

CASE NO.

7490

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APPLICATION,  
TRANSCRIPTS,  
SMALL EXHIBITS,  
ETC.



BRUCE KING  
GOVERNOR

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

July 14, 1982

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-2434

Harvey E. Yates Company  
Box 1933  
Roswell, New Mexico 88201

Attention: Mr. Thomas J. Hall, III

Gentlemen:

Since you are experiencing downhole problems in completing your Curlew "19" Well No. 1-G in Section 19, Township 8 South, Range 30 East, Chaves County, New Mexico, I will extend the time for completing a well under Order No. R-6918 to September 1, 1982.

Yours very truly,

JOE D. RAMEY  
Director

JDR/fd

*Case 7490*

**HEYCO**

PETROLEUM PRODUCERS



**HARVEY E. YATES COMPANY**

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505-623 6601

ROSWELL, NEW MEXICO 88201

CERTIFIED - RETURN RECEIPT REQUESTED

July 9, 1982

Mr. Joe D. Ramey, Director  
Oil Conservation Division  
State of New Mexico  
Post Office Box 2088  
Santa Fe, New Mexico 87501

*Case 7490*

Re: Order No. R-6918  
Compulsory Pooling  
Curlew Working Interest Unit  
Chaves County, New Mexico  
(HEYCO Ref: 9140)

Dear Mr. Ramey:

By letter dated June 29, 1982, you granted us an extension until August 1, 1982, to complete the well covered by Order No. R-6918.

We are currently having problems with the well - a packer stuck in the casing which has resisted several days of fishing. These problems have made our production people feel that they may not be able to complete the well by August 1. We would, therefore, ask if the deadline could be extended to September 1, 1982.

Sincerely,

Thomas J. Hall, III  
Attorney

TJH:seb

Enclosures: Drilling Reports

HARVEY E. YATES COMPANY  
DAILY DRILLING AND WORKOVER REPORT

PAGE 1  
6/29/82

99980  
HEYCO  
PO BOX 1933  
ROSWELL NEW MEXICO

JUL 12 1982  
OIL CONSERVATION  
SANTA FE

PROSPECT CURLEW "19" #1  
LOCATION 1990' FN & EL, SEC 19, T-8S,  
R-30E, CHAVES CO., NM  
PROJECTED TO 8760  
CONTRACTOR COMPLETION - CHASE

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06/23/82 SITP 500 PSI. BLEW DOWN TO PIT IN 5 MIN. RU PETRO-THERMO KILL TRUCK. RD TREE & RU BOP. UNSEAT PKR & POH. RU GEO VANN & SET CIBP @ 8580', 35' CEMENT. SDFN.

06/24/82 SICP 0 PSI. RU GEO VANN TO PERF 8410' - 8425', 8450' - 8460' & 8496' - 8504' W/2SPF (66 HOLES, 33'). RD GEO VANN. RU HOWCO RBP & RTTS & GIH W/TOOLS & 2-3/8" TBG. SDFN.

06/25/82 FIN GIH W/HOWCO RBP @ 8517'. TST TOOLS, OK. REL PKR & SPOT 1 BBL OF ACID @ 8508'. PUL PKR TO 8480' & SET. BRK DWN PERFS @ 8496'-8504'. FORMATION BRK @ 2500#. OPEN BYPASS & CIRC 1000 GAL OF 7-1/2% MOD 101 & 32 BALL SEALERS TO PKR. CLOSE BYPASS & PUT ACID AWAY. MAX RATE 2.5 BPM @ 4000 PSI, AVG RATE 2.2 BPM @ 3800 PSI, FINAL RATE 2.5 BPM @ 4000 PSI. ISIP 3200#, 5" SIP 2800# (W/SMALL AMT OF BALL ACTION). TLTR 60 BBLs. RD HOWCO & START REC LD. RU TO SWB. IFL SURF, FFL 7700' & SCATTERED. REC 52 BBLs OF WTR & ACID. 8 BLTR. GAS AFTER SWB RUNS @ END OF DAY. SDFN.

06/26/82 SITP 200 PSI, GOOD GAS. RU TO SWB, IFL 3500', FFL 6000'. REC 7 BBLs & SWBD DWN. RU HOWCO TO KILL WELL & RETRIEVE BP. PULL TOOLS UP TO 8480' & TST PLUG. REL PKR & SPOT 1 BBL OF 7-1/2% MOD 101 ACROSS PERFS @ 8450'-8460'. PULL PKR TO 8432 & BRK DWN PERFS. BK @ 1600#. OPEN BYPASS & SPOT 1000 GAL OF 7-1/2% MOD 101 & 40 BALLSEALERS TO PKR. CLOSE BYPASS & PUT ACID AWAY. WELL COMMUNICATED TO UPPER PERFS. PULL PKR UP TO 8347' & TREAT BOTH ZONES (8410'-8425' & 8450'-8460') W/2500 GAL 7-1/2% MOD 101 & 100 BALLSEALERS & 2% KCL FLUSH. MAX RATE 3.5 BPM @ 3900#, AVG RATE 2.8 BPM @ 3400#, FINAL RATE 3.5 BPM @ 3900#. ISIP 2600#, 5" 2500#. NO BALL ACTION RD HOWCO & START REC LOAD, TLTR 110 BBLs. RU SWB, IFL @ SURF, FFL 7800'. REC 62 BBLs. WTR ANALYSIS FROM 6/26/82:

RESISTIVITY	.266 @ 74 DEG	MG	570
SP GR	1.010	CL	11,000
PH	5.2	HCO3	268
FE	HEAVY		

06/27/82 SITP 300 PSI, GOOD GAS. RU TO SWB, IFL 3100', FFL 7700'. REC 25 BBLs. 23 BLTR. SDFN.

06/28/82 SD FOR SUNDAY.

06/29/82 SITP 750 PSI. BLED PRESS OFF, 5" GOOD GAS. PREP TO SWB. THREE SETS OFF ATOKA PERFS 8410'-8504' THRU 4-1/2" CSG. HOLE LOADED W/3% KCL. SITP 0 PSI. HEATED 1000 BBLs 3% KCL WTR TO 100 DEG F. RU HALLIBURTON & CO2. SWB TO SN IN 5 RUNS, FL 7400'. REC 22 BLW, SLIGHT INCR IN GAS. EST 8 MCFD RATE. REL PKR. POH, LD PKR. TIH & WASH 60 BALL SEALERS OFF TOP RBP & POH. SDFN.

HARVEY F. YATES COMPANY  
DAILY DRILLING AND WORKOVER REPORT

PAGE 1

JUL 12 1982

OR. CO.

1  
HEYCO  
PO BOX 1233  
ROSWELL NEW MEXICO

PROSPECT  
LOCATION

CURLEW "19" #1  
1980' FN & EL, SEC 19, T-8S,  
R-30E, CHAVES CO., NM  
8760  
COMPLETION - CHASE

PROJECTED TO  
CONTRACTOR

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06/30/82 RU HOXCO & AMERIGAS & FRAC ALOKA 3410'-3505' W/40,000 GAL 3% KCL VERSAGEL 1500, 9000 GAL CO2 & 69,500# 20/40 SD. MAX RATE 22 BPM @ 3500 PSI 32.5#/GAL; AVG RATE 16 BPM @ 3500 PSI ISIP 2900 PSI, 4 HRS 2250 PSI, 1373 HHQ. 1200 BLTR. RU SCHLUMBERGER & RAN BAKER RET D W/1.78 FSG PLUG IN F NIPPLE. ATTEMPTED TO SET PKR @ 8360'. STARTED OUT OF HOLE W/PKR. STUCK @ 8240'; PULL OUT OF ROPE SOCKET. GIH W/OS ON 2-3/8" TBG, HIT SAND @ 7980' & REV OUT TO 8037'.

07/01/82 PREP TO FISH W/2 PRONG INSIDE GRAB SPEAR ON 2-3/8" TBG FOR SCHLUMBERGER'S 0.22" ELECTRIC LINE IN FRAC SAND. TAGGED UP @ 8146' (94' ABOVE WIRELINE MEASUREMENT). POH W/TBG & FISHING EQUIP. REC PART OF 0.22" WIRELINE. MAY HAVE MORE WIRELINE IN HOLE THAN FIRST THOUGHT. GIH W/FISHING EQUIP & 2-7/8" TBG. SDFN.

07/02/82 GIH W/STAR TOOL CUTRITE SHOE, WSH PIPE W/BUMPER SUB, JARS, 2 DC'S, & 2-3/8" TBG. REV CIRC TO CLEAN OUT FRAC SD & WIRELINE TO PKR. RAN STAR TOOL'S 2 PRONG INSIDE SPEAR. COULD ONLY FEEL ONE BITE. PULLED OFF @ A FEW HUNDRED POUNDS. REV CIRC TO CLEAN UP SD. MADE A FEW INCHES. TRY TO FISH WIRELINE, POH. NO WIRELINE REC. LD SPEAR. RU STAR TOOL'S REV UNIT. SDFN.

07/03/82 POH W/BAKER RETRIEVING TOOL AFTER ATTEMPTING TO STING INTO MODEL D PKR. GIH W/STAR TOOL CUT-RITE SHOE & TOOLS. RU & MILL FOR ONE HOUR, NO PROGRESS. DID HAVE FINE CUTTINGS OF IRON. POH. REC SCHLUMBERGER OS SKIRT, UP-RITE IN SHOE W/ CONTROL RING OUT OF OS & 2' OF WIRELINE. GIH W/SAME SHOE & TOOLS. RU & CIRC FOR 1-1/2 HRS ON IRON. PRESS UP @ 8147', MADE 14", REC VERY LITTLE SD. POH, REC APPROX 20' OF WIRELINE BRACKETS (AGGREGATE 23'). HAD IMPRESSION OF SCHLUMBERGER RUNNING TOOL. FISHING NECK & WIRELINE NEST. GIH W/TBG, TOOLS, & OS. PULL 80,000#, GOT MOVEMENT TO 60,000#. POH. REC 40' OF WIRELINE (AGGREGATE 63') ON SETTING TOOL IN TACT. GIH W/BAKER PKR RETRIEVING TOOL. ATTEMPT TO ENGAGE RETRIEVING TOOL. POH.

07/04/82 FIN POH, DID NOT RETRIEVE PKR. GIH W/RETRIEVING TOOL. CIRC TO 6360', VERY LITTLE SD W/OCCASIONAL PIECES OF WIRELINE. PRESS UP & POH, DID NOT HAVE PKR. PICK UP & GIH W/STAR TOOL SPEAR & TOOLS, COULD NOT GET HOLD OF PKR. START OUT OF HOLE

7/05/82 SD FOR SUNDAY.

7/06/82 SD FOR HOLIDAY.



BRUCE KING  
GOVERNOR

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

June 29, 1982

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-2434

*Case 7490*

Harvey E. Yates Company  
P. O. Box 1933  
Roswell, New Mexico 88201

Attention: Mr. Thomas J. Hall III

Gentlemen:

As requested in your letter of June 24, 1982, the time for completing the well authorized by Order No. R-6918 is extended to August 1, 1982.

The above Order stated that you had 120 days to complete the well after drilling commenced. The well was spudded on February 28, 1982, and it appears that work has continued on the well since that time.

Yours very truly,

JOE D. RAMEY  
Director

JDR/fd

**HEYCO**

PETROLEUM PRODUCERS



**HARVEY E. YATES COMPANY**

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

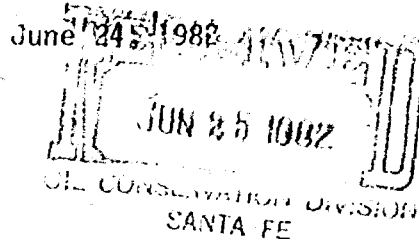
505 621 6501

ROSWELL, NEW MEXICO 88201

*Spud 2/28/82*

CERTIFIED - RETURN RECEIPT REQUESTED

Mr. Joe D. Ramey, Director  
Oil Conservation Division  
State of New Mexico  
Post Office Box 2088  
Santa Fe, New Mexico 87501



*Case 7490  
Stamets*

Re: Order No. R-6918  
Compulsory Pooling  
Curlew Working Interest Unit  
Chaves County, New Mexico  
(HEYCO Ref: 9140)

Dear Mr. Ramey:

Order No. R-6918 pooled all mineral interests down through and including the Atoka-Morrow formation underlying the N/2 of Section 19, Township 8 South, Range 30 East, N.M.P.M., Chaves County, New Mexico.

The order required HEYCO to complete the well within 120 days or to show cause why the order should not be rescinded. HEYCO has not yet completed the well and probably will not complete it prior to June 27th. However, as the enclosed copies of the daily drilling reports show, HEYCO is nearing completion of a successful well and has been diligent in its efforts to complete the well. We would, therefore, request that the order not be rescinded.

Sincerely,

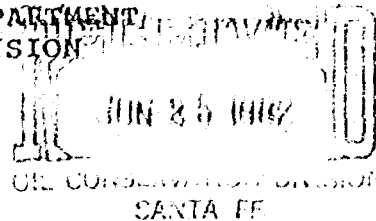
*Thomas J. Hall III*  
Thomas J. Hall III  
Attorney

TJH:j

Enclosures: Order No. R-6918  
Drilling Reports

*Curtis*

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION



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

CASE NO. 7490  
Order No. R-6918

APPLICATION OF HARVEY E. YATES COMPANY  
FOR COMPULSORY POOLING, CHAVES COUNTY,  
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on February 17, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 5th day of March, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Harvey E. Yates Company, seeks an order pooling all mineral interests down through and including the Atoka-Morrow formation underlying the N/2 of Section 19, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.



(6) That the applicant should be designated the operator of the subject well and unit.

(7) That 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.

(8) That 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.

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

(10) That 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.

(11) That \$4000.00 per month while drilling and \$400.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that 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.

(12) That 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.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, down through and including the Atoka-Morrow formation underlying the N/2 of Section 19, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of July, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Atoka-Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of July, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Harvey E. Yates Company is hereby designated the operator of the subject well and unit.

(3) That 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 unit an itemized schedule of estimated well costs.

(4) That 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 that 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) That 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; that 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, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated 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) That 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$4000.00 per month while drilling and \$400.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that 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) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a

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Case No. 7490

Order No. R-6918

one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That 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) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Chaves County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that 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) That 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

  
JOE D. RAMEY,  
Director

S E A L

HARVEY E. YATES COMPANY  
DAILY DRILLING AND WORKOVER REPORT

PAGE 1  
6/22/82

99980  
HEYCO  
PO BOX 1933  
ROSWELL NEW MEXICO

PROSPECT  
LOCATION

CURLEW "19" #1  
1980' RN & EL, SEC 19, T-45N  
R-30E, CHAVES CO., NM  
8760

PROJECTED TO  
CONTRACTOR

COMPLETION - CHASE

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06/16/82 SITP 750 PSI, SICP 0 PSI. BLOW DOWN WELL TO PIT, GOOD GAS. RU TO SWB, COULDN'T GET SWB. PASSED THE TREE, CHG OUT TREES RU TO SWB. IFL 1500' & SCATTERED, FFL 5000' & SCATTERED. REC 18 BBLs SWABBING & 10 BBLs FLOWING. 34 BLTP. SDFN. WTR ANALYSIS:

	6/14/82	6/15/82
RESISTIVITY	.073 @ 75 DEG	.080 @ 70 DEG
SP GR	1.125	1.095
PH	3	3.6
CA	40,800	32,000
MG	NIL	NIL
CL	82,500	79,000
SO4	LIGHT	900
HCO3	NIL	NIL
FE	HEAVY	50

NOTE: 20% OF SAMPLE IS OIL

06/17/82 SITP 700 PSI, SICP 0 PSI. BLEW WELL TO PIT, GOOD GAS. RU TO SWB. IFL 1900' & SCATTERED. FFL 7500' & SCATTERED. REC 18 BW W/TR OF COND. GOOD GAS AFTER EACH SWB RUN, BUT COULD NOT ESTAB RATE. SDFN.

06/18/82 SITP 400 PSI. RU HOWCO TO ACID FRAC W/10,000 GAL 20% NE-FE & 15000 GAL W66 GELLED 2% KCL WATER FOR MISSISSIPPIAN. PERFS @ 8595' - 8655' IN 3 STAGES W/36 BALL SEALERS. MAX PRESS - 5200; AVG PRESS - 4800; FINAL PRESS - 4900; MAX RATE 4 BPM; AVG RATE - 4 BPM; FINAL RATE 4 BPM. ISIP - 3700#, 5" 3600#, 10" 3600#, 15" 3550#. TLTR 560 BBLs, RD HOWCO & START REC LOAD, WELL FLOWED FOR 6 HRS & DIED. RU TO SWAB. IFL @ SURFACE, FFL @ 2200'. REC 30 BBLs SWABBING & 90 BBLs FLOWING, 440 BBLs LEFT TO REC. SDFN. WATER ANALYSIS FROM 6/16/82.

RW	.06 @ 75 DEG F	CL	65,500
SP GR	1.80	SO4	600
PH	4.1	HCO3	NIL
CA	18,100	FE	200
MG	NIL		

06/19/82 SITP 400 PSI, ACID GAS. BLEW DOWN TO PIT. RU SWB. IFL 800', FFL 3300' & SCATTERED. REC 90 BLW, APPROX 350 BLTR. SDFN.

06/20/82 SITP 750 PSI, NATURAL GAS & ACID GAS. RU TO SWB. IFL 800', FFL 6000' & SCATTERED. REC 48 BLW W/GAS AFTER SWB. COULD NOT ESTAB FLOW RATE. SDFN.

06/21/82 SD FOR SUNDAY.

06/22/82 SITP 1000 PSI, GOOD GAS. BLEW DOWN TO PIT IN 10 MINS. RU TO SWB. IFL 2600', FFL 6000'. REC 26 BLW. SDFN.

HARVEY E. YATES COMPANY  
DAILY DRILLING AND WORKOVER REPORT

PAGE 1  
6/15/82

HEYCO  
PO BOX 1933  
ROSWELL NEW MEXICO

PROSPECT  
LOCATION

CURLEW "19" #1  
1780' FN & EL, SEC 19, T-8S,  
R-30E, CHAVES CO., NM

PROJECTED TO  
CONTRACTOR

8760  
COMPLETION - CHASE

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06/09/82 CONT IN HOLE W/3-7/8" BIT, 4-1/2" CSG SCRAPER, 6 DC'S, & 2-3/8" N-80 TBG. TBG STARTED DRAGGING LAST 1000'. GIH. RU COMPLETION RENTAL TO START DRLG OUT. TBG WOULD TORQUE UP. POH TO LOOK @ DRLG EQUIP. SDFN.

06/10/82 GIH W/3-3/4" BIT, CSG SCRAPER, 6 DC'S & 2-3/8" TBG. TBG STRTD DRAGGING @ 4800'. RU REV UNIT. TBG WOULD NOT TURN. (TORQUED UP). POH, RD BOP & SCG SPOOL. RU 4-1/2" CSG SPEAR & PULL CSG UP 58" & HAD 50,000#. REPAIR SLIPS & SET 50,000# ON SLIPS. RD CSG SPEAR & RU TBG SPOOL & BOP. SDFN.

