

CASE NO.

7576

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APPLICATION,  
TRANSCRIPTS,  
SMALL EXHIBITS,  
ETC.

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STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO  
12 May 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Apollo Oil Company for  
compulsory pooling, Lea County, New  
Mexico.

CASES  
7576  
and  
7577

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:

W. Thomas Kellahin, Esq.  
KELLAHIN & KELLAHIN  
500 Don Gaspar  
Santa Fe, New Mexico 87501

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E X H I B I T S

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2 MR. STAMETS: The hearing will please come  
3 to order.

4 We're going to call two cases together.  
5 These were docketed together. These are cases 7576 and 7577.

6 MR. PEARCE: And those are the application  
7 of Apollo Oil Company for compulsory pooling, Lea County, New  
8 Mexico.

9 MR. KELLAHIN: I'm Tom Kellahin of Santa  
10 Fe, New Mexico, appearing on behalf of the applicant, and I  
11 have one witness.

12  
13 (Witness sworn.)

14  
15 MOHAMMED Y. MERCHANT  
16 being called as a witness and being duly sworn upon his oath,  
17 testified as follows, to-wit:

18  
19 DIRECT EXAMINATION

20 BY MR. KELLAHIN:

21 Q Mr. Stamets, Mr. Merchant and Mr. Allen  
22 Ralston have two different companies, both with very similar  
23 names. I unfortunately got the wrong one on the application.  
24 It should read Apollo Energy, Inc., as opposed to Apollo Oil  
25 Company, which is a different company.

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MR. STAMETS: Who is being pooled?

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MR. KELLAHIN: An individual by the name of -- is it Clara?

5

MR. MERCHANT: It's Clara Fowler.

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MR. KELLAHIN: Clara Fowler, and she owns an undivided interest in ten acres in each of the 40-acre tracts, and Mr. Merchant has dealt with her for a number of months.

10

11

12

MR. STAMETS: Let's go ahead and I believe under the circumstances you've described, we can amend the application and not have to readvertise it.

13

14

Q All right, sir, would you please state your name and occupation?

15

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18

A My name is Mohammed Yamen Merchant. I am employed with Apollo Energy as Vice President of the corporation, and I'm also acting as a consulting engineer for the company.

19

20

Q And do you hold any professional degrees, Mr. Merchant?

21

22

A Yes, I hold a degree in chemical engineering from South Dakota School of Mines.

23

24

25

Q Are you a practicing petroleum engineer?

A Yes, I am practicing engineer.

Q Have you prepared certain exhibits with

1  
2 regards to this application?

3 A Yes, I have.

4 Q Have you previously testified before the  
5 Oil Conservation Division as a petroleum engineer?

6 A Yes, I have.

7 MR. KELLAHIN: We tender Mr. Merchant as  
8 an expert petroleum engineer.

9 MR. STAMETS: The witness is considered  
10 qualified.

11 Q Mr. Merchant, let me refer you to the  
12 package of exhibits and have you first turn to Exhibit Number  
13 One and identify that land plat for us and summarize what  
14 you're trying to accomplish.

15 A On Exhibit One is shown in red the 80 acres  
16 in question. It's located in the southwest quarter, the east  
17 half of the southwest quarter. Apollo Energy, the operator,  
18 intends to drill the first well to the base of the San Andres.

19 Q All right, sir, what is the first well?  
20 Where is that to be located in terms of the east half of this  
21 section, the east half of the southwest quarter of Section 6?

22 A The first well will be located in the  
23 northeast quarter of the southwest quarter.

24 Q All right, sir, then the second well is  
25 for the southeast of the southwest quarter?

1  
2 A Yes, sir.

3 Q All right, sir, and what is the principal  
4 objective of each of those wells?

5 A The principal objective of each of these  
6 two wells is to recover what possible reserves we can.

7 The secondary reserves we feel like we can  
8 recover because of offsetting waterflood. We also feel like  
9 the primary reserves are basically lost due to offset production  
10 over the last 25 years; and secondly, because of the lower --  
11 the structurally lower position of the acreage in question.

12 Q You're talking about a San Andres test  
13 well, are you not?

14 A I'm talking about a San Andres-Grayburg  
15 well, yes.

16 Q All right, sir, and the offset production  
17 is San Andres-Grayburg production.

18 A Yes, offsetting production is San Andres-  
19 Grayburg production and presently it's part of the Amoco oper-  
20 ated South Hobbs Grayburg-San Andres Unit.

21 Q All right, let's turn to Exhibit Number  
22 Two, then, Mr. Merchant.

23 A Exhibit Two is again a land plat showing  
24 all the offset wells. Production figures are shown on each one  
25 of these wells, as you can see. The first one is barrels of



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2 oil per day. The second one is water per -- gas in Mcf per  
3 day. The third one is water per day.

4 Q Would you identify for us the injection  
5 well that you mentioned just now?

6 A The injection well in question is Well No.  
7 1-13. It's a direct northeast offset to the proposed well,  
8 first well we intend to drill. It's injecting at a rate of  
9 850 barrels of water per day.

10 There's another injection well located --  
11 which is not a direct offset, it's well No. 116 and we were  
12 unable to get the injection figures on that.

13 Q All right, sir, have you obtained the  
14 voluntary agreement of all the working interest owners in both  
15 of the proration units?

16 A Yes. As of this date we have obtained  
17 everybody's rights, mineral rights, to drill on that 80-acre  
18 tract, except one party, which we are force pooling.

19 Q And that is Clara Fowler?

20 A That is Mrs. Fowler.

21 Q And she has an undivided ten percent in-  
22 terest in each of the 40-acre tracts?

23 A She has an undivided ten acres in each of  
24 the 40-acre tracts, which amounts to 25 percent.

25 Q All right, sir, let's turn to Exhibit Num-

1  
2 ber Three and have you identify that for us.

3 A Exhibit Number Three is an AFE, which was  
4 submitted to Ms. Fowler. It is a well located in the north-  
5 east quarter of this 80-acre tract that was drilled back in  
6 1959 and was plugged three months later. At one time we had  
7 intended to re-enter this well, but over the last two weeks  
8 we have changed our intention and we intend to drill a new  
9 well offsetting it.

10 Q What is the second attachment, let's see,  
11 that would be Exhibit Number Four, what's that?

12 A Exhibit Four is what we intend to call the  
13 Apollo B Well No. 1-A, which will be drilled from surface to  
14 base of the San Andres, and it is an AFE for drilling and  
15 completion.

16 Q All right, this then replaces your initial  
17 idea of making a re-entry of that first well.

18 A That's correct.

19 Q All right, sir, and what is then Exhibit  
20 Number Five?

21 A Exhibit Number Five is the second well to  
22 be drilled in the -- in the second 40-acre tract after we've  
23 successfully completed the first well.

24 Q Mr. Merchant, I note there's a slight  
25 difference in the total costs in the two AFE's. To what is

1  
2 that attributed?

3 A Okay. Naturally we'll drill the first  
4 one -- when we first drill the well, the first one, we'd like  
5 to wait and see how it performs before we drill the second  
6 well on the second 40-acre tract, even though the same tank  
7 battery will be utilized for the second well, but we believe  
8 with inflation and everything else the cost will be slightly  
9 higher than what it is for the first one.

10 Q All right. Let's turn to the next exhibit  
11 which is Six-A and have you identify that.

12 A Six-A, Exhibit Six-A is a letter to Ms.  
13 Fowler, which is a similar letter just like we sent to all  
14 the other mineral interest owners asking her to join us or to  
15 lease us her part of the acreage.

16 Q Prior to the March 22nd letter what, if  
17 any, contact had you had with Ms. Fowler or any of her repre-  
18 sentatives?

19 A We did not have any contact with Ms.  
20 Fowler.

21 Q This is the first contact? All right,  
22 sir. What, if any, response did you get to that letter?

23 A The response to our letter of March 22nd  
24 was from her attorney, Mr. Coffield.

25 Q That's Exhibit Seven?

1  
2 A Exhibit Seven, dated March 26, 1982, in  
3 which he asked us to direct any further communications for Ms.  
4 Fowler to his office.

5 Q All right, sir, then what happened?

6 A After receipt of that letter I personally  
7 contacted Mr. Coffield and he asked me to -- that they're not  
8 familiar with the company, which is Apollo Energy, and the  
9 principals involved, and he asked me to send him a brief re-  
10 sume of where I come from and what we do, as well as Mr.  
11 Austin, who's President of the corporation.

12 And in response to his request I sent this  
13 letter to him dated March 29th, which is --

14 Q That's Exhibit Number Eight?

15 A It's Exhibit Number Eight-A.

16 Q All right, sir, let's turn then to Exhibit  
17 Nine-A and have you identify that.

18 A Exhibit Nine-A is again a letter to Mr.  
19 Coffield dated April 14th, 1982. After I responded to his  
20 request we did not hear anything verbally or in writing. So  
21 I called him and he said I'm sorry, we meant to get back with  
22 you and I have not, but we're not interested.

23 So at that time I wrote this letter to  
24 him, which is Exhibit Nine-A, and sent him two AFE's, one to  
25 re-enter the well and the second one to drill a new well, which

1  
2 we have seen earlier.

3 Q All right, and then what happened next?

4 A I refer to Exhibit Ten, which is a response  
5 from Mr. Coffield saying that Ms Fowler is not interested in  
6 drilling this property, outlined in letter dated April 15th.

7 Q All right, sir, let's turn then to Exhibit  
8 Number Eleven and have you identify that.

9 A Exhibit Eleven is structure map drawn on  
10 the top of the San Andres, an old map that has been in existence  
11 for quite some time, and it shows the acreage in question, the  
12 80 acres we intend to drill on is up-structure.

13 Q It's outlined in the red there in Section  
14 6?

15 A One colored in Section 6 is the 80 acres.

16 Q All right, sir, and that -- what is that  
17 structural position of that acreage to the other producing  
18 wells in the San Andres?

19 A The structural position is at least 50  
20 feet lower to all the offset wells, which can be seen in Ex-  
21 hibit Twelve-A and Twelve-B.

22 Q All right, sir, let's look at your cross  
23 sections; first Twelve-A.

24 A Exhibit Twelve-A is a -- we have four  
25 wells on it, gamma ray neutron log. We start with Amoco oper-

1  
2 ated South Hobbs Unit Well No. 9 and runs down to the Cities  
3 Service well which was drilled, to the best of my memory, 1959  
4 or 1960, which shows that the acreage in question, the 80 acres  
5 we're planning to drill on, is lower structurewise compared to  
6 the offset production.

7 Q Why would you seek a location that's  
8 structurally lower to the offset San Andres wells?

9 A Normally we would -- we would not drill a  
10 well knowing that we had structurally offset lower, but with  
11 our past experience in different waterfloods in that part of  
12 the country, we feel like that since Amoco just went into  
13 operation a year ago this past month, that we'll be able to  
14 take benefit off the offsetting injection and recover the se-  
15 condary reserves which would otherwise be lost.

16 Q All right, sir, let's turn to your cross  
17 section, Twelve-B.

18 A Exhibit Twelve-B is a cross section which  
19 includes the plugged Cities Service well located in the acreage  
20 in question, along with an offsetting injection well, which  
21 is Well No. 113, and the immediate offset to the east, Well  
22 No. 114 and 116, operated by Amoco as part of the South Hobbs  
23 Grayburg-San Andres Unit, and once again it shows that the pro-  
24 posed location is structurally low to any of the offset pro-  
25 duction.

Q Based upon your study of the geology, Mr. Merchant, do you have a recommendation to the Examiner as to a risk factor penalty to be assessed in this case?

A Yes, I do.

Q And what is that number?

A The number we request is 200 percent penalty over and above the actual drilling and completion costs on each one of the wells that we intend to drill, simply because the primary reserves are lost for all practical purposes, and we have only secondary reserves which we hope to recover basically on waterflood injection.

Q All right, sir, let me direct your attention to Exhibit Number Thirteen and have you identify that.

A Exhibit Thirteen is a normal operating agreement. It came from Apollo Energy's file in a well which we drilled last year in May.

Q Let me direct your attention, then, to the COPAS instructions attached to the operating agreement and turn to page three of that attachment with regards to the overhead charges. What will your overhead charges that you will propose be applied in this case be?

A The overhead charges for the drilling well rate, we ask for \$100 a day for Apollo Energy's administrative overhead and \$175 a month for the producing well rate.

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Q Approximately how many days does it take to drill an Abo well?

A We're looking at about 20 days, 20 to 25 days, maybe 30, including drilling and completion time.

Q All right, sir. Mr. Merchant, were Exhibits One through Thirteen prepared by you or compiled under your direction and supervision?

A Yes, they were.

MR. KELLAHIN: If the Examiner please, we have also submitted to you return receipts, which shows that we served both Ms. Fowler and her attorney with copies of the application in this case when they were filed, and there is a set for each of the two cases.

That concludes our presentation. We would request the admission of Exhibits, I guess it would be One through Fourteen.

MR. STAMETS: These exhibits will be admitted.

Any questions of the witness? He may be excused.

Anything further in this case? These cases? They will be taken under advisement.

(Hearing concluded.)



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. 7576B-9577 heard by me on 5-12-1982  
Richard L. Hammett Examiner  
 Oil Conservation Division

SALLY W. BOYD, C.S.R.

Box 197-B  
 Santa Fe, New Mexico 87501  
 Phone (505) 455-7409



**BRUCE KING**  
**GOVERNOR**

LARRY KEHDE  
SECRETARY

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

May 26, 1982

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Mr. Thomas Kellahin  
Kellahin & Kellahin  
Attorneys at Law  
Post Office Box 1769  
Santa Fe, New Mexico

Re: CASE NO. 7576  
ORDER NO. R-6986

Applicant:

Apollo Energy, Inc.

**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. 7576  
Order No. R-6986

APPLICATION OF APOLLO ENERGY  
INC. FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 12, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 24th day of May, 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, Apollo Energy, Inc., seeks an order pooling all mineral interests from the surface through the base of the San Andres formation underlying the NE/4 SW/4 of Section 6, Township 19 South, Range 38 East, NMPM, Lea 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 oil and gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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Case No. 7576

Order No. R-6986

(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 \$100.00 per day while drilling and \$175.00 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 September 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

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Case No. 7576  
Order No. R-6986

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the surface through the base of the San Andres formation underlying the NE/4 SW/4 of Section 6, Township 19 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40-acre oil 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 September, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the San Andres formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of September, 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 Apollo Energy, Inc. 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

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Case No. 7576  
Order No. R-6986

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 \$100.00 per day while drilling and \$175.00 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.

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Case No. 7576

Order No. R-6986

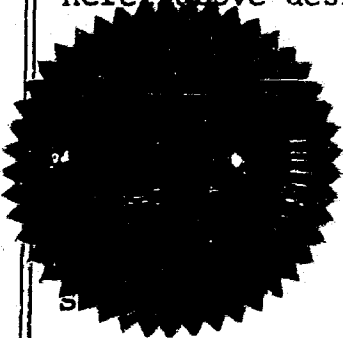
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(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 Lea 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*  
JOE D. RAMEY,  
Director



# APOLLO ENERGY, INC.

Box 572

(505) 397-3596

Hobbs, New Mexico 88240

APPLICATION FOR COMPULSORY POOLING FOR CERTAIN TRACTS LOCATED IN  
SECTION 6, TOWNSHIP 19 SOUTH, RANGE 38 EAST, LEA COUNTY, NEW MEXICO

CASE NO. 7576 and 7577

In each of the above cases the applicant seeks an order pooling all mineral interests from the surface through the base of the San Andres formation underlying the lands specified in each case, each to form a standard 40-acre oil spacing and proration unit 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 the wells.



CASE NO. 7576 and 7577

Page 2

Apollo Energy, Incorporated, is an oil and gas operator based in Hobbs, New Mexico. Apollo Energy, as an operator, has acquired the rights of all mineral interest owners except Miss Clara Flower, who owns 10-acre tracts in each of the 40-acre units.

The applicant proposes to drill the first well in the NE/4, SW/4 of Section 6, Township 19 South, Range 38 East, Lea County, New Mexico. This well will be drilled to the base of the San Andres or approximately 4400 feet from the surface. After evaluating the results from the first well, operator plans to drill a second well in the SE/4 SW/4 of the said section (Exhibits I and II).

The applicant has sought cooperation of all parties, and has exhausted all available avenues, to get Miss Fowler to join in. Copies of all correspondence with Miss Fowler through her attorney are shown in Exhibits VI through X.

Exhibit III through V are the authority for expenditure forms (AFE). Exhibit III shows an AFE for re-entering an old plugged and abandoned well located in NE/4 SW/4. This old well seems to have been properly plugged in 1960; however, re-entry has been ruled out as future action because of extremely high risk involved. The exposed salt section and poor cementing practices of the past years would reduce chances of any commercial production.

In view of above, Exhibit IV is submitted showing the total drilling and completion cost for the proposed well. Due to current reduced drilling activity in the region, it is hoped the well can be drilled at a lower cost

CASE NO. 7576 and 7577

Page 3

than what the cost was a few months ago. However, a change in the drilling picture can increase the total cost of the project.

If the production from the first well is commercial, after evaluation, it will be necessary to drill a second well to be located in the SE/4 SW/4 of the said section. Due to the evaluation time necessary, the drilling and associated cost has been slightly increased. The total cost is slightly higher even though the same tank battery will be utilized. Exhibit V is the AFE for the second well.

Reference is made to Exhibit II again. It shows the drilling tract in question as well as the offset producers and injectors. Please note the current daily production and injection data on Exhibit II. It is very clear all wells offsetting the proposed wells are marginal wells, even though they are structurally higher than the proposed locations (Exhibit XI). Also, there is no production to the immediate West, Southwest or South of the tracts in question.

Exhibits XII A and B show the log cross sections as well as the initial production data for the offset wells and the plugged well located in the NE/4 SW/4. Once again clearly signifying the fact: the proposed wells carry a high risk to the operator's investments.

All offset wells were drilled in the 1950's, and "naturally" have drained primary reserves. The currently active Amoco operated South Hobbs Waterflood Unit provide "a hope" that wells drilled in the proposed proration unit may be of some benefit to all concerned. The primary reserves drained over the past 25 years is a total loss. If no action is taken soon, chances

CASE NO. 7576 and 7577

Page 4

of recovering any secondary reserves will be lost too. This is due to the fact, passage of water front through the proposed wells will create a loss of precious resources forever.

Based on above data provided along with all exhibits, it is evident the drilling of the wells is a real high risk. The operator is willing to take the risk necessary to recover any reserves recoverable, to protect loss of valuable reserves by waterflood front. The non-consenting working interest owner that does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

The applicant should also be authorized to withhold from production the proportionate share of reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner (Exhibit XIII).

APOLLO ENERGY, INC.

FOWLER "B" LEASE

SEC. 6, T19S, R38E

LEA COUNTY, NEW MEXICO

Exhibit I	-	Ownership Map
Exhibit II	-	Ownership Map & Well Status
Exhibit III	-	Authority For Expenditure - Fowler "B" No. 1
Exhibit IV	-	Authority For Expenditure - Fowler "B" No. 1-A
Exhibit V	-	Authority For Expenditure - Fowler "B" No. 2
Exhibit VI A	-	Letter to Miss Fowler dated March 22, 1982
B	-	Proof of mailing
C	-	Oil & Gas Lease (attachment to letter)
Exhibit VII	-	Letter from Miss Fowler's attorney, M. J. Collopy dated March 26, 1982
Exhibit VIII A	-	Letter to Miss Fowler's attorney, M. J. Collopy dated March 29, 1982
B	-	Page 2 of letter
Exhibit IX A	-	Letter to Miss Fowler's attorney, M. J. Collopy dated April 14, 1982
B	-	Proof of mailing
Exhibit X	-	Letter from Miss Fowler's attorney, M. J. Collopy dated April 16, 1982.
Exhibit XI	-	Structure Map
Exhibit XII A	-	Log Cross Section with offsets
B	-	Log Cross Section with offsets
Exhibit XIII	-	Apollo Energy, Inc.'s Operating Agreement on another well (Consisting of 22 pages)

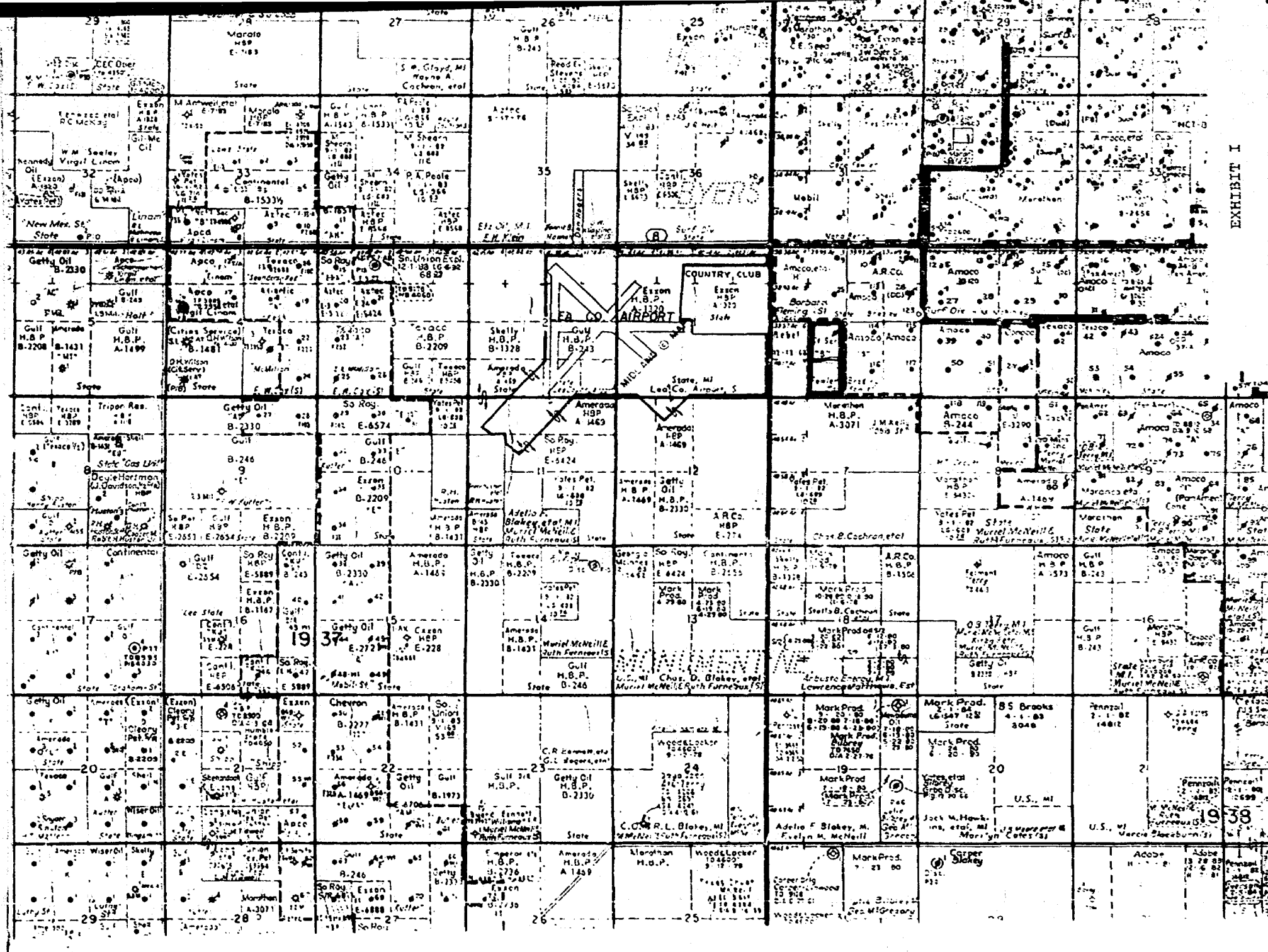


EXHIBIT I



APOLLO ENERGY, INC.

