was four dollars and twenty-five cents a foot to Cactus Drilling. I don't have an exhibit showing their invoices, but I know I have a copy. But the

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extra fourteen oh four feet times the four twenty-five a foot would yield forty-nine hundred and sixty-seven dollars of extra costs for just the excess depth. The additional mud -- their mud bill totaled thirty-six oh eight point ninety whereas our normal mud bill in this area is a little less than a thousand dollars. Our mud bill on the offset well, our Terra, was nine hundred and a fraction dollars.

Q. On the mud bill, did they break it out for depths?

A. No.

Q. You assume then that the mud bill relates to the deeper horizons over a thousand dollars?

A. I'm assuming that because we know what the offset well was and unless something was abnormally wrong in their hole, they spent twenty-six hundred and a fraction dollars more due to the excess depth, unless they had a problem that I know nothing about.

Q. All right.

A. The extra logging, the third item, the three items are based on extra depth, their TD, the total depth, minus twenty-six hundred yields fourteen hundred and fifty-three feet and on their invoice, the Laterolog was twelve cents a foot and their density depth charge was thirteen cents a foot and their operation charge was eleven cents and the Micro Log down below was nine cents and the total was six hundred and fifty-three of additional logging, based on

Exhibit: $653.85

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additonal depth.

Now, the next item is something that we don't consider a drilling expense, a fee paid to someone who acquired the Stringer acreage. Evidently the Terra acreage that they drilled on and this George Galbraith operated fee was five thousand dollars, which to us, we don't consider a drilling expense.

And the last item is an item that they --

Q. Excuse me, before you leave that item, you do not normally charge the acquisition expense, do you?

A. No, sir. When we drilled our Terra Federal two years ago for that thirty-two thousand figure on Exhibit Two, our total overhead charges were five hundred dollars for the geologist, and we had no office overhead mentioned, we did't have any acquisition fees, telephone calls. I think it took us almost eight or ten months to put that east half together and we charged nothing else into that well two years ago and we don't consider that the Galbraith fee of five thousand dollars is legitimate drilling costs, it is a lease acquisition cost of some sort.

Q. Now, your last item, please?

A. The last item is the J. F. Stringer overhead. They submitted sixteen hundred and eighty-eight dollars sixty-one cents as various and sundry miscellaneous office expenses. There is not an exact -- well, there is a broken down list of

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of this sixteen eighty-eight point sixty-one dollars, and we don't feel that some of those items in that sixteen eighty-eight are pertinent to the drilling of this well either.

Q. What items?

A. Well, there was one of Petroleum Club of Midland, thirty-five dollars ninety-two cents, and they charged office expense for several months for -- here is office expense for July, August, and there are other charges for flying, maybe to the well, but the point is, in their figures that they used, they have used a lot of overhead that we have never thought of ever submitting to partners on Dalport wells.

Q. Are you saying that it is not customary in the area to charge those items?

A. It just depends on the company, Mr. Christy, the company that is operating, if they can charge it out and their partners don't object that's fine, but I'm saying in Dalport's case we just never have ever charged out office expense, we just usually go to an operating contract with it stated completely in the contract as to a set figure of like five hundred dollars for drilling a well and that's period, there is nothing else tacked onto it.

In addition to this office overhead they had a geologic fee that they also paid which we are not objecting to, that was in another invoice of seven or eight hundred

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dollars that they paid their geologist, which is fine, I mean that is a drilling expense.

So the total of the excess cost, as far as we are concerned, is fifteen thousand, this is back on Exhibit Four, fifteen thousand, nine, eighteen, thirty-six in excess of what the well should have cost at that time, in 1970. $15,918.36

Q. And that is subject to qualification of anything that they can justify in the overhead charges?

A. That's correct, but we base it on what we can drill a well for. This is in excess of what we could drill it for in 1970.

Q. All right. Now, returning to the actual application with respect to forced pooling, would the granting of this application provide each owner a fair share of the production from the well, in your opinion?

A. Yes, it will be back on the three hundred and twenty acre spacing and no one will be penalized.

Q. You haven't changed your mind about your testimony back in the original hearing?

A. No, we are just now getting to the point where we are utilizing the Commission's rules. We are finally getting wells on production after all this time.

Q. Would the granting of the application avoid waste by the prevention of drilling unnecessary wells?

A. Yes, sir.

Q. And will one well effectively drain the three hundred and twenty acres?

A. Yes, sir.

Q. Were Exhibits One through Four prepared by you or under your direct supervision?

A. Yes, sir.

Q. And Exhibit Five you know to be a true copy of the joint operating agreement?

A. That is correct.

Q. One quick question on Exhibit Five, just so the record reflects it. What were the drilling and producing charges that were agreed to between Stringer, et al and Dalport relating to the well on the east half of Section 17?

A. You mean the overhead charges?

Q. Yes.

A. The overhead charges were five hundred dollars as a drilling well rate, it is rate per well per month, and the producing well charges are seventy-five dollars.

Q. That's combined?

A. Combined rate, and, of course, it hasn't produced so nothing has been charged for producing, but for drilling it was five hundred dollars total.

Q. Do you think those figures are fair with respect to this well?

A. Yes, sir. Let me say again that our well, the

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Dalport well that was drilled in '73, exactly three years later than the Stringer well, so our costs would be more apt to be correct anyway.

Q. Now, do you have an estimate as to the charges, what the cost of the well should have been when it was drilled in 1970?

A. Well, all we are declaring is that it should have been very close to this thirty-two thousand figure that we have in Exhibit Two.

Q. Certainly not in excess of that?

A. Right. If we could drill it in 1973 when some of the prices had already gone up then it certainly should have been drilled for somewhere close to that in 1970.

Q. Is there anything I haven't asked you that you think would be of interest to the Commission in connection with this Hearing?

A. I don't believe so.

MR. CHRISTY: That's all.

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

CROSS EXAMINATION

BY MR. COOTER:

Q. Mr. Lampert, Dalport acquired its interest in the acreage in the west half of Section 17 from Terra Resources, is that correct?

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A. Correct.

Q. And Terra Resources is the company which farmed out the acreage to Stringer, et al, which I will now refer to as Reading and Bates, pursuant to which the well was drilled in the southwest quarter of the southwest quarter?

A. In 1970, correct.

Q. Now, having acquired your interest from Terra Resources, did you review the farmed out agreement from Terra Resources to the predecessors, Reading and Bates?

A. I probably read it over, I would imagine.

Q. And if you did, you saw that that farmout agreement required that the predecessors of Reading and Bates drill that well to the depth that it was drilled in order to earn any acreage?

A. I'm sure that is correct.

Q. And by drilling it to that depth then the predecessors of Reading and Bates acquired their interest from Terra Resources?

A. I believe so.

Q. There is no doubt in your mind but that is correct?

A. Correct.

Q. All right then, the Dalport, your well, in the east half was drilled then after that first well?

A. Correct.

Q. The Reading and Bates well was the initial well in

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the area, that was the discovery well?

A. Correct.

Q. And when you drilled your well in the east half of Section 17, you sought and were granted a two hundred percent risk factor, which is now the penalty applied to the Reading and Bates interest?

A. I'm not sure whether the two hundred is correct. It was probably one hundred.

MR. NUTTER: Are you planning to pursue this to any degree, Mr. Cooter, if so we can get the order and it can speak for itself?

A. To answer his question, I'm not sure the two hundred percent is correct.

MR. NUTTER: Well, we'll get that in the record, whatever the figure is because we have heard one hundred percent prior to now.

MR. COOTER: Here is a copy of --

(THEREUPON, a discussion was held off the record.)

MR. CHRISTY: That's probably why he didn't understand your question, counselor, it is one hundred percent plus the penalty of one hundred percent.

Q (Mr. Cooter continuing.) Yes, and that is what was called for, and that was what was asked for and what was granted after the predecessors of Reading and Bates had drilled and made

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their initial discovery well?

A. Correct.

Q. At the time you drilled your well in the east half which, of course, you knew, you being Dalport, knew what to look for and you knew the depth at which you were going to drill, is that correct?

A. That is correct.

Q. There was no requirement on Dalport's part to drill that well in the east half to any greater depth than what it was drilled?

A. No, sir, because we have been drilling wells in the Queen in here since 1969 and we know approximately where the Queen is, we knew it would be twenty-five or twenty-six hundred.

Q. Right. You knew that the Queen was the productive formation by virtue of the drilling of the Reading and Bates well in the west half of the southwest southwest.

A. That plus some other control. There is some other control in there, that is correct.

Q. All right, now, in the Exhibit Three which you prepared, of what you believe the estimated cost should be of that Reading and Bates well, you show approximately thirty-five hundred in road costs.

A. That is the exact cost that Dalport paid for their Number 1 Terra road in 1973, thirty-five, thirty-eight.

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Q. Well, this road into that area was originally built by the predecessors of Reading and Bates, it presents some topographical problems, does it not?

A. There is a pretty fair hill in that area that is the only problem and it's a nuisance.

Q. And the fact that Reading and Bates paid actually sums in excess of eleven thousand dollars for that original road and in your opinion the reasonable value and all that you should be charged was the thirty-five hundred dollars.

A. I have no knowledge that they have paid over eleven thousand dollars for the road. I mean, to my knowledge, this is a figure that you have just brought up.

Q. Wasn't Dalport advised of that fact this summer when some additional improvements were contemplated to be made to the road?

A. To answer your question, we have a letter from Stringer, J. Frank Stringer, mentioning that they paid eleven thousand -- let me find the letter. July 7th of 1975, that the replacement cost of this well drilled and completed as of July 7th, would be seventy-five thousand dollars, plus to day, plus the original cost of the road which was eleven thousand two hundred dollars. The eleven thousand two hundred dollars is a figure I have seen, but I don't have any bills on it.

Q. Right, but you were advised before this Hearing today

of what those road costs were?

A. Yes, sir.

Q. And you are aware of the unusual problems involved to make that first road into the area?

A. Well, as I understand it, there was already a road in the area, but the first one, I don't know if you were the first people to use that road for drilling. I'm not sure who used it first, but it was a bad road, and I don't know how much problem you had with the road originally, but you are saying you had a eleven thousand two hundred dollar problem.

Q. Well, let me go on to Exhibit Four which sets forth the costs which you believe are excessive.

First the extra footage, you are aware that the farmout agreement called for the drilling of that extra footage before any acreage was earned by Mr. Stringer and the others from Terra Resources?

A. I am aware of that, yes, sir.

Q. And you are also aware that farmout agreement called for the actual running of the logs and all of the tests that were actually done.

A. Correct, I'm sure that they required a log.

Q. The farmout agreement is pretty specific about what is to be done and and all of those were required by the farmout agreement?

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A. Well, I'm not that familiar with the farmout agreement. I've seen the farmout agreement and I have read it, but I don't really remember that much about the agreement. I'm sure that is correct.

Q. Now, the George Galbraith fee of five thousand dollars. Are you acquainted with Mr. Galbraith?

A. No, sir, I don't know the gentleman.

Q. Did you make inquiry to determine that he is a consulting geologist and that was a fee paid to him for his services?

A. We didn't pursue that end of it.

Q. After the well was drilled in the west half Reading and Bates proposed to Terra Resources, or made the offer to Terra Resources back in 1973 to sell a one-half interest in the well for one half of the actual cost that they had incurred in the drilling of that well, is that correct?

A. Reading and Bates offered to whom?

Q. Terra Resources, your assignor.

A. To do what?

Q. To sell one-half interest in the well for one half of the actual cost.

A. To Terra.

Q. Yes, sir, your assignor.

A. Are you asking if I'm knowledgeable of --

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Q. Yes, sir.

A. I don't remember this, now, it may have happened. Would Dalport be involved in this?

Q. Well, they made the same offer subsequently to you, didn't they?

A. They might have.

Q. You don't know?

A. I don't know, I can't answer the question.

Q. If the offer was made to Mr. Todd, the president --

A. It might have been made to Mr. Todd, and I might have known about it, I can't remember.

Q. You have no recollection of this being said or done at this time?

A. It could have been done, but I just don't remember.

MR. NUTTER: What was that name you were mentioning there, Mr. Cooter, a-s or what?

MR. CHRISTY: Assignor.

MR. NUTTER: Oh, as assignor, okay. I thought you were bringing out a new company on me there.

Q. (Mr. Cooter continuing.) An additional expense incurred there by Reading and Bates and Mr. Stringer in that well was fracturing costs and you did not fracture your well in the east half.

A. No, sir. In the exhibit that gives the estimated cost of September 10th, of '75, this Exhibit Three, we have

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a frac job in there. We have included a frac job as of today.

Q. Was that the actual frac expenses included by Mr. Stringer at the time the job was done?

A. No, this is exactly what we incurred on our last job about two weeks ago, which is more than Mr. Stringer paid. In fact, I think it is more than he paid to Halliburton, which was twenty-nine hundred and twenty-four dollars, plus sixteen hundred dollars for oil, they used oil so they had forty-six or forty-seven, five thousand dollars was the maximum. I don't have the exact figure, but they paid about five thousand, plus about sixteen hundred for oil.

MR. COOTER: That's all.

REDIRECT EXAMINATION

BY MR. CHRISTY:

Q. One last question. Let me hand you what has been marked as Applicant's Exhibit Six and ask you if this is a true copy -- this is a Xerox copy of a check which was submitted to Dalport by Stringer, et al in connection with the Galbraith?

A. Yes, sir, July 27, 1970 for five thousand dollars.

MR. CHRISTY: I call the Examiners attention to the notation on the bottom of the check.

We now offer into evidence Applicant's Exhibits

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One through Six.

MR. NUTTER: Mr. Christy?

MR. CHRISTY: Yes, sir.

MR. NUTTER: With reference here to your Exhibit Number Six, the notation on the bottom says, "This check is in full settlement of the account shown herewith, acceptance by endorsement constitutes receipt in full." After the notation is the abbreviation COMS. on Chaves County, New Mexico Farmout Agreement. I don't know for sure what C-O-M-S period means, do you?

MR. CHRISTY: I think I know, but I was going to ask their witness when he got on, I'm simply calling it to your attention at this point.

MR. NUTTER: Okay, we'll let it go now, but the notation on the check says, "C-O-M-S period, Chaves County, New Mexico Farmout Agreement.

MR. CHRISTY: That is the notation I'm referring to.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Lampert, now, we got into some discussion on the cross examination of a road, for example. Now, you said there originally was an old road that went down there, but it was a primitive road and it probably couldn't be used to haul in a drilling rig?

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A. That's correct. I'm not sure anyone else used that road for drilling prior to the Reading and Bates well in 1970. I don't have another map handy. That may have been the first well drilled utilizing that road. The road was there, but it would have been too primitive to have been used for a rig.

Q. Then they were faced with the expense of improving this road to the extent that drilling operations on this well in the southwest southwest of Section 17 could be conducted, is that right?

A. Right.

Q. Then they improved the road?

A. Right.

Q. When you drilled your well 17 did you use that road or a portion of that road?

A. We used the same road. We also had to improve it because it is such a steep hill that we had to re-improve it plus build -- our location was no more than fifteen hundred feet from the ranch road. The rest of it is just a ranch road, just a shaley, sandy type of ranch road that required just blading, just pushed it aside. We spent most of our thirty-five hundred dollars on improving -- it has been improved every time somebody has drilled a well. And, in fact, subsequent to drilling our 1973 well, we sent a letter requesting that all of the interested parties down

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below that bad road join in dynamiting off the cap of that hill. It's just an extremely steep hill and Reading and Bates and Stringer, et al, declined to participate, so Read and Stevens and Dalport went ahead and re-improved the road in September of '73. That was after our own well was drilled and it was thirty-five hundred dollars just to work on the cap of that hill, which we did not charge to anybody. We paid half of it and Read and Stevens paid half of it because they were going to do some more drilling down there and we were going to do some more drilling down there. That is really immaterial as far as their cost is concerned, it is just something we have done subsequent to that.

Q. Now, when the Stringer, et al, the Stringer, et al, we'll call it, was drilled in 1970, and completed in the Queen formation, where was the nearest Queen production at that time, to the well?

A. Probably southwest of them about five or six miles, five or six miles southwest of them, as far as the gas wells are concerned. East of them there is the old Caprock.

Q. The old Caprock Queen pool?

A. Five or six miles due east. There were some other dry holes south of there also that had Queen shows and we subsequently re-entered and plugged and abandoned.

Q. Now, they did establish that there was Queen gas production in the well when they recompleted in the Queen

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back in 1970, is that correct?

A. Right. They completed it and shut it in.

Q. So when you drilled your well in the northeast of 17, you knew that there was Queen gas production approximately three quarters of a mile to the southwest of your location?

A. Right, and we went to the same Terra to acquire their acreage which had been sitting fallow there for three years and made arrangements to drill that east half.

If I can interject something, it had their requirement when they drilled in 1970 that they had to drill a Devonian test or a Pennsylvanian test in their production not too far away in the Pennsylvanian at nine thousand and the Devonian at twelve thousand and had they plugged back I wonder where we would be today also.

Q. You didn't have any interest in any of the land in the immediate vicinity when this well was drilled in '70, or Dalport didn't?

A. No, sir.

MR. NUTTER: Are there any further questions of the witness? He may be excused and we will take a fifteen minute recess.

MR. CHRISTY: I would like to get my exhibits in. I offered them and I don't believe --

MR. NUTTER: Okay. Applicant's Exhibits One through Six will be admitted into evidence.

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MR. CHRISTY: That's all for the Applicant.

(THEREUPON, a fifteen minute recess was taken.)

MR. NUTTER: The Hearing will come to order, please. Mr. Cooter?

MR. COOTER: Mr. Examiner, I placed in front of you and in front of your attorney two piles marked R and B, Exhibit Numbers One through Six and which will be covered in our testimony that we present. Copies of all six exhibits have also been furnished to Mr. Christy.

GUY SWARTZ

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. COOTER:

Q. Would you state your name for the record, please, sir?

A. My name is Guy Swartz, S-w-a-r-t-z.

Q. What is your business or profession, Mr. Swartz?

A. I'm a petroleum consultant in San Angelo, Texas.

Q. San Angelo is your home and where you reside and where you maintain your office?

A. That is correct.

Q. Have you previcusly testified before this Commission?

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A. On several occasions.

Q. What is your relationship with this Case?

A. In this Case I am one of the working interest partners and also I have performed the engineering and geologic work on the subject well and I have been involved in some of the land work in connection with it from the beginning.

Q. That is the well in the southwest quarter, southwest quarter with which we are concerned today?

A. That is correct.

Q. What is the nature of -- let's call it the Reading and Bates interest -- Reading and Bates are the operator, are they not?

A. That is correct.

Q. Under the present operating agreement covering the lands dedicated to the existing well?

A. In the west half of Section 17, there is a farmout which was made originally from the CRA, Incorporated which did change their name to Terra Resources. The farmout was in the nature of an eighty-acre checkerboard, in which the south half of the southwest quarter and the south half of the northwest quarter are involved here.

Q. I'll place before you what has been marked as Exhibit Number One. Is that the farmout agreement from Terra Resources with the accompanying letter of transmittal

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appearing on the letterhead of CRA, the farmout agreement to which you have just referred?

A. Yes, sir.

Q. Did that farmout agreement contain the obligation to drill and test the San Andres formation in this well?

A. Yes, the San Andres was a requirement because at the time that the well was drilled more emphasis was placed on the San Andres than there was on the Queen.

Q. Why was there this obligation in this farmout agreement.

A. At the time that well was drilled there was a lot of activity to the north, approximately fifteen to twenty miles and the Cato field was being developed in the San Andres, the Chaveroo was still in the point of development and there was a lot of exploratory work, mostly to the west and to the north.

Q. Was the well drilled on the acreage which is the subject matter of this forced pooling here, under the farmout agreement?

A. Yes.

Q. What was it?

A. The well was drilled according to the terms of the farmout agreement.

Q. What was the name of that well?

A. It was originally designated as the Frank Stringer

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Number 1 Terra Federal.

Q. That is the well that is sometimes referred to here today as the Reading and Bates and the Stringer well?

A. That is correct.

Q. When was the well drilled?

A. It was spudded in July 1970 and it was completed in September of 1970, approximately five years ago.

Q. And located where?

A. In the southwest of the southwest of Section 17, Township 12 South, 31 East, I believe.

Q. Was that a normal location for a well under the Rules of this Commission?

A. No, sir, however, at the time we were anticipating an oil well rather than a gas well.

Q. And so drilled on a forty-acre location?

A. That is correct.

Q. How close to production was this well when it was drilled?

A. At the time the well was drilled there was no Queen production on trend closer than fifteen miles to the north and it was a little further, perhaps twenty miles, eighteen to twenty miles to the east or down dip. There was production in the old Caprock field, probably seven miles away, six to seven miles away.

Q. Were there any nearby dry holes?

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A. There was within an approximate eight-mile diameter, there were only two dry holes for any geological control, and there was considerable doubt that the Queen formation would be even present in that area.

Q. Was there an element of risk for production then at the time this well was drilled?

A. There was a considerable element of risk that the Queen sand would even be present.

Q. At the time the well was drilled only the forty acres was dedicated as the drilling unit, that is the southwest quarter, southwest quarter of Section 17?

A. Yes, that is correct.

Q. You testified that the farmout agreement required drilling to test the San Andres, were the logs or the tests done during drilling, done pursuant to the farmout agreement or to the requirements of Terra Resources from whom the farmout was obtained?

A. They were, yes.

Q. What was the potential of that well?

A. This well potentialed eleven million, two hundred and fifty thousand cubic feet of gas, which I believe, is probably the best potential in that area at this time.

Q. What is the quality of the gas from the well?

A. It is very low BTU gas, it has very high nitrogen content, the BTU is between four and five hundred BTU's

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per cubic feet. About half of what is normally considered in contracts.

Q. Since the well has been complete, has it been placed on production?

A. The well is still not on production, no, sir. There are no sales out in that area at the present time.

Q. Subsequent to completing the well, did the owners of the working interest of the lands on which that well was drilled, enter into an operating agreement?

A. Yes, we did.

Q. I'll hand you what has been marked Exhibit Number Two, is that a copy of that operating agreement?

A. I believe it is.

Q. All right. Now, then by subsequent amendment, Exhibit A was amended to delete all of the lands, except the south half southwest quarter of Section 17?

A. That is correct.

Q. Other than that, this operating agreement remains as it is on this exhibit?

A. That is true, yes, sir.

Q. There has been no market for this gas which might be produced from the well during the intervening five years?

A. There is now developing a market, but there has been no market to this date.

Q. Have you been involved with any other wells in this

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immediate area?

A. Subsequent to the drilling of the Stringer Number 1 Terra Federal, we drilled the Frank Stringer Number 2 Terra Federal which was located in Section 21, approximately a mile and a half to the southeast and we encountered water at that point which pretty well sets the water table for the area.

MR. NUTTER: What was the location of that, Mr. Shwartz?

A. That was located in the center of the northwest of the southwest of 21, Township 12 South, 31 East.

MR. NUTTER: And there was water in the Queens?

A. Yes, sir. We subsequently plugged that well after encountering water in the Queen formation.

Q. (Mr. Cooter continuing.) That was the second well drilled in this area?

A. Yes, sir.

Q. All right. Continue.

A. Following that we moved over to the center of the northeast of the northeast of Section 20 which was approximately half way between our discovery well, our Stringer Number 1 Terra Federal and the dry hole, the Stringer Number 2 Terra Federal, and that well was subsequently completed for a potential of three point four million.

Q. Do you know when that well was drilled, approximately?

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A. Yes, sir. I believe it was drilled in either November -- I believe it was December of 1970. It was immediately following the drilling of the Number 2 well, the dry hole, which was in November of 1970.

Q. All right. Continue, please. We were talking about the drilling of the other wells in the immediate area. We have covered the Springer Number 2 and then the Read and Stevens well.

A. Following that activity, there was no other activity by our group in the immediate area until 1973 when we were approached by Dalport, et al for a purchase of the two existing wells and also a farmout of the acreage in Section 17.

Q. Have the up-dip limits been established for this reservoir?

A. They were pretty well established by the drilling of several dry holes in the area, and the up-dip limit would have to be designated between the dry holes and our original discovery well, yes. These upper and lower limits were established prior to drilling of the well by Dalport in Section 17.

Q. Your understanding is that Dalport acquired its interest from Terra Resources in the east half of Section 17 as your predecessors had acquired your interest in the west half from Terra Resources?

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A. Yes, sir, I don't know whether Dalport purchased or farmed out or how they acquired their interest from Terra Resources. They have represented that they have acquired those interests.

Q. Then the east half of Section 17 was force pooled by this Commission?

A. That is correct.

MR. COOTER: I ask the Examiner to incorporate in this Hearing the Order of the Commission, Order Number 4553 and I guess, 53-A as amended.

MR. CHRISTY: No objection.

MR. NUTTER: Order Number 4553 and 4553-A, the orders which pooled the east half of Section 17 in Township 17, 31, will be incorporated in the record of this hearing.

Q. (Mr. Cooter continuing.) At approximately that time or in that summer or fall of 1973, the proposal was made to Terra Resources which then owned the remaining acreage in the west half of Section 17 to join in a unit covering the entire west half of Section 17?

A. Yes, sir, after we were force pooled in the east half, Reading and Bates did request of Terra Resources to join us in unitizing the west half with the present wells.

Q. I have placed before you what I have marked as Exhibit Number Three, a letter from Reading and Bates directed to Terra Resources, dated September 13, 1973, a

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copy of that went to you?

A. Yes, sir, that is a copy from my file.

Q. Did Terra Resources accept that proposal?

A. To my knowledge they did not.

Q. Was the application of Dalport for forced pooling the east half of Section 17 protested?

A. No, it was not.

Q. By you or any of the other owners of interests in that east half?

A. Not to my knowledge.

Q. Did Reading and Bates and their partners join Dalport in the drilling of that well in the east half of Section 17?

A. We all, all of the working interest partners in there, joined with the exception of Reading and Bates.

Q. Was that well drilled as a wildcat well or as a field well?

A. No, it was a direct offset and it was offset really diagonally to the southwest and also directly to the south.

Q. Had the water table and the porosity pinch out been defined?

A. Yes, it had.

Q. You testified with reference to Exhibit Number Three and the effort made to unitize the west half of Section

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17, prior to this Hearing today was there a subsequent effort made to unitize the west half of Section 17?

A. Several negotions have been in process between Dalport and the operating interests of this area.

Q. I place before you what has been marked as Exhibit Four. That was the last proposal made to Dalport to unitize or join in the unit covering the west half of Section 17, written proposal?

A. Yes, I think there may have been some telephone conversations since that time, but --

Q. Well, to your knowledge, after the letter of July 7 the proposal was made to Mr. Todd, the president of Dalport, to unitize based on payment of one half of the expenditures made by Mr. Stringer, et al in the drilling of that well in 1970?

A. That is my knowledge, yes.

Q. You or the Reading and Bates, or the other owners of the Stringer Number 1 Terra Federal well which is the well in the southwest quarter southwest quarter, did you ever receive any written response to the letters that have been marked Exhibits Numbers Three or Four?

A. I don't think so. I've never seen any written response to that.

Q. Does Reading and Bates or Mr. Stringer, or you as a working interest owner or owners of a working interest,

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oppose the formation of the west-half unit?

A. No, we do not.

Q. Do you have a list of the costs and invoices for the drilling of the Stringer Number 1 Terra Federal well?

A. Yes, sir, I do have.

Q. Now, that is the rather lengthy exhibit I have placed before you and marked as Number Five. The first sheets being the ledger or the control sheets and then supported by photocopies of all of the particular items or costs or invoices?

A. Yes.

Q. And a copy of that was previously furnished to Dalport?

A. That is correct.

Q. Prior to the Hearing today did you receive any notice from Dalport as to any of these items to which they made objection?

A. No, I have not.

Q. Do you know if Reading and Bates, or the operator, or Mr. Stringer or anyone else informed you that they had received such notice?

A. No, they have not, to my knowledge.

Q. Looking at Exhibit Number Five, what is the total amount of costs actually incurred for that well?

A. The total cost that we have listed here is fifty-

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eight thousand, five hundred and fifty-three dollars, sixty-two cents.

Q. Was that amount actually paid out?

A. That amount was paid out and in regard with the drilling of this particular well.

Q. Is that amount somewhat higher than normal?

A. It is higher than what is normal for the ar[illegible] now. It was considered to be normal for a wildcat well in the area such as this at that time.

Q Describe the area for me?

A. The area is located below probably the highest point of the Caprock for some number of miles and it's located in an area of very high sand dunes. There was no road leading off to the area, to the location to be drilled. There was one road leading down to a ranch house close by, but it was adequate only for four-wheel drive vehicles. We were faced with the construction of an entirely new road leading off the Caprock to accommodate the drilling rig and the sundry machinery that goes with it.

Q. Would you classify that road as unusually expensive?

A. It was unusually expensive and we nearly abandoned the project when we found out what it would cost.

Q. Were those road costs included in that total amount of in excess of fifty-eight thousand which you testified to earlier?

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A. Yes, they are included in these amounts here.

Q. Did any of the subsequent operators who have used that road offer to reimburse you for any part of the cost which you incurred in the building and construction of it?

A. No, there has been very many wells drilled back in this area by operators that have used the road and in no instance have any of them offered to pay any part of our initial costs.

Q. Are there any other reasons that the costs for this well may have been higher than the costs actually incurred by other operators in the drilling of subsequent wells?

A. Yes, sir, when the well was drilled it was quite remote, it was a wildcat and I mudded up perhaps far earlier than any of the subsequent wells. Our mud bill subsequently was higher, I was looking for shows in every formation, including the Yates. I was looking for shows from the base of the salt to the normal pay section of the San Andres formations. We ran much more extensive logs than the subsequent wells, we needed a complete evaluation in the area. This is our normal methods on drilling a wildcat of this type. On subsequent wells we did not have these kind of expenses.

Q. How about your equipment, was the equipment that was used in the completing of this well all new?

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A. All of our equipment, I believe, was new. On some the subsequent wells that have been drilled and completed in the area we have used used materials that have made some difference. We also did testing and coring where the subsequent wells have known -- they have been drilling to a known formation and they have been expecting or anticipating the pay and have not had these expenditures.

Q. In your opinion, though, would the greatest factor for the increased cost be the access road and location?

A. It probably is the greatest cost, yes.

Q. What is the condition of this discovery well at this time?

A. To my knowledge the well is still shut in and as I had left it. I believe it still has a Halliburton fracture head on the casing. I don't think that it has a tubing in the hole, and it is not in condition for connection to any pipelines coming in.

Q. How much more expense will be involved before the well may start producing?

A. Approximately three thousand dollars.

Q. Has a cost estimate been prepared by Reading and Bates, the operator, for those costs?

A. Yes, sir.

Q. And I place before you what I have marked Exhibit Number Six?

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A. Yes, sir.

Q. Is that a copy of the cost estimate which you have received?

A. Yes, it is.

Q. That shows an estimate of approximately thirty-two hundred dollars.

A. That is correct?

Q. You mentioned the tubing, that there is no tubing in the well, has the tubing been purchased?

A. The tubing was purchased, but it was placed in a warehouse subsequent to the completion of the well.

Q. But that tubing, or the cost of that tubing, is included in Exhibit Number Five?

A. That is correct.

MR. COOTER: Mr. Examiner, we offer Exhibits Numbers One through Six.

MR. NUTTER: Exhibits One through Six will be admitted into evidence.

MR. COOTER: That concludes our direct examination.

MR. CHRISTY: Mr. Swartz, if I may inquire, Mr. Examiner?

MR. NUTTER: Sure.

CROSS EXAMINATION

BY MR. CHRISTY:

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Q. Mr. Swartz, I notice your Exhibit One, Reading and Bates Exhibit One, is your farmout to Mr. Galbraith?

A. That is correct.

Q. Did he subsequently assign to you and the others -- I don't understand how you got this.

A. Yes, to the initiation of this well, Mr. Galbraith is a consultant from Abilene. He had prepared a geological report of the area and had done extensive work. I had made certain contacts with companies in the area, but had not followed through. He came to Frank Stringer and myself with the geological report. I concurred with his opinions, we followed through since Mr. Galbraith had made the initial contacts with the company, the original, he followed through, but I belive the farmout was -- I believe it was made out to Frank Stringer. It may have been made to Galbraith, but I think it was made to Frank Stringer subsequently and assigned.

Q. All right then, sometime between March of 1970 and the drilling of the well here in the west half of 17, Galbraith comes to you and Stringer and wants to peddle the deal, is that what you are telling me?

A. No.

Q. What are you telling me? Did he sell out or didn't he?

A. No. I believe Mr. Galbraith came to us in approximately October or November of 1969.

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Q. Oh, before Exhibit One was prepared?

A. Yes, sir.

Q. I see. Did he, Mr. Galbraith, sell out his rights under Exhibit One to the Stringer group?

A. He took an override. He was paid for his geological report and I believe, although he was paid for his geological report, but he did have the assignment, as such, in his name.

Q. That is very interesting, sir, now would you answer my question. Did he sell out his interest to the Springer group that he acquired under Exhibit One? Either he did or he didn't, that's what I'm asking.

A. He assigned them, I don't think it was a selling, no.

Q. Well, I'm asking -- he did assign them, for what consideration did he assign them?

A. It was approximately a five percent override.

Q. How about five thousand dollars?

A. No, that was part of the consideration for, it may be considered part of this, but as a unit or a package. However, most of his efforts in that respect were in the geological reports.

Q. Have you got the geological report with you?

A. No, sir.

Q. What areas did the geological report cover?

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A. Being a rank wildcat that way he had enumerable maps. Incidentally, in this respect also he did pursue and consummate the contracts, as well as the geological end of it, he did quite a bit of land work in here.

Q. Quite a bit of land work in acquiring the acreage?

A. Yes, it was not an acreage purchase is what I would like to say.

Q. Did the geological report cover Township 11 South, Range 29 East, you said you concurred in it, I assume you know?

A. The geological report covered more area than that. It covered --

Q. Did it cover that, was my question?

A. It covered the area of our interest in this Hearing today, yes.

Q. I didn't ask you that question, sir. I asked you, did it cover Township 11 South, Range 29 East?

A. It included that.

Q. It included that?

A. Yes, sir.

Q. And that Township is also included in Exhibit One, Reading and Bates Exhibit One?

A. Perhaps so.

Q. So whatever geological report was put up covered the lands in Exhibit One, some of which are involved in this

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application, some of which are not, is that true?

A. Would you rephrase that?

Q. I said, the geological report which you concurred in covered not only the lands involved in this application, but other lands included in Exhibit One?

A. A geological report must always relate to the adjacent areas, as well as the area directly involved.

Q. You don't have the geological report with you?

A. No, sir, I'm sorry, I don't.

Q. And the consideration that Mr. Galbraith received, not only included the geological report, but also the land work in putting the deal together?

A. Yes, sir, I would say so, I would interpret it that way, yes.

Q. All right. Now, let me turn to your Reading and Bates Exhibit Three, sir, which is the letter from Reading and Bates to Terra Resources in late '73 concerning the possible pooling. I notice the second sentence in the first paragraph mentions a letter from Mr. Stringer setting out the cost and is attached hereto and is self-explanatory. I do not find that attached letter, could you assist me there, please, sir?

A. I believe that we may have that.

Q. The reference does not show a date so I don't know what letter we are talking about.

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MR. COOTER: We only have the one, why don't we make some copies.

MR. CHRISTY: May I look at it before -- let me just look at it, I may not have any questions on it.

Yes, sir, I think we do need this. I'll go ahead if it will save the Examiner a little time, and we will come back to the question in a moment.

Q. (Mr. Christy continuing.) Also in the second paragraph of that same exhibit, there is reference to an existing operating agreement, a copy of which is enclosed. Is that Reading and Bates Exhibit Two that it is referring to?

A. I believe it is.

MR. NUTTER: I wonder if it could be. The letter is dated September 13 and the operating agreement, Exhibit Two, is dated November 30th of '70.

(THEREUPON, a discussion was held off the record.)

Q. (Mr. Christy continuing.) Do you believe that to be a fact?

A. I don't know it to be a fact, but I think that is so.

Q. Let me, Mr. Swartz, ask you this way: Are you suggesting to the Commission that the appropriate operating agreement for the well involved in this Hearing is Reading and Bates Exhibit Two?

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A. No.

Q. You are not, I see. But you don't know what operating agreement Reading and Bates submitted in '73?

A. That is the only operating agreement that would be in existence at that time.

Q. I see. All right, now, you, of course, were very familiar with this entire well that we have under consideration in this application, being an owner and being the petroleum geologist consultant, are you not?

A. Yes.

Q. Did Terra Resources pay Galbraith or yourself and your partners, any dry hole money in connection with this well, pursuant to Exhibit One?

A. No, they did not.

Q. How about the other wells in Exhibit One?

A. I do not believe so.

Q. I see. All right.

MR. COOTER: I will mark this as Reading and Bates Exhibit Three-A.

MR. NUTTER: That's fine.

Q. (Mr. Christy continuing.) Now, if I may refer you to what has been marked as Reading and Bates Exhibit Three-A, a letter from Mr. Stringer to Reading and Bates, September 10, 1973, are you familiar with the dollar amounts shown in that letter?

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A. Yes, sir.

Q. The total cost of approximately sixty-one thousand dollars is mentioned in that letter, including drilling to approximately forty-four hundred feet and the attempted completion at that depth?

A. The letter lists completion costs of sixteen thousand, eight hundred and thirty-one dollars. That completion effort was made entirely in the Queen formation, there was no attempt made on the deeper horizons.

Q. All right, now, does the sixty-one thousand include drilling to the Clear Fork?

A. I believe at the time this letter was written it may have been based on estimates of increased drilling costs, and probably only to the Queen formation.

Q. Are you saying yes or no?

A. I'm saying that this letter refers to estimates, and --

Q. Where is the word "estimate", sir, I missed it, would you show it to me?

A. No, there would be no way of coming up with those figures, other than estimated cost.

Q. Do I read it correctly, you understand the letter better than I, I assume, our total cost for the well to casing was forty-four thousand, two hundred and twenty-two dollars and seventy-five cents, are you telling me that is

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an estimate?

A. No, sir.

Q. Then what was it, was it actual or not?

A. That was the cost, yes.

Q. All right, you are coming off, then you don't mean to say it was an estimate, you don't mean that?

A. No, I haven't seen this letter in some time.

Q. All right, now, does that cost, forty-four thousand, two hundred and twenty-two dollars and seventy-five cents include drilling costs to below the base of the Queens formation?

A. I'm sure it included it, yes.

Q. All right. That is what I'm trying to find out. Thank you.

Now then, you mentioned that in connection with Exhibit Four, which is the letter from Mr. Stringer to Mr. Todd in July of 1975 talking about the pooling, that is the only correspondence that you are familiar with, on the subject between Dalport and Stringer, is that correct, did I understand you right?

A. No, as you will see on the previous letter, there was a carbon copy sent to me.

Q. No, sir, I said between Dalport and Stringer.

A. Yes, I think you asked me if I was acquainted with it.

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Q. I understood you to testify on direct that that was the only correspondence that you were aware of between Dalport and Stringer, did I understand you right?

A. Oh, I misunderstood your question. That is true, yes.

Q. All right, then, I assume you are not familiar with a letter from Dalport to Mr. Stringer of June 5, 1975, you are not familiar with a letter from Mr. Stringer to Dalport of June 11th, 1975, and you are not familiar with a letter from Dalport to Mr. Stringer of June 17th, 1975, is that correct?

A. Well, after I see them I probably will be. I don't know, I'll have to see the letters.

Q. At this time you are not familiar with those?

A. There has been a whole lot of correspondence back and forth and I believe I probably have copies of most of it.

A. Right. I didn't want to leave the Commission with the impression that there was just one letter involved, there are a series of back and forth letters, are there not?

Q. As well as probably a series of telephone conversations, yes, sir.

Q. Yes, sir. Now, I think you testified on direct that in connection with, that you mudded up early, you ran a number of logs, so that if I understood you right, you could

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get a complete evaluation of the entire area in the Number 1 well, is that correct?

A. That is correct.

Q. Would you help me a little, I'm not a geologist, by area do you mean horizontally or vertically?

A. Laterally, yes, horizontally, as well as vertically.

Q. Was that mudding and logging program continued below the base of the Queen formation?

A. Yes, sir.

Q. All right, sir, now you said further that you did rather substantial testing and coring because it was a wildcat well, is that correct?

A. We tried to evaluate the well as fully as we could.

Q. Yes, sir. And was that testing and coring continued below the base of the Queen formation?

A. I do not recall that there was a test. There may have been one test taken in the San Andres, but I do not recall specifically whether we relied on our drill stem tests or whether we relied on our logs at this point.

Q. And how about coring below the base of the Queen?

A. No, there was no coring below the base of the Queen.

Q. Let me refer you to Reading and Bates Exhibit Five, which as I understand your direct testimony, is a ledger sheet on your costs on the well involved in this Hearing,

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backed up by the invoices, is that right?

A. Yes, sir.

Q. All right, sir, I just want to take up one or two little items on that with you. We've gone over the Galbraith. At page three of that Exhibit, line 7, with a date of July 6th, 1970, Petroleum Club of Midland, thirty-five dollars and ninety-two cents. Would you tell me what actual and necessary expense relating to the drilling of a well was involved at the Midland Petroleum Club?

A. Let's find the invoice, if we can.

MR. COOTER: Did you see the invoice in here?

THE WITNESS: I don't think I even looked for it.

Q. (Mr. Christy continuing.) You understand my question don't you?

A. Yes.

MR. COOTER: Let me find that invoice if we can before you answer him.

THE WITNESS: I don't remember any specific invoice from that, I think it might have been miscellaneous office expense.

MR. COOTER: I don't find one in my hasty perusal.

A. I do not believe that I made that particular expense myself, and I can only speculate --

Q. (Mr. Christy continuing.) Please don't speculate, just tell us if you know, if you don't know, please don't.

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A. I do not know.

Q. Thank you. Now, the next item is July 31, 1970, one-fifth of office expense for July, two hundred and eighty-two dollars and twenty-five cents. Could you explain that a little bit, were you operating five wells, is that where the one-fifth comes from?

A. That is where it comes from exactly, yes, sir.

Q. And the next item, August 1, 1970, travel - cash, two hundred and fifty dollars, could you tell me what was actually and necessarily spent on the drilling of the well of travel - cash, two hundred and fifty dollars?

A. That also is an expense of Mr. Stringer's, and I do not have direct knowledge of that.

Q. Would the same thing also be true on the next to the last item there, on the same page, September 4, 1970, American Express, One hundred and fifteen dollars and ninety-three cents, do you know what that is for?

A. It would be same things. These items were office overhead, and it is Mr. Stringer's method of accounting.

Q. I see, that is Mr. Stringer's method, but you have no knowledge of whether it was actually and necessarily spent on this well, as I understand it, you don't know?

A. After five years I do not have specific knowledge.

Q. I see. Now, I notice a number of items relating to, I assume road construction, is the "Sweet" or S-w-e-a-t-t,

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Construction Company, would that be the invoices relating to this road construction?

A. That is pronounced "sweat", and he did most of the work.

Q. If you will help me a little bit, as I understand your Exhibit Five, those bills or invoices that I have been able to find from Sweatt Construction amount to five thousand eight hundred and thirty dollars and seventy-three cents paid August 24, 1970, plus a hundred and four dollars paid on October 7,1970, plus eighty-five dollars and eighty cents paid October 7, 1970, plus fifty-one dollars and forty-eight cents paid on October 7, 1970, plus five hundred and fifty dollars and three cents paid November 20, 1970. Now, if I added correctly, sir, and you may accept my addition for the purpose of the questions, that makes six thousand, six hundred and twenty-two dollars and four cents. Conversely, Mr. Stringer in his letter of July 7, 1975, Exhibit Four, states that the original cost of the road, which was eleven thousand, two hundred dollars, a divergency of some five thousand dollars from the Exhibit Five invoices vis-a-vis the letter. I wonder if you can enlighten me and tell me where the five thousand went?

A. I'm afraid I'm unable to add as fast as you, and--

Q. I'll admit I had the advantage of you.

A. What is your figure?

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Q. Do you want the review of the total, just the total, or what?

A. Just the total.

Q. Six thousand, six hundred and twenty-two dollars and four cents.

A. Just off hand I do not see the difference.

Q. But the road construction is Sweatt Construction Company, we have established that, is that right?

A. I believe also Berry Construction Company.

Q. Who is Berry, I didn't see a Berry.

A. On the first page.

Q. Seventy-seven dollars?

A. Yes, and there should be some water hauling costs in here and I don't remember offhand who did haul that water. There would be other costs in here, but I don't recognize the contractors right offhand.

Q. You say the Berry bill?

A. Uh-huh. I would think there would be one of them. There should be some water hauling costs in here, but I don't see them listed.

Q. I don't find the Berry bill in here either. As a matter of fact, Mr. Swartz, the water is already included in the Sweatt Construction bill, isn't it. He gets his own water and includes it in his charge?

A. I don't know that to be a fact at this point.

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Q. I see. But you don't show any water?

A. I see none listed here.

MR. CHRISTY: Thank you sir. Did you want to offer into evidence or do you want me to offer into evidence your Reading and Bates Exhibit Number Three-A?

MR. COOTER: Either way you want.

MR. CHRISTY: Well, as long as it gets in evidence, I don't care.

MR. NUTTER: Have we already taken the other exhibits, I think we have.

MR. COOTER: Yes, sir.

MR. NUTTER: We will admit now Exhibit Three-A of R and B.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Swartz, as one of your expenses here in which you have itemized in Exhibit Five, and with the back-up invoices in most cases, but we do have this check, a copy of which is attached to Exhibit Five, would you explain what this C-O-M-S period, on Chaves County, New Mexico farmout agreement means?

A. I'm sure that it meant commission, however, the word "commission" as it was used there would be the same as a fee. It would be a commission or a fee. We meant it to

be -- it was a package for his efforts geologically and landwise.

