

associated gas and water from the Canyon One and Canyon Two formations;

(b) The western boundary of oil production in Sections 3, 10 and 15 can be described as follows:

(i) Oil can be produced from the Canyon One reservoir below -3850 feet subsea which would be a surface location approximately along the current western boundary of the South Dagger Draw Pool (the eastern section lines of Sections 3, 10 and 15).

(ii) Oil can be produced from the Canyon Two reservoir below -3850 feet which would be a surface location approximately one-half mile west of the current western boundary of the South Dagger Draw Pool (the vertical half section line of Sections 3, 10 and 15);

(c) Geochemical analysis of four (4) gas samples and eight (8) liquid samples demonstrate that Indian Basin is compartmentalized such that the types of hydrocarbon production from the Indian Basin Gas Pool are distinctly different from the types of hydrocarbons produced from the Canyon One and Canyon Two reservoirs in the South Dagger Draw Pool;

(d) pressure data demonstrates that the South Dagger Draw Pool is not in pressure communication with the Indian Basin Gas Pool; and,

(e) pressure data in Sections 3, 10 and 15 demonstrate that the E/2 of each of these sections has a pressure related to the South Dagger Draw Pool while the W/2 of these sections is more closely associated with Indian Basin Gas Pool.

(10) Therefore all of Sections 2, 11, and 14 and the E/2's of Sections 3, 10 and 15 all in Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico should