

Chambers & Kennedy

SUITE 607
MIDLAND NATIONAL BANK BUILDING
MIDLAND, TEXAS

December 30, 1960

C. FRED CHAMBERS
W. D. KENNEDY

TELEPHONE
MU 3-4643

New Mexico Oil & Gas Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Attention: Mr. A. L. Porter, Jr.

Gentlemen:

We have been advised by Mr. Joe D. Ramey of your Hobbs District office that it is necessary to make application for a hearing to receive the Commission's approval of the formation of a gas unit composed of 200 acres in the Eumont Gas Field, described as follows: ✓

NE/4 NE/4, S/2 NE/4, N/2 SE/4 Section 34, T-19-S,
R-37-E, Lea County, New Mexico

being further described as:

Sinclair Oil & Gas Company, State Lease E-274 dated 4-10-45
Texaco, Inc., State Lease E-5458 dated 8-10-51
Shell Oil Company, State Lease A-1118 dated 9-15-28
I. W. Lovelady, State Lease E-6175 dated 11-17-59

comprising 200 contiguous acres in the E/2 Section 34, T-19-S,
R-37-E, Lea County, New Mexico. ✓

Enclosed herewith is a carbon copy of the Communitization Agreement being entered into, which sets forth Chambers & Kennedy's interest in this proposed gas unit. Originals of this Agreement are in the process of execution by the various companies involved.

We hereby request that we be granted a hearing as soon as possible on the formation of this gas unit.

Also, we would like to point out that we have received prior permission for a non-standard location as it applies to a Grayburg oil well, but we also intend to dually complete the

well from the Queen gas sand, and would like to request your approval of the location from this standpoint.

Yours very truly,

CHAMBERS & KENNEDY

A handwritten signature in cursive script that reads "C. Fred Chambers". The signature is written in black ink and is positioned above the typed name.

C. Fred Chambers

CFC:lb
encls.

Chambers & Kennedy

SUITE 607
MIDLAND NATIONAL BANK BUILDING
MIDLAND, TEXAS

C. FRED CHAMBERS
W. D. KENNEDY

TELEPHONE
MU 3-4643

December 12, 1960

New Mexico Oil Conservation Commission
P. O. Drawer "DD"
Santa Fe, New Mexico

Gentlemen:

We would like to request administrative approval for the formation of a Queen Gas Unit comprised of the following acreage:

N/2 SE/4, E/2 NE/4, SW/4 NE/4, all in Section 34, T-19-S, R-37-E, Eumont Field, Lea County, New Mexico - 200 acres.

We are presently drilling a well located 1649' from the South line and 2197' from the East line of said Section 34. ✓

The following companies have agreed to allocate their acreage to the unit:

Texaco, Inc. - 40 acres - SW/4 of the NE/4
Shell Oil Company - 40 acres - NE/4 of the NE/4
Sinclair Oil & Gas Company - 80 acres - SE/4 of the NE/4
NE/4 of the SE/4

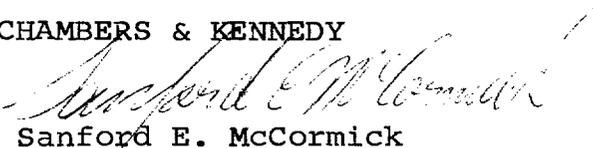
In accordance with the regulations in Order R-1670 we are hereby sending certified copies of this letter to the operators of offsetting acreage, informing them of our intention to form a Queen Gas Unit, namely:

W. K. Byrom, 1000 N. Dal Paso, Hobbs, New Mexico
N. E. Salsich, Jr., 716 Midland Nat'l Bank Bldg., Midland, Texas
Tidewater Oil Company, P. O. Box 1231, Midland, Texas
Standard of Texas, P. O. Box 1660, Midland, Texas

Attached hereto are three copies of certified plat covering the above acreage.

Yours very truly,

CHAMBERS & KENNEDY


Sanford E. McCormick


SMcC:lb
encls.

COMMUNITIZATION AGREEMENT

THIS AGREEMENT is made and entered into this 15th day of December, 1960, by and between C. FRED CHAMBERS and W. D. KENNEDY, trading and doing business as CHAMBERS & KENNEDY, whose address is 607 Midland National Bank Building, Midland, Texas, hereinafter sometimes referred to as "Operator," and SINCLAIR OIL & GAS COMPANY, Box 1470, Midland, Texas; TEXACO INC., V & J Tower, Midland, Texas; SHELL OIL COMPANY, Box 345, Roswell, New Mexico; and I. W. LOVELADY, Box 3468, Odessa, Texas; hereinafter sometimes referred to as "Non-Operators";

W I T N E S S E T H:

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by Acts of Legislature as set forth in the New Mexico Statutes Annotated, 1953 Compilation, to consent to and approve the development and operation of State Lands under communitization agreements made by oil and gas lessees of State Lands jointly or severally with other oil and gas lessees of State Lands, when such agreements are determined to be for the best interests of the State;

WHEREAS, Sinclair Oil & Gas Company is the present record title owner and holder of and sole owner of the full 7/8ths working interest in that certain State of New Mexico Oil and Gas Lease bearing No. E-274, issued April 10, 1945, embracing, among other lands, the following described land in Lea County, New Mexico:

SE/4 NE/4 and NE/4 SE/4 of Section 34,
Township 19 South, Range 37 East NMPM,
containing 80 acres, more or less;

WHEREAS, Texaco Inc. is the present record title owner and holder of and sole owner of the full 7/8ths working interest in that certain State of New Mexico Oil and Gas Lease bearing No. E-5458, issued August 10, 1951, embracing, among other lands, the following described land in Lea County, New Mexico:

SW/4 NE/4 of Section 34, Township 19 South,
Range 37 East NMPM, containing 40 acres,
more or less;

WHEREAS, Shell Oil Company is the present record title owner and holder of and sole owner of the full 7/8ths working interest in that certain State of New Mexico Oil and Gas Lease bearing No. A-1118, issued September 15, 1928, embracing, among other lands, the following described land in Lea County, New Mexico:

NE/4 NE/4 of Section 34, Township 19 South,
Range 37 East NMPM, containing 40 acres,
more or less;

WHEREAS, I. W. Lovelady is the present record title owner and holder of
and sole owner of the full 7/8ths working interest in that certain State of New
Mexico Oil and Gas Lease bearing No. OG-6175, issued November 17, 1959, embrac-
ing the following described land in Lea County, New Mexico:

NW/4 SE/4 of Section 34, Township 19 South,
Range 37 East NMPM, containing 40 acres,
more or less;

WHEREAS, Chambers & Kennedy join in the execution of this Communitization
Agreement for the reason that I. W. Lovelady has agreed to assign his operating
rights under the lease listed above in his name upon the completion of a commer-
cial producer of oil or gas on the tract covered by State Lease E-6175 above,
and Chambers & Kennedy intend to and do hereby communitize all of their right,
title and interest in and to said lease with the other leases above referred to;

WHEREAS, the parties hereto desire to communitize and pool the above des-
cribed Oil and Gas Leases, insofar as said leases cover the above described land,
in order to form a gas proration unit for the production of dry gas and associated
liquid hydrocarbons from the Queen Sand Formation, as follows:

E/2 NE/4, the SW/4 NE/4 and the N/2 SE/4
of Section 34, Township 19 South, Range
37 EAST NMPM, containing 200 acres, more
or less (hereinafter sometimes referred
to as "communitized area");

WHEREAS, in order to be consistent with existing rules and regulations of
the New Mexico Oil Conservation Commission covering well-spacing and production
allowables, the parties hereto desire to operate the communitized area for the
purpose and intention of developing dry gas and associated liquid hydrocarbons
from the Queen Sand Formation as an entirety in accordance with the terms and
provisions of this agreement.

NOW, THEREFORE, in consideration of the premises and mutual advantages
offered by this agreement, it is mutually covenanted and agreed by and between
the parties hereto as follows:

1. The communitized area shall be developed and operated for dry gas and
liquid hydrocarbons extracted therefrom producible from the Queen Sand Formation
as an entirety with the understanding and agreement that the dry gas and liquid

hydrocarbons extracted therefrom produced from the communitized area shall be allocated among the leaseholds comprising said communitized area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed hereto. The royalties payable for dry gas and liquid hydrocarbons extracted therefrom so allocated to the lands comprising the leaseholds and the rentals and the shut-in gas well royalties provided for therein shall be determined and paid on the basis respectively prescribed in the individual leases.

2. CHAMBERS & KENNEDY shall be the initial Operator of said communitized area, and all matters of operation, adjustments between the working interest owners, and payment of royalties, overriding royalties, rentals and shut-in gas well royalties shall be governed by the provisions of the "Operating Agreement" executed by the working interest owners contemporaneously with the execution of this agreement. There shall be no obligation on the parties hereto to offset any dry gas well or wells on separate component tracts into which said communitized area is now or may hereafter be divided, nor shall the parties hereto be required to separately measure said dry gas and liquid hydrocarbons extracted therefrom by reason of the diverse interests in the dry gas and liquid hydrocarbons extracted therefrom in and under said tracts, but the parties hereto shall not be released from their obligation to protect said communitized area from drainage by a dry gas well or wells in the Queen Sand Formation which may be drilled offsetting said communitized area.