Q. But as Mr. Christy pointed out, the geologic report did cover other areas besides the immediate area?

A. Yes, sir.

Q. And it related to the lands where the wells were called for in the Exhibit Number One, which would be a well in Section 13 of 11, 29 or 24 of 11, 29, a well in 36 of 11, 29 and the well in the southwest southwest of 17, 12, 31. Now the geological report for which the interest paid the five thousand dollars or the commission fee, whatever you are going to call it, covered these areas where a well was proposed to be drilled?

A. The geological report covered the broad area, and included these other areas. However, we were not interested in any other areas. I don't remember that it specifically pertained to the other areas as it did here. Our interests lie in this area, it probably, the geological report being necessarily broad did apply to all of the areas as it is mentioned here, yes. Specifically, however, we expressed no interest in the other areas.

Q. Do you think a portion of the five thousand dollar fee should be deleted and attributed to the other areas or the entire five thousand fee just for the one well?

A. I would that it in this particular case would

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be applicable to this particular well. I don't know exactly what Mr. Galbraith did with the other areas of his interest. To us it pertained only to this area and the only reason we were interested in this particular area is because I did previous work. I did enough work on my own that coincided with Mr. Galbraith's and it was a matter of coincidence that we did take upon this project.

MR. NUTTER: I'm going to follow a very unusual procedure in this particular case. Both parties agree that the land should be pooled so that a unit can be formed and the well put on production. The only divergence of opinion is how much of these various charges should be allocated to this well. I don't know how much should be allocated, I'm going to ask you people to give me some help. I'm going to continue the case for a month.

Now I'll tell you, the way I feel right now, my recommendation to the Commission would be that certain portions of these drilling costs below the Queen formation should be charged to Dalport, because to drill to the Queen formation, to establish that there was production in the Queen formation, it was necessary to drill to the San Andres. If they hadn't drilled to the San Andres they wouldn't have known that the Queen production was there and Dalport wouldn't have had a proven location for their well in the northeast quarter of Section 17. So I think a portion of the cost below the Queen

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should be attributable to the unit as a whole, and I think Dalport should also pay a portion of the road if they used the road to drill their second well. I don't think Dalport should be charged with exhorbitant costs and maybe five thousand dollars for a geological report that covers several townships and you get one well drilled in the southwest southwest of 17 as a result of that report, I don't think that maybe five thousand dollars should be attributable for the well.

I'm going to continue the Hearing for one month and then I hope at that time you can come back and will have worked out an arrangement to share these costs, because the recommendation as of now would be a blending and a melding of these costs and a sharing of them.

I know there have been attempts made before now to agree on the sharing of the costs and they haven't been successful, but maybe one more month's efforts might pay off.

MR. CHRISTY: Will the Examiner advise his ruling as to the date of the costs, 1970, 1973 or 1975?

MR. NUTTER: If you acquire interest in a well today or as we here mentioned in several of these instances, in these exhibits here, replacement cost of the well. I'm sure that replacement costs of the well is what should be chargeable, because we do know that would cost a heck of a lot more money to put that casing in the well today than

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it did at that time. But on the other hand, that money has been spent and that money has been paid for, and I think the other parties are entitled to some interest on the investment that they have made. The money has been tied up now for five years.

MR. COOTER: Counting the cost at time expended, plus interest?

MR. NUTTER: Cost at the time plus interest, yes.

Now, does anyone have anything they wish to add before we continue the case?

MR. CHRISTY: I would like to have the Commission consider in this case, not only the Order, but the Case itself and the exhibits in Case 4986.

MR. NUTTER: That is the one where we actually incorporated the two Orders into the record of this Case, is that right?

MR. CHRISTY: Yes, sir.

MR. NUTTER: What are the case numbers of that?

MR. CHRISTY: 4986.

MR. NUTTER: Okay. Is there an objection to the incorporation of the record of Case Number 4986 and the record of this case, Mr. Cooter?

MR. COOTER: No, sir, that is the Order Number R-4553.

MR. NUTTER: Was that the Order? Now we will

incorporate the records in the Case.

MR. COOTER: I have not seen the record, did you partake in it. I don't know what was offered and what was received as exhibits.

MR. NUTTER: We will defer ruling on that motion then until the next Hearing, and in the meantime you can review the transcript?

MR. COOTER: Yes, sir, thank you.

MR. NUTTER: We will just leave that hanging.

If there is nothing further in Case 5551 we will continue the Case to the Examiner Hearing scheduled to be held at this same place at nine o'clock A.M., October 8th, 1975.

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State of New Mexico)
) ss.
County of Santa Fe)

I, SIDNEY F. MORRISH, a court reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings to the best of my knowledge, skill and ability.

Sidney F. Morrish, Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5551, heard by me on 9/10, 1975.

, Examiner
New Mexico Oil Conservation Commission

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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
October 8, 1975

EXAMINER HEARING

IN THE MATTER OF:

Application of Dalport Oil Corporation and Burk Royalty Co. for compulsory pooling and an unorthodox gas well location, Chaves County, New Mexico.

CASE 5551 (Cont'd.)

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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MR. NUTTER: The Hearing will come to order, please. The next case this afternoon will be Case 5551.

MR. DERRYBERRY: Case 5551 continued from the September 10, 1975 Examiner Hearing. Application of Dalport Oil Corporation and Burk Royalty Co. for compulsory pooling and an unorthodox gas well location, Chaves County, New Mexico.

MR. NUTTER: I will ask for appearances in this case, please.

MR. JENNINGS: James T. Jennings, Jennings, Christy and Copple, appearing for Dalport and Burk and pinch-hitting for Mr. Christy who had a little accident and was unable to travel.

MR. COOTER: Paul Cooter with Atwood and Malone in Roswell, appearing for Reading and Bates and the other owners of the well which is the subject matter of the compulsory pooling application.

MR. NUTTER: I think as a matter of refreshing our memories and for the sake of the record, we will recall that Case Number 5551 was originally heard September 10th, 1975. Appearances in that Hearing were made by Mr. Sim Christy of the same firm as Mr. Jennings on behalf of the applicant, and by Mr. Cooter on behalf of the other parties involved in the well.

We heard considerable testimony. I believe both sides presented their direct cases and both sides offered

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certain exhibits in the Hearing. At that time the Examiner continued the Case for approximately one month in an effort that some of the differences that the parties involved had could be negotiated and worked out.

Mr. Jennings, as the attorney for the applicants in this Case could you report on the progress of the negotiations?

MR. JENNINGS: I didn't conduct the negotiations, but there have been negotiations up until today, and the parties have not been able to reach a meeting of the minds, so we are here. We have tried and Mr. Cooter and Mr. Christy negotiated and I think you gave the parties ample time today to get together in the hall and we were not successful.

MR. NUTTER: Mr. Cooter, do you have anything to report?

MR. COOTER: I concur in the conclusions stated by Mr. Jennings.

There was progress made and pretty much, I think, a tentative agreement on the well costs that should be included. What seemed to be the stumbling block was the desire of the present owners of the well, either imposition of a risk factor, or interest on their expenditures which were made approximately five years ago.

As I said, I think there was substantial agreement over well costs of some fifty-six thousand dollars,

and that much agreement was made.

MR. NUTTER: Okay, fine.

Mr. Jennings, would you like to proceed as applicant in the Case and have your witness make any modifications to his previous testimony?

MR. JENNINGS: Yes, sir, I would like to say this, I don't want to leave it mistaken. I think that the figure that Mr. Cooter threw out was a compromise figure and we do not feel that we are bound by any agreement as to that cost of the well and if it is not accepted as such.

Mr. Lambert, will you take the stand?

MR. NUTTER: Are there going to be other witnesses in the Case? Mr. Cooter?

MR. COOTER: No witnesses.

MR. NUTTER: Have you been sworn in the Case?

MR. LAMPERT: Yes, sir.

MR. NUTTER: Okay then, you are still under oath. The record will so show.

LEON M. LAMPERT

called as a witness, having been previously sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. JENNINGS:

Q. You are the Leon Lampert who formerly testified in this Case on the last Hearing, are you not?

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A. That's right.

Q. Mr. Lampert, since the last Hearing have you had an opportunity to review the well cost as presented by the respondents?

A. Yes, sir.

Q. Do you have any particular observations or were there any discrepancies that you discovered?

A. I noticed one more, what I think is a discrepancy, as Exhibit Number Five, which was a list of all of their costs relative to the well, and on the first page of the summary, the ninth item, dated eight, twenty-four of seventy, the American Mud Company.

MR. NUTTER: What?

A. This is the total list of all of the expenses, not each itemized, but there is a total list, a running total, a cumulative total.

MR. NUTTER: This one?

A. Yes, sir, the ninth item from the top.

MR. NUTTER: American Mud Company, okay.

A. In looking at it, it appears to me that that seventeen hundred and seventy dollars is a summary of all of the mud costs in the entire well. Their invoice in the group following that, there is no record of a paid check on that, and whereas the next three items, dated eight, twenty-four, they have a paid check for those things, and so

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we have always maintained their mud bill was high and here I think they have added seventeen hundred and seventy dollars into the cost that was just a summation of the other three following costs, which totaled -- the following three were eighteen hundred and thirty-eight dollars, and they must have had a mud credit which would have brought it back to seventeen seventy oh six. As far as I know, unless they can amplify on this, here is another inconsistency in the cost that we have been maintaining all along.

MR. NUTTER: In other words, it is your contention that you've got a duplication of the mud bill here?

A. Yes, and another duplication in here. And, of course, we still maintain that the George Galbraith commission, their five thousand dollar commission was part of their lease cost and not part of the drilling costs, which we went into the last time.

In summarizing on my last appearance, we have drilled a well in the east half in 1973 for thirty-two thousand dollars. We feel today, and this is part of our exhibits from the last Hearing, today that same well can be drilled for forty-seven thousand dollars, and we still feel that the additional cost as shown in my Exhibit Four, of the extra footage going from the Queen depth to the San Andres depth, the extra logging, the Galbraith fee and the Stringer overhead of sixteen hundred and eighty-eight dollars are all

excessive, the Stringer overhead being listed also in that Exhibit Five of theirs. Somewhere in that Exhibit Five there is a sixteen hundred and eighty-eight dollar bill from Stringer. Going back to their Exhibit Five, when you total their overhead for that well, with the sixteen hundred and eighty-eight dollars for Mr. Stringer and then Mr. Swartz' expenses, it came out to like thirty-four hundred and forty-four dollars for drilling that test, for overhead and for watching the well, which we feel is excessive.

I believe that was all I had with reference to past testimony. I believe that's right.

Q (Mr. Jennings continuing.) Referring to what has been marked as Exhibit Seven, and I might comment to the Commission, I marked this as Exhibit Seven because Exhibit Six apparently was a check and in my pack of the exhibits, Exhibit Six was missing.

MR. NUTTER: Exhibit Six is an AFE.

MR. JENNINGS: No,Dalport's Exhibit Six and it was a check, but it is also incorporated as part of Reading and Bates' Exhibit Number Five.

MR. LAMPERT: The check for five thousand dollars.

MR. NUTTER: There was a copy of the check attached to Exhibit Five of Reading and Bates.

MR. JENNINGS: Well, but the transcript shows

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that it was offered as our Exhibit Six.

MR. NUTTER: I see.

MR. JENNINGS: So I don't think it makes any consequence so we numbered this one Number Seven, just to clarify the record.

Q. (Mr. Jennings continuing.) Would you review this Exhibit and tell us just what it is, Mr. Lampert?

A. I went back to my files and I found a map, a USGS map that was revised in one, one, sixty-eight, and I checked my cards and I brought it up to the date of the drilling of this Reading and Bates well, the Stringer well, in Section 17 12 South, 31, which is colored in purple on this exhibit.

So what I'm doing here, I'm showing the status of production as of the time they drilled this location in Section 17. If you remember, they bought their deal from Mr. Galbraith for five thousand dollars, which is part of the Terra package, and they subsequently drilled to four thousand and some odd feet, four thousand and sixty feet as part of their requirement. They testified that they went to the San Andres because the San Andres was an objective. This map here shows in yellow existing San Andres production. There might have been a few more field wells up on the north end of the map which -- on the upper right part of the map is Chaveroo and the upper middle part of the map in yellow is Cato, and in the upper right in Township 9 South, 33

is the Mescalero Flying M and the San Andres Devonian Pennsylvanian.

So what I'm maintaining in this exhibit is that the San Andres, the nearest San Andres production is like twenty-one miles to the northeast of their well when they took the deal from Mr. Galbraith. The nearest Queen is four and a half to five miles due southeast of their location in the Caprock Field. There were Queen shows and a Queen gas well just to the south of the Reading well in Township 13 South, 31 East. There was a gas well drilled in Section 4 by Yates and shut in prior to '70, and there were dry holes in Section 8 and in Section 18 with gas in the Queen and plugged. The wells were plugged but they had gas test in the Queen and then just west of there, in the township just to the west in 13, 30, there was a gas well that had been completed in August of '70 in the Queen. And then, of course, further on south there is the Double L Queen that had been developed from '69 on.

So what I want to say here is that surely the San Andres could have been a secondary objective when they went to four thousand feet, but due to the proximity to Queen production and due to the fact that they cored at the bottom of the Queen, they didn't core right in the top of the Queen, but just at the base, which was the only core that was taken in the well, that they treated the Queen as a prime

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objective. I'm not saying they didn't have another objective but the San Andres would have been a secondary objective since it was so far away, comparable production was so far away and the trend is from Cato going northeast and southwest, and still is now, five years later.

But that is the purpose of Exhibit Seven, Mr. Examiner.

Q. Do you have any other comments you wish to offer at this time?

A. Well, I would like to bring out the fact that when they drilled their well in Section 17, they had a requirement from Terra Resources to go to the four thousand foot depth, to the San Andres, but by virtue of going to that depth they earned considerable acreage, by going to four thousand feet they earned something like nine hundred and sixty acres, in some fashion they earned it, which was, I'm sure, an additional consideration for going to that depth.

Q. What is the depth of our perforations?

A. The Queen is twenty-six hundred, right around twenty-five. Their perforations are twenty-five, thirty-five to twenty-five, forty-two in their well.

So we still maintain that the additional cost incurred in going to four thousand and the extra overhead, operations and commission costs should not have to be paid by Dalport.

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Q. Did you prepare what has been marked as Dalport's Exhibit Number Seven?

A. Yes, sir.

MR. JENNINGS: We offer that and have nothing further.

MR. NUTTER: Dalport's Exhibit Number Seven in Case 5551 will be admitted into evidence.

Are there any questions of Mr. Lampert?

MR. COOTER: Yes.

CROSS EXAMINATION

BY MR. COOTER:

Q. Mr. Lampert, what had been marked as Exhibit Five, offered by Reading and Bates at the prior Hearing, being the ledger sheet, together with all of the accompanying invoices, was furnished to you or to your counsel prior to the September 10th Hearing, was it not?

A. Yes, sir.

Q. And at that Hearing, or at no time during the intervening thirty days, until th[illegible]orning, was any inquiry made by you to Reading and Bates, or to Mr. Stringer, about that one bill of American Mud Company?

A. That is correct.

Q. All right, now, turning to your Exhibit Number Seven --

A. May I say something?

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MR. NUTTER: Answer the question in more detail if you feel it is necessary.

A. I didn't add all of these things up because I thought they were all valid invoices, then I noticed that first bill was dated eight, twenty-four, and the date on that American Mud Company invoice, that summary of seventeen hundred and seventy dollars is in November of that year, so that eight, twenty-four is in error too. I'm assuming it is an error, I'm assuming that he added it in there, but that eight, twenty-four is also an error because if you will look back in the invoices it has got a received stamp of either September 30th, or October 30th.

Q. (Mr. Cooter continuing.) The one I'm looking at has a date of September 30 and a received stamp of October 1.

A. Correct, all right, that's right, and on the front summary it says August 24th.

Q. But during this intervening period of a month that we have had and the discussions that have been had between you and your counsel and your counsel with us, but no inquiry was ever made for substantiating the documentation?

A. No, I learned of this last Friday, but, no, you are correct because I saw this last Friday.

Q. All right, did you want to add anything else to your answer on that?

A. No, thanks.

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Q. Turning now to the map which you have prepared, you show the Queen dry holes, or the Queen shows in wells which were not completed as producers to the west of the -- separating your purple Queen field from the Reading and Bates well, there is one in Section 8, another one in Section 18, and one to the south in Section 19, and then the one up above in Section 4. Going to the Township to the north, there is a dry Queen in Section 23?

A. Yes, sir.

Q. And to the north of that there is a dry Queen in Section 12, is that correct?

A. Right.

Q. All right, then you have the well in question was separated by dry holes or non-productive wells from all of the then existing Queen production?

A. No, sir, not if I understand you, because there was a completed well in Section 4 of 13, 31, so there is no dry hole between you and Section 4. It is a completed Queen well as of six, sixty-five.

Q. Do you show that then as a shut in gas well?

A. Well, it was a Queen completion that was drilled in June of '65 and was shut in.

Q. It was not producing?

A. There is still no pipeline. No. It was a potential filed and completed and shut in.

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Q. Other than that one well that was shut in, is my statement correct, it was separated -- all the wells between the Reading and Bates well that we are talking about in this Hearing, all of the nearest Queen production were all dry?

A. Well, of course, in Section 8 of 13, 31 there is a Queen gas show that is not really separated from your well in a direct line. There is a dry hole in Section 6 of 13, 31, but in Section 8 there is really no separation between you and that well either.

Q. That was dry?

A. That well had gas in the Queen and was plugged, right.

Q. It was not productive?

A. It was not completed, it had Queen gas.

Q. On the other hand, there had been San Andres tests to the north in Township 11 South, Range 31 East?

A. Well, yes, sir, and most of those are Pennsylvanian tests, but there was a forty-two hundred foot, thirty-nine, there are two San Andres circled, Clearfork tests.

Q. And just to the -- then in Range 30 East in that same Township there were San Andres tests?

A. Uh-huh.

Q. And to the South of that in Township 12 South, Range 30 East, there was a San Andres test?

A. All of which were dry, yes, sir.

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Q. And you could just follow that down there, there are quite a few San Andres tests in Township 12 South, Ranges 29 and 30 East?

A. Yes, sir.

Q. To the south of that in 13 South and 29 East, in 30 east?

A. Quite a few dry holes, yes, sir.

Q. All of these were San Andres tests?

A. No, not all of them. Some of them are Queen tests.

Q. Right.

A. Below thirty-five hundred have been San Andres.

Q. But the ones that you show, well, in Township 13 South, Range 30 East, the one there that shows thirty-four, o[illegible], two, that is a San Andres test?

A. Yes, sir.

Q. To the west of that the well shown drilled to a depth of thirty-two forty-two was a San Andres test?

A. Yes, sir.

Q. And to the south of that -- these wells that show approximately three thousand, thirty-two or thirty-three hundred were San Andres tests?

A. That's right.

Q. And that continues down through that area until you get to the south off of your map, to the San Andres production to the south of that which is in the Maljamar

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Square Lake Vacuum Fields and the like?

A. The nearest production that is economical and commericial is down in Eddy County, about 17 South, 30 East, which is five townships south.

Q. Now, you talked about the deal from Terra, that was the one that farmed out the acreage for the drilling of this well, was it not?

A. Yes, sir.

Q. They are the same ones that you purchased your interest from?

A. Right.

Q. And there is no doubt that in there farmout agreement for any acreage to be earned the San Andres had to be drilled?

A. Correct.

MR. COOTER: That's all, thank you.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Lampert, you mentioned that the well that Dalport drilled, I think it's in the east half of Section 17, is that correct, sir?

A. Yes, sir.

Q. Had been drilled for thirty-two thousand dollars to the Queen, is that correct?

A. Exactly three years after this Stringer well was drilled, we drilled our Terra in the east half for thirty-two

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thousand, Exhibit Two, thirty-two thousand, two hundred or something dollars. Thirty-two thousand eight hundred and eighty-seven dollars, that was three years subsequent to the Stringer well.

Q. It was drilled in 1973 then, is that correct?

A. Yes, sir. Following a Commission hearing relative to that.

Q. Now, what are you saying, which well could be drilled today for forty-seven thousand, the one that cost thirty-two thousand in 1973?

A. Either one of them. According to today's prices we can go out there tomorrow and drill a twenty-six hundred foot completed well for, Exhibit Three, forty-seven thousand, one hundred and twenty-four dollars. We can turn key it for that figure if we want to, because you can add or subtract more for the road costs, whatever you would like there, but for around forty-seven to forty-eight thousand dollars that well can be completed, which reflects the additional drilling costs from 1973 to today.

Q. Right, I see that.

A. But their costs in 1970 were in excess of everything we are showing.

MR. NUTTER: Any further questions of Mr. Lampert? He may be excused.

Do you have anything further, Mr. Jennings?

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MR. JENNINGS: Well, no further testimony. If comments would be appropriate I would make them, and also Mr. Christy has prepared and I submit a memorandum statement to the Commission.

MR. NUTTER: Well, as the applicant you are entitled to be last with your statement.

Do you have any witnesses you wish to call?

MR. COOTER: No witnesses. I would like to make a brief statement of our position.

MR. NUTTER: Proceed, please.

MR. COOTER: Well, Mr. Nutter, there doesn't appear to be any objection, or perhaps I should say that we are in accord that the three hundred and twenty acre unit should be formed. We believe that Reading and Bates, who is the present operator under the operating agreement covering the particular eighty acres should be designated as operator.

We, as I have said, believe that the itemization of the expenses which were all necessary and called for perhaps with this wonderful hindsight that is now available, the well wouldn't have cost that much. Perhaps Terra wouldn't have required that it was drilled to the depth that it was, but that's all past history. They did require that it be drilled, and they did require in the testing and the other expenses that these were all reasonable and necessary and that under those circumstances, we believe to come in at

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this late date after that was the discovery well which proved the area and on which then Dalport and its co-interest owners then were able to gather that data and drill their well, we believe that they should not be given the advantage of this hindsight in that regard.

We do ask, and we believe that the Statute is specific on that. That since they didn't pay their share in advance, that in addition to the actual cost involved, that the Statute provides that there be a risk factor. We ask that that risk factor be considered as of the time that that well was drilled. It was a rank wildcat and for that reason we believe that the maximum risk factor of two hundred percent should be assessed. On the other hand, if there is no risk factor to be assessed, we believe that that part of the Statute which calls for pooling upon such terms as are just and reasonable, that interest, as a minimum, and this is just as an alternative, should be allowed the people who spent that money for that well. And we believe that should be assessed at the prime rate, which today stands at nine and three quarters, nine and a half or ten percent.

MR. JENNINGS: Mr. Examiner, we have no objection to Reading and Bates serving as operators.

As far as the risk factor, that Mr. Cooter has brought out, I don't think we can possibly assign any risk factor because when this well was drilled in nineteen hundred

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and seventy, the Southeast Chaves Queen Pool had not yet been established, it was drilled as an oil well, for an oil well, and there was no way that we could participate, and the Order establishing the pool was entered and established on three hundred and twenty acres, which would have justified our joining, but it was not entered until November of 1972. In like manner, in June of '73, an Order was entered, which they were parties to, under which the east half of the section was force pooled, and it was not until that time that they could tell which way the pooling would go. And any time after June of 1973 if they would have wanted to force pool anybody, they could have force pooled them and gotten a risk factor at that time. Waiting until this late date I certainly don't think they are justified in seeking any risk factor.

Now, there are several items, Mr. Lampert has generally gone over the cost, and there are some items that I think the Statute speaks in terms of actual expenditures for such purpose not in excess of what are reasonable. Well, we are willing to pay reasonable costs. But, now, when we get to such as this five thousand dollar item, I can see no reason why that should be considered, anything that was marked as commission, it is nothing other than a leasehold acquisition cost and it certainly didn't have anything to do with drilling the well. There are some other items presented in Mr. Christy's memorandum and Mr. Lampert has already

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spoken on them.

As to the drilling of this below the depth where the well is now completed, that, as I see it, that drilling was in excess and I don't think -- in excess of our needs -- and I don't think we should be called upon to pay for the additional drilling, and I think that our figure that the extra footage was some fifty-nine hundred dollars and additional mud of some twenty-six hundred and additional logging charges that we estimate to be six hundred and fifty three dollars, which is close to nine thousand dollars. We think that additional cost is not properly borne by us.

In this connection I would also point out that under the provisions of their farmout agreement they had to drill this well, by drilling this well to the Queen they earned the rights under six hundred and forty or nine hundred and sixty acres, I don't know which, additional acreage. Now, if we are to be saddled with the cost of going that deep, it is only reasonable that we be given half of that acreage. They had to drill to earn, it was drilled to earn and they got that depth so if -- I don't see how we can segregate it. The acreage is still there, and I assume they still own it, and I think that too is part of the cost of the acreage acquisition.

Then what bothers me, say this had been a Devonian test or they had gone down below there and lost circulation and

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they had a two hundred thousand dollar well, I don't see how we could be expected to share in that when we participate in the pool, and all of the pool in a forced pooling is the Queen zone, it has nothing whatsoever to do with the San Andres. If they should recomplete it there in the San Andres, I don't believe we would be entitled to share anything below that and for that reason I don't think we should share in the additional drilling costs.

Now, as to the interest, the forced pooling section of our Statute makes no reference to interest and my examination of our general interest Statutes makes no provision for interest in connection with any administrative order. I know that interest is a fact of life, but when we consider interest and the increased costs, which we are willing to assume here, by the '75 cost, it looks like that has pretty well taken care of the interest by the inflation.

Now, there is one other thing that strikes me, even if the interest should be allowed, I don't think there is any possible way -- when would you start the interest, the effective date of the pooling in 1972, they couldn't have done anything before that in any event?

MR. NUTTER: The effective date of the pool rules?

MR. JENNINGS: The pool rules, yes. November of '72, or even when it was determined that the west half was going to have to be pooled in '73. That is just something

for consideration, but I don't think the interest is properly chargeable in any event.

One other thing that has escaped me and maybe I'm coming into this late, but I did see under the farmout agreement that they were supposed to get seventy-five cents a foot dry hole money, and I don't see where that was credited in the cost anywhere.

MR. COOTER: It wasn't a dry hole, Mr. Examiner.

MR. JENNINGS: It was a dry hole?

MR. COOTER: It wasn't a dry hole.

MR. JENNINGS: I see.

MR. COOTER: That is the well we are talking about today.

MR. NUTTER: And the dry hole money was contingent upon a dry hole.

MR. JENNINGS: Was it a dry hole?

MR. COOTER: It wasn't a dry hole.

MR. NUTTER: It was a dry hole in the San Andres, wasn't it?

MR. COOTER: Yes, but --

MR. NUTTER: But the dry hole money wasn't limited to the San Andres?

MR. COOTER: No.

MR. JENNINGS: Okay, that is all.

MR. NUTTER: I heard you mention, Mr. Jennings,

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that you mentioned something about filing a written statement?

MR. JENNINGS: Yes, sir, I'm going to. Mr. Christy prepared this. I don't want to bore the Commission with this at this time and Mr. Cooter wants to catch his plane.

MR. NUTTER: Would you care to have some time to reply to this memorandum brief, Mr. Cooter?

MR. COOTER: Yes, sir, I would.

MR. NUTTER: Okay, we will give you ten days to reply to this.

Okay, does anyone have anything further they wish to offer in Case Number 5551?

MR. COOTER: Nothing, Mr. Examiner.

MR. JENNINGS: That's all.

MR. NUTTER: We will take the Case under advisement and you have ten days to file your memorandum brief, and the Hearing is adjourned.

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State of New Mexico)
) ss.
County of Santa Fe)

I, SIDNEY F. MORRISH, a court reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings to the best of my knowledge, skill and ability.

Sidney F. Morrish, Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5551, heard by me on 10/8, 1975.

New Mexico Oil Conservation Commission, Examiner

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Phone (505) 982-9212

JUL 28 1975
OIL CONSERVATION COMM.
Santa Fe

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF DALPORT OIL CORPORATION FOR COMPULSORY POOLING IN THE SOUTH-EAST CHAVES QUEEN GAS AREA, CHAVES COUNTY, NEW MEXICO.

Case No. 5551

APPLICATION

COMES NOW Dalport Oil Corporation (Dalport) and Burk Royalty Co. (Burk), collectively "Applicant", and states:

1. Applicant is the owner and holder of the official and record title to an Oil and Gas Lease dated October 1, 1962, from the United States of America as lessor bearing serial number NM-0314228, embracing, among other lands not pertinent hereto, the following described lands in Chaves County, New Mexico:

Township 12 South, Range 31 East, N.M.P.M.
Section 17: W½

containing 320 acres, more or less; said lease is presently held by production on other lands included therein.

2. Applicant's ownership of the above lease and lands is subject to (among other matters not pertinent hereto) a prior Assignment of Operating Rights dated March 10, 1971, from Terra Resources, Inc. to Reading & Bates, Inc. covering:

Township 12 South, Range 31 East, N.M.P.M.
Section 17: S½SW¼, S½NW¼

containing 160 acres, more or less, for depths from the surface down to the top of the Glorieta formation which includes the Queen formation. Upon information and belief, the rights acquired by Reading

& Bates, Inc. under said Assignment of Operating Rights are now owned in the following interests and proportions:

Name and Address	Interest
Reading & Bates, Inc. 1100 Philtower Building Tulsa, Oklahoma 74103	25.000%
J. Frank Stringer P. O. Box 3037 San Angelo, Texas 76901	15.625%
Dr. James C. Womack Suite 8, Medical Arts Building San Angelo, Texas 76901	6.250%
Edwin S. Mayer, Jr. P. O. Box 1741 San Angelo, Texas 76901	25.000%
J. A. March III 2509 Nasworthy Drive San Angelo, Texas 76901	12.500%
Guy A. Swartz P. O. Box 3037 San Angelo, Texas 76901	15.625%
TOTAL	100.000%

3. The said J. Frank Stringer has heretofore drilled or caused to be drilled the Reading & Bates Terra Federal #1 Well located 660 feet from the South line and 660 feet from the West line (Unit M) of said Section 17, and the well has been completed as a well producing or capable of producing gas and associated hydrocarbons from the Queen formation; Reading & Bates, Inc. is the operator of the well.

4. Pursuant to the New Mexico Oil Conservation Commission Order R-4435 as amended by Order R-4435-A, there has heretofore been established a standard well spacing and proration unit of

320 acres for gas and associated hydrocarbons produced from the Queen formation within the Southeast Chaves Queen Gas Area, which includes the aforesaid W½ Section 17.

5. Dalport and Reading & Bates, Inc., et al, each having a right to drill in the W½ Section 17 to the Queen formation, have been unable to agree to pool their interests in the proposed unit as to the Queen formation, being a common source of supply. Therefore, in order to avoid the drilling of unnecessary wells and to protect correlative rights, and to prevent waste, it is advisable that the Commission, after notice and hearing, pool all of the W½ of said Section 17 for the production of gas and associated hydrocarbons from the Queen formation as a spacing or proration unit, and to allocate the respective tracts within the unit in proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit. That such Order effecting pooling should be upon such terms and conditions as are just and reasonable and will afford the owner or owners of each tract or interest in the unit the opportunity to recover or receive, without unnecessary expense, his just and fair share of the gas and associated hydrocarbons underlying the pooled unit; that such pooling Order should make definitive provision as to payment of drilling and completion costs in the Reading & Bates, Inc. Terra Federal #1 Well aforesaid, a determination as to the operator of the well, and all operating expenses and charges with respect to such operations. That such pooling Order should otherwise be entered in conformity with NMSA 65-3-14, 1953 Comp.

WHEREFORE, Applicant prays, after notice and hearing, that the Commission pool all mineral interests whatever they may be in the W½ Section 17, Township 12 South, Range 31 East, N.M.P.M., for the production of gas and associated hydrocarbons producible from the Queen formation and to enter an appropriate Order in conformity with NMSA 65-3-14, 1953 Comp.

Respectfully,

DALPORT OIL CORPORATION
BURK ROYALTY CO.

By _____
S. B. Christy IV, as a member of the firm of Jennings, Christy & Copple, P. O. Box 1180, Roswell, New Mexico 88201
(505) 622-8432

cc: Reading & Bates, Inc.
J. Frank Stringer
Dr. James C. Womack
Edwin S. Mayer, Jr.
J. A. March III
Guy A. Swartz

Case 5557

LAW OFFICES OF
JENNINGS, CHRISTY & COPPLE
1012 SECURITY NATIONAL BANK BUILDING
P. O. BOX 1180
ROSWELL, NEW MEXICO 88201

JAMES T. JENNINGS
SIM B. CHRISTY IV
ROGER L. COPPLE
BRIAN W. COPPLE

ROBERT G. ARMSTRONG

TELEPHONE 622-8432
AREA CODE 505

July 25, 1975

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

Gentlemen:

For consideration of entry and notice, we enclose herewith Application of Dalport Oil Corporation and Burk Royalty Co. for force pooling in the Southeast Chaves Queen Gas Area, Chaves County, New Mexico, relating to the W½ Section 17, Township 12 South, Range 31 East, N.M.P.M.

We would appreciate it if the case might be set for examiner hearing in either the third week of August (August 18-22) or the first two weeks of September (September 1-12), 1975. The request is made since witnesses will not be available until that time.

Respectfully,

JENNINGS, CHRISTY & COPPLE

By _____
S. B. Christy IV

SBC/jy
Encl.
cc: Dalport Oil Corporation
Burk Royalty Co.

VIA CERTIFIED MAIL - RETURN RECEIPT
cc: Reading & Bates, Inc.
J. Frank Stringer
Dr. James C. Womack
Edwin S. Mayer, Jr.
J. A. March III
Guy A. Swartz

Cost of Dalport #1 Terra-Fed. $32887.38 Invoiced to Stringer, et al on 9-1-73

ALPORT OIL CORPORATION
3471 FIRST NATIONAL BANK BLDG.
DALLAS, TEXAS 75202
JOINT OPERATIONS

PAGE	MONTH	LEASE
1	July & August, 1973	Terra-Federal #1

REFERENCE	DESCRIPTION			AMOUNT	TOTAL
372 surf csg	Bearing Service & Supply Co., Inc, Artesia, NM Inv 48412, 7/19/73,	127-03			852.71
384	WEK Drilling Co, Inc, Roswell, NM Inv 7-05, 7/26/73	126-02			14,340.57
385	American Coldset Corp, Dallas, Texas, Inv No. 09000, 7/27/73	126-51			423.80
386	Bearing Service & Supply Co, Artesia, NM Inv 48450, 7/23/73	127-03	16.14		
csg	Inv 48460, 7/24/73	127-03	4,027.59		
	Inv 48461, 7/24/73	127-03	293.36		4,337.09
387	Foster Testers, Inc, Odessa, Texas Inv 939, 7/23/73	126-61			508.56
388	Halliburton, Duncan, Okla. Inv 658905, 7/19/73	126-62			871.72
389 tbg	Milford Pipe & Supply Co, Tatum, NM Inv 1931, 7/28/73	127-04			1,562.65
390	Hudco, Inc. Hobbs, NM Inv 1988, 7/24/73	126-52			930.22
398	Halliburton Services, Duncan, Okla. Inv 631122, 7/23/73	126-62			1,572.92
400	The Pathfinder Co., Houston, Texas Inv 7937-15, 7/31/73	127-02			120.22
401	Sweatt Construction Co, Loco Hills, NM Inv 6600, 7/31/73	126-30	74.88		
	Inv 6598m 7/31/73	126-30	74.88		
	Inv 6599, 7/31/73	126-30	149.76		299.52
403	Standard Corp, Artesia, New Mexico Inv 17243, 7/31/73	127-04			440.10
404	T & C Rental Tool Co., Denver City, Texas Inv 1070, 8/3/73	126-63			159.84
406 perfs tie back	The Western Co., Fort Worth, Texas Inv 74708, 7/26/73	126-63	420.00		
	Inv 74709, 7/26/73	126-63	626.56		1,046.56
407	Mack Chase, Inc, Artesia, NM Inv 73623, 7/30/73	126-63			662.26
413	Bearing Service & Supply Co Inc, Artesia, New Mex. Inv 48882, 8/24/73	127-06			99.47
416	Core Laboratories, Inc, Dallas, Texas Inv 88119, 7/22/73	126-71			252.10
423	Sweatt Construction Co, Loco Hills, NM Inv 6639, 8/7/73	126-30			3,238.25
					31,718.56

ALPORT OIL CORPORATION
3471 FIRST NATIONAL BANK BLDG.
DALLAS, TEXAS 75202
JOINT OPERATIONS

PAGE	MONTH	LEASE
1	July & August, 1973	Terra-Federal #1

REFERENCE	DESCRIPTION		AMOUNT	TOTAL
	DIVISION OF INTEREST			
	Cimex Inc	50%		15,859.28
	J. Frank Stringer	7.8125%		2,478.01
	Dr. James C. Womack	3.125%		991.21
	Edwin S. Mayer, Jr.	12.50%		3,964.82
	J. A. March, III	6.250%		1,982.41
	Guy A. Swartz	7.8125%		2,476.01
	Reading & Bates	12.5%		3,964.82
				31,718.56

3171856
116878
3288734

DALPORT OIL CORPORATION
3471 FIRST NATIONAL BANK BLDG.
DALLAS, TEXAS 75202

JOINT OPERATIONS

PAGE	MONTH	LEASE
1	September, 1973	Terra-Federal #1

REFERENCE	DESCRIPTION			AMOUNT	TOTAL
426	Dalport Oil Corp-Regular Act, Dallas, Texas Geologist's Expense as per contract				500.00
440	Sweatt Construction Co., Loco Hills, N.M.				
	Inv. #6662, 8/16/73	18.72	126.30		
	Inv #6683, 8/21/73	224.64	126.30		243.36
459	West Engineering Co., Hobbs, N.M.				
	Inv 773-12, 8/30/73	162.50			
	Inv 873-9, 9/15/73	89.86			
	Inv 873-10, 9/15/73	173.06	126.53		425.42
					1,168.78
	Division of Interest				
	Camex Inc.	50			584.39
	J. Frank Stringer	7.8125%			91.31
	Dr. James C. Womack	3.125%			36.52
	Edwin C. Mayer, Jr.	12.50%			146.10
	J. A. March III	6.25%			73.05
	Guy A. Swartz	7.8125%			91.31
	Reading & Bates	12.5%			146.10
					1,168.78

31,718.56
1168.78
32,887.34

DALPORT OIL CORPORATION

COPY

EXHIBIT 3

September 10, 1975
ESTIMATED COST - WELL IN
Sec. 17, T-12-S, R-31-E
Chaves County, NM

Road			$3,538.00
Location Survey			223.08
Drilling Contractor - WEK Drlg. Co.			
2600' @ $6.70 per foot	$17,420.00		
8 hrs. Day Work @ $81.25 per hr.	650.00		
4% New Mexico Tax	722.80		
			18,792.80
Cement and Cementing - B-J			2,557.70
Mud and Water			2,288.14
Swabbing Unit			1,142.21
DST			682.24
Log and Perforate			1,719.09
Geologist and Supervision			489.00
Miscellaneous			2,067.44
300' - 8 5/8" Surface Casing @ $5.55	1,665.00		
2600' - 4 1/2' J-55 Casing			
$2.20 per ft. F.O. B. East Texas	5,720.00		
Frt. to NM	500.00		
1 - 8 5/8" X 4 1/2" Bradenhead	284.09		
1 - 4 1/2' X 2"	214.03		8,383.12
Frac Job - Cardinal			5,241.30
	Total		$47,124.12

DALPORT OIL CORPORATION
1134 THE 600 BUILDING
CORPUS CHRISTI, TEXAS 78401

CODE 512-882-7863

EXHIBIT 4

ADDITIONAL J. F. STRINGER WELL COSTS

J. F. STRINGER COSTS IN EXCESS OF DALPORT COST

*Extra Footage, 1404' at $425/ft.	$ 5,967.00
*Additional Mud, $3,608.90 - Normal bill $1,000	2,608.90
*Extra Logging:	
Laterolog--4053-2600=1453' @ 12¢ = $174.36	
Density--Depth Charge 1453' @ 13¢ = 188.89	
Operation Charge 1453' @ 11¢ = 159.83	
Microlog--1453' @ 9¢ = 130.77	653.85
George Galbraith Fee (lease acquisition expenses) (CONSULTING GEOLOGIST - FEE)	5,000.00
J. F. Stringer Overhead**	1,688.61
TOTAL	$15,918.36

excess costs from 1970 drilling of the well

* BASED ON EXTRA DEPTH

** included: office expenses, Pet. clubs in Midland, flying expenses, etc. } contend these are not appropriate charges

TD 4064
Btm Qu perfs 2542
1622

Exhibit 5

POUND PRINTING CO., HOUSTON, TEXAS

P-1842 BOO.1

JOINT OPERATING CONTRACT

THIS MEMORANDUM of agreement made and entered into this the 25th day of July, 19 73, by and between

J. Frank Stringer	7.8125%
Dr. James C. Womack	3.1250%
Edwin S. Mayer, Jr.	12.5000%
J. A. March III	6.2500%
Guy A. Swartz	7.8125%
	37.5000%

(hereinafter called Non-Operators whether one or more) and Dalport Oil Corporation

3471 First National Bank Bldg., Dallas, Texas 75202

(hereinafter called Operator),

WITNESSETH:

WHEREAS, Operator and Non-Operators respectively are the owners of the oil, gas and mineral lease or leases, or of the undivided interests therein, described in Exhibit "A" hereto attached and made a part hereof for all purposes insofar as such lease or leases cover the land described in Exhibit "A" hereto attached, which lease or leases insofar as the described land is covered thereby are hereinafter referred to as "Joint Leases"; and it is the desire of the parties hereto that Operator shall be in charge of development operations under said Joint Leases in accordance with agreements and provisions hereinafter contained:

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the parties hereto agree as follows:

1. GENERAL DUTIES OF OPERATOR: Operator shall have, subject to the terms, provisions and limitations hereinafter expressed, exclusive charge, control and supervision of all operations of every kind to be conducted on the Joint Leases for the development, production, treating, handling and marketing of oil, gas and other minerals therefrom as well as the payment of all rentals, royalties, taxes and other charges which may arise or become due or payable in connection with such operations.

2. CHARGES TO JOINT ACCOUNT: Operator shall charge the Joint Account with all costs and expenses incurred in connection with the operation of the Joint Leases as herein contemplated, charges to be made in accordance with the "Accounting Procedure" hereto attached as Exhibit "B" and made a part hereof for all purposes. The charges made to the Joint Account as provided herein shall be borne by the parties hereto in the proportion that the interest of each of the parties in the Joint Leases bears to the total of the interests in the Joint Leases of the parties hereto.

3. RECORDS: Operator shall keep an accurate record of the Joint Account hereunder showing the cost and expenses incurred and charges made and all credits and returns made and received, which record shall be available at all reasonable times for the consideration, examination and inspection of each of Non-Operators and its duly authorized representatives.

4. MONTHLY STATEMENTS: On or before the last day of each calendar month, Operator shall furnish to each of Non-Operators a detailed statement of investments made and costs and expenses incurred against and credits and receipts made and received for the Joint Account during the preceding calendar month. Any exceptions to the statement as rendered by Operator must be made by Non-Operators within two (2) years from receipt thereof, and if no exception is made within that time, the statement shall be conclusively considered as correct; but this provision shall not prevent adjustments of physical property to inventory as provided for in Exhibit "B." Each of Non-Operators agrees to pay to Operator at Dallas, Texas its proportionate part of all expenditures made for the Joint Account by Operator in connection with investments on account of and the operation, maintenance and supervision of said Joint Leases hereunder, based upon such Non-Operators' interest from time to time in the leases described in Exhibit "A" hereto attached. Currently within ~~fifteen (15) days~~ after receipt of the monthly statements herein provided to be rendered by Operator each Non-Operator agrees to pay its proportionate part of the amount due Operator as shown by such statements. The amount properly chargeable in each statement and due to Operator shall be due and payable at the expiration of ~~fifteen (15)~~ days from receipt of each monthly statement and shall bear interest thereafter until paid at the rate of five per cent (5%) per annum, which interest on its delinquencies each Non-Operator hereto severally agrees to pay Operator at the place above designated. Each Non-Operator grants to Operator a lien on its interest in the Joint Leases, the production therefrom and all fixtures, improvements and personal property now or hereafter located thereon to secure the payment of its proportionate part of all investments made for and costs and expenses against the Joint Account hereunder in operating and developing the Joint Leases hereunder, which lien may be enforced as any other mortgage lien. ~~Should any Non-Operator fail to pay its proportionate part of all statements rendered as herein provided within the fifteen (15) days hereinabove stipulated, Operator shall have the right at its option at any time thereafter, such default continuing, to foreclose said lien upon the interests of the Non-Operator in default.~~

5. DRILLING AND DEVELOPMENT OF LEASES: Operator is authorized to drill at the expense of the Joint Account any well on the Joint Leases required to meet the offset and reasonable development obligations, and all express obligations under the Joint Leases, and any well necessary in order to prevent the expiration or termination of any Joint Lease, without first securing the authority and approval of Non-Operators.

Operator shall secure the written approval of Non-Operators before incurring against the Joint Account any item of expense, which item itself is in excess of $ 5,000.00, except in the drilling, equipping and completion of a well covered by the next preceding paragraph or in the drilling, equipping and completion of a well as to which notice has been given as provided in the next succeeding paragraph and with respect to which well no Non-Operator has given notice that it does not desire to participate in the cost and expense of drilling.

