

KELLAHIN, KELLAHIN AND AUBREY

Attorneys at Law

El Patio - 117 North Guadalupe

Post Office Box 2265

Santa Fe, New Mexico 87504-2265

Telephone 982-4285

Area Code 505

W. Thomas Kellahin
Karen Aubrey

Jason Kellahin
Of Counsel

April 30, 1988

RECEIVED

MAY 2 1988

OIL CONSERVATION DIVISION

Mr. William J. LeMay
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

"Hand Delivered"

Re: Merchant State 1-30 Well
Application of Foran Oil Company
For Compulsory Pooling and
Non-Standard Proration and
Spacing Unit, Lea County
New Mexico.

Case 9392

Dear Mr. LeMay:

Please find enclosed our application on behalf of Foran Oil Company for a compulsory pooling order. We request that this application be set on the examiner's docket now scheduled for May 25, 1988.

We suggest the following for an advertisement for the newspaper and for the docket:

Application of Foran Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to either the base of the Morrow formation or to a depth of 13,000 feet, whichever is deeper, underlying the S/2 of Section 30, T21S, R35E, Lea County, New Mexico, forming a 312.05-acre, more or less, non-standard gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing, to be dedicated to a well to be drilled at a standard gas well location thereon and underlying the SE/4 of said Section forming a 160 acre gas spacing and proration unit for any and all formations and or pools within said vertical limits developed on 160 acre gas well spacing. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost

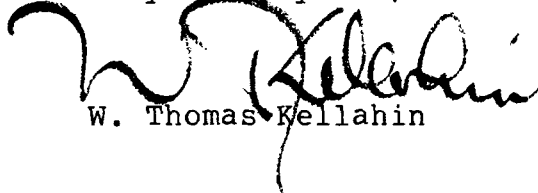
KELLAHIN, KELLAHIN & AUBREY

Mr. William J. LeMay
April 29, 1988
Page 2

thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located on _____.

By copy of this letter to all parties to be pooled, we are notifying them by certified mail-return receipt, that they have the right to appear at the hearing, to make a statement to the Division, to present evidence and cross-examine witnesses either in support of or in opposition to the application. Those parties are directed to contact the Division or the applicant's attorney to determine what additional rights they may have. In addition, they are advised that the entry of a compulsory pooling order will affect their rights to share in the production from the subject well.

Very truly yours,



W. Thomas Kellahin

WTK:ca
Enc.

cc: Mr. Joe Foran
Foran Oil Company
8340 Meadow Road
Dallas, Texas 75231

"Certified Return-Receipt Requested"
All Parties listed in Application

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

IN THE MATTER OF THE APPLICATION
OF FORAN OIL COMPANY FOR
COMPULSORY POOLING AND NON-STANDARD
SPACING AND PRORATION UNIT
LEA COUNTY, NEW MEXICO.

CASE: 9392

A P P L I C A T I O N

COMES NOW, FORAN OIL COMPANY, by and through its attorneys, Kellahin, Kellahin & Aubrey and in accordance with Section 7-2-17(c) NMSA (1978) applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests underlying the following described acreage in Section 30, T21S, R35E, Lea County, New Mexico, in the following described manner:

S/2 to form a 312.05 acre, more or less, gas spacing and proration unit for any and all formations and/or pools within said vertical limits developed on 320-acre gas well spacing.

SE/4 to form a 160 acre, more or less, gas spacing and proration unit for any and all formations and/or pools within said vertical limits developed on 320-acre gas well spacing.

The above described unit is to be dedicated to its Merchant State 1-30 Well to be drilled to a depth of approximately 13,000 feet at standard well location in said Section 30.

1. Applicant is a working interest owner in the S/2 of Section 30 as shown on Exhibit "A" and "B".

2. Applicant desires to drill a well at a standard location as shown on Exhibit "B" and "C".

3. Applicant, has sought a voluntary agreement with all those parties shown on Exhibit "D" for the formation of a S/2 section unit for the drilling of the subject well but has been unable to obtain a voluntary agreement.

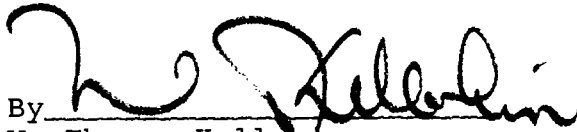
4. Pursuant to the Division notice requirements, applicant has notified all those parties shown on Exhibit "C" of this application for compulsory pooling and the applicant's request for a hearing before the Division to be set on May 25, 1988.

5. In order to obtain its just and equitable share of the potential production underlying the above tract, applicant needs an order pooling the mineral interests involved in order to protect applicant's correlative rights and prevent waste.

WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described herein. Applicant further prays that it be named operator of the well, and that the order make provisions for applicant to recover out of production its

costs of drilling, completing and equipping the subject well, costs of operation, including costs of supervision, and a risk factor in the amount of 200% for the drilling and completing of the well, for such other and further relief as may be proper.

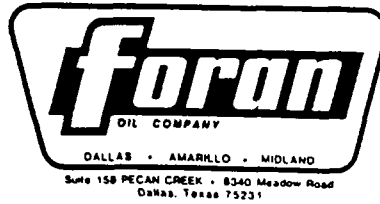
Respectfully submitted,



By
W. Thomas Kellahin
Kellahin, Kellahin & Aubrey
P. O. Box 2265
Santa Fe, New Mexico 87504

(505) 982-4285

EXHIBIT "B"



PROPOSED LOCATION

Merchant - State 1-30
Section 30: C/SW/4SE/4
660' FSL and 1980' FEL, T21S-R35E
13,000' Morrow Test
Lea County, New Mexico
San Simon Prospect

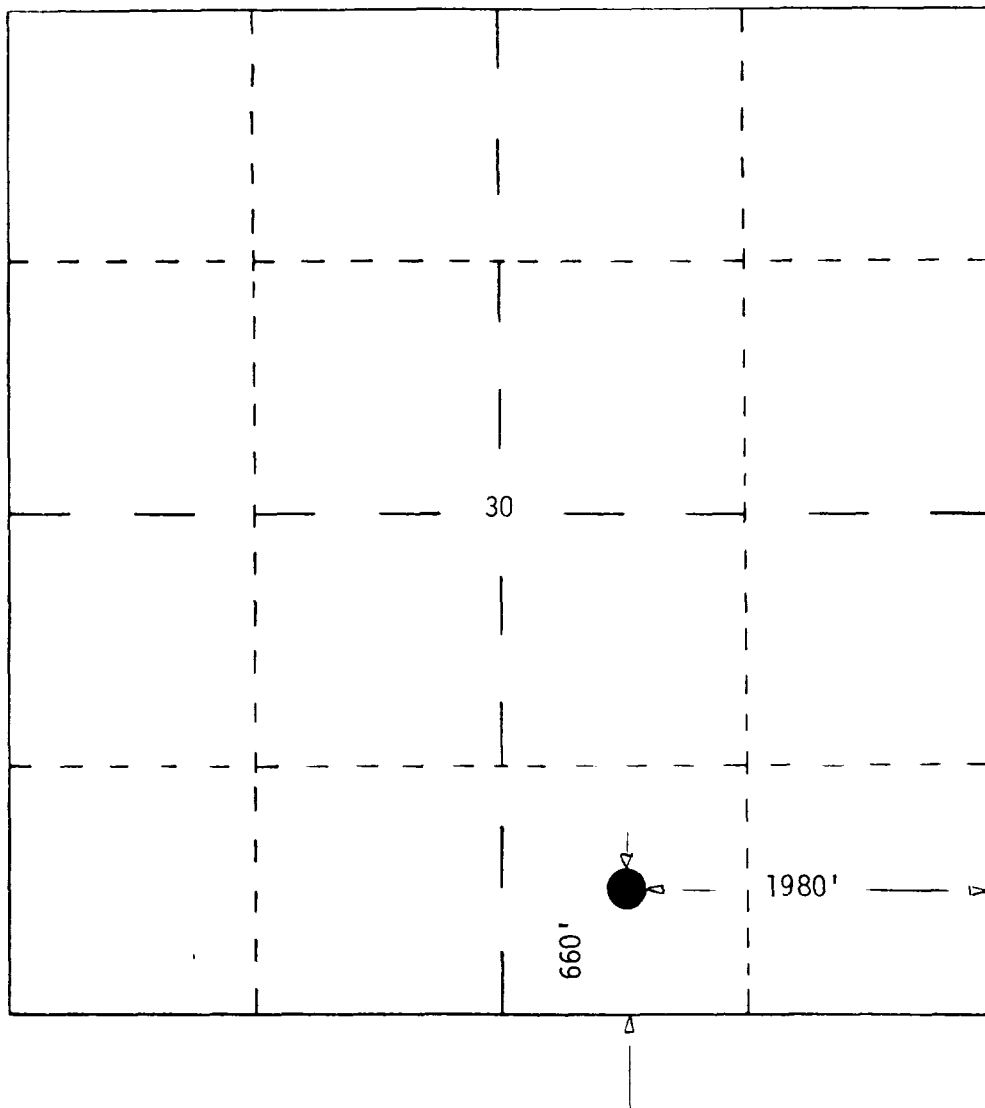
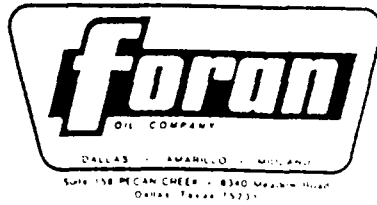