AUTHORITY FOR EXPENDITURE

Lease Name FOWLER "B" Well No. 1 Date 4-14-82

Location NE 1/4 SW 1/4, Section 6, Township 19S, Range 38E County Lea

State New Mexico Total Depth 4300' Field Hobbs, GB/SA

DRILLING INTANGIBLES

	DRY HOLE	PRODUCER
Prepare location, road, damages	\$ 6,000	\$ 6,000
Footage _____ ft. at \$ _____	-	-
Day Work _____ days MDP at _____	-	-
Day Work _____ days MDDP at _____	-	-
Drilling Mud and Chemicals	3,000	3,000
Fuel, Water and Power	10,000	10,000
Well Logging Service	-	-
Mud Logging	-	-
Drill Stem Testing	-	-
Coring and Analysis	-	-
Cement and Services-Cond., Surface, Inter.	-	-
Rental Equipment	5,000	5,000
Trucking and Labor	10,000	10,000
Overhead and Supervision: Adm. OH, Engr. & Geol.	10,000	10,000
Restore Location, Plug and Abandon	5,000	5,000
Miscellaneous Costs and Contingencies	5,300	5,300
<b>TOTAL DRILLING</b>	<b>\$ 54,300</b>	<b>\$ 54,300</b>

COMPLETION INTANGIBLES

Cement and Services - Prod. Csg.	\$ 8,000	\$ 8,000
Completion Unit <u>20</u> days at \$ <u>1600</u>	32,000	32,000
Perforating and Cased Hole Logging (CNL, CR)	-	6,000
Stimulation - Acidizing, Fracturing	-	25,000
Tool Rentals	-	4,000
Engineering - Supervision and Overhead	-	5,000
Trucking and Labor	-	5,000
Miscellaneous	-	1,500
<b>TOTAL COMPLETION</b>	<b>\$ 40,000</b>	<b>\$ 86,500</b>
<b>TOTAL INTANGIBLES</b>	<b>94,300</b>	<b>140,800</b>

TANGIBLES

CASING

Conductor _____ ft of _____	\$ _____	-
Surface _____ ft of _____	-	-
Inter _____ ft of _____	-	-
Prod. <u>3500</u> ft of <u>5 1/2, 14 1/2, K-55 @ \$7.00</u>	-	24,500
Tubing <u>4300</u> ft of <u>2 3/8, 4 1/2, J-55 @ \$3.00</u>	-	12,900
Float Equipment, Centralizers, etc. csg. bowl	-	3,000
Wellhead Assembly	-	2,000
Pumping Unit, Prime Mover, Electric	-	30,000
Subsurface Equipment, Packer, Rods, Pump, etc.	-	7,000
Tanks	-	10,000
Separators and Treater	-	2,500
Line Pipe, Connections & Miscellaneous	-	5,000
Installation of Surface Facilities	-	6,000
<b>TOTAL TANGIBLES</b>	<b>\$ -</b>	<b>\$ 102,900</b>
<b>TOTAL WELL COST</b>	<b>94,300</b>	<b>243,700</b>

APPROVALS:

OPERATOR APOLLO ENERGY, INC. By [Signature] Date 4-14-82

JOINT INTEREST  
OWNER \_\_\_\_\_ By \_\_\_\_\_ Date \_\_\_\_\_

1. All prices based on price list effective June, 1981.
2. Actual cost may be more or less than above.
3. At an expected production rate of 20 BOPD, after royalty, taxes, and operating expenses, the expenditure should payout in 2.3 years.

AUTHORITY FOR EXPENDITURE

Lease Name FOWLER "B" Well No. 1-A Date 4-14-82

Location NE 1/4 SW 1/4, Section 6, Township 19S, Range 38E County Lea

State New Mexico Total Depth 4300' Field Hobbs, G/SA

DRILLING INTANGIBLES

<u>DRY HOLE</u>	<u>PRODUCE</u>
\$ 8,500	\$ 8,500
53,750	53,750
-	-
-	-
6,000	6,000
20,000	20,000
12,000	12,000
-	-
-	-
-	-
8,000	8,000
12,000	12,000
10,000	10,000
15,000	15,000
5,000	5,000
8,675	8,675

Prepare location, road, damages  
Footage 4300 ft. at \$ 12.50/ft.  
Day Work        days WDP at         
Day Work        days WDDP at         
Drilling Mud and Chemicals  
Fuel, Water and Power  
Well Logging Service  
Mud Logging  
Drill Stem Testing  
Coring and Analysis  
Cement and Services-Conn., Surface, Inter.  
Rental Equipment  
Trucking and Labor  
Overhead and Supervision: Adm. CH, Engr. & Geol.  
Restore Location, Plug and Abandon  
Miscellaneous Costs and Contingencies

TOTAL DRILLING

\$ 158,925 \$ 158,925

COMPLETION INTANGIBLES

\$ -	\$ 10,000
-	16,000
-	8,000
-	25,000
-	5,000
-	5,000
-	1,500
-	1,500

Cement and Services - Prod. Csg.  
Completion Unit 10 days at \$ 1600  
Perforating and Cased Hole Logging  
Stimulation - Acidizing, Fracturing  
Tool Rentals  
Engineering - Supervision and Overhead  
Trucking and Labor  
Miscellaneous

TOTAL COMPLETION  
TOTAL INTANGIBLES

\$ - \$ 72,000  
158,925 230,925

TANGIBLES

CASING

\$ 960	960
16,875	16,875
-	-
-	30,100
-	12,900
1,000	1,500
1,000	2,000
-	30,000
-	7,000
-	10,000
-	2,500
-	5,000
-	6,000

Conductor 40 ft of 13 3/8", 48#, K-55 @ \$24.00  
Surface 1350 ft of 8 5/8", 24#, K-55 @ \$12.50  
Inter - ft of -  
Prod. 4300 ft of 5 1/2", 15.5 & 14 @ \$7.00  
Tubing 4300 ft of 2 3/8", 4.7#, J-55 @ \$3.00  
Float Equipment, Centralizers, etc.  
Wellhead Assembly  
Pumping Unit, Prime Mover, Electric  
Subsurface Equipment, Packer, Rods, Pump, etc.  
Tanks  
Separators and Treater  
Line Pipe, Connections & Miscellaneous  
Installation of Surface Facilities

TOTAL TANGIBLES  
TOTAL WELL COST

\$ 19,835 \$ 124,835  
178,760 355,760

APPROVALS:

OPERATOR APOLLO ENERGY, INC. By [Signature] Date 4-14-82

JOINT INTEREST

OWNER        By        Date       

1. All prices base on price list effective June, 1981.
2. Actual cost may be more or less than above
3. At an expected production rate of 20 BOPD after royalty, taxes, and operating expenses, the expenditure should payout in 3.3 years



AUTHORITY FOR EXPENDITURE

Lease Name Fowler B Well No. 2 Date 4-28-82

Location 990' FSL. 2290' FWL. Sec. 6. T19S. R38E County Lea

State New Mexico Total Depth 4250' Field Hobbs

DRILLING INTANGIBLES

	DRY HOLE	PRODUCE
Prepare location, road, damages	\$ 8,500	\$ 8,500
Footage <u>4300</u> ft. at \$ <u>16.00</u>	<u>68,800</u>	<u>68,800</u>
Day Work _____ days WDP at _____	-	-
Day Work _____ days WODP at _____	-	-
Drilling Mud and Chemicals	<u>6,500</u>	<u>6,500</u>
Fuel, Water and Power	<u>22,000</u>	<u>22,000</u>
Well Logging Service	<u>12,500</u>	<u>12,500</u>
Mud Logging	-	-
Drill Stem Testing	-	-
Coring and Analysis	-	-
Cement and Services-Cond., Surface, Inter.	<u>8,500</u>	<u>8,500</u>
Rental Equipment	<u>13,000</u>	<u>13,000</u>
Trucking and Labor	<u>12,000</u>	<u>12,000</u>
Overhead and Supervision: Adm. OH, Engr. & Geol.	<u>15,000</u>	<u>15,000</u>
Restore Location, Plug and Abandon	<u>5,500</u>	<u>5,500</u>
Miscellaneous Costs and Contingencies	<u>8,615</u>	<u>8,615</u>
<b>TOTAL DRILLING</b>	<b>\$ 180,915</b>	<b>\$ 180,915</b>

COMPLETION INTANGIBLES

Cement and Services - Prod. Csg.	\$ -	\$ 10,500
Completion Unit <u>10</u> days at \$ <u>1700.00</u>	-	<u>17,000</u>
Perforating and Cased Hole Logging	-	<u>9,000</u>
Stimulation - Acidizing, Fracturing	-	<u>30,000</u>
Tool Rentals	-	<u>6,000</u>
Engineering - Supervision and Overhead	-	<u>5,000</u>
Trucking and Labor	-	<u>1,500</u>
Miscellaneous	-	<u>1,800</u>
<b>TOTAL COMPLETION</b>	<b>\$ -</b>	<b>\$ 80,800</b>
<b>TOTAL INTANGIBLES</b>	<b>180,915</b>	<b>261,715</b>

TANGIBLES

CASING

Conductor <u>40</u> ft of <u>13 3/8", 48#, K-55 @ \$24.00</u>	\$ 960	960
Surface <u>1350</u> ft of <u>8 5/8", 24#, K-55 @ \$12.50</u>	<u>16,875</u>	<u>16,875</u>
Inter _____ ft of _____	-	-
Prod. <u>4300</u> ft of <u>5 1/2", 15.5#, &amp; 14#, K-55 @ \$3.00</u>	-	<u>30,100</u>
Tubing <u>4300</u> ft of <u>2 3/8", 4.7#, J-55 @ \$3.00</u>	-	<u>12,900</u>
Float Equipment, Centralizers, etc.	<u>1,000</u>	<u>1,600</u>
Wellhead Assembly	<u>1,000</u>	<u>2,500</u>
Pumping Unit, Prime Mover, Electric	-	<u>30,000</u>
Subsurface Equipment, Packer, Rods, Pump, etc.	-	<u>9,000</u>
Tanks	-	-
Separators and Treater	-	-
Line Pipe, Connections & Miscellaneous	-	<u>1,500</u>
Installation of Surface Facilities	-	<u>3,000</u>
<b>TOTAL TANGIBLES</b>	<b>\$ 19,835</b>	<b>\$ 108,435</b>
<b>TOTAL WELL COST</b>	<b>200,750</b>	<b>370,150</b>

APPROVALS:

OPERATOR Apollo Energy, Inc. By [Signature] Date 4-28-82

JOINT INTEREST  
OWNER \_\_\_\_\_ By \_\_\_\_\_ Date \_\_\_\_\_

1. Actual cost may be more or less than AFE.
2. Rig cost, etc. are estimates only, as No. 2 well will be drilled based on results from well No. 1.
3. At an expected production rate of 20 BOPD, after royalty, taxes, and operating expenses, the expenditure should payout in 3.3 years. (Assuming price of oil will be slightly higher).



# APOLLO ENERGY, INC.

Box 572

(505) 397-3596

Hobbs, New Mexico 88240

March 22, 1982

Miss Clara Fowler  
P. O. Box 612  
Hobbs, New Mexico 88240

Re: NE 1/4 of SW 1/4 and  
SE 1/4 of SW 1/4  
Section 6, T19S, R38E,  
Lea County, New Mexico

Dear Miss Fowler:

Apollo Energy, Inc., a Hobbs, New Mexico, based company is interested in leasing your portion of the minerals under the captioned acreage. County records indicate you have ten (10) acres under the NE/4, and ten (10) acres under the SE/4 of the SW/4.

As of this date our company has leased 25 acres in each of the two (2) 40 acre tracts.

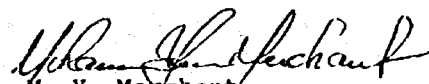
Being a petroleum engineer and geologist, I understand the acreage is structurally low. It has also lost the potential of "good" primary oil reserves to offset production. If no action is taken in the near future, one would lose the potential of any secondary reserves - partially to offset production; and partially to the passage of waterflood front. This will result in the loss of precious natural resources.

Keeping the above in perspective, we offer you a two (2) year lease, and a 3/16th royalty. Enclosed are the lease forms for your signature and execution. If you notify us we will send a bank draft for the rental to the bank of your choice.

Thank you for your cooperation and we hope to hear from you soon.

Yours truly,

APOLLO ENERGY, INC.

  
M. Y. Merchant  
Vice President

MYM/jh  
Enclosure

We will do our best to drill a well during 1982.

CERTIFIED MAIL NO. P20 8750338

March 24, 1982

EXHIBIT VIA

PS Form 3811, Apr. 1976  
 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

**SENDER:** Complete items 1, 2, and 3.  
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one.)

☒ Show to whom and date delivered..... 60¢

☐ Show to whom, date and address of delivery..... ¢

☐ RESTRICTED DELIVERY  
Show to whom and date delivered..... ¢

☐ RESTRICTED DELIVERY  
Show to whom, date, and address of delivery..... ¢

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:  
Miss Clara Fowler  
P. O. Box 612  
Hobbs, NM 88240

3. ARTICLE DESCRIPTION:

REGISTERED NO.	CERTIFIED NO.	INSURED NO.
	P20 8705338	

(Always obtain signature of addressee or agent.)