Before Operator commences operations at the cost of the Joint Account for the drilling of any well on the Joint Leases other than wells required to meet the offset and reasonable development obligations, and the express obligations under said Joint Leases, or wells necessary in order to prevent the expiration or termination of any Joint Lease, it shall give ten (10) days' written notice of its intention to commence operations for the drilling of the well to each of the Non-Operators, and should any Non-Operator or Non-Operators notify Operator, within ~~five (5)~~ days of the mailing to it or them of the notice, that it or they do not desire to participate in the cost and expense of drilling, completing and equipping the well, the costs and expenses thereof shall be borne by the Operator and the Non-Operators, if any, not giving the notice, each bearing that portion of the cost which its interest in the Joint Leases bears to the total of the interests therein of Operator and Non-Operators participating in the drilling of the well; and if all Non-Operators give such notice, Operator may drill, complete and equip the well at Operator's cost and expense; provided, however, before any Non-Operator who elects not to participate in the cost and expense of drilling, completing, and equipping the well shall be entitled to any portion of the production therefrom Operator and the Non-Operators, if any, who participate in the cost of drilling, completing and equipping the well shall have the right to receive and shall receive currently out of the net proceeds of the sale of the portion of the production from the well belonging to each Non-Operator who does not participate in the cost and expense of drilling, completing, and equipping the well, double the amount of that portion of the cost which would have been borne by the non-participating Non-Operator, under the provisions hereof, had it participated in such cost and expense. The proceeds of the sale of the specified portion of the production shall be allocated between Operator and Non-Operators, if any, who participate in the drilling of the well in proportion to their interest in the Joint Leases. The cost of operating such well or of reworking same shall be borne by the Joint Account. If the well is a dry hole, the salvage therefrom shall be owned by the Operator and Non-Operators, if any, participating in the drilling thereof in proportion to their several interests in the Joint Leases.

Operator shall have the right itself to drill any or all wells drilled at the expense of the Joint Account, or to let the drilling thereof to a responsible contractor. Should Operator elect to drill any well itself, it may either charge the Joint Account with the actual cost of drilling and equipping the well, in accordance with the provisions of Exhibit "B," or may itself pay the actual cost of drilling the well and charge to the Joint Account, as the cost of drilling, an amount equal to the contract price per foot and for day work for drilling the well on the basis of the contract price per foot and for day work prevailing in the immediate area, or which may be obtained from a responsible drilling contractor, at the time the well is drilled. In either event, the cost of equipping the well shall be on the basis provided for in Exhibit "B," hereto attached. Operator shall notify Non-Operators, in writing, prior to the commencement of operations on any well drilled at the expense of the Joint Account, which Operator drills itself, as to whether Operator will drill the well on the basis of actual cost or on a contract basis, and if on a contract basis, the notice shall state the price per foot and for day work. If the Non-Operators do not object in writing to Operator within five (5) days of the notice, it will be conclusively considered that the price per foot and for day work stated in the notice is satisfactory. Should Non-Operators, or any of them, object in writing within said five (5) days to such price per foot and for day work, then, if Operator and Non-Operators cannot agree upon the price to be charged, such price shall be determined by arbitration in accordance with the provisions of Section 15 hereof. When cost of the well drilled by Operator is charged on the contract basis, Operator assumes all risks in connection with the drilling of the well which would customarily be assumed by an independent contractor had the drilling of the well been let to an independent contractor, except that Operator shall not assume any loss, risk, damage or liability resulting from the well blowing out, cratering, or running wild, except injury to Operator's equipment and to Operator's agents, servants and employees; but all loss, risk, damage or liability not assumed by Operator shall be borne by the Joint Account. Where the cost of the well drilled by Operator is not charged on a contract basis, but on the basis of actual cost, Operator assumes none of the risks incident to the drilling of the well, but the risks shall be borne by the Joint Account.

6. MARKETING OF PRODUCTS: Subject to the provisions of Section 7 hereof, Operator is given authority to market all oil, gas and other minerals produced from the Joint Leases and accruing to the parties hereto; and, upon the sale of same, the purchaser thereof shall pay to the respective parties hereto the proceeds of sale in proportion to each respective party's interest in the oil, gas or other minerals produced; provided, however, should any Non-Operator hereunder be in arrears in its payments to Operator as herein provided, Operator shall have the right upon demand to receive from the purchaser of the production such Non-Operator's portion of the proceeds, and apply the proceeds on amounts in arrears. In this connection, it is specifically understood that each of the parties hereto will sign the usual customary division order or orders covering its respective portion of the production and warranting its title thereto. Subject to the provisions of Section 7 hereof, Operator, if it desires to do so, but without any obligation so to do, may take all the oil, gas and other minerals produced from the Joint Leases, and in such event it shall credit or pay each Non-Operator for its interest therein as follows:

(a) On oil, the current posted field price of Operator, per barrel of 42 U. S. gallons each, for crude oil of like grade and quality prevailing for the field where produced on the date of respective runs to pipe line; provided, however, should Operator not post a price for oil produced in said field, then the average of the current field prices per barrel, of 42 U. S. gallons each, posted for crude oil of like grade and quality for said field prevailing on the respective dates on which runs are made to pipe line of.....

.....

and.....

or their successors, or such ones of said companies or their successors as may be purchasing oil in the field where the premises are located and posting field prices therefor.

(b) For natural gas or other gaseous or vaporous substance produced from the Joint Leases and used by Operator for the extraction of gasoline or other products, the current market value at the wells of such Non-Operator's interest therein, the natural gas or other gaseous or vaporous substance to be measured and the market value to be determined in a manner then prevailing in the industry. Each Non-Operator agrees upon demand of Operator from time to time to execute and deliver to Operator the form of division order then in use by Operator to cover the sale of its interest in the natural gas or other gaseous or vaporous substance so utilized by Operator.

(c) For gas of any kind when not used for the extraction of gasoline or other product by Operator, each Non-Operator's proportionate part of the market value thereof at the well.

(d) For other minerals, each Non-Operator's proportionate part of the reasonable market value thereof at the well or mine.

Operator may apply the proceeds accruing to any Non-Operator from the sale of its interest in the production from the Joint Leases on its indebtedness to Operator incurred under the provisions hereof.

7. TAKING PRODUCTS IN KIND: Despite the provisions of Section 6 above, each Non-Operator, at its election, after giving Operator written notice of its intention so to do, shall have the right and privilege of receiving at any time in kind its portion of the oil, gas and other minerals produced and saved from the Joint Leases. Such production shall be delivered to the Non-Operator involved into the pipe line or lines to which the well or wells on the Joint Leases may be connected or into storage tanks furnished by the Non-Operator. Each Non-Operator shall bear any extra expense incurred by Operator in delivering in kind Non-Operator's portion of the production from the Joint Leases.

8. INSURANCE—COMPLIANCE WITH LAWS AND REGULATIONS: Operator shall carry Workmen's Compensation insurance on its employees engaged in the joint operations, and in conducting operations hereunder shall comply with the Fair Labor Standards Act and all other applicable Federal and State laws, and applicable rules and regulations of Federal and State governmental agencies having jurisdiction.

9. NON-OPERATORS' RIGHTS AND PRIVILEGES: Each Non-Operator shall have the following specific rights and privileges:

(a) Access to the Joint Leases at all reasonable times to inspect the operations hereunder.

(b) The right to inspect the logs, samples, and cuttings from any and all wells drilled hereunder and to receive copies of the logs.

(c) The right to inspect and audit at all reasonable times the Operator's books, records and invoices pertaining to any matter of accounting arising hereunder.

10. LIABILITY OF PARTIES: The Joint Leases shall not be operated hereunder as a partnership venture, and the liability of the parties hereunder shall be several and not joint or collective. Each party shall be responsible only for its obligations as set out herein and shall be liable only for its proportionate share of the cost of operation hereunder. Nothing herein shall be construed as an assignment or transfer of the leases or an interest therein as between the parties hereto. Operator shall use reasonable diligence to pay all rentals payable under the leases which Operator is required to pay hereunder, but Operator shall not be liable in damages to Non-Operators or any of them for failure to pay promptly and properly any rental payable under such leases.

11. RIGHT OF PARTIES TO WITHDRAW OR ASSIGN: Any party hereto shall have the right, at any time when it is not indebted in any amount to the Operator under the provisions hereof and when there is not existing to any lessor or lessors or their successors in interest any obligation to do any further drilling upon the leases affected by this contract, to be relieved of all unaccrued obligations under this agreement by assigning to the other parties hereto in proportion to the interests then severally held by them in the Joint Leases all of the interest of the party desiring to be relieved of unaccrued obligations in and to the Joint Leases, free and clear of all liens and encumbrances and relinquishing all of its rights hereunder. Should the other parties desire not to accept an assignment, they shall join with the party desiring to relieve itself of unaccrued obligations in releasing the Joint Leases. If the other parties desire to accept an assignment, they shall have the right at their election either to:

(a) Purchase the interest of the withdrawing party in all casing, material, equipment, fixtures and personal property belonging to the Joint Account at its fair secondhand value, less the cost of salvaging same; or

(b) Retain such casing, material, equipment, fixtures and personal property and pay to the withdrawing party five per cent (5%) per annum on the value of the casing, material, equipment, fixtures and personal property, which value shall be the depreciated value from year to year, less the estimated cost of recovering the casing, material, equipment, fixtures and personal property, and, when the leases are finally abandoned, deliver to the withdrawing party its part of the material, casing, equipment, fixtures and personal property; or

(c) Deliver to the withdrawing party an amount of casing, material equipment, fixtures, and personal property of like kind as that retained and of a value equivalent to the interest of the withdrawing party in the casing, material, equipment, fixtures and personal property involved less the cost of salvaging them.

Each party hereto owning an undivided interest in the Joint Leases waives any and all rights it may have to partition the Joint Leases and have set aside to it in severality its undivided interest therein. Before the sale by any party hereto of its interest in the Joint Leases, or any of them, the other parties hereto shall be given the refusal thereof at the price offered in good faith by a third party, and shall have the preferred right to purchase at the price stated, which right shall be exercised within five (5) days after receipt of written notice of the offer made by a third party. Should more than one party hereto exercise the preferred right to purchase, the interest in the Joint Leases shall be assigned to them in proportion to their several interests then held in the Joint Leases. This provision shall not apply in the event of sale to a subsidiary, affiliated or successor company of any party hereto, or to the sale by a party hereto of its interest in the Joint Leases as a part of the sale of all its assets.

12. RESIGNATION OF OPERATOR AND APPOINTMENT OF SUCCESSOR: Should Operator or any successor operator hereunder dissolve, liquidate or terminate its corporate existence or sell or otherwise dispose of its interest in the Joint Leases it shall thereupon cease to be Operator hereunder. Operator or any successor operator may resign its duties as Operator hereunder with the consent of the majority in interest of the parties hereto. Should Operator or any successor operator, for any cause cease to be Operator hereunder, the parties hereto (including the successor or successors in interest of Operator) by vote of the majority in interest of the parties shall elect and designate another

STATE OF NEW MEXICO)
)
COUNTY OF CHAVES)

EXHIBIT "A"

Lands covered by Joint Operating Contract dated July 25, 1973, between J. Frank Stringer et al and Dalport Oil Corporation are as follows:

Township 12 South, Range 31 East NMPM

Section 17: East 1/2
containing 320 acres, more or less

KeeFAX 601 ROSS-MARTIN COMPANY TULSA, OKLAHOMA 74101

Recommended by the Council of Petroleum Accountants Societies of North America

COPAS

EXHIBIT " B "

Attached to and made a part of Joint Operating Contract between J. Frank Stringer et al and Dalport Oil Corporation dated July 25, 1973

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"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.

"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.

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

"Controllable Material" shall be defined as set forth under the subparagraph selected below:

A. [X] 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.

B. [ ] Material which is ordinarily so classified and controlled by Operator in the conduct of its operations. List shall be furnished Non-Operators upon request.

2. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under the subparagraph selected below:

A. [X] Statement in detail of all charges and credits to the Joint Account.

B. [ ] Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

C. [X] Statement of all charges and credits to the Joint Account, summarized by appropriate classification indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

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 ten per cent (10%) 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.

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 the Joint Property as provided for in Section VII.

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

6. Approval by Non-Operators

Where an approval or other agreement of Non-Operators is expressly required under Paragraphs 5A, 5B, 6A and 8 of Section II, Section III, Section V, Section VI, and Paragraph 4 of Section VII, of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the Operator shall notify all Non-Operators 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 employees directly employed on the Joint Property in the conduct of Joint Operations.
   (2) Salaries of first-level supervisors in the field if such charges are excluded from overhead rates in Option A of Section III.
   (3) Salaries and wages of technical employees temporarily assigned to and directly employed on the Joint Property if such charges are excluded from overhead rates in Option B of Section III.
   (4) Salaries and wages of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from overhead rates in Option C of Section III.
   B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1A of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost 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 and Paragraph 1A of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III.
   D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.
3. **Employee Benefits**
   Operator's current cost 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 and Paragraph 1A of Section III shall be chargeable as indicated in the subparagraph selected below:
   A. [ ] Operator's actual cost.
   B. [X] Operator's actual cost not to exceed fifteen per cent (15%).
4. **Material**
   Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and 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 Operator and Non-Operators.
   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 Operators and Non-Operators. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by Operator and Non-Operators.
   C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of $100 or less.
6. **Services**
   A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 1B of Section III. The cost of professional consultant services shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.
   B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.
7. **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 to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
8. **Legal Expense**
   All costs and expenses of handling, investigating, and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorney's fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), unless agreed to by Operator and Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.
9. **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.

10. Insurance

Net premiums paid for insurance required to be carried on the Joint Property 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 therefor on the following basis:

.....

.....

.....

11. 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 for the necessary and proper conduct of the Joint Operations.

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus the rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraph 1 of this Section III or by combining all three of said items under the rates provided for in Paragraph 2 or 3 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE INDIRECT COSTS TO THE JOINT ACCOUNT UNDER THE TERMS OF:

[ ] Paragraph 1. (District Expense, Administrative Overhead and Warehousing)
[X] Paragraph 2. (Combined Rates - Well Basis)
[ ] Paragraph 3. (Combined Rates - Percentage Basis)

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 Operator and Non-Operators as a direct charge to the Joint Account.

THE OVERHEAD RATES PROVIDED FOR IN ANY OF THE PARAGRAPHS SELECTED ABOVE

A. [ ] shall [X] shall not include salaries and personal expenses of first-level supervisors in the field.
B. [ ] shall [X] shall not include salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property.
C. [ ] shall [X] shall not include salaries, wages and personal expenses of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property.

1. District Expense, Administrative Overhead and Warehousing

A. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's ..... office located at or near ..... (or a comparable office if location changed); and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

B. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1A of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charge shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged direct as provided in Paragraphs 2 and 8 of Section II. Such charge shall be made on the basis indicated below, either (1) well basis or (2) percentage basis, at the rates shown thereunder.

(1) [ ] Well Basis

RATE PER WELL PER MONTH

	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
Well Depth	Each Well	First Five	Next Five	All Wells Over Ten

(2) [ ] Percentage Basis

PERCENTAGE BASIS

Development:

..... Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

Operating:

..... Percent (%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 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.

C. Operator's Warehouse Operating and Maintenance Expense
[ ] Included in district expense
[ ] No charge either direct or indirect
[ ] Percentage basis (describe fully) .....

2. **Combined Rates - Well Basis**

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

RATE PER WELL PER MONTH

Well Depth	DRILLING WELL RATE (Use Total Depth) Each Well	PRODUCING WELL RATE (Use Current Producing Depth) First Five	Next Five	All Wells Over Ten
2700'	$500.00	75.00	75.00	75.00

3. **Combined Rates - Percentage Basis**

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

PERCENTAGE BASIS

A. Development:

..... Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 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 8 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.

4. **Application of Administrative Overhead or Combined Rates - Well Basis**

The following limitations, instructions and charges shall apply in the application of the rates as provided under either Paragraph 1B (1) or Paragraph 2 of this Section III.

A. Charges for drilling wells shall begin on the date each 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 the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:
(1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for waterflooding operations and salt water disposal wells shall be considered the same as producing oil wells.
(2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. Any well being plugged or produced during any portion of the month shall be considered as a producing well for the entire month.
(3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling rig or workover rig capable of drilling shall be considered the same as drilling wells.
(4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, shut-in wells shall be counted in determining the charge hereunder for such month if said wells contribute allowable production that is actually produced during such month from one or more unit wells as a result of allowable transfer, inclusion in the unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during the month.
(5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
(6) Wells completed in multiple horizons, shall be considered as a producing well for each separately producing horizon, providing each completion is considered a separate well by governmental or other statewide regulatory authority.

C. The well rates for producing wells shall be applied to the individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project, the well rates shall be applied to the total number of producing wells, irrespective of individual leases.

D. 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 preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian Index as published by the Dominion Bureau of Statistics, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

5. **Application of Administrative Overhead or Combined Rates - Percentage Basis**

For the purpose of determining charges on a Percentage Basis under Paragraph 1B (2) or Paragraph 3 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 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 6 of this Section III. All other costs shall be considered as Operating.

6. **Major Construction Overhead**

For the construction of compressor plants, water stations, secondary recovery systems, drilling and production platforms, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling

and producing operations, Operator in addition to the Administrative Overhead or Combined Rates provided for in Paragraph 1, 2 or 3 of this Secton III shall either negotiate a rate prior to beginning of construction or shall charge the Joint Account with an additional overhead charge as follows:

A. Total cost less than $25,000, no charge.

B. Total cost more than $25,000, but less than $100,000, ...3..... % of total cost.

C. Total cost of $100,000 or more, ...2..... % of the first $100,000 plus .....1..... % of all over $100,000 of total cost.

Total cost shall mean the total 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 wells shall be excluded.

7. Amendment of Rates

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operators may supply Material or services for the Joint Property.

1. Purchases

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

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

(2) Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the Joint Property where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (1) of this paragraph.

(3) When the Operator has equalized actual hauling costs as provided for in Paragraph 5 of Section II, Operator is permitted to include ten cents (10¢) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.

(4) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f.o.b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is normally available.

(5) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. Used Material (Condition "B" and "C")

(1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.

(2) Material which is not suitable for its original function until after reconditioning shall be furnished to the Joint Account under one of the two methods defined below:

(a) Classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material. The cost of reconditioning shall be absorbed by the Operator of the transferring property.

(b) Classified as Condition "C" and priced at fifty per cent (50%) of current price of new Material. The cost of reconditioning also shall be charged to the receiving property, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. 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.

(4) 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 prices specified in Paragraphs 1 and 2 of this Section IV 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 procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that 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 10 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.

5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. In lieu of rates based on costs of ownership and operation of equipment, other than automotive, Operator may elect to use commercial rates prevailing in the area of the Joint Property less 20%; for automotive equipment, rates as published by the Petroleum Motor Transport Association may be used. Rates for laboratory services shall not exceed those currently prevailing if performed by

outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be agreed to by Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from Joint Property.

1. **Material Purchased by the Operator or Non-Operators.**
   Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.
2. **Division in Kind**
   Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator to the Joint Account.
3. **Sales to Outsiders**
   Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless agreed to by Operator and Non-Operators shall be priced on the following basis:

1. **New Price Defined**
   New price as used in this Section VI shall be the price specified for new Material in Section IV.
2. **New Material**
   New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).
3. **Good Used Material**
   Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:
   A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
   B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five per cent (75%) of new price.
4. **Other Used Material**
   Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:
   A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
   B. Is serviceable for original function but not suitable for reconditioning.
5. **Bad-Order Material**
   Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.
6. **Junk Material**
   Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.
7. ***Temporarily Used Material***
   When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. 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 inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operators 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 Operator and Non-Operators.

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated July 25,1973, between Dalport Oil Corporation as Operator, and J. Frank Stringer et al as Non-Operator. Operator shall at all times during the term of this Agreement, carry insurance to protect the parties hereto as follows:

1. Workmen's Compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employer's liability insurance with a limit of not less than $100,000.

2. Comprehensive general public liability insurance, excluding products liability insurance, with limits of not less than: $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident, and $100,000 for loss of or damage to property in any one accident and $100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

3. Automobile public liability insurance covering all automotive equipment used in performance of work under this Agreement with limits of not less than: $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident, and $50,000 for loss of or damage to property in any one accident.

If automotive equipment used is owned exclusively by Operator, no charge will be made to the Joint Account for premiums for this coverage except as provided in Section IV, Paragraph 5 of the Accounting Procedure.

Operator from among the parties hereto to act as Operator hereunder, provided if there are only two parties to this contract and their interests are equal the Non-Operator shall have the right and option to become Operator. Should Operator or any successor operator hereunder resign as Operator, its rights, titles and interests in the Joint Leases shall be unaffected by such resignation and that party shall thereupon become one of the Non-Operators hereunder and shall thenceforth be bound by the terms and provisions hereof as a Non-Operator. Any party hereto designated as Operator to succeed the Operator herein named shall thereupon succeed to all the duties, powers, obligations, rights and authority given to the Operator herein named with respect to all operations of every kind thereafter conducted on the Joint Leases for developing and managing the leases and producing, treating, handling and marketing of oil, gas and other minerals therefrom, as well as the payment of rentals, royalties, taxes and other charges which may arise or become due in connection with operations.

13. FORCE MAJEURE: In the event of any party hereto being rendered unable, wholly or in part, by force majeure to carry out its obligations under this contract, other than the obligation to make payments of amounts due hereunder, it is agreed that upon such party's giving notice and reasonably full particulars of force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, then the obligations of the party giving the notice, so far as they are affected by force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure shall so far as possible be remedied with all reasonable dispatch.

The term "force majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests and restraints of government and people, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or lines of pipe, partial or entire failure of natural gas wells and any other causes, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension. The term shall likewise include (a) in those instances where any party hereto is required to obtain servitudes, right of way grants, permits or licenses to enable it to fulfill its obligations hereunder, the inability of the party to acquire or the delays on the part of the party in acquiring, at reasonable cost and after the exercise of reasonable diligence, the servitudes, right of way grants, permits or licenses; and (b) in those instances where any party hereto is required to furnish materials and supplies for the purpose of constructing or maintaining facilities to enable the party to fulfill its obligations hereunder, the inability of the party to acquire, or the delays on the part of the party in acquiring, at reasonable cost and after the exercise of reasonable diligence, the materials and supplies and the inability of the party to secure, or the delays in securing, after the exercise of reasonable diligence, permission from any governmental agency to use materials and supplies which the party may have in its possession.

It is understood and agreed that the settlement of strikes and lockouts shall be entirely within the discretion of the party having the difficulty, and that the above mentioned requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of opposing party when such course is inadvisable in the discretion of the party having the difficulty.

14. NOTICES: All notices herein provided for shall be mailed or sent to Operator at Dallas, Texas

and to Non-Operators as follows:

at J. Frank Stringer P.O.Box 3037, San Angelo, Texas 76901

at Dr. James C. Womack Suite 8, Medical Arts Bldg.,San Angelo,Texas .76901

at Edwin S. Mayer, Jr. P.O. Box 1741, San Angelo, Texas 76901

at J. A. March III 2509 Nasworthy Drive, San Angelo, Texas 76901

at Guy A. Swartz P.O. Box 3037, San Angelo, Texas 76901

at

at

at

at

at and

at

15. ARBITRATION: In case of disagreement as to any matter relating to operations hereunder which cannot be settled amicably, then, upon five (5) days' written notice given by one or more parties hereto to the others, the matter in disagreement shall be submitted to a board of three arbitrators. Non-Operators agree to appoint one arbitrator and Operator agrees to appoint one arbitrator. Such appointments shall be made within ten (10) days after the notice is given. Should either Operator or Non-Operators fail or refuse to appoint an arbitrator within the time specified, the party or parties hereto appointing an arbitrator, upon five (5) days' written notice to the party or parties failing or refusing to appoint an arbitrator, may apply to the person who is the judge then senior in office of the District Court of the United States of America having jurisdiction for the the Southern District of Texas or any federal court of similar jurisdiction for the appointment of such second arbitrator, and in such case the person so appointed shall act as a second arbitrator. The third arbitrator shall be chosen promptly by the two so appointed. All three arbitrators shall be disinterested practical oil operators. Pending a decision of the board of arbitrators, the parties hereto shall remain bound by the express terms hereof. Any and all decisions rendered by a majority of the board of arbitrators shall be final and binding upon the parties hereto, and adjustments shall be made in conformity with their award.

16. TERM: Unless terminated by agreement of all parties hereto, this contract shall continue in force and effect as long as the Joint Leases, or any of them, remain in force and effect.

17. PARTIES BOUND: This contract shall be binding upon the parties hereto and their heirs, successors and assigns. All parties hereto are referred to in the neuter gender.

EXECUTED in duplicate originals this the day of August, A. D. 19 73

Edwin S. Mayer, Jr.

J. A. March III

Guy A. Swartz

J. Frank Stringer

Dr. James C. Womack

NON-OPERATORS

DALPORT OIL CORPORATION

By

OPERATOR

Range 31 E

Township 12 S N.

6 5 4 3

7 8 9 10

18 17 16 15

19 20 21 22

30 29 28 27

33 34

Dalport
NSP
R-B, Stringer

Dalport
*1
Comp. 8-4-73
2607'

Dalport
NSP
R-B, Stringer

Terra-Fed
320 Ac Gas
Unit

comp
8-30-70
2535-42

*1
Terra-Fed

NM 0314228

EXHIBIT 1
Location Plat

Chaves Co.

ADDRESS Chaves Cty., New Mexico

	No.	ITEMS	Date	Total	Credit	Balance
	7-3	Federal Abstract Company		85 48		85 48
	7-3	Lawyer's Title Ins. Corp. (Federal Abst. of Title)		53 00		138 48
	7-3	West Engineering Co. (Lease location & survey)		260 00		398 48
	7-20	Huckaman, Mc Rae, Seay & Laughlin (Dft. Opinion)		150 00		548 48
	8-24	Continental-Emsco Co.		3855 57		4404 05
	8-24	Halliburton Co.		811 54		5215 59
	8-24	Halliburton Co.		1983 14		7198 73
	8-24	Bearing Service & Supply Co.		696 18		7894 91
	8-24	American Mud Company		1770 06		9664 97
	8-24	American Mud Company		69 59		9734 56
	8-24	American Mud Company		1103 89	1838.84	10843 45
	8-24	American Mud Company		660 36		11503 81
	8-24	Schlumberger Well Service		2424 93		13928 74
	8-24	R R Foster Casing Company		338 00		14266 74
	8-24	Sweatt Construction Company		5830 73		20097 47
	9-1	Core Laboratories, Inc.		73 84		20171 31
	9-1	Core Laboratories, Inc.		56 16		20227 47
	9-9	Ryan, Kemp, Steib & Middlebrook (Contract for Partial Assign. of W.I.)		37 50		20264 97
	9-9	Cactus Drilling Company (Dft. Texas Ltd. No 11)		17697 38		37962 35
	9-9	Cactus Drilling Company (Expenses)		162 82		38125 47
	9-9	Cactus Drilling Company (Day work)		2193 98		40319 45
	9-23	Ray R. Swaity Geological (7-20-70 thru 8-4-70)		633 42		40952 87
	9-23	Ray A. Swaity Geological & expenses		178 00		41130 87
	9-23	O Thomas Sturges - expenses & supervision		502 98		41633 85
	10-7	Perry Corporation		77 22		41711 07
	10-7	Continental-Emsco Co.		203 70		41914 77
	10-7	Mark Chase, Inc.		969 25		42884 02
	10-7	Mc International, Inc.		374 40		43258 42
		Mc Mahon, Inc.		161 00		43419 42

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 5
CASE NO. 5537

ADDRESS Chaves Cty., New Mexico

TO	ITEMS	DEBIT	CREDIT	BAL
10-7	Balance carried forward			4321633
10-7	Two State Tk Rental Co	22360		4344043
10-7	The Permian Corporation	168000		4512043
10-7	Western Oil Transportation Company	8736		4520779
10-7	Western Oil Transportation Company	16973		4537752
10-7	Sweatt Construction Co	10460		4548212
10-7	Sweatt Construction Co	8580		4556792
10-7	Sweatt Construction Co	5118		4561910
10-7	Southwestern Laboratories	2560		4564390
10-9	Tom D Swartz	6510		4570900
10-14	Halliburton Company	292452		4992952
10-23	Halliburton Company	23452		4996404
10-23	Bond Cat Drc	3126		4997532
10-23	Standard Corporation	1539		4997071
10-23	Standard Corporation	153349		5131498
11-26	Sweatt Construction Company	55003		5186501
9-4	Misc. office expenses as listed	16891		5355362
7-27	George S. Talbraith - Commission - consulting	500000		5855362

$5855362
- 183884
5671478
- 500000
$ 171478

Mailing Card No.

ADDRESS Chaves County, New Mexico : Box Office Expenses

Date 70	ITEMS	Folio	DEBITS	CREDITS	BALANCE
6-1	Cecil Constam		10 43		10 43
6-1	Rocky Texas Well Log Service		13 17		23 60
6-30	Box Office Expense for June		214 98		238 58
7-6	Lone Texas Electrical Log Service		15 23		253 81
7-6	Lorcombe - Blanton		38 09		291 90
7-6	Mc Elroy		42 93		334 83
7-6	Petroleum Club of Midland		35 92		370 80
7-31	Box Office Expense for July		282 25		653 05
8-7	Petrol cash		250 00		903 05
8-12	Lone Star Production		22 62		925 67
8-13	Box Office Expense thru 8-15-70		255 15		1180 82
8-31	Box Office Expense - 8-15-70 thru 8-31-70		165 98		1346 80
9-4	Gen. Angelo Light Service - (Gen. Mc. well)		180 00		1526 80
9-4	Dowell Company		30 23		1557 03
9-4	American Express		115 93		1672 96
9-4	Lone Star Production		15 65		1688 61

NAME Mrs. Dan D. Jones, Federal #6.1

ADDRESS Orange City, Texas - Commissions

DATE 70	ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	✓	BALANCE
7 27	Jorge L Galbraith			500000				500000 Dr.

P. O. DRAWER 71 INVOICE TELEPHONE 653-5931

CACTUS DRILLING COMPANY

~~XXXXXXXXXXXXXXXXX~~
~~XXXXXXXXXXXXXXXXX~~
~~XXXXXXXXXX XXXXXXXXX~~
P. O. Box 2218
Dallas, Texas 75221

INVOICE NO. 834 Rig 8

DATE 8 26 70

TO: J. Frank Stringer
P. O. Box 3037
San Angelo, Texas

FOR: Expense incurred while drilling your Terra Federal #1 well, located in ~~Chaves, New Mexico~~

Jones Laughlin Supply	299	8 14 70	$ 14.35
Hardin-Houston, Inc.	5185	8 14 70	1148.47
			$1162.82
		Less Water Clause Expense	1000.00
			$ 162.82

Paid 9.9.70
ck. # 491

P. O. DRAWER 71 | INVOICE | TELEPHONE 653-5931

CACTUS DRILLING COMPANY

P. O. Box 2218
Dallas, Texas 75221

INVOICE NO. 823 Rig 8

DATE 8 21 70

TO: J. Frank Stringer Oil
P. O. Box 3037
San Angelo, Texas

FOR: Day work incurred in the drilling of your Terra Federal #1 well in Chaves County, New Mexico

8 1 70	Circulate & trip to core	2½	1000.00	
8 2 70	Core 2550-2596 & ream core hole	17¼	1000.00	
8 8 70	Circulate & trip to log	5	1000.00	
	Logging	10 3/4	900.00	
	Trip back to bottom	5¼	1000.00	
	Circulate & wait on order	11	1000.00	
		41	1000.00	1708.33
		10 3/4	900.00	403.13
				2111.46
	4% New Mexico School Tax			84.46
				2195.92

Paid 9-9-70
Ck. # 492

OFFICE PH. 949-1957

RES. PH. 949-7018

GUY A. SWARTZ
CONSULTING ENGINEER - GEOLOGIST
2807 TANGLEWOOD
SAN ANGELO, TEXAS 76901

Not to be executed

August 28, 1970

Statement of Expenses and Mileage for work on the Terra-Federal No. 1, Chaves County, New Mexico as shown below:

Mileage:	July 20	557 mi.	
	July 31		
	Aug. 1		
	Aug. 2	797 mi.	
	Aug. 4		
	Aug. 5		
	Aug. 6		
	Aug. 7		
	Aug. 8		
	Aug. 9		
	Aug. 10	1554 mi. = Total	2908 miles

2908 miles @ .15¢	$	436.20
Meals, Tel. & Mis'c.		80.00
Motel		107.22
Total	$	623.42

Paid 9-23-70
cks. #514
(apr. acct.)

OFFICE PH. 949-1957

RES. PH. 949-7018

GUY A. SWARTZ
CONSULTING ENGINEER · GEOLOGIST
2807 TANGLEWOOD
SAN ANGELO, TEXAS 76901

August 28, 1970

S T A T E M E N T

J. Frank Stringer
P. O. Box 3037
San Angelo, Texas

Statement for Geological services on your Terra-Federal No. 1 well, Chaves County, New Mexico:

1 day	$100.00
520 miles @ .15¢	~~78.00~~ 178.00
Total ..	~~$78.00~~ 178.00

Paid 9-23-70
Ck. #514
(Oper. acct.)

Office Phone 949-1957
Night Phone 949-1691

STATEMENT

J. FRANK STRINGER

P. O. Box 3037
SAN ANGELO, TEXAS

To

DATE: Sept. 30, 1970

LEASE: Terra-Federal
Chaves County, N.M.

WELL NO.: 1

PLEASE MAKE CHECKS PAYABLE TO J. FRANK STRINGER. AND MAIL TO P. O. BOX 3037. SAN ANGELO. TEXAS

Statement for expenses paid by J. Frank Stringer during the months of July, August & September in connection with drilling our jointly owned Terra-Federal No. 1 well:

Long Distance Telephone calls	$ 175.38
+ 10% Federal Tax	+ 17.54
Total Telephone	$ 192.92
J. Frank Stringer Operation for month of September per Operating Agreement	$ 110.00
Total This Statement	$ 302.92

INVOICE NO. 8819 DATE September 17, 1970

To Frank Stringer
P. O. Box 3037
San Angelo, Texas - 76901

PLEASE REMIT TO:
DRAWER 258
ARTESIA, NEW MEXICO
88210

BERRY CONSTRUCTION

PHONE:
746.3434 – ARTESIA, N. M.
682.4054 – GILLETTE, WYO.

TERMS: NET 30 DAYS

LOCATION Terra Federal # 1

9-7-70	4 1/2 Hrs Dozer		16.50	74. 25
	4% Sales Tax			2. 97
				$ 77. 22
	Pulled Truck Down Caprock (Ordered By Mack Chase)			

Paid 10-7-70
Ck. #589
(Lea. apr.)

APPROVED BY _____

CE FORM 260
REV. 6-69

CONTINENTAL - EMSCO COMPANY

A DIVISION OF YOUNGSTOWN SHEET AND TUBE COMPANY
DALLAS, TEXAS

ORIGINAL INVOICE

STORE LOCATION:	SELLING LOCATION:	DATE SHIPPED	INVOICE NO.	PART OF NO.
HOBBS, NEW MEXICO	HOBBS, NEW MEXICO	08 11 70	1398650	

CUSTOMER ORDER REFERENCE (Purchase Order No., Ordered By, Etc.)	CUSTOMER'S LOCATION CHARGE	ORDER ATTACHED TO INVOICE NO.	INVOICE DATE
SWARTZ	TERRA FED. #1		08 31 70

SOLD TO:
J FRANK STRINGER
BOX 3037
SAN ANGELO TX 76902

SHIPPED TO
CAPROCK, N.M.

SHIPPED VIA
COMPANY VEHICLE 178-20

00 493 9740

D-U-N-S 00 493 9740

QUANTITY	UNIT	DESCRIPTION (THE MATERIAL LISTED HEREON IS SUBJECT TO THE TERMS AND CONDITIONS LISTED ON REVERSE SIDE)	UNIT PRICE	DISCOUNT (*DENOTES PLUS FACTOR)	AMOUNT	KEY (See Below)
1	EA	VALVE, PLUG, ROCKWELL 142 2 IN 175# WOG	25.50	31	17.60	N
1	EA	8-5/8IN OD 8RD. MALE X 4-1/2IN CO CASING HD. COMP.	173.00	NET	173.00	
1	EA	2 IN STD BULL PLUG	2.95	NET	2.95	N
1	EA	2 X 6 IN STD BLK SMLS PIPE NIPPLE	1.35	NET	1.35	
140	MI	COMPLIMENTARY DELIVERY CHARGE	28.00	NET	N/C	

New Mexico
Terra Fed
to be assessed

Paid 10-7-70
Ck. #590
Ck. See. appr.

TAXES

7.80 NEW MEXICO TAX — DETAIL | TOTAL → 7.80

DISCOUNT KEY:
N - NET 1 - 1%
G - ½% 3 - 2% 10 DAYS
IF THE SPACE IN KEY COLUMN IS BLANK, TERMS ARE 2% 10TH FOLLOWING.

PROMPT PAYMENT DISCOUNT
IF PAYMENT IS MADE IN ACCORDANCE WITH TERMS ON REVERSE SIDE 3.64

INVOICE AMOUNT → 202.70

REMIT TO: P. O. BOX 809 DALLAS, TEXAS 75221

PHONES: 746-4877
746-3692

MACK CHASE, Inc.

P. O. BOX 254
ARTESIA, NEW MEXICO 88210

INVOICE NO. 70909

TO:

Frank Stringer
Att'n: Guy Schwartz
P. O. Box 3037
San Angelo, Texas

DATE Sept. 18, 1970

LEASE: Terra Federal WELL NO. 1 PURCHASE ORDER NO.

DATE	SERVICES RENDERED	HOURS	RATE	AMOUNT
	Pole Unit 3 man crew.			
9-8-70	Moved to location(Used bulldozer to get rig down the hill), rigged up.	6	23.00	$138.00
9-9-70	Rigged up perforators, logged anf perforated, ran packer on tubing and acidized well. Pulled tubing and packer out, helped Halliburton rig up and fraced well. Shut down.	12	23.00	276.00
	Power Tongs			35.00
9-10-70	Laid flow line from well to frac tank, bled well off. Well flowing back on choke. Installed fence around oil pits and shut down.	10	23.00	230.00
9-11-70	Hooked up connections to check cubic feet of gas. Tested well, shut it in and rigged down.	11	23.00	253.00
	4% New Mexico Sales Tax			37.28
				$969.28

RECEIVED
SEP 21 1970
RECEIVED

Paid 10-7-70
Ck. #591
Lse. Op.

INVOICE

P. O. BOX 1936 / FORT WORTH, TEXAS 76101

TO:

J. Frank Stringer
Box 3037
San Angelo, Texas

TERMS: NET—30 days

DATE: Sept. 15, 1970
CUSTOMER NO.:
INVOICE NO.: 007003
CUSTOMER'S ORDER NO.:
JOB TICKET NO.: 10215
DATE OF SERVICE: 9/9/70
LEASE & WELL NO.: Terra Fed. #1
FIELD: W/C
COUNTY: Chaves
STATE: New Mexico

DESCRIPTION	AMOUNT
Service Charge	$150.00
Ran GR Correlation Log	NC
Perforate with Densi Jet DML with 2 shots per ft. from 2535-2542 with 14 shots	190.00
DML Charge-Minimum	20.00
Sub total	360.00
4% New Mexico Tax	14.40
Total	$374.40

2

Orsen to Partners

Paid 10-7-70
Ck. # 592
Lse. Opr.

FORM NO. 118

EFTELLER, INC.
reservoir engineering data
P. O. BOX 5247
MIDLAND, TEXAS 79701

Invoice No. 9-3998

Sept. 21, 1970

Issued To:

The Stringer Company
P. O. Box 3037
San Angelo, Texas

Attention: Mr. Guy Swartz

Your Order No.
Date Sept. 15, 1970
Well No. Terra Federal No. 1
Field Wildcat
County Chaves
State New Mexico
Our Service Report No. 3998
Our Job No. 3-3998-OFP

DESCRIPTION OF SERVICE RENDERED	AMOUNT
Open Flow Potential Measurement	
1st 4 hours	$ 75.00
4 additional hours @ $10.00/hour	40.00
1 round trip, 350 miles @ $.15/mile	52.50
TOTAL	$ 167.50

RECEIVED
SEP 22 1970
RECEIVED

Paid 10-7-70
ck. #593
(Joe Opr.)

Terms: Net Cash 30 days.
Retain This Invoice for Your Files; We Do Not Invoice Again and Send Statements.

Phone (505) 393-9610

TWO-STATE TANK RENTAL Company

HOBBS ★ ARTESIA ★ BIG LAKE

Mail Remittance
Box 2305
Hobbs, N.M. 88240

TO

J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 76901

Date September 16, 1970
Your Order No.
Invoice No. 914
Our Field Receipt 3823
Location Terra Federal #1

		UNIT PRICE	TOTAL
1	500 bbl. Tank Rental 5-day Minimum	115.00	$115.00
10	Extra Days on 1 Tank (Set 9/1/70 Charged thru 9/15/70)	10.00	100.00
			215.00
	4% New Mexico Tax		8.60
			$223.60

To be assessed FK 9/75

RECEIVED
SEP 17 1970
RECEIVED

Paid 10-7-70
ck. #594
Lea-Apr-

84450

INVOICE

THE PERMIAN CORPORATION No. 9 - 3687

P. O. BOX 3119 MUtual 3-4711

MIDLAND, TEXAS 79701

PLEASE REMIT TO ▶ P. O. BOX 1086 HOUSTON, TEXAS 77001

RETURN ONE COPY OF INVOICE WITH REMITTANCE

SOLD TO

J. Frank Stringer
Box 3037
San Angelo, Texas 76901

INVOICE DATE September 15, 1970
MAILING DATE September 15, 1970
ORDER NO.
CONTRACT:
TERMS Net Due Upon Receipt of Invoice

FROM: Stg. (157) TO: Terra Federal ✓

DATE	TICKET NO.	ITEM	PRICE	GR.	BBLS/GALS	AMOUNT
9-2-70	72660	Crude Oil	$3.50		480.00	$1,680.00

Paid 10-7-70
Ck. #596
Sec - opr -

RECEIVED
SEP 16 1970
RECEIVED

Lea County, New Mexico

C-3

INVOICE

WESTERN OIL TRANSPORTATION CO., INC.

P. O. BOX 3120 MIDLAND, TEXAS 79701
Phone MU 3-4721

No. 14810

Date September 30, 1970 P. O. No

From: Tierra Federal 35 Miles NW of Maljamar

Shipper J. Frank Stringer Consignee Same

To: Tierra Federal 35 Miles NW of Maljamar

Hauled by authority of SCC Permit No. 1337 Tariff No. 17 Item No. 150 Mileage One Way

Sold To J. Frank Stringer Rate Per Hour $14.00

Box 3037 Rate Per Bbl.

San Angelo, Texas 76901 Rate Per Gal.

84450 Rate For Pump

DATE	B/L #	PRODUCT OR DESCRIPTION	GALLONS	BARRELS	HOURS	AMOUNT
9-16-70	2349	Crude Oil			6.0	$84.00
		4% New Mexico State School Tax				3.36
						$87.36

RECEIVED
OCT 2 1970
RECEIVED

Paid
10-7-70
ck #597
(Lea-oper.)

124S-10M-6-70

C-3

INVOICE

WESTERN OIL TRANSPORTATION CO., INC.

P. O. BOX 3120 MIDLAND, TEXAS 79701
Phone MU 3-4721

No. 14455

Date September 23, 1970 P. O. No

From: Maljamar A/C 157 1 Miles E of Maljamar

Shipper The Permian Corporation Consignee J. Frank Stringer

To: Terra Federal 33 Miles N of Maljamar

Hauled by authority of SCC Permit No. 1337 Tariff No. 17 Item No. 120 Mileage One Way 33

Sold To J. Frank Stringer Rate Per Hour

Box 3037 Rate Per Bbl. $0.34

San Angelo, Texas 76901 Rate Per Gal.

84450 Rate For Pump

DATE	B/L #	PRODUCT OR DESCRIPTION	GALLONS	BARRELS	HOURS	AMOUNT
9-2-70	2329			160.00		
9-2-70	7739			160.00		
9-2-70	21921			160.00		
		Crude Oil		480.00		$163.20
		4% New Mexico State School Tax				6.53
						$169.73

Paid 10-7-70
Ck. # ~~5905~~ 5971 (Sec-Agri)

124S-10M-6-70

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS • PITS • LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3318

DATE September 21, 1970

W. J. (BILL) SWEATT
RES. 1503 BUSH
746-3749 — ARTESIA

Sold To J. FRANK STRINGER
BOX 3037
SAN ANGELO, TX 76901

LOCATION TERRA FEDERAL # 1

Assess to Partners

WORK ORDER NO.

WORK PERFORMED: Cattleguard rental

Date	Description	Rate	Hrs.	Amount
9/9/70	Cattleguard rental on two cattleguards (8-30-70	/9-30-70)		
		$50.00	each	$100.00
			tax	4.00
				$104.00
	THANK YOU			

RECEIVED
SEP 28 19..
RECEIVED

Paid 10-7-70
#598

1080A—Bryan Printers & Stationers

(241.28 Total of 3)

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS • PITS • LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3346

DATE Sept. 29, 1970

W. J. (BILL) SWEATT
RES. 1503 RUSH
746-3749 — ARTESIA

Sold To J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS 76901

LOCATION Terra Fed. Well # 1
WORK ORDER NO.
WORK PERFORMED: Pulling trucks up hill (Permian Trucking)

Date	Description	Rate	Hrs.	Amount
9/16/70	Dozer w/oper.	16.50	5	82.50
			Tax	3.30
				$85.80

THANK YOU

Paid 10-7-70
ck. # 598

RECEIVED
OCT 1 1970
RECEIVED

1080A—Bryan Printers & Stationers

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS • PITS • LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3319

DATE 9/21/70

W. J. (BILL) SWEATT
RES. 1503 BUSH
746-3749 — ARTESIA

Sold To J. FRANK STRINGER
~~TERRXXXXXXXXX~~
~~P.O. BOX 3037~~
SAN ANGELO, TX 76901

LOCATION TERRA FED. # 1 Assess to Partners
WORK ORDER NO.
WORK PERFORMED: Furnish equipment and labor to pull pulling unit up hill.