06/11/82 GIH W/3-3/4" BIT, 4-1/2" CSG SCRAPER, 6 DC'S & 2-3/8" TBG. HIT FC @ 8702'. RU COMPLETION RENTAL & STRT DRLG OUT TO SHOE. HIT SHOE @ 8746'. CLEAN UP HOLE & LD CSG SCRAPER. GIH W/BIT, 6 DC'S & 2-3/8" TBG. SDFN.

06/12/82 RU & CIRC FW OUT OF HOLE W/2X KCL. POH & RD COMP RENTAL. RU MCCULLOUGH WIRELINE TO RUN GR/CBL & COLLAR LOG. PBD 8744', FC @ 8702', TOC @ 6050', SHORT JT @ 7852-7873'. PULL LOGS OUT OF HOLE & SDFN.

06/13/82 RU MCCULLOUGH TO PERF MISS @ 8595' TO 8601', 8626' TO 8634', 8649' TO 8655' W/2 SPF. (TOTAL 40 .41" HOLES) RD MCCULLOUGH WIRELINE. GIH W/BAKER MODEL R DC PKR, SN & 2-3/8" N-80 TBG. SDFN.

06/14/82 SO FOR SUNDAY.

06/15/82 SITP 0 PSI, SICP 0 PSI. FIN GIH W/TBG. RU HOWCO & SPOT 2 BBLs ACID @ 8660'. PULL TBG TO 8480' & SET PKR. RD BOP & RU TREE. BRK ON PERF'S FR 8595' TO 8655'. FORM BRK @ 2000 PSI. AIR 1 BPM @ 2700 PSI. PUT ACID AWAY. OPEN BY-PASS & SPOT 4000 GALS 20% MUD-202 & 80 BALL SEALERS & FLUSH W/2X KCL. CLOSE BY-PASS & PUT ACID AWAY. MAX RATE 2 BPM @ 4800#; AVG RATE 2 BPM @ 3600#; FINAL RATE 2 BPM @ 3800#. (SIP 3200#, 5" 2900#. TLTR 132 BBLs. RD HOWCO. STRT REC LOAD. OPEN WELL W/2000# ON TBG. STRT FLOWING TO PIT. FLOWED FOR 30" & STRTD CUTTING NATURAL GAS. FLOWED FOR 4 HRS ON 3/4" CK W/FTP OF 40# TO 100#. STILL MAKING FLUID. REC 70 BL, 62 BLTR. SDFN.

HARVEY F. YATES COMPANY  
DAILY DRILLING AND WORKOVER REPORT

PAGE  
5/04/82

99980  
HEYCO  
PO BOX 1933  
ROSWELL NEW MEXICO

PROSPECT  
LOCATION

CURLEY "19" #1  
1980' FM O EL, SEC 19, T-8S,  
R-30E, CHAVES CO., NM  
9300  
DELG - SIERRA 910 #2

PROJECTED TO  
CONTRACTOR

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04/28/82 DAY 43, OPERATION - TRIP FOR DST 44, DEPTH - 8512', PROGRESS - 36', FORMATION - SH & SD. MW 9.5#, VIS 65, PH 7.5, WL 8, FC 2/32, CL 74,000, SOLIDS 4.5%. DRLG 13 HRS, TRIPS 4 HRS, SR 1/4 HR, CIRC 6-3/4 HRS. DC - 114,244; CC - 1513,962

04/29/82 DAY 44, OPERATION - PCH W/DST 44, DEPTH - 8512', NO PROGRESS FORMATION - SD & SH. MW 9.5#, VIS 65, PH 7.5, WL 8, FC 1/32, CL 74,000, SOLIDS 4.5%. TRIPS 6-1/2 HRS, SR 1/4 HR, WC 6 RAN CALIPER LOG 4-3/4 HRS, PU TST TCCL 2-1/4 HRS, WC EQUIP 2 HRS, TSTG 4-3/4 HRS. DC - 114,137; CC - 1520,599.

04/30/82 DAY 45, OPERATION - DRLG, DEPTH - 8578', PROGRESS - 65', FORMATION - SH. MW 9.7#, VIS 65, PH 7.5, WL 8, CL 85,000, SOLIDS 3%. DRLG 12-1/2 HRS, TRIPS 7-1/2 HRS, LEAD TST TCCL 3 HRS, WSP TO BTM 1 HR. DST 44: INTER FR 8483' TO 8512' (29'). TCCL OPENED W/WEAK TO FAIR BLOW. REOPENED W/FAIR TO GOOD BLOW.

IFP - 4372#

60" FFP - 75#-125#

15" IFP - 125#-100#

180" FSIP - 1547#

30" ISIP - 351#

FFP - 4220#

REC 120' CF, NO SHOW CIL CR GAS. SAMPLER: 520 PSI, 1000 CC DF, NO CIL CR GAS. BHT 148 DEG F. DC - 17237; CC - 1537,836

05/01/82 DAY 46, OPERATION - DRLG, DEPTH - 8730', PROGRESS - 152', FORMATION - LI & CH. MW 9.7#, VIS 57, PH 10, WL 7, CL 84,000, SOLIDS 4%. DRLG 23-1/2 HRS, SR 1/4 HR, CIRC 1/4 HR. DC - 17817; CC - 1445,653.

05/02/82 DAY 47, OPERATION - LOGGING, DEPTH - 8750', PROGRESS - 20', FORMATION - LI & SH. MW 9.7#, VIS 57, PH 8, WL 8, FC 1/32, CL 84,000, SOLIDS 4%. DRLG 6 HRS, TRIPS 5-1/2 HRS, CIRC 2 HRS, 10-1/2 HRS PU TO LOG & LOGGING. DC - 122,760; CC - 1578,412.

05/03/82 DAY 48, OPERATION - BRK DN TST TCCL, DEPTH - 8750', NO PROGRESS, FORMATION - LI & CH. DEV - 3/4 DEG @ 8750'. MW 9.7#, VIS 57, PH 8, WL 8, FC 1/32, CL 84,000, SOLIDS 4%. TRIPS 3 HRS, LOGGING 9-1/2 HRS, WAITING ON ORDERS 6-1/2 HRS, DST #5 5 HRS. DST #5: INTER FR 8578' TO 8582'. DC - 110,437; CC - 1588,850.

05/04/82 DAY 49, OPERATION - TIH, DEPTH - 8760', NO PROGRESS, FORMATION LI & CHERT. DEV - 3/4 DEG @ 8750'. MW 9.6#, VIS 56, PH 8.5, WL 7, FC 2/32, CL 86,000, SOLIDS 4%. TRIPS 4-1/2 HRS, LEAD CUT TST TCCL 1-1/2 HRS, REPAIRS 18 HRS. DST #5: INTER 8582' TO 8760' (172'). TCCL OPENED W/WEAK BLOW, REOPENED W/WEAK BLOW. REC 120' VERY SLIGHTLY GCM. SAMPLER: 975 PSI, 800 CC VERY SLIGHTLY GCM, BHT 130 DEG F. NO CHARTS REC. DC - 17965; CC - 1596,815.

HARVEY E. YATES COMPANY  
DAILY DRILLING AND WORKOVER REPORT

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96824  
YATES ENERGY CORP  
SUITE 919 SECURITY NATIONAL Bldg  
ROSWELL, NM 86203

PROSPECT CORLEA "19" #1  
LOCATION 1930' FN & FL, SEC 19, T-8S,  
R-30E, CHAVES CO., NM  
PROJECTED TO 3100  
CONTRACTOR DRLG - SIERMA PIC #2

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04/21/82 DAY 36, OPERATION - CIRC SAMPLE, DEPTH - 8418', PROGRESS - 91', FORMATION - LI & SP. DEV - 1/2 DEG & 7810'. MW 10.1#, VIS 30, PH 10, WL 10, FC 3/32, CL 102,000, SOLIDS 6%. DRLG 22-3/4 HRS, SR 1/4 HR, CIRC 1 HR. DC - 110,123; CC - 1426,073.

04/22/82 DAY 37, OPERATION - DST #2, DEPTH - 8423', PROGRESS - 5', FORMATION - SC & SH. DEV - 3/4 DEG & 8423'. MW 10#, VIS 40 PH 10, WL 10, FC 1/32, CL 102,000, SOLIDS 6%. DRLG 1 HR, TRIPS 13-1/2 HRS, CIRC 3-1/2 HRS, WORK OCP 1 HR, DST #2 5 HRS. INTER FR 8350' TO 8423'. DC - 113,437; CC - 1439,510.

04/23/82 DAY 38, OPERATION - CIRC FOR SAMPLES, DEPTH - 8452', PROGRESS - 29', FORMATION - LI, SH & SO. DEV - 3/4 DEG & 8423'. MW 9.9#, VIS 40, PH 7, WL 9, FC 1/32, CL 140,000, SOLIDS 3%. DRLG 3-1/2 HRS, TRIPS 7-3/4 HRS, CIRC 7-1/4 HRS, REV CUT DST #2 2 HRS, RD LYNES & BK DWN CHARTS 3-1/2 HRS. DST #2: INTER FR 8350' TO 8423' (73').

IHP - 4525#	60" FFP - 1264-126#
19" IFP - 75#-75#	90" FSIP - 276#
30" ISIP - 176#	FHP - 4525#

REC 500' VERY SLIGHTLY U & GC DF. SAMPLER: 50 PSI, 200 CC DF (SLIGHTLY GC). BHT 130 DEG F. DC - 113,294; CC - 1452,804

04/24/82 DAY 39, OPERATION - DST #3, DEPTH - 8452', PROGRESS - 0', FORMATION - LI & SO. DEV - 3/4 DEG & 8452'. MW 10.1#, VIS 42, PH 10, WL 9, FC 1/32, CL 85,000, SOLIDS 4.5%. TRIPS 9-1/2 HRS, CIRC 11-1/2 HRS, DST #3 3 HRS. DC - 110,703; CC - 1463,507.

04/25/82 DAY 40, OPERATION - CIRC, DEPTH - 8467', PROGRESS - 15', FORMATION - SH & SO. MW 10.1#, VIS 42, PH 10, WL 9, FC 1/32, CL 85,000, SOLIDS 5.5%. DRLG 2 HRS, TRIPS 15 HRS, CIRC 1-1/2 HRS, DST #4 5-1/2 HRS. DST #3: INTER 8438' TO 8452' (14').

IHP - 4243#	60" FFP - 313#-313#
30" IFP - 339#-365#	60" FSIP - 3041#
60" ISIP - 2632#	FHP - 3041#

REC 500' GCM. SAMPLER: 4 PSI, 5 CC OM. RESULTS OF DST #4 TO FOLLOW. DC - 114,037; CC - 1477,544.

04/26/82 DAY 41, OPERATION - CIRC, DEPTH - 8467', PROGRESS - 0', FORMATION - SH & SO. MW 9.3#, VIS 61, PH 7, WL 4, FC 1/32, CL 72,000, SOLIDS 3%. DRLG 1/2 HR, TRIPS 1-1/4 HRS, SR 1/4 HR, CIRC 19-3/4 HRS, WASH TO STM 3-1/4 HRS. COND HOLE FOR DST #4. DC - 111,610; CC - 1489,154.

04/27/82 DAY 42, OPERATION - DRLG, DEPTH - 8476', PROGRESS - 9', FORMATION - SH, DEV - 3/4 DEG & 8452'. MW 9.5#, VIS 65, PH 7, WL 13, FC 1/32 CL 90,000, SOLIDS 3%. DRLG 2-1/4 HRS,



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96824  
YATES ENERGY CORP  
SUITE 919 SECURITY NATIONAL BLDG  
ROSWELL NEW MEXICO

PROSPECT CURLEA "19" #1  
LOCATION 1980' FM G FL, SEC 19, T-8S,  
R-30E, CHAVES CO., NM  
PROJECTED TO 9300  
CONTRACTOR 9816 - SIERRA RIG #2

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TRIPS: 2-174 HRS, CIRC 17 HRS, WASH TO BIT 1 HR. CC -  
110,564; CC - 1499,718.

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DAILY DRILLING AND WORKOVER REPORT

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99980  
HEYCO  
PO BOX 1913  
ROSWELL NEW MEXICO

PROSPECT CURLEW "19" #1  
LOCATION 1980' FN & EL, SEC 19, T-8S,  
R-30E, CHAVES CO., NM  
PROJECTED TO 9300  
CONTRACTOR DRLG - SIERRA RIG #2

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04/14/82 DAY 29, OPERATION - DRLG, DEPTH - 7560', PROGRESS - 145',  
FORMATION - LI. DEV - 3/4 DEG @ 7215'. MW 10.4#, VIS 43,  
PH 9.5, WL 76, FC 4/32, CL 128,000, SOLIDS 6.5%. DRLG  
23-1/4 HRS, SR 1/4 HR. DC - \$3512; CC - \$388,295.  
04/15/82 DAY 30, OPERATION - DRLG, DEPTH - 7785', PROGRESS - 225',  
FORMATION - LI & SH. DEV - 1 DEG @ 7785'. MW 10.4#, VIS 44  
PH 9.5, CL 127,000, SOLIDS 7.5%. DRLG 23 HRS, CIRC 1 HR.  
DC - \$9769; CC - \$398,064.  
04/16/82 DAY 31, OPERATION - DRLG, DEPTH - 7864', PROGRESS - 79',  
FORMATION - LI & SH. DEV - 1/2 DEG @ 7818'. MW 10.1#, VIS  
41, PH 9.5, CL 128,000, SOLIDS 8%. DRLG 14-1/2 HRS, TRIPS  
8 HRS, TOTCOS 1/4 HR, SR 1/4 HR, CIRC 1 HR. DC - \$2786; CC  
\$400,850.  
04/17/82 DAY 32, OPERATION - DRLG, DEPTH - 7933', PROGRESS - 69',  
FORMATION - LI & SH. MW 10.1#, VIS 41, PH 9.5, WL 40,  
SOLIDS 7%. DRLG 8-1/2 HRS, TRIPS 14-1/4 HRS, SR 1-1/4 HR.  
DC - \$2596; CC - \$403,446.  
04/18/82 DAY 33, OPERATION - DRLG, DEPTH - 8042', PROGRESS - 109',  
FORMATION - LI & SH. DEV - 1/2 DEG @ 7818'. MW 10.1#, VIS  
41, PH 9.5, WL 19, CL 120,000, SOLIDS 6.5%. DRLG 23-3/4 HRS  
SR 1/4 HR. DC - \$4237; CC - \$407,683.  
04/19/82 DAY 34, OPERATION - DRLG, DEPTH - 8175', PROGRESS - 133',  
FORMATION - LI & SH. MW 10.2#, VIS 40, PH 10, WL 17, FC  
3/32, SOLIDS 5.5%. DRLG 23-3/4 HRS, SR 1/4 HR. DC - \$3264;  
CC - \$410,947.  
04/20/82 DAY 35, OPERATION - DRLG, DEPTH - 8289', PROGRESS - 114',  
FORMATION - LI & SH. DEV - 1/2 DEG @ 7818'. MW 10#, VIS  
40, PH 10, WL 22, FC 5/32, CL 124,000, SOLIDS 5.5%. DRLG  
23-3/4 HRS, SR 1/4 HR. DC - \$5003; CC - \$415,950.

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99980  
HEYCO  
PO BOX 1933  
ROSWELL NEW MEXICO

PROSPECT CURLEW "19" #1  
LOCATION 1280' FN & FL, SEC 19, T-8S,  
2-30E, CHAVES CO., NM  
PROJECTED TO 9300  
CONTRACTOR DRLG - SIERRA RIG #2

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04/08/82 DAY 23, OPERATION - TRIP, DEPTH - 6669', PROGRESS - 143',  
FORMATION - SH, ABD, & CHEPT. DEV - 1 DEG @ 6660'. MW 10.1#,  
VIS 37, PH 9.5, CL 130,000. DRLG 20-3/4 HRS, TRIPS 2-3/4 HR  
TOTCOS 1/4 HR, SR 1/4 HR.

04/09/82 DAY 24, OPERATION - DRLG, DEPTH - 6800', PROGRESS - 131',  
FORMATION - SH & DOLO. DEV - 1 DEG @ 6650'. MW 10.3#, VIS  
39, PH 10, CL 127,000. DRLG 16-1/2 HRS, TRIPS 3-3/4 HRS,  
SR 1/4 HR, WASH & REAM TO BTM 3-1/2 HRS. DC - \$4022; CC -  
\$361,069.

04/10/82 DAY 25, OPERATION - DRLG, DEPTH - 6968', PROGRESS - 168',  
FORMATION - DOLO & CHEPT. DEV - 1 DEG @ 6660'. MW 10.3#,  
VIS 58, PH 9.5, WL 15, FC 3/32, CL 126,000. DRLG 22-1/2  
HRS, TOTCOS 1/4 HR, CIRC 1-1/4 HRS. DC - APPROX \$10,000; CC  
- \$371,069.

04/11/82 DAY 26, OPERATION - DRLG, DEPTH - 7098', PROGRESS - 130',  
FORMATION - DOLO, SH & LI. MW 10.3#, VIS 47, PH 9.5, WL 15,  
FC 2/32, CL 126,000, SOLIDS 6%. DRLG 23-1/4 HRS, TOTCOS 1/2  
HR, SR 1/4 HR, CIRC 1-1/4 HRS. DC - APPROX \$10,000; CC -  
\$381,069.

04/12/82 DAY 27, OPERATION - DRLG, DEPTH - 7216', PROGRESS - 118',  
FORMATION - LI. DEV - 3/4 DEG @ 7216'. MW 10.3#, VIS 45,  
PH 10, WL 15, FC 3/32, CL 126,000, SOLIDS 6%. DRLG 14-3/4  
HRS, TRIPS 5 HRS, TOTCOS 3/4 HR, SR 1/4 HR, CUT DRLG LINE  
4 HRS. DC - APPROX \$10,000; CC - \$391,069.

04/13/82 DAY 28, OPERATION - DRLG, DEPTH 7351', PROGRESS - 145', FORM  
ATION - LI. DEV 3/4 DEG @ 7215'. MW 10.4#, VIS 46, PH 9.5,  
WL 15, FC 3/32, CL 128,000, SOLIDS 7%. DRLG 18-1/2 HRS,  
TRIPS 5-1/2 HRS, TOTCOS 1/2 HR, SR 1/4 HR, CIRC 2 HRS, RE-  
PAIRS 1/2 HR. CC - \$3613; CC - \$384,783.

04/14/82 DAY 29, OPERATION - DRLG, DEPTH - 7560', PROGRESS - 145',  
FORMATION - LI. DEV - 3/4 DEG @ 7215'. MW 10.4#, VIS 43,  
PH 9.5, WL 76, FC 4/32, CL 128,000, SOLIDS 6.5%. DRLG  
23-1/4 HRS, SR 1/4 HR. DC - \$3512; CC - \$388,295.

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1  
DEYCO  
PO BOX 1933  
ROSWELL NEW MEXICO

PROJECT: CHURCH "19" #1  
LOCATION: 1000' FN & EL, SEC 19, T-8S,  
R-30E, CHAVES CO., NM  
PROFESSOR: J100  
CONTRACT NO: 0000 - SIERRA RIG #2

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02/26/82 DRUG LOG, RI & CO CABLE TOOL.