I have received the article described above.

SIGNATURE ☐ Addressee ☒ Authorized agent

4. DATE OF DELIVERY: MAR 3 1982 POSTMARK: MAR 3 1982

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER REASON:

CLERK'S INITIALS: [Signature]

☆GPO: 1979-200-450

P20 8705338

## RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—  
NOT FOR INTERNATIONAL MAIL  
(See Reverse)

PS Form 3800, Apr. 1976

SENT TO

Miss Clara Fowler  
STREET AND NO.  
P. O. Box 612  
P.O., STATE AND ZIP CODE  
Hobbs, NM 88240

POSTAGE		
		\$ .20
CONSULT POSTMASTER FOR FEES	CERTIFIED FEE	.75
	SPECIAL DELIVERY	¢
	RESTRICTED DELIVERY	¢
	OPTIONAL SERVICES	
	RETURN RECEIPT SERVICE	
	SHOW TO WHOM AND DATE DELIVERED	60 ¢
	SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	¢
	SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES		1.55
POSTMARK OR DATE		

AGREEMENT made and Entered into this 22nd day of March, 1982between Clara Fowler, a single woman  
P. O. Box 612Hobbs, New Mexico 88240hereinafter called lessor (whether  
one or more), and Apollo Energy, Inc., P. O. Box 572, Hobbs, New Mexico 88240

hereinafter called lessee, does witness:

1. That lessor, for and in consideration of the sum of One and 00/100 Dollars (\$ 1.00), in hand paid, and of the covenants and agreements hereinafter contained to be performed by the lessee, has this day granted and leased and hereby grants, leases and lets exclusively unto the lessee for the purpose of exploring, drilling, mining and operating for and producing oil and gas, casinghead gas and casinghead gasoline, laying pipe lines, building tanks, storing oil, building power stations, telephone lines and other structures thereon to produce, save, take care of and manufacture all of such substances, and for housing and boarding employees, the following described tract of land in

Lea County, New Mexico

to-wit:

NE/4 SW/4 and SE/4 SW/4In Section 6, Township 19S, Range 38E, and containing 20 acres, more or less.2. This lease shall remain in force for a term of Two (2) years and as long thereafter as oil, gas, casinghead gas, casinghead gasoline or any of them is produced.3. The lessee shall deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lessee may connect its wells the equal 3/16 part of all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such 3/16 royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line, or into storage tanks, lessor's interest, in either case, to bear 3/16 of the cost of treating oil to render it marketable pipe line oil.4. The lessee shall pay lessor, as royalty, 3/16 of the proceeds from the sale of the gas, as such, for gas from wells where gas only is found, and where not sold shall pay Fifty (\$50.00) Dollars per annum as royalty from each such well, and while such royalty is so paid such well shall be held to be a producing well under paragraph numbered two hereof. The lessor to have gas free of charge from any gas well on the leased premises for stoves and inside lights in the principal dwelling house on said land by making his own connections with the well, the use of said gas to be at the lessor's sole risk and expense. The lessee shall pay to lessor for gas produced from any oil well and used by the lessee for the manufacture of gasoline or any other product, as royalty, 3/16 of the market value of such gas at the mouth of the well. If said gas is sold by the lessee, then as royalty 3/16 of the proceeds of the sale thereof.

5. If operations for the drilling of a well for oil or gas are not commenced on said land on or before one year from this date, this lease shall terminate as to both parties, unless the lessee shall, on or before one year from this date, pay or tender to the lessor or for the lessor's credit in the

Bank of your choice

Bank at \_\_\_\_\_, or

its successors, which bank and its successors are the lessor's agent and shall continue as the depository of any and all sums payable under this lease, regardless of changes of ownership in said land or in the oil and gas, or in the rentals to accrue thereunder, the sum of One Dollar peracre per year Dollars (\$ 1.00) which shall operate as

rental and cover the privilege of deferring the commencement of drilling operations for a period of one year. In like manner and upon like payments or tenders, the commencement of drilling operations may be further deferred for like periods successively. All payments or tenders may be made by check or draft of lessee or any assignee thereof, mailed or delivered on or before the rental paying date. Notwithstanding the death of the lessor, or his successor in interest, the payment or tender of rentals in the manner provided above shall be binding on the heirs, devisees, executors, and administrators of such person.

6. If at any time prior to the discovery of oil or gas on this land and during the term of this lease, the lessee shall drill a dry hole, or holes, on this land, this lease shall not terminate, provided operations for the drilling of a well shall be commenced within twelve months from the expiration of the last rental period for which rental has been paid, or provided that within said period the lessee begins or resumes the payment of rentals in the manner and amount herein above provided; and in this event the preceding paragraphs hereof governing the payment of rentals and the manner and effect thereof shall continue in force.

7. In case said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided for shall be paid the said lessor only in the proportion which his interest bears to the whole and undivided fee.

8. The lessee shall have the right to use free of cost, gas, oil and water found on said land for its operations thereon, except water from the wells of the lessor. When required by lessor, the lessee shall bury pipe lines below plow depth and shall pay for damages caused by its operations to growing crops on said land. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of the lessor. Lessee shall have the right at any time during or after the expiration of this lease to remove all machinery, fixtures, houses, buildings and other structures placed on said premises, including the right to draw and remove all casing.

9. If the estate of either party hereto is assigned (and the privilege of assigning in whole or in part is expressly allowed), the covenants hereof shall extend to the heirs, executors, administrators, successors and assigns, but no change of ownership in the land or in the rentals or royalties shall be binding on the lessee until after notice to the lessee and it has been furnished with the written transfer or assignment or a certified copy thereof nor shall any such change of ownership in any manner increase the obligations or diminish the rights of lessee hereunder. In the event this lease shall be assigned as to a part or as to parts of the above described lands, and the holder or owner of any such part or parts shall fail or make default in the payment of the proportionate part of the rent due from him or them, such default shall not operate to defeat or affect this lease in so far as it covers a part or parts of said land upon which the said lessee or any assignee hereof shall make due payment of said rentals. If at any time there be as many as four parties entitled to rentals or royalties, lessee may withhold payments thereof unless and until all parties designate, in writing, in a recordable instrument to be filed with the lessee, a common agent to receive all payments due hereunder, and to execute division and transfer orders on behalf of said parties, and their respective successors in title.

10. Lessor hereby warrants and agrees to defend the title to the land herein described and agrees that the lessee, at its option, may pay and discharge any taxes, mortgages, or other liens existing, levied, or assessed on or against the above described lands and, in event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax or other lien, any royalty or rentals accruing hereunder.

11. Notwithstanding anything in this lease contained to the contrary it is expressly agreed that if lessee shall commence drilling operations at any time while this lease is in force, this lease shall remain in force and its terms shall continue so long as such operations are prosecuted and, if production results therefrom, then as long as production continues.

12. If within the primary term of this lease production on the leased premises shall cease from any cause, this lease shall not terminate provided operations for the drilling of a well shall be commenced before or on the next ensuing rental paying date; or, provided lessee begins or resumes the payment of rentals in the manner and amount hereinafter provided. If, after the expiration of the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate provided lessee resumes operations for drilling a well within sixty (60) days from such cessation, and this lease shall remain in force during the prosecution of such operations and, if production results therefrom, then as long as production continues.

13. Lessee may at any time and from time to time surrender this lease as to any part or parts of the leased premises by delivering or mailing a release therefrom to the lessor, or by placing a release thereof of record in the proper county.

14. This lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor or lessee.

15. This lease shall not be terminated, in whole or in part, nor shall lessee be held liable in damages, for failure to comply with the express or implied covenants hereof, if compliance therewith is prevented by, or if such failure is the result of, any Federal or State laws, executive orders, rules, or regulations, acts of God, labor troubles, scarcity of materials, or other causes beyond lessee's control. If, at the end of the primary term hereof, such term has not been extended by production or drilling as in this lease provided, and lessee, by reason of any of the above recited causes, is unable to drill a well on the leased premises for oil or gas, the primary term and the rental provision hereof shall be extended automatically from year to year until the first anniversary hereof occurring ninety (90) or more days following the removal of such delaying cause. During any period that lessee is unable to produce and/or market any products from the leased premises by reason of any of the above recited causes, this lease shall remain in full force and effect.

IN WITNESS WHEREOF, We sign the day and year first above written.

Clara Fowler

STATE OF NEW MEXICO,

County of \_\_\_\_\_

ss.

(ACKNOWLEDGMENT FOR INDIVIDUAL)

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_

to me known to be the person \_\_\_\_\_ described in and who executed the foregoing instrument, and acknowledged that \_\_\_\_\_ executed the same as \_\_\_\_\_ free act and deed.

Witness my hand and official seal the day and year last above written.

Notary Public

My commission expires \_\_\_\_\_

Postoffice \_\_\_\_\_

STATE OF NEW MEXICO,

County of \_\_\_\_\_

ss.

(ACKNOWLEDGMENT FOR CORPORATION)

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_

to me personally known, who being by me duly sworn did say that he is the \_\_\_\_\_ President of \_\_\_\_\_ and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said \_\_\_\_\_ acknowledged said instrument to be the free act and deed of said corporation.

Witness my hand and official seal the day and year last above written.

My commission expires \_\_\_\_\_

Notary Public

STATE OF TEXAS,

County of \_\_\_\_\_

(TEXAS SINGLE ACKNOWLEDGMENT)

Before me, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_

known to me to be the person \_\_\_\_\_ whose name \_\_\_\_\_ subscribed to the foregoing instrument, and acknowledged to me that \_\_\_\_\_ he executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office, this the \_\_\_\_\_ day of \_\_\_\_\_, A. D. 19\_\_\_\_

Notary Public in and for \_\_\_\_\_ County, Texas

No. _____	OIL AND GAS LEASE		FROM		TO		Date _____ 19____	Section _____ Twp. _____ Rge. _____	No. of Acres _____ Term _____	County _____	STATE OF _____	County of _____	This instrument was filed for record on the _____ day of _____ 19____	at _____ o'clock _____ M., and duly recorded in Book _____ Page _____ of the records of this office.	Register of Deeds.	When recorded, return to _____
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Printed and for Sale by  
Hall-Poorbaugh Press—Rowell, N. M.

THE STATE OF TEXAS,

County of \_\_\_\_\_

(TEXAS JOINT ACKNOWLEDGMENT)

Before me, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_

and \_\_\_\_\_ husband and wife, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

And the said wife, having been examined by me privily and apart from her husband, and having had said instrument fully explained to her, she, the said wife, acknowledged the same to be her act and deed, and declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not wish to retract it.

Given under my hand and seal of office, this the \_\_\_\_\_ day of \_\_\_\_\_, A. D. 19\_\_\_\_

Notary Public in and for \_\_\_\_\_ County, Texas

STATE OF NEW MEXICO.

(ACKNOWLEDGMENT FOR INDIVIDUAL)

County of \_\_\_\_\_ } ss.

On this \_\_\_\_\_ day of \_\_\_\_\_

19\_\_\_\_ before me personally appeared

to me known to be the person \_\_\_\_\_ described in and who executed the foregoing instrument, and acknowledged that \_\_\_\_\_

Witness my hand and official seal the day and year last above written.

\_\_\_\_\_ executed the same as \_\_\_\_\_ free act and deed.

My commission expires \_\_\_\_\_

Notary Public

Notary Public

STATE OF NEW MEXICO.

(ACKNOWLEDGMENT FOR CORPORATION)

County of \_\_\_\_\_ } ss.

On this \_\_\_\_\_ day of \_\_\_\_\_

19\_\_\_\_ before me personally appeared

to me personally known, who being by me duly sworn did say that he is the \_\_\_\_\_

President of \_\_\_\_\_

and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said \_\_\_\_\_ acknowledged said instrument to be the free act and deed of said corporation.

Witness my hand and official seal the day and year last above written.

My commission expires \_\_\_\_\_

Notary Public

STATE OF TEXAS.

(TEXAS SINGLE ACKNOWLEDGMENT)

County of \_\_\_\_\_ } ss.

