

**Sun Exploration and
Production Company**



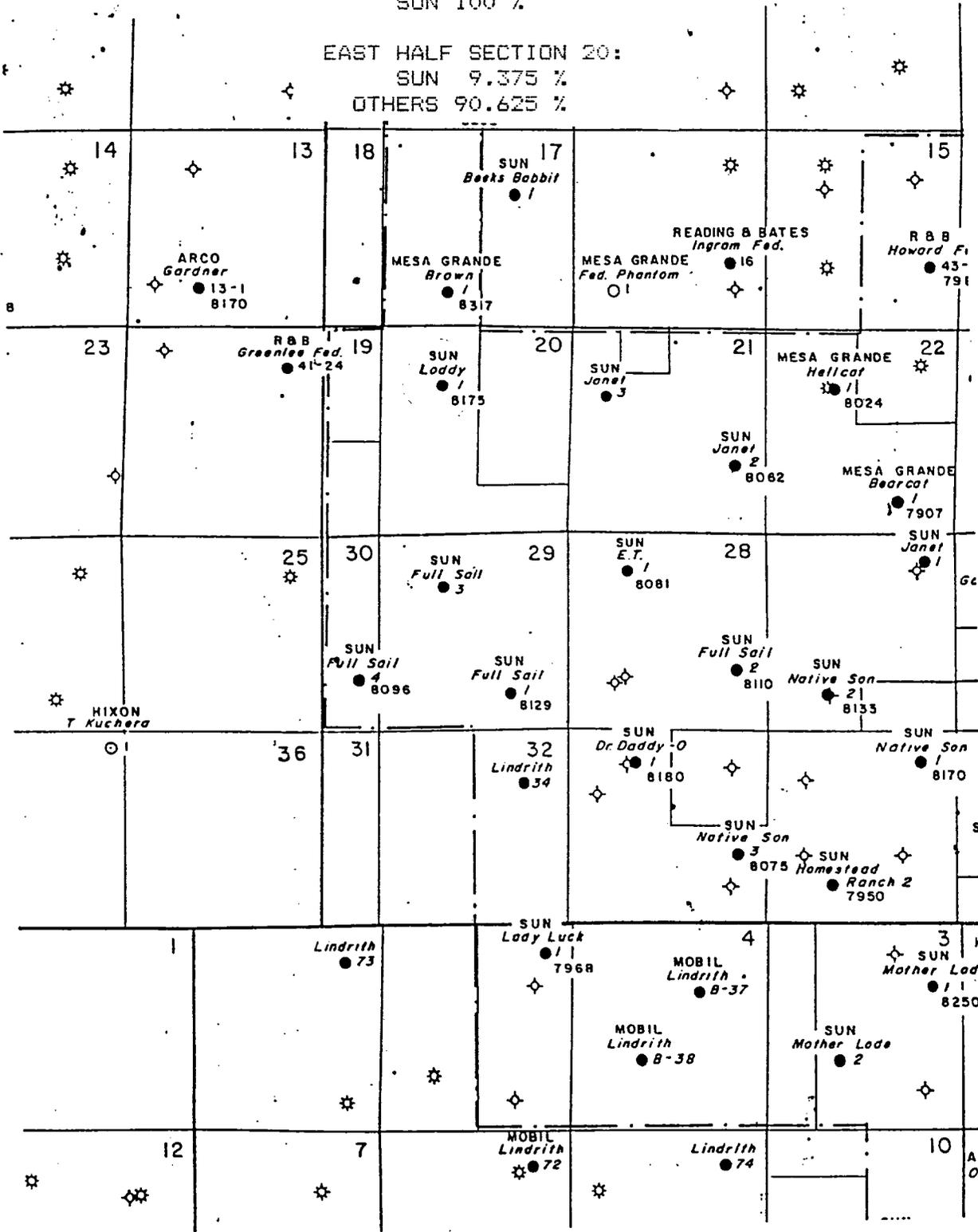
Exhibit 1

.NEW MEXICO OIL CONSERVATION COMMISSION
COMPULSORY POOLING
LODDY 1
SECTION 20, T25N, R2W
JANUARY 21, 1988

LODDY 1
SECTION 20 T25N R2W
RIO ARRIBA CO., NEW MEXICO

WEST HALF SECTION 20:
SUN 100 %

EAST HALF SECTION 20:
SUN 9.375 %
OTHERS 90.625 %



Cases Nos. 7980, 8946, 9113 and 9114
Order No. R-7407-E

owners requested a return to 40-acre spacing, without presenting supporting evidence.