EXHIBIT "A"



SECTION 30, T21S-R35E

1 35.94	STATE		
2 35.94	Enron Oil & Gas Co. - 100%		7/1/88
3 36.01	STATE	30 Merchant 67.63% Bank 16.185% Busserman 16.185% OPEN	STATE
4 36.04	Phillips Petroleum Co. - 100% HBP	Foran Oil Co. - 100%	2/1/92

EXHIBIT "C"

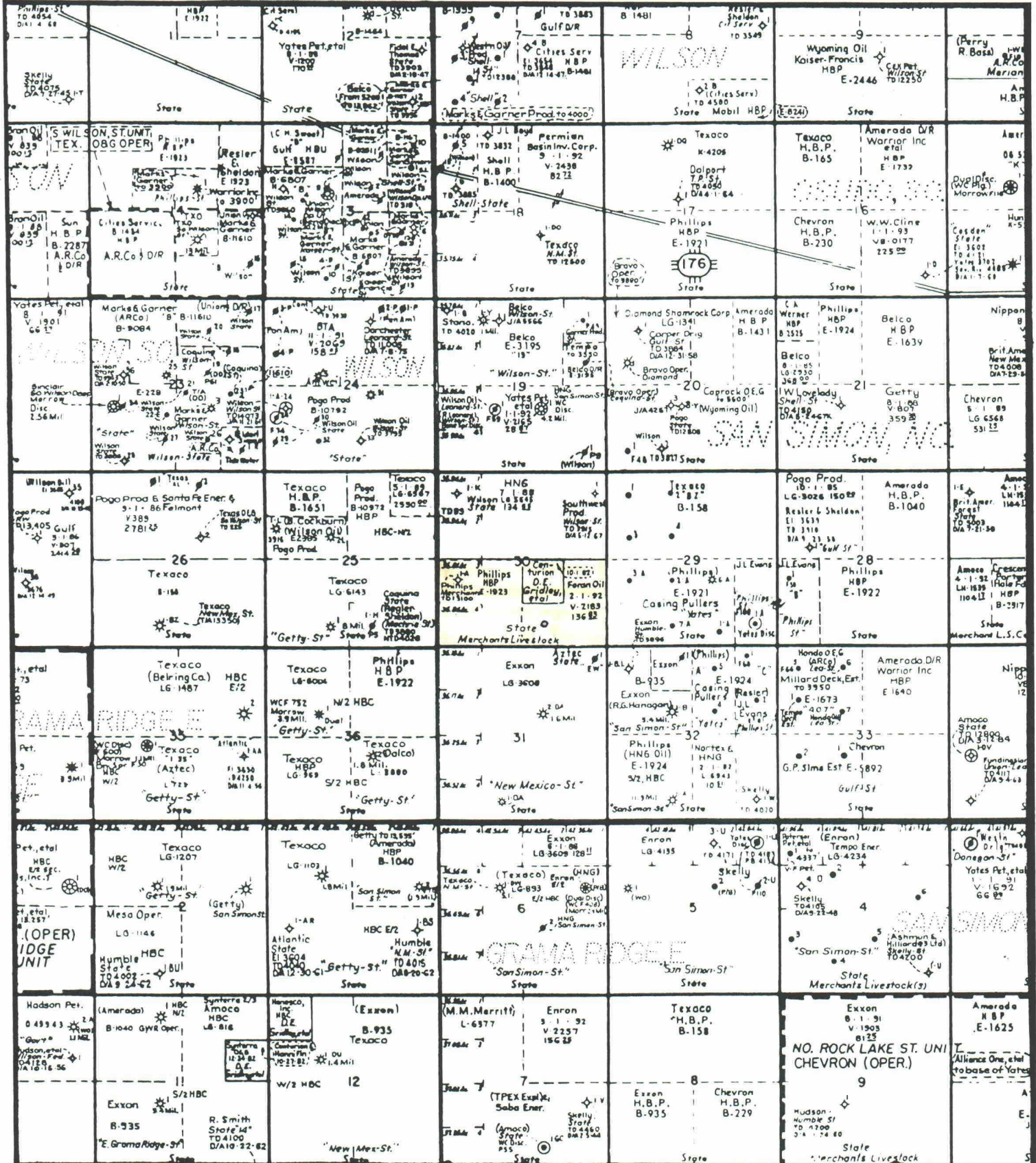


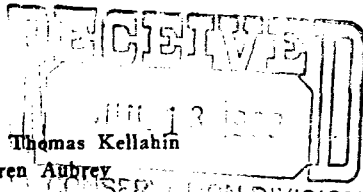
Merchant-State 1-30
Proposed 13,000' Morrow Test
Section 30, T21S-R35E
Lea County, New Mexico