Before me, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared

known to me to be the person \_\_\_\_\_ whose name \_\_\_\_\_ subscribed to the foregoing instrument, and acknowledged to me that \_\_\_\_\_ he \_\_\_\_\_ executed the same for the purposes and consideration therein expressed.

\_\_\_\_\_ executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office, this the \_\_\_\_\_ day of \_\_\_\_\_

19\_\_\_\_

Notary Public in and for \_\_\_\_\_

County, Texas

No. \_\_\_\_\_

## OIL AND GAS LEASE

FROM \_\_\_\_\_

TO \_\_\_\_\_

Date \_\_\_\_\_ 19\_\_\_\_

Section \_\_\_\_\_ Twp. \_\_\_\_\_ Rge. \_\_\_\_\_

No. of Acres \_\_\_\_\_ Term \_\_\_\_\_

County \_\_\_\_\_

STATE OF \_\_\_\_\_ } ss.  
County of \_\_\_\_\_

This instrument was filed for record on the \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_

at \_\_\_\_\_ o'clock \_\_\_\_\_ M., and duly recorded in Book \_\_\_\_\_ Page \_\_\_\_\_ of the records of this office.

Register of Deeds.

By \_\_\_\_\_

When recorded, return to \_\_\_\_\_

THE STATE OF TEXAS.

(TEXAS JOINT ACKNOWLEDGMENT)

County of \_\_\_\_\_ } ss.

Before me, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_

and \_\_\_\_\_ known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

And the said wife, having been examined by me privily and apart from her husband, and having had said instrument fully explained to her, she, the said \_\_\_\_\_ acknowledged the same to be her act and deed, and declared that she had willingly signed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office, this the \_\_\_\_\_ day of \_\_\_\_\_

A. D. 19\_\_\_\_

Notary Public in and for \_\_\_\_\_

County, Texas

M. J. COLLOPY

ATTORNEY AT LAW

P.O. BOX 2297

203 EAST SANGER, HOBBS, NEW MEXICO 88240

505 / 397-3608

March 26, 1982

M. Y. Merchant, Vice President  
Apollo Energy, Inc.  
P. O. Box 572  
Hobbs, New Mexico 88240


RE: Your letter to Miss Clara Fowler dated March 22, 1982

Dear Mr. Merchant:

Clara Fowler has handed me your above dated letter and the Oil and Gas Lease which accompanied the same, for review. Before making any decision to lease the subject property, Miss Fowler's ranch foreman, V. R. "Cowboy" Jones, and myself would like to visit with you concerning the proposal in further detail.

If you will contact me upon receipt of this letter, I will attempt to arrange such a meeting. Pending further discussions, please address any further correspondence or communications concerning this particular matter directly to this office.

Sincerely yours,

  
M. J. Collopy

MJC/gjf

cc: Miss Clara Fowler

*Agreed to  
Purchase of lease*

EXHIBIT VII



# APOLLO ENERGY, INC.

Box 572

(505) 397-3596

Hobbs, New Mexico 88240

March 29, 1982

Mr. M. J. Collopy  
P. O. Box 2297  
Hobbs, New Mexico 88240

Re: Response to your letter dated March 26, 1982

Dear Mr. Collopy:

Thank you for a quick response to my letter dated March 22, 1982. I have reviewed your letter, as well as our conversation this morning, and will try to answer your questions to the best of my ability.

Apollo Energy, Inc., was established in December, 1980, for the sole purpose of exploration and production of oil and gas. The principals in the corporation are Alan W. Ralston and myself. Even though both of us have been in the industry for several years, our experience varies.

Alan Ralston has been in the service portion of the industry since he finished high school, which was interrupted by his attending college at the University of Oklahoma. He is presently owner of Maypole Packers and Services, and has an excellent reputation.

My background and experience is documented on the enclosed resume. If this is not sufficient, I will be more than happy to furnish whatever you require.

I evaluate each prospect personally. The first project I successfully evaluated, drilled and completed was at the R. D. Lee Ranch near Buckeye. The next two wells were drilled on San Simon and Sims Ranches. Only the Lee's owned the minerals, the other two were State leases. In all cases we have a pretty good working relationship, and always have lived up to our commitments.

Please note a correction on my letter dated March 22, 1982. As of today we have 30 acres leased in the NE 1/4 of the SW 1/4, and 20 acres leased in the SE 1/4 of the SW 1/4, instead of 25 acres each.

As far as pipe in the hole is concerned, one can discuss the value of it. However, Cities Service had recovered all the recoverable casing when the well was plugged and abandoned in 1960. At this point, I am strongly not in favor of re-entering the old hole, due to the poor cement job in the past.

EXHIBIT VIII A



March 29, 1982

After all, our main goal is to establish "meaningful" production, rather than waste money and precious resources.

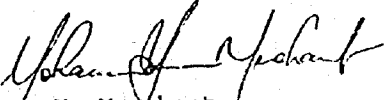
I hope the above will be satisfactory to you and your client. I will do all possible to work with you on this matter or any others you might have. I will not promise what I can not deliver.

I look forward to hearing from you soon, and will be glad to meet you in person, if necessary.

Thank you for your cooperation.

Yours truly,

APOLLO ENERGY, INC.



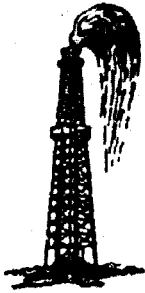
M. Y. Merchant  
Vice President

MYM/jh

Enclosure

EXHIBIT VIII B

W.N.M.C.F. MICROGRAPHICS



# APOLLO ENERGY, INC.

Box 1737

(505) 397-3596

Hobbs, New Mexico 88240

April 14, 1982

Mr. M. J. Collopy  
P. O. Box 2297  
Hobbs, New Mexico 88240

Re: Miss Fowler's Mineral Interest  
Section 6, Township 19S, Range 38E

Dear Mr. Collopy:

This letter and attachments are follow-up to our previous letter dated March 29, 1982. As of this date, we have not had any correspondence from you regarding your client's decision on the captioned property, in which she holds a partial mineral interest. However, during our conversation on April 8, 1982, you indicated your client is not interested in our offer at this time.

As of today, we have approval from all other mineral interest owners in the captioned property. We intend to proceed with our plans which call for offering your client an opportunity to join as a working interest owner.


Attached are two AFE's (authorization for expenditure) - one to re-enter well No. 1, and another to drill a new well, if attempts to re-enter are unsuccessful. In each case, your client would have 25% working interest (WI), if she joins the program, which will require her approval of the AFE's.

Please inform us of your client's decision in writing by April 23, 1982, so we can proceed with the program.

Thank you for your cooperation, and if I can be of any help, please do not hesitate to call on me.

Sincerely yours,

APOLLO ENERGY, INC.

  
M. Y. Merchant  
Vice-President

MYM/sw

CERTIFIED MAIL NUMBER P20 870530

EXHIBIT IX A

W.N.M.C.F. MICROGRAPHICS

PS Form 3811, Jan. 1973

**SENDER:** Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one.)

☒ Show to whom and date delivered..... 60¢

☐ Show to whom, date and address of delivery..... ¢

☐ RESTRICTED DELIVERY

Show to whom and date delivered..... ¢

☐ RESTRICTED DELIVERY.

Show to whom, date, and address of delivery..... ¢

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:

Mr. M. J. Collopy  
P.O. Box 2297  
Hobbs, NM 88240

3. ARTICLE DESCRIPTION:

REGISTERED NO.	CERTIFIED NO.	INSURED NO.
	8705340	

(Always obtain signature of addressee or agent)

I have received the article described above.

SIGNATURE ☐ Addressee ☒ Authorized agent

4. DATE OF DELIVERY

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

CLERK'S INITIALS

POSTMARK  
APR 1 1982

☆ GPO : 1979-333-459

P20 8705340

**RECEIPT FOR CERTIFIED MAIL**

NO INSURANCE COVERAGE PROVIDED—  
NOT FOR INTERNATIONAL MAIL  
(See Reverse)

PS Form 3800, Apr. 1976

SENT TO	
Mr. M. J. Collopy	
STREET AND NO.	
P. O. Box 2297	
P.O., STATE AND ZIP CODE	
Hobbs, NM. 88240	
POSTAGE	\$ .20
CERTIFIED FEE	.75 ¢
SPECIAL DELIVERY	¢
RESTRICTED DELIVERY	¢
SHOW TO WHOM AND DATE DELIVERED	.60 ¢
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	¢
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES	\$ 1.55
POSTMARK OR DATE	

POSTMARK  
APR 1 1982

EXHIBIT IX B

W.N.M.C.F. MICROGRAPHICS

M. J. COLLOPY  
ATTORNEY AT LAW

P.O. BOX 2297  
203 EAST SANGER, HOBBS, NEW MEXICO 88240  
505 / 397-3608

April 16, 1982

Apollo Energy, Inc.  
P. O. Box 1737  
Hobbs, New Mexico 88240


Attn: M. Y. Merchant, Vice President

RE: Mineral Interest of Clara Fowler, Section 6, Township 19  
South, Range 38 East - Your letter: April 14, 1982

Dear Mr. Merchant:

Please be advised that Miss Fowler is not interested in joining the project outlined in your letter dated April 14, as a working interest owner.

Sincerely,

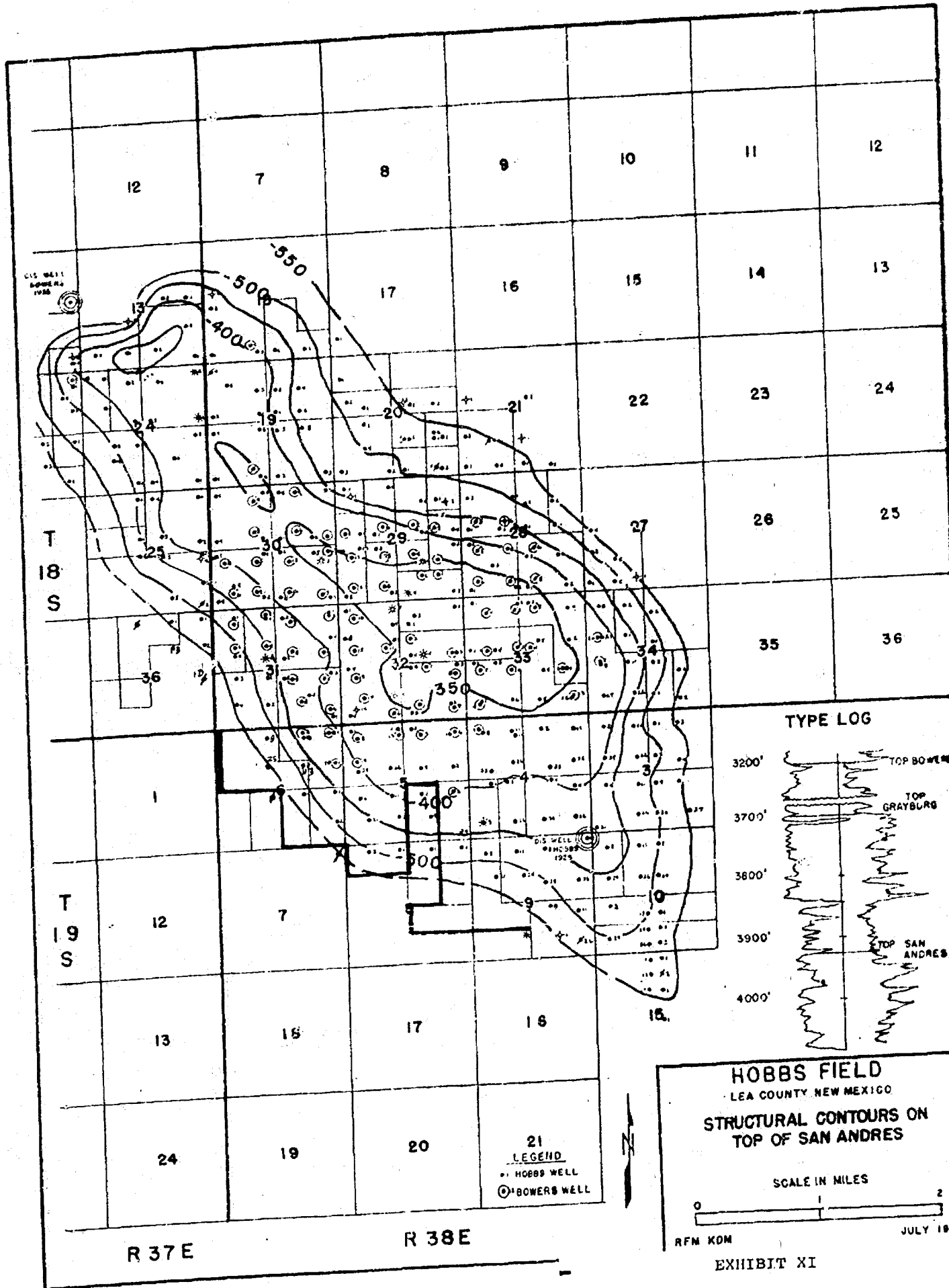
  
\_\_\_\_\_  
M. J. Collopy

MJC/gjf

pc: Miss Clara Fowler w/4-14-82 letter & attachments

-  
EXHIBIT X

W.N.M.C.F. MICROGRAPHICS



W.N.M.C.F. MICROGRAPHICS

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

# MODEL FORM OPERATING AGREEMENT

W.N.M.C.F. MICROGRAPHICS



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## OPERATING AGREEMENT

DATED

OCTOBER 1, 1981,

OPERATOR APOLLO ENERGY, INC.