Date	Description	Rate	Hrs.	Amount
9/11/70	Dozer w/oper.	$16.50	3	$49.50
			tax	1.98
				$51.48
	THANK YOU			
		Paid	ck. #598 10-7-70	

RECEIVED
SEP 28 1970
RECEIVED

1080A—Bryan Printers & Stationers

SOUTHWESTERN LABORATORIES

FORT WORTH DALLAS HOUSTON MIDLAND BEAUMONT TEXARKANA

P. O. BOX 1379 FORT WORTH, TEXAS 76101

INVOICE/STATEMENT FOR TESTING AND/OR INSPECTION

STATEMENT INVOICE NO. B 3380

TO The Stringer Company

P. O. Box 3037

San Angelo, Texas 76901

DATE September 25, 1970

RETURN ONE COPY OF INVOICE WITH REMITTANCE

TERMS: NET 30 DAYS - NO DISCOUNT

MATERIAL	NAME OF JOB	ORDER NO.	FILE NO.
Gas	Terra Federal No. L		C-1903-G

DATE	LAB. NO.	DESCRIPTION	UNIT PRICE	TOTAL
9-18-70	C-6673	1 Fractional Analysis		$25.00

Paid 10-1-70
Ck. # 599
(See apr.)

RECEIVED
SEP 30 1970
RECEIVED

ORIGINAL

OFFICE PH. 949-1957

RES. PH. 949-7018

GUY A. SWARTZ
CONSULTING ENGINEER · GEOLOGIST
2807 TANGLEWOOD
SAN ANGELO, TEXAS 76901

September 15, 1970

S T A T E M E N T

Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas

Statement for Geological-Engineering services in connection with the completion of your Terra-Federal No. 1 well, Chaves County, New Mexico:

3½ days (Sept. 8, 9, 10 & 11th) @ $125.00	$	437.50
Mileage 1074 mi. @ .15¢.....		161.10
Motel & meals		52.50
Total	$	651.10

Paid
10-9-70
Ck. #600
(Lee. opr.)

HALLIBURTON

A DIVISION OF HALLIBURTON COMPANY
FORM 1906-R1

ORIGINAL

SEND ALL REMITTANCES TO
P. O. DRAWER 1431
DUNCAN, OKLAHOMA 73533

PAGE 1 OF 1 PAGES

INVOICE & TICKET NO. 341860

WELL NO. AND FARM: #1 Tenn Federal | COUNTY: Lea | STATE: N Mex | DATE: 9-9-70

OWNER: J. Frank Stringer | CONTRACTOR: Chase Well Serv. | DUNCAN USE ONLY

CHARGE TO: J. Frank Stringer | DELIVERED TO: Location | LOCATION 1: Lovington | CODE: 20555

ADDRESS: Box 3037 San Angelo - Texas 76901 | SHIPPED VIA: Co Truck | LOCATION 2: Orla Jct. | CODE: 20310

DUNCAN USE ONLY

855450
3

J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS 76901

CUST. INV. REQ. ORIG. & ☐ 1 ☐ 2 ☐ 3 ☐ 4 R1 | REQUISITION | LOCATION 3 | CODE

ORDER NO. | BULK MATERIAL DELIVERY TICKET NO. B-

TOTAL ACID - 30 DAYS | WELL TYPE: Wildcat | CODE: WC

NO. COPIES 11

TYPE AND PURPOSE OF JOB: Acidize & Loss Circ. Sand Frac. Perfs.

TERMS: Net — DUE BY THE 20TH OF FOLLOWING MONTH. INTEREST CHARGED AFTER 60 DAYS FROM DATE OF INVOICE.
$ _____ Cash discount allowed if paid by due date.
$ _____ Tax adjustment may be deducted if discounted.

PRICE REFERENCE	SECONDARY REF. OR PART NO.	CODE L	CODE O	DESCRIPTION	UNITS 1 QTY.	UNITS 1 MEAS.	UNITS 2 QTY.	UNITS 2 MEAS.	UNIT PRICE	AMOUNT
301-002		1	0	Fluid pumping Chg	1320	TMI	220	MI	1.05	1390 20
221-200		1	0	Immersion	30	BBM			233	233 00
311-790		1	0	Additive Mark II	375	Lbs			.67	251 25
210-121		1	0	50-50	25	SAK			8.50	212 50
221-001		1	0	Acid	100	Gal	15	%	.24	120 00
219-602		1	0	AIE Agent	3	Gal			8.00	24 00
210-005		1	0	Gilsonite	.5	SAK			7.00	3 50
207-206		1	0	Manual Injector	1	EA			45.00	45 00
213-122		1	0	DCI	30	Lbs			.41	12 30
				Rec'd						
510-107		2	B	Bulk Tic Sand 20-40	225	SK			1.91	429 75
				SERVICE CHARGE ON MATERIALS RETURNED		CU. FT.				
				SERVICE CHARGE		CU. FT.				
510-461		2	B	77500 TOTAL WEIGHT 110 LOADED MILES	450	TON MILES			23	103 50

TAX REFERENCES

SUB TOTAL				2825 90
800-029	1	NM	TAX	98 62
			TAX	
			TAX	
			TOTAL	2924 52

WAS JOB SATISFACTORILY COMPLETED? _____
WAS OPERATION OF EQUIPMENT SATISFACTORY? _____
WAS PERFORMANCE OF PERSONNEL SATISFACTORY? _____

X Guy A. Swartz
Customer or His Agent

Charles Stroope
Halliburton Operator

RECEIVED
SEP 21 1970
RECEIVED

Paid 10-14-70
Ck. #605
(Inv. Opr. Acct.)

X _____

HALLIBURTON

FORM 1917 A DIVISION OF HALLIBURTON COMPANY

ORIGINAL

SEND ALL REMITTANCES TO
P. O. DRAWER 1431
DUNCAN, OKLAHOMA 73533

CONTRACT INVOICE & TICKET NO. SA 301218

DATE	CUSTOMER ORDER NO.	WELL NO. AND FARM	COUNTY	STATE
9-9-70		#1 Terra Federal	Chaves	New Mexico

DELIVERED FROM	CODE	DESTINATION	SHIPPED VIA	CHARGES	PPD. BY HALLIBURTON ☐ SHIPPED COLLECT ☐
Lovington	20355		Called For		

DEPT.	TYPE OF WELL - DESC.	CODE	OWNER	CONTRACTOR
		OC	J. Frank Stringer	

CHARGE TO	MAILING ADDRESS	CITY AND STATE
J. Frank Stringer	Box 3037	San Angelo, Texas

DUNCAN USE ONLY

855450
3

J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS 76901

CUST. INV. REQ. ORIG. & NO. COPIES
☐ 1
☐ 2
☐ 3
☐ 4

We certify that the Fair Labor Standards Act of 1938, as amended, has been complied with in the production of goods and/or with respect to services furnished under this contract.

TERMS: DUE BY THE 20TH OF FOLLOWING MONTH, INTEREST CHARGED AFTER 60 DAYS FROM DATE OF INVOICE.
$ 4.51 Cash discount allowed if paid by due date.
$ .18 Tax adjustment may be deducted if discounted.

PRICE REF.	SECONDARY REF. OR PART NO.	DESCRIPTION	1 UNITS	2 UNITS	UNIT PRICE	AMOUNT
915	838.9316	4½" R-4 PackerP/C.	1 ea		225.50	225.50

TAX REFERENCE
800-029 ___ ___ CM

SUB TOTAL	225.50
TAX	9.02
TAX	
TOTAL	234.52

HALLIBURTON SALESMAN

X _____
Customer or His Agent

As consideration, the above-named Customer agrees to pay Halliburton in accordance with the rates and terms stated in Halliburton's current price lists. Halliburton warrants only title to the products, supplies and materials and that the same are free from defects in workmanship and materials. There are no warranties, express or implied, of merchantability, fitness or otherwise which extend beyond those stated in the immediately preceding sentence. Halliburton limits its liability for breach of any warranty or for damages resulting from its negligence with respect to the use of such products, supplies or materials to the replacement of such products, supplies or materials on their return to Halliburton, or at Halliburton's option, to the allowance to Customer of credit for the cost of such products, supplies or materials. Upon Customer's default in the payment of Customer's account 60 days after receipt of invoice, such account will be subject to interest after date of invoicing until paid. In the event it becomes necessary to employ an attorney to enforce collection of such account, Customer agrees to pay all collection costs and attorney fees in the amount of 20 per cent of the amount of the unpaid account.

RECEIVED
SEP 21 1970
RECEIVED

Paid 10-23-70
ck. # 612

INVOICE

assess Terra Federal

BOND-COAT, INC.

P. O. DRAWER 631 / 915 563-2323 / MIDLAND, TEXAS 79701

SOLD TO
Mr. J. Frank Stringer
P.O. Box 3037
San Angelo, Texas 76902

INVOICE NO. 970-14
JOB TICKET NO. 415
INVOICE DATE September 30, 1970
LEASE
WELL P. O. NO. 250678
COUNTY Ector STATE Texas
ORDERED BY Mr. G.G. Stegall

Terms: Net 30 days. All invoices payable in Midland, Midland County, Texas. Interest charged at 8% per annum on past due accounts.

Quantity	Description	Unit Price	Amount
2 jts.	4 1/2" 11.60# N casing crushed flint with RUFF COTE process - 100 Ft. Min.	$1.95/Ft	$ 195.00
	64.34 Ft. 4 1/2" O.D. x 11.60# Grade N-80 LT&C Range 2 API New Seamless Steel Casing @ $172.01 CFT APEX Pipe, Inc. Inv. #9-778-70 Re: Ticket Attached		110.67
	Plus: $.87 cwt Houston to Midland on 746#- APEX		6.49
	Thank You		
	Paid 10-23-70 ck. # 613		
		TOTAL DUE	$ 312.16

J. Frank Stringer
P.O. Box 3037
San Angelo, Texas 76901

STANDARD CORPORATION

OILFIELD SUPPLIES — D + B DISTRIBUTOR
PHONE 505 746-3692 — P. O. BOX 818
ARTESIA, NEW MEXICO 88210

ORIGINAL **Invoice**

COUNTER ORDER AND INVOICE NO. 03229

INVOICE DATE 9-28-70

CUSTOMER ORDER NO.	ORDERED BY	STORE
Nor	Guy Swartz	Loco Hills

FILLED BY: Mueller
DATE SHIPPED: 9-17-70
SHIPPED VIA: Delivered
LOCATION CHARGE: Tex. Federal

QUANTITY	UNIT OF MEASURE	DESCRIPTION	SELLING PRICE UNIT	SELLING PRICE DISCOUNT	SELLING PRICE EXTENSION	COST AMOUNT UNIT	COST AMOUNT DISCOUNT	COST AMOUNT EXTENSION
2800'	Ft	2" Euo SRD J-55 Tubing (Used)	.40'	N	1,120 00			
1	Ea	2" 3000# CCT Choke Valve (Used)	118 00	-50	59 00			
3	Ea	2" X 12" Std BM Nipples	1 82	N	5 46			
7	Ea	2" Std 90 Deg BM Ells	1 43	N	10 01			
3	Ea	2" EUE SRD X 2" Reg 11-1/2" Comb Tubing Nipples	9 00	N	27 00			
1	Ea	4-1/2" Female Bottom X 2" Larkin Type R Tubing Head						
		(Used)	204 00	-50	102 00			
1	Ea	2" Std BM Tee	2 07	N	2 07			
1	Ea	2" X 6" Std BM Nipple	82	N	82			
2	Ea	2" X 10" Ditto	1 60	N	3 20			
1	Ea	1/2" Fig 500M Cemco Needle Valve	8 00	N	8 00			
1	Ea	2" EUE 8RD 2000# Orbit Valve (Used)	186 00	-50	93 00			
		Continued Page 2						

SIGNATURE OF PERSON RECEIVING MATERIAL

IF PAID BY 10-20-70
DEDUCT 29.49 CASH
DISCOUNT _____ NET THEREAFTER.

SUB TOTAL	
SALES TAX	
TOTAL	

Paid 10-23-70
ck. #614

STANDARD CORPORATION

PAGE 2 OF 2 PAGES

QUANTITY	UNIT OF MEASURE	DESCRIPTION	SELLING PRICE UNIT	SELLING PRICE DISCOUNT	SELLING PRICE EXTENSION	COST AMOUNT UNIT	COST AMOUNT DISCOUNT	COST AMOUNT EXTENSION
1	Ea	2" cwo SRD X 12" BIM Seating Nipple	10 95	N	10 95			
1	Ea	2" EUE SRD Tubing Coupling	3 50	N	3 50			
15	Ea	5-1/2' Steel Posts	1 25	N	18 75			
1	Ea	Roll Barb Wire	10 75	N	10 75			

SIGNATURE OF PERSON RECEIVING MATERIAL

SUB TOTAL	2,474.51
SALES TAX	58.98
TOTAL	$1,533.49

CONTINUATION SHEET OF INVOICE & COUNTER ORDER

Paid 10-23-70 # 614

NO. eb 05229

J. Frank Stringer
P.O. Box 3037
San Angelo, Texas 76901

STANDARD CORPORATION

OILFIELD SUPPLIES — D + B DISTRIBUTOR
PHONE 505 746-3692 — P. O. BOX 818
ARTESIA, NEW MEXICO 88210

ORIGINAL **Invoice**
COUNTER ORDER AND INVOICE NO. 03295
INVOICE DATE 9-29-70 64

CUSTOMER ORDER NO. Nor
ORDERED BY Guy Swartz
STORE Loco Hills
FILLED BY Hope
LOCATION CHARGE Terra Federal #1
DATE SHIPPED 9-17-70
SHIPPED VIA Delivered

QUANTITY	UNIT OF MEASURE	DESCRIPTION	SELLING PRICE UNIT	SELLING PRICE DISCOUNT	SELLING PRICE EXTENSION	COST AMOUNT UNIT	COST AMOUNT DISCOUNT	COST AMOUNT EXTENSION
1	Ea	25# Pail Veco Thread Comp.	14 80	N	14 80			

RECEIVED
OCT 12 1970
RECEIVED

SIGNATURE OF PERSON RECEIVING MATERIAL

IF PAID BY 10-20-70
DEDUCT .29 CASH
DISCOUNT _____ NET THEREAFTER.

SUB TOTAL	14.80
SALES TAX	.59
TOTAL	$15.39

Paid 10-23-70
ck. #614

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS • PITS • LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3406

DATE 11-6-70

W. J. (BILL) SWEATT
RES. 1503 BUSH
746-3749 — ARTESIA

Sold To J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS 76901

RECEIVED
NOV 10 1970
RECEIVED

LOCATION Terra Fed. Well #1
WORK ORDER NO.
WORK PERFORMED:

Date	Description	Rate	Hrs.	Amount
10/20/70	2 - Cattleguards @ 325.00 ea.			650.00
	Less rental paid.			-250.00
				400.00
	Plus timbers =			103.68
	6 - 6x8 - 18 = 103.68			25.20
	4 - 2x10 - 18 = 25.20			528.88
			Tax	21.15
				$550.03

THANK YOU

Pay and assess
63

Paid 11-20-70
ck. #628

1080A—Bryan Printers & Stationers

J. FRANK STRINGER
Operating Account
P. O. Box 3037
San Angelo, Texas 76901

THE FIRST NATIONAL BANK
OF SAN ANGELO, TEXAS

No. 328

88-87
1113

SAN ANGELO, TEXAS July 27, 19 70

Pay to the order of George S. Galbraith $ 5,000.00

REGISTERED 5000 DOLS 00 CTS Dollars

THIS CHECK IS IN FULL SETTLEMENT OF ACCOUNT AS SHOWN HEREWITH. ACCEPTANCE BY ENDORSEMENT CONSTITUTES RECEIPT IN FULL.

Coms. on Chaves County, New Mexico Farmout* Agreement

J. FRANK STRINGER — Operating Account

By J. Frank Stringer

⑆1113⑈0087⑆ ⑈680 608 2⑈ ⑈0005000000⑈

J. FRANK STRINGER
Operating Account
P. O. Box 3037
San Angelo, Texas 76901

THE FIRST NATIONAL BANK
OF SAN ANGELO, TEXAS

No. 328

88-87
1113

SAN ANGELO, TEXAS July 27, 19 70

Pay to the order of George S. Galbraith $ 5,000.00

REGISTERED SEP 1970 5000 DOLS 00 CTS Dollars

THIS CHECK IS IN FULL SETTLEMENT OF ACCOUNT AS SHOWN HEREWITH. ACCEPTANCE BY ENDORSEMENT CONSTITUTES RECEIPT IN FULL

Coms. on Chaves County, New Mexico Farmout Agreement

J. FRANK STRINGER — Operating Account

By J. Frank Stringer

⑈1113⑈0087⑈ ⑈680 608 2⑈ ⑈0000500000⑈

STATEMENT

FEDERAL • P. O. BOX 2288 • SANTA FE, NEW MEXICO, 87501
ABSTRACT Company

STATE • FEDERAL • INDIAN LANDS

•Stubbeman, McRae, Sealy & Laughlin
P.O. Box 670
Midland, Texas 79701
Att: Tevis Head

DATE	DESCRIPTION	AMOUNT
6/17/70	Abstract No. 22797 - NM 0314228	$82.00
	Sales Tax	3.48
		$85.48

Paid 7-3-70
ck. # 255

PAY LAST AMOUNT IN THIS COLUMN

Lawyers Title Insurance Corporation

GESSERT-SANDERS DIVISION
124 EAST 4TH STREET—P. O. BOX 1593
ROSWELL, NEW MEXICO 88201

INVOICE

Tevis Herd
Attorney at Law
Box 670
Midland, Texas 79701

PLEASE REFER TO
ORDER NO. WHEN PAYING

ORDER NO. 48046

June 12 19 70

RE: All Secs. 17, 21 & 28, Tp. 12 S. Rge. 31 E.
Chaves Co. NM

DESCRIPTION OF CHARGES	AMOUNT OF INSURANCE	CHARGES
OWNERS POLICY . . . . $		
MORTGAGEE POLICY . $		
Mineral Abstract of title		$53.00

Paid 7-3-70
ck. # 256

FORM 92-84

INVOICE

IN REMITTING OR CORRESPONDING PLEASE REFER TO INVOICE NUMBER

NO. 570-62

DATE 6-20, 19 70

WEST ENGINEERING CO.
412 NORTH DAL PASO
HOBBS, NEW MEXICO
TELEPHONES: 393-3942 OR 393-6770

CORRECT NAME: J. FRANK STRINGER (J. (JAMES)

Name ~~Jerry~~ Frank Stringer

Address Box 3037

City San Angelo, Texas

DATE	DESCRIPTION	AMOUNT
5-12,13-70	Stake location and run elevation for Fed No. 1	
	Field crew 2 long days @ 125 00	250 00
	4% NM sales tax	10 00
		260 00

Chg new well

Paid 7-3-70
ck. #257

STUBBEMAN, McRAE, SEALY, LAUGHLIN & BROWDER

ATTORNEYS AT LAW
P. O. BOX 670
MIDLAND, TEXAS 79701

DATE July 1 19 70

Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 78201

June	23	Original drilling opinion covering tracts of land in Secs. 17, 21 and 28, T-12-S, R-31-E, NMPM, Chaves County, New Mexico, including examination of United States Lease NM0314228, and farmout agreement, as amended, and dry hole contribution letter agreement	$ 150 00
	TH		

Paid 7-20-70
Ck. # 311

This invoice is payable in Midland, Midland County, Texas
EMP. NO. 75-0590210

CE FORM 260-M
REV. 6-69

CONTINENTAL - EMSCO COMPANY
A DIVISION OF YOUNGSTOWN SHEET AND TUBE COMPANY
DALLAS, TEXAS

ORIGINAL INVOICE

Assessed to all

STORE LOCATION	SELLING LOCATION	DATE SHIPPED	INVOICE NO.
HOBBS N M	SAN ANGELO TEX Equip	8-8-70	D-10317

CUSTOMER'S ORDER REFERENCE (Purchase Order No., Ordered By, Etc.)	CUSTOMER'S LOCATION CHARGE	INVOICE DATE
NONE SWARTZ	#1 TERRA FEDERAL	8-18-70

SOLD TO -
J FRANK STRINGER O
BOX 3037
SAN ANGELO TEX 76902

SHIPPED TO:
SAME 21W 29N
LOVINGTON N M
FRT PPD
FOB DESTN
WEIGHT 24680#

SHIPPED VIA T E MERCER TRK CO PPD

COMPANY VEHICLE | CALLED FOR | PARCEL POST | FB COMMON CARRIER

D-U-N-S 00-493-9740

ORDER ATTACHED TO INVOICE NO.

QUANTITY	UNIT	DESCRIPTION (THE MATERIAL LISTED HEREON IS SOLD SUBJECT TO THE TERMS AND CONDITIONS LISTED ON REVERSE SIDE)	UNIT PRICE	DISCOUNT	AMOUNT	KEY (SEE BELOW)
2578.58	FT	4 1/2" OD 9.50# K-55 SHORT T&C RANGE 2 SEAMLESS CASING (83JTS)	134.41CFT	NET	3465.87	
		PLUS PUEBLO TRK @ 1.26CWT ON 24680#		NET	310.97	N
					3776.84	
		B/L & PIPE TALLY ATTD				
		2% CASH DISC APPLIES ON 3465.87 @ 134.41CFT IF PAID ON OR BEFORE 8-31-70				
			Paid 8-24-70 Ck. # 434			
					# 3,855.57 (Discount Price) (OPR. cost)	

	TAXES		
4% N M SALES TAX	DETAIL	TOTAL	151.07
	72.34	INVOICE AMOUNT	3927.91

DISCOUNT KEY:
N - NET
O - 1%
1 - 1%
3 - 2% 10 DAYS

IF THE SPACE IN "KEY" COLUMN IS BLANK, TERMS ARE 2% 20TH FOLLOWING.

PROMPT PAYMENT DISCOUNT-
IF PAYMENT IS MADE IN ACCORDANCE WITH TERMS ON REVERSE SIDE -

REMIT TO: P.O. Box 809 DALLAS, TEXAS 75221

039870

HALLIBURTON
A DIVISION OF HALLIBURTON COMPANY
FORM 1906-R1

ORIGINAL

SEND ALL REMITTANCES TO
P. O. DRAWER 1431
DUNCAN, OKLAHOMA 73533

PAGE 1 OF 1 PAGES

INVOICE & TICKET NO. 341882 (341786)

WELL NO. AND FARM	COUNTY	STATE	DATE
FERRAR Fed 1st 1	Chaves	New Mexico	7-30-70
OWNER	CONTRACTOR	DUNCAN USE ONLY	
J. Frank Stringer	Cactus Drlg. Co.	DUP * AUG	

CHARGE TO	DELIVERED TO	LOCATION 1	CODE
J. Frank Stringer	Location	Lovington	
ADDRESS	SHIPPED VIA	LOCATION 2	CODE
BN3037, San Angelo, Texas	Co. Truck		
855450 3	CUST. INV. REQ. CRIG. #	REQUISITION	LOCATION 3 / CODE
J. FRANK STRINGER BOX 3037 SAN ANGELO, TEXAS 76901	☐ 1 ☐ 2 ☐ 3 ☐ 4	ORDER NO.	BULK MATERIAL DELIVERY TICKET NO. B-34120
DUNCAN USE ONLY	NO. COPIES	TOTAL ACID - 30 DAYS	WELL TYPE / CODE

TYPE AND PURPOSE OF JOB: Surface

TERMS: Net — DUE BY THE 20TH OF FOLLOWING MONTH. INTEREST CHARGED AFTER 60 DAYS FROM DATE OF INVOICE.
$ — Cash discount allowed if paid by due date.
$ None — Tax adjustment may be deducted if discounted.

PRICE REFERENCE	SECONDARY REF. OR PART NO.	CODE L	CODE D	DESCRIPTION	UNITS 1 QTY.	UNITS 1 MEAS.	UNITS 2 QTY.	UNITS 2 MEAS.	UNIT PRICE	AMOUNT
001-016		1	0	Pumping Charge	250	Ft				19-00
030-503		1	0	Wooden Plug	1	Ea.	8 5/8		11.80	11 80
35	890-16362	1	5	Howco Weld-A	1	Lb			5.50	5 50
504.050		1	4	Lone Star Inhibited Muc-C	200	Gls			1.60	320 00
509.406		1	4	Calcium Chloride	4	Lb			7.00	28 00
				SERVICE CHARGE ON MATERIALS RETURNED		CU. FT.				
500-207				SERVICE CHARGE	208	CU. FT.			.40	83 20
500-306				19101 TOTAL WEIGHT 60 LOADED MILES 573		TON MILES			.23	131 79
									SUB TOTAL	780 33
				TAX REFERENCES 800-029 / 1 / OM					TAX	31 21
									TAX	
									TAX	
									TOTAL	811 54

WAS JOB SATISFACTORILY COMPLETED?
WAS OPERATION OF EQUIPMENT SATISFACTORY?
WAS PERFORMANCE OF PERSONNEL SATISFACTORY?

X [signature]
Customer or His Agent

[signature]
Halliburton Operator

Paid 8-24-70
Ck. #435

HALLIBURTON

A DIVISION OF HALLIBURTON COMPANY
FORM 1906-R1

ORIGINAL

Irrw Fed Access

SEND ALL REMITTANCES TO
P. O. DRAWER 1431
DUNCAN, OKLAHOMA 73533

PAGE 1 OF _____ PAGES

INVOICE & TICKET NO. 341786

WELL NO. AND FARM	COUNTY	STATE	DATE
1 Davis Federal	Ellis	Okla.	8-9-70
OWNER	CONTRACTOR		DUNCAN USE ONLY
Tex Fant Stringer	Cactus Drlg. Co.		

CHARGE TO: Tex Fant Stringer
ADDRESS: Box 3037 San Angelo, Texas

DELIVERED TO: Location
SHIPPED VIA: Company

855450
3

J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS 76901

DUNCAN USE ONLY

CUST. INV. REQ. ORIG. & NO. COPIES: ☐ 1 ☐ 2 ☐ 3 ☐ 4

REQUISITION:
ORDER NO.:
TOTAL ACID - 30 DAYS:

LOCATION	CODE
1 Lovington	10355
2	
3	

BULK MATERIAL DELIVERY TICKET NO. B-34157

WELL TYPE: Oil Development — CODE: 20

TYPE AND PURPOSE OF JOB: 4½" Production Casing

TERMS: DUE BY THE 20TH OF FOLLOWING MONTH. INTEREST CHARGED AFTER 60 DAYS FROM DATE OF INVOICE.
$ 4.42 Cash discount allowed if paid by due date.
$ .18 Tax adjustment may be deducted if discounted.

PRICE REFERENCE	SECONDARY REF. OR PART NO.	CODE L	CODE D	DESCRIPTION	UNITS 1 QTY.	UNITS 1 MEAS.	UNITS 2 QTY.	UNITS 2 MEAS.	UNIT PRICE	AMOUNT
001-016		1	C	Pumping Service	2615	Ft.	1			446.00
050-015		1	C	Rubber Plug	1	ea	4½"			7.80
004-050		1	C	Lone Star Cmt.	195	Sks			1.60	280.00
126-105		1	C	Pozmix A	195	Sks			1.01	196.95
008-121		1	C	Halad-22 Liquid						N.C.
007-145		1	C	CFR-2	2	1/16			1.50	287.32
007-162		1	C	Salt 41	29	Sks			2.10	60.90
650	807.702	1	S	Cent. Liners	3	ea	4½"		15.50	46.65
364	815.1901	1	S	Insert Float	1	ea	4½"			40.55
37	815.1912	1	S	Fillup Unit	1	ea	4½"			12.75
72	825.201	1	S	Guide Shoe	1	ea	4½"			33.95
600	827.0007	1	S	Rotating Centralizers	8	ea			10.20	81.60
35	870.1082	1	S	WCA-2	1	Ea				5.50
213-009		1	C	Mud Flush	250	gal			.23	57.50
				SERVICE CHARGE ON MATERIALS RETURNED		CU. FT.				
500-207		1	C	SERVICE CHARGE	391	CU. FT.			.40	156.40
500-306		1	C	33109 TOTAL WEIGHT 56 LOADED MILES 927.95		TON MILES			.23	213.22

TAX REFERENCES

SUB TOTAL				1906.87
800-029	1	NM	TAX	76.27
			TAX	
			TAX	
			TOTAL	1983.14

WAS JOB SATISFACTORILY COMPLETED? _____
WAS OPERATION OF EQUIPMENT SATISFACTORY? _____
WAS PERFORMANCE OF PERSONNEL SATISFACTORY? _____

X Jay A. Swart
Customer or His Agent

Elliott Symes
Halliburton Operator

Paid 8-24-70
Ck. # 435

BEARING SERVICE & SUPPLY COMPANY, INC.

701 EAST MAIN
ARTESIA, NEW MEXICO 88210
P. O. BOX 100

Customer's Order No. & Date 7-30-70 **Lease**

SOLD TO J. FRANK STRINGER
P.O. BOX 3037
SAN ANGELES, TEXAS 76901

Invoice No. 33918
Date 7-31-70
Terms 2% 15TH PROX

Date Shipped 7-30-70 **Delivered to**

Quantity	Description	Unit Price	Amount
284.85	8 5/8" OD 8RD 20# RANGE 3 L.B. FOSTER NEW SURFACE CASING T & C	2.35 FT	669.40 NET
		4% TAX	26.78 ✓
			696.18 ✓

FOB LOCATION

New Mexico
Paid 8-24-70
Ck. #436

PLEASE PAY FROM THIS INVOICE. NO STATEMENT WILL BE MAILED ON CURRENT ACCOUNTS.
9% INTEREST ON PAST DUE ACCOUNTS

AMERICAN MUD COMPANY

WELL MUD COST SUMMARY

Operator J. Frank Stringer — Drilling Contractor Cactus Drlg. — Date 9-30-70

Lease Terra Federal — Field _____ — County Chaves

	Quantity		Price		Total	
35	American Gel	96.60 35 ✓	2	76	96	60
	American Bar					
	American Clay					
50	Salt Water Gel	176.00 50 ✓	3	92	196	00
90	Starch	841.50 90 ✓	9	35	841	50
	Driscose					
6	Rayflo	8 (2@13.80 = 27.60)	13	80	82	80
	Flo-Sal					
	Soda Ash					
2	Caustic Soda	4 (2@6.51 = 13.02)	6	51	13	02
20	Dick Mud Seal	20	6	82	136	40
	Super Treat					
5	Lime	5	1	38	6	90
	Cotton Seed Hulls					
	Preservatives					
	Cedar Fiber	1835.84 / 66.62				
	Mica	1772.17				
	Cement (Reg.)	66.62				
	Cement (Incore)					
9	Santomerse	5 Santomerse	26	00	234	00
		5 Arcomerse				
		(1@26.00 = 26.00)				

RECEIVED OCT 1 1970 RECEIVED

TOTAL MUD COSTS	1607	22
TOTAL DRAYAGE & TRANSP. TAX	162	84
GROSS TOTAL	1770	06

AMERICAN MUD CO.
AMBLER AND NORTH TREADAWAY
P. O. BOX 555 PHONE 672-7813
ABILENE, TEXAS 79604

INVOICE

DATE	NUMBER
8-18-70	961

DELIVERY TICKET NO.	DELIVERY DATE	YOUR P. O. NUMBER
225	8-16-70	

TO J. Frank Stringer Oil Pro.
2308 W. Harris Ave.
San Angelo, Texas

LEASE NAME AND WELL NUMBER: Terra Fred. #1

RECEIVED BY

DELIVERED FROM

DELIVERED BY

NO. OF BAGS CANS OR BALES	ITEM	TOTAL WEIGHT LBS.	UNIT	NO. OF UNITS	UNIT PRICE	AMOUNT
	American Gel		Bag			$
	American Bar		Bag			
	Salt Water Gel		Bag			
	Starch		Bag			
	Soda Ash		Bag			
	Super Treat		Bag			
	Caustic Soda		Bag			
	S S 300		Gal.			
	C S Hulls		Bag			
	Detergent		Gals.			
	Bichromate		Bag			
	Celloflake		Bag			
	Arco Fiber		Bag			
	Lime		Bag			
	Cedar Fiber		Bag			
	Flosal		Bag			
3	Rayflo	150		3	13.80	41.40
1	Santomerse	50		1	26.00	26.00
					MATERIALS TOTAL	$ 67.40
	DRAYAGE:		CWT.			N.C.
					3¼ % SALES TAX ON MATERIALS	2.19
					TOTAL	$ 69.59

Paid 8-24-70
Ck. # 437

AMERICAN MUD CO.
AMBLER AND NORTH TREADAWAY
P. O. BOX 555 PHONE 672-7813
ABILENE, TEXAS 79604

INVOICE

DATE	NUMBER
8-5-70	1171 M

DELIVERY TICKET NO.	DELIVERY DATE	YOUR P. O. NUMBER
519	7-30-70	

TO J. Frank Stringer Oil Properties
2308 W. Harris Avenue
San Angelo, Texas

Chanes

LEASE NAME AND WELL NUMBER: Terra Federal #1

NO. OF BAGS CANS OR BALES	ITEM	TOTAL WEIGHT LBS.	UNIT	NO. OF UNITS	UNIT PRICE	AMOUNT
35	American Gel	3500	Bag	35	$2.76	$ 96.60 ✓
	American Bar		Bag			
50	Salt Water Gel	5000	Bag	50	3.92	196.00 ✓
40	Starch	2000	Bag	40	9.35	374.00 ✓
	Soda Ash		Bag			
	Super Treat		Bag			
	Caustic Soda		Bag			
	S S 300		Gal.			
	C S Hulls		Bag			
	Detergent		Gals.			
	Bichromate		Bag			
	Celloflake		Bag			
	Arco Fiber		Bag			
5	Lime	250	Bag	5	1.38	6.90 ✓
	Cedar Fiber		Bag			
	Flosal		Bag			
20	Dicks Mud Seal	800		20	6.82	136.40 ✓
5	Rayflo	250		5	13.80	69.00 ✓
5	Arcomerse	250		5	26.00	130.00 ✓
					MATERIALS TOTAL	$ 1008.90 ✓
	DRAYAGE:	14000 Mim	CWT.	@.48		67.20 ✓
					3½ % SALES TAX ON MATERIALS	32.79 ✓
					TOTAL	$ 1108.89 ✓

Paid 8-24-70
Ck. #437.

AMERICAN MUD CO.
AMBLER AND NORTH TREADAWAY
P. O. BOX 555 PHONE 672-7813
ABILENE, TEXAS 79604

INVOICE

DATE	NUMBER
8-18-70	1185 M

DELIVERY TICKET NO.	DELIVERY DATE	YOUR P. O. NUMBER
780	8-6-70	

TO J. Frank Stringer Oil Pro.
2308 W. Harris Ave.
San Angelo, Texas

LEASE NAME AND WELL NUMBER: Terra Fed. #1 ✓

NO. OF BAGS CANS OR BALES	ITEM	TOTAL WEIGHT LBS.	UNIT	NO. OF UNITS	UNIT PRICE	AMOUNT
	American Gel		Bag			$
	American Bar		Bag			
	Salt Water Gel		Bag			
50	Starch	2500	Bag	50	$9.35	467.50
	Soda Ash		Bag			
	Super Treat		Bag			
4	Caustic Soda	200	Bag	4	6.51	26.04
	S S 300		Gal.			
	C S Hulls		Bag			
	Detergent		Gals.			
	Bichromate		Bag			
	Celloflake		Bag			
	Arco Fiber		Bag			
	Lime		Bag			
	Cedar Fiber		Bag			
	Flosal		Bag			
4	Santomerse	300		4	26.00	104.00
					MATERIALS TOTAL	$ 597.54
	DRAYAGE: 7000 Mim		CWT.		@.62	43.40
				3½%	SALES TAX ON MATERIALS	19.42
					TOTAL	$ 660.36

Paid 8-24-70
ck. #437

ORIGINAL INVOICE

FORM 43C

SCHLUMBERGER WELL SERVICES

A DIVISION OF SCHLUMBERGER TECHNOLOGY CORPORATION
CHECK MAILING ADDRESS — LOCK BOX 2183
CORRESPONDENCE MAILING ADDRESS — P. O. BOX 2175
HOUSTON, TEXAS 77001

THE HIGH PERFORMANCE COMPANY

J FRANK STRINGER
BOX 3037
SAN ANGELO TEXAS 76901

TERMS
NET CASH
NO DISCOUNT ALLOWED

INVOICE DATE	SERVICE ORDER DATE	SERVICE ORDER NO.	YOUR ORDER NO.	INVOICE NO.
08-08-70	08-08-70	14210		4- 13513

STATE	FIELD	LEASE
NM	WILDCAT	TERRA FEDERAL

	LOCATION	WELL	OFFSHORE ZONE
	SEC 17 T12S R31E	1	

				AMOUNT
				$
L	LATEROLOG			
		SERVICE CHARGE		175.00
	4053	FEET DEPTH CHARGE @	.12	486.36
	2453	FEET OPERATION CHARGE @	.08	196.24
		STATE TAX		34.30
				891.90 *
FDC	COMPENSATED FORM DENSITY-GAMMA RAY			
	4064	FEET DEPTH CHARGE @	.13	528.32
	4064	FEET OPERATION CHARGE @	.11	447.04
		STATE TAX		39.01
				1,014.37 *
MLL	MICROLATEROLOG			
	4063	FEET DEPTH CHARGE @	.09	365.67
	1663	FEET OPERATION CHARGE @	.08	133.04
		STATE TAX		19.95
				518.66 *

Paid 8-24-70
Ch. #438

1	CUSTOMER	ENGINEER	LOCATION
	86995	030066	1402

CHECK MAILING ADDRESS — LOCK BOX 2183
CORRESPONDENCE MAILING ADDRESS — P. O. BOX 2175
HOUSTON, TEXAS 77001

TOTAL CHARGE $
PAY THIS AMOUNT 2,424.93 **

INVOICE

R-R FOSTER CORING COMPANY

LO 3-2822 P. O. BOX 6785

ODESSA, TEXAS - 79760

Nº T 729

TO:

J. FRANK STRINGER
P.O. BOX 3037
SAN ANGELO, TEXAS 76901

TERMS:
NET 30 DAYS
8% INTEREST CHARGED ON PAST DUE ACCOUNTS

DATE	INVOICE NO.	P. O. NUMBER	REFERENCE	SERVICE FROM	CODE	CUSTOMER'S NUMBER
8/4/70	T 729	-		ODESSA		

WELL NAME	COUNTY	STATE
TERRA FEDERAL WELL #1	CHAVES	NEW MEX

DESCRIPTION OF SERVICE	PRICE	TOTAL
50' CONTRACT CORING	6 50	325 00
NEW MEXICO STATE TAX		13 00
		338 00

Paid 8-24-70
Ck. #439

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS • PITS • LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO 88255

INVOICE

No. 3250-A

DATE August 6, 1970

Paid 8-24-70
Ck. #440

W. J. (BILL) SWEATT
RES. 1503 BUSH
746-3749 — ARTESIA

Sold To Mr. J. Frank Stringer
Box 3037
San Angelo, Texas 76901

LOCATION Terra Fed. Well # 1 ✓

Page 1

WORK ORDER NO.

WORK PERFORMED: Furnished equipment and labor to construct road and location.

Date		Description	Rate	Hrs.	Amount
7/20/70		Dozer w/oper.	16.50	9	148.50
7/21/70		" " "	" "	9	148.50
7/21/70		" " " "	" "	9	148.50
7/21/70		Haul truck w/oper.	14.00	6	84.00
7/21/70		Roustabout	3.75	3½	13.13
7/21/70		Compressor w/oper.	11.50	3½	40.25
7/22/70		Dozer w/oper.	16.50	9	148.50
7/22/70		Dozer w/oper.	16.50	9	148.50
7/22/70		Pull w/oper.	27.00	3	81.00
7/22/70		Compressor w/oper.	11.50	6	69.00
		Explosives (see ticket)			101.60
7/22/70		Roustabout	3.75	9	33.75
7/23/70		Dozer w/oper.	16.50	8½	140.25
7/23/70		Dozer w/oper.	16.50	8½	140.25
7/23/70		Pull w/oper.	27.00	8½	229.50
7/23/70		Roustabout	3.75	8½	31.88
7/25/70		Dozer w/oper.	16.50	6	99.00
7/25/70		Dozer w/oper.	16.50	9	148.50
7/25/70		Dozer w/oper.	16.50	9	148.50
7/25/70		Pull w/oper.	27.00	9	243.00
7/27/70		Dozer w/oper.	16.50	9	148.50
		Continued			

203A—Bryan Printers & Stationers

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS • PITS • LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3250-A

W. J. (BILL) SWEATT
RES. 1503 BUSH
746-3749 — ARTESIA

DATE August 6, 1970

Sold To Mr. J. Frank Stringer
Box 3037
San Angelo, TExas 76901

LOCATION Terra Fed. Well # 1 ✓ Page 2

WORK ORDER NO.

WORK PERFORMED: Furnished equipment and labor to construct road and location.

Date	Description	Rate	Hrs.	Amount
7/27/70	Dozer w/oper	16.50	9	148.50
7/27/70	Dozer w/oper.	16.50	9	148.50
7/27/70	Blade w/oper.	16.50	2½	41.25
7/27/70	Water truck w/oper.	13.50	2½	33.75
7/28/70	Dozer w/oper.	16.50	9	148.50
7/28/70	Dozer w/oper.	16.50	9	148.50
7/28/70	Dozer w/oper.	16.50	9	148.50
7/28/70	Blade w/oper.	16.50	9	148.50
7/28/70	Water truck w/oper.	13.50	9	121.50
7/29/70	Dozer w/oper.	16.50	10½	173.25
7/29/70	Dozer w/oper.	16.50	6½	107.25
7/29/70	Pull w/oper.	27.00	10½	283.50
7/29/70	Dozer w/oper.	16.50	4½	74.25
7/29/70	Dozer w/oper.	16.50	6	99.00
7/29/70	Blade w/oper.	16.50	10½	173.25
7/29/70	Water truck w/oper.	13.50	4½	60.75
7/29/70	Water truck w/oper.	13.50	6	81.00
7/30/70	Pull w/oper.	27.00	3½	94.50
7/30/70	Blade w/oper.	16.50	5½	90.75
7/30/70	Water truck w/oper. (60 bbl.)	11.00	5	55.00
7/30/70	Water truck w/oper. (112 bbl.)	13.50	5	67.50
	Continued			

203A—Bryan Printers & Stationers

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS • PITS • LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3250-A

DATE August 6, 1970

W. J. (BILL) SWEATT
RES. 1503 BUSH
746-3749 — ARTESIA

Sold To Mr. J. Frank Stringer
Box 3037
San Angelo, Texas

LOCATION Terra Fed. Well # 1
WORK ORDER NO.
WORK PERFORMED: Furnished equipment and labor to construct road and location.

Date	Description	Rate	Hrs.	Amount
7/30/70	Supplies and gattleguard rental (see ticket)			247.36
30	Caliche (see ticket)			103.32
30	Water (see ticket)			44.80
8/4/70	Dozer w/oper.	16.50	4	66.00
4	Pull w/oper.	27.00	2	54.00
4	Roustabout	3.75	4½	16.88
8/5/70	Dozer w/oper.	16.50	7	115.50
8/6/70	Blade w/oper.	16.50	1	16.50
				5606.47
			Tax	224.26
				$5830.73
			40	
	Thank You	Paid 8-24-70 Ck. #440		
	Purchase price of cattleguard $325.00 each, first months rental will be a applied to purchase price.			

203A—Bryan Printers & Stationers

CORE LAB

CORE LABORATORIES, INC.

Petroleum Reservoir Engineering
Box 10185
DALLAS, TEXAS 75207
28 AUGUST 1970

№ 66412

SOLD TO
J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS

ORDER NO.
DATE 8/1/70
FIELD WILDCAT
WELL NO. TERRA FEDERAL NO. 1
COUNTRY & STATE CHAVES, NEW MEXICO
WP-3 JOB NO. 3330

CLIENT NO. 12149-0

SERVICE	QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
3	5	HOURS	6.00	30.00
	160	MILES	0.15	24.00
	16	CORE BOXES	1.00	16.00
		CHIPS		1.00
		4% NEW MEXICO STATE SALES TAX		2.84

COPY

TOTAL $ 73.84

ACCOUNT PAYABLE IN U.S. CURRENCY AT DALLAS, TEXAS
TERMS: NET CASH 30 DAYS

INVOICE № 66412

Retain This Invoice for Your Files; We Do Not Send Statements.

CORE LAB

CORE LABORATORIES, INC.

Petroleum Reservoir Engineering
Box 10185
DALLAS, TEXAS 75207
21 OCTOBER 1970

№ 67558

SOLD TO
J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS

ORDER NO.
DATE 8/1/70
FIELD WILDCAT
WELL NO. TERRA FEDERAL NO. 1
COUNTRY & STATE CHAVES, NEW MEXICO
WP-3 JOB NO. 3330

CLIENT NO. 12149-0

SERVICE	QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
8	5	HOURS	6.00	30.00
	160	MILES	0.15	24.00
		4% NEW MEXICO STATE SALES TAX		2.16

COPY

TOTAL $ 56.16

ACCOUNT PAYABLE IN U.S. CURRENCY AT DALLAS, TEXAS
TERMS: NET CASH 30 DAYS

INVOICE № 67558

Retain This Invoice for Your Files; We Do Not Send Statements.

STATEMENT

LOGAN, STEIB, LEWIS & MIDDLEBROOK
ATTORNEYS AT LAW
CENTRAL NATIONAL BANK BUILDING
SAN ANGELO, TEXAS 76901
TEL. (915) 655-8176
P. O. BOX 1627

August 26, 1970

Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 76901

Re: Chaves, New Mexico
Prospect

Code	Date	Description	
3	6-27-70	Preparation of form of contract for partial assignment of working interests.	
		TOTAL SERVICES	$37.50

INVOICE

CACTUS DRILLING COMPANY

P.O. Box 2218
Dallas, Texas

Corrected Invoice
INVOICE NO. 803-A Rig #8

DATE 8/25/70

TO: J. Frank Stringer Oil
P.O. Box 3027
San Angelo, Texas 76901

FOR: Footage drilled on your Terra Federal #1 in Chaves County, New Mexico

4060'	Total Depth	
10'	Substructure	
46'	Cored on DW	
4004'	@ $4.25 per foot	$17,017.00
	New Mexico Tax	680.68
		$17,697.68

Paid 9-9-70
Ck. # 491

RECEIVED
AUG 26 1970
RECEIVED

JUL 28 1975
OIL CONSERVATION COMM.
Santa Fe

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF DALPORT OIL CORPORATION FOR COMPULSORY POOLING IN THE SOUTH-EAST CHAVES QUEEN GAS AREA, CHAVES COUNTY, NEW MEXICO.