36.01
36.05
72.06

21-34

21-35





W. Thomas Kellahin

Karen Aubrey

Oil Conservation Division
Jason Kellahin
Of Counsel

KELLAHIN, KELLAHIN and AUBREY

Attorneys at Law

El Patio - 117 North Guadalupe

Post Office Box 2265

Santa Fé, New Mexico 87504-2265

Telephone 982-4285

Area Code 505

July 11, 1988

Phillips Petroleum Company
4001 Penbrook Street
Odessa, Texas 79762

"Certified"
Return-Receipt Requested

Attn: Mr. Frank Hulse

Re: Foran Oil Company
T21S, R35E, NMPM,
Section 30: SE/4, E/2SW/4
Lea County, New Mexico
Compulsory Pooling Order R-8671

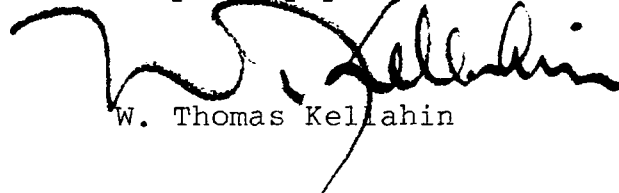
*Case No. 9392
m.s.*

Dear Mr. Hulse:

In accordance with the terms of the enclosed New Mexico Oil Conservation Division Order R-8671, we are sending you a copy of this order and copy of the estimated costs of the subject well as set forth on the AFE dated March 15, 1988.

On behalf of Foran Oil Company, you are hereby notified that pursuant to paragraph (4) of the order you have thirty (30) days from receipt of this letter to pay your share of the subject well costs and avoid the penalty which will apply if your share of the costs is taken out of production.

Very truly yours,



W. Thomas Kellahin

WTK:ca

Enc.

cc: Foran Oil Company
Suite 158, Pecan Creek
8340 Meadow Road
Dallas, Texas 75231

Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

KELLAHIN, KELLAHIN and AUBREY

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El Patio - 117 North Guadalupe
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Area Code 505

Jason Kellahin
Of Counsel

Santa Fe, New Mexico 87504-2265

July 11, 1988

The Merchant Livestock Co.
P. O. Box 1166
Carlsbad, New Mexico 88220

"Certified"
Return-Receipt Requested

Attn: Mr. J. D. Merchant

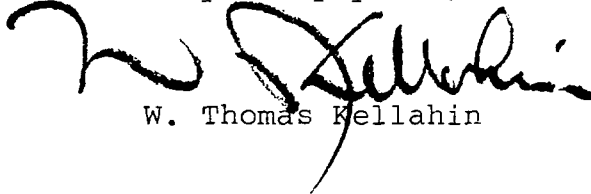
Re: Foran Oil Company
T21S, R35E, NMPM,
Section 30: SE/4, E/2SW/4
Lea County, New Mexico
Compulsory Pooling Order R-8671

Dear Mr. Merchant:

In accordance with the terms of the enclosed New Mexico Oil Conservation Division Order R-8671, we are sending you a copy of this order and copy of the estimated costs of the subject well as set forth on the AFE dated March 15, 1988.

On behalf of Foran Oil Company, you are hereby notified that pursuant to paragraph (4) of the order you have thirty (30) days from receipt of this letter to pay your share of the subject well costs and avoid the penalty which will apply if your share of the costs is taken out of production.

Very truly yours,



W. Thomas Kellahin

WTK:ca
Enc.

cc: Foran Oil Company
Suite 158, Pecan Creek
8340 Meadow Road
Dallas, Texas 75231

Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

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Telephone 982-4285
Area Code 505

Jason Kellahin
Of Counsel

Santa Fé, New Mexico 87504-2265

July 11, 1988

First National Bank of America
P. O. Box AA
Artesia, New Mexico 88210

"Certified"
Return-Receipt Requested

Attn: Mr. Brent Hammett

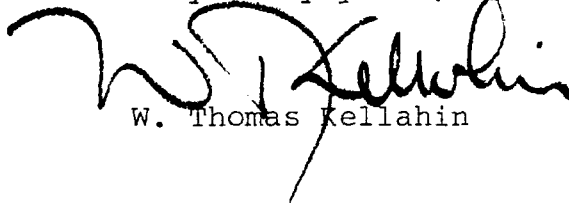
Re: Foran Oil Company
T21S, R35E, NMPM,
Section 30: SE/4, E/2SW/4
Lea County, New Mexico
Compulsory Pooling Order R-8671

Dear Mr. Hammett:

In accordance with the terms of the enclosed New Mexico Oil Conservation Division Order R-8671, we are sending you a copy of this order and copy of the estimated costs of the subject well as set forth on the AFE dated March 15, 1988.