CONTRACT AREA AZTEC "36" STATE NO. 1 (40 ACRE LEASE)

330' from the EAST line, 2200' from the SOUTH line

SECTION 36, T22S, R35E

COUNTY OR PARISH OF LEA STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN  
APPROVED FORM A.A.P.L. NO. 610 - 1977 REVISED  
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER  
KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101

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## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between APOLLO ENERGY, INC.  
P. O. BOX 1737, HOBBS, NEW MEXICO 88240, hereinafter designated and  
referred to as "Operator", and the signatory 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 in-  
terests 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  
as hereinafter provided.

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.  
DEFINITIONS

As 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 cov-  
ering 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 unleased 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. Exhibit "B", Form of Lease.

☒ 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 "E", is inconsistent with any provision contained  
in the body of this agreement, the provisions in the body of this agreement shall prevail.

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### ARTICLE III. INTERESTS OF PARTIES

#### A. Oil and Gas Interests:

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed 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 lessees, to the extent that it owns the lessee interest.

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

~~Exhibit "A" lists all of the parties and their respective percentage of 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 Joint Account, 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 or, 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

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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 lease or 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:

APOLLO ENERGY, INC. 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.

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

~~Resignation or Removal of Operator. Operator may resign at any time by giving written notice thereof to Non-Operators. 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:

Existing well as described on coversheet

~~On or before the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, Operator shall commence the drilling of a well for oil and gas at the following location:~~

~~and shall thereafter continue the drilling of the well with due diligence to~~

~~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.~~

~~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.~~

~~H. 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. hereof.~~

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1 **B. Subsequent Operations:**

2  
3 1. *Proposed Operations:* Should any party hereto desire to drill any well on the Contract Area  
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled  
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing  
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-  
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-  
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the  
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.  
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given  
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,  
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed  
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any  
15 notice or response given by telephone shall be promptly confirmed in writing.

16  
17 2. *Operations by Less than All Parties:* If any party receiving such notice as provided in Article  
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to  
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect  
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of  
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period  
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed  
23 operation and complete it with due diligence. Operator shall perform all work for the account of the  
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-  
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform  
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-  
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when  
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms  
29 and conditions of this agreement.

30  
31 If less than all parties approve any proposed operation, the proposing party, immediately after the  
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest  
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-  
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)  
35 hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the  
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",  
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its  
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify  
39 all parties of such decision.

40  
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in  
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting  
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and  
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such  
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole  
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions  
47 of this Article results in a producer of oil and or gas in paying quantities, the Consenting Parties shall  
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned  
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.  
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such  
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party  
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and  
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's  
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,  
55 calculated at the well, or market value thereof if such share is not sold (after deducting production  
56 taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of  
57 or measured by the production from such well accruing with respect to such interest until it reverts)  
58 shall equal the total of the following:

59  
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface  
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,  
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the  
63 cost of operation of the well commencing with first production and continuing until each such Non-  
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being  
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which  
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-  
67 ginning of the operation; and

68  
69 (b) 500% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging  
70 back, testing and completing, after deducting any cash contributions received under Article VII.C., and

500% 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.

Gas production attributable to any Non-Consenting Party's relinquished interest upon 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 hereinabove 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 and other taxes, and all 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, completing, 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 all 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 unreturned 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

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

3  
4 ~~Each party shall execute such division orders and contracts as may be necessary for the sale of its~~  
5 ~~interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled~~  
6 ~~to receive payment direct from the purchaser thereof for its share of all production.~~

7  
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately  
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have  
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such  
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking  
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-  
13 erator shall be subject always to the right of the owner of the production to exercise at any time its  
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a  
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for  
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the  
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the  
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's  
19 share of gas production without first giving such other party thirty (30) days notice of such intended  
20 sale.

21  
22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-  
23 liveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not  
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the  
25 balancing or accounting between the respective accounts of the parties shall be in accordance with  
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as  
27 ~~Exhibit "E", or is a separate Agreement.~~

#### 28 29 D. Access to Contract Area and Information:

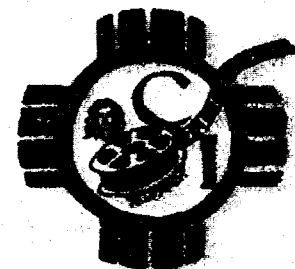
30  
31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect  
32 or observe operations, and shall have access at reasonable times to information pertaining to the de-  
33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon  
34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-  
35 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports  
36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings  
37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to  
38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the  
39 information.

#### 40 41 E. Abandonment of Wells:

42  
43 ~~1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well~~  
44 ~~which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole~~  
45 ~~shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent~~  
46 ~~effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours~~  
47 ~~(exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and~~  
48 ~~abandon such well, such party shall be deemed to have consented to the proposed abandonment. All~~  
49 ~~such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,~~  
50 ~~risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-~~  
51 ~~jects to the plugging and abandoning such well shall have the right to take over the well and conduct~~  
52 ~~further operations in search of oil and/or gas subject to the provisions of Article VI.B.~~

53  
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-  
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-  
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and  
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall  
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense  
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment  
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-  
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvable  
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated  
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall  
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,  
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-  
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the  
67 formation or formations then open to production. If the interest of the abandoning party is or includes  
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an  
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-  
70 tion, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

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vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

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

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

##### A. Liability of Parties:

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

##### B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within twenty (20) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

##### C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

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**D. Limitation of Expenditures:**

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

XX Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any 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 completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing"), shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of -----TWENTY THOUSAND----- Dollars (\$ 20,000.00 ) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of -----TWENTY THOUSAND----- Dollars (\$ 20,000.00 ).

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

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 100% due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

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

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

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

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

3  
4 **G. Taxes:**

5  
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad  
7 valorem taxation all property subject to this agreement which by law should be rendered for such  
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-  
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be  
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-  
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its  
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in  
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold  
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such  
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments in the man-  
16 ner provided in Exhibit "C".

17  
18 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within  
19 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all  
20 parties agree to abandon the protest prior to final determination. During the pendency of administrative  
21 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and  
22 penalty. When any such protested assessment shall have been finally determined, Operator shall pay  
23 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then  
24 be assessed against the parties, and be paid by them, as provided in Exhibit "C".

25  
26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-  
27 posed upon or with respect to the production or handling of such party's share of oil and/or gas pro-  
28 duced under the terms of this agreement.

29  
30 **H. Insurance:**

31  
32 At all times while operations are conducted hereunder, Operator shall comply with the Workmen's  
33 Compensation Law of the State where the operations are being conducted; provided, however, that Op-  
34 erator may be a self-insurer for liability under said compensation laws in which event the only charge  
35 that shall be made to the joint account shall be an amount equivalent to the premium which would have  
36 been paid had such insurance been obtained. Operator shall also carry or provide insurance for the  
37 benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof.  
38 Operator shall require all contractors engaged in work on or for the Contract Area to comply with the  
39 Workmen's Compensation Law of the State where the operations are being conducted and to maintain  
40 such other insurance as Operator may require.

41  
42 In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently  
43 receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for  
44 such insurance for Operator's fully owned automotive equipment.

45  
46 **ARTICLE VIII.**

47 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

48  
49 **A. Surrender of Leases:**

50  
51 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall  
52 not be surrendered in whole or in part unless all parties consent thereto.

53  
54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and  
55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express  
56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and  
57 equipment which may be located thereon and any rights in production thereafter secured, to the parties  
58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-  
59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas  
60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas  
61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".  
62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,  
63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,  
64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-  
65 duction other than the royalties retained in any lease made under the terms of this Article. The parties  
66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells  
67 and equipment on the assigned acreage. The value of all material shall be determined in accordance  
68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plug-  
69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall  
70

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1 be shared by the parties assignee in the proportions that the interest of each bears to the interest of all  
2 parties assignee.

3  
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or  
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract  
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter  
7 be subject to the terms and provisions of this agreement.

8  
9 **B. Renewal or Extension of Leases:**

10  
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties  
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt  
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such  
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper  
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,  
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17  
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it  
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of  
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages  
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.  
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23  
24 Each party who participates in the purchase of a renewal lease shall be given an assignment of its  
25 proportionate interest therein by the acquiring party.

26  
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest  
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease  
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after  
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted  
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal  
32 lease and shall not be subject to the provisions of this agreement.

33  
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas  
35 leases.

36  
37 **C. Acreage or Cash Contributions:**

38  
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling  
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who  
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or  
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is  
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling  
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto  
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and  
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and  
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-  
48 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or  
49 any other operation on the Contract Area.

50  
51 If any party contracts for any consideration relating to disposition of such party's share of substances  
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this  
53 Article VIII.C.

54  
55 **D. Subsequently Created Interest:**

56  
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent  
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-  
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequ- ntly  
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as  
61 follows:

62  
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the  
64 party conducting such operations becomes entitled to receive the production attributable to the interest  
65 out of which the subsequently created interest is derived, such party shall receive same free and clear  
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently  
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and  
68 all liability resulting therefrom.

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2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. 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 notices, 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 severally its undivided interest therein.

#### G. 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 proportions 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

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such party shall give any notices or take any other action inconsistent with the election 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 hereby 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-----TEN THOUSAND-----Dollars (\$ 10,000.00 ) 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/or so long as oil and/or gas production continues from any lease or oil and gas interest.

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X. Option No. 2: In the event the well described in Article VI.A., 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 production, and for an additional period of 100 days from cessation of all production; provided, however, if, prior 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 VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 100 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.

##### B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-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

##### EXHIBIT "D"

##### Comprehensive General Liability

Limits: Bodily Injury \$500,000 each occurrence  
Property Damage \$100,000 each occurrence  
Covering Oil or Gas Lease Operators.

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 18 day of May,  
19 81.

OPERATOR

\_\_\_\_\_  
APOLLO ENERGY, INC.

NON-OPERATORS

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## EXHIBIT "C"

Attached to and made a part of A. A. P. L. Form 610-1977  
dated October 1, 1981 - AZTEC "36" STATE NO. 1, LEA COUNTY,  
NEW MEXICO - APOLLO ENERGY, INC., OPERATOR

# 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 fifteen (15) 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 paid 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. ii 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

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.

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#### 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

#### 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:

- ( ☒ ) 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 ( ☒ ) 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 \$ 100.00 per day  
Producing Well Rate \$ 175.00

- (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 ( %) 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 ( %) 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, redrilling, 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 \$-----:

A. -----% of total costs if such costs are more than \$----- but less than \$-----; plus

B. -----% of total costs in excess of \$----- but less than \$1,000,000; plus

C. -----% 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.

## 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

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- (b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A 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 transferring property.

**C. Other Used 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 junk, 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.

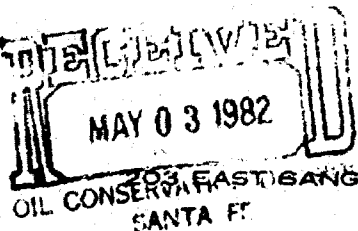
**3. Special Inventories**

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.