02/27/82 DR CABLE TOOL.

02/28/82 DAY 1, OPERATION - DRUG, DEPTH - 10', PROGRESS - 10',  
FORMATION - RED BED. SPOOLED @ 4:30 PM, 2-27-82. SOFN.

02/29/82 SD FOR SUNDAY.

03/01/82 DAY 2, OPERATION - RIG REPAIR, DEPTH - 10', PROGRESS - 0',  
FORMATION - RED BED. RIG REPAIR 8 HRS.

03/02/82 NO REPORT.

03/03/82 NO REPORT.

03/04/82 NO REPORT.

03/05/82 NO REPORT.

03/06/82 NO REPORT.

03/07/82 NO REPORT.

03/08/82 NO REPORT.

03/09/82 NO REPORT.

03/10/82 DAY 3, OPERATION - DRUG, DEPTH - 21', PROGRESS - 11', FORM-  
ATION - RED BED. RIG REPAIRED.

03/11/82 DAY 4, OPERATION - DRUG, DEPTH - 29', PROGRESS - 8', FORM-  
ATION - RED BED.

03/12/82 DAY 5, OPERATION - DRUG, DEPTH - 38', PROGRESS - 9', FORM-  
ATION - RED BED.

03/13/82 NO & NO CABLE TOOL.

03/14/82 NO & NO CABLE TOOL.

03/15/82 SD FOR SUNDAY.

03/16/82 RI & RURT (SIERRA RIG #2).

03/17/82 DAY 1, OPERATION - DRUG, DEPTH - 60', PROGRESS - 22', FORM-  
ATION - SURF ROCK. MW 8.4#, VIS 34. DRUG 1 HR, RU 20 HRS,  
MIX MUD 3 HRS. BEGAN DRUG AT 5 00 AM, 3/17/82.

03/18/82 DAY 2, OPERATION - WOC, DEPTH - 321', PROGRESS - 250', FORM-  
ATION - RED BED. DEV - 3-1/2 DEG @ 321'. MW 9.9#, VIS 54,  
PH 7. DRUG 9-1/2 HRS, TRIPS 1-1/4 HRS, TOTCOS 1/4 HR, SR  
1/4 HR, CIRC 2-1/2 HRS, RNG CSG & CMTG 3-3/4 HRS, WOC 6-1/2  
HRS. RU & RAN 13-3/8" 8RD ST&C AS FOLLOWS:

1 JT 13-3/8" 48# ST&C 20.70'  
8 JTS 13-3/8" 54# ST&C 315.05'  
TOTAL 335.75'

CMTD W/325 SX CLASS "C" PLUS 1/4# PER SK FLOCELE & 2% CACL.  
CIRC 70 SX TO PIT. PD @ 12:30 AM, 3/19/82.

DAY 2, OPERATION - WOC, DEPTH - 321', PROGRESS - 250', FORM-  
ATION - RED BED. DEV - 3-1/2 DEG @ 321'. MW 9.9#, VIS 54,  
PH 7. DRUG 9-1/2 HRS, TRIPS 1-1/4 HRS, TOTCOS 1/4 HR, SR  
1/4 HR, CIRC 2-1/2 HRS, RNG CSG & CMTG 3-3/4 HRS, WOC 6-1/2  
HRS. PD @ 12:30 AM, 3/18/82. CSG & CMTG DETAIL TO FOLLOW.

03/19/82 DAY 4, OPERATION - DRUG CMT @ 320', DEPTH - 321', NO PRO-  
GRESS, FORMATION - RED BED. DRUG W/WTR. WOC 8 HRS, RU &  
TST WELLHEAD & BOP 12 HRS, DRUG CMT 4 HRS. COSTS TO FOLLOW.

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1  
PEYCO  
PO BOX 1233  
ROSWELL NEW MEXICO

PROSPECT CURLEY "19" #1  
LOCATION 1900' EN E SE, SEC 19, T-2S,  
R-30E, CHAVES CO., NM  
PROJECTED TD 9300  
CONTRACTOR DRLG - SIERRA RIG #2

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03/20/82 DAY 4, OPERATION - DRLG, DEPTH - 1286', PROGRESS - 735',  
FORMATION - RED HFO, DEV - 1-1/2 DEG @ 849'. MW 8.6#, VIS -  
12, PH 7. DRLG 21-1/4 HRS, TOTCCS 1/2 HRS, SR 1/4 HRS,  
CIRC 2 HRS. LOST CIRC @ 700'. DC - \$118,335; CC - \$72,677.

03/21/82 DAY 5, OPERATION - DRLG, DEPTH - 1980', PROGRESS - 757',  
FORMATION - SALT ANHY & DOLO, DEV 1/2 DEG @ 1358', DEV 1/2  
DEG @ 1949'. MW 9.8#, VIS 30, PH 7. DRLG 23-1/2 HRS,  
TOTCCS 1/2 HRS. DC - \$115,051; CC - \$87,728.

03/22/82 DAY 6, OPERATION - DRLG, DEPTH - 2515', PROGRESS - 565',  
FORMATION - DOLO, DEV 3/4 DEG @ 2448'. MW 9.7#, VIS 30,  
PH 7. DRLG 23-1/4 HRS, TOTCCS 1/2 HRS, SR 1/4 HRS. DC -  
\$111,320; CC - \$99,118.

03/23/82 DAY 8, OPERATION - RUN 8-5/8" CSG, DEPTH - 4800', PROGRESS -  
285', FORMATION - DOLO. MW 10#, VIS 30, PH 9.5, CL 120,000.  
DRLG 16-1/4 HRS, TRIPS 4-1/2 HRS, TOTCCS 1/4 HR, SR 1/4 HR,  
INSTALL RCT HEAD 1/2 HRS. DC - \$46,931; CC - \$397,806.

03/24/82 DAY 9, OPERATION - RIG 1" PIPE, DEPTH - 2800', NO PROGRESS,  
FORMATION - DOLO. DEV - 1/4 DEG @ 2800'. MW 10#, VIS 30,  
PH 9.5, CL 120,000. RIG 8-5/8" CSG 7-1/2 HRS, CMTG 1-1/2  
HRS, WDC 11-1/2 HRS, PU 1" PIPE 3-1/2 HRS. CNT DID NOT CIRC  
TOC @ 750'. CSG & CNT DETAIL TO FOLLOW. DC - \$17,516;  
CC - \$197,626.

03/25/82 DAY 9, OPERATION - CUT DRLG LINE, DEPTH - 2800', NO PROGRESS  
FORMATION - DOLO. MW 10#, VIS 30, PH 9.5, CL 120,000. SR  
1/2 HR, RUNNING 1" PIPE 4-1/2 HRS, CMTG 1 HR, NO 3 HRS,  
NU, TSTG & GO WELDER 15 HRS. RAN 69 JTS 8-5/8" CSG AS  
FOLLOWS:

10 JTS 32# 8-5/8" ST&C	426.43'
58 JTS 24# 8-5/8" ST&C	2358.24'
1 JT 32# 8-5/8" ST&C	40.33'
TOTAL	2825.00'

SET @ 2800' (NOTE: SHOE JT CF 42.5'). CMTD W/1600 SX HOWCO  
LITE PLUS 4# SALT, 5# GILSONITE & 1/4# FLOCELE PER SK. TAIL  
IN W/200 SX CLASS "C" PLUS 1/4# FLOCELE PER SK & 2% CACL.  
BUMPED PLUG W/500# OVER PRESS. CNT DID NOT CIRC. 1" W/250  
SX CLASS "C" PLUS 2% CACL. CIRC 10 SX TO PIT. DC - \$38,572  
CC - \$236,192.

03/26/82 DAY 10, OPERATION - DRLG, DEPTH - 3274', PROGRESS - 474',  
FORMATION - DOLO & ANHY. MW 9.6#, VIS 29, PH 9.5, CL  
112,000. DRLG 17 HRS, TRIPS 2 HRS, SR 1/2 HR, WORK BCP 1  
HR, CUT DRLG LINE 2 HRS, NU 1-1/2 HRS. DC - \$44,421; CC -  
\$240,641.

03/27/82 DAY 11, OPERATION - DRLG, DEPTH - 3330', PROGRESS - 59',  
FORMATION - DOLO & ANHY. DEV - 3/4 DEG @ 2800'. MW 9.6#,

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1  
REYCO  
PO BOX 1133  
ROSWELL NEW MEXICO

PROSPECT CURLEY "17" #1  
LOCATION 1750' FN & CL, SEC 19, T-2S,  
R-30E, CHAVES CO., NM  
PROJECTED TD 9300  
CONTRACTOR DRLG - SIERRA RIG #2

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VIS 29, PH 9.5. DRLG 1-1/4 HRS, DST 22-1/4 HRS, DST #1:  
INTER FR 3150' TO 3330'. TOOL CP W/WK BLOW, INCR TO FAIR  
BLOW; RE-CP W/WK BLOW INCR TO FAIR BLOW.

1HP - 15064 60" FFP - 1254-2504  
15" IEP - 584-1004 120# FSIIP - 10344  
30" ISTR - 10824 FHP - 14944

REC 530' ON W/TR OF OIL. SAMPLER: 2500 CC FORM WTR, 60 PSI,  
NO OIL OR GAS, BHT 125 DEG F. BTM OF TOOL COVERED W/OIL.  
DC - \$15,638; CC - \$256,272.

03/28/82 DAY 12, OPERATION - DRLG, DEPTH - 3590', PROGRESS - 260',  
FORMATION - DOLO & ANHY. DEV - 3/4 DEG @ 2800'. MW 9.54,  
VIS 29, PH 9.5. DRLG 12 HRS, TRIPS 8-1/2 HRS, SR 1/4 HR,  
CIRC 1/2 HR. DC - \$10,739; CC - \$267,009.

03/29/82 DAY 13, OPERATION - DRLG, DEPTH - 4155', PROGRESS - 565',  
FORMATION - LI & DOLO. DEV - 2 DEG @ 3535'. MW 9.54, VIS 30  
PH 9.5. DRLG 22-1/2 HRS, TOTCOS 3/4 HR, SR 1/4 HR. DC -  
\$4940; CC - \$271,949.

03/30/82 DAY 14, OPERATION - DRLG, DEPTH - 4535', PROGRESS - 395',  
FORMATION - SD & SALT. DEV - 2 DEG @ 4170' & 4458'. MW  
9.54, VIS 30, PH 9.5. DRLG 22-1/4 HRS, TOTCOS 1 HR, SR 1/4  
HR, OTHER 1/2 HR. DC - \$9194; CC - \$291,143.

03/31/82 DAY 15, OPERATION - PIT TRIP, DEPTH - 4908', PROGRESS - 373',  
FORMATION - DOLO, SH, & SD. DEV - 2 DEG @ 4764'. MW 104,  
VIS 29, PH 9, CL 182,000, SOLIDS 1-1/2X. DRLG 21-1/2 HRS,  
TRIPS 1-1/4 HRS, TOTCOS 1 HR, SR 1/4 HR. DC - \$10,430; CC -  
\$298,973.

04/01/82 DAY 16, OPERATION - DRLG, DEPTH - 5290', PROGRESS - 398',  
FORMATION - DOLO, SD, & SH. DEV - 2-1/2 DEG @ 4900' & 4984'.  
MW 104, VIS 29, PH 9, CL 186,000, SOLIDS 2X. DRLG 18 HRS,  
TRIPS 4 HRS, TOTCOS 1 HR, REPAIRS 1 HR. DC - \$8255; CC -  
\$307,228.

04/02/82 DAY 17, OPERATION - DRLG, DEPTH - 5795', PROGRESS - 505',  
FORMATION - SD & SALT. DEV - 1-1/4 DEG @ 5451'. MW 10.24,  
VIS 29, PH 9.5, CL 185,000. DRLG 23-1/4 HRS, TOTCOS 1/2 HR,  
SR 1/4 HR. DC - \$8423; CC - \$315,651.

04/03/82 DAY 18, OPERATION - YELLOW JACKET RCP, DEPTH - 5887', PRO-  
GRESS - 92', FORMATION - SALT. DEV - 1 DEG @ 5387'. MW  
10.24, VIS 30, PH 9.5. DRLG 5-1/4 HRS, TRIPS 3-1/2 HRS,  
TOTCOS 1/2 HR, SR 1/4 HR, WORK RCP 14-1/4 HRS. NO COSTS.

04/04/82 DAY 19, OPERATION - DRLG, DEPTH - 5961', PROGRESS - 74',  
FORMATION - SALT & SD. MW 10.44, VIS 34, PH 9. DRLG 8 HRS,  
TRIPS 2 HRS, SR 1/4 HR, CIRC 2 HRS, WORK RCP 6 HRS, MIX MUD  
5-3/4 HRS. NO COSTS.

04/05/82 DAY 20, OPERATION - DRLG, DEPTH - 6211', PROGRESS - 245',

DAVEY D. YATES COMPANY  
DAILY DRILLING AND APPROVED RECORD

PAGE 4  
4/06/82

1  
PEYCO  
PO BOX 1733  
ROSWELL NM MEXICO

PROSPECT  
LOCATION

CORONA "19" #1  
1000' EN & FL, SEC 19, T-2S,  
R-3E, CHAVES CO., NM

PROJECTED TO  
CONTRACTOR

9300  
ORIG - SIERRA RIG #2

\*\*\*\*\*

FORMATION - DCLB, AMY & SH. MW 10.48, VIS 36, 20 R.4.  
ORIG 23-3/4 HRS, SR 1-1/4 HRS. NO CHSIS.

04/06/82 DAY 21, OPERATION - ORIG, DEPTH - 6376', PROGRESS - 125',  
FORMATION - FB, SH, CHERT, & COLO. DIV - 1-1/2 DEG & 6263'.  
MW 10.48, VIS 37, PH 9, SOLIDS E.S.Y. ORIG 17 HRS, TRIPS 3-  
1/4 HRS, SR 1-1/4 HRS. COST NA.

HARVEY L. YATES COMPANY  
DAILY DRILLING AND WORKOVER REPORT

PAGE 1  
3/22/82

99980  
HEYCO  
PO BOX 1933  
ROSWELL NEW MEXICO

PROSPECT CURLEW "19" #1  
LOCATION 1930' FM & EL, SEC 19, T-8S,  
N-30E, CHAVES CO., NM  
PROJECTED TO 9300  
CONTRACTOR DRLG - SIERRA RIG #2

\*\*\*\*\*

02/26/82 BLDG LOC. MI & RU CABLE TOOL.

02/27/82 RU CABLE TOOL.

02/28/82 DAY 1, OPERATION - DRLG, DEPTH - 10', PROGRESS - 10',  
FORMATION - RED BED. SPUDED @ 4:30 PM, 2-27-82. SOFN.  
03/01/82 SD FOR SUNDAY.

03/02/82 DAY 2, OPERATION - RIG REPAIR, DEPTH - 10', PROGRESS - 0',  
FORMATION - RED BED. RIG REPAIR 8 HRS.

03/03/82 NO REPORT.

03/05/82 NO REPORT.

03/06/82 NO REPORT.

03/07/82 NO REPORT.

03/08/82 NO REPORT.

03/09/82 NO REPORT.

03/10/82 DAY 3, OPERATION - DRLG, DEPTH - 21', PROGRESS - 11', FORM-  
ATION - RED BED. RIG REPAIRED.

03/11/82 DAY 4, OPERATION - DRLG, DEPTH - 29', PROGRESS - 8', FORM-  
ATION - RED BED.

03/12/82 DAY 5, OPERATION - DRLG, DEPTH - 38', PROGRESS - 9', FORM-  
ATION - RED BED.

03/13/82 RD & MC CABLE TOOL.

03/14/82 RD & MC CABLE TOOL.

03/15/82 SD FOR SUNDAY.

03/16/82 MI & RURT (SIERRA RIG #2).

03/17/82 DAY 1, OPERATION - DRLG, DEPTH - 60', PROGRESS - 22', FORM-  
ATION - SURF ROCK. MW 8.4#, VIS 34. DRLG 1 HR, RU 20 HRS,  
MIX MUD 3 HRS. BEGAN DRLG AT 5 00 AM, 3/17/82.



HARVEY I. YATES COMPANY  
DAILY DRILLING AND WORKOVER REPORT

PAGE 2  
3/22/82

99980  
HEYCO  
PO BOX 1933  
ROSWELL NEW MEXICO

PROSPECT  
LOCATION

CURLFA "19" #1  
1980' FN & FL, SEC 19, T-8S,  
9-30E, CHAVES CO., NM

PROJECTED TO  
CONTRACTOR

2300  
DRLG - SIERRA RIG 72

\*\*\*\*\*

02/18/82 DAY 2, OPERATION - WOC, DEPTH - 321', PROGRESS - 250', FORM-  
ATION - RED BED. DEV - 3-1/2 DEG @ 321'. MW 9.9#, VIS 54,  
PH 7. DRLG 9-1/2 HRS, TRIPS 1-1/4 HRS, TOTCOS 1/4 HR, SR  
1/4 HR, CIRC 2-1/2 HRS, RNG CSG & CMTG 3-3/4 HRS, WOC 6-1/2  
HRS. RU & RAN 13-3/8" 3RD STAG AS FOLLOWS:

1 JT 13-3/8" 48# STAG	20.70'
8 JTS 13-3/8" 54# STAG	315.05'
TOTAL	335.75'

CMTD W/325 SX CLASS "C" PLUS 1/4# PEP SK FLOCELE & 2% CACL.  
CIRC 70 SX TO PIT. PD @ 12:30 AM, 3/18/82.

DAY 2, OPERATION - WOC, DEPTH - 321', PROGRESS - 250', FORM-  
ATION - RED BED. DEV - 3-1/2 DEG @ 321'. MW 9.9#, VIS 54,  
PH 7. DRLG 9-1/2 HRS, TRIPS 1-1/4 HRS, TOTCOS 1/4 HR, SR  
1/4 HR, CIRC 2-1/2 HRS, RNG CSG & CMTG 3-3/4 HRS, WOC 6-1/2  
HRS. PD @ 12:30 AM, 3/18/82. CSG & CMTG DETAIL TO FOLLOW.

03/19/82 DAY 4, OPERATION - DRLG CMT @ 320', DEPTH - 321', NO PRO-  
GRESS, FORMATION - RED BED. DRLG W/WTR. WOC 8 HRS, RU &  
TST WELLHEAD & 80P 12 HRS, DRLG CMT 4 HRS. COSTS TO FOLLOW.

03/20/82 DAY 4, OPERATION - DRLG, DEPTH - 1286', PROGRESS - 736',  
FORMATION - RED BED, DEV - 1-1/2 DEG @ 849'. MW 8.6#, VIS -  
32, PH - 7. DRLG 21-1/4 HRS, TOTCOS 1/2 HRS, SR 1/4 HRS,  
CIRC 2 HRS. LOST CIRC @ 700'. DC - \$18,335; CC - \$72,677.

03/21/82 DAY 5, OPERATION - DRLG, DEPTH - 1980', PROGRESS - 757',  
FORMATION - SALT ANHY & DCLO, DEV 1/2 DEG @ 1358', DEV 1/2  
DEG @ 1949'. MW 9.8#, VIS 30, PH 7. DRLG 23-1/2 HRS,  
TOTCOS 1/2 HRS. DC - \$15,051; CC - \$87,729.

03/22/82 DAY 6, OPERATION - DRLG, DEPTH - 2515', PROGRESS - 565',  
FORMATION - DCLO, DEV 3/4 DEG @ 2448'. MW 9.7#, VIS 30,  
PH 7. DRLG 23-1/4 HRS, TOTCOS 1/2 HRS, SR 1/4 HRS. CC -  
\$11,390; CC - \$99,118.

HARVEY E YATES COMPANY  
DAILY DRILLING AND WORKOVER REPORT

PAGE  
3/15/82

99980  
HEYCO  
PO BOX 1933  
ROSWELL NEW MEXICO

PROSPECT  
LOCATION

CURLFW 19 #1  
1980' FN & CL, SEC 19, T-8S,  
R-30E, CHAVES CO., NM

PROJECTED TO  
CONTRACTOR

9300  
ORLG - HEYCO COMPANY TOOL

\*\*\*\*\*

02/26/82 BLDG LOC. MI & RU CABLE TOOL.

02/27/82 RU CABLE TOOL.

02/28/82 DAY 1, OPERATION - ORLG, DEPTH - 10', PROGRESS - 10',  
FORMATION - RED BED. SPUDDED @ 4 30 PM, 2-27-82. SDFN.  
03/01/82 SD FOR SUNDAY.

03/02/82 DAY 2, OPERATION - RIG REPAIR, DEPTH - 10', PROGRESS - 0',  
FORMATION - RED BED. RIG REPAIR 8 HRS.

03/03/82 NO REPORT.

03/05/82 NO REPORT.

03/06/82 NO REPORT.

03/07/82 NO REPORT.

03/08/82 NO REPORT.

03/09/82 NO REPORT.

03/10/82 DAY 3, OPERATION - ORLG, DEPTH - 21', PROGRESS - 11', FORM-  
ATION - RED BED. RIG REPAIRED.

03/11/82 DAY 4, OPERATION - ORLG, DEPTH - 29', PROGRESS - 8', FORM-  
ATION - RED BED.

03/12/82 DAY 5, OPERATION - ORLG, DEPTH - 38', PROGRESS - 9', FORM-  
ATION - RED BED.

03/13/82 RD & MO CABLE TOOL.

03/14/82 RD & MO CABLE TOOL.

03/15/82 SD FOR SUNDAY.

2050001. 14. 6. 20. 518. 2

03/10/62 DAY 3. OPERATION - SMLG. DEPTH - 21', P-GRESS - 11', FORM-  
ATION - RED BED. RIG REPAIRED.

RECEIVED 241000Z  
DAILY DRILLING AND WORKOVER REPORT

1  
20572

PRYCE  
PO BOX 1031  
WHEELING, W. VA. 26060

PRESPECT  
LOCATION

COIL # 19 41  
1980' EN 6 MI. SEC 10, T-PS,  
2-10' CHAVES CO., NM  
9300

PROJECTED TO  
CONTRACTOR

DRILL - PRYCE COMPANY 1001

\*\*\*\*\*

02/26/82 DRILL LOC. 41.5 - NO CABLE TELL.

02/27/82 NO CABLE TELL.

02/28/82 DAY 1, OPERATION - DRILL, DEPTH - 10', PROGRESS - 10',  
FORMATION - RED LEO. SPUNDED 3 4 30 PM, 2-27-82, SOBN.

03/01/82 NO DRILL SUNDAY.

03/02/82 DAY 2, OPERATION - RIG REPAIR, DEPTH - 10', PROGRESS - 0',  
FORMATION - RED LEO. RIG REPAIR 8 HRS.

03/03/82 NO REPORT.

03/05/82 NO REPORT.

**HEYCO**

PETROLEUM PRODUCERS



**HARVEY E. YATES COMPANY**

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505-623-6601

ROSWELL, NEW MEXICO 88201

March 11, 1982

*Case 7490  
Stamets*

Oil Conservation Division  
Post Office Box 2088  
Santa Fe, New Mexico 87501

RE: Curlew Working Interest Area  
T-8S, R-30E, N.M.P.M.  
Section 19: N/2  
Chaves County, New Mexico  
(HEYCO Ref: 9140)

Gentlemen:

Enclosed pursuant to New Mexico Oil Conservation Division Order No. R-6918, please find a copy of the Authority for Expenditure covering the above referenced lands.

Yours truly,

*Carlyn M. Jarm*

Carlyn M. Jarm  
Land Contracts Supervisor

CMJ:dk

Enclosure

LEASE Curlew UnitWELL NUMBER 1APPROVED BY: WV/12  
MAR 16 1982LOCATION 1980' FNL & 1980' FEL, Section 19, T-18S, R-30E

OIL CONSERVATION DIVISION

COUNTY ChavesDEPTH 9250PRODUCING FORMATION Atoka - Morrow

SANTA FE

	Producing Well Cost	Dry Hole Cost
Drilling and completion costs		
Intangible drilling costs		
Location	\$ 20000	\$ 20000
Footage <u>9250</u> @ <u>\$22.50/ft</u>	272875	272875
Daywork <u>7 days</u> @ <u>\$78.75/day</u>	55125	55125
Surface casing service	8200	8200
Intermediate casing service	21000	21000
Mud, water	25000	25000
Company supervisor, engineer	4000	4000
Rentals, coring service	12000	12000
Miscellaneous	25000	25000
Total intangible drilling costs	443200	443200
Intangible formation evaluation cost		
Logs, <u>CNL</u> , <u>FDC</u> , <u>DLL-Rxo</u>	27000	27000
DST <u>5</u> @ <u>3550/each</u>	17750	17750
Geological mud logging service	15000	15000
Miscellaneous	4000	4000
Total intangible formation evaluation	63750	63750
Intangible completion costs		
Unit cost <u>10 days</u> @ <u>1500/day</u>	15000	
Production casing service	13000	
Completion fluid	2000	
Perforating/production logging	12500	
Treating	25000	
Company supervision	3000	1500
Plugging expense		15000
Miscellaneous	10000	
Total intangible completion costs	80500	16500
Tangible drilling costs and completion costs		
Surface casing		
<u>300</u> of <u>13 3/8</u>	6000	6000
Intermediate casing		
<u>2800</u> of <u>8 5/8</u>	40000	40000
Production casing		
<u>9250</u> of <u>4 1/2</u>	72800	
Production tubing		
<u>9200</u> of <u>2 3/8</u>	35500	
Casing head	2000	
Tubing head	13000	
Christmas tree	8000	
Subsurface equipment	2500	
Total tangible drilling costs and completion costs	179800	
Lease equipment		
Tanks <u>1</u> , <u>300 Bbl</u>	6000	
Separator	15000	
Flow lines	3500	
Meter runs	2000	
Pumping unit		
Installation costs	3500	
Total lease equipment	30000	
Total intangible costs	587450	523450
Total tangible costs	179800	46000
Total lease equipment	30000	
Administrative	5000	4000
TOTAL COSTS	\$ 802250	\$ 573450

Prepared by: Peck Hardee Date: 1/4/82

APPROVED BY:

"It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."

Company

Date

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO

17 February 1982

EXAMTNER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates  
Company for compulsory pooling,  
Chaves County, New Mexico.

CASE  
7490

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

W. Perry Pearce, Esq.  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

Thomas J. Hall, Esq.  
Robert H. Strand, Esq.  
HARVEY YATES COMPANY  
P. O. Box 1933  
Roswell, New Mexico 88201

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I N D E X

GEORGE YATES

Direct Examination by Mr. Hall 3

ED GROVES

Direct Examination by Mr. Hall 12

E X H I B I T S

Applicant Exhibit One, Plat 4

Applicant Exhibit Two, Operating Agreement 6

Applicant Exhibit Three, Structure Map 13

Applicant Exhibit Four, AFE 14



1  
2 MR. STAMETS: We'll call Case Number  
3 7490.

4 MR. PEARCE: Application of Harvey E.  
5 Yates Company for compulsory pooling, Chaves County, New  
6 Mexico.

7 MR. HALL: Mr. Examiner, my name is  
8 Thomas J. Hall, representing Harvey E. Yates Company, and  
9 I have two witnesses.

10  
11 (Witnesses sworn.)

12  
13 GEORGE YATES  
14 being called as a witness and being duly sworn upon his oath,  
15 testified as follows, to-wit:

16  
17 DIRECT EXAMINATION

18 BY MR. HALL:

19 Q Will you state your name and your  
20 address, please?

21 A George Yates, Roswell.

22 Q Mr. Yates, what is your position with  
23 the applicant?

24 A President.

25 Q Would you briefly state what your duties

1  
2 and responsibilities are as President of HEYCO, please?

3 A. Well, with respect to this case one re-  
4 sponsibility is overseeing land and exploration operations.

5 Q Thank you, sir.

6 Are you familiar with the application  
7 in Case 7490?

8 A. Yes, I am.

9 Q Would you please state the purpose of  
10 the application for the Examiner?

11 A. We propose to drill a well at a standard  
12 location in the northeast quarter of Section 19, to a depth  
13 sufficient to test the Morrow formation, under a north half  
14 dedication.

15 We propose -- we've received voluntary  
16 consent from all the parties under the north half of Section  
17 19 to a pooling of their interest for drilling the well, ex-  
18 cept for J. M. Huber Corporation and Texas Oil and Gas Cor-  
19 poration.

20 So we're seeking an order in this case  
21 force pooling their interest under the north half of Section  
22 19.

23 Q I refer you to what has been marked for  
24 identification as Applicant's Exhibit Number One and would  
25 you please identify the exhibit and explain what it shows,

1  
2 please, sir?

3 A Exhibit One is a land plat covering  
4 Sections 17, 18, 19, and 20, in Township 8 South, Range 30  
5 East, in Chaves County, New Mexico.

6 On the exhibit the north half of the  
7 section -- north half of Section 19 is outlined in red and  
8 the proposed well location is indicated in the southwest  
9 northeast of Section 19.

10 Q All right, sir, would the north half  
11 of Section 19 be the proration unit for the proposed well?

12 A Yes.

13 Q All right. Would you please tell us who  
14 the parties are owning interest under the north half of  
15 Section 19 and the percentage of their interest?

16 A Yes. HEYCO has 160 net acres for a  
17 one-half interest. Union Texas has 80 acres for a one-quarter  
18 interest. TXO Production Company has 40.025 net acres for  
19 an approximate one-eighth interest. Huber Corporation has  
20 40.025 net acres for an approximate one-eighth interest.

21 Q Referring back to Exhibit One and the  
22 four sections depicted there, would you explain what HEYCO's  
23 efforts have been with respect to this area, please, sir?

24 A We have attempted to form a working  
25 interest unit, which covers the four sections in their en-

1  
2 tirety.

3 We began unitization work two years ago.  
4 We proposed this latest unit with writing to all -- with our  
5 proposal in writing to all participants last July.

6 Since that time we've received -- we  
7 have been successful in putting the unit together with the  
8 exception of these two participants we named before.

9 Q All right, sir, thank you.

10 I'd like to refer you to what's been  
11 marked for identification as Applicant's Exhibit Number Two,  
12 and ask you to identify that document, please.

13 A Exhibit Two is an operating agreement.  
14 It's a standard AAPL Form 610. It's titled, Curlew (sic)  
15 Working Interest Unit. It's dated December 30th, 1981, with  
16 Harvey E. Yates Company shown as operator.

17 The contract area under the operating  
18 agreement consists of Section 17, 18, 19, and 20, all in  
19 8 South, Range 30 East.

20 Now, I'll go back and give individual  
21 descriptions under those sections, because there are some --  
22 some exceptions.

23 Section 17, all.

24 Section 18, Lots 1, 2, 3, 4, the east  
25 half of the west half, and the east half.

1  
2 In Section 19, Lots 1, 2, 3, 4, east  
3 half of the west half, and east half.

4 Section 20, west half northwest, south-  
5 east northwest, southwest quarter of southeast, south half  
6 northeast, northwest, and the northeast.

7 Q All right, sir, would you please turn to  
8 page four of the agreement and read the initial well provi-  
9 sions found thereon?

10 A The initial well provisions say essen-  
11 tially that -- that the initial well will be drilled on or  
12 before March 1st of 1982 at a location in the southwest  
13 northeast of Section 19, and will be drilled to a depth suf-  
14 ficient to test the Morrow formation.

15 Q All right, sir, would you please turn  
16 to page five and tell the Examiner what the nonconsent pro-  
17 visions are represented there?

18 A The nonconsent provisions on all of the  
19 drilling and reworking, deepening, plugging back, all costs  
20 except for surface equipment, is 400 percent.

21 Q Okay. Are you familiar with other  
22 operating agreements in southeastern New Mexico or in Chaves  
23 County and the nonconsent provisions found therein?

24 A Yes, I am.

25 Q Based on your knowledge, do you think

1  
2 that the 400 percent nonconsent provision is reasonable?

3 A. Yes, I do.

4 Q. All right. Turning now to page three  
5 of the COPAS, what are the overhead rates listed there?

6 A. Well, the overhead rates are \$4000 per  
7 month drilling well rate and \$400 a month producing well  
8 rate.

9 Q. Okay. Again, are you familiar with  
10 overhead rates being charged for similar wells in southeast  
11 New Mexico --

12 A. Yes.

13 Q. -- and Chaves County?

14 A. Yes, I am.

15 Q. Do you feel that the \$4000 drilling  
16 well rate and the \$400 per month producing well rates are  
17 in line with what's generally being charged for similar  
18 wells in southeast New Mexico?

19 A. Yes, I do.

20 Q. Would you ask the Division to allow  
21 Harvey E. Yates Company \$4000 per month drilling well rate  
22 and \$400 per month operating rate under any order they might  
23 enter pooling the north half of Section 19?

24 A. Yes, I would.

25 Q. Have you made any major amendments or

changes to the AAPL Form 610, which comprises Exhibit Two?

A. No. The only modifications we've made are minor and are modifications that we, in the normal course of business, use in our operations.

Q. Have you had substantial agreement from the proposed parties to Exhibit Two?

A. Yes, we've received -- we have reached verbal agreements with all parties except Huber and Texas Oil and Gas.

Q. Referring now to page 14-A, and a series of four page 14-A's in the agreement, each with a different heading, would you please describe what these pages consist of?

A. Each page represents a separate farmout proposal with identical terms made to four separate parties.

First to Texas Oil and Gas Production, now called TXO Production Corporation.

The second to J. M. Huber Corporation.

The third to Union Texas.

And the fourth to Sun Production Company.

Q. Okay, now three of these parties, Texas Oil and Gas, or TXO Production, J. M. Huber, and Union Texas, own an interest under the north half of Section 19,

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do they not?

A. Yes, they do.

Q. What has been the response from these parties under the north half of Section 19 to your proposal?

A. The parties that I named, with the exception of TXO and J. M. Huber, have verbally agreed to the provisions under the farmout letter.

Q. All right. What, to your knowledge, is Huber's current position?

A. My most recent knowledge was obtained about fifteen minutes ago in the hall, and that is that they are still -- still looking at it.

Their previous position is that they would farmout to us only under a 320-acre proration unit. They would not participate with their interest in the 320-acre proration unit, nor would they participate with their interest under the unit, nor would they farmout under the proposed unit.

Q. Is that not essentially the same position that Texas -- TXO Production --

A. That's correct. That's correct.

Q. Would you request that Harvey E. Yates Company be designated as operator of the proration unit in the north half of Section 19 to be dedicated to the proposed



well?

A. Yes, yes, I would.

Q. Did Harvey E. Yates Company notify Huber and TXO Production of this hearing at least ten days prior to today?

A. Yes, we did.

Q. Were Exhibits Number One and Two prepared by you or under your direction and control, or by employees of Harvey E. Yates Company?

A. Yes.

MR. HALL: Mr. Examiner, I'd move for the admission of Applicant's Exhibits Number One and Two.

MR. STAMETS: These exhibits will be admitted.

MR. HALL: That concludes my direct examination.

MR. STAMETS: Any questions of this witness? He may be excused.

ED GROVES

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

## DIRECT EXAMINATION

BY MR. HALL:

Q. Would you state your name and address, please?

A. Ed Groves, Midland, Texas.

Q. And what is your position with the applicant, Mr. Groves?

A. I'm a Chief Geologist of HEYCO.

Q. Have you testified before the Division before?

A. No, I have not.

Q. Would you please give the Examiner a brief explanation of your qualifications as a professional petroleum geologist?

A. All right. I have a Bachelor of Science degree from Southern Methodist University, and I have spent some twenty-three years with Phillips Petroleum Company, the major part of that in various staff positions in exploration.

Five and a half years with Florida Exploration Company as a Division Geologist, being responsible for both exploration and development.

I have been certified as a professional geologist by the AIPG, and I've worked for HEYCO for the past three months.

1  
2 MR. HALL: Mr. Examiner, I would request  
3 that Mr. Groves be recognized as a qualified expert petroleum  
4 geologist for the purpose of testifying before the Division.

5 MR. STAMETS: The witness is considered  
6 qualified.

7 MR. HALL: Thank you, sir.

8 Q Mr. Groves, are you familiar with the  
9 application in the Case 7490?

10 A Yes, sir, I am.

11 Q All right, sir. I'd refer you to what  
12 has been marked for identification as Applicant's Exhibit  
13 Number Three and ask that you identify and explain it to the  
14 Examiner.

15 A Yes. This is a structure map contoured  
16 on the top of the Mississippian limestone. The contour in-  
17 terval is 100 feet with the heavier lines, 500 feet.

18 This shows the dip away from the Light  
19 Cap (sic) Field, which is about the north central part of  
20 the plat, showing both east and south dip away from the  
21 wells there.

22 In the immediate area we have the  
23 Coquina Well in Section 27 of 8, 30, which had Atoka and  
24 Morrow sands present. They DST'd water.

25 Wells to the south, some Texas Oil and

1  
2 Gas wells in the Many Gates area, and Lost Lake area, are  
3 completed from lower Pennsylvanian sandstones.

4 Two recent Amoco wells have been completed  
5 also.

6 We are moving up dip from the Coquina  
7 well and down dip from Lightcap, approaching the pinchout of  
8 the Atoka Sands, and that is the reason for the proposed  
9 location.

10 Q And what is the objective of the proposed  
11 well?

12 A The Atoka-Morrow section.

13 Q It is an Atoka-Morrow?

14 A Atoka, I think. I don't believe there  
15 will be any Morrow in this location, but that remains to be  
16 seen.

17 Q Do you have anything further to present  
18 to the Examiner on this particular exhibit?

19 A No, I do not.

20 Q All right, sir. I'd refer you to what's  
21 been marked for identification as Applicant's Exhibit Number  
22 Four, and ask that you identify that, please, sir.

23 A Authorization for Expenditure.

24 Q All right, sir, would you please read  
25 the location and the proposed depth of the well covered by

1  
2 that particular APE?

3 A. 1980 feet from the north line and 1980  
4 feet from the east line of Section 19, 8 South, Range 30  
5 East.

6 I might also note that there is a dis-  
7 crepancy here. That shows "T18"; that should be "T8 South".

8 Q All right, thank you.

9 A The proposed depth is 9250 feet.

10 Q And the -- the objective of the well  
11 is again Atoka-Morrow?

12 A Yes, to completely evaluate all the  
13 Atoka-Morrow sediments. That depth would allow us to pene-  
14 trate the top of the Mississippian limestone.