Case No. 5551

APPLICATION

COMES NOW Dalport Oil Corporation (Dalport) and Burk Royalty Co. (Burk), collectively "Applicant", and states:

1. Applicant is the owner and holder of the official and record title to an Oil and Gas Lease dated October 1, 1962, from the United States of America as lessor bearing serial number NM-0314228, embracing, among other lands not pertinent hereto, the following described lands in Chaves County, New Mexico:

Township 12 South, Range 31 East, N.M.P.M.
Section 17: W½

containing 320 acres, more or less; said lease is presently held by production on other lands included therein.

2. Applicant's ownership of the above lease and lands is subject to (among other matters not pertinent hereto) a prior Assignment of Operating Rights dated March 10, 1971, from Terra Resources, Inc. to Reading & Bates, Inc. covering:

Township 12 South, Range 31 East, N.M.P.M.
Section 17: S½SW¼, S½NW¼

containing 160 acres, more or less, for depths from the surface down to the top of the Glorieta formation which includes the Queen formation. Upon information and belief, the rights acquired by Reading

& Bates, Inc. under said Assignment of Operating Rights are now owned in the following interests and proportions:

Name and Address	Interest
Reading & Bates, Inc. 1100 Philtower Building Tulsa, Oklahoma 74103	25.000%
J. Frank Stringer P. O. Box 3037 San Angelo, Texas 76901	15.625%
Dr. James C. Womack Suite 8, Medical Arts Building San Angelo, Texas 76901	6.250%
Edwin S. Mayer, Jr. P. O. Box 1741 San Angelo, Texas 76901	25.000%
J. A. March III 2509 Nasworthy Drive San Angelo, Texas 76901	12.500%
Guy A. Swartz P. O. Box ~~3037~~ 3541 San Angelo, Texas 76901	15.625%
TOTAL	100.000%

3. The said J. Frank Stringer has heretofore drilled or caused to be drilled the Reading & Bates Terra Federal #1 Well located 660 feet from the South line and 660 feet from the West line (Unit M) of said Section 17, and the well has been completed as a well producing or capable of producing gas and associated hydrocarbons from the Queen formation; Reading & Bates, Inc. is the operator of the well.

4. Pursuant to the New Mexico Oil Conservation Commission Order R-4435 as amended by Order R-4435-A, there has heretofore been established a standard well spacing and proration unit of

320 acres for gas and associated hydrocarbons produced from the Queen formation within the Southeast Chaves Queen Gas Area, which includes the aforesaid W½ Section 17.

5. Dalport and Reading & Bates, Inc., et al, each having a right to drill in the W½ Section 17 to the Queen formation, have been unable to agree to pool their interests in the proposed unit as to the Queen formation, being a common source of supply. Therefore, in order to avoid the drilling of unnecessary wells and to protect correlative rights, and to prevent waste, it is advisable that the Commission, after notice and hearing, pool all of the W½ of said Section 17 for the production of gas and associated hydrocarbons from the Queen formation as a spacing or proration unit, and to allocate the respective tracts within the unit in proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit. That such Order effecting pooling should be upon such terms and conditions as are just and reasonable and will afford the owner or owners of each tract or interest in the unit the opportunity to recover or receive, without unnecessary expense, his just and fair share of the gas and associated hydrocarbons underlying the pooled unit; that such pooling Order should make definitive provision as to payment of drilling and completion costs in the Reading & Bates, Inc. Terra Federal #1 Well aforesaid, a determination as to the operator of the well, and all operating expenses and charges with respect to such operations. That such pooling Order should otherwise be entered in conformity with NMSA 65-3-14, 1953 Comp.

WHEREFORE, Applicant prays, after notice and hearing, that the Commission pool all mineral interests whatever they may be in the W½ Section 17, Township 12 South, Range 31 East, N.M.P.M., for the production of gas and associated hydrocarbons producible from the Queen formation and to enter an appropriate Order in conformity with NMSA 65-3-14, 1953 Comp.

Respectfully,

DALPORT OIL CORPORATION
BURK ROYALTY CO.

By _____
S. B. Christy IV, as a member of the firm of Jennings, Christy & Copple, P. O. Box 1180, Roswell, New Mexico 88201
(505) 622-8432

cc: Reading & Bates, Inc.
J. Frank Stringer
Dr. James C. Womack
Edwin S. Mayer, Jr.
J. A. March III
Guy A. Swartz

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF DALPORT OIL CORPORATION FOR COMPULSORY POOLING IN THE SOUTHEAST CHAVES QUEEN GAS AREA, CHAVES COUNTY, NEW MEXICO.	)	5551

CLOSING STATEMENT OF READING & BATES OIL AND GAS COMPANY

All the parties to this case are in agreement that the W 1/2 Section 17, Township 12 South, Range 31 East, N.M.P.M., Chaves County, New Mexico, should be pooled as the spacing and proration unit for Reading & Bates' Terra Federal Well No. 1 situate in the SW 1/4 SW 1/4 of Section 17 and that Reading & Bates, designated operator in that certain Operating Agreement dated November 3, 1970 by and between the owners of that well, should be the operator. The only question appears to be, on what basis should the applicants in this case, Dalport Oil Corporation and Burk Royalty Company, who acquired their interest in the unit lands after the well had been drilled, be charged for their interest in production to be had from the well.

It appears clear that the appropriate statute, §65-3-14C, N.M.S.A. 1953, permits pooling after a well has been drilled; but on what terms shall such pooling be effected? That statute states that such pooling "---shall be upon such terms and conditions as are just and reasonable---", and provides that:

> "Such pooling order of the commission shall make definite provision as to any owner, or owners, who

elects not to pay his proportionate share in advance for the prorata reimbursement solely out of production to the parties advancing the costs of the development and operation, which shall be limited to the actual expenditures required for such purpose not in excess of what are reasonable, but which shall include a reasonable charge for supervision and may include a charge for risk shall not exceed two hundred percent (200%) of the none consenting working interest owner's or owners' prorata share of the cost of drilling and completing the well."
(Emphasis Added)

In this case, it would appear "just and reasonable" to:

(1) either consider the applicants as co-owners of working interests with Reading & Bates at the time the well was drilled, and so charge them with their share of the costs actually expended for the drilling of the well,

(2) or consider the applicants as co-owners of working interests who did not elect to pay, in advance of drilling, their share of the costs actually required to obtain production, and thus impose upon them an appropriate risk charge.

To do otherwise would, in effect, be unjust enrichment and constitute the taking of property without adequate consideration. Attention is then focused on the proper costs in both events.

Had the applicants been co-owners of working interests with Reading & Bates at the time the Terra Federal Well No. 1 was drilled, they would have participated with their other co-owners, on an equal basis, and paid their proportionate part of all the costs actually expended for the drilling of that well. Those costs were itemized in Reading & Bates' Exhibit No. 5 offered and received at the September 10, 1975 hearing, with but one exception. That exception is the invoice of American Mud Company dated September 30, 1970 in the amount of $1,770.06. This invoice was first questioned at the October 8 hearing, and upon

re-examination of the records, it appears that the same was included in error. Deducting this amount, the actual costs expended appear to be $56,783.56.

As these costs were incurred and paid five years ago (i.e., the well was completed September 25, 1970) it would also appear both "just and reasonable" that since the applicants did not pay their share of these costs at that time, the co-owners who paid all such well costs should recoup interest on the money they paid on applicants behalf, at the prime interest rate of 9-10%. Certainly the statute does not prohibit the imposition of interest in a case such as this.

On the other hand, if the applicants are to be charged only with their share of the costs actually required to obtain production, that is the drilling costs to the shallower formation where production was found, the statute provides that the commission "may include a charge for the risk involved in the drilling of such well, which ---shall not exceed 200%---" since applicants did not pay their share in advance and share in the risk. Considering that at the time the Terra Federal Well No. 1 was drilled, the closest Queen production was from 4-6 miles away, and that the well was truly a "wildcat well", the maximum charge of 200% is certainly a most reasonable charge for the risk involved in the drilling of the well.

Assuming that this alternative was the one found to be "just and reasonable" by the commission, Reading & Bates would concede that the estimated costs prepared by applicants as set forth in their Exhibit No. 3, totalling $47,124.12, would be fairly close to the actual costs required to obtain such production.

In conclusion, Reading & Bates and the other owners of the Terra Federal Well No. 1 respectfully submit that the applicants either be considered as equal partners at the time the well was drilled or, having failed to share the risk, applicants be burdened with the appropriate statutory risk charge for the costs actually required to obtain production.

Respectfully submitted,

ATWOOD, MALONE, MANN & COOTER

By _____

P. O. Drawer 700
Roswell, New Mexico 88201

Attorneys for Reading & Bates Oil and Gas Company

ATWOOD, MALONE, MANN & COOTER
LAWYERS

JEFF D. ATWOOD [1883-1960]
ROSS L. MALONE [1910-1974]

P. O. DRAWER 700
SECURITY NATIONAL BANK BUILDING
ROSWELL, NEW MEXICO 88201
[505] 622-6221

CHARLES F. MALONE
RUSSELL D. MANN
PAUL A. COOTER
BOB F. TURNER
ROBERT A. JOHNSON
JOHN W. BASSETT
ROBERT E. SABIN
RUFUS E. THOMPSON

RALPH D. SHAMAS

October 18, 1975

Mr. Daniel S. Nutter
Oil Conservation Commission
P. O. Box 288
Santa Fe, New Mexico 87501

RE: Case No. 5551
Application of Dalport Oil Corporation

Dear Mr. Nutter:

Enclosed herewith are two copies of Reading & Bates' Closing Statement in the captioned case. Your courtesy in allowing us this additional time in which to file this Statement was most appreciated.

Very truly yours,

Paul Cooter

PC:sgs
Enclosures

cc: S. B. Christy, IV, Esquire
w/enc.

RECEIVED
OCT 20 1975
OIL CONSERVATION COMM.
Santa Fe

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF DALPORT OIL CORPORATION FOR COMPULSORY POOLING IN THE SOUTHEAST CHAVES QUEEN GAS AREA, CHAVES COUNTY, NEW MEXICO.	))))))	5551

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Respectfully submitted,

ATWOOD, MALONE, MANN & COOTER

By _____

P. O. Drawer 700
Roswell, New Mexico 88201

Attorneys for Reading & Bates
Oil and Gas Company

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF DALPORT OIL CORPORATION FOR COMPULSORY POOLING IN THE SOUTHEAST CHAVES QUEEN GAS AREA, CHAVES COUNTY, NEW MEXICO.	)	Case No. 5551

MEMORANDUM BRIEF BY APPLICANTS

PRELIMINARY FACTS:

In 1970 J. Frank Stringer, et al ("Respondents") drilled their No. 1 Terra-Federal Well (the "Reading & Bates well") in Unit M of Section 17, Township 12 South, Range 31 East, N.M.P.M., Chaves County, New Mexico. It was a wildcat well spudded July 30, 1970, drilled to a total depth of 4,060 feet in the Clearfork formation and the well was dry; it was then plugged back to 2,576 feet and completed September 25, 1970; potential production is gas from the interval 2535'-2542' in the Queen formation. Since date of completion in the Queen formation the well has been shut in, but a pipeline connection is now imminent.

On November 13, 1972, in Case No. 4843, Order R-4435, the New Mexico Oil Conservation Commission (the "Commission") established the Southeast Chaves Queen Gas Area, including the lands involved in this application, and provided for 320-acre gas well spacing under Rule 2. Under this Order, spacing dedication for the Reading & Bates well has been agreed as the W½ of said Section 17; working interests and operating rights in the S½NW¼, S½SW¼ of said Section 17 are owned

by Respondents, and working interest and operating rights in the N½NW¼, N½SW¼ of said Section 17 are owned by Dalport Oil Corporation and Burk Royalty Co. (the "Applicants").

The parties, Applicants and Respondents, also own working interest and operating rights in the E½ of said Section 17. On June 15, 1973, in Case 4986, Order R-4553 (as amend R-4553-A), the Commission force pooled all mineral interests in the E½ of said Section 17 as dedicated to a well then to be drilled by Dalport to the Queen formation and located in Unit G of said Section 17. The well (the "Dalport Well") was drilled in accordance with the compulsory pooling Order. Stringer,et al, paid their portion of the cost of this well and Reading & Bates elected to go "non-consent" under the penalty provisions provided in the Order. The Dalport well, completed as a well capable of producing gas from the Queen formation, cost approximately $33,000.00 (drilled, completed and equipped) and the well was completed in September 1973.

The parties agree that the W½ of said Section 17 should be dedicated to the Reading & Bates well but there is a dispute among the parties as to the cost which should be charged for drilling, completing and equipping the Reading & Bates well; also in dispute are operational charges. As a result of such disagreements, Applicants filed their application for compulsory pooling under N.M.S.A. 65-3-14-C; an initial hearing was held before Examiner Daniel Nutter on September 10, 1975. The case was continued to the Examiner hearing on October 8, 1975.

ISSUES:

Applicants believe that the main issues involved in this case are:

1. Proper Costs: Without relation to depth, what items of cost and expenses may be attributable to the Reading & Bates well.

2. Deeper Drilling Costs: Should there be attributable to costs borne by Applicants the costs and expenses incident to drilling the Reading & Bates well from the base of the Queen formation to its total depth in the Clearfork formation.

3. Interest: Is interest allowable on cost items.

ARGUMENT AND AUTHORITIES:

Proper Costs

The second paragraph of N.M.S.A. 65-3-14-C, relating to costs chargeable in conpulsory pooling Orders provides that such costs:

> "...shall be limited to the actual expenditures required for such purpose not in excess of what are reasonable..."

and which shall include a reasonable charge for supervision and may include a risk penalty. It is therefore clear to Applicants that the Commission has no jurisdiction or authority to include in the costs for the Reading & Bates well costs or expenses other than those that were actually expended and were reasonable. As was pointed out in the September 10 hearing, and as again will be pointed out in the October 8 hearing, there are numerous items of costs, as set forth in the Reading & Bates Exhibit 5, which clearly are not reasonable --- such as the Midland Petroleum Club bill --- and there are a number of other items in said Exhibit for which no evidence of actual expenditure was made --- such as travel,cash, American Express, etc. Therefore,

Respondents have clearly failed in their burden to show their expenditures were actual and reasonable.

Conversely, Applicants submitted their Exhibit 2 showing the actual costs of the offset Dalport well and their Exhibit 3 showing the estimated cost, as of a current date, for the Reading & Bates well; note that all expenditures listed in these exhibits are correlated actual expenditures directly involved in well drilling and completion.

Probably the most flagrant violation of actual and necessary expenditures claimed by Respondents, per Reading & Bates Exhibit 5, is the payment of a $5,000.00 commission to George S. Galbraith for obtaining a Farmout Agreement to Respondents (see Reading & Bates Exhibit 1). The check clearly shows, and Respondents' witness Mr. Swartz testified that the check was given as a commission for the leasehold acquisition by Respondents and further for geological evaluation relating to three or four tracts described at page 1 of Reading & Bates Exhibit 1, only one tract of which relates to the lands involved in this application. Respondents made no effort to break out the cost value or use (if any) of the geological report --- which they did not even admit into evidence --- relating to the lands involved in this application. Further, the Reading & Bates Exhibit 5 contains numerous other expense items in connection with geological work on the Reading & Bates well which are in excess of normal geologic costs in the area for a Queen well as testified to by Applicants' witness Mr. Lampert and as reflected on Applicants' Exhibit 3. However, at the September 10 hearing, Applicants agreed to the geological costs set forth in Reading & Bates

Exhibit 5 as paid to Mr. Swartz. Clearly the Galbraith $5,000.00 payment was principally leasehold acquisition and could not be either an actual or a reasonable expense for the purpose of drilling and completing the Reading & Bates well to the Queen formation.

Deeper Drilling Costs

Applicants' Exhibit 4 reflects (among other items) costs incurred in drilling the Reading & Bates well from the base of the Queen formation to total depth. These items include extra footage of $5,967.00, additional mud (estimated over normal cost) of $2,608.90 and extra logging of $653.85; there is disputed testimony as to the "excess" mud expense.

We find no provisions in the applicable statute which would allow the Commission to include in costs those expenditures relating to drilling and completion other than to the zone or vertical limits which are subject to the compulsory pooling statutes. Indeed the third paragraph of N.M.S.A. 65-3-14-C provides that the Commission shall determine proper costs for the drilling and operation of the compulsory pooled well, allocating it to the party who pays such costs from the share of the non-consenting owner "for whose benefit the well was drilled or operated". It is axiomatic that drilling to the Clearfork (40-acre spacing) could not have been for the benefit of the Applicants and the only drilling that could have been for the benefit of the Applicants was to the Queen formation.

At the September 10 hearing, remarks were made that it was for the benefit of the Applicants that the well was drilled to the Clearfork since the drilling reflected the presence of productive Queen

sand. The answer to this argument is that Respondents elected to drill a Clearfork test well to earn their working interest as provided in the Reading & Bates Exhibit 1 and whether the Queen sand or any other shallower sand was encountered was completely immaterial to the drilling operations conducted on the Reading & Bates well. The fallacy of the argument is clearly shown if the well had been drilled to the Devonian and then plugged back to the Grayburg; in such an example could it reasonably be argued that the $500,000.00 Devonian test should be charged to a $30,000.00 Grayburg test, and the answer is obviously no.

In addition to the foregoing we specifically call the Commission's attention to the term "such purpose" as used in the second paragraph of N.M.S.A. 65-3-14-C, reiteratingly requoted:

> "...which shall be limited to the actual expenditures required for <u>such purpose</u> not in excess of what are reasonable..."

With regard to the word "such" as it relates to the last antecedent doctrine, Applicants would refer the Commission to the case of <u>Strawberry Hill Land Corporation v. Starbuck</u>, 124 Va. 71, 97 S.E. 362, in which the word "such" was held to be encompassed in the last antecedent doctrine. The "last antecedent doctrine" of statutory construction was accepted by the New Mexico Supreme Court in <u>In Re Goldsworthy's Estate</u>, 45 N.M. 406 (1941). Under the last antecedent doctrine we must now look at the fourth sentence in subsection C starting "For the purpose..." to determine the meaning of "such purpose". The "purpose" stated is for the determination of portions of production owned by persons in the compulsory pooled tracts; as a consequence,

the Commission is limited to actual and reasonable expenditures for the purpose of determining ownership and allocation from the compulsory pooled area both horizontally and vertically. There is no provision in the compulsory pooling statute for determining actual or reasonable expenses or "proper costs" for any purpose other than that relating to the lands, depths and zones being compulsory pooled. As a consequence, it is submitted that cost of drilling, testing, etc., relative to depths from the base of the Queen formation to total depth drilled in the Reading & Bates well cannot be included in a determination of proper costs to be assessed in this application.

Interest

At the conclusion of the September 10 hearing, a remark was made relative to including interest on expenditures incurred in drilling the Reading & Bates well. In this connection we would call the Commission's attention to the fact that the New Mexico Statutes relating to interest (N.M.S.A. 50-6-1, et seq) do not make provision for interest in connection with administrative orders and since the compulsory pooling statute is completely silent on the interest, it is submitted that the Commission has no authority to consider or include this item in any order issued under the application. An attempt to do so would be arbitrary, capricious and in excess of lawful authority.

WHEREFORE, Applicants respectfully request that the Commission determine actual and reasonable costs in the drilling and completion of the Reading & Bates well in the Queen formation, and to exclude

from all such consideration any costs or expenses which are not actual and which are not reasonable and further to exclude from such consideration costs and expenses relative to drilling and testing the well below the base of the Queen formation and any interest consideration.

Respectfully,

DALPORT OIL CORPORATION

BURK ROYALTY CO.

By _____
W. B. Christy IV, as a
Member of the Firm of
Jennings, Christy & Copple
Attorneys for the Applicants
P. O. Box 1180
Roswell, New Mexico 88201

Leon Lampert w/ Halsport called and said on the force pooling case, the Stringer group turned down the acreage swap proposal.

OIL CONSERVATION COMMISSION-SANTA FE

Leon Lampert re proposed land swap
Oct 21
Reading & Bates will agree to swap
San Angelo pages have not yet agreed.
Halpert will withdraw acceptance of offer if
SA pages don't agree by Friday or Monday.
Leon will call Monday then 27 if no
deal is possible.

Case 5551

Paul Cooter call re: his memorandum in this case. He will mail memo on the 18th and requests order not be drafted until the memo is received.

WTC

10-16-75

SEP 12 1973

J. FRANK STRINGER
OIL PROPERTIES
P. O. BOX 3037
SAN ANGELO, TEXAS 76901

PHONE 949-8506

2402 COLLEGE HILLS BOULEVARD

September 10, 1973

Mr. Howard E. Rongey
Reading & Bates Oil and Gas Co.
Philtower Building
Tulsa, Oklahoma 74103

YOUR RE: Terra-Federal #1 Well -
SW/4 SW/4 Sec. 17-12S-31E,
Chaves County, New Mexico.

Dear Mr. Rongey:

In answer to your letter of August 31, 1973, on the drilling and completion costs of the No. 1 Terra-Federal Well, our total cost for this well to casing point was $44,222.75. Our completion cost was $16,831.25. The cost to casing point appears to be a little high; however, as you know, we drilled this well to 4,400' and had abnormally high road and surface charges. Our total cost in the well for both completion and drilling was $61,054.00.

I believe that Terra Resources would be willing to pay one-half of this amount of $61,054.00 for their one-half of the unit.

Very truly yours,

J. Frank Stringer

J. Frank Stringer

JFS:crl

cc: Guy A. Swartz

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 3A
CASE NO. 5571

J. FRANK STRINGER
OIL PROPERTIES – REAL ESTATE
P. O. BOX 3037
SAN ANGELO, TEXAS 76901
PHONE 949-8506
2402 COLLEGE HILLS BOULEVARD

FILE

July 7, 1975

Mr. W. L. Todd, Jr.
DALPORT OIL CORPORATION
3471 First National Bank Bldg.
Dallas, Texas 75202

RE: W/2 Section 17, T-12-S,
R-31-E, Chaves County, N.M.

Dear Mr. Todd:

Reference is made to your letter of June 17, 1975, in regard to your furnishing me with certain information in regard to our jointly owned properties in Chaves County, New Mexico. I have contacted my partners in regard to a Communitization Agreement between Dalport and Stringer, et al. covering the West Half (W/2) of Section 17. We would agree to this communitization providing we would get full replacement value for the well. The replacement cost of this well, drilled and completed, would be $75,000+ today plus the original cost of the road which was $11,200; therefore, we would expect the replacement value plus roads in the event of communitization with your company. However, this is subject to confirmation by Reading & Bates and Mr. Guy A. Swartz. We might wish to unitize your tract along with ours and operate the property ourselves. In the event we are able to get together in unitizing this tract, it would be wise for Dalport's representative to contact us here in San Angelo to pick up Title Opinions, curative materials, assignments, etc. in regard to this acreage.

Very truly yours,

J. Frank Stringer

JFS:crl

cc: Reading & Bates, Inc.
Guy A. Swartz
J. A. March, III
Edwin S. Mayer, Jr.
Dr. James C. Womack

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 4
CASE NO. 5551



Dockets Nos. 25-75 and 26-75 are tentatively set for hearing on October 15 and October 22, 1975. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - OCTOBER 8, 1975

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

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

CASE 5048: (Continued from September 10, 1975 Examiner Hearing)

In the matter of Case No. 5048 being reopened pursuant to the provisions of Order No. R-4637 which order established the South Dagger Draw-Upper Pennsylvanian Associated Pool and promulgated special pool rules therefor, including provisions for 320-acre proration units and a limiting gas-oil ratio of 8,000 to 1. All interested parties may appear and show cause why said special pool rules should remain in effect.

CASE 5551: (Continued from September 10, 1975 Examiner Hearing)

Application of Dalport Oil Corporation and Burk Royalty Co. for compulsory pooling and an unorthodox gas well location, Chaves County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests in the Queen formation underlying the W/2 of Section 17, Township 12 South, Range 31 East, Southeast Chaves-Queen Gas Area, Chaves County, New Mexico, to be dedicated to a well drilled at an unorthodox location 660 feet from the South and West lines of said Section 17. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision. Also to be considered will be the designation of the applicant as the operator of the well and a charge for the risk involved in drilling said well.

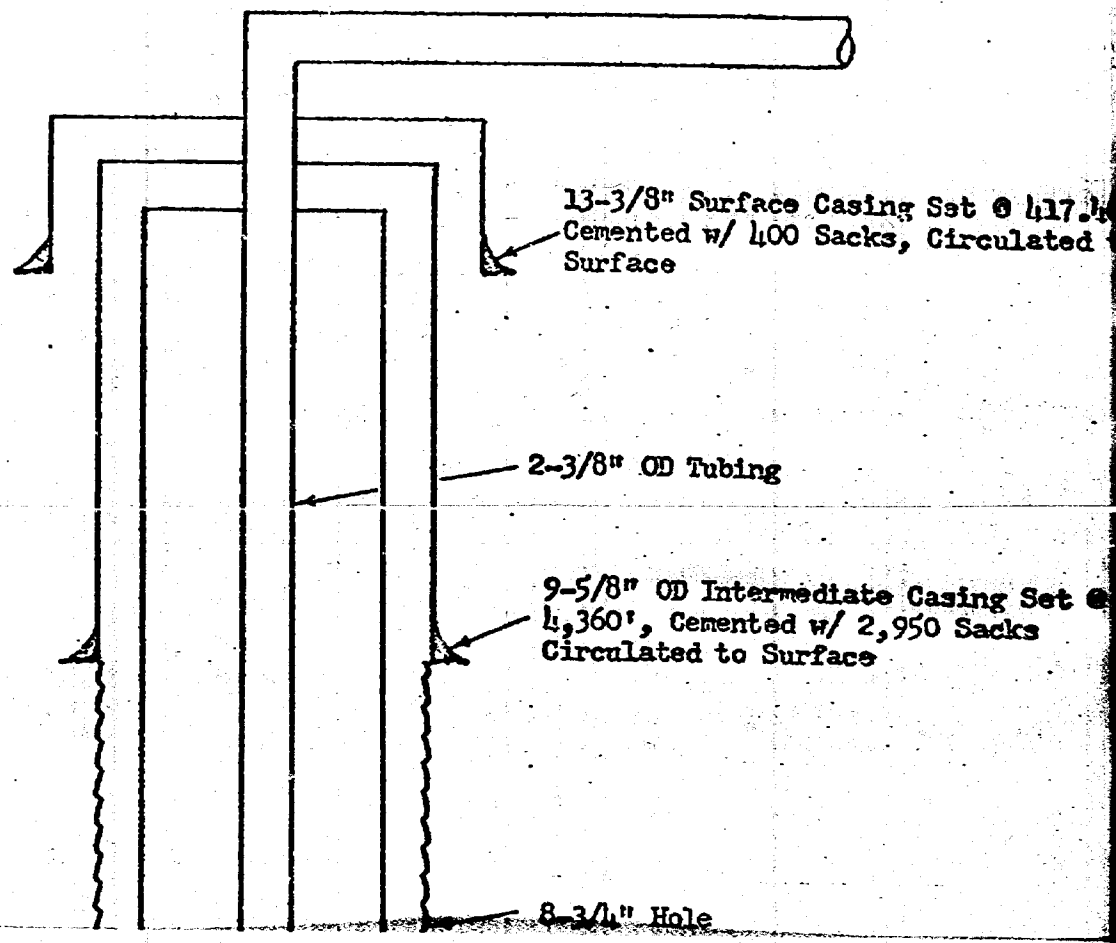
CASE 5555: (Continued from September 24, 1975 Examiner Hearing)

Application of Lone Star Producing Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced water into the Devonian formation through the open-hole interval from 12,180 feet to 12,226 feet in its Santa Fe Well No. 2 located in Unit O of Section 19, Township 9 South, Range 37 East, East Crossroads-Devonian Pool, Lea County, New Mexico.

CASE 5563: Application of Llano, Inc. for a unit agreement, Lea and Eddy Counties, New Mexico. Applicant, in the above-styled cause, seeks approval for the Lusk Strawn Deep Unit Area comprising 20,864 acres, more or less, of State and Federal lands in Townships 18, 19, and 20 South, Ranges 31 and 32 East, Lusk Strawn Pool, Lea and Eddy Counties, New Mexico.

LONE STAR PRODUCING COMPANY
Santa Fe No. 2
Sec. 19, T-9-S, R-37-E

DIAGRAMATIC SKETCH OF SALT WATER
DISPOSAL WELL



MODEL FORM OPERATING AGREEMENT—1956

Non-Federal Lands

OPERATING AGREEMENT

DATED

November 3, 19 70,

FOR UNIT AREA IN TOWNSHIP 12 South, RANGE 31 East, N. M. P. M.,

Chaves COUNTY, STATE OF New Mexico

Published and for Sale by
ROSS-MARTIN CO.
Box 800
Tulsa, Oklahoma

Form 610

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 2
CASE NO. 5-5-5-1

Kraftbilt 610 ROSS-MARTIN CO. TULSA 1, OKLAHOMA

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KraftBilt 610 ROSS-MARTIN CO. TULSA 1, OKLAHOMA

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 3rd day of November, 19 70, between READING AND BATES, INC.,

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

(1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.

(2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.

(3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.

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

(5) The term "Unit Area" shall refer to and include 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".

(6) 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 Unit Area or as fixed by express agreement of the parties.

(7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.

(8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

~~Each party other than Operator shall promptly submit to Operator abstracts certified from beginning to~~ recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this contract. ~~All of these abstracts and title records shall be~~

Complete title examination to all drill sites shall be made and approved at the direction of the Operator and the cost thereof shall be borne jointly in the same manner as other costs and expenses. The parties hereto hereby approve title to the drill site for the first test well.

on mortgages, taxes, pending suits, and judgments, and unreleased oil and gas leases, and a list of requirements, if any, upon which the examiner's approval of title to the lease or oil and gas interest is contingent. The title report shall also contain a specific description of the oil and gas lease being subjected to this contract, with a statement of its form, term (which will be satisfactory if it has a primary term expiring not sooner than _____), ~~amount of royalty, status of delay rental payments, and unusual drilling~~

"Joint Loss"

~~obligations and of excess royalty, oil payments, and other special burdens. A copy of each title opinion, and~~ of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and each lease, and the amount of interest covered thereby shall be binding and conclusive on the parties, but the acceptability of leases as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.

All title examinations shall be made, and title reports submitted, within a period of_____days after the submission of abstracts and title papers. Each party shall, in good faith, try to satisfy the requirements of the examining attorneys concerning its leases and interests, and each shall have a period of_____ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the leases or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their senders. If all titles are approved by the examining attorneys, or are accepted by all parties, and if all leases are accepted as to primary terms, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative ~~immediately, and the parties shall proceed to their performance as they are hereinafter stated.~~

B. Failure of Title:

After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.

C. Loss of Leases For Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the remaining portion of the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

~~If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for~~ the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B" and for the primary term therein stated. As to ~~such~~ interests, 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~~.

4. INTERESTS OF PARTIES

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 contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth (⅛) royalty, the party contributing that lease shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

Reading and Bates, Inc. shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit 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 from breach of the provisions of this agreement.

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

7. TEST WELL

On or before the 15th day of December, 19 70, Operator shall commence the drilling of a well for oil and gas in the following location:

Northwest Quarter of the Southwest Quarter (NW/4 SW/4) Section 21, Township 12 South, Range 31 East, NMPM, Chaves County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth to test the San Andres Formation, estimated to require drilling to a depth of 4,000 feet.

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete 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 test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

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 costs 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 costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs 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 at the rate of six percent (6%) per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. 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.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Five Thousand and no/100- - - - - - - - - - - - - Dollars ($5,000.00) except in connection with a well the drilling, reworking, deepening, 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 and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of $5,000.00.

12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of 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 on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may 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 (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) 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. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 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.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. 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 section 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 section, 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, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests 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 section, 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) 200% 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 Section 24, and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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.

Within sixty (60) days after the completion of any operation under this section, 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 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. 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; 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 operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned 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 schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 12, 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 Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit 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. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. 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.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, 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 shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, 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.

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Operator shall pay all delay rentals and shut-in well payments which may be required under the terms of its lease or leases and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. ~~The paying party shall be reimbursed by Operator for 100% of any such delay rental payment and 180% of any shut-in well payments.~~ The amount of such payment shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. ~~Each party responsible for such payments~~ Operator shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Paragraph 22 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor.

18. PREFERENTIAL RIGHT TO PURCHASE

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and in~~terests in the Unit 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 of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

19. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, 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 Unit 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 Unit 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 rights 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 may, at its discretion, 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 contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

20. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

21. 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 Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is 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 them liable as partners.

22. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit 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 unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the 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 section 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 section.

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

23. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, 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. 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. 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, 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 assignors' or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Unit Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

24. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit 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 execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. 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 Unit Area.

25. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be returned for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation 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. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with 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".

26. 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. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit 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.

27. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand ($1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

28. 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 possible diligence to remove the force majeure as quickly as possible.

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 restraint, 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.

29. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be 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. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

30. OTHER CONDITIONS, IF ANY, ARE:

Reading and Bates, Inc. shall assume its duties and responsibilities as Operator at such time as the Test Well called for in Paragraph 7 has been drilled to total depth. Until that time J. Frank Stringer shall have the responsibilities and duties of Operator.

31. Irrespective of any provision to the contrary, consent to the drilling of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this Agreement has reached its authorized depth, Operator shall give immediate notice to Non-Operator. The parties receiving such notice shall have twenty-four hours in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice so to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of all of the parties. If one or more, but less than all, of the parties elect to set pipe and to attempt a completion, the provisions of Section 12 shall apply to the operations thereafter conducted by less than all parties as to all wells except the Test Well called for in Paragraph 7. As to said test well the forfeiture for non-consent to completion, shall be all right, title and interest as to the North Half of the Southwest Quarter (N/2 SW/4) Section 21.

32. At any time more than one year after commercial oil or gas production is found on the Unit Area, any Non-Operator may elect to take over operations if it considers operating costs to be excessive. Such election is to be made by a written statement from Non-Operator detailing the items of expense which are alledged to be excessive, specifying the proposed economies and and stating that it is willing to operate the Unit Area for a period of one year in line with the proposed economies. Within 10 days of such notice, Operator shall elect in writing to either (a) surrender operations to the proposed Non-Operator for a period of one year upon the terms contained in Non-Operator's proposal, or (b) agree to operate the Unit Area for a period of one year at a cost consistent with the proposed economies. If operator surrenders operations, the proposing Non-Operator shall operate for a nimimum period of one year, under the terms hereof as modified by its proposed economies.

33. Reading and Bates, Inc. owns an oil and gas lease covering the N/2; N2 SW/4 Section 32, Township 12 South, Range 31 East, Chaves County, New Mexico. If operations under this Operating Agreement are conducted in the S/2 Section 29, Township 12 South, Range 31 East, Chaves County, New Mexico, Reading and Bates, Inc. will grant to the Non-Operators herein, an option to earn 1/4th of the interest of Reading and Bates in Section 32 by drilling a test well on Reading and Bates' acreage in Section 32 and paying 1/2 of all costs of such test well to the point of casing therein.

34. This Operating Agreement is made specifically subject to the terms of any Farmout Agreements, Acreage Contribution Agreements, or Dry Hole Contribution Agreements acquired by the parties hereto.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

READING AND BATES, INC.

ATTEST:

K. K. Kemper, Assistant Secretary

By:

I. I. Pierce, Vice President

OPERATOR

~~ATTEST:~~

~~ATTEST:~~

J. Frank Stringer

Dr. James C. Womack

Edwin S. Mayer, Jr.

J. A. March, III

Guy A. Swartz

EXHIBIT "A"

Attached to and made a part of Operating Agreement dated November 3, 1970, by and between Reading and Bates, Inc., as Operator, and Dr. James C. Womack, J. Frank Stringer, Edwin S. Mayer, Jr., J. A. March, III, and Guy A. Swartz as Non-Operator.

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1. LANDS SUBJECT TO THIS OPERATING AGREEMENT:

Section 7: S/2 SW/4; N/2 SE/4; N/2 NE/4
Section 20: NE/4 NE/4; SW/4 NE/4; NE/4 SW/4; NE/4 SE/4; SW/4 SE/4
Section 17: N/2 NE/4; N/2 SE/4; S/2 NW/4; S/2 SW/4
Section 21: N/2 NW/4; N/2 SW/4; S/2 NE/4; S/2 SE/4
Section 28: N/2 NW/4; N/2 SW/4; S/2 NE/4; S/2 SE/4
Section 29: NE/4; N/2 NW/4; N/2 SW/4; S/2 SE/4
Section 33: N/2 NW/4

all in Township 12 South, Range 31 East, NMPM, Chaves County, New Mexico,

to a depth earned pursuant to the various farmout agreements.

2. OWNERSHIP OF PARTIES TO THIS OPERATING AGREEMENT:

Reading and Bates, Inc. 11th Floor Philtower Building Tulsa, Oklahoma 74103	25.00% ✓
J. Frank Stringer P. O. Box 3037 San Angelo, Texas 76901	15.625% ✓
Dr. James C. Womack Suite # 8 Medical Arts Building San Angelo, Texas 76901	6.25% ✓
Edwin S. Mayer, Jr. P. O. Box 1741 San Angelo, Texas 76901	25.00% ✓
J. A. March, III 2509 Nasworthy Drive San Angelo, Texas 76901	12.50% ✓
Guy A. Swartz P. O. Box 3037 San Angelo, Texas 76901	15.625% ✓

EXHIBIT "B"

None Required

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated November 3, 1970, between Reading and Bates, Inc., as Operator, and

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ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"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.

"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.

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

"Controllable Material" shall be defined as set forth under the subparagraph selected below:

A. [X] 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.

B. [ ] Material which is ordinarily so classified and controlled by Operator in the conduct of its operations. List shall be furnished Non-Operators upon request.

2. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under the subparagraph selected below:

A. [ ] Statement in detail of all charges and credits to the Joint Account.

B. [ ] Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

C. [X] Statement of all charges and credits to the Joint Account, summarized by appropriate classification indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

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 ten per cent (10%) 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.

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 the Joint Property as provided for in Section VII.

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

6. Approval by Non-Operators

Where an approval or other agreement of Non-Operators is expressly required under Paragraphs 5A, 5B, 6A and 8 of Section II, Section III, Section V, Section VI, and Paragraph 4 of Section VII, of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the Operator shall notify all Non-Operators 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 employees directly employed on the Joint Property in the conduct of Joint Operations.
   (2) Salaries of first-level supervisors in the field if such charges are excluded from overhead rates in Option A of Section III.
   (3) Salaries and wages of technical employees temporarily assigned to and directly employed on the Joint Property if such charges are excluded from overhead rates in Option B of Section III.
   (4) Salaries and wages of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from overhead rates in Option C of Section III.
   B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1A of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost 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 and Paragraph 1A of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III.
   D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.
3. **Employee Benefits**
   Operator's current cost 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 and Paragraph 1A of Section III shall be chargeable as indicated in the subparagraph selected below:
   A. [X] Operator's actual cost.
   B. [ ] Operator's actual cost not to exceed fifteen per cent (15%).
4. **Material**
   Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and 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 Operator and Non-Operators.
   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 Operators and Non-Operators. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by Operator and Non-Operators.
   C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of $100 or less.
6. **Services**
   A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 1B of Section III. The cost of professional consultant services shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.
   B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.
7. **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 to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
8. **Legal Expense**
   All costs and expenses of handling, investigating, and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorney's fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), unless agreed to by Operator and Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.
9. **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.

10. Insurance

Net premiums paid for insurance required to be carried on the Joint Property 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 therefor on the following basis:

.....

.....

.....

11. 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 for the necessary and proper conduct of the Joint Operations.

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus the rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraph 1 of this Section III or by combining all three of said items under the rates provided for in Paragraph 2 or 3 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE INDIRECT COSTS TO THE JOINT ACCOUNT UNDER THE TERMS OF:

[ ] Paragraph 1. (District Expense, Administrative Overhead and Warehousing)
[X] Paragraph 2. (Combined Rates - Well Basis)
[ ] Paragraph 3. (Combined Rates - Percentage Basis)

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 Operator and Non-Operators as a direct charge to the Joint Account.

THE OVERHEAD RATES PROVIDED FOR IN ANY OF THE PARAGRAPHS SELECTED ABOVE

A. [ ] shall [X] shall not include salaries and personal expenses of first-level supervisors in the field.

B. [ ] shall [X] shall not include salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property.

C. [ ] shall [X] shall not include salaries, wages and personal expenses of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property.

1. District Expense, Administrative Overhead and Warehousing

A. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's ..... office located at or near ..... (or a comparable office if location changed); and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

B. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1A of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charge shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged direct as provided in Paragraphs 2 and 8 of Section II. Such charge shall be made on the basis indicated below, either (1) well basis or (2) percentage basis, at the rates shown thereunder.

(1) [ ] Well Basis

RATE PER WELL PER MONTH

	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
Well Depth	Each Well	First Five	Next Five	All Wells Over Ten
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

(2) [ ] Percentage Basis

PERCENTAGE BASIS

Development:

..... Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

Operating:

..... Percent (%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 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.

C. Operator's Warehouse Operating and Maintenance Expense
   [ ] Included in district expense
   [ ] No charge either direct or indirect
   [ ] Percentage basis (describe fully) .....
   .....
   .....

2. **Combined Rates - Well Basis**
Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

RATE PER WELL PER MONTH

Well Depth	DRILLING WELL RATE (Use Total Depth) Each Well	PRODUCING WELL RATE (Use Current Producing Depth) First Five	Next Five	All Wells Over Ten
0' - 5,000'	$356.00	$71.00	$65.00	$60.00

3. **Combined Rates - Percentage Basis**
Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

PERCENTAGE BASIS

A. Development:
..... Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 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 8 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.

4. **Application of Administrative Overhead or Combined Rates - Well Basis**
The following limitations, instructions and charges shall apply in the application of the rates as provided under either Paragraph 1B (1) or Paragraph 2 of this Section III.

A. Charges for drilling wells shall begin on the date each 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 the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:
   (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for waterflooding operations and salt water disposal wells shall be considered the same as producing oil wells.
   (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. Any well being plugged or produced during any portion of the month shall be considered as a producing well for the entire month.
   (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling rig or workover rig capable of drilling shall be considered the same as drilling wells.
   (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, shut-in wells shall be counted in determining the charge hereunder for such month if said wells contribute allowable production that is actually produced during such month from one or more unit wells as a result of allowable transfer, inclusion in the unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during the month.
   (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
   (6) Wells completed in multiple horizons, shall be considered as a producing well for each separately producing horizon, providing each completion is considered a separate well by governmental or other statewide regulatory authority.

C. The well rates for producing wells shall be applied to the individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project, the well rates shall be applied to the total number of producing wells, irrespective of individual leases.

D. 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 preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian Index as published by the Dominion Bureau of Statistics, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

5. **Application of Administrative Overhead or Combined Rates - Percentage Basis**
For the purpose of determining charges on a Percentage Basis under Paragraph 1B (2) or Paragraph 3 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 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 6 of this Section III. All other costs shall be considered as Operating.

6. **Major Construction Overhead**
For the construction of compressor plants, water stations, secondary recovery systems, drilling and production platforms, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling

and producing operations, Operator in addition to the Administrative Overhead or Combined Rates provided for in Paragraph 1, 2 or 3 of this Secton III shall either negotiate a rate prior to beginning of construction or shall charge the Joint Account with an additional overhead charge as follows:

A. Total cost less than $25,000, no charge.

B. Total cost more than $25,000, but less than $100,000, ...% of total cost.

C. Total cost of $100,000 or more, ... % of the first $100,000 plus ..... % of all over $100,000 of total cost.

Total cost shall mean the total 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 wells shall be excluded.

7. **Amendment of Rates**

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operators may supply Material or services for the Joint Property.

1. **Purchases**

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. **Material furnished from Operator's Warehouse or Other Properties**

A. New Material (Condition "A")

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

(2) Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the Joint Property where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (1) of this paragraph.

(3) When the Operator has equalized actual hauling costs as provided for in Paragraph 5 of Section II, Operator is permitted to include ten cents (10¢) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.

(4) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f.o.b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is normally available.

(5) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. Used Material (Condition "B" and "C")

(1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.

(2) Material which is not suitable for its original function until after reconditioning shall be furnished to the Joint Account under one of the two methods defined below:

(a) Classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material. The cost of reconditioning shall be absorbed by the Operator of the transferring property.

(b) Classified as Condition "C" and priced at fifty per cent (50%) of current price of new Material. The cost of reconditioning also shall be charged to the receiving property, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. 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.

(4) 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 prices specified in Paragraphs 1 and 2 of this Section IV 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 procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that 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 10 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.

5. **Equipment and Facilities Furnished by Operator**

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. In lieu of rates based on costs of ownership and operation of equipment, other than automotive, Operator may elect to use commercial rates prevailing in the area of the Joint Property less 20%; for automotive equipment, rates as published by the Petroleum Motor Transport Association may be used. Rates for laboratory services shall not exceed those currently prevailing if performed by

outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be agreed to by Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from Joint Property.

1. **Material Purchased by the Operator or Non-Operators.**
   Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.
2. **Division in Kind**
   Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator to the Joint Account.
3. **Sales to Outsiders**
   Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless agreed to by Operator and Non-Operators shall be priced on the following basis:

1. **New Price Defined**
   New price as used in this Section VI shall be the price specified for new Material in Section IV.
2. **New Material**
   New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).
3. **Good Used Material**
   Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:
   A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
   B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five per cent (75%) of new price.
4. **Other Used Material**
   Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:
   A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
   B. Is serviceable for original function but not suitable for reconditioning.
5. **Bad-Order Material**
   Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.
6. **Junk Material**
   Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.
7. **Temporarily Used Material**
   When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. 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 inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operators 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 Operator and Non-Operators.