M. J. COLLOPY  
ATTORNEY AT LAW



P.O. BOX 2297

April 28, 1982

OIL CONSERVATION  
SANTA FE  
203 EAST GANGER, HOBBS, NEW MEXICO 88240  
505/397-3608

Mr. W. Thomas Kellahin  
Kellahin and Kellahin  
P. O. Box 1769  
Santa Fe, New Mexico 87501

Card 7576 +  
7577  
May 12  
B.H.

RE: Apollo Oil Company/Clara Fowler

Dear Mr. Kellahin:

Receipt of your correspondence and copy of the Application for compulsory pooling is acknowledged. This is to advise you that Miss Fowler will not protest the entry of an order provided the additional 200% penalty requested is reduced to 100%. Our own geological evaluation of the property indicates that this project is highly speculative and it is based upon these considerations that Miss Fowler has decided not to participate voluntarily.

By copy hereof, I am advising the Oil Conservation Division of our position. May I please hear from you upon receipt of this letter.

Yours very truly,

ORIGINAL SIGNED BY  
M. J. COLLOPY

M. J. Collopy

MJC/gjf

cc: Miss Clara Fowler  
cc: Mr. Joe D. Ramey

C  
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P  
Y

Dockets Nos. 14-82 and 15-82 are tentatively set for May 26 and June 9, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MAY 12, 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. Scamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

ALLOWABLE: (1) Consideration of the allowable production of gas for June, 1982, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for June, 1982, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 7540: (Continued and Readvertised)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Pauly-Anderson-Pritchard, William H. Pauly, and all other interested parties to appear and show cause why the Maloy Well No. 1, located in Unit P, Section 16, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7538: (Continued and Readvertised)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Francis L. Harvey and all other interested parties to appear and show cause why the Pinkstaff Estate Well No. 2, located in Unit A, Section 29, Township 29 North, Range 10 West, San Juan County, should not be re-entered and plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7566: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Flag-Redfern Oil Co., Principal, National Surety Corporation, and all other interested parties to appear and show cause why four wells, being the Julander No. 1 located in Unit L, Section 34; Julander No. 2 located in Unit I, Section 33; Hargis No. 1 located in Unit G, Section 33; and Hargis No. 2 located in Unit J, Section 33, all in Township 30 North, Range 12 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7560: (Continued from April 28, 1982, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Charles H. Heisen, Fidelity and Deposit Company of Maryland, Surety, and all other interested parties to appear and show cause why the Crownpoint Well No. 1, located in Unit F, Section 18, Township 18 North, Range 13 West, McKinley County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7542: (Continued from April 14, 1982, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Benson-Montin-Greer Drilling Corporation, Hartford Accident and Indemnity Company, and all other interested parties to appear and show cause why the following wells: Dustin No. 1, located in Unit K, Section 6, and the Gallegos Canyon Unit No. 2, located in Unit K, Section 35, both in Township 29 North, Range 12 West, and the Segal No. 1, located in Unit K, Section 10, and the Price No. 1, located in Unit N, Section 15, both in Township 31 North, Range 13 West, San Juan County, should not be plugged and abandoned in accordance with Division-approved plugging programs.

CASE 7567: Application of Harvey E. Yates Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Richardson Unit Area, comprising 1,283.35 acres, more or less, of State and Fee lands in Townships 13 and 14 South, Range 36 East.

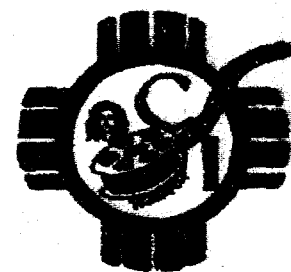
CASE 7565: (Continued from April 28, 1982, Examiner Hearing)

Application of Delta Drilling Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the North Mescalero Unit Area, comprising 719.77 acres, more or less, of State, Fee and Federal lands in Townships 9 and 10 South, Range 32 East.

CASE 7568: Application of Petroleum Corp. of Delaware for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Superior Federal Well No. 6 located in Unit N of Section 6, Township 20 South, Range 29 East, East Burton Flat Field, to produce oil from the Strawn formation through tubing and gas from the Morrow formation through the casing-tubing annulus by means of a cross-over assembly.

Examiner Hearing - WEDNESDAY - MAY 12, 1982

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- CASE 7569: Application of Petroleum Corp. of Delaware for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Atoka and Morrow production in the wellbores of its Parkway West Unit Well No. 3, located in Unit K of Section 29, and Well No. 10, located in Unit G of Section 27, both in Township 19 South, Range 29 East.
- CASE 7570: Application of J. Cleo Thompson for three unorthodox oil well locations, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for three unorthodox well locations, being 660 feet from the North line and 1330 feet from the West line, 660 feet from the North line and 2630 feet from the East line, and 660 feet from the North line and 1310 feet from the East line, all in Section 2, Township 17 South, Range 30 East, Square Lake Pool.
- CASE 7516: (Continued from March 31, 1982, Examiner Hearing)
- Application of Benson-Montin-Greer for a unit agreement, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the North Canada Ojitos Unit Area, comprising 12,361 acres, more or less, of Jicarilla Apache Indian lands in Township 27 North, Range 1 West.
- CASE 7571: Application of Yates Petroleum Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface through the Abo formation underlying the SE/4 of Section 9, the SW/4 of Section 10, the NW/4 of Section 15, all in Township 6 South, Range 26 East, each to form a standard 160-acre spacing and proration unit 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 7551: (Continued from April 14, 1982, Examiner Hearing)
- 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 in the Wolfcamp through Mississippian formations underlying the E/2 of Section 21, Township 11 South, Range 31 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 7572: Application of Anadarko Production Company for a waterflood expansion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its Ballard GSA Waterflood Project by drilling and converting ten wells located in Unit N of Section 5, Units M and P of Section 6, Units F, H, J, and P of Section 7, Units F and N of Section 8, and Unit F of Section 17, all in Township 18 South, Range 29 East, Loco Hills Pool.
- CASE 7573: Application of Anadarko Production Company for a waterflood expansion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its West Square Lake Waterflood Project by the conversion to water injection of five wells located in Units J and N of Section 9, D and H of Section 10, and J of Section 3, all in Township 17 South, Range 30 East.
- CASE 7574: Application of Sun Exploration and Production Company for two non-standard gas proration units and an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of two 160-acre non-standard Jalmat gas proration units comprising the NW/4 of Section 21, for its Boren & Greer Com Well No. 2 in Unit C and the NE/4 of Section 20, for its Boren & Greer Com Well No. 3, to be drilled at an unorthodox location 660 feet from the North line and 940 feet from the East line of said Section 20, all in Township 22 South, Range 36 East. Applicant further seeks rescission of Order No. R-5688.
- CASE 7575: Application of Eagle Oil & Gas Co. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox gas well location for a Wolfcamp-Penn test well to be drilled 1500 feet from the South line and 660 feet from the East line of Section 2, Township 17 South, Range 27 East, the S/2 of said Section 2 to be dedicated to the well.
- CASES 7576 and 7577: Application of Apollo Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in each of the following cases, seeks an order pooling all mineral interests from the surface through the base of the San Andres formation underlying the lands specified in each case, each to form a standard 40-acre oil spacing and proration unit 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 7576: NE/4 SW/4 Section 6, Township 19 South, Range 38 East

CASE 7577: SE/4 SW/4 Section 6, Township 19 South, Range 38 East

CASE 7578: 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 from the surface down through the Seven Rivers formation underlying the SE/4 of Section 31, Township 19 South, Range 39 East, to form a standard 160-acre gas proration unit 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 7579: 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 from the surface down through the Seven Rivers formation underlying the N/2 NW/4 of Section 5, Township 20 South, Range 39 East, to form a non-standard 80-acre gas proration unit 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 7580: 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 from the surface to the base of the Seven Rivers formation underlying the SW/4 of Section 31, Township 19 South, Range 39 East, to form a standard 160-acre gas proration unit 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 7581: Application of Estoril Producing Corp. for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 660 feet from the South line and 990 feet from the East line of Section 10, Township 23 South, Range 34 East, Antelope Ridge-Morrow Gas Pool, the S/2 of said Section 10 to be dedicated to the well.

CASES 7582 thru 7585: Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following cases, seeks an order pooling all mineral interests down through the Abo formation underlying the lands specified in each case, each to form a standard 160-acre gas spacing and proration unit 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 7582: NW/4 Section 13, Township 6 South, Range 24 East

CASE 7583: NE/4 Section 13, Township 6 South, Range 24 East

CASE 7584: SW/4 Section 13, Township 6 South, Range 24 East

CASE 7585: NW/4 Section 24, Township 6 South, Range 24 East

CASES 7525 thru 7534: (Continued from April 28, 1982, Examiner Hearing)

Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following 10 cases, seeks an order pooling all mineral interests down through the Abo formation underlying the lands specified in each case, each to form a standard 160-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon. Also to be considered in each case 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 7525: SW/4 Section 3, Township 5 South, Range 24 East

CASE 7526: NW/4 Section 3, Township 5 South, Range 24 East

CASE 7527: SE/4 Section 3, Township 5 South, Range 24 East

CASE 7528: NW/4 Section 4, Township 5 South, Range 24 East

CASE 7529: NE/4 Section 4, Township 5 South, Range 24 East

CASE 7530: NW/4 Section 11, Township 6 South, Range 24 East

CASE 7531: SW/4 Section 11, Township 6 South, Range 24 East

CASE 7532: SE/4 Section 27, Township 6 South, Range 24 East

CASE 7533: SW/4 Section 27, Township 6 South, Range 24 East

CASE 7534: NW/4 Section 34, Township 6 South, Range 24 East

CASE 7515: (Continued from April 14, 1982, Examiner Hearing)

Application of Four Corners Gas Producers Association for designation of a tight formation, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Dakota formation underlying all or portions of Townships 26 and 27 North, Ranges 12 and 13 West, Township 28 North, Range 13 West, Township 29 North, Ranges 13 through 15 West, and Township 30 North, Ranges 14 and 15 West, containing 164,120 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 7586: Application of Standard Resources Corp. for designation of a tight formation, Chaves and Eddy Counties, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Abo formation underlying all or portions of Township 15 South, Ranges 23 through 25 East, Township 19 South, Range 20 East, and Township 20 South, Range 20 East, all in Chaves County; in Eddy County: Township 16 South, Ranges 23 through 26 East, Township 17 South, Ranges 21, 23, 24, and 25 East, and Township 18 South, Ranges 21, 23, 24 and 25 East, Township 19 South, Ranges 21, 23, and 24 East, and Township 20 South, Ranges 21, 23, and 24 East, containing 460,800 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 7587: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, abolishing, and extending vertical and horizontal limits of certain pools in Chaves, Eddy, and Lea Counties, New Mexico:

- (a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the Draper Mill-Wolfcamp Gas Pool. The discovery well is the HNG Oil Company Vaca Draw 16 State Well No. 1 located in Unit E of Section 16, Township 25 South, Range 33 East, NNPM. Said pool would comprise:

TOWNSHIP 25 SOUTH, RANGE 33 EAST, NNPM  
Section 16: W/2

- (b) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the Jabalina-Morrow Gas Pool. The discovery well is the Amoco Production Company Perro Grande Unit Well No. 1 located in Unit J of Section 6, Township 26 South, Range 35 East, NNPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 35 EAST, NNPM  
Section 6: E/2

- (c) ABOLISH the Diamond Mound-Morrow Gas Pool in Chaves and Eddy Counties, New Mexico, as heretofore classified, defined, and described as:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NNPM  
Section 35: All

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NNPM  
Section 31: E/2

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NNPM  
Section 3: Lots 1 through 16  
Section 4: Lots 1 through 16  
Section 5: Lots 1 through 16  
Section 6: Lots 1, 2, 7, 8, 9, 10, 15, 16, and S/2

- (d) EXTEND the vertical limits of the Diamond Mound-Atoka Gas Pool in Chaves and Eddy Counties, New Mexico, to include the Morrow formation, and redesignate said pool to Diamond Mound-Atoka-Morrow Gas Pool, and extend the horizontal limits of said pool to include acreage from abolished Diamond Mound-Morrow Gas Pool and one additional well as follows:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NNPM  
Section 35: All

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NNPM  
Section 31: E/2

TOWNSHIP 16 SOUTH, RANGE 27 EAST, NNPM  
Section 9: S/2

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NNPM  
Section 3: Lots 1 through 16  
Section 4: Lots 1 through 16  
Section 5: Lots 1 through 16  
Section 6: Lots 1, 2, 7, 8, 9, 10, 15, 16, and S/2