15 Q All right, sir. And what are the esti-  
16 mated dry hole costs and completed well costs shown on Ex-  
17 hibit Four?

18 A A dry hole cost of \$573,450; a completed  
19 well cost of \$802,250.

20 Q All right, sir. Statute, Section  
21 70-2-17 allows those parties advancing costs for the drilling  
22 to recover from production their costs, to include a reason-  
23 able charge for supervision, plus a charge for risk of up  
24 to 200 percent of the cost of drilling and completing the  
25 well.

1  
2 In your opinion is there a substantial  
3 risk involved in drilling a well in that southwest of the  
4 northeast of Section 19 --

5 A Yes, there --

6 Q -- to test the Atoka-Morrow?

7 A Yes, there is.

8 Q What, in your opinion, would be a reason-  
9 able charge for the risk involved in that project?

10 A 200 percent.

11 Q All right, sir. In your opinion, will  
12 the granting of this application prevent waste and protect  
13 correlative rights of the parties involved, and avoid the  
14 drilling of unnecessary wells?

15 A Yes.

16 Q Were Exhibits Three and Four prepared  
17 by you, under your direction, or by employees of Harvey E.  
18 Yates Company?

19 A Yes, they were.

20 MR. HALL: Mr. Examiner, I'd move the  
21 admission of Applicant's Exhibits Three and Four.

22 MR. STAMETS: These exhibits will be  
23 admitted.

24 MR. HALL: And I have no further ques-  
25 tions.

1  
2 MR. STAMETS: Are there any questions  
3 of this witness? He may be excused.

4 I have one question, which could either  
5 go to Mr. Hall or Mr. Yates.

6 I see the application is for pooling  
7 320 acres from the surface down through the Atoka-Morrow,  
8 but since the Division's standard spacing units for 320-acres  
9 don't begin until you get to the top of the Wolfcamp, in  
10 fact, and since Harvey E. Yates controls the northeast quarter  
11 of the section, which would apply to anything shallower than  
12 the Wolfcamp, is there any need to compulsorily pool anything  
13 more than the Wolfcamp and Pennsylvanian in this area?

14 MR. YATES: The entire Pennsylvanian  
15 and the Wolfcamp would be all that would be covered.

16 MR. STAMETS: Okay, fine.

17 Any other questions? Anything further  
18 in this case?

19 The case will be taken under advisement.

20  
21 (Hearing concluded.)  
22  
23  
24  
25

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing Before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2490 heard by me on 2-17-82 1982  
Richard T. Plummer Examiner  
 Oil Conservation Division

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
 Santa Fe, New Mexico 87501  
 Phone (505) 455-7409





BRUCE KING  
GOVERNOR  
LARRY KEHOE  
SECRETARY

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

March 5, 1982

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-2434

Mr. Thomas J. Hall, III  
Attorney  
Harvey E. Yates Company  
P. O. Box 1933  
Roswell, New Mexico 88201

Re: CASE NO. 7490  
ORDER NO. R-6918

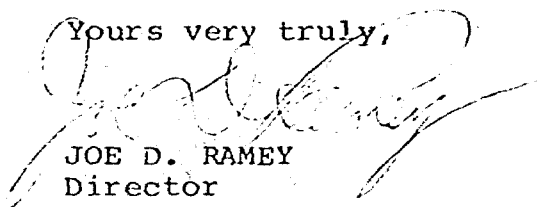
Applicant:

Harvey E. Yates Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced  
Division order recently entered in the subject case.

Yours very truly,

  
JOE D. RAMEY  
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x  
Artesia OCD x  
Aztec OCD       

Other

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASE NO. 7490  
Order No. R-6918

APPLICATION OF HARVEY E. YATES COMPANY  
FOR COMPULSORY POOLING, CHAVES COUNTY,  
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on February 17, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 5th day of March, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Harvey E. Yates Company, seeks an order pooling all mineral interests down through and including the Atoka-Morrow formation underlying the N/2 of Section 19, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.
- (4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.
- (5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

-2-

Case No. 7490

Order No. R-6918

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That 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.

(8) That 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.

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

(10) That 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.

(11) That \$4000.00 per month while drilling and \$400.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that 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.

(12) That 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.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

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Case No. 7490  
Order No. R-6918

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, down through and including the Atoka-Morrow formation underlying the N/2 of Section 19, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of July, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Atoka-Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of July, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Harvey E. Yates Company is hereby designated the operator of the subject well and unit.

(3) That 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 unit an itemized schedule of estimated well costs.

(4) That 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 that 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) That 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; that 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

-4-

Case No. 7490

Order No. R-6918

be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated 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) That 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$4000.00 per month while drilling and \$400.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that 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) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a

-5-

Case No. 7490  
Order No. R-6918

one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That 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) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Chaves County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that 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) That 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 hereinafter designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION



*Joe D. Ramey*  
JOE D. RAMEY,  
Director

S E

-5-

Case No. 7490

Order No. R-6918

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(11) That 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.

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(13) That 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 hereinafter designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION



*Joe D. Ramey*  
JOE D. RAMEY,  
Director

S E

dr. A.

of Range No. 304.

7367

CORLETT UNIT - CORLETT COUNTY



A.A.P.L. FORM 610 - 1977

## MODEL FORM OPERATING AGREEMENT

CURLEW WORKING INTEREST AREA

## OPERATING AGREEMENT

DATED

December 30 , 19 81 ,

OPERATOR HARVEY E. YATES COMPANYCONTRACT AREA TOWNSHIP 8 SOUTH, RANGE 30 EAST, N.M.P.M.

Section 17: All

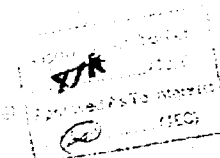
Section 18: Lots 1, 2, 3, 4, E/2 W/2, E/2

Section 19: Lots 1, 2, 3, 4, E/2 W/2, E/2

Section 20: W/2 NW/4, SE/4 NW/4, SW/4, SE/4, S/2 NE/4,  
NW/4 NE/4COUNTY OR PARISH OF CHAVES STATE OF NEW MEXICO

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BEFORE EXAM.	Richard Stone
Applicant	2
7490	
Harvey E. Yates Co.	
2-17-82	



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## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between HARVEY E. YATES COMPANY, hereinafter designated and referred to as "Operator", and the minority party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

## WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and in accordance herewith provided:

NOW, THEREFORE, it is agreed as follows:

ARTICLE I  
DEFINITIONS

A. Used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease", and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean undivided fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II  
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:

- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☒ B. ~~XXXXXXXXXXXXXXXXXXXXXXX~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

If any provision of any exhibit, except Exhibit "F", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

### ARTICLE III INTERESTS OF PARTIES

#### A. Oil and Gas Interests:

If any party owns an undivided oil and gas interest in the Contract Area, that interest shall be treated for the purposes of this agreement and during the term hereof as if it were a leased interest under the terms of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as presented in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to leases, to the extent that it owns the lesser interest.

#### B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be~~ ~~borne by the lease owner~~, shall also be owned by the parties in the same manner during the term hereof, provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

### ARTICLE IV TITLES

#### A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations on it. If the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

~~Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

#### B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose loss of interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost; and

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests less costs and burdens attributable thereto until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded; and

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties in the same proportions in which they shared in such prior production; and

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

## ARTICLE V. OPERATOR

### A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

HARVEY E. YATES COMPANY shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

**B. Resignation or Removal of Operator and Selection of Successor:**

1. **Resignation or Removal of Operator.** Operator may resign at any time by giving written notice thereof to Non-Operator. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator after effective date of resignation or removal shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. **Selection of Successor Operator.** Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

**C. Employees:**

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

**D. Drilling Contracts:**

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

## ARTICLE VI. DRILLING AND DEVELOPMENT

**A. Initial Well:**

On or before the 1st day of March, 1982, Operator shall commence the drilling of a well for oil and gas at the following location:

SW/4 NE/4  
Section 19, Township 8 South, Range 30 East, N.M.P.M.,  
Chaves County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth to test the Morrow formation or to a depth of 9,250 feet whichever is shallower

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth. **Operators only liability for failure to commence said test well shall be the ipsofacto termination of this agreement.**

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

## B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VII.A, or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective, formation, and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VII.B.1. or VII.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VII.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well or market value thereof if such share is not sold (after deducting production taxes, <sup>windfall profits tax,</sup> overriding royalty, and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) 400 % of that portion of the costs and expenses of drilling, reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

400 % of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

The production attributable to any Non-Consenting Party's relinquished interest in or such Party's election shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non-Consenting Party's relinquished interest. If such Non-Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinafter provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering/<sup>windfall profits tax,</sup> and other taxes and oil royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completion, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of net costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unrecovered costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with, and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

Notwithstanding the provisions of this Article VI.B.2, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A, except (a) when Option 2, Article VII.D.1, has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

#### C. Right to Take Production in Kind:

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any



1. Each party's share of production in kind shall be required to pay for only its proportionate share of each part of Operator's surface facilities which it uses.

Each party shall execute such division, covenants and contracts as may be necessary for the sale of its interest in production from the Contract Area, and except as provided in Article VII.B, shall be entitled to receive payment direct from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the reservation at will by the parties owning it, but not the obligation to purchase such oil and gas, or sell it to others at any time and from time to time, for the account of the non-abandoning party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of its share of all oil and gas previously believed to be payment. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the prevailing circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into the future, of any other party's share of gas production, without first paying such other party thirty (30) days notice of such intended sale.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as Exhibit "D", or as a separate Agreement.

#### D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the end of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

#### E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2, any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-worked pursuant to Article VI.B.2, hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

1 voids of the formation or formations covered thereby, such lease to be on the form attached as Exhibit  
 2 "B". The assignments or leases so limited shall encompass the drilling and spacing which the well is  
 3 wanted. The payment for and the assignment or lease to the acreage shall be in a ratio based upon  
 4 the relationship of their respective percentages of participation in the Contract Area to their share of  
 5 the percentage of participation in the Contract Area of all interests. There shall be no readjustment  
 6 of interest in the remaining portion of the Contract Area.

7  
 8 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the op-  
 9 eration of or production from the well in the interval or intervals then open other than the royalties  
 10 retained in any lease made under the terms of this Article. Upon request, Operator shall continue to  
 11 operate the assigned well on the account of the non-abandoning parties at the rates and charges con-  
 12 templated by this agreement, plus any additional cost and charges which may arise as the result of  
 13 the separate ownership of the assigned well.

## 14 ARTICLE VII. 15 EXPENDITURES AND LIABILITY OF PARTIES

### 16 A. Liability of Parties:

17 The liability of the parties shall be several, not joint or collective. Each party shall be responsible  
 18 only for its obligations, and shall be liable only for its proportionate share of the costs of developing  
 19 and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are  
 20 given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall  
 21 this agreement be construed as creating, a mingling or other partnership or association, or to render the  
 22 parties liable as partners.

### 23 B. Liens and Payment Defaults:

24 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a  
 25 security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure  
 26 payment of its share of expense, together with interest thereon at the rate provided in the Accounting  
 27 Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the  
 28 Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies  
 29 of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator  
 30 for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien  
 31 rights or security interest as security for the payment thereof. In addition, upon default by any Non-  
 32 Operator in the payment of its share of expense, Operator shall have the right, without prejudice to  
 33 other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's  
 34 share of oil and/or gas until the amount owed by such Non-Operator, to include interest on the  
 35 deficiency and, if suit is brought to collect any deficiency, reasonable attorney's  
 36 fees, has been paid. Each purchaser shall be entitled to rely upon Operator's  
 37 written statement concerning the amount of any default. Operator grants a like lien  
 38 and security interest to the Non-Operators to secure payment of Operator's propor-  
 39 tionate share of expense.

40 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of  
 41 a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by  
 42 Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the in-  
 43 terest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimburse-  
 44 ment thereof, be subrogated to the security rights described in the foregoing paragraph.

### 45 C. Payments and Accounting:

46 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses  
 47 incurred in the development and operation of the Contract Area pursuant to this agreement and shall  
 48 charge each of the parties hereto with their respective proportionate shares upon the expense basis pro-  
 49 vided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate  
 50 record of the joint account hereunder, showing expenses incurred and charges and credits made and  
 51 received.

52 Operator, at its election, shall have the right from time to time to demand and receive from the  
 53 other parties payment in advance of their respective shares of the estimated amount of the expense to  
 54 be incurred in operations hereunder during the next succeeding month, which right may be exercised only  
 55 by submission to each such party of an itemized statement of such estimated expense, together with  
 56 an invoice for its share thereof. Each such statement and invoice for the payment in advance of esti-  
 57 mated expense shall be submitted on or before the 20th day of the next preceding month. Each party  
 58 shall pay to Operator its proportionate share of such estimate within thirty (30) days after such es-  
 59 timate and invoice is received. If any party fails to pay its share of said estimate within said time, the  
 60 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be  
 61 made monthly between advances and actual expense to the end that each party shall bear and pay its  
 62 proportionate share of actual expenses incurred, and no more.

1 **D. Limitation of Expenditures:**

2  
3 1. **Drill or Deepen:** Without the consent of all parties, no well shall be drilled or deepened, ex-  
4 cept any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being  
5 understood that the consent to the drilling or deepening shall include:

6  
7 ~~1. Option No. 1: All necessary expenditures for the drilling or deepening, including such~~  
8 ~~equipment as the well including necessary tubing and surface facilities.~~

9  
10 2. **Option No. 2:** All necessary expenditures for the drilling or deepening and testing of the well. When  
11 such well has reached its authorized depth, and all tests have been completed, Operator shall give im-  
12 mediate notice to the Non-Operators who have the right to participate in the completion costs. The parties  
13 receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holi-  
14 days) in which to elect to participate in the setting of casing and the completion attempt. Such election,  
15 when made, shall include consent to all necessary expenditures for the completing and equipping of such  
16 well, including necessary tubage and/or surface facilities. Failure of any party receiving such notice  
17 to reply within the period above fixed shall constitute an election by that party not to participate in  
18 the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and  
19 to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or  
20 plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to  
21 the operations thereafter conducted by less than all parties.

22  
23 3. **Rework or Plug Back:** Without the consent of all parties, no well shall be reworked or plugged  
24 back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agree-  
25 ment, it being understood that the consent to the reworking or plugging back of a well shall include  
26 consent to all necessary expenditures in conducting such operations and completing and equipping of  
27 said well, including necessary tubage and/or surface facilities.

28  
29 4. **Other Operations:** Operator shall not undertake any single project reasonably estimated to require  
30 an expenditure in excess of **Twenty-five Thousand Dollars (\$ 25,000.00 )**  
31 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plug-  
32 ging back of which has been previously authorized by or pursuant to this agreement; provided, how-  
33 ever, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different  
34 nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with  
35 the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emer-  
36 gency to the other parties. If Operator prepares "Authority for Expenditures" for its own use,  
37 Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project  
38 costing in excess of **Fifteen Thousand Dollars (\$15,000.00 )**.

39  
40 **E. Royalties, Overriding Royalties and Other Payments:**

41  
42 Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of  
43 **one-eighth (1/8)** due on its share of production and shall hold the other parties free  
44 from any liability therefor. If the interest of any party in any oil and gas lease covered by this agree-  
45 ment is subject to any royalty, overriding royalty, production payment, or other charge over and above  
46 the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account  
47 for or cause to be accounted for, such interest to the owners thereof.

48  
49 No party shall ever be responsible, on any price basis higher than the price received by such party,  
50 to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should  
51 demand and receive settlements on a higher price basis, the party contributing such lease shall bear the  
52 royalty burden insofar as such higher price is concerned.

53  
54 **F. Rentals, Shut-in Well Payments and Minimum Royalties:**

55  
56 Rentals, shut-in well payments and minimum royalties which may be required under the terms of  
57 any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their  
58 expense. In the event two or more parties own and have contributed interests in the same lease to this  
59 agreement, such parties may designate one of such parties to make said payments for and on behalf of all  
60 such parties. Any party may request, and shall be entitled to receive, proper evidence of all such pay-  
61 ments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum  
62 royalty through mistake or oversight where such payment is required to continue the lease in force,  
63 any loss which results from such non-payment shall be borne in accordance with the provisions of Article  
64 IV.B.2.

65  
66 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shut-  
67 ting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sun-  
68 day and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action,  
69 but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-  
70 Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

of any shut-in well payment shall be borne jointly by the parties here to under the provisions of Article IV B 3.

#### G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and or gas produced under the terms of this agreement.

#### H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may in a self-manner for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

### ARTICLE VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

#### A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

be shared by the parties as to the proportion that the interest of each bears to the interest of all parties as to the interest.

Any assignment or surrender made under this provision shall not reduce or change the assignor's or surrendering party's interest as it was immediately before the assignment, in the balance of the Contract Area, and the assignee or surrenderer, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

#### B. Renewal or Extension of Leases:

If any party receives a renewal of any oil and gas lease subject to this Agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects land in the Contract Area, by paying to the party who acquired it their several proper proportionate share of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment without warranty of title, of its proportionate interest therein by acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

#### C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

#### D. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interest is hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

If the operation of the interest from which the leasehold interest is derived shall fail to pay, when due, the share of expenses that shall be paid by the (2) above, to maintain a well, lease pool, system or Article VIII, hereof, or with respect to the leasehold interest, or with Article VIII, hereof, the following provisions shall be applicable, with the proceeds, portion of net expenses hereunder, to the same extent, as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignment as a result of (2) or (3) above shall have the right to enforce all provisions of Article VIII, hereof, against such subsequently created interest.

#### **E. Maintenance of Uniform Interest:**

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or
2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive net proceeds, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

#### **F. Waiver of Right to Partition:**

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

#### ~~**Preferential Right to Purchase:**~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell, and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportion that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

### **ARTICLE IX.**

#### **INTERNAL REVENUE CODE ELECTION**

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the elections made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereto affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

#### ARTICLE X. CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed **Five Thousand** Dollars (\$ 5,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

#### ARTICLE XI. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance; act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

#### ARTICLE XII. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

#### ARTICLE XIII. TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subjected hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease, or oil and gas interest contributed by any other party beyond the term of this agreement.

~~Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and as long as oil and/or gas production continues from any lease or oil and gas interest.~~

X Option No. 2. In the event the well described in Article VIIA, or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of producing, and for an additional period of 180 days from cessation of all production; provided, however, as to the expiration of such additional period one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VIIA, or any subsequent well drilled hereunder, results in a dry hole and no other well is productive, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 180 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

#### ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

##### A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations and orders of any duly constituted regulatory body of said state and to all other applicable federal, state and local laws, ordinances, rules, regulations, and orders. However, non-operators agree to release operator from any and all losses, damages, injuries, claims and causes of action arising out of incident to or resulting directly or indirectly from operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy, Federal Energy Regulatory Commission or predecessor agencies to the extent operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Non-operators further agree to reimburse operator for their proportionate share of any amounts operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with the non-operators' proportionate part of interest and penalties owing by operator as a result of such incorrect interpretation or application of such rules, regulations or orders.