(18) Proration units comprised of 640 acres with the option to drill a second well would permit wider spacing and also provide flexibility.

(19) Recognizing that the two designated pools constitute two weakly connected areas with different geologic and operating conditions, the administration of the two areas will be simplified by maintaining two separate pools.

(20) A ninety day period commencing July 1, 1987, should be given for the connection for casinghead gas sale from now-unconnected wells in the Gavilan pool, after which allowables should be reduced in that pool until said wells are connected.

(21) To provide continuity of operation and to prevent waste by the drilling of unnecessary wells, the temporary spacing rules promulgated by Order R-7407 should remain in effect until superceded by this Order.

(22) Rules for 640-acre spacing units with the option for a second well on each unit should be adopted together with a provision that units existing at the date of this order should be continued in effect.

IT IS THEREFORE ORDERED THAT:

(1) The application of Benson-Montin-Greer et al in Case No. 9113 to abolish the Gavilan-Mancos pool and extend the West Puerto Chiquito-Mancos pool to include the area occupied by the Gavilan-Mancos Pool is denied.

(2) The application of Mesa Grande Resources, Inc. for the extension of the Gavilan-Mancos and the concomitant contraction of West Puerto Chiquito-Mancos Pool is denied.

(3) Rule 2 of the temporary special rules and regulations for the Gavilan-Mancos Oil Pool as promulgated by Order R-7407 is hereby amended as follows:

Rule 2 (a). A standard proration unit shall consist of between 632 and 648 acres consisting of a governmental section with at least one and not more than two wells drilled or recompleted thereon; provided that if the second well is drilled or recompleted on a standard unit it shall not be located in the same quarter section, nor

closer than 1650 feet to the first well drilled on the unit; and provided further that proration units formed prior to the date of this order are hereby granted exception to this rule.

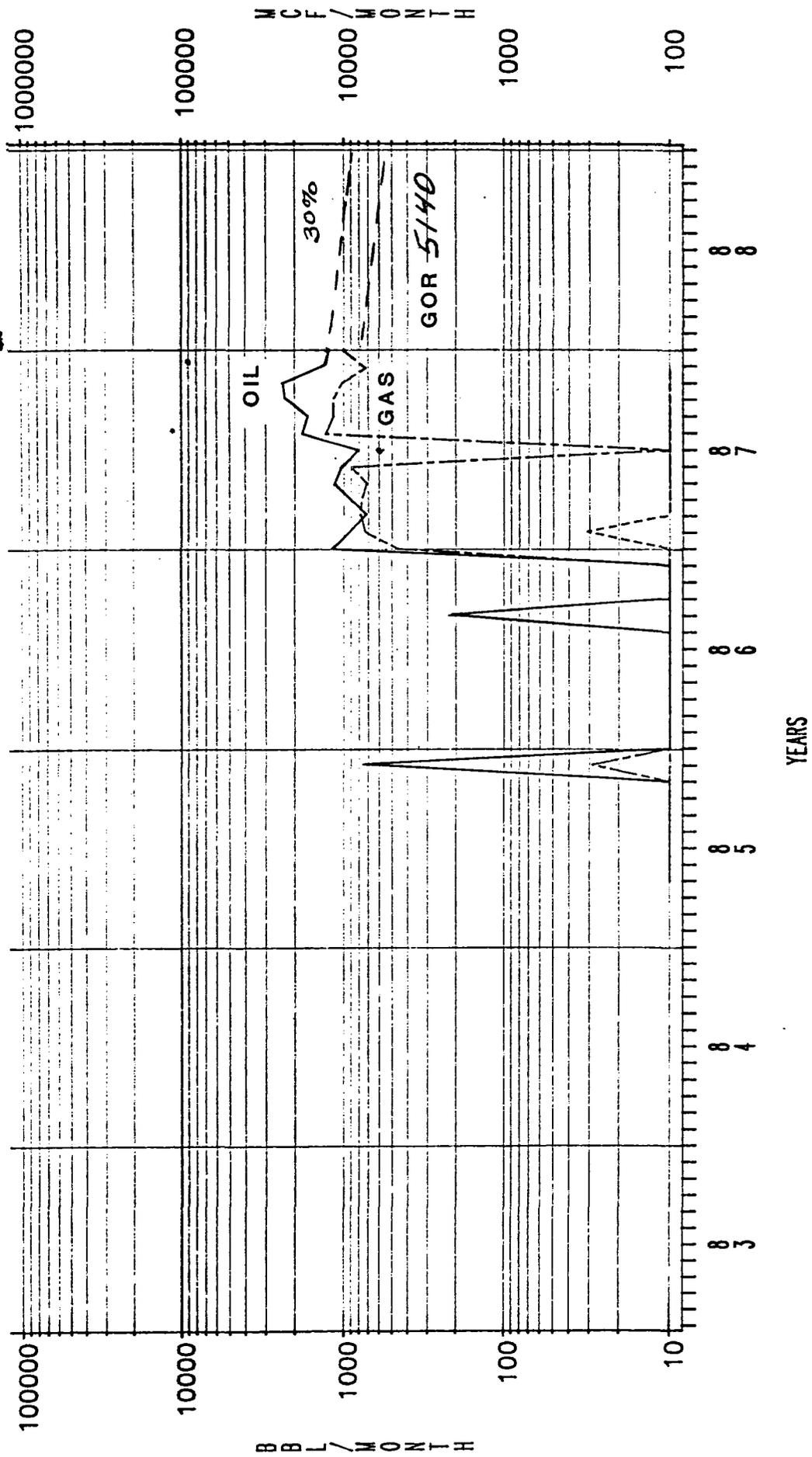
(b). A buffer zone is hereby created consisting of the east half of sections bordering Township 1 West. Only one well per section shall be drilled in said buffer zone and if such well is located closer than 2310 feet from the western boundary of the West Puerto Chiquito-Mancos Oil Pool it shall not be allowed to produce more than one-half the top allowable for a 640-acre proration unit.