EXHIBIT "D"

The Operator shall carry for the benefit of the joint account insurance to cover the Operator's operations on the lease acreage covered by this agreement as follows:

(a) Workmen's Compensation Insurance: In compliance with the Workmen's Compensation laws of the State where the operations are being conducted, including Employer's Liability.

(b) Comprehensive General Liability Insurance, excluding products: With Limits of $100,000.00 for injuries or death to one person, $500,000.00 for injuries or death in one accident and $100,000 each accident and $250,000.00 aggregate for property damage.

(c) Automobile Public Liability and Property Damage Insurance: In amounts of $100,000.00 for injuries to one person, $200,000.00 for injuries in one accident and $100,000.00 for property damage

The Operator shall require its contractors and subcontractors working or performing services on the Unit Area covered hereby to comply with the Workmen's Compensation law of the State where the operations are being conducted, and to carry such other insurance and in such amounts as the Operator shall deem necessary.

READING & BATES OIL AND GAS CO.
GENERAL OFFICE: PHILTOWER BUILDING, TULSA, OKLAHOMA 74103, CABLE ADDRESS: REBAT-TULSA, PHONE: AC/918 583-8521

September 13, 1973

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 3
CASE NO. 5575-71

Terra Resources, Inc.
5416 South Yale
Tulsa, Oklahoma

Attention: Mr. Joe Alcott

RE: L-17241 - Terra Federal #1, SW/4 SW/4 Section 17-12S-31E
Chaves County, New Mexico

Dear Mr. Alcott:

As mentioned during our recent conversation, we have obtained well cost figures from J. Frank Stringer, covering the actual drilling and completion costs of the captioned well. A letter from Mr. Stringer setting out the cost is attached hereto and is self-explanatory.

Since this area is now spaced by the New Mexico Oil and Gas Commission at 320 acres per gas well, Terra must now make an election to ratify the existing Operating Agreement, a copy of which is enclosed herewith, and either pay one-half of the actual well costs or elect to take a non-consent position under the Operating Agreement.

We will appreciate your early consideration of this matter and your election in connection therewith.

Yours very truly,

READING & BATES OIL AND GAS CO.

Howard E. Rongey, Landman

HER/pat
attach.
cc: Mr. J. Frank Stringer
Mr. Guy A. Swartz

File Silver Dollar Prospect
Terra Fed #1

RECEIVED
SEP 17 1973
RECEIVED

AUTHORITY FOR EXPENDITURE

NO _____

COMPANY Reading & Bates Oil and Gas Co.

AMOUNT REQUESTED, Company Share Only $ _____

Requested By Donald J. Kipgen Location Odessa, Texas

Lease No. 17241 Lease Terra Federal Well No. 1

Field _____ County Chaves State New Mexico

REASON FOR EXPENDITURE:
(Include basis for payout. Use attachment for supporting data if necessary.)

This AFE prepared as a cost estimate to indicate anticipated costs to prepare this well for production and is not an authority for expenditure.

COST ESTIMATE:

	Total	Tangible	Intangible
Servicing Unit - 2½ days	$ 1,800	$	$ 1,800
Dozer to pull unit up hill	150		150
Trucking	265		265
Kill Truck	400		400
Engineering Supervision	300		300
	$ 2,915	$	$ 2,915
Contingencies	285		
Less Salvage Credit	( )		
Project Total	$ 3,200		

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Rr 3 EXHIBIT NO. 6
CASE NO. 5551

Salvage credit to be taken only if equipment is sold from the project.

ESTIMATED DATE OF EXPENDITURE:

Month _____ Year _____

~~APPROVED~~: Prepared by:

D. J. Kipgen by [signature]
D. J. Kipgen Name

Prod. Supt. South Area 8-25-75
Title Date

_____ Name

_____ Title _____ Date

PARTNERS APPROVAL ACCEPTED:

_____ Company

_____ Name

_____ Title _____ Date

Working Interest Participation:

Company	%	Share
		$
Total	1.00	$

FORM 405

Tatum Basin - Texas Federal 1 No. 1

ADDRESS Chaves Cty. New Mexico

1965	ITEM	AMOUNT		
7-3	Federal Abstract Company	85 48		2548
7-3	Lea Co. Abst. Co. (Federal Abst. of Title)	53 00		13849
7-8	West Engineering Co. (Lease location & survey)	260 00		39848
7-22	Christman, McRae, Sealy, Laughlin (Duly Opinion)	150 00		54948
8-24	Continental-Emsco Co.	38 55 57		440405
8-24	Halliburton Co.	811 54		521559
8-24	Halliburton Co.	1923 14		719973
8-24	Bearing Service & Supply Co.	696 18		789491
8-24	American Mud Company	1770 06		956497
8-24	American Mud Company	69 59		973456
8-24	American Mud Company	1107 89		1034345
8-24	American Mud Company	660 36		1150381
8-24	Schlumberger Well Services	2419 93		1392874
8-24	R R Foster Casing Company	338 00		1426674
8-24	Sweatt Construction Company	5830 73		2009747
9-1	Core Laboratories, Inc.	73 84		2017131
9-1	Core Laboratories, Inc.	56 16		2022747
9-4	Ryan, Kemp, Stiles & Middlebrook (Contract for Packer) Assign. to W.I.	37 50		2060497
9-9	Cactus Drilling Company Duly. Texas Ltd. #1	17697 68		3796265
9-9	Cactus Drilling Company (Expenses)	1682 82		3812547
9-9	Cactus Drilling Company (Day work)	21925 92		4034129
9-22	Guy R. Sealy Geological 7-20-70 thru 8-10-70	693 42		4094881
9-23	Guy R. Sealy Geological & expenses	178 00		4112381
9-23	O Frank Stringer - Offices & supervision	3042 92		4142678
10-7	Levy Construction	77 22		4150395
10-7	Continental-Emsco Co.	2002 70		4170565
10-7	Welex Chas. Inc.	969 28		4261793
10-7	Go International, Inc.	3744		4295537
10-7	Welex, Inc.	161 00		4311653

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 5
CASE NO. 5537

ACCOUNT Silver Sands - Texas Federal No. 1

ADDRESS Chaves Cty., New Mexico

DATE	ITEM	FOLIO	√	DEBITS	√	CREDITS	BALANCE
10-7	Balance carried forward						43214.23
10-7	Two-State Sand & Rental Co.			223.60			43437.83
10-7	Mr. Penman Corporation			1680.00			45117.83
10-7	Western Oil Transportation Company			87.36			45205.19
10-7	Western Oil Transportation Company			169.73			45374.92
10-7	Sweatt Construction Co.			104.00			45478.92
10-7	Sweatt Construction Co.			85.80			45564.72
10-7	Sweatt Construction Co.			51.48			45616.20
10-7	Southwestern Laboratories			25.00			45641.20
10-9	Guy A Swartz			651.10			46292.30
10-11	Halliburton Company			2924.52			49216.82
10-22	Halliburton Company			234.52			49451.34
10-23	Pond Cat Dirt			312.46			49763.80
10-23	Standard Corporation			15.39			49779.19
10-23	Standard Corporation			1533.49			51312.68
11-26	Sweatt Construction Company			550.03			51862.71
9-4	Misc. office expenses as listed			1688.61			53551.32
7-27	George S Galbraith - Commission - consulting			5000.00			58551.32

NAME Edwin Sands - Dura-Medical No. 1

ADDRESS Chaves County, New Mexico - Misc Office Expenses

70	ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	BALANCE
6-8	Secretary Company			10 45			10 45
6-8	South Texas Well Log Service			13 17			23 62
6-30	½ of Office Expense for June			214 98			238 60
7-6	West Texas Electrical Log Service			15 23			253 83
7-6	Rolando - Blanton			38 09			291 92
7-6	McEvoy			42 98			334 90
7-6	Petroleum Club of Midland	✓		35 92			370 82
7-31	½ of Office Expenses for July	✓		282 35			653 17
8-7	Travel cash	✓		250 00			903 17
8-12	Sonic Reproduction			22 62			925 79
8-13	½ of Office Expense thru 8-15-70			255 15		1	180 94
8-31	½ of Office Expenses - 8-15-70 thru 8-31-70			165 98		1	346 92
9-4	San Angelo Light Service - (Ft. Mc.)			190 00		1	536 92
9-4	Secretary Company			30 23		1	567 15
9-11	American Express	✓		115 93		1	683 08
9-14	Sonic Reproduction			15 65		1	698 73

NAME Schools of Texas Federal No. 1

ADDRESS Orange City, Texas - Commissioner

70	ITEM	FOLIO	✓	DEBITS	✓	CREDITS	✓	BALANCE
7 [illegible]	Judge S Galbraith			500000				500000

J. FRANK STRINGER
Operating Account
P. O. Box 3037
San Angelo, Texas 76901

THE FIRST NATIONAL BANK
OF SAN ANGELO, TEXAS

No. 328

88-87
1113

SAN ANGELO, TEXAS July 27, 19 70

Pay to the order of George S. Galbraith $ 5,000.00

Five Thousand and 00 CTS Dollars

THIS CHECK IS IN FULL SETTLEMENT OF ACCOUNT AS SHOWN HEREWITH. ACCEPTANCE BY ENDORSEMENT CONSTITUTES RECEIPT IN FULL

Coms. on Chaves County;
New Mexico Farmout
Agreement

J. FRANK STRINGER — Operating Account

By J. Frank Stringer

⑈1113⑈ 0887⑆ ⑈680 608 2⑈ ⑈0000500000⑈

READING & BATES OIL AND GAS CO.
GENERAL OFFICE: PHILTOWER BUILDING, TULSA, OKLAHOMA 74103, CABLE ADDRESS: REBAT-TULSA PHONE: AC/918 583-8521

September 13, 1973

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 3
CASE NO. 5551

Terra Resources, Inc.
5416 South Yale
Tulsa, Oklahoma

Attention: Mr. Joe Alcott

RE: L-17241 - Terra Federal #1, SW/4 SW/4 Section 17-12S-31E
Chaves County, New Mexico

Dear Mr. Alcott:

As mentioned during our recent conversation, we have obtained well cost figures from J. Frank Stringer, covering the actual drilling and completion costs of the captioned well. A letter from Mr. Stringer setting out the cost is attached hereto and is self-explanatory.

Since this area is now spaced by the New Mexico Oil and Gas Commission at 320 acres per gas well, Terra must now make an election to ratify the existing Operating Agreement, a copy of which is enclosed herewith, and either pay one-half of the actual well costs or elect to take a non-consent position under the Operating Agreement.

We will appreciate your early consideration of this matter and your election in connection therewith.

Yours very truly,

READING & BATES OIL AND GAS CO.

Howard E. Rongey, Landman

HER/pat
attach.
cc: Mr. J. Frank Stringer
Mr. Guy A. Swartz

Fire Silver Sands
Legal Pkg.
Terra Fed #1

RECEIVED
SEP 17 1973
RECEIVED

STATEMENT

FEDERAL • P. O. BOX 2236 • SANTA FE, NEW MEXICO, 87501

ABSTRACT Company

STATE • FEDERAL • INDIAN LANDS

•Stubbeman, McRae,Sealy & Laughlin
P.O. Box 670
Midland, Texas 79701
Att: Tevis Herd

DATE	DESCRIPTION	AMOUNT
6/17/70	Abstract No. 22797 - NM 0314228	$82.00
	Sales Tax	3.48
		$85.48

Paid 7-3-70
ck. # 255

PAY LAST AMOUNT IN THIS COLUMN

Lawyers Title Insurance Corporation

GESSERT-SANDERS DIVISION
124 EAST 4TH STREET—P. O. BOX 1593
ROSWELL, NEW MEXICO 88201

INVOICE

Tevis Herd
Attorney at Law
Box 670
Midland, Texas 79701

PLEASE REFER TO
ORDER NO. WHEN PAYING

ORDER NO. 48046

June 12 19 70

RE: All Secs. 17, 21 & 28, Tp. 12 S. Rge. 31 E.
Chaves Co. NM

DESCRIPTION OF CHARGES	AMOUNT OF INSURANCE	CHARGES
OWNERS POLICY . . . . $		
MORTGAGEE POLICY . $		
Mineral Abstract of title		$53.00

Paid 7-3-70
ck. # 256

FORM 92-84

INVOICE

IN REMITTING OR CORRESPONDING PLEASE REFER TO INVOICE NUMBER

DATE 6-25, 19 70

NO. 570-02

WEST ENGINEERING CO.
412 NORTH DAL PASO
HOBBS, NEW MEXICO
TELEPHONES: 393-3942 OR 393-6770

CORRECT NAME: J. FRANK STRINGER (J. (JAMES)

Name ~~James Frank Stringer~~

Address Box 3037

City San Angelo, Texas

DATE	DESCRIPTION	AMOUNT
5-12,13-70	Stake location and run elevation for Fed No. 1	
	Field crew 2 long days @ 125 00	250 00
	4% NM sales tax	10 00
		260 00

Eby New Mexico

Paid 7-3-70
ck. #257

STUBBEMAN, McRAE, SEALY, LAUGHLIN & BROWDER
ATTORNEYS AT LAW
P. O. BOX 670
MIDLAND, TEXAS 79701

DATE July 1 19 70

Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 78201

June	23	Original drilling opinion covering tracts of land in Secs. 17, 21 and 28, T-12-S, R-31-E, NMPM, Chaves County, New Mexico, including examination of United States Lease NM0314228, and farmout agreement, as amended, and dry hole contribution letter agreement	$ 150 00
	TH		

Paid 7-20-70
Ck. # 311

This invoice is payable in Midland, Midland County, Texas
EMP. NO. 75-0590210

CE FORM 260 M
REV. 6 69

CONTINENTAL - EMSCO COMPANY
A DIVISION OF YOUNGSTOWN SHEET AND TUBE COMPANY
DALLAS, TEXAS

ORIGINAL / INVOICE

STORE LOCATION:	SELLING LOCATION:	DATE SHIPPED	INVOICE NO.
HOBBS N M	SAN ANGELO TEX	8-8-70	D-10317

CUSTOMER'S ORDER REFERENCE (Purchase Order No., Ordered By, Etc.)	CUSTOMER'S LOCATION CHARGE	INVOICE DATE
NONE SUARTZ	#1 TERRA FEDERAL	8-18-70

SOLD TO -
J FRANK STRINGER O
BOX 3037
SAN ANGELO TEX 76902

SHIPPED TO:
SAME 21N 29H
LOVINGTON N M
FRT PPD
FOB DESTN
WEIGHT 24680#

SHIPPED T/C MERCER TRK-CO PPD
COMPANY VEHICLE | CALLED FOR | PARCEL POST | C.O.D. CASH

D-U-N-S 00-493-9740

ORDER ATTACHED TO INVOICE NO.

QUANTITY	UNIT	DESCRIPTION (THE MATERIAL LISTED HEREON IS SOLD SUBJECT TO THE TERMS AND CONDITIONS LISTED ON REVERSE SIDE)	UNIT PRICE	DISCOUNT	AMOUNT	KEY (SEE BELOW)
2578.58	FT	4 1/2" OD 9.50# K-55 SHORT T&C RANGE 2 SEAMLESS CASING (83JTS)	134.41CFT	NET	3465.87	
		PLUS PUEBLO TRK @ 1.26CWT ON 24680#		NET	310.97	N
					3776.84	
		B/L & PIPE TALLY ATTD				
		2% CASH DISC APPLIES ON 3465.87 @ 134.41CFT IF PAID ON OR BEFORE 8-31-70				
			Paid	8-24-70 ck. # 434 #3,855.57		

	TAXES	DETAIL	TOTAL	
	4% N M SALES TAX			151.07
		72.34	INVOICE AMOUNT	3927.91

DISCOUNT KEY:
N - NET
0 - 1%
1 - 1%
3 - 2% 10 DAYS

IF THE SPACE IN "KEY" COLUMN IS BLANK TERMS ARE 2% 20TH FOLLOWING.

PROMPT PAYMENT DISCOUNT-
IF PAYMENT IS MADE IN ACCORDANCE WITH TERMS ON REVERSE SIDE -

REMIT TO: P.O. Box 809 DALLAS, TEXAS 75221

UARCO BUSINESS FORMS - PARIS, TEX.

07598

HALLIBURTON

A DIVISION OF HALLIBURTON COMPANY
DUNCAN, OKLAHOMA

ORIGINAL

SEND ALL REMITTANCES TO
P. O. DRAWER 1431
DUNCAN, OKLAHOMA 73533

PAGE 1 OF 1 PAGES

INVOICE & TICKET NO. 341082

WELL NO. AND FARM	COUNTY	STATE	DATE
[illegible]	[illegible]	[illegible]	[illegible]
CHARGE TO	CONTRACTOR		DUNCAN USE ONLY
[illegible]	[illegible]		[illegible]

CHARGE TO: J. Frank Stringer
ADDRESS: BX 3037, San Angelo, Texas

DELIVERED TO: Location
SHIPPED VIA: C.R. Truck

LOCATION 1: Invoice — CODE:
LOCATION 2: — CODE:
LOCATION 3: — CODE:

855450
3

J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS 76901

DUNCAN USE ONLY

CUST. INV. REQ. ORIG. &
☐ 1 ☐ 2 ☐ 3 ☐ 4

REQUISITION:
ORDER NO.:
BULK MATERIAL DELIVERY TICKET NO.: B-34120
TOTAL ACID - 30 DAYS:
WELL TYPE: CODE:
NO. COPIES:

TYPE AND PURPOSE OF JOB: Surface

TERMS: DUE BY THE 20TH OF FOLLOWING MONTH. INTEREST CHARGED AFTER 60 DAYS FROM DATE OF INVOICE.
$ .11 Cash discount allowed if paid by due date.
$ None Tax adjustment may be deducted if discounted.

PRICE REFERENCE	SECONDARY REF. OR PART NO.	CODE L	CODE D	DESCRIPTION	UNITS 1 QTY.	UNITS 1 MEAS.	UNITS 2 QTY.	UNITS 2 MEAS	UNIT PRICE	AMOUNT
[illegible]		1	C	Pumping Charge	250	FT			[illegible]	[illegible]
[illegible]		1	C	Wooden plug	1	EA	8 5/8		[illegible]	11 00
35	[illegible]	1	C	Howco weld-in	1	EA			5 50	5 50
[illegible]		1	C	Lone Star mileage	200	MI			[illegible]	320 00
[illegible]		1	C	Automatic blender	4	HR			[illegible]	80 00
				SERVICE CHARGE ON MATERIALS RETURNED		CU. FT.				
[illegible]				SERVICE CHARGE	208	CU. FT.			.40	83 20
[illegible]				19101 TOTAL WEIGHT [illegible] LOADED MILES	593	TON MILES			[illegible]	131 79
									SUB TOTAL	780 33
				TAX REFERENCES 800-029 1 OM					TAX	31 21
									TAX	
									TAX	
									TOTAL	811 54

WAS JOB SATISFACTORILY COMPLETED? _____
WAS OPERATION OF EQUIPMENT SATISFACTORY? _____
WAS PERFORMANCE OF PERSONNEL SATISFACTORY? _____

X [signature]
Customer or His Agent

[signature]
Halliburton Operator

Paid 8-24-70
Ck. #435

1

HALLIBURTON

ORIGINAL

SEND ALL REMITTANCES TO
P. O. DRAWER 1431
DUNCAN, OKLAHOMA 73533

PAGE 1 OF _____ PAGES

INVOICE & TICKET NO. 341786

WELL NO. & FARM	COUNTY	STATE	DATE
[illegible]	[illegible]	[illegible]	8-9-70
SERVICE LOCATION	CONTRACTOR		DUNCAN USE ONLY
[illegible]	[illegible]		
WELL OWNER	DELIVERED TO	LOCATION / CODE	
J. Frank Stringer	Location	1 Levelland	782-5
MAIL INVOICE TO	SHIPPED VIA	LOCATION / CODE	
Attn: Roy Smallwood Texas	Co. pickup	2	
	CUST. INV. REQ. ORIG. &	REQUISITION	LOCATION / CODE
			3

855450
3

J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS 76901

DUNCAN USE ONLY

☐ 1 ☐ 2 ☐ 3 ☐ 4	ORDER NO.	BULK MATERIAL DELIVERY TICKET NO. B-34137
NO. COPIES	TOTAL ACID - 30 DAYS	WELL TYPE / CODE: Oil Development / 05

TYPE AND PURPOSE OF JOB: Re-Perforation Casing

TERMS: DUE BY THE 20TH OF FOLLOWING MONTH. INTEREST CHARGED AFTER 60 DAYS FROM DATE OF INVOICE.

$ 4.42 Cash discount allowed if paid by due date.

$ .18 Tax adjustment may be deducted if discounted.

PRICE REFERENCE	SECONDARY REF. OR PART NO.	CODE L	CODE D	DESCRIPTION	UNITS 1 QTY.	UNITS 1 MEAS.	UNITS 2 QTY.	UNITS 2 MEAS.	UNIT PRICE	AMOUNT
001-016		1	U	Pumping Service	2615 Ft.		1			446 00
030-015		1	C	Rubber Plug	1 ea.		4½"			7 40
504-050		1	C	Super Star Guide	1 ea.				1 1/2	220 00
240-105		1	A	Pozmix A	100 Sks.				[illegible]	204 75
504-121		1	A	Halliburton Light						N.C.
509-405		1	C	Cmt. Sq. Hesitation	200 Sks.				1.50	287.30
504-910		1	A	Salt #1	89 Sks.				2.10	60 90
650	807.702	1	S	Pump Time	3 hrs.		4½"		15.50	46 65
240	815.1901	1	S	Bulk Cmt. Unit	1 Unit		4½"			40 55
241	815.1912	1	S	Filling Unit	1 Unit		4½"			12 95
242	815.201	1	S	Cmt. Mixing	1 Unit		4½"			33 95
600	807.2007	1	S	Rotating Charge	8 hrs.				10.00	81 60
35	807.1002	1	S	Work Ad	1 Ea.					5 50
213-009		1	C	Mud Flush	250 Gal.				.23	57 50
				SERVICE CHARGE ON MATERIALS RETURNED		CU. FT.				
500-207		1	C	SERVICE CHARGE	391	CU. FT.			.40	156 40
500-306		1	C	53109 TOTAL WEIGHT 56 LOADED MILES	92.7	TON MILES			.23	213 22

TAX REFERENCES

500-029		1	OM	SUB TOTAL	1906 27
				TAX	76 22
				TAX	
				TAX	
				TOTAL	1983 14

WAS JOB SATISFACTORILY COMPLETED? _____

WAS OPERATION OF EQUIPMENT SATISFACTORY? _____

WAS PERFORMANCE OF PERSONNEL SATISFACTORY? _____

X [signature] Customer or His Agent

[signature] Halliburton Operator

Paid 8-24-70
ck. # 435

[illegible] COMPANY, INC.

701 EAST MAIN
ARTESIA, NEW MEXICO 88210
P. O. BOX 100

Customer's Order No. & Date 7-30-70 Lease

SOLD TO J. FRANK STRINGER
P.O. BOX 3037
SAN ANGELES, TEXAS 76901

Invoice No. 33918
Date 7-31-70
Terms 2% 15TH PROX

Date Shipped 7-30-70 Delivered to

Quantity	Description	Unit Price	Amount
284.85	8 5/8" OD 8RD 20# RANGE 3 L.S. FOSTER NEW SURFACE CASING T & C	2.35 FT	669.40 NET
		4% TAX	26.78
			696.18

FOB LOCATION

new mexico
Paid 8-24-70
Ck. #436

PLEASE PAY FROM THIS INVOICE. NO STATEMENT WILL BE MAILED ON CURRENT ACCOUNTS.
9% INTEREST ON PAST DUE ACCOUNTS

AMERICAN MUD COMPANY

WELL MUD COST SUMMARY

Operator [illegible] Drilling Contractor [illegible] Date 9-30-79

Lease [illegible] Field [illegible] County [illegible]

	Quantity	Price		Total	
35	American Gel	2	76	96	60
	American Bar				
	American Clay				
50	Salt Water Gel	3	92	196	00
90	Starch	9	35	841	50
	Driscose				
6	Rayflo	13	80	82	80
	Flo-Sal				
	Soda Ash				
2	Caustic Soda	6	51	13	02
20	Dick Mud Seal	6	82	136	40
	Super Treat				
6	Lime	1	38	6	90
	Cotton Seed Hulls				
	Preservatives				
	Cedar Fiber				
	Mica				
	Cement (Reg.)				
	Cement (Incore)				
9	Gentomerse	26	00	234	00

RECEIVED
OCT 1 1979

TOTAL MUD COSTS	1503	22
TOTAL DRAYAGE & TRANSP. TAX	16?	84
GROSS TOTAL	1???	06

AMERICAN MUD CO.

ABILENE AND NORTH TREADAWAY

P. O. BOX [illegible] PHONE [illegible]

ABILENE, TEXAS 79604

INVOICE

DATE	NUMBER
8-13-70	963

DELIVERY TICKET NO.	DELIVERY DATE	YOUR P. O. NUMBER
225	8-13-70	

TO J. Frank Stringer Oil Pro.
2308 W. Harris Ave.
San Angelo, Texas

LEASE NAME AND WELL NUMBER: Terry Fred, #1 ✓

RECEIVED BY

DELIVERED FROM

DELIVERED BY

NO. OF SACKS CANS OR BALES	ITEM	TOTAL WEIGHT LBS	UNIT	NO. OF UNITS	UNIT PRICE	AMOUNT
	American Gel		Bag			$
	American Bar		Bag			
	Salt Water Gel		Bag			
	Starch		Bag			
	Soda Ash		Bag			
	Super Treat		Bag			
	Caustic Soda		Bag			
	S S 300		Gal.			
	C S Hulls		Bag			
	Detergent		Gals.			
	Bichromate		Bag			
	Cellofiake		Bag			
	Arco Fiber		Bag			
	Lime		Bag			
	Cedar Fiber		Bag			
	Flosal		Bag			
3	Rayflo	150		3	13.80	41.40
1	Santomerse	50		1	26.00	26.00
					MATERIALS TOTAL	$ 67.40
	DRAYAGE:		CWT.			N.C.
					3% % SALES TAX ON MATERIALS	2.19
					TOTAL	$ 69.59

Paid 8-24-70
Ck. # 437

AMERICAN MUD CO.

ABILENE, TEXAS 79604

INVOICE

DATE	NUMBER
8-5-70	1171 M

DELIVERY TICKET NO.	DELIVERY DATE	YOUR P. O. NUMBER
519	7-30-70	

TO J. Frank Stringer Oil Properties
2308 N. Harris Avenue
San Angelo, Texas

Chanes

LEASE NAME AND WELL NUMBER	RECEIVED BY		DELIVERED FROM		DELIVERED BY
Terra Federal "1					

NO. OF SACKS CANS OR BALES	ITEM	TOTAL WEIGHT LBS.	UNIT	NO. OF UNITS	UNIT PRICE	AMOUNT
35	American Gel	3500	Bag	35	$2.76	$ 96.60 ✓
	American Bar		Bag			
50	Salt Water Gel	5000	Bag	50	3.92	196.00 ✓
40	Starch	2000	Bag	40	9.35	374.00 ✓
	Soda Ash		Bag			
	Super Treat		Bag			
	Caustic Soda		Bag			
	S S 300		Gal.			
	C S Hulls		Bag			
	Detergent		Gals.			
	Bichromate		Bag			
	Cellofiake		Bag			
	Arco Fiber		Bag			
5	Lime	250	Bag	5	1.38	6.90 ✓
	Cedar Fiber		Bag			
	Flosal		Bag			
20	Dicks Mud Seal	800		20	6.82	136.40 ✓
5	Rayflo	250		5	13.80	69.00 ✓
5	Aromerse	250		5	26.00	130.00 ✓
					MATERIALS TOTAL	$ 1008.90 ✓
	DRAYAGE:	14000 Min	CWT.	0.48		67.20 ✓
					3½ % SALES TAX ON MATERIALS	32.79 ✓
					TOTAL	$ 1108.89 ✓

Paid 8-24-70
16.11437

AMERICAN MUD CO.
ANGLEN AND NORTH TREADAWAY
P. O. BOX [illegible] PHONE [illegible]
ABILENE, TEXAS 79604

INVOICE

DATE	NUMBER
8-[illegible]-70	1185 A

DELIVERY TICKET NO.	DELIVERY DATE	YOUR P. O. NUMBER
783	8-6-70	

TO J. Frank Stringer Oil Pro.
2338 W. Harris Ave.
San Angelo, Texas

LEASE NAME AND WELL NUMBER: Terra Fed. #1 ✓		RECEIVED BY		DELIVERED FROM		DELIVERED BY
NO. OF BAGS CANS OR BALES	ITEM	TOTAL WEIGHT LBS.	UNIT	NO. OF UNITS	UNIT PRICE	AMOUNT
50	American Gel American Bar Salt Water Gel Starch Soda Ash	2500	Bag Bag Bag Bag Bag	50	9.35	$ 467.50
4	Super Treat Caustic Soda S S 300 C S Hulls Detergent Bichromate Celloflake Arco Fiber Lime Cedar Fiber Flosal	200	Bag Bag Gal. Bag Gals. Bag Bag Bag Bag Bag Bag	4	6.51	26.04
4	Santomerse	300		4	26.00	104.00
					MATERIALS TOTAL	$ 597.54
	DRAYAGE: 7000 Min		CWT.	6.62		43.40
				3½%	4% SALES TAX ON MATERIALS	19.42
					TOTAL	$ 660.36

Paid 8-24-70
ck. # 437

ORIGINAL INVOICE

[redacted]

J [redacted] STE[redacted]
[redacted] 47
S[redacted] TEXAS

7[redacted]

TERMS
[redacted]

[redacted]	[redacted]	[redacted]	INVOICE NO.
3-[redacted]-70	3-[redacted]-70	14210	4-13513

[redacted]	LEASE	WELL	OFFSHORE ZONE
[redacted] BLOCK T	TERRA FEDERAL		
LOCATION: SEC 17 T12S R31E		1	

				AMOUNT	
				$	
L	LATEROLOG				
		SERVICE CHARGE		175.00	
	4033	FEET DEPTH CHARGE @	.12	486.36	
	7453	FEET OPERATION CHARGE @	.08	196.24	
		STATE TAX		34.30	
				891.90	*
FDC	COMPENSATED FORM DENSITY-GAMMA RAY				
	4064	FEET DEPTH CHARGE @	.13	528.32	
	4064	FEET OPERATION CHARGE @	.11	447.04	
		STATE TAX		39.01	
				1,014.37	*
MLL	MICROLATEROLOG				
	4063	FEET DEPTH CHARGE @	.09	365.67	
	1663	FEET OPERATION CHARGE @	.08	133.04	
		STATE TAX		19.95	
				518.66	*

Paid 3-24-70
Ch. #438

1

CUSTOMER	ENGINEER	LOCATION	CHECK AMTS ADDRESS: [redacted] BOX 2153 CORRESPONDENCE MAILING ADDRESS: P. O. BOX 2175 HOUSTON, TEXAS 77001	TOTAL CHARGE PAY THIS AMOUNT	$	
36955	030066	1401			2,424.93	**

INVOICE

R.A. FOSTER CORING COMPANY

LO 3-2822 P. O. BOX 6785

ODESSA, TEXAS - 79760

No. T 729

TO:

J. FRANK STRINGER
P.O. BOX 3037
SAN ANGELO, TEXAS 76901

TERMS:
NET 30 DAYS
8% INTEREST CHARGED ON PAST DUE ACCOUNTS

DATE	INVOICE NO.	P. O. NUMBER	REFERENCE	SERVICE FROM	CODE	CUSTOMER'S NUMBER
8/4/70	T 729	-		ODESSA		

WELL NAME	COUNTY	STATE
TERRA FEDERAL WELL #1	CHAVES	NEW MEX

DESCRIPTION OF SERVICE	PRICE	TOTAL
50' CONTRACT CORING	6 50	325 00
NEW MEXICO STATE TAX		13 00
		338 00

Paid 8-24-70
Ck. #439

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS ° PITS ° LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO 88255

INVOICE

No. 3350-A

W. J. (BILL) SWEATT
RES. 1503 BUSH
746-3749 — ARTESIA

DATE August 6, 1970

Paid 8-24-70
Ck. #440

Sold To Mr. J. Frank Stringer
Box 3037
San Angelo, Texas 76901

LOCATION Terra Fed. Well # 1 ✓

Page 1

WORK ORDER NO.

WORK PERFORMED: ~~Furnished equipment and labor to construct road and location.~~

Date	Description	Rate	Hrs.	Amount
7/20/70	Dozer w/oper.	16.50	9	148.50
7/21/70	" " " "	" "	9	148.50
7/21/70	" " " "	" "	9	148.50
7/21/70	Haul truck w/oper.	14.00	6	84.00
7/21/70	Roustabout	3.75	3½	13.13
7/21/70	Compressor w/oper.	11.50	3½	40.25
7/22/70	Dozer w/oper.	16.50	9	148.50
7/22/70	Dozer w/oper.	16.50	9	148.50
7/22/70	Pull w/oper.	27.00	3	81.00
7/22/70	Compressor w/oper.	11.50	6	69.00
	Explosives (see ticket)			101.60
7/22/70	Roustabout	3.75	9	33.75
7/23/70	Dozer w/oper.	16.50	8½	140.25
7/23/70	Dozer w/oper.	16.50	8½	140.25
7/23/70	Pull w/oper.	27.00	8½	229.50
7/23/70	Roustabout	3.75	8½	31.88
7/25/70	Dozer w/oper.	16.50	6	99.00
7/25/70	Dozer w/oper.	16.50	9	148.50
7/25/70	Dozer w/oper.	16.50	9	148.50
7/25/70	Pull w/oper.	27.00	9	243.00
7/27/70	Dozer w/oper.	16.50	9	148.50
	Continued			

203A—Bryan Printers & Stationers

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS • PITS • LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3250-A

W. J. (BILL) SWEATT
RES. 1503 BUSH
746-3749 — ARTESIA

DATE August 6, 1970

Sold To Mr. J. Mack Stringer
Box 3037
San Angelo, TExas 76901

LOCATION Terra Fed. Well # 1 Page 2

WORK ORDER NO.

WORK PERFORMED: Furnished equipment and labor to construct road and location.

Date	Description	Rate	Hrs.	Amount
7/27/70	Dozer w/oper	16.50	9	148.50
7/27/70	Dozer w/oper.	16.50	9	148.50
7/27/70	Blade w/oper.	16.50	2½	41.25
7/27/70	Water truck w/oper.	13.50	2½	33.75
7/28/70	Dozer w/oper.	16.50	9	148.50
7/28/70	Dozer w/oper.	16.50	9	148.50
7/28/70	Dozer w/oper.	16.50	9	148.50
7/28/70	Blade w/oper.	16.50	9	148.50
7/28/70	Water truck w/oper.	13.50	9	121.50
7/29/70	Dozer w/oper.	16.50	10½	173.25
7/29/70	Dozer w/oper.	16.50	6½	107.25
7/29/70	Pull w/oper.	27.00	10½	283.50
7/29/70	Dozer w/oper.	16.50	4½	74.25
7/29/70	Dozer w/oper.	16.50	6	99.00
7/29/70	Blade w/oper.	16.50	10½	173.25
7/29/70	Water truck w/oper.	13.50	4½	60.75
7/29/70	Water truck w/oper.	13.50	6	81.00
7/30/70	Pull w/oper.	27.00	3½	94.50
7/30/70	Blade w/oper.	16.50	5½	90.75
7/30/70	Water truck w/oper. (60 bbl.)	11.00	5	55.00
7/30/70	Water truck w/oper. (112 bbl.)	13.50	5	67.50
	Continued			

302A—Bryan Printers & Stationers

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS • PITS • LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3250-A

DATE August 6, 1970

W. J. (BILL) SWEATT
RES. 1503 BUSH
746-3749 — ARTESIA

Sold To Mr. J. Frank Stringer
Box 3037
San Angelo, Texas

LOCATION Sears Fed. Well # 1
WORK ORDER NO.
WORK PERFORMED: Furnished equipment and labor to construct road and location.

Date	Description	Rate	Hrs.	Amount
7/30/70	Supplies and cattleguard rental (see ticket)			247.36
30	Caliche (see ticket)			103.32
30	Water (see ticket)			44.80
8/4/70	Dozer w/oper.	16.50	4	66.00
4	Pull w/oper.	27.00	2	54.00
4	Roustabout	3.75	4½	16.88
8/5/70	Dozer w/oper.	16.50	7	115.50
8/6/70	Blade w/oper.	16.50	1	16.50
				5606.47
			Tax	224.26
				$5830.73

Thank You

Paid 8-24-70 Ck. #4410

Purchase price of cattleguard $325.00 each, first months rental will be applied to purchase price.

203A—Bryan Printers & Stationers

Nº 66412

CORE LABORATORIES, INC.

Petroleum Reservoir Engineering

Box 10185

DALLAS, TEXAS 75207

28 AUGUST 1970

SOLD TO
J. FRANK STRINGER
BOX 5037
SAN ANGELO, TEXAS

ORDER NO.
DATE 8/1/70
FIELD WILDCAT
WELL NO. TERRA FEDERAL NO. 1
COUNTRY & STATE CHAVES, NEW MEXICO
UP-3 JOB NO. 3330

CLIENT NO. 12149-0

SERVICE	QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
S	5	HOURS	6.00	30.00
	160	MILES	0.15	24.00
	16	CORE BOXES	1.00	16.00
		CHIPS		1.00
		4% NEW MEXICO STATE SALES TAX		2.84

COPY

TOTAL $ 73.84

ACCOUNT PAYABLE IN U. S. CURRENCY AT DALLAS, TEXAS
TERMS: NET CASH 30 DAYS

INVOICE Nº 66412

Retain This Invoice for Your Files; We Do Not Send Statements.

CORE LAB

CORE LABORATORIES, INC.

Petroleum Reservoir Engineering
Box 10185
DALLAS, TEXAS 75207
21 OCTOBER 1970

N? 67558

SOLD TO
J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS

ORDER NO.
DATE 8/1/70
FIELD WILDCAT
WELL NO. TERRA FEDERAL NO. 1
COUNTRY & STATE CHAVES, NEW MEXICO
WP-3 JOB NO. 3330

CLIENT NO. 12149-0

SERVICE	QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
S	5	HOURS	6.00	30.00
	160	MILES	0.15	24.00
		4% NEW MEXICO STATE SALES TAX		2.16

COPY

TOTAL $ 56.16

ACCOUNT PAYABLE IN U. S. CURRENCY AT DALLAS, TEXAS
TERMS: NET CASH 30 DAYS

INVOICE N? 67558

Retain This Invoice for Your Files; We Do Not Send Statements.

STATEMENT

LOGAN, STEIB, LEWIS & MIDDLEBROOK

ATTORNEYS AT LAW

CENTRAL NATIONAL BANK BUILDING
SAN ANGELO, TEXAS 76901

TEL. (915) 655-8178
P. O. BOX 1627

August 26, 1970

Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 76901

Re: Chaves, New Mexico
Prospect

Code	Date	Description	
3	6-27-70	Preparation of form of contract for partial assignment of working interests.	
		TOTAL SERVICES	$37.50

XXXXXXXXXX INVOICE XXXXXXXXXXXXXXX

CACTUS DRILLING COMPANY
XXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXX
P.O. Box 2218
Dallas, Texas

Corrected Invoice
INVOICE NO. 803-A Rig #8
DATE 8/25/70

TO: J. Frank Stringer Oil
P.O. Box 3027
San Angelo, Texas 76901

FOR: Footage drilled on your Terra Federal #1 in Chaves County, New Mexico

4060'	Total Depth	
10'	Substructure	
46'	Cored on DW	
4004'	@ $4.25 per foot	$17,017.00
	New Mexico Tax	680.68
		$17,697.68

Paid 9.9.70
Ck. #491

RECEIVED
AUG 26 1970

P. O. DRAWER 71 INVOICE TELEPHONE 653-5931

CACTUS DRILLING COMPANY

~~FIRST SAVINGS BUILDING~~
~~MIDLAND, TEXAS 79701~~
P. O. Box 2218
Dallas, Texas 75221

INVOICE NO. 854 Rig 8

DATE 8 26 70

TO: J. Frank Stringer
P. O. Box 3037
San Angelo, Texas

FOR: Expense incurred while drilling your Terra Federal #1 well, located in ~~Chaves, New Mexico~~

Jones Laughlin Supply	299	8 14 70	$ 14.35
Hardin-Houston, Inc.	5185	8 14 70	1148.47
			$1162.82
	Less Water Clause Expense		1000.00
			$ 162.82

Paid 9.9.70
ck. # 491

P. O. DRAWER 71 | INVOICE | TELEPHONE 653-5931

CACTUS DRILLING COMPANY

~~XXXX

OFFICE PH. 949-1557

REG. PH. 949-7018

GUY A. SWARTZ
CONSULTING ENGINEER - GEOLOGIST
2807 TANGLEWOOD
SAN ANGELO, TEXAS 76901

August 28, 1970

Statement of Expenses and Mileage for work on the Terra-Federal No. 1, Chaves County, New Mexico as shown below:

Mileage:	July 20	557 mi.	
	July 31		
	Aug. 1		
	Aug. 2	797 mi.	
	Aug. 4		
	Aug. 5		
	Aug. 6		
	Aug. 7		
	Aug. 8		
	Aug. 9		
	Aug. 10	1554 mi. = Total	2908 miles

2908 miles @ .15¢	$ 436.20
Meals, Tel. & Mis'c.	80.00
Motel	107.22
Total	$ 623.42

Paid 9-23-70
cks. #514
(Opr. acct.)

OFFICE PH. 949-1957

REG. PH. 949-7016

GUY A. SWARTZ
CONSULTING ENGINEER - GEOLOGIST
2907 TANGLEWOOD
SAN ANGELO, TEXAS 76901

August 28, 1970

S T A T E M E N T

J. Frank Stringer
P. O. Box 3037
San Angelo, Texas

Statement for Geological services on your Terra-Federal No. 1 well, Chaves County, New Mexico:

1 day	$100.00
520 miles @ .15¢	178.00
Total ..	$278.00
	178.00

Paid 9-23-70
ck. #514
(opr. acct.)

Office Phone [illegible]
Night Phone [illegible]

STATEMENT

J. FRANK STRINGER

P. O. Box 3037

SAN ANGELO, TEXAS

To

DATE: Sept. 30, 1970

LEASE: Terra-Federal
Chaves County, N.M.

WELL NO.: 1

PLEASE MAKE CHECKS PAYABLE TO J. FRANK STRINGER, AND MAIL TO P. O. BOX 3037, SAN ANGELO, TEXAS

Statement for expenses paid by J. Frank Stringer during the months of July, August & September in connection with drilling our jointly owned Terra-Federal No. 1 well:

Long Distance Telephone calls	$ 175.38	
+ 10% Federal Tax	+ 17.54	
Total Telephone		$ 192.92
J. Frank Stringer Operation for month of September per Operating Agreement		$ 110.00
Total This Statement		$ 302.92

INVOICE NO. 8519

DATE September 12, 1970

To Frank Stephenson
P. O. Box 2037
Hobbs, New Mexico - 88240

PLEASE REMIT TO:
DRAWER 258
ARTESIA, NEW MEXICO
88210

PHONE:
746-3434 - ARTESIA, N. M.
682-4054 - GILLETTE, WYO.

TERMS: NET 30 DAYS

LOCATION Terra Federal # 1

9-7-70	4 1/2	Hrs	Dozer	16.50	74.25
			4% Sales Tax		2.97
					$ 77.22

Pulled Truck Down Caprock (Ordered By Mack Chase)

Paid 10-7-70
ck. # 589
(Ben. agr.)

APPROVED BY

CF FORM 200
REV. 6-69

CONTINENTAL-EMSCO COMPANY

A DIVISION OF YOUNGSTOWN SHEET AND TUBE COMPANY
DALLAS, TEXAS

ORIGINAL INVOICE

STORE LOCATION:	SELLING LOCATION:	DATE SHIPPED	INVOICE NO.	PART OF NO.
HOBBS, NEW MEXICO	HOBBS, NEW MEXICO	10 1 7	1556[illegible]	

CUSTOMER ORDER REFERENCE (Purchase Order No., Ordered By, Etc.)	CUSTOMER'S LOCATION CHARGE	ORDER ATTACHED TO	INVOICE DATE
SHARP	TERRA FED. #1	INVOICE NO.	10 31 70

SOLD TO:
J TEXAS STRINGER
BOX 2127
SAN ANGELO TX 76902

SHIPPED TO
CARLSBAD, N.M.

SHIPPED VIA
COMPANY VEHICLE

17c-20

D-U-N-S 00 493 9743

QUANTITY	UNIT	DESCRIPTION THE MATERIAL LISTED HEREON IS SUBJECT TO THE TERMS AND CONDITIONS LISTED ON REVERSE SIDE	UNIT PRICE	DISCOUNT (*DENOTES PLUS FACTOR)	AMOUNT
1	EA	VALVE, PLUG, ROCKWELL 142 2 II 1754 BCG	25.5[illegible]	31	17.[illegible]
1	EA	8-5/8IN CD SRD. MALE X 4-1/2IN CD CASING HD. COMP.	173.00	NET	173.00
1	EA	2 IN STD BULL PLUG	2.95	NET	2.95
1	EA	2 X 6 IN STD BLK SMLS PIPE NIPPLE	1.35	NET	1.35
140	MI	COMPLIMENTARY DELIVERY CHARGE	28.00	NET	N/C

New Mexico
Terra Fed
to be issued

Paid 10-7-70
Ck. #590
Joe-appr.

TAXES — DETAIL | TOTAL

7.[illegible] NEW MEXICO TAX 7.[illegible]

DISCOUNT KEY:
N - NET 1 - 1%
O - 1/2% 3 - 2% 10 DAYS
IF THE SPACE IN KEY COLUMN IS BLANK, TERMS ARE 2% 20TH FOLLOWING

PROMPT PAYMENT DISCOUNT
IF PAYMENT IS MADE IN ACCORDANCE WITH TERMS ON REVERSE SIDE 3.64

INVOICE AMOUNT [illegible]

REMIT TO: P. O. BOX 809 DALLAS, TEXAS 75221

[redacted], Inc.