##### B. GOVERNING LAW:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

#### ARTICLE XV OTHER PROVISIONS

##### A. SUBSTITUTE WELL:

1. If, in the drilling of the Initial Well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of Operator, to drill the well to the Objective Depth, then and in any of such events on or before sixty (60) days after completion of the Initial Well, Operator shall have the option to commence the actual drilling of another well (Substitute Well) at a lawful location of Operator's selection on the Unit Area, and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to the Objective Depth. For all purposes of this agreement, the drilling of the Substitute Well shall be considered as the drilling of the Initial Well.

2. Any provision herein concerning the Initial Well shall also apply to the Substitute Well, and any provision herein excepting the Initial Well shall also except the Substitute Well.



B. TEXAS OIL AND GAS CORPORATION FARMOUT PROVISIONS:

1. This Article XV-B constitutes a farmout agreement between Texas Oil and Gas Corporation, hereinafter referred to as Farmout Party, and Harvey E. Yates Company, hereinafter referred to as Drilling Party, whereby Drilling Party shall bear Farmout Party's share of all costs and risks of drilling, testing and completing the Initial and Substitute Test Wells provided for in Article VI-A and Article XV-A hereof.

2. In consideration of Drilling Party's payment of Farmout Party's share of said costs and completion of the Initial or Substitute Test Well as a well capable of producing oil and/or gas in paying quantities (quantities sufficient to return the cost of operating the well and a reasonable profit), Drilling Party shall earn all of Farmout Party's oil and gas rights, whether leasehold or contractual, under the proration unit for said well for all depths from the base of the San Andres formation to 100 feet below the total depth drilled in the Initial Well, and an undivided one-half (1/2) of the present interest of the Farmout Party in the Contract Area outside of the proration unit for said well for all depths from the base of the San Andres formation to 100 feet below the total depth drilled in the Initial Well. Farmout Party shall reserve and retain as an overriding royalty 1/16 of 8/8 under the proration unit for said well of all the oil and gas produced, saved and marketed from the proration unit, with said overriding royalty to be proportionately reduced in accordance with Farmout Party's interest in the Contract Area as set forth on Exhibit "A" of this Operating Agreement. Farmout Party shall execute and deliver to Drilling Party any instruments necessary to effect the intent and purpose of this Agreement.

3. Farmout Party shall have the option at Payout of said well to elect to convert its overriding royalty to its share of a 50% working interest in said well and proration unit, with such working interest to be proportionately reduced in accordance with Farmout Party's interest in the Contract Area as set forth in Exhibit "A" of this Operating Agreement.

4. "Payout" is defined to be the date on which the net proceeds attributable to Operator's total interest in said proration unit shall equal Operator's total share of the costs and expenses, both tangible and intangible, of drilling, equipping testing and completing said well for production, and of operating the said well to produce such amount. "Net proceeds" are defined as the total proceeds received from or credited or allocated to Operator's total interest in the production, less severance, production, windfall profits and other taxes payable on production, together with all royalties, overriding royalties and payments out of production presently in effect created by this agreement. Charges and expenses to be made by the Operator shall be made in accordance with and accounted for as set forth in Exhibit "C" hereto.

5. Farmout Party reserves the option for a call on the portion of production of oil and/or gas and associated products attributable to Farmout Party's interest in the Contract Area as set forth on Exhibit "A" of this Operating Agreement.

MADE A PART OF THE CURLEW UNIT OPERATING  
AGREEMENT DATED DECEMBER 30, 1982

By: \_\_\_\_\_

TEXAS OIL AND GAS CORPORATION

STATE OF TEXAS )

) §§

COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_  
day of \_\_\_\_\_, 1982, by \_\_\_\_\_,  
President of TEXAS OIL AND GAS CORPORATION, a  
corporation, on behalf of said corporation

My Commission Expires: \_\_\_\_\_

Notary Public

B. UNION TEXAS PETROLEUM CORPORATION FARMOUT PROVISIONS:

1. This Article XV-B constitutes a farmout agreement between Union Texas Petroleum Corporation, hereinafter referred to as Farmout Party, and Harvey E. Yates Company, hereinafter referred to as Drilling Party, whereby Drilling Party shall bear Farmout Party's share of all costs and risks of drilling, testing and completing the Initial and Substitute Test Wells provided for in Article VI-A and Article XV-A hereof.

2. In consideration of Drilling Party's payment of Farmout Party's share of said costs and completion of the Initial or Substitute Test Well as a well capable of producing oil and/or gas in paying quantities (quantities sufficient to return the cost of operating the well and a reasonable profit), Drilling Party shall earn all of Farmout Party's oil and gas rights, whether leasehold or contractual, under the proration unit for said well for all depths from the base of the San Andres formation to 100 feet below the total depth drilled in the Initial Well, and an undivided one-half (1/2) of the present interest of the Farmout Party in the Contract Area outside of the proration unit for said well for all depths from the base of the San Andres formation to 100 feet below the total depth drilled in the Initial Well. Farmout Party shall reserve and retain as an overriding royalty 1/16 of 8/8 under the proration unit for said well of all the oil and gas produced, saved and marketed from the proration unit, with said overriding royalty to be proportionately reduced in accordance with Farmout Party's interest in the Contract Area as set forth on Exhibit "A" of this Operating Agreement. Farmout Party shall execute and deliver to Drilling Party any instruments necessary to effect the intent and purpose of this Agreement.

3. Farmout Party shall have the option at Payout of said well to elect to convert its overriding royalty to its share of a 50% working interest in said well and proration unit, with such working interest to be proportionately reduced in accordance with Farmout Party's interest in the Contract Area as set forth in Exhibit "A" of this Operating Agreement.

4. "Payout" is defined to be the date on which the net proceeds attributable to Operator's total interest in said proration unit shall equal Operator's total share of the costs and expenses, both tangible and intangible, of drilling, equipping testing and completing said well for production, and of operating the said well to produce such amount. "Net proceeds" are defined as the total proceeds received from or credited or allocated to Operator's total interest in the production, less severance, production, windfall profits and other taxes payable on production, together with all royalties, overriding royalties and payments out of production presently in effect created by this agreement. Charges and expenses to be made by the Operator shall be made in accordance with and accounted for as set forth in Exhibit "C" hereto.

5. Farmout Party reserves the option for a call on the portion of production of oil and/or gas and associated products attributable to Farmout Party's interest in the Contract Area as set forth on Exhibit "A" of this Operating Agreement.

MADE A PART OF THE CURLEW UNIT OPERATING  
AGREEMENT DATED DECEMBER 30, 1982

By:

UNION TEXAS PETROLEUM CORPORATION

STATE OF TEXAS       )  
                              ) §§  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_  
day of \_\_\_\_\_, 1982, by \_\_\_\_\_,  
President of UNION TEXAS PETROLEUM CORPORATION, a \_\_\_\_\_  
corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

B. SUN PRODUCTION COMPANY FARMOUT PROVISIONS:

1. This Article XV-B constitutes a farmout agreement between Sun Production Company, hereinafter referred to as Farmout Party, and Harvey E. Yates Company, hereinafter referred to as Drilling Party, whereby Drilling Party shall bear Farmout Party's share of all costs and risks of drilling, testing and completing the Initial and Substitute Test Wells provided for in Article VI-A and Article XV-A hereof.

2. In consideration of Drilling Party's payment of Farmout Party's share of said costs and completion of the Initial or Substitute Test Well as a well capable of producing oil and/or gas in paying quantities (quantities sufficient to return the cost of operating the well and a reasonable profit), Drilling Party shall earn all of Farmout Party's oil and gas rights, whether leasehold or contractual, under the proration unit for said well for all depths from the base of the San Andres formation to 100 feet below the total depth drilled in the Initial Well, and an undivided one-half (1/2) of the present interest of the Farmout Party in the Contract Area outside of the proration unit for said well for all depths from the base of the San Andres formation to 100 feet below the total depth drilled in the Initial Well. Farmout Party shall reserve and retain as an overriding royalty 1/16 of 8/8 under the proration unit for said well of all the oil and gas produced, saved and marketed from the proration unit, with said overriding royalty to be proportionately reduced in accordance with Farmout Party's interest in the Contract Area as set forth on Exhibit "A" of this Operating Agreement. Farmout Party shall execute and deliver to Drilling Party any instruments necessary to effect the intent and purpose of this Agreement.

3. Farmout Party shall have the option at Payout of said well to elect to convert its overriding royalty to its share of a 50% working interest in said well and proration unit, with such working interest to be proportionately reduced in accordance with Farmout Party's interest in the Contract Area as set forth in Exhibit "A" of this Operating Agreement.

4. "Payout" is defined to be the date on which the net proceeds attributable to Operator's total interest in said proration unit shall equal Operator's total share of the costs and expenses, both tangible and intangible, of drilling, equipping testing and completing said well for production, and of operating the said well to produce such amount. "Net proceeds" are defined as the total proceeds received from or credited or allocated to Operator's total interest in the production, less severance, production, windfall profits and other taxes payable on production, together with all royalties, overriding royalties and payments out of production presently in effect created by this agreement. Charges and expenses to be made by the Operator shall be made in accordance with and accounted for as set forth in Exhibit "C" hereto.

5. Farmout Party reserves the option for a call on the portion of production of oil and/or gas and associated products attributable to Farmout Party's interest in the Contract Area as set forth on Exhibit "A" of this Operating Agreement.

MADE A PART OF THE CURLEW UNIT OPERATING  
AGREEMENT DATED DECEMBER 30, 1982

By: \_\_\_\_\_  
SUN PRODUCTION COMPANY

STATE OF TEXAS       )  
                              ) §§  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_  
day of \_\_\_\_\_, 1982, by \_\_\_\_\_,  
\_\_\_\_\_, President of SUN PRODUCTION COMPANY, a \_\_\_\_\_  
\_\_\_\_\_, corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

B. J.M. HUBER CORPORATION FARMOUT PROVISIONS:

1. This Article XV-B constitutes a farmout agreement between J.M. Huber Corporation, hereinafter referred to as Farmout Party, and Harvey E. Yates Company, hereinafter referred to as Drilling Party, whereby Drilling Party shall bear Farmout Party's share of all costs and risks of drilling, testing and completing the Initial and Substitute Test Wells provided for in Article VI-A and Article XV-A hereof.

2. In consideration of Drilling Party's payment of Farmout Party's share of said costs and completion of the Initial or Substitute Test Well as a well capable of producing oil and/or gas in paying quantities (quantities sufficient to return the cost of operating the well and a reasonable profit), Drilling Party shall earn all of Farmout Party's oil and gas rights, whether leasehold or contractual, under the proration unit for said well for all depths from the base of the San Andres formation to 100 feet below the total depth drilled in the Initial Well, and an undivided one-half (1/2) of the present interest of the Farmout Party in the Contract Area outside of the proration unit for said well for all depths from the base of the San Andres formation to 100 feet below the total depth drilled in the Initial Well. Farmout Party shall reserve and retain as an overriding royalty 1/16 of 8/8 under the proration unit for said well of all the oil and gas produced, saved and marketed from the proration unit, with said overriding royalty to be proportionately reduced in accordance with Farmout Party's interest in the Contract Area as set forth on Exhibit "A" of this Operating Agreement. Farmout Party shall execute and deliver to Drilling Party a y instruments necessary to effect the intent and purpose of this Agreement.

3. Farmout Party shall have the option at Payout of said well to elect to convert its overriding royalty to its share of a 50% working interest in said well and proration unit, with such working interest to be proportionately reduced in accordance with Farmout Party's interest in the Contract Area as set forth in Exhibit "A" of this Operating Agreement.

4. "Payout" is defined to be the date on which the net proceeds attributable to Operator's total interest in said proration unit shall equal Operator's total share of the costs and expenses, both tangible and intangible, of drilling, equipping testing and completing said well for production, and of operating the said well to produce such amount. "Net proceeds" are defined as the total proceeds received from or credited or allocated to Operator's total interest in the production, less severance, production, windfall profits and other taxes payable on production, together with all royalties, overriding royalties and payments cut of production presently in effect created by this agreement. Charges and expenses to be made by the Operator shall be made in accordance with and accounted for as set forth in Exhibit "C" hereto.

5. Farmout Party reserves the option for a call on the portion of production of oil and/or gas and associated products attributable to Farmout Party's interest in the Contract Area as set forth on Exhibit "A" of this Operating Agreement.

MADE A PART OF THE CURLEW UNIT OPERATING  
AGREEMENT DATED DECEMBER 30, 1982

By: \_\_\_\_\_

J.M. HUBER CORPORATION

STATE OF TEXAS )

) §§

COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_  
day of \_\_\_\_\_, 1982, by \_\_\_\_\_,  
President of J.M. HUBER CORPORATION, a \_\_\_\_\_  
corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

ARTICLE XVI  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 30th day of December 19 81

OPERATOR

ATTEST:

HARVEY E. YATES COMPANY

Assistant Secretary

By:

President

NON-OPERATORS

ATTEST:

SUN PRODUCTION COMPANY

Secretary

By:

President

ATTEST:

UNION TEXAS PETROLEUM CORPORATION

Secretary

By:

President

TENNECO OIL COMPANY

By:

Attorney-in-Fact

ATTEST:

TEXAS OIL & GAS CORPORATION

Secretary

By:

President

ATTEST:

COLUMBIA GAS DEVELOPMENT CORPORATION

Secretary

By:

President

ATTEST:

J. M. HUBER CORPORATION

Secretary

By:

President

ATLANTIC RICHFIELD COMPANY

By: \_\_\_\_\_  
Attorney-in-Fact

ATTEST:

CIBOLA ENERGY CORPORATION

\_\_\_\_\_  
Secretary

By: \_\_\_\_\_  
President

ATTEST:

FRED G. YATES, INC.

\_\_\_\_\_  
Secretary

By: \_\_\_\_\_  
President

ATTEST:

SPIRAL, INC.

\_\_\_\_\_  
Secretary

By: \_\_\_\_\_  
President

ATTEST:

EXPLORERS PETROLEUM CORPORATION

\_\_\_\_\_  
Secretary

By: \_\_\_\_\_  
President

ATTEST:

YATES ENERGY CORPORATION

\_\_\_\_\_  
Secretary

By: \_\_\_\_\_  
President

STATE OF NEW MEXICO       )  
                                  ) SS  
COUNTY OF CHAVES       )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by GEORGE M. YATES, President of HARVEY E. YATES COMPANY, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF TEXAS       )  
                                  ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, President of SUN PRODUCTION COMPANY, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF TEXAS       )  
                                  ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, President of UNION TEXAS PETROLEUM CORPORATION, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF TEXAS       )  
                                  ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, Attorney-in-Fact for TENNECO OIL COMPANY, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF TEXAS       )  
                                  ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, President of TEXAS OIL AND GAS CORPORATION, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO       )  
                                  ) SS  
COUNTY OF CHAVES        )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by GEORGE M. YATES, President of HARVEY E. YATES COMPANY, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF TEXAS            )  
                                  ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, President of SUN PRODUCTION COMPANY, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF TEXAS            )  
                                  ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, President of UNION TEXAS PETROLEUM CORPORATION, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF TEXAS            )  
                                  ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, Attorney-in-Fact for TENNECO OIL COMPANY, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF TEXAS            )  
                                  ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, President of TEXAS OIL AND GAS CORPORATION, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public



STATE OF NEW MEXICO     )  
                              ) SS  
COUNTY OF CHAVES       )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by GEORGE M. YATES, President of HARVEY E. YATES COMPANY, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF TEXAS         )  
                              ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, President of SUN PRODUCTION COMPANY, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF TEXAS         )  
                              ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, President of UNION TEXAS PETROLEUM CORPORATION, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF TEXAS         )  
                              ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, Attorney-in-Fact for TENNECO OIL COMPANY, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF TEXAS         )  
                              ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, President of TEXAS OIL AND GAS CORPORATION, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF TEXAS            )  
                              ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, President of COLUMBIA GAS DEVELOPMENT CORPORATION, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF TEXAS            )  
                              ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, President of J. M. HUBER CORPORATION, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF TEXAS            )  
                              ) SS  
COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by \_\_\_\_\_, Attorney-in-Fact for ATLANTIC RICHFIELD COMPANY, a \_\_\_\_\_ Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO       )  
                              ) SS  
COUNTY OF BERNALILLO    )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by HARVEY E. YATES, JR., President of CIBOLA ENERGY CORPORATION, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO       )  
                              ) SS  
COUNTY OF CHAVES         )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by FRED G. YATES, President of FRED G. YATES, INC., a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO       )  
                                  ) SS  
COUNTY OF CHAVES        )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by HARVEY E. YATES, President of SPIRAL, INC., a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO       )  
                                  ) SS  
COUNTY OF CHAVES        )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by GEORGE M. YATES, President of EXPLORERS PETROLEUM CORPORATION, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO       )  
                                  ) SS  
COUNTY OF CHAVES        )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1982, by FRED G. YATES, President of YATES ENERGY CORPORATION, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THE OPERATING AGREEMENT  
 DATED IN WITNESS WHEREOF, 1961,  
 BETWEEN HARVEY E. YATES COMPANY, AS OPERATOR  
 AND OTHER PARTIES SIGNATORY THEREON, AS NON-OPERATORS

1. LANDS SUBJECT TO CONTRACT:

Township 8 South, Range 30 East, N.M.P.M.

Section 17: All

Section 18: Lots 1, 2, 3, 4, E/2 W/2, E/2

Section 19: Lots 1, 2, 3, 4, E/2 W/2, E/2

Section 20: W/2 NW/4, SE/4 NW/4, SE/4, SE/4, S/2 SE/4, NW/4 NE/4

Containing 2480.66 acres, more or less  
 Chaves County, New Mexico

2. RESTRICTIONS AS TO FORMATIONS AND DEPTH:

Surface to all depths

3. PERCENTAGE INTERESTS OF THE PARTIES TO THIS AGREEMENT:

<u>NAME</u>	<u>UNIT ACRES</u>	<u>UNIT INTEREST</u>
Sun Production Company	53.333333	2.149965%
Union Texas Petroleum Corp.	986.666667	39.774362%
Texas Oil & Gas Corporation	39.962500	1.610962%
Columbia Gas Development Corp.	39.962500	1.610962%
J. M. Huber Corporation	79.925000	3.221925%
Atlantic Richfield Company	240.000000	9.674845%
Tenneco Oil Company	30.000000	1.209356%
Cibola Energy Corporation	150.000000	6.046896%
Fred G. Yates, Inc.	59.810750	2.411082%
Spiral, Inc.	59.810750	2.411082%
Explorers Petroleum Corporation	59.810750	2.411082%
Harvey E. Yates Company	671.377750	27.064481%
	<u>2,480.660000</u>	<u>100.000000%</u>

4. OIL & GAS LEASES AND/OR OIL & GAS INTERESTS SUBJECT TO THIS AGREEMENT:

- a. Oil and Gas Lease dated December 5, 1964 between Virginia C. Marshall and Frankie Crosby Patterson as Lessors, and Harry LeMaire, Jr., as Lessee, subsequently assigned to Allied Chemical Corporation (Union Texas Petroleum Corporation); insofar as portions of said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 17: E/2

Section 18: NE/4, E/2 W/2

Containing 640.0 acres, more or less (HBP)

- b. Oil and Gas Lease dated Jan. 1, 1961, bearing serial number NM-014233 by and between the United States of America as Lessor, and Allied Chemical Corporation (Union Regon Petroleum Corporation) as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 17: NW/4, N/2 SW/4

Containing 240.0 acres, more or less (BSP)

- c. Oil and Gas Lease bearing serial number NM-03782 by and between the United States of America as Lessor, and Union Texas Petroleum Corporation as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 17: E/2 SW/4

Containing 80.0 acres, more or less

- d. Oil and Gas Lease dated March 18, 1981, by and between the Moon Company Trustees as Lessors, and Harvey E. Yates Company as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 20 East, N.M.P.M.