(4) Beginning July 1, 1987, the allowable shall be 1280 barrels of oil per day per 640 acres with a limiting gas-oil ratio of 2,000 cubic feet of gas per barrel of oil. Operators are required to monitor reservoir performance, including but not limited to, production rates, gas-oil ratios, reservoir pressures, and shall report this information to the Commission within 30 days after completion of the tests. Within the first week of July, 1987, bottom hole pressure tests shall be taken on all wells. Wells shall be shut-in until pressure stabilizes or for a period not longer than 72 hours. Additional bottom hole tests shall be taken within the first week of October, 1987, with similar testing requirements. All produced gas, including gas vented or flared, shall be metered. Operators are required to submit a testing schedule to the District Supervisor of the Aztec office of the Oil Conservation Division prior to testing so that tests may be witnessed by OCCD personnel.

(5) Beginning October 1, 1987, the allowable shall be 800 barrels of oil per day per 640 acres with a limiting gas-oil ratio of 600 cubic feet of gas per barrel of oil. Operators are required to monitor reservoir performance as in (4) above with bottom hole pressure tests to be taken within the first week of January, 1988. This allowable and GOR limitation shall remain in effect until further notice from the Commission.

(6) In order to prevent further waste and impairment of correlative rights each well in the Gavilan-Mancos Oil Pool shall be connected to a gas gathering system by October 1, 1987 or within ninety days of completion. If Wells presently unconnected are not connected by October 1 the Director may reduce the Gavilan-Mancos allowable as may be appropriate to prevent waste and protect correlative rights. In instances where it can be shown that connection is absolutely uneconomic the well involved may be granted authority to flow or vent the

LEASE=LODDY (BPO) WELL=1



OIL - WTR - - - GAS - . . .

NEW MEXICO OIL CONSERVATION COMMISSION
CASE NO. 9225

Loddy 1: spud 7-20-85 completed 9-10-85
estimated well cost \$440,000
operating expenses (less taxes) \$2740 per month

Effects of Pooling on W/2 Section 20

	Current Interest	Pooled Interest *	Difference
<u>W.I.</u>	<u>100%</u>	<u>50%</u>	<u>-50%</u>
Net BOPD	29	14.5	-14.5
Net MCFGPD	229	114.5	-114.5
Net Reserves			
Oil, MSTB	34.89	17.45	-17.44
Gas, MMCF	186.98	93.49	-93.49
Net Cash Flow, M\$	459.03	363.68	-95.35
10% NPV, M\$	375.41	321.31	-54.10
15% NPV, M\$	342.84	304.75	-38.09
20% NPV, M\$	314.94	290.52	-24.42

* Includes a payment of \$220,000 based on 50% of well cost.