On behalf of Foran Oil Company, you are hereby notified that pursuant to paragraph (4) of the order you have thirty (30) days from receipt of this letter to pay your share of the subject well costs and avoid the penalty which will apply if your share of the costs is taken out of production.

Very truly yours,



W. Thomas Kellahin

WTK:ca
Enc.

cc: Foran Oil Company
Suite 158, Pecan Creek
8340 Meadow Road
Dallas, Texas 75231

Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

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Post Office Box 2265

Telephone 982-4285
Area Code 505

Jason Kellahin
Of Counsel

Santa Fe, New Mexico 87504-2265

July 11, 1988

Mr. & Mrs. John E. Busserman
711 Beaman Street
Oakley, Kansas 67748

"Certified"
Return-Receipt Requested

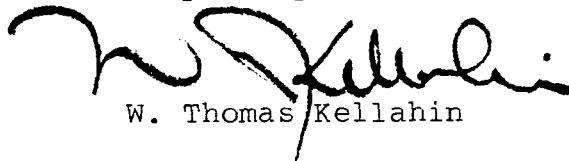
Re: Foran Oil Company
T21S, R35E, NMPM,
Section 30: SE/4, E/2SW/4
Lea County, New Mexico
Compulsory Pooling Order R-8671

Dear Mr. & Mrs. Busserman:

In accordance with the terms of the enclosed New Mexico Oil Conservation Division Order R-8671, we are sending you a copy of this order and copy of the estimated costs of the subject well as set forth on the AFE dated March 15, 1988.

On behalf of Foran Oil Company, you are hereby notified that pursuant to paragraph (4) of the order you have thirty (30) days from receipt of this letter to pay your share of the subject well costs and avoid the penalty which will apply if your share of the costs is taken out of production.

Very truly yours,



W. Thomas Kellahin

WTK:ca
Enc.

cc: Foran Oil Company
Suite 158, Pecan Creek
8340 Meadow Road
Dallas, Texas 75231

Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

KELLAHIN, KELLAHIN and AUBREY

Attorneys at Law

W. Thomas Kellahin
Karen Aubrey

El Patio - 117 North Guadalupe
Post Office Box 2265

Telephone 982-4285
Area Code 505

Jason Kellahin
Of Counsel

Santa Fé, New Mexico 87504-2265

July 11, 1988

Mr. J. W. Nichols
DBA Nichols Oil & Gas
3803 Carlton
Amarillo, Texas 79109

"Certified"
Return-Receipt Requested

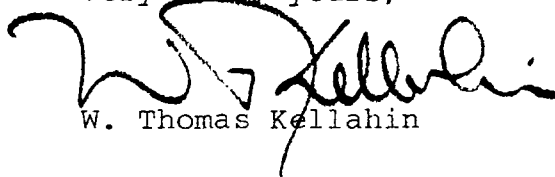
Re: Foran Oil Company
T21S, R35E, NMPM,
Section 30: SE/4, E/2SW/4
Lea County, New Mexico
Compulsory Pooling Order R-8671

Dear Mr. Nichols:

In accordance with the terms of the enclosed New Mexico Oil Conservation Division Order R-8671, we are sending you a copy of this order and copy of the estimated costs of the subject well as set forth on the AFE dated March 15, 1988.

On behalf of Foran Oil Company, you are hereby notified that pursuant to paragraph (4) of the order you have thirty (30) days from receipt of this letter to pay your share of the subject well costs and avoid the penalty which will apply if your share of the costs is taken out of production.

Very truly yours,



W. Thomas Kellahin

WTK:ca
Enc.

cc: Foran Oil Company
Suite 158, Pecan Creek
8340 Meadow Road
Dallas, Texas 75231

Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

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Attorneys at Law

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Karen Aubrey

El Patio - 117 North Guadalupe
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Telephone 982-4285
Area Code 505

Jason Kellahin
Of Counsel

Santa Fé, New Mexico 87504-2265

July 11, 1988

Mr. Whit Cline
Marsh Operating Company
P. O. Box 1746
Amarillo, Texas 79105

"Certified"
Return-Receipt Requested

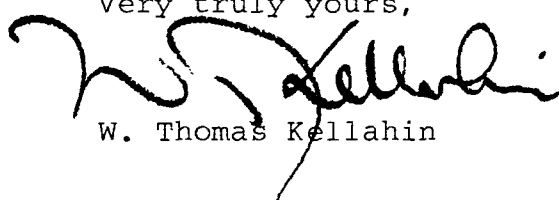
Re: Foran Oil Company
T21S, R35E, NMPM,
Section 30: SE/4, E/2SW/4
Lea County, New Mexico
Compulsory Pooling Order R-8671

Dear Mr. Cline:

In accordance with the terms of the enclosed New Mexico Oil Conservation Division Order R-8671, we are sending you a copy of this order and copy of the estimated costs of the subject well as set forth on the AFE dated March 15, 1988.