Section 18: Lots 1, 2, 3, 4

Containing 160.81 acres, more or less  
(BEXCO Ref: PBE-3672)

- e. Oil and Gas Lease dated September 23, 1967, by and between Mrs. J. W. McGregor as Lessor, and Cibola Energy Corporation as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 18: SE/4

Containing 160.0 acres, more or less

- f. Oil and Gas Lease dated September 23, 1967, by and between Frank McGregor, Jr. as Lessor, and Cibola Energy Corporation as Lessee; insofar as said lease covers the following lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 18: SE/4

Containing 160.0 acres, more or less

- g. Oil and Gas Lease dated September 23, 1967, by and between Dorothy McGregor as Lessor, and Cibola Energy Corporation as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 18: SE/4

Containing 160.0 acres, more or less

- h. Oil and Gas Lease dated September 23, 1967, by and between Catherine McGregor Estlin as Lessor, and Cibola Energy Corporation as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 18: SE/4

Containing 160.0 acres, more or less

- i. Oil and Gas Lease dated September 23, 1967, by and between Jackson McGregor as Lessor, and Cibola Energy Corporation as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 18: SE/4

Containing 160.0 acres, more or less

- j. Oil and Gas Lease dated September 23, 1967, by and between David Wilson McGregor as Lessor, and Cibola Energy Corporation as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 18: SE/4

Containing 160.0 acres, more or less

- k. Oil and Gas Lease dated November 3, 1981, by and between Dan McGregor as Lessor, and Cibola Energy Corporation as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 18: SE/4

Containing 160.0 acres, more or less

- l. Oil and Gas lease dated July 1, 1979, by and between the Xcon Company Trustees as Lessors, and J. M. Huber Corporation, et al as Lessees; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 19: Lots 1, 2, 3, 4

Containing 159.65 acres, more or less

- m. Oil and Gas Lease dated July 1, 1961, bearing Serial Number NM-0155494 by and between the United States of America as Lessor and Allied Chemical Corporation (Union Texas Petroleum Corporation) as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 19: E/2 NW/4

Containing 80.0 acres, more or less (HBP)

- n. Oil and Gas Lease dated February 1, 1977 bearing Serial Number 88-29224 by and between the United States of America as Lessor and Harvey E. Yates Company as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 19: E/2 NW/4

Section 20: NW/4 SE/4

Containing 120.0 acres, more or less

(HEYCO REF: PBE-2966)

- o. Oil and Gas Lease dated March 1, 1979 by and between U. V. Industries, Inc., as Lessor and Harvey E. Yates Company as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 19: E/2

Containing 320.0 acres, more or less

(HEYCO REF: PBE-3095)

- p. Oil and Gas Lease dated February 27, 1981, by and between Thelma Crosby, et al, as Lessors and Harvey E. Yates Company as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 19: E/2

Section 20: W/2 NW/4, SE/4 NW/4

Containing 440.0 acres, more or less

(HEYCO REF: PBE-3734)

- q. Oil and Gas Lease dated April 29, 1981, by and between Frates Seeligson and wife, Martha as Lessors, and Harvey E. Yates Company as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 19: E/2

Section 20: W/2 NW/4, SE/4 NW/4

Containing 440.0 acres, more or less

(HEYCO REF: PBE-3746)

- r. Unleased mineral interest owned by Tenneco Oil Company; insofar as said mineral interest covers portions of the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 20: W/2 NW/4, SE/4 NW/4

Containing 120.0 acres, more or less

- s. Oil and Gas Lease dated December 29, 1980, by and between R. L. Jackson and wife, Lela J. as Lessors, and Harvey E. Yates Company as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 20: SW/4

Containing 160.0 acres, more or less

(HEYCO REF: PBE-3632)

4. Oil and Gas Lease dated July 1, 1961 bearing Serial Number 104-0155494-A by and between The United States of America as Lessor, and Atlantic Richfield Company as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 8 South, Range 30 East, N.M.P.M.

Section 20: S/2 SE/4, SE/4

Containing 250.9 acres, more or less (BBP)

5. ADDRESSES OF PARTIES FOR NOTICE PURPOSES:

Atlantic Richfield Company  
P. O. Box 1610  
Midland, Texas 79702

J. K. Huber Corporation  
1900 Wilco Building  
Midland, Texas 79701

Sun Production Company  
P. O. Box 4067  
Midland, Texas 79702

Texas Oil & Gas Corporation  
900 Wilco Building  
Midland, Texas 79701

Harvey E. Yates Company  
Spiral, Inc.  
Explorers Petroleum Corporation  
P. O. Box 1933  
Roswell, New Mexico 88201

Cibola Energy Corporation  
P. O. Box 1668  
Albuquerque, New Mexico 87103

Columbia Gas Development Corporation  
P. O. Box 1350  
Houston, Texas 77001

Tenneco Oil Company  
6800 Park Ten Boulevard  
Suite 200 N  
San Antonio, Texas 78213

Union Texas Petroleum Corporation  
1300 Wilco Building  
Midland, Texas 79701

Yates Energy Corporation  
Fred G. Yates, Inc.  
Suite 919  
Roswell, New Mexico 88201



## EXHIBIT "C"

Attached to and made a part of THE OPERATING AGREEMENT  
DATED DECEMBER 30, 1981,  
BY AND BETWEEN HARVEY E. YATES COMPANY, AS OPERATOR  
AND OTHER SIGNATORY PARTIES THERETO AS NON-OPERATORS

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

### 2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

### 3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within thirty (30) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

### 4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof, provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

### 5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

### 6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

Lease rentals and royalties payable by Operator for the Joint operations.

### 2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

### 3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

### 4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

### 5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

### 6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1.1 of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

### 7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

### 8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

### 9. Legal Expense

- A. Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.
- B. Expenses incurred by Operator in representing the Joint Property at hearings or proceedings before state or federal regulatory or administrative agencies.

#### 10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

#### 11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

#### 12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

### III. OVERHEAD

#### I. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- ( X ) Fixed Rate Basis, Paragraph 1A, or
- ( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not ( X ) be covered by the Overhead rates.

#### A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$4,000.00

Producing Well Rate \$400.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

##### (a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

##### (b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

## 10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

## 11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers' Liability under the respective state's laws, Operator may, at its election, include the risk under its self insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed market rates.

## 12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

# III. OVERHEAD

## 1. Overhead - Drilling and Producing Operations

(a) Compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- (X) Fixed Rate Basis, Paragraph 1A, or
- ( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- (i) The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (X) be covered by the Overhead rates.

### A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$4,000.00

Producing Well Rate \$ 400.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

#### (a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

#### (b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

#### 10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

#### 11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed normal rates.

#### 12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

### III. OVERHEAD

#### 1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- ( X ) Fixed Rate Basis, Paragraph 1A, or
- ( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not ( X ) be covered by the Overhead rates.

#### A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$4,000.00

Producing Well Rate \$400.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

##### (a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

##### (b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

### B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

Percent (  $\frac{\quad}{\quad}$  ) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits

(b) Operating

Percent (  $\frac{\quad}{\quad}$  ) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, re-drilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

### 2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$  $\frac{\quad}{\quad}$  :

- A. \*  $\frac{\quad}{\quad}$  % of total costs if such costs are more than \$  $\frac{\quad}{\quad}$  but less than \$  $\frac{\quad}{\quad}$  ; plus
- B. \*  $\frac{\quad}{\quad}$  % of total costs in excess of \$  $\frac{\quad}{\quad}$  but less than \$1,000,000; plus
- C. \*  $\frac{\quad}{\quad}$  % of total costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

**\*TO BE NEGOTIATED**

### 3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

## IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

### 1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

### 2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

#### A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
  - (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
  - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

#### B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

(b) at sixty-five percent (65%) of current new price as determined by Paragraph 1A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the manufacturing property.

**C. Other Use? Material (Condition C and D)**

**(1) Condition C**

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

**(2) Condition D**

All other Material, including parts, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

**D. Obsolete Material**

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

**E. Pricing Conditions**

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

**3. Premium Prices**

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

**4. Warranty of Material Furnished by Operator**

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

## **V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

**1. Periodic Inventories, Notice and Representation**

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

**2. Reconciliation and Adjustment of Inventories**

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

**4. Expense of Conducting Periodic Inventories**

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

ARTICLE IV, Section 10, of the  
Joint Account Agreement, dated December 30, 1981

THE PARTIES HERETO, THE JOINT ACCOUNT, and the

Operator, have agreed to the following:

At all times during the conduct of operations hereunder, Operator shall maintain in force the following insurance:

A. Worker's Compensation Insurance and Employer's Liability Insurance as required by the laws of the state in which operations are being conducted.

B. Comprehensive General Public Liability in the following:

    Bodily Injury: \$200,000 each person

                  \$300,000 each accident

    Property Damage: \$100,000 each accident

                  \$100,000 aggregate

C. Automobile Public Liability and Property Damage Insurance with limits of not less than \$100,000 for any one person injured in any accident and not less than \$300,000 for any number of persons injured in one accident, and with not less than \$50,000 property damage coverage for one accident.

All premiums paid on such insurance shall be charged to the Joint Account. Except by mutual consent of the parties, no other insurance shall be maintained for the Joint Account, and all losses not covered by such insurance shall be charged to the Joint Account.



ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED  
December 30, 1981 BETWEEN HANLEY A. WATSON COMPANY AN OPERATOR,  
AND OTHER PARTIES SIGNATORY HERETO AS PARTICIPATIONS.

THIS AGREEMENT WITNESSETH:

The parties to the Operating Agreement to which this gas storage agreement is attached own the undivided interest in the gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of participation set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party hereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto is not able to market its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this storage agreement shall automatically become effective.

During the period of periods when any party hereto has no market for its share of gas produced from the Contract Area, or its purchaser is unable to take its share of gas produced from the Contract Area, the other parties shall be entitled to produce even with one hundred percent of the allowable gas production assigned to such Contract Area by the regulatory agency having jurisdiction thereover, and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this gas storage agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, and the total quantity of liquid hydrocarbons recovered therefrom.

At all times while gas is produced from the Contract Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share alone. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from the Contract Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to its share plus fifty percent (50%) of the overproduced party or parties' share of gas produced from the Contract Area. If two or more parties are entitled to the fifty percent (50%) of the overproduced party or parties' share of gas produced, they shall divide such fifty percent (50%) in accordance with their percentage of participation in the Contract Area.

In the event production of gas from the Contract Area permanently ceases prior to the time that the accounts of the parties have been balanced, it is agreed that a complete balancing will be accomplished by a money settlement between the parties. Such settlement shall be based upon the price actually received by the parties for overproduction when it occurred of a volume of gas equal to that for which settlement is made.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THE  
OPERATING AGREEMENT DATED December 30, 1981  
BETWEEN HARVEY E. YATES COMPANY AS OPERATOR AND  
OTHER CONTRACTORY PARTIES HEREIN AS NON-OPERATORS

NONDISCRIMINATION CLAUSE

HARVEY E. YATES COMPANY, hereinafter referred to as 'Operator' agrees, unless exempt therefrom, to comply with all provisions of Executive Order 11246, which are incorporated herein by reference, and if Operator has more than 50 employees, Operator must file Standard Form 100 (SFO-1) and develop a written "Affirmative Action Compliance Program" for each of its establishments according to the Rules and Regulations published by the United States Department of Labor in 41 C.F.R., Chapter 60. Operator further hereby certifies that it does not now and will not maintain any facilities provided for its employees in a segregated manner or permit its employees to perform their services at any location under its control where segregated facilities are maintained, as such segregated facilities are defined in Title 41, Chapter 60-1.3, Code of Federal Regulations, revised as of January 1, 1969, unless exempt therefrom.

Unless exempt by rules, regulations or orders of the United States Secretary of Labor, issued pursuant to Section 204 of the Executive Order 11246 dated September 24, 1965, during the performance of this contract, the operator agrees as follows:

- (1) The operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure the applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting office setting forth the provisions of this nondiscrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
- (3) The Operator will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THE  
PERFORMING AGREEMENT DATED December 30, 1981  
BETWEEN HARVEY E. YATES COMPANY AS OPERATOR AND  
VANCE AIRCRAFT PARTS LIMITED AS NON-OPERATOR.

NONDISCRIMINATION CLAUSE

HARVEY E. YATES COMPANY, hereinafter referred to as 'Operator' herein, unless exempt therefrom, to comply with all provisions of Executive Order 11246, which are incorporated herein by reference, and if Operator has more than 50 employees, Operator must file Standard Form 100 (EEO-1) and develop a written "Affirmative Action Compliance Program" for each of its establishments according to the rules and Regulations published by the United States Department of Labor in 41 C.F.R., Chapter 60. Operator further hereby certifies that it does not now and will not maintain any facilities provided for its employees in a segregated manner or permit its employees to perform their services at any location under its control where segregated facilities are maintained, as such segregated facilities are defined in Title 41, Chapter 60-1.3, Code of Federal Regulations, revised as of January 1, 1969, unless exempt therefrom.

Unless exempt by rules, regulations or orders of the United States Secretary of Labor, issued pursuant to Section 204 of the Executive Order 11246 dated September 24, 1965, during the performance of this contract, the Operator agrees as follows:

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure the applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting office setting forth the provisions of this nondiscrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
- (3) The Operator will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- (6) In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rules, regulations or orders of the Secretary of Labor, or as otherwise provided by law.
- (7) The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; provided however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States."

LEASE Curlew Unit WELL NUMBER 1  
 LOCATION 1980' FNL & 1980' FEL, Section 19, T-18S, R-30E  
 COUNTY Chaves DEPTH 9250 PRODUCING FORMATION Atoka - Morrow

Producing Well Cost Dry Hole Cost

Drilling and completion costs

Intangible drilling costs

Location	\$ 20000	\$ 20000
Footage <u>9250</u> @ <u>\$29.50/ft</u>	272875	272875
Daywork <u>7 days</u> @ <u>\$78.75/day</u>	55125	55125
Surface casing service	8200	8200
Intermediate casing service	21000	21000
Mud, water	25000	25000
Company supervisor, engineer	4000	4000
Rentals, coring service	12000	12000
Miscellaneous	25000	25000
Total intangible drilling costs	443200	443200

Intangible formation evaluation cost

Logs, <u>CNL</u> , <u>FDC</u> , <u>DLL-Rxo</u>	27000	27000
DST <u>5</u> @ <u>3550/each</u>	17750	17750
Geological mud logging service	15000	15000
Miscellaneous	4000	4000
Total intangible formation evaluation	63750	63750

Intangible completion costs

Unit cost <u>10 days</u> @ <u>1500/day</u>	15000	
Production casing service	13000	
Completion fluid	2000	
Perforating/production logging	12500	
Treating	25000	
Company supervision	3000	1500
Plugging expense		15000
Miscellaneous	10000	
Total intangible completion costs	80500	16500

Tangible drilling costs and completion costs

Surface casing		
<u>300</u> of <u>13 3/8</u>	6000	6000
Intermediate casing		
<u>2800</u> of <u>8 5/8</u>	40000	40000
Production casing		
<u>9250</u> of <u>4 1/2</u>	72800	
Production tubing		
<u>9200</u> of <u>2 3/8</u>	35500	
Casing head	2000	
Tubing head	13000	
Christmas tree	8000	
Subsurface equipment	2500	
Total tangible drilling costs and completion costs	179800	

Lease equipment

Tanks	6000	
Separator	15000	
Flow lines	3500	
Meter runs	2000	
Pumping units		
Installation costs	3500	
Total lease equipment	30000	

Total intangible costs	587450	523450
Total tangible costs	179800	46000
Total lease equipment	30000	
Administrative	5000	4000

TOTAL COSTS

Prepared by: <u>Peck Hardee</u>	Date: <u>1/4/82</u>	\$ 802250	\$ 573450
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APPROVED BY:

"It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."

Company

Date

Dockets Nos. 7-82 and 8-82 are tentatively set for March 3 and March 17, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - FEBRUARY 17, 1982

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM  
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

- ALLOWABLE:**
- (1) Consideration of the allowable production of gas for March, 1982, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
  - (2) Consideration of the allowable production of gas for March, 1982, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.
  - (3) Consideration of purchaser's nominations for the one year period beginning April 1, 1982, for both of the above areas.

**CASE 7445:** (Continued from December 16, 1981, Examiner Hearing)  
(THIS CASE WILL BE CONTINUED TO THE EXAMINER HEARING ON MARCH 17, 1982)

Application of Harvey E. Yates Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the San Andres formation for its Fulton Collier Well No. 1 in Unit G of Section 1, Township 18 South, Range 28 East.

**CASE 7479:** Application of Northwest Pipeline Corporation for amendment of Order No. R-2046, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the Amendment of Division Order No. R-2046, which authorized approval of six non-standard proration units, Basin-Dakota Gas Pool.

The amendment sought is for the creation of the following non-standard proration units to be drilled at standard locations thereon: Township 31 North, Range 6 West, Section 25: N/2 (272.16 acres) and S/2 (273.3 acres); Section 36: N/2 (272.56 acres) and S/2 (272.88 acres); Township 30 North, Range 6 West; Section 1: N/2 (272.81 acres) and S/2 (273.49 acres).

**CASE 7480:** Application of Arco Oil & Gas Company for pool creation, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Upper Devonian gas pool for its Custer Well No. 1 located 1810 feet from the North line and 2164 feet from the West line of Section 6, Township 25 South, Range 37 East, Custer Field.

**CASE 7481:** Application of Arco Oil & Gas Company for amendment of Order No. R-6792, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Division Order No. R-6792, which authorized the directional drilling of applicant's Custer Wells Well No. 1 to an unorthodox location in the Devonian and Ellenburger formations and imposed a penalty in the Devonian. By stipulation applicant and the offset operator have agreed that the subject well is not affecting the offsetting property and applicant herein seeks removal of the penalty imposed for so long as the well produces only from the present perforated interval in the Upper Devonian.

**CASE 7459:** (Continued from January 20, 1982, Examiner Hearing)

Application of Red Mountain Associates for the Amendment of Order No. R-6538, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-6538, which authorized applicant to conduct waterflood operations in the Chaco Wash-Mesa Verde Oil Pool. Applicant seeks approval for the injection of water through various other wells than those originally approved, seeks deletion of the requirement for packers in injection wells, and seeks an increase in the previously authorized 68-pound limitation on injection pressure.