SUN EXPLORATION AND PRODUCTION COMPANY <input type="checkbox"/> 100% CO-OP <input type="checkbox"/> OBO <input type="checkbox"/> CO.-P.I.	ORIGINATING LOCATION ROCKY MOUNTAIN DISTRICT		POLLUTION CONTROL			AFE NUMBER
			EST. AMOUNT		OIL	GAS
					WATER	
AMOUNT REQUESTED EXPENDITURE BUDGETED <input type="checkbox"/> YES YEAR _____ <input type="checkbox"/> NO <input type="checkbox"/> PARTIALLY		COMPLETE FOR OBO APPROPRIATIONS ONLY			DATE	
EST. COMPLETION DATE		OPERATOR'S NAME			AFE NUMBER	
PROPERTY ID NUMBER		PROPERTY NAME NEW MEXICO MANCOS DAKOTA TEST			WELL NO. TOTAL DEPTH	
PROSPECT NAME		PROSPECT ID NUMBER			CLASSIFICATION	
FIELD		MUNICIPALITY/PARISH/COUNTY RIO ARRIBA			PROVINCE/STATE NEW MEXICO	
PRIMARY OBJECTIVE <input checked="" type="checkbox"/> OIL <input type="checkbox"/> GAS <input type="checkbox"/> PLANT LIQUID		PREDICTED NET RESERVES MMCF. OR M BBLs/ OR M BBLs/ OR MMCF OR M BBLs: TYPE: TYPE: TYPE:				

NON DRILLING PROJECT DESCRIPTION

DRILL, COMPLETE & EQUIP AN 8000' TEST

SECTION 25 T-25N R-2W

	INTANGIBLE	PRODUCER	DRY HOLE	TANGIBLE	PRODUCER	DRY HOLE
40	LOCATION	40,000	40,000	PIPE COND	2,000	2,000
	RIG MOVE	15,000	15,000	PIPE 9 5/8" @ 800'	10,000	10,000
42	FOOTAGE	-	-	PIPE 5 1/2 @ 8000'	88,000	-
43	DAY WORK 30 @ 3500	105,000	105,000	PIPE 2 7/8" @ 8000'	28,000	-
44	BITS AND RMRS	17,000	17,000	PIPE	-	-
45	FUEL	-	-	PIPE	-	-
46	WATER	7,000	7,000	PIPE	-	-
47	MUD AND CHEM	15,000	15,000	WELLHEAD	12,000	2,000
48	CMT AND CMTG SER	15,000	7,000	OTHER	6,000	2,000
49	DIRECTIONAL SER	-	-			
50	RENTALS	7,000	3,000			
51	MUD LOGGING	-	-			
52	DST AND TSTG EQPT	-	-			
53	CORING	-	-			
54	LOGS-WLT-SWC	15,000	10,000			
55	CSG/TBG TOOLS AND SER	10,000	3,000			
56	COMPLETION RIG	15,000	-			
57	PERFORATING	5,000	-			
58	STIMULATION	85,000	-			
59	SUPERVISION	20,000	14,000			
60	TRANSPORTATION	10,000	6,000			
61	MISC/CONTINGENCY 10%	38,000	24,000			
	TOTAL INTANGIBLE	\$ 419,000	\$ 266,000			
				TOTAL TANGIBLE	\$ 146,000	\$ 14,000
				TOTAL DRILLING COST	\$ 565,000	\$ 280,000
				PROD. EQUIP	133,000	-
				TOTAL COST	698,000	280,000
				SUN'S NET COST	\$	\$

to say 1.2

STEVE STEARNS

APPROVAL LEVEL	DISTRICT	HEADQUARTERS	CORPORATE	JOINT OWNER(S) APPROVAL OBTAINED
APPROVED:				
CONCURRENCE:				
DISAPPROVED:				
DATE:				

INTEREST ADJUSTED

ORIGINAL WELL COSTS

Well completed November, 1985; 21 months since completion - June, 1987.

Using a Well Cost of \$440 M -

- A. Assuming 9% interest rate factor (current 8.75% prime rate).