3. Except as herein modified and changed, said oil and gas leases hereinabove described shall remain in full force and effect as originally made and issued or as amended prior to this agreement. It is further agreed that the commencement, completion, continued operation or production of a well or wells for dry gas or dry gas and liquid hydrocarbons extracted therefrom from any part of the communitized area from the Queen Sand Formation as an entirety shall be construed and considered for all purposes (except for royalty payment purposes) as the commencement, completion, continued operation or production as to each tract and separate lease included in this agreement.

4. All production of dry gas and liquid hydrocarbons extracted therefrom and disposal thereof shall be in conformity with allocations, allotments and

quotas made and fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. The provisions of this agreement shall be subject to all applicable Federal or State statutes or executive orders, rules and regulations which affect performance of any of the provisions of this agreement, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by or if such failure results from compliance with any such law, rule or regulation.

5. This agreement shall be effective as of the date hereof, upon execution by the parties hereto, notwithstanding the date of execution, and upon approval of the Commissioner of Public Lands of the State of New Mexico, and shall remain in full force and effect for a period of one year but not longer than the shortest term of any lease within the communitized area, whichever is shorter, and so long thereafter as dry gas or dry gas and liquid hydrocarbons extracted therefrom are produced from any part of said communitized area in paying quantities, provided that prior to production in paying quantities from said communitized area and upon fulfillment of all requirements of the Oil Conservation Commission of the State of New Mexico with respect to any dry hole or abandoned well, this agreement may be terminated at any time by the mutual agreement of the parties hereto.

Should production in paying quantities of dry gas or dry gas and liquid hydrocarbons extracted therefrom be obtained while this agreement is in force and effect and thereafter cease from any cause after the expiration of said period of one year but not longer than the shortest term of any lease within the communitized area, whichever is shorter, this agreement shall not terminate if the parties hereto commence additional drilling or reworking operations within 60 days after the cessation of such production and shall remain in full force and effect so long as such operations are prosecuted in good faith with no cessation of more than 20 consecutive days, and if such operations result in the production of dry gas or dry gas and liquid hydrocarbons extracted therefrom in paying quantities, so long thereafter as dry gas or dry gas and liquid hydrocarbons extracted therefrom are produced in paying quantities from said communitized area; provided, however, written notice of intention to commence such operations shall be filed with the State of New Mexico within 30 days after the cessation of such production and the

report of the status of such operations shall be made to the State of New Mexico every 30 days, and the cessation of such operations for more than 20 consecutive days shall be considered as an abandonment of such operations and this agreement shall thereupon terminate.

6. This agreement shall be subject to the consent and approval of the Commissioner of Public Lands of the State of New Mexico.

7. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their heirs, executors, administrators, successors, and assigns.

8. This agreement may be executed in one or more counterparts by any of the parties hereto and all counterparts so executed shall be taken as a single agreement and shall have the same force and effect as if all parties had in fact executed but a single instrument.

IN WITNESS WHEREOF, the parties have executed this agreement as of the date first hereinabove written.

CHAMBERS & KENNEDY

Marion G. Chambers

By _____
C. Fred Chambers

Mary B. Kennedy

By _____
W. J. Kennedy

ATTEST:

Assistant Secretary

SINCLAIR OIL & GAS COMPANY

By _____
Vice President

TEXACO INC.

By _____
Attorney in Fact

SHELL OIL COMPANY

By _____
Attorney in Fact

Verta T. Lovelady

I. W. Lovelady

CONSENTED TO AND APPROVED this _____ day of _____, 196__.

COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

THE STATE OF TEXAS

COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this ____ day of January, 1961, by C. Fred Chambers and Marion G. Chambers, his wife; and by W. D. Kennedy and Mary B. Kennedy, his wife.

My Commission Expires
June 1, 1961

Notary Public

THE STATE OF TEXAS

COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this ____ day of _____, 196__, by E. L. ELSTON, Vice President of Sinclair Oil & Gas Company, a Maine corporation, on behalf of said corporation.

My Commission Expires
June 1, 1961

Notary Public

THE STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 196__, by _____, Attorney in Fact of TEXACO INC., a _____ corporation, on behalf of said corporation.

My Commission Expires

Notary Public

THE STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 196__, by _____, Attorney in Fact of SHELL OIL COMPANY, a _____, x corporation, on behalf of said corporation.

My Commission Expires

Notary Public

THE STATE OF TEXAS

COUNTY OF ECTOR

The foregoing instrument was acknowledged before me this ____ day of _____

_____, 196____, by I. W. Lovelady and Verta T. Lovelady,
his wife.

My Commission Expires
June 1, 1961.

Notary Public