**CASE 7410:** (Continued from January 20, 1982, Examiner Hearing)

Application of B.O.A. Oil & Gas Company for two unorthodox oil well locations, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 2035 feet from the South line and 2455 feet from the East line and one to be drilled 2455 feet from the North line and 1944 feet from the East line, both in Section 31, Township 31 North, Range 15 West, Verde-Gallup Oil Pool, the NW/4 SE/4 and SW/4 NE/4, respectively, of said Section 31 to be dedicated to said wells.

EXAMINER HEARING - WEDNESDAY - FEBRUARY 17, 1982

CASE 7457: (Continued from January 20, 1982, Examiner Hearing)

Application of E. T. Ross for nine non-standard gas proration units, Harding County, New Mexico. Applicant, in the above-styled cause, seeks approval for nine 40-acre non-standard gas proration units in the Bravo Dome Carbon Dioxide Area. In Township 19 North, Range 30 East: Section 12, the NW/4 NW/4 and NE/4 NW/4; Section 13, the NW/4 NE/4, SW/4 NE/4, and SE/4 NE/4. In Township 20 North, Range 30 East: Section 11, the NE/4 SW/4, SW/4 SE/4, SE/4 SW/4, and NW/4 SE/4.

CASE 7482: Application of Wiser Oil Company for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox location 1295 feet from the South line and 1345 feet from the West line of Section 32, Township 21 South, Range 37 East, Penrose-Skelly Pool.CASE 7483: Application of Adams Exploration Company for salt water disposal, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the San Andres formation in the perforated interval from 4176 feet to 4293 feet in its Griffin Well No. 4 located in Unit A, of Section 10, Township 8 South, Range 32 East, Chaveroo-San Andres Pool.CASE 7462: (Continued from February 3, 1982, Examiner Hearing)

Application of Marathon Oil Company for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of the Drinkard and Blinberry production in the wellbore of its C. J. Saunders Well No. 3, located in Unit C of Section 1, Township 22 South, Range 36 East.

CASE 7474: (Continued from February 3, 1982, Examiner Hearing)

Application of Union Oil Company of California for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Strawn, Atoka and Morrow formations underlying the E/2 of Section 25, Township 19 South, Range 33 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost 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.

CASE 7484: Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Atoka and Morrow formations underlying the E/2 of Section 1, Township 19 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost 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.CASE 7485: Application of Berge Exploration for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Abo formation underlying two 160-acre proration units, the first being the NW/4 and the second being the SW/4 of Section 27, Township 7 South, Range 26 East, each to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.CASE 7486: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Abo formation underlying the NE/4 NE/4 of Section 6, Township 20 South, Range 39 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost 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.CASE 7487: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Abo formation underlying the SE/4 SE/4 of Section 31, Township 19 South, Range 39 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost 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.

CASE 7488: Application of Burkhart Petroleum Company for compulsory pooling, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying the SW/4 NW/4 of Section 13, Township 8 South, Range 37 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost 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.

CASE 7073: (Reopened and Readvertised)

In the matter of Case 7073 being reopened pursuant to the provisions of Order No. R-6558, which order promulgated special rules for the South Elkins-Fusselman Pool in Chaves County including provisions for 60-acre spacing units and a limiting gas-oil ratio of 3000 to one. All interested parties may appear and show cause why said pool should not be developed on 40-acre spacing units with a limiting gas-oil ratio of 2000 to one.

CASE 7074: (Reopened and Readvertised)

In the matter of Case 7074 being reopened pursuant to the provisions of Orders Nos. R-6565 and R-6565-B, which created the South Elkins-Fusselman Gas Pool in Chaves County. All interested parties may appear and present evidence as to the exact nature of the reservoir, and more particularly, as to the proper rate of withdrawal from the reservoir if it is determined that said pool is producing from a retrograde gas condensate reservoir.

CASE 6373: (Reopened and Readvertised)

In the matter of Case 6373 being reopened pursuant to the provisions of Orders Nos. R-5875 and R-5875-A, which created the East High Hope - Abo Gas pool in Eddy County, and promulgated special rules therefor, including a provision for 320-acre spacing units. All interested parties may appear and show cause why said pool should not be developed on 160-acre spacing units.

CASE 7489: Application of Curtis J. Little for designation of a tight formation, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Chacra formation underlying portions of Township 25 North, Range 6 West, containing 6,720 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271.701-705.

CASE 7490: Application of Harvey E. Yates Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Atoka-Morrow formation, underlying the N/2 of Section 19, Township 8 South, Range 30 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost 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.

CASE 7491: Application of Harvey E. Yates Company for designation of a tight formation, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Atoka formation underlying portions of Townships 12, 13, and 14 South, Ranges 35 and 36 East, containing 46,720 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271.701-705, said area being an eastward and westward extension of previously approved tight formation area.

CASE 7492: Application of Harvey E. Yates Company for designation of a tight formation, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Atoka-Morrow formation underlying all or portions of Townships 7, 8, and 9 South, Ranges 29, 30, and 31 East, containing 115,200 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271.701-705.

CASE 7493: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating and extending certain pools in Chaves, Eddy, Lea, and Roosevelt Counties, New Mexico.

(a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the East Bootleg Ridge-Morrow Gas Pool. The discovery well is Getty Oil Company Getty 15 Federal Well No. 1 located in Unit J of Section 15, Township 22 South, Range 33 East, NMPM. Said Pool would comprise:

TOWNSHIP 22 SOUTH, RANGE 33 EAST, NMPM  
Section 15: S/2



(b) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Devonian production and designated as the North King-Devonian Pool. The discovery well is Samedan Oil Corporation Speight Well No. 1 located in Unit B of Section 3, Township 13 South, Range 37 East, NMPM. Said pool would comprise:

TOWNSHIP 13 SOUTH, RANGE 37 EAST, NMPM  
Section 3: NE/4

(c) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Atoka production and designated as the North Loving-Atoka Gas Pool. The discovery well is Gulf Oil Corporation Eddy GR State Well No. 1 located in Unit E of Section 16, Township 23 South, Range 28 East, NMPM. Said pool would comprise:

TOWNSHIP 23 SOUTH, RANGE 27 EAST, NMPM  
Section 12: N/2

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM  
Section 4: S/2  
Section 7: All  
Section 8: All  
Section 9: All  
Section 16: All  
Section 17: All  
Section 18: E/2

(d) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Drinkard production and designated as the Teague-Drinkard Pool. The discovery well is Alpha Twenty-One Production Company Lea Well No. 1 located in Unit B of Section 17, Township 23 South, Range 37 East, NMPM. Said pool would comprise:

TOWNSHIP 23 SOUTH, RANGE 37 EAST, NMPM  
Section 17: NE/4

(e) EXTEND the West Atoka-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 25 EAST, NMPM  
Section 23: All  
Section 24: W/2

(f) EXTEND the Atoka-Pennsylvanian Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 26 EAST, NMPM  
Section 16: W/2

(g) EXTEND the Avalon-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 26 EAST, NMPM  
Section 2: Lots 1 through 8

(h) EXTEND the Brunson-Fusselman Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM  
Section 5: SE/4

(i) EXTEND the BrushyDraw-Delaware Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 26 SOUTH, RANGE 29 EAST, NMPM  
Section 26: E/2

(j) EXTEND the Buffalo Valley-Pennsylvanian Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NMPM  
Section 23: All  
Section 26: All

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EXAMINER HEARING - WEDNESDAY - FEBRUARY 17, 1982

(k) EXTEND the Cary-Montoya Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM  
Section 4: W/2 SW/4  
Section 5: SE/4  
Section 9: W/2 W/2

(l) EXTEND the Crow Flats-Morrow Gas Pool in Eddy County, New Mexico to include therein:

TOWNSHIP 16 SOUTH, RANGE 27 EAST, NMPM  
Section 35: E/2  
Section 36: W/2

(m) EXTEND the South Culebra Bluff-Bone Spring Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM  
Section 25: S/2 SW/4  
Section 27: SW/4

(n) EXTEND the Elkins-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 7 SOUTH, RANGE 28 EAST, NMPM  
Section 21: NE/4

(o) EXTEND the Empire-Abo Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 29 EAST, NMPM  
Section 19: S/2 SW/4

(p) EXTEND the Henshaw-Queen Grayburg-San Andres Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 31 EAST, NMPM  
Section 19: NE/4 NW/4

(q) EXTEND the Indian Flats-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 28 EAST, NMPM  
Section 26: W/2

(r) EXTEND the West Nadine-Blinebry Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM  
Section 8: NW/4

(s) EXTEND the Peterson-Mississippian Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 4 SOUTH, RANGE 33 EAST, NMPM  
Section 28: NW/4

(t) EXTEND the Race Track-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 28 EAST, NMPM  
Section 7: S/2 SW/4  
Section 18: NW/4 and N/2 SW/4 and SW/4 SW/4

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EXAMINER HEARING - WEDNESDAY - FEBRUARY 17, 1982

(u) EXTEND the Railroad Mountain-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM  
Section 24: NE/4 and E/2 NW/4

(v) EXTEND the Red Lake-Queen-Grayburg-San Andres Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM  
Section 7: S/2  
Section 8: SW/4  
Section 18: E/2 NW/4

(w) EXTEND THE West Sawyer-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 37 EAST, NMPM  
Section 5: SW/4

(x) EXTEND the Turkey Track-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM  
Section 15: All

(y) EXTEND the Twin Lakes-San Andres Associated Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM  
Section 13: SE/4  
Section 24: NE/4

TOWNSHIP 9 SOUTH, RANGE 28 EAST, NMPM  
Section 12: S/2 NE/4

TOWNSHIP 9 SOUTH, RANGE 29 EAST, NMPM  
Section 7: S/2  
Section 8: NW/4

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EXAMINER HEARING - WEDNESDAY - FEBRUARY 17, 1982

(u) EXTEND the Railroad Mountain-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 24 EAST, NMPM  
Section 2: NE/4 and E/2 NW/4

(v) EXTEND the Red Lake-Queen-Grayburg-San Andres Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM  
Section 7: S/2  
Section 8: SW/4  
Section 18: E/2 NW/4

(w) EXTEND THE West Sawyer-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 37 EAST, NMPM  
Section 5: SW/4

(x) EXTEND the Turkey Track-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM  
Section 15: All

(y) EXTEND the Twin Lakes-San Andres Associated Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM  
Section 13: SE/4  
Section 24: NE/4

TOWNSHIP 9 SOUTH, RANGE 28 EAST, NMPM  
Section 12: S/2 NE/4

TOWNSHIP 9 SOUTH, RANGE 29 EAST, NMPM  
Section 7: S/2  
Section 8: NW/4

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

IN THE MATTER OF THE APPLICATION :  
OF HARVEY E. YATES COMPANY : Case No. 7490  
FOR COMPULSORY POOLING, :  
CHAVES COUNTY, NEW MEXICO :

AMENDED APPLICATION

COMES NOW HARVEY E. YATES COMPANY by its attorney and respectfully states:

1. Applicant proposes to drill a well at a standard location situated 1980 FNL and 1980 FEL, Section 19, Township 8 South, Range 30 East, N.M.P.M., Chaves County, New Mexico, to the Atoka-Morrow formation and dedicate the N/2 of Section 19 to said well.

2. Applicant is the owner of, and/or holds the contractual right, to drill and develop from the surface through the Morrow formation underlying the following described lands situated within the N/2 of Section 19:

<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
NE/4	75.00%	Working Interest	160.00
E/2 NW/4	100.00%	Working Interest	80.00

3. Applicant has obtained voluntary consent to pooling of interests from the surface through the Morrow formation underlying the N/2 of said Section 19, with the exception of the parties named below, whose addresses, and interests owned, according to Applicant's information and belief, are as follows:

<u>Owner</u>	<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
J.M. Huber Co. 1900 Wilco Bldg. Midland, TX 79701	W/2 NW/4	50.00%	Working Interest	40.025
Texas Oil & Gas Corp. 900 Wilco Building Midland, TX 79701	W/2 NW/4	50.00%	Working Interest	40.025

4. Applicant has been unable to obtain voluntary agreement for pooling of the interests described in paragraph 3 immediately above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, all interests from the surface through the Morrow formation underlying the N/2 of said Section 19 should be pooled pursuant to the provisions of §70-2-17 N.M.S.A., 1978 (formerly §65-3-14 N.M.S.A, 1953).

5. Applicant should be designated operator of said pooled lands.

6. The risk and expense of drilling and completing the proposed well is great, and if the owners of the interests described in paragraph 3 above, or any other unknown owners of interests in the proposed proration unit, do not choose to pay their share of the costs of drilling and completing said proposed well, then Applicant should be allowed a reasonable charge for supervision of said well, and a charge for the risk involved in addition to recovery of the actual cost of drilling and completing said well.

WHEREFORE, Applicant Prays:

A. That this application be set for hearing before an examiner and that notice of said hearing be given as required by law.

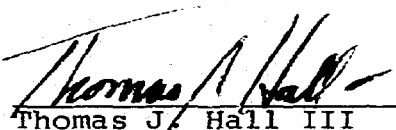
B. That upon such hearing the Division enter its pooling all interests from the surface through the Morrow formation underlying the N/2 of Section 19, Township 8 South, Range 30 East, N.M.P.M. Chaves County, New Mexico, designating applicant as Operator of said pooled lands, making provision for applicant to recover its costs from production, including an appropriate risk factor, and provisions for payment of operating costs and costs of supervision from production, to be allocated among the interest owners as their interests may be determined.

C. For such further relief as the Division deems just and proper.

DATED this 29 day of January 1982.

HARVEY E. YATES COMPANY

BY:

  
Thomas J. Hall III  
Attorney for Applicant  
P. O. Box 1933  
Roswell, New Mexico 88201

TJH:dk

OCD-1 #24

**HEYCO**

PETROLEUM PRODUCERS



**HARVEY E. YATES COMPANY**

SANTA FE DIVISION

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505-623-6601

ROSWELL, NEW MEXICO 88201

January 25, 1982

Oil Conservation Division  
Post Office Box 2028  
Santa Fe, New Mexico 87501

ATTENTION: Florine Davidson

RE: Curlew Unit  
Section 19  
T-8S, R-30E  
Chaves County, New Mexico  
(HEYCO Ref: 9140)

Gentlemen:

Enclosed please find the Application for Compulsory Pooling covering Section 19, Township 8 South, Range 30 East, Chaves County, New Mexico, which is set for hearing on February 17, 1982.

Sincerely,

Thomas J. Hall, III  
Attorney

TJH:dk

Enclosure

*Case 7490*



RECEIVED  
JAN 27 1981

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

IN THE MATTER OF THE APPLICATION :  
OF HARVEY E. YATES COMPANY : Case No. 7770  
FOR COMPULSORY POOLING, :  
CHAVES COUNTY, NEW MEXICO :

APPLICATION

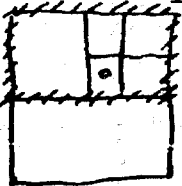
COMES NOW HARVEY E. YATES COMPANY by its attorney and respectfully states:

1. Applicant proposes to drill a well at a standard location situated 1980 FNL and 1980 FEL, Section 19, Township 8 South, Range 30 East, N.M.P.M., Chaves County, New Mexico, to the Atoka-Morrow formation and dedicate the N/2 of Section 19 to said well.

2. Applicant is the owner of, and/or holds the contractual right, to drill and develop from the surface through the Morrow formation underlying the following described lands situated within the N/2 of Section 19:

<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
NE/4	75.00%	Working Interest	120.00
E/2 NW/4	100.00%	Working Interest	80.00

3. Applicant has obtained voluntary consent to pooling of interests from the surface through the Morrow formation underlying the N/2 of said Section 19, with the exception of the parties named below, whose addresses, and interests owned, according to Applicant's information and belief, are as follows:



<u>Owner</u>	<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
J.M. Huber Co. 1900 Wilco Bldg. Midland, TX 79701	W/2 NW/4	50.00%	Working Interest	40.025
Tenneco 6800 Park Ten Blvd. Suite 200N San Antonio, TX 78213	NE/4	25.00%	Working Interest	40.00
Texas Oil & Gas Corp. 900 Wilco Building Midland, TX 79701	W/2 NW/4	50.00%	Working Interest	40.025

4. Applicant has been unable to obtain voluntary agreement for pooling of the interests described in paragraph 3 immediately above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, all interests from the surface through the Morrow formation underlying the N/2 of said Section 19 should be pooled pursuant to the provisions of §70-2-17 N.M.S.A., 1978 (formerly §65-3-14 N.M.S.A., 1953).

5. Applicant should be designated operator of said pooled lands.

6. The risk and expense of drilling and completing the proposed well is great, and if the owners of the interests described in paragraph 3 above, or any other unknown owners of interests in the proposed proration unit, do not choose to pay their share of the costs of drilling and completing said proposed well, then Applicant should be allowed a reasonable charge for supervision of said well, and a charge for the risk involved in addition to recovery of the actual cost of drilling and completing said well.

WHEREFORE, Applicant Prays:

A. That this application be set for hearing before an examiner and that notice of said hearing be given as required by law.

B. That upon such hearing the Division enter its pooling all interests from the surface through the Morrow formation underlying the N/2 of Section 19, Township 8 South, Range 30 East, N.M.P.M. Chaves County, New Mexico, designating applicant as Operator of said pooled lands, making provision for applicant to recover its costs from production, including an appropriate risk factor, and provisions for payment of operating costs and costs of supervision from production, to be allocated among the interest owners as their interests may be determined.

C. For such further relief as the Division deems just and proper.

DATED this 25 day of January 1982.

HARVEY E. YATES COMPANY

BY: Thomas J. Hall III  
Thomas J. Hall III  
Attorney for Applicant  
P. O. Box 1933  
Roswell, New Mexico 88201

TJH:dk

OCD-1 #24

# Memo

From

FLORENE DAVIDSON  
ADMINISTRATIVE SECRETARY

To

February 17, 1932  
Called in by Joe Hall  
1/25/32

Harvey S. Yates Company  
Compulsory Pooling

Atoka - Morrow

N12

Deer County

19-85-30 E

1980/N + E

OIL CONSERVATION COMMISSION-SANTA FE

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASE NO. 7490

Order No. R- 498

APPLICATION OF HARVEY E. YATES COMPANY  
FOR COMPULSORY POOLING, CHAVES COUNTY,  
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on February 17, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this \_\_\_\_\_ day of February, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Harvey E. Yates Company, seeks an order pooling all mineral interests down through and including the Atoka-Morrow formation underlying the N/2 of Section 19, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That 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.

(8) That 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.

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

(10) That 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.

(11) That \$ 4000<sup>00</sup> per month while drilling and \$ 400<sup>00</sup> per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that 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.

(12) That 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.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, down through and including the Atoka-Morrow formation underlying the N/2 of Section 19, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15<sup>th</sup> day of July, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Atoka-Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15<sup>th</sup> day of July, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good



cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Harvey E. Yates Company is hereby designated the operator of the subject well and unit.

(3) That 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 unit an itemized schedule of estimated well costs.

(4) That 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 that 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) That 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; that 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, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated 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) That 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~~ 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$ 4000<sup>00</sup> per month while drilling and \$ 400<sup>00</sup> per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that 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) That any unsevered 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) That 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) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Chaves County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that 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) That 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

JOE D. RAMEY,  
Director

S E A L