Monthly rate is $9\%/12 = 0.75\%$ monthly

Current value at 9% annually is:

$$\$440,000 \times (1.0075)^{\underline{21}} = \$514,753$$

- B. Assuming 12% Interest Rate

Monthly Rate is 1% monthly

Current value at 12% annually is:

$$\$440,000 \times (1.01)^{\underline{21}} = \$542,252$$

AVERAGE WELL COST ANALYSIS

CANADA OJITOS UNIT

<u>Well</u>	<u>AFE</u>	<u>Final Report</u>
36(A-20)	613500	615000
37(G-5)	621000	551000
38(F-7)	664000	710000
Average	632833	625333
1/2 Average	316417	312667

COPY FOR YOUR FILES

BENSON-MONTIN-GREER DRILLING CORP.

AUTHORITY FOR EXPENDITURE

AFE #2525
(1987 Program)

DATE October 30, 1986

Prospect Canada Ojitos Unit Well Canada Ojitos Unit #36 (A-20)

Section 20 Township 25N Range 1W County Rio Arriba State New Mexico

Producing Formation or Formations Niobrara Projected Depth 7700'

INTANGIBLE COSTS

Surveying: Road and Location	\$	<u>1,500</u>
Surveying: Archaeological		<u>1,500</u>
Roads and Location - Construction and clean up		<u>4,500</u>
Drilling: Type of Bid (Turnkey)		<u>160,000</u>
Day Work - Completion Rig - Day Work 20 days @ \$1,250/day		<u>25,000</u>
Transportation and Hauling Other Than Rig		<u>7,500</u>
Mud and Water - Included in Turnkey		<u>2,500</u>
Equip. Rentals		<u>10,000</u>
Bits - Included in Turnkey		<u>22,000</u>
Logging		<u>6,500</u>
Cement and Cementing		<u>130,000</u>
Cementing Equipment - Including Stage Collars		<u>7,500</u>
Perforating, Acidizing and Fracing		<u>7,500</u>
Engineering & Supervision		<u>3,500</u>
Labor		<u>25,000</u>
Overhead		<u>414,500</u>
Contingencies		
TOTAL INTANGIBLE COSTS	\$	<u>414,500</u>

TANGIBLE COSTS

Well Equipment		
Casing and Tubing:		
500' 9-5/8" K-55 36#	\$	<u>5,000</u>
7800' 5-1/2" N-80 23#		<u>64,000</u>
7500' 2-3/8" EUE tubing, internally plastic coated		<u>37,500</u>
Gas Lift Subsurface Equipment		<u>1,000</u>
Wellhead and Equipment - Tubinghead, Valves, etc.		<u>10,000</u>
Well Flow Lines		<u>2,500</u>
Noncontrollable Well Equipment		<u>1,500</u>
Installation Costs		<u>3,000</u>
Lease Equipment		
Tank Battery - Single Tank (Surge Tank with Heater)		<u>8,500</u>
Separators and Heaters (Including Part of Gas Lift Equipment)		<u>45,000</u>
Measuring & Monitoring Equipment		<u>2,500</u>
Other Controllable Equipment		<u>5,000</u>
Noncontrollable Equipment		<u>2,500</u>
Installation Costs		<u>6,000</u>
Contingencies		<u>5,000</u>
TOTAL TANGIBLE COSTS	\$	<u>199,000</u>
TOTAL DRILLING, COMPLETION AND EQUIPMENT COSTS	\$	<u>613,500</u>

Approved: Frank E. [Signature]

Date: 11/17/86

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BENSON-MONTIN-GREER DRILLING CORP.

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AUTHORITY FOR EXPENDITURE

AFE #2535
 (1987 Program)

DATE October 30, 1986

Prospect Canada Ojitos Unit Well Canada Ojitos Unit #37 (G-5)

Section 5 Township 24N Range 1W County Rio Arriba State New Mexico

Producing Formation or Formations Niobrara Projected Depth 7750'

INTANGIBLE COSTS

Surveying: Road and Location	\$	1,500
Surveying: Archaeological		1,500
Roads and Location - Construction & Clean up		10,500
Drilling: Type of Bid (Turnkey)		160,000
Day Work - Completion Rig - Day Work 20 days @ \$1,500/day		25,000
Transportation and Hauling Other Than Rig		7,500
Mud and Water - Included in Turnkey		2,500
Equip. Rentals		10,000
Bits - Included in Turnkey		22,000
Logging		6,500
Cement and Cementing		130,000
Cementing Equipment - Including Stage Collars		7,500
Perforating, Acidizing and Fracing		7,500
Engineering & Supervision		7,500
Labor		3,500
Overhead		25,000
Contingencies <i>57,000</i>		25,000
TOTAL INTANGIBLE COSTS	\$	420,500