ARTESIA, NEW MEXICO · 88210

TO:

Jack's Stringer
Attn: Guy Schwartz
P. O. Box 3087
San Angelo, Texas

DATE Sept. 18, 1970

LEASE: Terra Federal WELL NO. 1 PURCHASE ORDER NO.

DATE	SERVICES RENDERED	HOURS	RATE	AMOUNT
	Pole Unit 3 man crew.			
9-8-70	Moved to location(Used bulldozer to get rig down the hill), rigged up.	6	23.00	$138.00
9-9-70	Rigged up perforators, logged anf perforated, ran packer on tubing and acidized well. Pulled tubing and packer out, helped Halliburton rig up and fraced well. Shut down.	12	23.00	276.00
	Power Tongs			35.00
9-10-70	Laid flow line from well to frac tank, bled well off. Well flowing back on choke. Installed fence around oil pits and shut down.	10	23.00	230.00
9-11-70	Hooked up connections to check cubic feet of gas. Tested well, shut it in and rigged down.	11	23.00	253.00
	4% New Mexico Sales Tax			37.28
				$969.28

RECEIVED
SEP 21 1970
RECEIVED

Paid 10-7-70
ck. # 591
Ise-opr.

INVOICE

P. O. BOX 1936 / FORT WORTH, TEXAS 76101

TO:

J. Frank Stringer
Box 3037
San Angelo, Texas

TERMS: NET-30 days

DATE: Sept. 15, 1970
CUSTOMER NO.:
INVOICE NO.: 007003
CUSTOMER'S ORDER NO.:
JOB TICKET NO.: 10215
DATE OF SERVICE: 9/9/70
LEASE & WELL NO.: Terra Fed. #1
FIELD: W/C
COUNTY: Chaves
STATE: New Mexico

DESCRIPTION	AMOUNT
Service Charge	$150.00
Ran GR Correlation Log	NC
Perforate with Densi Jet DML with 2 shots per ft. from 2535-2542 with 14 shots	190.00
DML Charge-Minimum	20.00
Sub total	360.00
4% New Mexico Tax	14.40
Total	$374.40

Orders to Martinez

Paid 10-7-70
Ck. # 592
Tex-Sopr.

FORM NO. 118

ATTELLER, INC.
reservoir engineering data
P. O. BOX 5247
MIDLAND, TEXAS 79701

Invoice No. 9-3998

Sept. 21, 1970

Issued To:

The Stringer Company
P. O. Box 3037
San Angelo, Texas

Attention: Mr. Guy Swartz

Your Order No.
Date Sept. 15, 1970
Well No. Terra Federal No. 1
Field Wildcat
County Chaves
State New Mexico
Our Service Report No. 3998
Our Job No. 3-3998-OFP

DESCRIPTION OF SERVICE RENDERED	AMOUNT
Open Flow Potential Measurement	
1st 4 hours	$ 75.00
4 additional hours @ $10.00/hour	40.00
1 round trip, 350 miles @ $.15/mile	52.50
TOTAL	$ 167.50

RECEIVED
SEP 22 1970
RECEIVED

Paid 10-7-70
ck. #593
(Joe Ayer)

Terms: Net Cash 30 days.
Retain This Invoice for Your Files; We Do Not Invoice Again and Send Statements.

[illegible]
[illegible]
Hobbs, New Mexico

[illegible] Company

TO
J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 76901

Date September 16, 1970
Your Order No.
Invoice No. 914
Our Field Receipt 3823
Location Terra Federal #1

		UNIT PRICE	TOTAL
1	500 bbl. Tank Rental 5-day Minimum	115.00	$115.00
10	Extra Days on 1 Tank (Set 9/1/70 Charged thru 9/15/70)	10.00	100.00
			215.00
	4% New Mexico Tax		8.60
			$223.60

JK 9/75

Is the assessed

RECEIVED
SEP 17 1970
RECEIVED

Paid 10-7-70
Ck. #594
Lse. Opr.

~~3450~~

INVOICE

THE PERMIAN CORPORATION

No. 9 - 3587

P. O. BOX 3119 MUTUAL 3-4711

MIDLAND, TEXAS 79701

PLEASE REMIT TO: P. O. BOX 1036 HOUSTON, TEXAS 77001

RETURN ONE COPY OF INVOICE WITH REMITTANCE

SOLD TO

J. Frank Stringer
Box 3037
San Angelo, Texas 76901

INVOICE DATE September 15, 1970
MAILING DATE September 15, 1970
ORDER NO.
CONTRACT:
TERMS Net Due Upon Receipt of Invoice

FROM: Stg. (157) | TO: Terra Federal ✓

DATE	TICKET NO.	ITEM	PRICE	GR.	BBLS/GALS	AMOUNT
9-2-70	72660	Crude Oil	$3.50		480.00	$1,680.00

Paid 10-7-70
ck. #596
Joe - agr.

RECEIVED
SEP 16 1970
RECEIVED

Lea County, New Mexico

[illegible]

Phone MU 3-4721

Date September 30, 1970 P. O. No

From Tierra Federal 35 Miles NW of Maljamar

Shipper J. Frank Stringer Consignee Same

To Tierra Federal 35 Miles NW of Maljamar

Hauled by authority of SCC Permit No. 1337 Tariff No. 17 Item No. 150 Mileage One Way

Sold To J. Frank Stringer Rate Per Hour $14.00

Box 3037 Rate Per Bbl.

San Angelo, Texas 76901 Rate Per Gal.

84450 Rate For Pump

DATE	B/L #	PRODUCT OR DESCRIPTION	GALLONS	BARRELS	HOURS	AMOUNT
9-16-70	2349	Crude Oil 4% New Mexico State School Tax			6.0	$84.00 3.36 $87.36

RECEIVED
OCT 2 1970
RECEIVED

Paid
10-7-70
Ck #597
Chas-Speer

124S-10M-8-70

C-5

INVOICE

WESTERN OIL TRANSPORTATION CO., INC.

P. O. BOX 3120 MIDLAND, TEXAS 79701
Phone MU 3-4721

No. 14455

Date September 23, 1970 P. O. No

From Maljamar A/C 157 1 Miles E of Maljamar

Shipper The Permian Corporation Consignee J. Frank Stringer

To Terra Federal 33 Miles N of Maljamar

Hauled by authority of SCC Permit No. 1337 Tariff No. 17 Item No. 120 Mileage One Way 33

Sold To J. Frank Stringer Rate Per Hour

Box 3037 Rate Per Bbl. $0.34

San Angelo, Texas 76901 Rate Per Gal.

$4450 Rate For Pump

DATE	B/L #	PRODUCT OR DESCRIPTION	GALLONS	BARRELS	HOURS	AMOUNT
9-2-70	2329			160.00		
9-2-70	7739			160.00		
9-2-70	21921			160.00		
		Crude Oil		480.00		$163.20
		4% New Mexico State School Tax				6.53
						$169.73

Paid 10-7-70
Ck. # 597 (Comp.)

124S-10M-6-70

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS ° PITS ° LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3326

DATE September 21, 1970

W. J. (BILL) SWEATT
RES. 1503 BUSH
746-3749 — ARTESIA

Sold To J. FRANK STRINGER
BOX 3037
SAN ANGELO, TX 76901

LOCATION TERRA FEDERAL # 1 corrected to Platteau
WORK ORDER NO.
WORK PERFORMED: Cattleguard rental

Date	Description	Rate	Hrs.	Amount
9/9/70	Cattleguard rental on two cattleguards (8-30-70 /9-30-70)			
		$50.00	each	$100.00
			tax	4.00
				$104.00
	THANK YOU			

RECEIVED
SEP 28 1970

Paid 10-7-70 #593 (See copy)

1080A—Bryan Printers & Stationers

(241.28 Total of 3)

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS ° PITS ° LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3346

W. J. (BILL) SWEATT
RES. 1503 BUSH
748-3749 — ARTESIA

DATE Sept. 29, 1970

Sold To J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS 76901

LOCATION Terra Fed. Well # 1
WORK ORDER NO.
WORK PERFORMED: Pulling trucks up hill (Permian Trucking)

Date	Description	Rate	Hrs.	Amount
9/16/70	Dozer w/oper.	16.50	5	82.50
			Tax	3.30
				$85.80

THANK YOU

Paid 10-7-70
Ck. # 5985

RECEIVED
OCT 1 1970
RECEIVED

1020A—Bryan Printers & Stationers

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS • PITS • LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3319

DATE 9/21/70

W. J. (BILL) SWEATT
RES. 1503 BUSH
746-3749 — ARTESIA

Sold To J. FRANK SERINGER
~~TEXAXXIXXXXXXX~~
~~P.O. BOX 3037~~
SAN ANGELO, TX 76901

LOCATION TERRA FED. # 1

WORK ORDER NO.

WORK PERFORMED: Furnish equipment and labor to pull pulling unit up hill.

Date	Description	Rate	Hrs.	Amount
9/17/70	Dozer w/oper.	$16.50	3	$49.50
			tax	1.98
				$51.48

THANK YOU

Paid C.O. A #598 10-7-70

RECEIVED
SEP 28 1970

1050A---Bryan Printers & Stationers

SOUTHWESTERN LABORATORIES

FORT WORTH DALLAS HOUSTON MIDLAND BEAUMONT TEXARKANA

P. O. BOX 1379 FORT WORTH, TEXAS 76101

INVOICE/STATEMENT FOR TESTING AND/OR INSPECTION

STATEMENT INVOICE NO. B 3380

TO The Stringer Company

P. O. Box 3037

San Angelo, Texas 76901

DATE September 25, 1970

TERMS: NET 30 DAYS - NO DISCOUNT

MATERIAL	NAME OF JOB	ORDER NO.	FILE NO.
Gas	Terra Federal No. L		C-1903-G

DATE	LAB. NO.	DESCRIPTION	UNIT PRICE	TOTAL
9-18-70	C-6673	1 Fractional Analysis		$25.00

Paid 10-7-70
Ck. # 599
(See apt.)

RECEIVED
SEP 30 1970

ORIGINAL

GUY A. SWARTZ
CONSULTING ENGINEER - GEOLOGIST
2807 TANGLEWOOD
SAN ANGELO, TEXAS 76901

September 15, 1970

S T A T E M E N T

Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas

Statement for Geological-Engineering services in connection with the completion of your Terra-Federal No. 1 well, Chaves County, New Mexico:

3½ days (Sept. 8, 9, 10 & 11th) @ $125.00	$	437.50
Mileage 1074 mi. @ .15¢.....		161.10
Motel & meals		52.50
Total	$	651.10

Paid
10-9-70
ck. #600
(Jun. apt.)

HALLIBURTON

ORIGINAL

SEND ALL REMITTANCES TO
P. O. DRAWER 1431
DUNCAN, OKLAHOMA 73533

PAGE 1 OF 1 PAGES

INVOICE & TICKET NO. 341880

WELL NO. AND FARM: Lt Texas Schools	COUNTY: Lea	STATE: N Mex	DATE: 9-9-70
OWNER: J. Frank Stringer	CONTRACTOR: Chase Wilson		DUNCAN USE ONLY
MAILING ADDRESS: J. Frank Stringer	DELIVERED TO: Location	LOCATION 1: Hobbs	CODE: 20335
ADDRESS: Box 3037 San Angelo Texas 76901	SHIPPED VIA: On Truck	LOCATION 2: Orchard	CODE: 20310
	CUST. INV. REQ. ORIG. &	REQUISITION	LOCATION 3 / CODE
	☐ 1 ☐ 2 ☐ 3 ☐ 4 R 1	ORDER NO.	BULK MATERIAL DELIVERY TICKET NO. B-
	NO. COPIES 4	TOTAL ACID - 30 DAYS	WELL TYPE: Wildcat / CODE: WC

DUNCAN USE ONLY

855450
3

J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS 76901

TYPE AND PURPOSE OF JOB: Acidize & Sand Frac Tex. Creek Strawn Perf. Intvls

TERMS: Net — DUE BY THE 20TH OF FOLLOWING MONTH. INTEREST CHARGED AFTER 60 DAYS FROM DATE OF INVOICE.
$ _____ Cash discount allowed if paid by due date.
$ _____ Tax adjustment may be deducted if discounted.

PRICE REFERENCE	SECONDARY REF. OR PART NO.	CODE L	CODE D	DESCRIPTION	UNITS 1 QTY.	UNITS 1 MEAS.	UNITS 2 QTY.	UNITS 2 MEAS.	UNIT PRICE	AMOUNT
30-002		1	0	Unit pumping chg	1320	MIR	2700	Lbs	1.05	1290 20
30-010		1	1	Supervision	1.0	Each			2.33	2.33 00
211-790		1	2	Additional Mileage	375	Mile			.67	251 25
30-021		1	1	Pump time	25	Hour			9.50	242 50
30-021		1	0	Acid	100	Gal	15 %		.24	170 00
210-100		1	0	Air equip	3	Each			2.00	24 00
210-005		1	0	Wagon	.5	Day			10.00	5 00
209-202		1	1	Manual Tubular	1	Ea			45.00	45 00
213-122		1	0	Dry	30	Sx			.41	12 30
				Delete						
50-107		2	0	Bulk Fly Ash Cmt	225	SK			1.91	429 75
				SERVICE CHARGE ON MATERIALS RETURNED		CU. FT.				
				SERVICE CHARGE		CU. FT.				
510-116-1		2	2	TOTAL WEIGHT 24 LOADED MILES	4.50	TON MILES			.23	10.3 50

TAX REFERENCES

800-029		1	NM	SUB TOTAL	2825 90
				TAX	99 62
				TAX	
				TAX	
				TOTAL	2924 52

WAS JOB SATISFACTORILY COMPLETED? _____
WAS OPERATION OF EQUIPMENT SATISFACTORY? _____
WAS PERFORMANCE OF PERSONNEL SATISFACTORY? _____

X Guy A Edwards
Customer or His Agent

Charles Lewis
Halliburton Operator

RECEIVED
SEP 21 1970

Paid 10-14-70
Ck # 1605
(Cus. Acct.)

HALLIBURTON SERVICES
A DIVISION OF HALLIBURTON COMPANY

ORIGINAL

SEND ALL REMITTANCES TO
P. O. DRAWER 1431
DUNCAN, OKLAHOMA 73533

COPY FOR INVOICE & TICKET
NO SA 301218

	CUSTOMER ORDER NO.	WELL NO. AND FARM: J. Perro Federal		COUNTY: Chaves	STATE: New Mexico
DISTRICT FROM: Hobbs	CODE: 22355	DESTINATION	SHIPPED VIA: Called For	CHARGES	PREPD. BY HALLIBURTON ☐ SHIPPED COLLECT ☐
SERV.	TYPE OF WELL / DESC	CODE: 10	OWNER: J. Frank Stringer	CONTRACTOR	
CHARGE TO: J. Frank Stringer		MAILING ADDRESS: Box 3037		CITY AND STATE: San Angelo, Texas	

DUNCAN USE ONLY

855450
3

J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS 76901

CUST. INV. REQ. ORIG. &
☐ 1
☐ 2
☐ 3
☐ 4
NO. COPIES

We certify that the Fair Labor Standards Act of 1938, as amended, has been complied with in the production of goods and/or with respect to services furnished under this contract.

TERMS: DUE BY THE 20TH OF FOLLOWING MONTH. INTEREST CHARGED AFTER 60 DAYS FROM DATE OF INVOICE.
$ 4.51 Cash discount allowed if paid by due date.
$ .18 Tax adjustment may be deducted if discounted.

PRICE REF.	SECONDARY REF. OR PART NO.	DESCRIPTION	1 UNITS		2 UNITS		UNIT PRICE	AMOUNT
915	838.9316	4½" R-4 PackerP/C.	1	ea			225.50	225.50

TAX REFERENCE

800-029 _____ _____ 060

SUB TOTAL	225.50
TAX	9.02
TAX	
TOTAL	234.52

HALLIBURTON SALESMAN

X _____
Customer or His Agent

As consideration, the above-named Customer agrees to pay Halliburton in accordance with the rates and terms stated in Halliburton's current price lists. Halliburton warrants only title to the products, supplies and materials and that the same are free from defects in workmanship and materials. There are no warranties, express or implied, of merchantability, fitness or otherwise which extend beyond those stated in the immediately preceding sentence. Halliburton limits its liability for breach of any warranty or for damages resulting from its negligence with respect to the use of such products, supplies or materials, on their return to Halliburton, or at Halliburton's option, to the allowance to Customer of credit for the cost of such products, supplies or materials. Upon Customer's default in the payment of Customer's account 60 days after receipt of invoice, such account will be subject to interest after date of invoicing until paid. In the event it becomes necessary to employ an attorney to enforce collection of such account, Customer agrees to pay all collection costs and attorney fees in the amount of 20 per cent of the amount of the unpaid account.

RECEIVED
SEP 21 1970
RECEIVE

Paid 10-23-70
ck. #612

INVOICE

Orig Sent Jerry

ROYD-COAT, INC.

P. O. DRAWER 631 / 915 563-2323 / MIDLAND, TEXAS 79701

SOLD TO
Mr. J. Frank Stringer
P.O. Box 3037
San Angelo, Texas 76902

INVOICE NO. 970-14
JOB TICKET NO. 415
INVOICE DATE September 30, 1970
LEASE
WELL P. O. NO. 250678
COUNTY Ector STATE Texas
ORDERED BY Mr. G.G. Stegall

Terms: Net 30 days. All invoices payable in Midland, Midland County, Texas. Interest charged at 8% per annum on past due accounts.

Quantity	Description	Unit Price	Amount
2 jts.	4 1/2" 11.60# N casing crushed flint with RUFF COTE process - 100 Ft. Min.	$1.95/Ft	$ 195.00
	64.34 Ft. 4 1/2" O.D. x 11.60# Grade N-80 LT&C Range 2 API New Seamless Steel Casing @ $172.01 CFT APEX Pipe, Inc. Inv. #9-778-70 Re: Ticket Attached		110.67
	Plus: $.67 cwt Houston to Midland on 746#- APEX		6.49
	Thank You		
	Paid 10-23-70 ck # 613		
		TOTAL DUE	$ 312.16

[illegible]
P. O. Box 3637
Midland, Texas 79701

RANDAD CORPORATION

OILFIELD SUPPLIES — D I B DISTRIBUTOR

PHONE 505 746-2692 — P. O. BOX 818

ARTESIA, NEW MEXICO 88210

ORIGINAL

COUNTER ORDER AND INVOICE NO. 03295

INVOICE DATE 9-28-70

CUSTOMER'S ORDER NO.

ORDERED BY Joe

DATE SHIPPED 9-28-70

SHIPPED VIA Delivered

SOLD BY [illegible]

LOCATION CHARGE Texas Pacific #1

STORE Loco Hills

QUANTITY	UNIT OF MEASURE	DESCRIPTION	SELLING PRICE UNIT	SELLING PRICE DISCOUNT	SELLING PRICE EXTENSION	COST AMOUNT UNIT	COST AMOUNT DISCOUNT	COST AMOUNT EXTENSION
1	Pc	2½ Fig 1502 Thread Comp.	14 80	N	14 80			

RECEIVED
OCT 12 1970

SIGNATURE OF PERSON RECEIVING MATERIAL

IF PAID BY 10-20-70

DEDUCT .29 CASH

DISCOUNT NET THEREAFTER

SUB TOTAL	14,80
SALES TAX	.59
TOTAL	15,39

Paid 10-23-70
Ck. #614

STANDARD SUPPLY

CRATED SUPPLIES

D. L. B. DISTRIBUTOR

P. O. BOX 813

Invoice

COUNTER ORDER

Hoe

Pre Paid

9-27-70

Delivered

10-24-70

Invoice

QUANTITY	UNIT OF MEASURE	DESCRIPTION	PRICING UNIT	DISCOUNT	EXTENSION	COST AMOUNT UNIT	DISCOUNT	EXTENSION
1110'	Ft	3/8" Dia CPO 3-55 Tubing (Used)	.40	%	1,332 00			
1	Ea	1/4" 3000# CSP Globe Valve (Used)	350 00	.30	245 00			
2	Ea	2" X 12" Sch 80 Ell Nipples	3 83	%	5 46			
7	Ea	2" Sch 80 Pvc Ell Fills	3 43	%	16 01			
3	Ea	2" Sch 80 Pvc X 2" Mpt 11-1/2" Comb Tubing Nipples	2 00	%	4 20 00			
1	Ea	4-1/2" Female Bobbin X 2" Lochin Type B Tubing Boot (Used)	204 00	.50	102 00			
1	Ea	2" Sch 80 Ell Pvc	2 67	%	2 67			
1	Ea	2" X 6" Sch 80 Ell Nipple	92	%	92			
2	Ea	2" X 10" Nipple	1 60	%	3 20			
1	Ea	1/2" Dia 900M Series Needle Valve	8 00	%	8 00			
1	Ea	2" Dia 600 2000# Gate Valve (Used)	140 00	.50	70 00			

Continued Page 2

SIGNATURE OF PERSON RECEIVING MATERIAL

IF PAID BY [illegible]

CHECK [illegible] CASH

RECEIVED [illegible] NET BALANCE

SUB TOTAL

SALES TAX

TOTAL

Paid 10-23-70
Ck. #614

QUANTITY	UNIT	DESCRIPTION	UNIT PRICE	AMOUNT
3	Ea	[illegible]	10.55	10.55
3	Ea	[illegible]	2.09	2.09
7	Ea	[illegible]	1.75	7.75
3	Ea	[illegible]	10.75	10.75

SIGNATURE OF LABOR RECEIVING MATERIAL

SUB TOTAL	1,672.32
SALES TAX	85.58
TOTAL	1,593.90

CONTINUATION SHEET OF INVOICE & COURIER ORDER

Paid 10-23-70 ck # [illegible]

NO. ck 09209

SWEATT CONSTRUCTION CO.

OIL FIELD ROADS • PITS • LOCATIONS
P. O. Box 27 Phone 677-3511
LOCO HILLS, NEW MEXICO

INVOICE

No. 3406

DATE 11-6-70

W. J. (BILL) SWEATT
RES. 1505 BUSH
746-3749 — ARTESIA

Sold To J. FRANK STRINGER
BOX 3037
SAN ANGELO, TEXAS 76901

RECEIVED
NOV 10 1970

LOCATION Terra Fed. Well #1
WORK ORDER NO.
WORK PERFORMED:

Date	Description	Rate	Hrs.	Amount
10/20/70	2 - Cattleguards @ 325.00 ea.			650.00
	Less rental paid.			-250.00
				400.00
	Plus timbers =			~~103.68~~
	6 - 6x8 - 18 = 103.68			25.20
	4 - 2x10 - 18 = 25.20			528.88
			Tax	21.15
				~~$550.03~~
	THANK YOU			
	Pay and assume O.K.	Paid 11-20-70 #620		

1030A—Bryan Printers & Stationers

CRA, Inc.
Production & Exploration Division Office
1410 Fourth National Bank Building Tulsa, Oklahoma 74103 Telephone 918/587 6621

CRA changed name to Terra Resources

March 31, 1970

Re: (SE SE Sec. 13-11S-29E
(or
(NW NW Sec. 24-11S-29E

SW SW Sec. 36-11S-29E

SW SW Sec. 17-12S-31E
All in Chaves County, New Mexico

Mr. George S. Galbraith
104 Wagstaff Building
Abilene, Texas 79601

Dear Mr. Galbraith:

With reference to our money and acreage contribution in connection with your proposed test wells described above, we are enclosing two (2) copies of our Agreement dated March 18, 1970.

In the event the terms and provisions are written in accordance with your understanding, please indicate your acceptance and return one copy to this office.

Yours very truly,

M. G. Reeb, Manager
Land Department

MGR/lc
encls.

cc: Mr. James Elder
Mr. Fred Ratliff

Returned 4-3-70

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 1
CASE NO. 5551

Exhibit "A"

DRY HOLE MONEY AND
ACREAGE CONTRIBUTION AGREEMENT

This Agreement, made and entered into this 18th day of March, 1970, by and between GEORGE S. GALBRAITH, hereinafter called "Galbraith", and TERRA RESOURCES, INC., a Delaware corporation, hereinafter called "Terra".

WITNESSETH:

WHEREAS, without evidenced warranty of title either express or implied, Terra represents that it is the owner of those certain oil and gas leases more particularly described on Exhibit "C" hereto attached and made a part hereof.

WHEREAS, Galbraith has indicated to Terra that Galbraith desires to drill or cause to be drilled certain test wells for oil and/or gas at locations and to sufficient depths to penetrate the porosity zones in the San Andres formation, which locations, porosity zones and estimated depths are described as follows:

CHAVES COUNTY, NEW MEXICO

	Location		Description	Porosity Zone	Estimated Depths
1.	SE SE		Sec. 13-11S-29E		
		or			
	NW NW		Sec. 24-11S-29E	Second	3,400'
2.	SW SW		Sec. 36-11S-29E	Second	3,400'
3.	SW SW		Sec. 17-12S-31E	Fourth (Found in the Phillips #1 Marley in Section 2-11S-31E)	4,500'

hereinafter called "test wells" and desires that Terra provide for a dry hole money contribution of Seventy-Five Cents ($0.75) per foot of hole drilled and for an assignment to Galbraith of the entire leasehold interest of Terra in and to said Exhibit "C" leases and lands.

Subject to Galbraith's acceptance of this agreement, Terra offers to pay Galbraith on demand a dry hole contribution in an amount equal to Seventy-Five Cents ($0.75) per foot of hole drilled in each test well described hereinabove, not to exceed the estimated depth times Seventy-Five Cents provided that Galbraith drills or causes to be drilled such test wells in accordance with the terms and conditions herein set forth and only in the event that said test well is completed as a dry hole.

NOW, THEREFORE, for and in consideration of the promises and mutual covenants and agreements herein contained, it is agreed by and between the parties hereto as follows:

1. TEST WELLS. Galbraith agrees to commence or to cause to be commenced on or before June 1, 1970, the actual drilling of a test well for oil and/or gas at One of the locations above described and to prosecute the drilling of said test well diligently without unnecessary delay in a workmanlike manner and in accordance with all applicable laws and regulations to a depth sufficient to penetrate the porosity zone in the San Andres, indicated hereinabove, or to the estimated depth above set out, whichever shall be the lesser. The test well shall be drilled, and in the event same is productive, completed and equipped at the sole cost, risk and expense of Galbraith and in the event same is completed as a dry hole the further costs of plugging and abandoning shall be paid entirely by Galbraith. Said test well shall be either completed as a producer or abandoned as a dry hole within sixty (60) days from the date actual drilling in said test well is commenced. Galbraith agrees to likewise commence test wells at each of the locations above described, one well at a time, within sixty (60) days after completion of the preceeding test well and complete said test well as provided herein until all test wells have been drilled and completed.

2. DRY HOLE MONEY PAYMENT. Upon Terra being furnished evidence by Galbraith that any test well provided for herein has been timely commenced, drilled to the objective depth, completed as a dry hole and plugged and abandoned, all in accordance with the terms herein, Terra will pay to Galbraith Seventy-Five Cents ($0.75) per foot of hole drilled not to exceed the estimated depth above described times Seventy-Five Cents.

3. ASSIGNMENT. If and when Galbraith has completed any test well capable of producing oil and/or gas in commercial quantities and in the manner and within the time herein provided and has submitted evidence thereof and has otherwise complied with and performed all of the terms and conditions and obligations of this agreement and only in that event, Terra shall execute and deliver to Galbraith an assignment without warranty of title, either express or implied, of Terra's working interest or operating rights in and to the lands and leases related to such test well more particularly described in said Exhibit "C" and

only insofar as said leases cover all formations from the surface of the ground down to total depth drilled in such test well plus 100 feet.

4. WELL INFORMATION. Galbraith shall, during the course of drilling any well under this agreement pursuant unto the provisions thereof, furnish information, notices and records as provided in Exhibit "A" hereto attached and made a part hereof.

5. INSURANCE. Galbraith agrees to subscribed for and carry a sufficient amount of Workmen's Compensation Insurance with a solvent and responsible company to fully comply with the laws of New Mexico, in which the property subject hereto is situated. Galbraith further agrees to carry and maintain employee liability insurance, public liability and property damage insurance of all types and in the amounts satisfactory to Terra, as set out in Exhibit "B", hereto attached and made a part hereof. Terra shall furnish satisfactory proof before work is begun under this agreement that it is carrying and maintaining such insurance.

6. INDEMNITY. Galbraith agrees to protect, indemnify and save harmless Terra from all losses, costs, claims, demands, expenses, damages, liabilities, suits actions, judgments and decrees in anywise growing out of or attributable to or resulting from operations conducted by Galbraith as provided for herein; or resulting from the breach or violation of the laws of the State of New Mexico or rules or regulations of any regulatory body, state or federal, exercising jurisdiction of operations on lands subject hereto.

7. NOTICES. Any notices given by mail shall be sent to the parties at the addresses specified as follows:

(1) When directed to Terra Resources, Inc., shall be addressed as follows:

Terra Resources, Inc.
309 Bank of Commerce Building
Abilene, Texas 79605
Attention: Mr. Fred Ratliff

(2) When directed to George Galbraith, shall be addressed as follows:

Mr. George Galbraith
104 Wagstaff Building
Abilene, Texas 79601

8. NONASSIGNABILITY. The terms and conditions shall be binding upon the parties hereto and shall extend to and be binding upon their heirs, legal representatives, successors and assigns, provided, however, this Agreement is personal as to Galbraith, and Galbraith shall not assign or transfer any rights, or obligations under this Agreement without the written consent of Terra being first obtained.

9. DEFAULT. In the event Galbraith shall fail to timely commence or cause to be commenced any test well under this Agreement, then this Agreement shall terminate and there shall be no further obligations upon the parties, and Galbraith or his assigns shall not be liable in damages for failure to drill any test well provided for herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

This Agreement shall, at the option of Terra, be null and void and of no further force and effect unless Galbraith's acceptance of same is subscribed on one (1) copy hereof in the place indicated below and same is returned to Terra Resources, Inc., 1410 Fourth National Bank Building, Tulsa, Oklahoma 74119, no later than thirty (30) days from the date hereof.

TERRA RESOURCES, INC.

By _____
Jack van Wyke, President

AGREED TO AND ACCEPTED THIS
1st DAY OF April, 1970.

_____
George Galbraith

EXHIBIT "A"

(Attached to and made a part of that certain)
(Dry Hole Money and Acreage Contribution)
(Agreement dated March 18, 1970, by and be-)
(tween George Galbraith and Terra Resources,)
(Inc.)

1. Allow Terra's representatives to have full access to the derrick floor, rig area, to the equipment and to all pertinent information, at all times.

2. Take such samples as may be reasonably prudent to the circumstances and make such samples available to Terra. If a description of samples is prepared, a copy of same shall be furnished Terra.

3. Make satisfactory tests (drill stem test or core) of all potentially productive horizons, especially all formations showing either oil or gas.

4. Mail daily progress reports to Terra Resources, Inc., 309 Bank of Commerce Building, Abilene, Texas 79605.

5. Give advance notice of testing, coring, electric logging, etc., by notifying:

Fred Ratliff: Office Phone: 915-672-3267
Home Phone: 915-698-0938

6. Run an electric log and a porosity log of types acceptable to Terra from the bottom of the surface casing to total depth, and furnish three (3) copies of such logs to Terra as soon as practicable.

7. Furnish Terra with mud logging progress report (if used) daily and final.

8. Furnish Terra with core analysis report (if cored), preliminary and final.

9. If possible abandonment of the well is anticipated, notify:

Fred Ratliff: Office Phone 915-672-3267.
Home Phone: 915-698-0938.

10. Furnish Terra with State Completion Reports, Plugging Form (if applicable), Service Company DST Reports and Potential Tests.

EXHIBIT "B"

(Attached to and made a part of that Certain)
(Dry Hole Money and Acreage Contribution)
(Agreement dated March 18, 1970, by and be-)
(tween George Galbraith and Terra Resources,)
(Inc.)

INSURANCE

An approved contractual company to Terra Resources, Inc. shall have the following insurance limits in effect:

(a) Workmen's Compensation Insurance and Employe's Liability Insurance to cover fully liability under the relevant laws of the State where working, and

(b) Comprehensive General Liability Insurance with bodily injury or death limits of not less than $100,000 for injuries to, or death of, any one person, not less than $300,000 for injuries to, or death of, more than one person resulting from any one accident, and property damage limits of not less than $50,000 for each accident; and

(c) Automobile Liability Insurance covering owned and non-owned automobiles with bodily injury or death limits of not less than $100,000 for injuries to or death of, any one person, not less than $300,000 for injuries to, or death of more than one person resulting from any one accident and property damage limits of not less than $50,000 for damage to property for each accident.

EXHIBIT "C"

(Attached to and made a part of that)
(certain Dry Hole Money and Acreage)
(Contribution Agreement dated March 18)
(1970, by and between George Galbraith)
(and Terra Resources, Inc.)

AREA No. 1

1144-15474

Lease dated April 1, 1962, from United States of America, bearing Serial No. NM 0237569, insofar as said lease covers:

Township 11 South, Range 29 East
Section 13: E/2 SE/4, E/2 SW/4;
Section 24: E/2 SE/4,

containing 240 acres, more or less;

1144-15477

Lease dated July 23, 1965, from Rex Killebrew, et al, lessors, to Amax Petroleum Corporation, lessee, recorded in Book 100, Page 483, insofar as said lease covers:

Township 11 South, Range 29 East
Section 24: W/2 NW/4, E/2 SW/4,

containing 160 acres, more or less;

1144-16312

Lease dated January 1, 1960, from United States of America, bearing Serial No. NM 065087, insofar as said lease covers:

Township 11 South, Range 29 East
Section 24: W/2 NE/4;
Section 25: W/2 NE/4, W/2 NW/4,

containing 240 acres, more or less;

AREA No. 2

1144-15474

Lease dated April 1, 1962, from United States of America, bearing Serial No. NM 0237569, insofar as said lease covers:

Township 11 South, Range 29 East
Section 25: E/2 SW/4,

containing 80 acres, more or less;

1144-12752

Lease dated March 19, 1963, from State of New Mexico, bearing Serial No. K-3125, insofar as said lease covers:

Township 11 South, Range 29 East
Section 36: N/2 NE/4, S/2 NW/4,
N/2 SE/4, S/2 SW/4,

containing 320 acres, more or less;

1144-15303

Lease dated November 1, 1958, from United States of America, bearing Serial No. NM 023859, insofar as said lease covers:

Township 11 South, Range 30 East
Section 31: Lot 2 and SE/4 NW/4,
Lot 4 and SE/4 SW/4,
N/2 SE/4,

containing 240 acres, more or less;

AREA No. 3

861-15451

Lease dated October 1, 1962, from United States of America, bearing Serial No. NM 0314228, insofar as said lease covers:

Township 12 South, Range 31 East
Section 17: N/2 NE/4, S/2 NW/4, N/2 SE/4, S/2 SW/4;
Section 21: S/2 NE/4, N/2 NW/4, S/2 SE/4, N/2 SW/4,

containing 640 acres, more or less

1144-15303

Lease dated November 1, 1958, from United States of America, bearing Serial No. NM 023859, insofar as said lease covers:

Township 11 South, Range 30 East
Section 31: Lot 2 and SE/4 NW/4,
Lot 4 and SE/4 SW/4,
N/2 SE/4,

containing 240 acres, more or less;

AREA No. 3

861-15451

Lease dated October 1, 1962, from United States of America, bearing Serial No. NM 0314228, insofar as said lease covers:

Township 12 South, Range 31 East
Section 17: N/2 NE/4, S/2 NW/4, N/2 SE/4, S/2 SW/4;
Section 21: S/2 NE/4, N/2 NW/4, S/2 SE/4, N/2 SW/4,

containing 640 acres, more or less

SEP 1 2 1973

J. FRANK STRINGER
OIL PROPERTIES
P. O. BOX 3037
SAN ANGELO, TEXAS 76901

PHONE 949-8506

2402 COLLEGE HILLS BOULEVARD

September 10, 1973

Mr. Howard E. Rongey
Reading & Bates Oil and Gas Co.
Philtower Building
Tulsa, Oklahoma 74103

YOUR RE: Terra-Federal #1 Well -
SW/4 SW/4 Sec. 17-12S-31E,
Chaves County, New Mexico.

Dear Mr. Rongey:

In answer to your letter of August 31, 1973, on the drilling and completion costs of the No. 1 Terra-Federal Well, our total cost for this well to casing point was $44,222.75. Our completion cost was $16,831.25. The cost to casing point appears to be a little high; however, as you know, we drilled this well to 4,400' and had abnormally high road and surface charges. Our total cost in the well for both completion and drilling was $61,054.00.

I believe that Terra Resources would be willing to pay one-half of this amount of $61,054.00 for their one-half of the unit.

Very truly yours,

J. Frank Stringer

J. Frank Stringer

JFS:crl

cc: Guy A. Swartz

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 3A
CASE NO. 5551

J. FRANK STRINGER
OIL PROPERTIES – REAL ESTATE
P. O. BOX 3037
SAN ANGELO, TEXAS 76901

PHONE 949-8506

2402 COLLEGE HILLS BOULEVARD

FILE

July 7, 1975

Mr. W. L. Todd, Jr.
DALPORT OIL CORPORATION
3471 First National Bank Bldg.
Dallas, Texas 75202

RE: W/2 Section 17, T-12-S,
R-31-E, Chaves County, N.M.

Dear Mr. Todd:

Reference is made to your letter of June 17, 1975, in regard to your furnishing me with certain information in regard to our jointly owned properties in Chaves County, New Mexico. I have contacted my partners in regard to a Communitization Agreement between Dalport and Stringer, et al. covering the West Half (W/2) of Section 17. We would agree to this communitization providing we would get full replacement value for the well. The replacement cost of this well, drilled and completed, would be $75,000+ today plus the original cost of the road which was $11,200; therefore, we would expect the replacement value plus roads in the event of communitization with your company. However, this is subject to confirmation by Reading & Bates and Mr. Guy A. Swartz. We might wish to unitize your tract along with ours and operate the property ourselves. In the event we are able to get together in unitizing this tract, it would be wise for Dalport's representative to contact us here in San Angelo to pick up Title Opinions, curative materials, assignments, etc. in regard to this acreage.

Very truly yours,

J. Frank Stringer

JFS:crl

cc: Reading & Bates, Inc.
Guy A. Swartz
J. A. March, III
Edwin S. Mayer, Jr.
Dr. James C. Womack

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 4
CASE NO. 5551



AUTHORITY FOR EXPENDITURE

NO. _____

COMPANY Reading & Bates Oil and Gas Co.

AMOUNT REQUESTED, Company Share Only $ _____

Requested By Donald J. Kipgen Location Odessa, Texas

Lease No. 17241 Lease Terra Federal Well No. 1

Field _____ County Chaves State New Mexico

REASON FOR EXPENDITURE:
(Include basis for payout. Use attachment for supporting data if necessary.)

This AFE prepared as a cost estimate to indicate anticipated costs to prepare this well for production and is not an authority for expenditure.

COST ESTIMATE:

	Total	Tangible	Intangible
Servicing Unit - 2½ days	$ 1,800	$	$ 1,800
Dozer to pull unit up hill	150		150
Trucking	265		265
Kill Truck	400		400
Engineering Supervision	300		300
	$ 2,915	$	$ 2,915
Contingencies	285		
Less Salvage Credit	( )		
Project Total	$ 3,200		

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 6
CASE NO. 5551

Salvage credit to be taken only if equipment is sold from the project.

ESTIMATED DATE OF EXPENDITURE:

Month _____ Year _____

~~APPROVED~~: Prepared by:
D. J. Kipgen
D. J. Kipgen Name
Prod. Supt. South Area 8-25-75
Title Date

_____ Name

_____ Title _____ Date

PARTNERS APPROVAL
ACCEPTED:

_____ Company

_____ Name

_____ Title _____ Date

Working Interest Participation:

Company	%	Share
		$
Total	1.00	$

FORM 405

Range 31 E

Township 12 S N.

6 5 4 3

7 8 9 10

18 17 16 15

19 20 21 22

30 29 28 27

33 34

320 acres unit formed in Aug & Sept of 73 before daily NSL R-4553 R-4553-A 4th force pooling

Dalport NSP

R-8, Stringer

Dalport *1 ← comp. 8-4-73

Dalport NSP

A-8, Stringer

Terra-Fed 320 Ac Gas Unit

comp 8-30-70 2533-42

*1 Terra Fed NM 0314228

Stringer Read & Stevens 3.4 MM 12/70

660' FSL FWL

Stringer *2 Terra ← wtr in the Queen

drld to 4064 clean out to Queen plugged back to 2535-4th and SI

Pipe line now approaching wells in area should be completed in Oct-Nov 75'

EXHIBIT 1

Location Plat

Chaves Co.

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
TT EXHIBIT NO. 1
CASE NO. 5552

Cost of Dalport #1 Terra-Fed. $32887.34 Invoiced to Stringer, et al on 9-'73

ALPORT OIL CORPORATIO'
3471 FIRST NATIONAL BANK BLDG.
DALLAS, TEXAS 75202
JOINT OPERATIONS

PAGE	MONTH	LEASE
1	July & August, 1973	Terra-Federal #1

REFERENCE	DESCRIPTION			AMOUNT	TOTAL
372	Bearing Service & Supply Co., Inc, Artesia, NM				
	Inv 48412, 7/1973,	127-03			852.71
384	WEK Drilling Co, Inc, Roswell, NM				
	Inv 7-05, 7/26/73	126-02			14,340.57
385	American Coldset Corp, Dallas, Texas,				
	Inv No. 09000, 7/27/73	126-51			423.80
386	Bearing Service & Supply Co, Artesia, NM				
	Inv 43450, 7/23/73	127-03	16.14		
	Inv 48460, 7/24/73	127-03	4,027.59		
	Inv 48461, 7/24/73	127-03	293.36		4,337.09
387	Foster Testers, Inc, Odessa, Texas				
	Inv 939, 7/23/73	126-61			508.56
388	Halliburton, Duncan, Okla.				
	Inv 658905, 7/19/73	126-62			871.72
389	Milford Pipe & Supply Co, Tatum, NM				
	Inv 1931, 7/28/73	127-04			1,562.65
390	Mudco, Inc. Hobbs, NM				
	Inv 1988, 7/24/73	126-52			930.22
398	Halliburton Services, Duncan, Okla.				
	Inv 631122, 7/23/73	126-62			1,572.92
400	The Pathfinder Co., Houston, Texas				
	Inv 7937-15, 7/31/73	127-02			120.22
401	Sweatt Construction Co, Loco Hills, NM				
	Inv 6600, 7/31/73	126-30	74.88		
	Inv 6598m 7/31/73	126-30	74.88		
	Inv 6599, 7/31/73	126-30	149.76		299.52
403	Standard Corp, Artesia, New Mexico				
	Inv 17243, 7/31/73	127-04			440.10
404	T & C Rental Tool Co., Denver City, Texas				
	Inv 1070, 8/3/73	126-63			159.84
406	The Western Co., Fort Worth, Texas				
	Inv 74708, 7/26/73	126-63	420.00		
	Inv 74709, 7/26/73	126-63	626.56		1,046.56
407	Mack Chase, Inc, Artesia, NM				
	Inv 73623, 7/30/73	126-63			662.26
413	Bearing Service & Supply Co Inc, Artesia, New Mex.				
	Inv 48882, 8/24/73	127-06			99.47
416	Core Laboratories, Inc, Dallas, Texas				
	Inv 88119, 7/22/73	126-71			252.10
423	Sweatt Construction Co, Loco Hills, NM				
	Inv 6639, 8/7/73	126-30			3,238.25
					31,718.56

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
11 EXHIBIT NO. 2
CASE NO. 5552

ALPORT OIL CORPORATION
3471 FIRST NATIONAL BANK BLDG.
DALLAS, TEXAS 75202
JOINT OPERATIONS

PAGE	MONTH	LEASE
1	July & August, 1973	Terra-Federal #1

REFERENCE	DESCRIPTION		AMOUNT	TOTAL
	DIVISION OF INTEREST			
	Cimarex Inc	50%		15,859.28
	J. Frank Stringer	7.8125%		2,478.01
	Dr. James C. Womack	3.125%		991.21
	Edwin S. Mayer, Jr.	12.50%		3,964.82
	J. A. March, III	6.250%		1,982.41
	Guy A. Swartz	7.8125%		2,478.01
	Reading & Bates	12.5%		3,964.82
				31,718.56

DALPORT OIL CORPORATION
3471 FIRST NATIONAL BANK BLDG.
DALLAS, TEXAS 75202
JOINT OPERATIONS

PAGE	MONTH	LEASE
1	September, 1973	Terra-Federal #1

REFERENCE	DESCRIPTION			AMOUNT	TOTAL
426	Dalport Oil Corp-Regular Act, Dallas, Texas Geologist's Expense as per contract				500.0
440	Sweatt Construction Co., Loco Hills, N.M.				
	Inv. #6662, 8/16/73	18.72	126.30		
	Inv #6683, 8/21/73	224.64	126.30		243.3
459	West Engineering Co., Hobbs, N.M.				
	Inv 773-12, 8/30/73	162.50			
	Inv 873-9, 9/15/73	89.86			
	Inv 873-10, 9/15/73	173.06	126.53		425.4
					1,168.7
	Division of Interest				
	Camex Inc.	50			584.3
	J. Frank Stringer	7.8125%			91.3
	Dr. James C. Womack	3.125%			36.5
	Edwin C. Mayer, Jr.	12.50%			146.1
	J. A. March III	6.25%			73.0
	Guy A. Swartz	7.8125%			91.3
	Reading & Bates	12.5%			146.1
					1,168.7
				Tot $	32,887.34

DALPORT OIL CORPORATION
1134 THE 600 BUILDING
CORPUS CHRISTI, TEXAS 78401

CODE 512-882-7863

EXHIBIT 3

September 10, 1975
ESTIMATED COST - WELL IN
Sec. 17, T-12-s, R-31-E
Chaves County, NM

Road		$3,538.00
Location Survey		223.08
Drilling Contractor - WEK Drlg. Co.		
2600' @ $6.70 per foot	$17,420.00	
8 hrs. Day Work @ $81.25 per hr.	650.00	
4% New Mexico Tax	722.80	
		18,792.80
Cement and Cementing - B-J		2,557.70
Mud and Water		2,288.14
Swabbing Unit		1,142.21
DST		682.24
Log and Perforate		1,719.09
Geologist and Supervision :		489.00
Miscellaneous		2,067.44
300' - 8 5/8" Surface Casing @ $5.55	1,665.00	
2600' - 4 1/2' J-55 Casing		
$2.20 per ft. F.O. B. East Texas	5,720.00	
Frt. to NM	500.00	
1 - 8 5/8" X 4 1/2" Bradenhead	284.09	
1 - 4 1/2' X 2"	214.03	8,383.12
Frac Job - Cardinal		5,241.30
Total		$47,124.12

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
II EXHIBIT NO. 3
CASE NO. 5552

DALPORT OIL CORPORATION

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EXHIBIT 4

ADDITIONAL J. F. STRINGER WELL COSTS

J. F. STRINGER COSTS IN EXCESS OF DALPORT COST

Extra Footage, 1404' at $4.25/ft.		$ 5,967.00
Additional Mud, $3,608.90 - Normal bill $1,000		2,608.90
Extra Logging:		
Laterolog--4053-2600=1453' @ 12¢	= $174.36	
Density--Depth Charge 1453' @ 13¢	= 188.89	
Operation Charge 1453' @ 11¢	= 159.83	
Microlog--1453' @ 9¢	= 130.77	653.85
George Galbraith Fee		5,000.00
J. F. Stringer Overhead		1,688.61
TOTAL		$15,918.36

Lease acquisition cost

Dalport expert says this is in part various office costs

Dalport does not consider these charges applicable to well.