On behalf of Foran Oil Company, you are hereby notified that pursuant to paragraph (4) of the order you have thirty (30) days from receipt of this letter to pay your share of the subject well costs and avoid the penalty which will apply if your share of the costs is taken out of production.

Very truly yours,



W. Thomas Kellahin

WTK:ca
Enc.

cc: Foran Oil Company
Suite 158, Pecan Creek
8340 Meadow Road
Dallas, Texas 75231

Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 9392
Order No. R-8671

APPLICATION OF FORAN OIL COMPANY
FOR COMPULSORY POOLING FOR A NON-
STANDARD GAS PRORATION UNIT, LEA
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on June 8, 1988, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 24th day of June, 1988, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Foran Oil Company, seeks an order pooling all mineral interests from the surface to either the base of the Morrow formation or to a depth of 13,000 feet, whichever is deeper, underlying the SE/4, E/2 SW/4, and Lots 3 and 4 of Section 30, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, forming a 312.05-acre, more or less, non-standard gas spacing and proration unit for any and all formations and/or pools within said vertical limits developed on 320-acre spacing, and the SE/4 of said Section 30 forming a standard 160-acre gas spacing and proration unit for any and all formations and/or pools within said

vertical limits developed on 160-acre gas well spacing, both aforementioned units to be dedicated to a well to be drilled at a standard gas well location 660 feet from the South line and 1980 feet from the East line (Unit O) of said Section 30.

(3) The evidence in this case indicates that the proposed well location is within one mile of the East Grama Ridge-Morrow Gas Pool and the North Grama Ridge-Wolfcamp Gas Pool, both currently governed by 320-acre spacing.

(4) The non-standard gas proration unit is necessitated by a variation in the U.S. Public Lands Survey.

(5) The applicant has the right to drill and proposes to drill a well at a standard location described above.

(6) There are interest owners in the proposed proration units who have not agreed to pool their interests.

(7) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said units the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said proposed units.

(8) The applicant should be designated the operator of the subject well and units.

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

(10) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

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

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

(13) \$5000.00 per month while drilling and \$500.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(14) 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.

(15) Upon the failure of the operator of said pooled units to commence the drilling of the well to which said units are dedicated on or before September 15, 1988, the order pooling said units should become null and void and of no effect whatsoever.

(16) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(17) The operator of the well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject units an itemized schedule of estimated well costs.

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

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

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

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

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

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) \$5000.00 per month while drilling and \$500.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

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

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


(13) Should all parties to this forced-pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced-pooling provisions of this order.

(15) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

S E A L

FORAN OIL COMPANY
SUITE 158, PECAN CREEK
8340 MEADOW ROAD
DALLAS, TEXAS 75231
(214) 373-8792

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION

Foran EXHIBIT NO. 12

CASE NO. 9392

ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

DATE March 15, 1988

WELL NO. _____ LEASE NAME _____ PROSPECT NAME San Simon

DESCRIPTION Drill and Equip a 13,000' Morrow test

COUNTY Lea STATE New Mexico LOCATION SE/4 Sec 30, T21S-R3

OPERATOR Foran Oil Company

	DRY HOLE WITHOUT PIPE	COMPLETED WELL
LOCATION & DAMAGES	20,000	21,500
FOOTAGE/MI-RU-TO <u>13,000' @ \$21.00/Ft.</u>	273,000	273,000
CONTRACT DRILLING DAYWORK <u>\$4,200/Day</u>	12,600	16,800
CEMENTING & SERVICES	20,000	31,000
DRILL STEM TEST & CORING	11,200	11,200
LOGGING	25,000	25,000
GEOLOGICAL <u>\$400/Day for 24 Days</u>	9,600	9,600
MUD MATERIALS	35,000	35,000
TRUCKING & LABOR, <u>Csq. Crew & Yellow Jacket</u>	12,800	16,500
SUPERVISION <u>\$350/Day for 50 Days</u>	14,000	17,500
BITS & EQUIPMENT RENTAL <u>PVT, Mud Cleaner, etc.</u>	8,200	13,700
FUEL/WATER	15,000	18,500
COMBINED FIXED RATE	5,000	7,500
PLUGGING & ABANDONMENT	-	-
WELL SURVEYS/TEST SERVICES <u>BHP Survey</u>	-	2,500
COMPLETION UNIT <u>\$1400/Day for 10 Days</u>	-	14,000
CENTRALIZERS & SCRATCHERS	1,000	4,500
PERFORATING/LOGGING <u>CBL/Perf</u>	-	8,600
FRAC AND/OR ACID	-	55,000
OTHER	-	-
CONTINGENCY	60,000	74,000
TOTAL INTANGIBLE	522,400	655,400