TANGIBLE COSTS

Well Equipment		
Casing and Tubing:		
500' 9-5/8" K-55 36#	\$	5,000
7850' 5-1/2" N-80 17#		65,000
7550' 2-3/8" EUE tubing, internally plastic coated		38,000
Gas Lift Subsurface Equipment		1,000
Wellhead and Equipment - Tubinghead, Valves, etc.		10,000
Well Flow Lines		2,500
Noncontrollable Well Equipment		1,500
Installation Costs		3,000
 <u>Lease Equipment</u>		
Tank Battery - Single Tank (Surge Tank with Heater)		8,500
Separators and Heaters (Including Part of Gas Lift Equipment)		45,000
Measuring & Monitoring Equipment		2,500
Other Controllable Equipment		5,000
Noncontrollable Equipment		2,500
Installation Costs		6,000
Contingencies		5,000
TOTAL TANGIBLE COSTS	\$	200,500
TOTAL DRILLING, COMPLETION AND EQUIPMENT COSTS	\$	621,000

Approved:

Frank E. [Signature]

Date:

11/19/86

BENSON-MONTIN-GREER DRILLING CORP.

AUTHORITY FOR EXPENDITURE

AFE #1890
(1987 Program)

COPY FOR YOUR FILES

DATE June 5, 1987

Prospect Canada Ojitos Unit Well Canada Ojitos Unit #38 (F-7)

Section 7 Township 25N Range 1W County Rio Arriba State New Mexico

Producing Formation or Formations Niobrara Projected Depth 7850'

INTANGIBLE COSTS

Surveying: Road and Location	\$ 1,500
Surveying: Archaeological, Road & Location	2,500
Roads and Location - Construction & Clean up	6,500
Drilling: Type of Bid (Turnkey)	180,000
Day Work - Completion Rig - Day Work 20 days @ \$1,500/day	25,000
Transportation and Hauling Other Than Rig	7,500
Mud and Water - Included in Turnkey	2,500
Equip. Rentals	10,000
Bits - Included in Turnkey	26,000
Logging	6,500
Cement and Cementing	150,000
Cementing Equipment - Including Stage Collars	7,500
Perforating, Acidizing and Fracing	7,500
Engineering & Supervision	7,500
Labor	3,500
Overhead	25,000
Contingencies	25,000
TOTAL INTANGIBLE COSTS	\$ 461,500

TANGIBLE COSTS

Well Equipment	
Casing and Tubing:	
500' 9-5/8" K-55 36#	\$ 5,000
7950' 5-1/2" N-80 23#	65,000
7650' 2-3/8" EUE tubing, internally plastic coated	39,000
Gas Lift Subsurface Equipment	1,000
Wellhead and Equipment - Tubinghead, Valves, etc.	10,000
Well Flow Lines	2,500
Noncontrollable Well Equipment	1,500
Installation Costs	3,000
<u>Lease Equipment</u>	
Tank Battery - Single Tank (Surge Tank with Heater)	8,500
Separators and Heaters (Including Part of Gas Lift Equipment)	45,000
Measuring & Monitoring Equipment	2,500
Other Controllable Equipment	5,000
Noncontrollable Equipment	2,500
Installation Costs	6,000
Contingencies	5,000
TOTAL TANGIBLE COSTS	\$ 202,500
TOTAL DRILLING, COMPLETION AND EQUIPMENT COSTS	\$ 664,000

Approved: _____

[Handwritten Signature]

Date: _____

7/8/87

SEPTEMBER 4, 1987

CANADA OJITOS UNIT #36 (A-20)/ BENSON-MONTIN-GREER/ D-1/ OIL/ RIO ARRIBA, NM/ 35.70%/
8000'/ AFE X-9064/ RES 77.5 MBLs/ TAN \$70,338 INT \$146,507/ PN 441841/ SPUD 11/18/86
NOTE: REPORT CARRIED ONE DAY LATE
09/04/87 GL/ 24 HR/ TP 320/ CP 505/ 52 BO/ 19 BW/ CC: \$615,000 NET: \$219,555
FINAL REPORT