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
11 EXHIBIT NO. 4
CASE NO. 5552

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 5
CASE NO. 5552

POUND PRINTING CO., HOUSTON, TEXAS

P-1842 BOG-1

JOINT OPERATING CONTRACT

THIS MEMORANDUM of agreement made and entered into this the 25th day of July, 19 73, by and between

J. Frank Stringer	7.8125%
Dr. James C. Womack	3.1250%
Edwin S. Mayer, Jr.	12.5000%
J. A. March III	6.2500%
Guy A. Swartz	7.8125%
	37.5000%

(hereinafter called Non-Operators whether one or more) and Dalport Oil Corporation

3471 First National Bank Bldg., Dallas, Texas 75202

(hereinafter called Operator),

WITNESSETH:

WHEREAS, Operator and Non-Operators respectively are the owners of the oil, gas and mineral lease or leases, or of the undivided interests therein, described in Exhibit "A" hereto attached and made a part hereof for all purposes insofar as such lease or leases cover the land described in Exhibit "A" hereto attached, which lease or leases insofar as the described land is covered thereby are hereinafter referred to as "Joint Leases"; and it is the desire of the parties hereto that Operator shall be in charge of development operations under said Joint Leases in accordance with agreements and provisions hereinafter contained:

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the parties hereto agree as follows:

1. GENERAL DUTIES OF OPERATOR: Operator shall have, subject to the terms, provisions and limitations hereinafter expressed, exclusive charge, control and supervision of all operations of every kind to be conducted on the Joint Leases for the development, production, treating, handling and marketing of oil, gas and other minerals therefrom as well as the payment of all rentals, royalties, taxes and other charges which may arise or become due or payable in connection with such operations.

2. CHARGES TO JOINT ACCOUNT: Operator shall charge the Joint Account with all costs and expenses incurred in connection with the operation of the Joint Leases as herein contemplated, charges to be made in accordance with the "Accounting Procedure" hereto attached as Exhibit "B" and made a part hereof for all purposes. The charges made to the Joint Account as provided herein shall be borne by the parties hereto in the proportion that the interest of each of the parties in the Joint Leases bears to the total of the interests in the Joint Leases of the parties hereto.

3. RECORDS: Operator shall keep an accurate record of the Joint Account hereunder showing the cost and expenses incurred and charges made and all credits and returns made and received, which record shall be available at all reasonable times for the consideration, examination and inspection of each of Non-Operators and its duly authorized representatives.

4. MONTHLY STATEMENTS: On or before the last day of each calendar month, Operator shall furnish to each of Non-Operators a detailed statement of investments made and costs and expenses incurred against and credits and receipts made and received for the Joint Account during the preceding calendar month. Any exceptions to the statement as rendered by Operator must be made by Non-Operators within two (2) years from receipt thereof, and if no exception is made within that time, the statement shall be conclusively considered as correct; but this provision shall not prevent adjustments of physical property to inventory as provided for in Exhibit "B." Each of Non-Operators agrees to pay to Operator at Dallas, Texas its proportionate part of all expenditures made for the Joint Account by Operator in connection with investments on account of and the operation, maintenance and supervision of said Joint Leases hereunder, based upon such Non-Operators' interest from time to time in the leases described in Exhibit "A" hereto attached. Currently within ~~fifteen (15) days~~ after receipt of the monthly statements herein provided to be rendered by Operator each Non-Operator agrees to pay its proportionate part of the amount due Operator as shown by such statements. The amount properly chargeable in each statement and due to Operator shall be due and payable at the expiration of ~~fifteen (15)~~ days from receipt of each monthly statement and shall bear interest thereafter until paid at the rate of five per cent (5%) per annum, which interest on its delinquencies each Non-Operator hereto severally agrees to pay Operator at the place above designated. Each Non-Operator grants to Operator a lien on its interest in the Joint Leases, the production therefrom and all fixtures, improvements and personal property now or hereafter located thereon to secure the payment of its proportionate part of all investments made for and costs and expenses against the Joint Account hereunder in operating and developing the Joint Leases hereunder, which lien may be enforced as any other mortgage lien. ~~Should any Non-Operator fail to pay its proportionate part of all statements rendered as herein provided within the fifteen (15) days hereinabove stipulated, Operator shall have the right at its option at any time thereafter, such default continuing, to foreclose said lien upon the interests of the Non-Operator in default.~~

5. DRILLING AND DEVELOPMENT OF LEASES: Operator is authorized to drill at the expense of the Joint Account any well on the Joint Leases required to meet the offset and reasonable development obligations, and all express obligations under the Joint Leases, and any well necessary in order to prevent the expiration or termination of any Joint Lease, without first securing the authority and approval of Non-Operators.

Operator shall secure the written approval of Non-Operators before incurring against the Joint Account any item of expense, which item itself is in excess of $ 5,000.00, except in the drilling, equipping and completion of a well covered by the next preceding paragraph or in the drilling, equipping and completion of a well as to which notice has been given as provided in the next succeeding paragraph and with respect to which well no Non-Operator has given notice that it does not desire to participate in the cost and expense of drilling.

Before Operator commences operations at the cost of the Joint Account for the drilling of any well on the Joint Leases other than wells required to meet the offset and reasonable development obligations, and the express obligations under said Joint Leases, or wells necessary in order to prevent the expiration or termination of any Joint Lease, it shall give ten (10) days' written notice of its intention to commence operations for the drilling of the well to each of the Non-Operators, and should any Non-Operator or Non-Operators notify Operator, within ~~five (5)~~ days of the mailing to it or them of the notice, that it or they do not desire to participate in the cost and expense of drilling, completing and equipping the well, the costs and expenses thereof shall be borne by the Operator and the Non-Operators, if any, not giving the notice, each bearing that portion of the cost which its interest in the Joint Leases bears to the total of the interests therein of Operator and Non-Operators participating in the drilling of the well; and if all Non-Operators give such notice, Operator may drill, complete and equip the well at Operator's cost and expense; provided, however, before any Non-Operator who elects not to participate in the cost and expense of drilling, completing, and equipping the well shall be entitled to any portion of the production therefrom Operator and the Non-Operators, if any, who participate in the cost of drilling, completing and equipping the well shall have the right to receive currently out of the net proceeds of the sale of the portion of the production from the well belonging to each Non-Operator who does not participate in the cost and expense of drilling, completing, and equipping the well, double the amount of that portion of the cost which would have been borne by the non-participating Non-Operator, under the provisions hereof, had it participated in such cost and expense. The proceeds of the sale of the specified portion of the production shall be allocated between Operator and Non-Operators, if any, who participate in the drilling of the well in proportion to their interest in the Joint Leases. The cost of operating such well or of reworking same shall be borne by the Joint Account. If the well is a dry hole, the salvage therefrom shall be owned by the Operator and Non-Operators, if any, participating in the drilling thereof in proportion to their several interests in the Joint Leases.

Operator shall have the right itself to drill any or all wells drilled at the expense of the Joint Account, or to let the drilling thereof to a responsible contractor. Should Operator elect to drill any well itself, it may either charge the Joint Account with the actual cost of drilling and equipping the well, in accordance with the provisions of Exhibit "B," or may itself pay the actual cost of drilling the well and charge to the Joint Account, as the cost of drilling, an amount equal to the contract price per foot and for day work for drilling the well on the basis of the contract price per foot and for day work prevailing in the immediate area, or which may be obtained from a responsible drilling contractor, at the time the well is drilled. In either event, the cost of equipping the well shall be on the basis provided for in Exhibit "B," hereto attached. Operator shall notify Non-Operators, in writing, prior to the commencement of operations on any well drilled at the expense of the Joint Account, which Operator drills itself, as to whether Operator will drill the well on the basis of actual cost or on a contract basis, and if on a contract basis, the notice shall state the price per foot and for day work. If the Non-Operators do not object in writing to Operator within five (5) days of the notice, it will be conclusively considered that the price per foot and for day work stated in the notice is satisfactory. Should Non-Operators, or any of them, object in writing within said five (5) days to such price per foot and for day work, then, if Operator and Non-Operators cannot agree upon the price to be charged, such price shall be determined by arbitration in accordance with the provisions of Section 15 hereof. When cost of the well drilled by Operator is charged on the contract basis, Operator assumes all risks in connection with the drilling of the well which would customarily be assumed by an independent contractor had the drilling of the well been let to an independent contractor, except that Operator shall not assume any loss, risk, damage or liability resulting from the well blowing out, cratering, or running wild, except injury to Operator's equipment and to Operator's agents, servants and employees; but all loss, risk, damage or liability not assumed by Operator shall be borne by the Joint Account. Where the cost of the well drilled by Operator is not charged on a contract basis, but on the basis of actual cost, Operator assumes none of the risks incident to the drilling of the well, but the risks shall be borne by the Joint Account.

6. MARKETING OF PRODUCTS: Subject to the provisions of Section 7 hereof, Operator is given authority to market all oil, gas and other minerals produced from the Joint Leases and accruing to the parties hereto; and, upon the sale of same, the purchaser thereof shall pay to the respective parties hereto the proceeds of sale in proportion to each respective party's interest in the oil, gas or other minerals produced; provided, however, should any Non-Operator hereunder be in arrears in its payments to Operator as herein provided, Operator shall have the right upon demand to receive from the purchaser of the production such Non-Operator's portion of the proceeds, and apply the proceeds on amounts in arrears. In this connection, it is specifically understood that each of the parties hereto will sign the usual customary division order or orders covering its respective portion of the production and warranting its title thereto. Subject to the provisions of Section 7 hereof, Operator, if it desires to do so, but without any obligation so to do, may take all the oil, gas and other minerals produced from the Joint Leases, and in such event it shall credit or pay each Non-Operator for its interest therein as follows:

(a) On oil, the current posted field price of Operator, per barrel of 42 U. S. gallons each, for crude oil of like grade and quality prevailing for the field where produced on the date of respective runs to pipe line; provided, however, should Operator not post a price for oil produced in said field, then the average of the current field prices per barrel, of 42 U. S. gallons each, posted for crude oil of like grade and quality for said field prevailing on the respective dates on which runs are made to pipe line of.....

.....

and.....

or their successors, or such ones of said companies or their successors as may be purchasing oil in the field where the premises are located and posting field prices therefor.

(b) For natural gas or other gaseous or vaporous substance produced from the Joint Leases and used by Operator for the extraction of gasoline or other products, the current market value at the wells of such Non-Operator's interest therein, the natural gas or other gaseous or vaporous substance to be measured and the market value to be determined in a manner then prevailing in the industry. Each Non-Operator agrees upon demand of Operator from time to time to execute and deliver to Operator the form of division order then in use by Operator to cover the sale of its interest in the natural gas or other gaseous or vaporous substance so utilized by Operator.

(c) For gas of any kind when not used for the extraction of gasoline or other product by Operator, each Non-Operator's proportionate part of the market value thereof at the well.

(d) For other minerals, each Non-Operator's proportionate part of the reasonable market value thereof at the well or mine.

Operator may apply the proceeds accruing to any Non-Operator from the sale of its interest in the production from the Joint Leases on its indebtedness to Operator incurred under the provisions hereof.

7. TAKING PRODUCTS IN KIND: Despite the provisions of Section 6 above, each Non-Operator, at its election, after giving Operator written notice of its intention so to do, shall have the right and privilege of receiving at any time in kind its portion of the oil, gas and other minerals produced and saved from the Joint Leases. Such production shall be delivered to the Non-Operator involved into the pipe line or lines to which the well or wells on the Joint Leases may be connected or into storage tanks furnished by the Non-Operator. Each Non-Operator shall bear any extra expense incurred by Operator in delivering in kind Non-Operator's portion of the production from the Joint Leases.

8. INSURANCE—COMPLIANCE WITH LAWS AND REGULATIONS: Operator shall carry Workmen's Compensation insurance on its employees engaged in the joint operations, and in conducting operations hereunder shall comply with the Fair Labor Standards Act and all other applicable Federal and State laws, and applicable rules and regulations of Federal and State governmental agencies having jurisdiction.

9. NON-OPERATORS' RIGHTS AND PRIVILEGES: Each Non-Operator shall have the following specific rights and privileges:

(a) Access to the Joint Leases at all reasonable times to inspect the operations hereunder.

(b) The right to inspect the logs, samples, and cuttings from any and all wells drilled hereunder and to receive copies of the logs.

(c) The right to inspect and audit at all reasonable times the Operator's books, records and invoices pertaining to any matter of accounting arising hereunder.

10. LIABILITY OF PARTIES: The Joint Leases shall not be operated hereunder as a partnership venture, and the liability of the parties hereunder shall be several and not joint or collective. Each party shall be responsible only for its obligations as set out herein and shall be liable only for its proportionate share of the cost of operation hereunder. Nothing herein shall be construed as an assignment or transfer of the leases or an interest therein as between the parties hereto. Operator shall use reasonable diligence to pay all rentals payable under the leases which Operator is required to pay hereunder, but Operator shall not be liable in damages to Non-Operators or any of them for failure to pay promptly and properly any rental payable under such leases.

11. RIGHT OF PARTIES TO WITHDRAW OR ASSIGN: Any party hereto shall have the right, at any time when it is not indebted in any amount to the Operator under the provisions hereof and when there is not existing to any lessor or lessors or their successors in interest any obligation to do any further drilling upon the leases affected by this contract, to be relieved of all unaccrued obligations under this agreement by assigning to the other parties hereto in proportion to the interests then severally held by them in the Joint Leases all of the interest of the party desiring to be relieved of unaccrued obligations in and to the Joint Leases, free and clear of all liens and encumbrances and relinquishing all of its rights hereunder. Should the other parties desire not to accept an assignment, they shall join with the party desiring to relieve itself of unaccrued obligations in releasing the Joint Leases. If the other parties desire to accept an assignment, they shall have the right at their election either to:

(a) Purchase the interest of the withdrawing party in all casing, material, equipment, fixtures and personal property belonging to the Joint Account at its fair secondhand value, less the cost of salvaging same; or

(b) Retain such casing, material, equipment, fixtures and personal property and pay to the withdrawing party five per cent (5%) per annum on the value of the casing, material, equipment, fixtures and personal property, which value shall be the depreciated value from year to year, less the estimated cost of recovering the casing, material, equipment, fixtures and personal property, and, when the leases are finally abandoned, deliver to the withdrawing party its part of the material, casing, equipment, fixtures and personal property; or

(c) Deliver to the withdrawing party an amount of casing, material equipment, fixtures, and personal property of like kind as that retained and of a value equivalent to the interest of the withdrawing party in the casing, material, equipment, fixtures and personal property involved less the cost of salvaging them.

Each party hereto owning an undivided interest in the Joint Leases waives any and all rights it may have to partition the Joint Leases and have set aside to it in severality its undivided interest therein. Before the sale by any party hereto of its interest in the Joint Leases, or any of them, the other parties hereto shall be given the refusal thereof at the price offered in good faith by a third party, and shall have the preferred right to purchase at the price stated, which right shall be exercised within five (5) days after receipt of written notice of the offer made by a third party. Should more than one party hereto exercise the preferred right to purchase, the interest in the Joint Leases shall be assigned to them in proportion to their several interests then held in the Joint Leases. This provision shall not apply in the event of sale to a subsidiary, affiliated or successor company of any party hereto, or to the sale by a party hereto of its interest in the Joint Leases as a part of the sale of all its assets.

12. RESIGNATION OF OPERATOR AND APPOINTMENT OF SUCCESSOR: Should Operator or any successor operator hereunder dissolve, liquidate or terminate its corporate existence or sell or otherwise dispose of its interest in the Joint Leases it shall thereupon cease to be Operator hereunder. Operator or any successor operator may resign its duties as Operator hereunder with the consent of the majority in interest of the parties hereto. Should Operator or any successor operator, for any cause cease to be Operator hereunder, the parties hereto (including the successor or successors in interest of Operator) by vote of the majority in interest of the parties shall elect and designate another

Operator from among the parties hereto to act as Operator hereunder, provided if there are only two parties to this contract and their interests are equal the Non-Operator shall have the right and option to become Operator. Should Operator or any successor operator hereunder resign as Operator, its rights, titles and interests in the Joint Leases shall be unaffected by such resignation and that party shall thereupon become one of the Non-Operators hereunder and shall thenceforth be bound by the terms and provisions hereof as a Non-Operator. Any party hereto designated as Operator to succeed the Operator herein named shall thereupon succeed to all the duties, powers, obligations, rights and authority given to the Operator herein named with respect to all operations of every kind thereafter conducted on the Joint Leases for developing and managing the leases and producing, treating, handling and marketing of oil, gas and other minerals therefrom, as well as the payment of rentals, royalties, taxes and other charges which may arise or become due in connection with operations.

13. FORCE MAJEURE: In the event of any party hereto being rendered unable, wholly or in part, by force majeure to carry out its obligations under this contract, other than the obligation to make payments of amounts due hereunder, it is agreed that upon such party's giving notice and reasonably full particulars of force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, then the obligations of the party giving the notice, so far as they are affected by force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure shall so far as possible be remedied with all reasonable dispatch.

The term "force majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests and restraints of government and people, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or lines of pipe, partial or entire failure of natural gas wells and any other causes, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension. The term shall likewise include (a) in those instances where any party hereto is required to obtain servitudes, right of way grants, permits or licenses to enable it to fulfill its obligations hereunder, the inability of the party to acquire or the delays on the part of the party in acquiring, at reasonable cost and after the exercise of reasonable diligence, the servitudes, right of way grants, permits or licenses; and (b) in those instances where any party hereto is required to furnish materials and supplies for the purpose of constructing or maintaining facilities to enable the party to fulfill its obligations hereunder, the inability of the party to acquire, or the delays on the part of the party in acquiring, at reasonable cost and after the exercise of reasonable diligence, the materials and supplies and the inability of the party to secure, or the delays in securing, after the exercise of reasonable diligence, permission from any governmental agency to use materials and supplies which the party may have in its possession.

It is understood and agreed that the settlement of strikes and lockouts shall be entirely within the discretion of the party having the difficulty, and that the above mentioned requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of opposing party when such course is inadvisable in the discretion of the party having the difficulty.

14. NOTICES: All notices herein provided for shall be mailed or sent to Operator at Dallas, Texas

and to Non-Operators as follows:

at J. Frank Stringer P.O.Box 3037, San Angelo, Texas 76901

at Dr. James C. Womack Suite 8, Medical Arts Bldg., San Angelo, Texas .76901

at Edwin S. Mayer, Jr. P.O. Box 1741, San Angelo, Texas 76901

at J. A. March III 2509 Nasworthy Drive, San Angelo, Texas 76901

at Guy A. Swartz P.O. Box 3037, San Angelo, Texas 76901

at

at

at and

at

15. ARBITRATION: In case of disagreement as to any matter relating to operations hereunder which cannot be settled amicably, then, upon five (5) days' written notice given by one or more parties hereto to the others, the matter in disagreement shall be submitted to a board of three arbitrators. Non-Operators agree to appoint one arbitrator and Operator agrees to appoint one arbitrator. Such appointments shall be made within ten (10) days after the notice is given. Should either Operator or Non-Operators fail or refuse to appoint an arbitrator within the time specified, the party or parties hereto appointing an arbitrator, upon five (5) days' written notice to the party or parties failing or refusing to appoint an arbitrator, may apply to the person who is the judge then senior in office of the District Court of the United States of America having jurisdiction for the the Southern District of Texas or any federal court of similar jurisdiction for the appointment of such second arbitrator, and in such case the person so appointed shall act as a second arbitrator. The third arbitrator shall be chosen promptly by the two so appointed. All three arbitrators shall be disinterested practical oil operators. Pending a decision of the board of arbitrators, the parties hereto shall remain bound by the express terms hereof. Any and all decisions rendered by a majority of the board of arbitrators shall be final and binding upon the parties hereto, and adjustments shall be made in conformity with their award.

16. TERM: Unless terminated by agreement of all parties hereto, this contract shall continue in force and effect as long as the Joint Leases, or any of them, remain in force and effect.

17. PARTIES BOUND: This contract shall be binding upon the parties hereto and their heirs, successors and assigns. All parties hereto are referred to in the neuter gender.

EXECUTED in duplicate originals this the day of August, A. D. 1973

Edwin S. Mayer, Jr.

J. A. March III

Guy A. Swartz

J. Frank Stringer

James C. Womack

NON-OPERATORS

DALPORT OIL CORPORATION

By W. P. Tondee Jr.

OPERATOR

STATE OF NEW MEXICO)
)
COUNTY OF CHAVES)

EXHIBIT "A"

Lands covered by Joint Operating Contract dated July 25, 1973, between J. Frank Stringer et al and Dalport Oil Corporation are as follows:

Township 12 South, Range 31 East NMPM

Section 17: East 1/2
containing 320 acres, more or less

KeatHill 601 ROSS-MARTIN COMPANY TULSA, OKLAHOMA 74101

Recommended by the Council of Petroleum Accountants Societies of North America

COPAS

EXHIBIT " B "

Attached to and made a part of Joint Operating Contract between J. Frank Stringer et al and Dalport Oil Corporation dated July 25, 1973

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"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.

"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.

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

"Controllable Material" shall be defined as set forth under the subparagraph selected below:

A. [X] 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.

B. [ ] Material which is ordinarily so classified and controlled by Operator in the conduct of its operations. List shall be furnished Non-Operators upon request.

2. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under the subparagraph selected below:

A. [X] Statement in detail of all charges and credits to the Joint Account.

B. [ ] Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

C. [X] Statement of all charges and credits to the Joint Account, summarized by appropriate classification indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

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 ten per cent (10%) 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.

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 the Joint Property as provided for in Section VII.

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

6. Approval by Non-Operators

Where an approval or other agreement of Non-Operators is expressly required under Paragraphs 5A, 5B, 6A and 8 of Section II, Section III, Section V, Section VI, and Paragraph 4 of Section VII, of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the Operator shall notify all Non-Operators 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 employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of first-level supervisors in the field if such charges are excluded from overhead rates in Option A of Section III.

(3) Salaries and wages of technical employees temporarily assigned to and directly employed on the Joint Property if such charges are excluded from overhead rates in Option B of Section III.

(4) Salaries and wages of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from overhead rates in Option C of Section III.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1A of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost 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 and Paragraph 1A of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. Employee Benefits

Operator's current cost 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 and Paragraph 1A of Section III shall be chargeable as indicated in the subparagraph selected below:

A. [ ] Operator's actual cost.

B. [X] Operator's actual cost not to exceed fifteen per cent (15%).

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and 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 Operator and Non-Operators.

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 Operators and Non-Operators. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by Operator and Non-Operators.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of $100 or less.

6. Services

A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 1B of Section III. The cost of professional consultant services shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.

B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. 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 to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

8. Legal Expense

All costs and expenses of handling, investigating, and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorney's fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), unless agreed to by Operator and Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

9. 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.

10. Insurance

Net premiums paid for insurance required to be carried on the Joint Property 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 therefor on the following basis:

.....

.....

.....

11. 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 for the necessary and proper conduct of the Joint Operations.

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus the rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraph 1 of this Section III or by combining all three of said items under the rates provided for in Paragraph 2 or 3 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE INDIRECT COSTS TO THE JOINT ACCOUNT UNDER THE TERMS OF:

[ ] Paragraph 1. (District Expense, Administrative Overhead and Warehousing)
[X] Paragraph 2. (Combined Rates - Well Basis)
[ ] Paragraph 3. (Combined Rates - Percentage Basis)

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 Operator and Non-Operators as a direct charge to the Joint Account.

THE OVERHEAD RATES PROVIDED FOR IN ANY OF THE PARAGRAPHS SELECTED ABOVE

A. [ ] shall [X] shall not include salaries and personal expenses of first-level supervisors in the field.
B. [ ] shall [X] shall not include salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property.
C. [ ] shall [X] shall not include salaries, wages and personal expenses of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property.

1. District Expense, Administrative Overhead and Warehousing

A. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's ..... office located at or near ..... (or a comparable office if location changed); and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

B. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1A of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charge shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged direct as provided in Paragraphs 2 and 8 of Section II. Such charge shall be made on the basis indicated below, either (1) well basis or (2) percentage basis, at the rates shown thereunder.

(1) [ ] Well Basis

RATE PER WELL PER MONTH

	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
Well Depth	Each Well	First Five	Next Five	All Wells Over Ten

(2) [ ] Percentage Basis

PERCENTAGE BASIS

Development:

..... Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

Operating:

..... Percent (%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 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.

C. Operator's Warehouse Operating and Maintenance Expense

[ ] Included in district expense

[ ] No charge either direct or indirect

[ ] Percentage basis (describe fully) .....

.....

.....

2. Combined Rates - Well Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

RATE PER WELL PER MONTH

	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
Well Depth	Each Well	First Five	Next Five	All Wells Over Ten
2700'	$500.00	75.00	75.00	75.00

3. Combined Rates - Percentage Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

PERCENTAGE BASIS

A. Development:

..... Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 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 8 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.

4. Application of Administrative Overhead or Combined Rates - Well Basis

The following limitations, instructions and charges shall apply in the application of the rates as provided under either Paragraph 1B (1) or Paragraph 2 of this Section III.

A. Charges for drilling wells shall begin on the date each 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 the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

(1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for waterflooding operations and salt water disposal wells shall be considered the same as producing oil wells.

(2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. Any well being plugged or produced during any portion of the month shall be considered as a producing well for the entire month.

(3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling rig or workover rig capable of drilling shall be considered the same as drilling wells.

(4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, shut-in wells shall be counted in determining the charge hereunder for such month if said wells contribute allowable production that is actually produced during such month from one or more unit wells as a result of allowable transfer, inclusion in the unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during the month.

(5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.

(6) Wells completed in multiple horizons, shall be considered as a producing well for each separately producing horizon, providing each completion is considered a separate well by governmental or other statewide regulatory authority.

C. The well rates for producing wells shall be applied to the individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project, the well rates shall be applied to the total number of producing wells, irrespective of individual leases.

D. 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 preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian Index as published by the Dominion Bureau of Statistics, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

5. Application of Administrative Overhead or Combined Rates - Percentage Basis

For the purpose of determining charges on a Percentage Basis under Paragraph 1B (2) or Paragraph 3 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 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 6 of this Section III. All other costs shall be considered as Operating.

6. Major Construction Overhead

For the construction of compressor plants, water stations, secondary recovery systems, drilling and production platforms, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling

and producing operations, Operator in addition to the Administrative Overhead or Combined Rates provided for in Paragraph 1, 2 or 3 of this Secton III shall either negotiate a rate prior to beginning of construction or shall charge the Joint Account with an additional overhead charge as follows:

A. Total cost less than $25,000, no charge.

B. Total cost more than $25,000, but less than $100,000, ...3..... % of total cost.

C. Total cost of $100,000 or more, ...2..... % of the first $100,000 plus .....1..... % of all over $100,000 of total cost.

Total cost shall mean the total 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 wells shall be excluded.

7. Amendment of Rates

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operators may supply Material or services for the Joint Property.

1. Purchases

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

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

(2) Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the Joint Property where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (1) of this paragraph.

(3) When the Operator has equalized actual hauling costs as provided for in Paragraph 5 of Section II, Operator is permitted to include ten cents (10¢) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.

(4) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f.o.b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is normally available.

(5) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. Used Material (Condition "B" and "C")

(1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.

(2) Material which is not suitable for its original function until after reconditioning shall be furnished to the Joint Account under one of the two methods defined below:

(a) Classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material. The cost of reconditioning shall be absorbed by the Operator of the transferring property.

(b) Classified as Condition "C" and priced at fifty per cent (50%) of current price of new Material. The cost of reconditioning also shall be charged to the receiving property, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. 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.

(4) 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 prices specified in Paragraphs 1 and 2 of this Section IV 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 procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that 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 10 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.

5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. In lieu of rates based on costs of ownership and operation of equipment, other than automotive, Operator may elect to use commercial rates prevailing in the area of the Joint Property less 20%; for automotive equipment, rates as published by the Petroleum Motor Transport Association may be used. Rates for laboratory services shall not exceed those currently prevailing if performed by

outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be agreed to by Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from Joint Property.

1. **Material Purchased by the Operator or Non-Operators.**
   Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.
2. **Division in Kind**
   Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator to the Joint Account.
3. **Sales to Outsiders**
   Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless agreed to by Operator and Non-Operators shall be priced on the following basis:

1. **New Price Defined**
   New price as used in this Section VI shall be the price specified for new Material in Section IV.
2. **New Material**
   New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).
3. **Good Used Material**
   Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:
   A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
   B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five per cent (75%) of new price.
4. **Other Used Material**
   Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:
   A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
   B. Is serviceable for original function but not suitable for reconditioning.
5. **Bad-Order Material**
   Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.
6. **Junk Material**
   Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.
7. **Temporarily Used Material**
   When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. 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 inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operators 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 Operator and Non-Operators.

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated July 25,1973, between Dalport Oil Corporation as Operator, and J. Frank Stringer et al as Non-Operator. Operator shall at all times during the term of this Agreement, carry insurance to protect the parties hereto as follows:

1. Workmen's Compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employer's liability insurance with a limit of not less than $100,000.

2. Comprehensive general public liability insurance, excluding products liability insurance, with limits of not less than: $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident, and $100,000 for loss of or damage to property in any one accident and $100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

3. Automobile public liability insurance covering all automotive equipment used in performance of work under this Agreement with limits of not less than: $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident, and $50,000 for loss of or damage to property in any one accident.

If automotive equipment used is owned exclusively by Operator, no charge will be made to the Joint Account for premiums for this coverage except as provided in Section IV, Paragraph 5 of the Accounting Procedure.

J. FRANK STRINGER
Operating Account
P. O. Box 3037
San Angelo, Texas 76901

THE FIRST NATIONAL BANK
OF SAN ANGELO, TEXAS

No. 328

88-87
1113

SAN ANGELO, TEXAS July 27, 19 70

Pay to the order of George S. Galbraith $ 5,000.00

[illegible] 5000850 cts Dollars

THIS CHECK IS IN FULL SETTLEMENT OF ACCOUNT AS SHOWN HEREWITH. ACCEPTANCE BY ENDORSEMENT CONSTITUTES RECEIPT IN FULL

Coms. on Chaves County,
New Mexico Farmout
Agreement

J. FRANK STRINGER — Operating Account

By J. Frank Stringer

⑆1113⑈0087⑆ ⑈650 608 2⑈ ⑈0000500000⑈

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 6
CASE NO. 5551

CASE 5048: (Reopened)

In the matter of Case No. 5048 being reopened pursuant to the provisions of Order No. R-4637 which order established the South Dagger Draw-Upper Pennsylvanian Associated Pool and promulgated special pool rules therefor, including provisions for 320-acre proration units and a limiting gas-oil ratio of 8,000 to 1. All interested parties may appear and show cause why said special pool rules should remain in effect.

CASE 5551: Application of Dalport Oil Corporation and Burk Royalty Co. for compulsory pooling and an unorthodox gas well location, Chaves County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests in the Queen formation underlying the W/2 of Section 17, Township 12 South, Range 31 East, Southeast Chaves-Queen Gas Area, Chaves County, New Mexico, to be dedicated to a well drilled at an unorthodox location 660 feet from the South and West lines of said Section 17. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision. Also to be considered will be the designation of the application as the operator of the well and a charge for the risk involved in drilling said well.

CASE 5552: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Henry C. Gruemmer dba Gruemmer Industries, National Surety Corporation, and all other interested parties to appear and show cause why the following wells should not be plugged and abandoned in accordance with a Commission-approved plugging program:

Nelson-Moore Well No. 1, located in Unit O of Section 33, Township 30 North, Range 29 East, Union County, New Mexico;

Russell Black Ltd. Well No. 1, located in Unit P of Section 33, Township 30 North, Range 29 East, Union County, New Mexico;

R. L. Black Well No. 2, located in Unit B of Section 3, Township 29 North, Range 29 East, Union County, New Mexico.

CASE 5553: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Russell Stockley, United Pacific Insurance Company and all other interested parties to appear and show cause why the Knight & Stockley Homer Schmitt Well No. 1 located in Unit P of Section 4, Township 29 North, Range 29 East, Union County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF DALPORT OIL CORPORATION FOR COMPULSORY POOLING IN THE SOUTH-EAST CHAVES QUEEN GAS AREA, CHAVES COUNTY, NEW MEXICO.

Case No. 5551

APPLICATION

COMES NOW Dalport Oil Corporation (Dalport) and Burk Royalty Co. (Burk), collectively "Applicant", and states:

1. Applicant is the owner and holder of the official and record title to an Oil and Gas Lease dated October 1, 1962, from the United States of America as lessor bearing serial number NM-0314228, embracing, among other lands not pertinent hereto, the following described lands in Chaves County, New Mexico:

Township 12 South, Range 31 East, N.M.P.M.
Section 17: W½

containing 320 acres, more or less; said lease is presently held by production on other lands included therein.

2. Applicant's ownership of the above lease and lands is subject to (among other matters not pertinent hereto) a prior Assignment of Operating Rights dated March 10, 1971, from Terra Resources, Inc. to Reading & Bates, Inc. covering:

Township 12 South, Range 31 East, N.M.P.M.
Section 17: S½SW¼, S½NW¼

containing 160 acres, more or less, for depths from the surface down to the top of the Glorieta formation which includes the Queen formation. Upon information and belief, the rights acquired by Reading

& Bates, Inc. under said Assignment of Operating Rights are now owned in the following interests and proportions:

Name and Address	Interest
Reading & Bates, Inc. 1100 Philtower Building Tulsa, Oklahoma 74103	25.000%
J. Frank Stringer P. O. Box 3037 San Angelo, Texas 76901	15.625%
Dr. James C. Womack Suite 8, Medical Arts Building San Angelo, Texas 76901	6.250%
Edwin S. Mayer, Jr. P. O. Box 1741 San Angelo, Texas 76901	25.000%
J. A. March III 2509 Nasworthy Drive San Angelo, Texas 76901	12.500%
Guy A. Swartz P. O. Box ~~3037~~ 3541 San Angelo, Texas 76901	15.625%
TOTAL	100.000%

3. The said J. Frank Stringer has heretofore drilled or caused to be drilled the Reading & Bates Terra Federal #1 Well located 660 feet from the South line and 660 feet from the West line (Unit M) of said Section 17, and the well has been completed as a well producing or capable of producing gas and associated hydrocarbons from the Queen formation; Reading & Bates, Inc. is the operator of the well.

4. Pursuant to the New Mexico Oil Conservation Commission Order R-4435 as amended by Order R-4435-A, there has heretofore been established a standard well spacing and proration unit of

320 acres for gas and associated hydrocarbons produced from the Queen formation within the Southeast Chaves Queen Gas Area, which includes the aforesaid W½ Section 17.

5. Dalport and Reading & Bates, Inc., et al, each having a right to drill in the W½ Section 17 to the Queen formation, have been unable to agree to pool their interests in the proposed unit as to the Queen formation, being a common source of supply. Therefore, in order to avoid the drilling of unnecessary wells and to protect correlative rights, and to prevent waste, it is advisable that the Commission, after notice and hearing, pool all of the W½ of said Section 17 for the production of gas and associated hydrocarbons from the Queen formation as a spacing or proration unit, and to allocate the respective tracts within the unit in proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit. That such Order effecting pooling should be upon such terms and conditions as are just and reasonable and will afford the owner or owners of each tract or interest in the unit the opportunity to recover or receive, without unnecessary expense, his just and fair share of the gas and associated hydrocarbons underlying the pooled unit; that such pooling Order should make definitive provision as to payment of drilling and completion costs in the Reading & Bates, Inc. Terra Federal #1 Well aforesaid, a determination as to the operator of the well, and all operating expenses and charges with respect to such operations. That such pooling Order should otherwise be entered in conformity with NMSA 65-3-14, 1953 Comp.

WHEREFORE, Applicant prays, after notice and hearing, that the Commission pool all mineral interests whatever they may be in the W½ Section 17, Township 12 South, Range 31 East, N.M.P.M., for the production of gas and associated hydrocarbons producible from the Queen formation and to enter an appropriate Order in conformity with NMSA 65-3-14, 1953 Comp.

Respectfully,

DALPORT OIL CORPORATION
BURK ROYALTY CO.

By _____
S. B. Christy IV, as a member of the firm of Jennings, Christy & Copple, P. O. Box 1180, Roswell, New Mexico 88201
(505) 622-8432

cc: Reading & Bates, Inc.
J. Frank Stringer
Dr. James C. Womack
Edwin S. Mayer, Jr.
J. A. March III
Guy A. Swartz

DOCKET MAILED
Date 9/26/75

DRAFT

DN/jr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE No. 5551

Order No. R- 5156

APPLICATION OF DALPORT OIL CORPORATION
AND BURK ROYALTY CO. FOR COMPULSORY
POOLING AND AN UNORTHODOX GAS WELL
LOCATION, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 8, 1975 at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of January, 1976, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicants, Dalport Oil Corporation and Burk Royalty Company, seek an order pooling all mineral interests in the Queen formation underlying the W/2 of Section 17, Township 12 South, Range 31 East, NMPM, Southeast Chaves Queen Gas Area, Chaves County, New Mexico, and dedicating said lands to the Reading & Bates Oil and Gas Company Terra Federal Well No. 1, situated at an unorthodox location for said gas area 660 feet from the South line and 660 feet from the West line of said Section 17.

(3) That said well was drilled by J. Frank Stringer and completed as a gas well capable of production from the Queen formation in August, 1970.

(4) That said well was drilled to a total depth of 4064 feet to test the San Andres formation, which was found to be non-productive, and then plugged back to a total depth of 2,576 feet and completed in the Queen formation through the perforated interval from 2,535 feet to 2,542 feet.

(5) That from the date of completion to the present time said well has been classified as a shut-in gas well awaiting a pipe line connection.

(6) That it now appears that a pipe line connection will be available to said well within the near future.

(7) That the location of said well, although unorthodox for the Southeast Chaves Queen Gas Area, was a standard location for ~~a~~ the well wherein projected to the San Andres formation; that said location will not cause waste nor impair correlative rights and should be approved.

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

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

(10) That each working interest owner in said unit should be required to pay his proportionate share of the actual expenditures required for the purpose of development and operation of the unit, not in excess of what are reasonable, and to pay his proportionate share of reasonable costs of supervision.

(11) That the subject well was drilled and completed in 1970 at an alleged cost of $58,553.62.

(12) That said $58,553.62 includes the cost of drilling said well to the San Andres formation, some 1522 feet below the lowermost Queen formation perforations in the well.

(13) That said $58,553.62 appears to include ~~numberous~~ numerous items of questionable applicability to the determination of reasonable well costs for a Queen formation gas well in the subject area. Queen gas

(14) That although a similar well could be drilled and completed in the subject area in 1973 for $32,887.34, including tubing, under today's conditions such a well would cost $47,124.12, ~~plus~~ less tubing, which appears to be a reasonable cost for such a well drilled and completed under today's conditions.

(15) That even though $58,553.62 may have been total costs paid for drilling the subject well, this amount is in excess of current reasonable well costs, even considering the higher cost of drilling and completing wells today.

(16) That $47,124.12 should be fixed by the Commission as reasonable well costs for the subject well, to be shared by each working interest owner in the unit in the proportion that his interest in the unit bears to total working interest in the unit.

(17) That each working interest owner who has not heretofore paid his share of the reasonable well costs should be afforded the opportunity of paying, within 30 days after entry of this order, his share of said reasonable well costs to the parties advancing the well costs, in lieu of paying his share of reasonable well costs out of production.

(18) That each working interest owner who, within 30 days after entry of this order, has not paid his share of reasonable well costs should have withheld from production his share of the reasonable well costs plus an additional 100 percent thereof as a reasonable charge for the risk involved in the drilling of the subject well.

(19) That $75.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator of the well should be authorized to withhold from production the proportionate share of such supervision charge attributable to each working interest owner, 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 owner.

(20) 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.

(21) That Reading & Bates Oil and Gas Company should be designated as operator of the subject well and unit.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Queen formation underlying the W/2 of Section 17, Township 12 South, Range 31 East, NMPM, Southeast Chaves-Queen Gas Area, Chaves County, New Mexico, are hereby pooled to form a standard

320-acre gas spacing and proration unit to be dedicated to the Reading & Bates Oil and Gas Company Terra Federal Well No. 1, ~~situated~~ situate at an unorthodox location 660 feet from the South line and 660 feet from the West line of said Section 17, which unorthodox location is hereby approved.

(2) That Reading & Bates Oil and Gas Company is hereby designated the operator of the subject well and unit.

(3) That $47,124.12 is hereby fixed by the Commission as reasonable well costs for drilling and completing said well, ~~plus~~ less tubing, and each working interest owner in the unit shall pay his proportionate share of said costs, being an amount of said costs in the proportion that his interest in the unit bears to total working interest in the unit.

(4) 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 working interest owner who has not paid his share of reasonable well costs within 30 days after entry of this order.

(B) As a charge for the risk involved in the drilling of the well, 100 percent of the pro rata share of reasonable well costs attributable to each working interest owner who has not paid his share of reasonable well costs within 30 days after entry of this order.

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

(6) That each working interest owner who has not heretofore paid his proportionate share of reasonable well costs, but who, within 30 days after entry of this order, pays his proportionate share of said costs to the parties advancing the costs of development shall not be liable for the above charge for risk.

(7) That $75.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each working interest owner, and in addition thereto, the operator is hereby authorized to withold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each working interest owner.

(8) 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.

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

(10) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Chaves County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.

Case 5551

DALPORT OIL CORPORATION
3471 FIRST NATIONAL BANK BLDG.
DALLAS, TEXAS 75202

January 26, 1976

RECEIVED
JAN 29 1976
OIL CONSERVATION COMM.
Santa Fe

Reading & Bates, Inc.
1100 Philtower Building
Tulsa, Oklahoma 74103

Re: Complusory Pooling
W½ Section 17, T-12-S,
R-31-E, N.M.P.M.,
Chaves County, New Mexico

Gentlemen:

Reference is made to Order R-5156 entered by the New Mexico Oil Conservation Commission January 21, 1976 in case 5551, relative to the captioned.

In behalf of Burk Royalty Company and Dalport Oil Corporation, working interest owners of the N½NW¼, N½SW¼ of said Section 17, we enclose herewith our check #15851 payable to your order in the amount of $23,562.06 (one-half of $47,124.12) representing our proportionate share of the reasonable well costs for drilling and completing the Reading & Bates Oil and Gas Company Terra Federal Well No. 1 located 660' from the South line and 660' from the West line of said Section 17; this payment is made in compliance with paragraph (6), page 4, of said Order. In addition, we agree to pay our proportionate costs of tubing to be installed in the well, our proportionate part of supervision charges of $75.00 per month, and our proportionate share of actual expenditures required for operating such well not in excess of what are reasonable.

The enclosed amounts are submitted to you as Operator of said well and we request that you make appropriate distribution of said amounts to the parties advancing the costs of development of the well, the names and addresses of which are not specified in said Order.

It is our intention herewith, by the payment enclosed, to pay all sums due by Dalport Oil Corporation and Burk Royalty Company as provided in said Order, and if you believe any further sums are due, please immediately advise and appropriate remittance will be promptly made.

If you would care to enter into a Joint Operating Agreement relative to the matters covered by said Order, we would appreciate your submitting the same for consideration.

Respectfully,

DALPORT OIL CORPORATION

By W. L. Tarver

WLTJr:sd

cc: Mr. Joe D. Ramey, Secretary
New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

cc: Burk Royalty Company
800 Oil & Gas Building
Wichita Falls, Texas 76301

cc: Mr. J. A. March III
2509 Nasworthy Drive
San Angelo, Texas 76901

cc: Mr. Edwin S. Mayer, Jr.
P. O. Box 1741
San Angelo, Texas 76901

cc: Mr. Guy A. Swartz
P. O. Box 3037
San Angelo, Texas 76901

cc: Mr. J. Frank Stringer
P. O. Box 3037
San Angelo, Texas 76901

cc: Dr. James C. Womack
Suite 8 Medical Arts Building
San Angelo, Texas 76901

cc: Dalport Oil Corporation
% Leon M. Lampert
1134 The 600 Building
Corpus Christi, Texas 78401

cc: Jennings, Christy & Copple
P. O. Box 1180
Roswell, New Mexico 88201

cc: Mr. Paul Cooter, Attorney
P. O. Drawer 700
Roswell, New Mexico 88201