	DRY HOLE WITHOUT PIPE	COMPLETED WELL
CASING-CONDUCTOR	-	-
CASING-SURFACE <u>500' 13-3/8" @ \$25.00/Ft.</u>	12,500	12,500
CASING-INTERMEDIATE <u>5450' 8-5/8" @ \$18.00/Ft.</u>	98,100	98,100
LINER-DRILLING	-	-
CASING-PRODUCTION <u>13000' 5-1/2" @ \$ 9.00/Ft.</u>	-	117,000
LINER-PRODUCTION	-	-
TUBING <u>12900' 2-3/8" @ \$ 2.95/Ft.</u>	-	38,055
WELL HEAD	4,000	9,000
OTHER SUB-SURFACE EQUIP	-	-
TANKS	-	4,000
SEPARATORS & HEATERS	-	14,500
FLOW LINES	-	4,000
RODS/Downhole <u>Pkr & Profile w/On Off</u>	-	5,500
PUMP UNIT & ENGINE	-	-
INSTALLATION COSTS	2,500	12,500
NON-CONTROLLABLE EQUIP	-	5,000
TOTAL EQUIPMENT	117,100	320,155
TOTAL WELL COSTS	639,500	975,555

APPROVALS:

FORAN OIL COMPANY

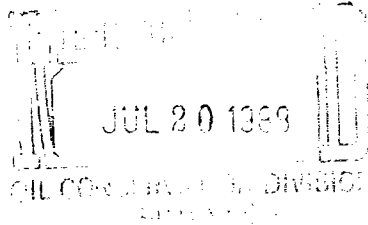
WORKING INTEREST _____% by Joe Foran DATE 3/15/88
The First National Bank
NON-OPERATOR: of Artesia, N.A. DATE _____
WORKING INTEREST 2.022% by _____ DATE _____

MARSH OPERATING COMPANY

P.O. Box 1746

AMARILLO, TEXAS 79105-1746

(806) 372-2381



July 18, 1988

Case No. 9392
M.S.

The Merchant Livestock Co.
P. O. Box 1166
Carlsbad, New Mexico 88220

Attn: Mr. J. D. Merchant

RE: Compulsory Pooling Order
R-8671
S/2 Section 30-21S-35E
Lea County, New Mexico

Gentlemen:

We understand that you have received the captioned order. As you know, we have leased your interest in the southwest quarter of the captioned section and as to the leased interest we are obligated to make any election pursuant to the order. By copy of this letter to Foran Oil Company, who we advised in May 1988 of our lease, and to other interested parties we are confirming this fact in writing.

Very truly yours,

MARSH OPERATING COMPANY

William W. Cline
Attorney-in-Fact

WWC/dlw

cc: Foran Oil Company
(w/copy of lease)
Suite 158, Pecan Road
8340 Meadows Road
Dallas, Texas 75231
Attn: Mr. Joe Foran

Mr. W. Thomas Kellahin
(w/copy of lease)
P. O. Box 2265
Santa Fe, NM 87504-2265

Oil Conservation Division ✓
P. O. Box 2088
Santa Fe, New Mexico 87504

Mr. John Caraway
P. O. Box 17
Carlsbad, New Mexico 88220

Mr. Jim Bruce
Hinkle Law Firm
P. O. Box 2068
Santa Fe, NM 87504-2068

O & G

BCCK 424 500

OIL & GAS LEASE

THIS AGREEMENT made this 2nd day of May 19 88, between

Merchant Livestock Company

of P. O. Box 1166,
(Post Office Address)
Carlsbad, NM 88220

herein called lessor (whether one or more) and Nichols Energy

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save,

take care of, treat, process, store and transport said minerals, the following described land in Lea County, New Mexico, to-wit:

NW/4 SE/4 Section 30-21S-35E

gpm

Said land is estimated to comprise 40.00 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of three (3) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well 3/16 of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 3/16 of the gas used,

provided that on gas sold on or off the premises, the royalties shall be 3/16 of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions of Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 90 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Notwithstanding any of the provisions of this lease, Lessee agrees not to utilize the leased premises as a drill site, but may unitize or pool all or any part of the leased lands for proration unit purposes.

