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BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

RECOMMENDATIONS OF PUBCO PETROLEUM CORPORATION
FOR SPECIAL RULES AND REGULATIONS
FOR THE VERDE-GALLUP OIL POOL

RULE 1. Any well projected to or completed in the Gallup Formation within said pool or within one mile of the boundaries thereof shall be spaced, drilled, operated and prorated in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. All wells projected to or completed in the Gallup Formation within the Verde-Gallup Oil Pool shall be located on 80-acre proration units comprising two adjacent governmental quarter-quarter sections within a single governmental quarter section, which unit shall run either North and South or East and West, and that wells projected to or completed in said formation in such proration units shall be located on diagonal quarter-quarter sections within a governmental quarter section.

RULE 3. All wells projected to or completed in the Verde-Gallup Oil Pool shall be located within one hundred feet of the center of either quarter-quarter section in the 80-acre unit; provided, however, that nothing contained herein shall be construed as prohibiting the drilling of a well on each of the quarter-quarter sections in an 80-acre unit.

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RULE 4. The Secretary-Director of the Commission may grant exceptions to the requirements of Rule 2 and, for topographical reasons only, to the requirements of Rule 3 above without notice and hearing where the application is filed in due form, provided the applicants furnish all operators within a 2640-foot radius of the subject well a copy of the application to the Commission, and provided further that the Secretary-Director of the Commission shall wait at least twenty days before approving any such application and that no such application shall be approved over the objection of an offset operator. In the event an offset operator objects to the application, the Commission shall consider the matter only after proper notice and hearing. The applicant shall include with his application a list of names and addresses of all the operators within the radius set forth above together with a stipulation that proper notice of the application has been given said operators.

RULE 5. An 80-acre proration unit in the Verde-Gallup Oil Pool shall be assigned an 80-acre proportional factor of two (2) for allowable purposes, and in the event there is more than one well on an 80-acre proration unit, the operator may produce the allowable assigned to the unit from said wells in any proportion.