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September 9, 2005

David Brooks, Esq.  
Legal Bureau  
Oil Conservation District  
1220 South St. Francis Drive  
Santa Fe, NM 87505  
RE: Jones ;B; No. 3 Administrative Order SWD-966-A

Dear Mr. Brooks:

Attached is the executed settlement agreement. Please send me an executed copy and the final order.

Sincerely,  
DOMENICI LAW FIRM/P.C.

  
\_\_\_\_\_  
Pete Domenici, Jr., Esq.

PVD/srr/1606  
Encl.  
cc: file

2005 SEP 13 PM 12:39

## SETTLEMENT AGREEMENT

This is an agreement between the New Mexico Oil Conservation Division (the Division) and Lynx Petroleum Consultants, Inc. (Lynx) to settle a controversy concerning a salt water injection permit.

### RECITALS:

1. On January 20, 2005, the Division issued Administrative Order SWD-966 granting Lynx a permit to utilize the Jones Federal B Well No. 3 (API No. 30-015-10394), located 660 feet from the South line and 660 feet from the East line of Section 23, T-19S, R 31-E, in Eddy County, New Mexico (the subject well), as a disposal well for produced water. The permit authorized injection of produced water into the Yates and Seven Rivers formation in the interval from 2,370 to 2,720 feet below the surface.
2. On 2/22/, 2005, the Division staff filed an application asking the Director of the Division to revoke the injection permit for the subject well, and the matter was assigned Case No. 13451.
3. On 6/16/, 2005, Case No. 13451 came on for hearing before a Division examiner. The Division offered evidence that the Yates and Seven Rivers formation in the subject well immediately overlie the Capitan Reef. The Division further sought to show that the proposed injection interval may include a portion of the Capitan Reef and that it issued the injection permit for the subject well due to a mistake, in that the examiner who processed the application was not aware of the proximity of the Reef.
4. Lynx sought to show that the proposed injection interval did not extend into the Reef, that other injections wells were permitted at geologically equivalent depths in the vicinity, and the Capitan Reef waters in this area are not protectable.
5. The Division examiner took Case No. 13451 under advisement, but has not issued a recommended decision to the Director.
6. The Division and Lynx desire to avoid further adversary proceedings or delays, and accordingly have entered into this agreement to compromise and settle this matter.

### THE PARTIES THEREFORE NOW AGREE:

A. The Division will issue, and Lynx will accept, a revised permit to utilize the subject well as an injection well. The revised permit shall be upon the same terms as the original permit, except that it shall provide as follows:

1. The permitted injection interval will extend from 2,370 to 2,640 feet below the surface.

2. A 200-foot interval shall remain open in the casing of the subject well from the lowest perforation to the plug back total depth.

3. Lynx shall obtain and submit to the Division an injection profile log, consisting of a combination of tracer and temperature decay logs, three months, six months and one year after commencement of injection, and annually thereafter.

B. The permit issued pursuant to this Agreement shall supersede Administrative Order SWD-966 for all purposes, and Lynx shall assert no further rights under that previous order.

C. The Division shall dismiss Case No. 13451, and will not hereafter seek to revoke the injection authority for the subject well unless on the basis of facts subsequently discovered.

D. This agreement shall not be construed as a concession by either party of any legal or factual contention advanced by the other in connection with the subject matter in Case No. 13451.

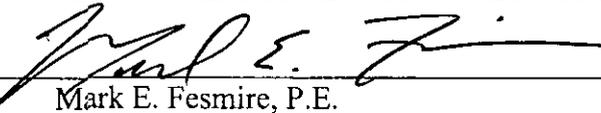
E. This agreement is executed by each party on the date shown below its signature, and shall be effective upon execution all parties.

LYNX PETROLEUM CONSULTANTS, INC.

By   
Larry B. Scott  
Its President

Date 9-6, 2005

NEW MEXICO OIL CONSERVATION DIVISION

By   
Mark E. Fesmire, P.E.  
Director

Date 9/21, 2005