Executed this day and year first above written.

Nancy L Reed

MERCHANT LIVESTOCK COMPANY

By: J D Merchant Jr
J D Merchant, President

D m This Lease shall supersede and take the place of that certain

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____ Notary Public

STATE OF _____
County of _____
INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____ Notary Public

STATE OF _____
County of _____
INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____ Notary Public

STATE OF _____
County of _____
INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____ Notary Public

Marathon Operating Co

STATE OF NEW MEXICO
COUNTY OF _____
I hereby certify that this instrument was filed for record on the _____ day of _____, A. D. 19____, at _____ o'clock _____ A. M., and was duly recorded in Book _____ at Page _____ of the Records of said County.
By _____ Deputy.
_____ County Clerk.
Date _____, 19____
Section _____, Township _____, Range _____
No. of Acres _____
County, New Mexico
Term _____
No. 028663
OIL AND GAS LEASE
NEW MEXICO
CLERK = _____
TO _____
FROM _____
COUNTY _____
LEASING CO.

STATE OF NEW MEXICO
County of _____
CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this 3rd day of May, 1988, by _____, President of _____ a New Mexico corporation on behalf of said corporation.
My Commission Expires 10 Dec. 1988
_____ Connie Bickerstaff Notary Public

STATE OF _____
County of _____
CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____, President of _____ a _____ corporation on behalf of said corporation.
My Commission Expires _____ Notary Public

620-1207 1/50

McCORMICK, FORBES, CARAWAY AND TABOR

ATTORNEYS AT LAW

DON G. McCORMICK (1907-1986)
JAY W. FORBES
JOHN M. CARAWAY
CAS TABOR
MICHAEL E. DARGEL
DENISE A. MADRID

BUJAC BUILDING, 112 NORTH CANYON
P. O. BOX 1718
CARLSBAD, NEW MEXICO 88221-1718

TELEPHONE 885-4171
AREA CODE 505
Telecopier (505) 885-1963

July 19, 1988

W. Thomas Kellahin
KELLAHIN, KELLAHIN & AUBREY
P.O. Box 2265
Santa Fe, New Mexico 87504-2265

Re: Foran Oil Company
T21S, R35E, NMPM,
Section 30: SE/4, E/2SW/4
Lea County, New Mexico
Compulsory Pooling Order R-8671
Case No.: 9392

Dear Mr. Kellahin:

I represent the Merchant Livestock Company of Carlsbad and this letter is in response to your letter dated July 11, 1988 addressed to Merchant Livestock Company, with a copy of the force Pooling Order No. R-8671 from the New Mexico Oil Conservation Division attached.

Please be informed that Merchant Livestock Company has executed a corrected Oil and Gas Lease to Nichols Energy under date of May 2, 1988, and recorded on June 6, 1988 in Book 424, Page 500 of the Records of Lea County, New Mexico. I enclose a copy of that lease for your convenient reference. This lease corrected an earlier lease under the same date, recorded on May 26, 1988 in Book 424, Page 229 of the Records of Lea County, New Mexico.

Please note that the subject lease provides for a 3/16 royalty on oil and gas reserved to Merchant Livestock Company. I tender this lease to you for you and your client's recognition. Please be advised that Nichols Energy, as Lessee, or their Assignee will be the working interest owner for the acreage so leased. I understand that either Nichols Energy or their assignee will be in contact with you or your client directly for appropriate arrangements to pay the proportionate drilling costs. Since Merchant Livestock Company has leased to Nichols Energy, Merchant has no present intent to pay their share of the requested drilling costs.

Paragraph 10 of the Oil Conservation Division Order pertaining to unleased mineral interest should not come into play concerning this acreage as Merchant Livestock Company is now the beneficiary of a reserved 3/16 royalty interest under the lease.

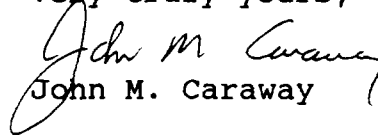
W. Thomas Kellahin

2

July 19, 1988

If there be any difficulty with you and/or your client recognizing this lease and Merchant's reserved 3/16 royalty, please contact me right away.

Very truly yours,


John M. Caraway

JMC:cds

Enclosure

cc Merchant Livestock Co.
Foran Oil Company
Oil Conservation Division
Nichols Energy Co.
Marsh Operating Co.

ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION



POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Re: CASE NO. 9392
ORDER NO. R-3671

Foran Oil Company

Florence Davidson

FLORENE DAVIDSON
OC Staff Specialist

Hobbs OCD	<u>K</u>
Artesia OCD	<u>K</u>
Aztec OCD	

Other _____