OCTOBER 27, 1987

CANADA OJITOS UNIT #37 (G-5)/ BENSON-MONTIN-GREER/ D-1/ OIL/ RIO ARRIBA, NM/ 39.82%/
8000'/ AFE X-9065/ RES 75.8 MBLs/ TAN \$70,868 INT \$148,628/ PN 441841/ SPUD 11/24/86
10-27-87 24 HR/ GL/ TP 380/ CP 125/ 172 BO/ 0 BW/ STATE POTENTIAL/ FINAL REPORT/
CC: \$551,000 NET: \$219,408

JANUARY 5, 1988

CANADA OJITOS UNIT #38 (F-7)/ BENSON-MONTIN-GREER/ D-1/ OIL/ RIO ARRIBA, NM/ 39.82%/
8000'/ AFE X-9084/ TAN \$47,523 INT \$164,904/ EQUIP \$24,834/ TOT \$237,261/ PN 441841/
SPUD 10/19/87
01/05/88 24 HR/ GL/ TP 480/ CP 650/ 174 BO/ 0 BW/ EST 1247 MCF/ FINAL REPORT/ FINAL COST
\$710,000 NET: \$282,722

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NO. 9225
Order No. R-8639

APPLICATION OF MESA GRANDE, LTD. FOR
AN ORDER FORCE-POOLING AND REFORMING AN
EXISTING NON-STANDARD PRORATION UNIT TO A
STANDARD PRORATION UNIT IN THE GAVILAN-
MANCOS OIL POOL, RIO ARRIBA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on January 21, 1988, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 7th day of April, 1988, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

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

(2) Applicant Mesa Grande, Ltd. is majority interest owner in the E/2 of Section 20, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, and is joined in this application by one minority owner, Arriba Corporation, to establish a standard 640 acre oil spacing and proration unit in the Gavilan Mancos Oil Pool consisting of said Section 20, and to pool all oil and gas mineral interests in said unit.

(3) Protestant, Sun Exploration and Production Company is the majority interest owner and operator of a producing oil well, Loddy No. 1 drilled and completed in the Gavilan-Mancos Oil Pool, at a standard location in the SE/4 NW/4 of said Section 20 to which the W/2 of Section 20 was dedicated as a standard unit under Order R-7407.

(4) Order R-7407-E entered June 8, 1987 enlarged the standard proration unit to 640 acres, consisting of a governmental section but provided exception for proration units formed prior to the date of the order.

(5) Section 70-2-18 NMSA 1978, provides in Paragraph (a) that when a division order increases the size of a standard proration unit, operators shall, from the effective date of the order, account to and pay each owner in the enlarged unit "either the amount to which each interest would be entitled if pooling had occurred or the amount to which each interest is entitled in the absence of pooling, whichever is greater". However, Paragraph (C) of this section authorizes the Division to establish non-standard proration units and for interest owners to share in production from the non-standard unit from the date of its formation.

(6) The language of Rule 2(a) of the Gavilan pool rules, as amended by Order R-7407-E, exempted all existing 320-acre proration units so that operators of those standard proration units under the former rules would not be required to file applications for non-standard proration units, nor pool such units into a standard 640-acre unit under the current rules.

(7) Applicant demonstrated that reserves underlying Section 20 are insufficient to justify the drilling of a second well and that the Loddy Well No. 1 will adequately drain the entire section so that approval of this application would prevent waste from drilling an unnecessary well and would protect the correlative rights of the owners in both the E/2 and W/2 of the section.

(8) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste, and to afford to the owner of each interest in Section 20 the opportunity to recover without unnecessary expense his just and fair share of the hydrocarbons in the Gavilan-Mancos Oil Pool, the subject application should be approved by establishing a standard 640-acre oil spacing and proration unit consisting of Section 20, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, and pooling all oil and gas mineral interests in said unit.

(9) All parties appearing at the hearing agreed Section 20 should be pooled as of June 8, 1987, the effective date of the order enlarging the standard proration unit and the applicant parties present agreed to pay their pro rata share of the cost of drilling, completing and operating the well; however, the language and intent of the order as described in Finding (6) hereinabove requires an effective date be set no

earlier than February 1, 1988, the first day of the month following the hearing.

(10) Protestant claimed, and the Commission concurs, that payment for one-half the cost of the well is inadequate compensation and, considering the commercial quality of the well, represents unjustified oil income for applicants who did not share the risk in drilling the well and a penalty for protestant, or his predecessor, who undertook the risk to drill the well under the existing pool rules which authorized 320 acre spacing units.

(11) The well was completed in 1985 and produced briefly in both 1985 and 1986 due to circumstances beyond the control of the operator so the well had not paid out at the time of hearing.

(12) The well has changed ownership since completion but protestant stipulated the cost of the well was approximately \$440,000 and also alleges a well drilled today would cost approximately \$625,333 and that applicant should pay his percentage of the estimated current cost under a 640-acre proration unit, or in the alternative, pay interest on the actual well cost from completion to the effective date of the enlarged spacing unit being February 1, 1988, comprising a 28 months time period.

(13) No party at the hearing suggested a change of operator or suggested a reasonable charge for supervision (combined fixed rate).

(14) Applicant's witness stated that "a couple of weeks is a reasonable time to elect to advance the actual payment" -- representing well costs plus penalty if one is assessed, and to forward payment to the operator.

(15) The reasonable cost to working interest operators of the E/2 of Section 20, Township 25 North, Range 2 West, for their pro rata share of the drilling, completing and equipping the well should be \$220,000 plus simple interest at 12% per annum, which is standard industry rate for compensation for unpaid balances in the Copas - 1974 Accounting Procedures in A.A.P.L. Form 610 - 1977 Model Operating Agreement, until the effective date establishing the enlarged unit (28 months), or \$281,600; however, in the event any such working interest owner chooses not to pay his pro rata share of such cost within thirty days after receipt of a copy of this order together with invoice for amount due, operator should be authorized to take out of production the pro rata share of such amount attributable to non-paying working interest owners plus a risk

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Case No. 9225
Order No. R-8639

penalty equal to 100 percent of their pro rata share of the \$281,600.

(16) A reasonable charge for supervision (combined fixed rate) of the well and unit is \$450 per month.

(17) Should the parties hereto subsequently enter into an operating agreement the order should become void and of no further effect regarding those items covered in the operating agreement.

(18) Sun Exploration and Production Company should remain as operator of the well.

IT IS THEREFORE ORDERED THAT:

(1) A standard 640 acre oil spacing and proration unit is hereby established consisting of Section 20, Township 25 North, Range 2 West, NMPM, Gavilan-Mancos Oil Pool, Rio Arriba County, New Mexico, and all oil and gas mineral interests in said unit are hereby pooled and dedicated to Sun Exploration and Production Company's (Sun's) Loddy Well No. 1 located 1750 feet from the North and West lines of said Section 20, and Sun is designated as the operator of said well and standard proration unit, all of which is to be effective February 1, 1988.

(2) The operator is to account to and pay each owner in said enlarged unit his pro rata share of production from the enlarged unit from the effective date of this order; provided said owners of working interests in the E/2 of said Section 20 shall within 30 days after receipt of a copy of this order together with an invoice for the amount due, pay their pro rata share of the cost of said well plus 12% per annum interest for 28 months, or \$281,600, as described in Finding (15) hereinabove; or in the event of failure to make such payment shall have taken out of production by the operator said amount plus 100 percent of their pro rata share of the \$281,600, as described in said Finding (15) until operator has been paid the monies required by this order.

(3) A reasonable supervision charge (combined fixed rate) is hereby determined to be \$450 per month for said well and the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-paying working interest as well as the proportionate share of actual expenditures for operating said well.

(4) Any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8)

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Case No. 9225
Order No. R-8639

royalty interest for the purpose of allocating costs and charges under the terms of this order.

(5) 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.

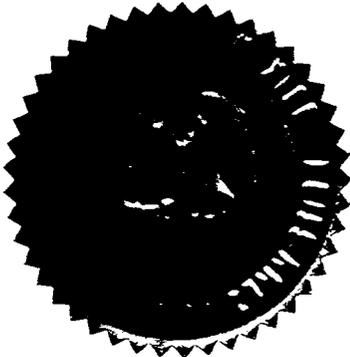
(6) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Rio Arriba County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address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

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

(8) 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.

(9) 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

WILLIAM R. HUMPHRIES, Member

ERLING A. BROSTUEN, Member

WILLIAM J. LEMAY, Chairman
and Secretary

S E A L

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