- (e) EXTEND the Burton Flat-Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 28 EAST, NMPM  
Section 35: E/2  
Section 36: N/2

- (f) EXTEND the Crow Flats-Morrow Gas Pool in Eddy County, New Mexico to include therein:

TOWNSHIP 17 SOUTH, RANGE 27 EAST, NMPM  
Section 1: All  
Section 12: N/2

- (g) EXTEND the South Culebra Bluff-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM  
Section 10: All  
Section 11: W/2  
Section 14: W/2  
Section 15: W/2  
Section 34: W/2

- (h) EXTEND the South Empire-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 29 EAST, NMPM  
Section 17: N/2

- (i) EXTEND the Golden Lane-Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 30 EAST, NMPM  
Section 28: All

- (j) EXTEND the Kennedy Farms-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 26 EAST, NMPM  
Section 10: N/2

- (k) EXTEND the East LaRica-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM  
Section 36: S/2

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM  
Section 31: S/2

- (l) EXTEND the Little Box Canyon-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 22 EAST, NMPM  
Section 18: E/2

- (m) EXTEND the Malaga-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 28 EAST, NMPM  
Section 11: E/2

- (n) EXTEND the South Millman-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM  
Section 16: N/2

- (o) EXTEND the East Millman-Queen-Grayburg Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM  
Section 7: NE/4

- (p) EXTEND the Millman Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM  
Section 8: S/2

- (q) EXTEND the West Nadine-Blinabry Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM  
Section 5: SW/4

- (r) EXTEND the West Osudo-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 35 EAST, NMPM  
Section 11: S/2  
Section 12: S/2

- (s) EXTEND the Pecos Slope-Abo Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 4 SOUTH, RANGE 24 EAST, NMPM

Section 24: S/2  
Section 25: All  
Section 26: E/2  
Section 35: W/2 and NE/4  
Section 36: N/2

TOWNSHIP 4 SOUTH, RANGE 25 EAST, NMPM

Section 19: SW/4  
Section 30: W/2  
Section 31: NW/4

TOWNSHIP 5 SOUTH, RANGE 24 EAST, NMPM

Section 2: NW/4  
Section 7: All  
Section 8: All  
Section 9: N/2 and SW/4  
Section 16: W/2  
Section 17 thru 20: All  
Section 21: W/2  
Section 28: W/2  
Section 29: All  
Section 30: All  
Section 31: N/2  
Section 32: N/2  
Section 33: NW/4

TOWNSHIP 5 SOUTH, RANGE 25 EAST, NMPM

Section 1 thru 5: All  
Section 6: E/2  
Section 7: SW/4 and E/2  
Section 8 thru 12: All  
Section 14 thru 22: All  
Section 23: N/2  
Section 27: N/2  
Section 28 thru 30: All  
Section 31: NE/4  
Section 32: N/2  
Section 33: All  
Section 34: All

TOWNSHIP 6 SOUTH, RANGE 24 EAST, NMPM

Section 2: All  
Section 11 thru 14: All  
Section 22 thru 28: All  
Section 34: E/2  
Section 35: All  
Section 36: All

Examiner Hearing - WEDNESDAY - MAY 12, 1982

TOWNSHIP 6 SOUTH, RANGE 26 EAST, NMPM

Section 4 thru 6: All  
Section 7 thru 8: All  
Section 9: N/2  
Section 17 thru 20: All  
Section 29 thru 32: All

TOWNSHIP 7 SOUTH, RANGE 24 EAST, NMPM

Section 1: All  
Section 2: All  
Section 3: E/2  
Section 9 thru 15: All  
Section 22 thru 27: All  
Section 34 thru 36: All

TOWNSHIP 7 SOUTH, RANGE 25 EAST, NMPM

Section 6: W/2  
Section 7: S/2  
Section 13: SW/4  
Section 14: S/2  
Section 15: S/2  
Section 18 and 19: All  
Section 20: S/2  
Section 22 thru 27: All  
Section 29 thru 32: All  
Section 34 thru 36: All

TOWNSHIP 7 SOUTH, RANGE 26 EAST, NMPM

Section 5: All  
Section 6: All  
Section 7 thru 10: All  
Section 11: W/2  
Section 15 thru 17: All  
Section 18: N/2  
Section 19 thru 22: All  
Section 28 thru 32: All

TOWNSHIP 8 SOUTH, RANGE 24 EAST, NMPM

Section 1 through 3: All  
Section 10: E/2  
Section 11: All  
Section 12: All

TOWNSHIP 8 SOUTH, RANGE 25 EAST, NMPM

Section 1 through 12: All  
Section 13 through 16: N/2

TOWNSHIP 8 SOUTH, RANGE 26 EAST, NMPM

Section 6: W/2

- (t) EXTEND the West Pecos Slope-Abo Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 22 EAST, NMPM

Section 23: SE/4  
Section 24: S/2 and NE/4  
Section 25 through 27: All  
Section 28: E/2

TOWNSHIP 8 SOUTH, RANGE 23 EAST, NMPM

Section 3 through 5: All  
Section 6: N/2  
Section 8 through 10: N/2  
Section 17: W/2  
Section 18: SE/4  
Section 19: All  
Section 20: W/2  
Section 29: W/2  
Section 30: All  
Section 31: All  
Section 32: W/2

TOWNSHIP 9 SOUTH, RANGE 23 EAST, NMPM

Section 3: W/2  
Section 4: All  
Section 5: All  
Section 6: E/2  
Section 8: All

- (u) EXTEND the East Red Lake-Queen-Grayburg Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM

Section 25: E/2 NE/4 and NE/4 SE/4

- (v) EXTEND the Sand Ranch-Morrow Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 29 EAST, NMPM

Section 26: All

- (w) EXTEND the Sawyer-San Andres Associated Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 38 EAST, NMPM

Section 4: SW/4

- (x) EXTEND the Tom-Tom-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 31 EAST, NMPM

Section 7: All

- (y) EXTEND the Turkey Track-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM

Section 2: W/2  
Section 7: N/2

- (z) EXTEND the Twin Lakes-San Andres Associated Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 29 EAST, NMPM

Section 18: N/2 SE/4 and SE/4 SE/4

- (aa) EXTEND the South Vacuum-Wolfcamp Pool in ysa County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM

Section 16: SE/4

\*\*\*\*\*  
DOCKET: COMMISSION HEARING - MONDAY - MAY 17, 1982

Docket No. 14-82

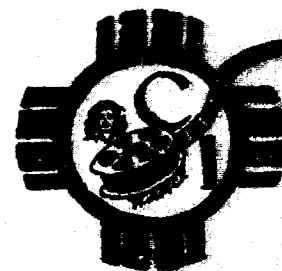
OIL CONSERVATION COMMISSION - 9 A.M.  
ROOM 205 - STATE LAND OFFICE BUILDING,  
SANTA FE, NEW MEXICO.

CASE 7522: (DE NOVO)

Application of Santa Fe Exploration Co. for an unorthodox gas well location, Eddy County, New Mexico Applicant, in the above-styled cause, seeks approval of an unorthodox location 660 feet from the North and West lines of Section 14, Township 20 South, Range 25 East, Permo-Penn, Strawn, Atoka and Morrow formations, the N/2 of said Section 14 to be dedicated to the well.

Upon application of Chama Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

W.N.M.C.F. MICROGRAPHIC



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CASE 7476: (DE NOVO)

Application of Jack J. Grynberg 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 Abo formation, underlying two 160-acre gas spacing units, being the NE/4 and SE/4, respectively, of Section 12, Township 5 South, Range 24 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 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.

Upon application of Mesa Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 7513: (DE NOVO)

Application of Mesa Petroleum Company 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 the SE/4 of Section 12, Township 5 South, Range 24 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.

Upon application of Mesa Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

KELLAHIN and KELLAHIN

*Attorneys at Law*

Jason Kellahin  
W. Thomas Kellahin  
Karen Aubrey

500 Don Gaspar Avenue  
Post Office Box 1769  
Santa Fe, New Mexico 87501

Telephone 982-4285  
Area Code 505

April 19, 1982

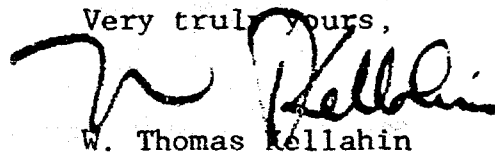
Mr. Joe D. Ramey  
Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Apollo Oil Company

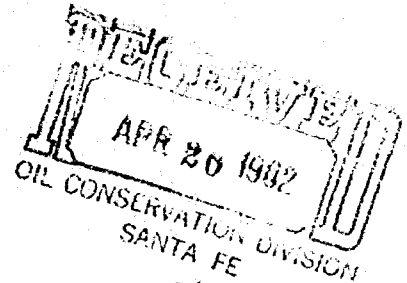
Dear Mr. Ramey:

Please set the enclosed application for hearing  
on the next available examiner docket now set for May 12,  
1982.

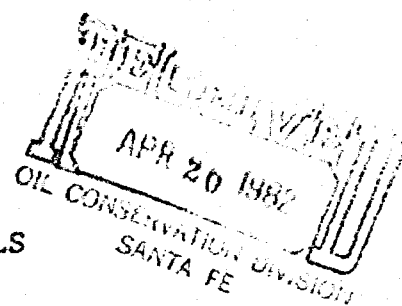
Very truly yours,

  
W. Thomas Kellahin

WTK:rb  
Enclosure  
cc: Apollo Oil Company  
Mrs. Clara Fowler  
M. J. Collopy, Esq.



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



IN THE MATTER OF THE APPLICATION  
OF APOLLO OIL COMPANY, FOR COMPULSORY  
POOLING AT UNORTHODOX WELL LOCATION,  
LEA COUNTY, NEW MEXICO.

Case 7576

A P P L I C A T I O N

COMES NOW APOLLO OIL COMPANY, by and through its attorneys Kellahin & Kellahin, and applies to the New Mexico Oil Conservation Division for an order pooling all interest from surface to the base of the Grayburg-San Andres Pool in the SE/4SW/4 of Section 6, T19S, R38E, Lea County, New Mexico for an oil well to be located at a standard location and in support thereof would show:

1. Applicant is an oil and gas operator and has acquired the right to drill certain tracts in the SE/4SW/4 of Section 6.
2. Applicant proposes to drill a well at a standard location to the base of the Grayburg-San Andres Pool - Hobbs Field.
3. Applicant has sought the cooperation of all interested parties involved in the proposed unit and has been unable to obtain the necessary approvals or commitments to form a voluntary unit for this well.

4. Those interested parties who have not joined in the drilling of the well for this unit are as follows:

Mrs. Clara Fowler 25%  
P. O. Box 612  
Hobbs, New Mexico 88240

M. J. Collopy, Esq.  
P. O. Box 2297  
Hobbs, New Mexico  
Attorney for Mrs. Fowler

5. Copies of this application have been mailed to the parties in paragraph 4 above.

6. Applicant desires to be designated operator of the pooled unit.

7. 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 oil in said unit, all mineral interests, whatever they may be, underlying the subject unit, should be pooled.

8. That any non-consenting working interest owner that does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

9. Applicant should be authorized to withhold from production the proportionate share of reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, Applicant prays that:

1. This application be set for hearing before an examiner and that notice of said hearing be given as required by law.



2. Upon hearing the Division enter its order granting the application as requested.

3. And for such other relief as may be just in the premises.

KELLAHIN & KELLAHIN

By 

W. Thomas Kellahin  
P. O. Box 1769  
Santa Fe, New Mexico 87501  
(505) 982-4285

ATTORNEYS FOR APPLICANT

*Review  
CASES*

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:

*[Handwritten signatures]*

CASE NO. 7576

Order No. R-6986

APPLICATION OF APOLLO ~~OFF~~ *Energy, Inc.*  
~~COMPANY~~ FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

*[Handwritten signatures]*

ORDER OF THE DIVISION

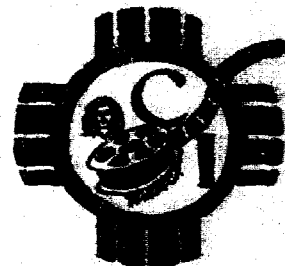
BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 12, 1982,  
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this \_\_\_\_\_ day of May, 1982, the Division  
Director, having considered the testimony, the record, and the  
recommendations of the Examiner, and being fully advised in the  
premises,

FINDS:

W.N.M.C.F. MICROGRAPH



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(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, Apollo <sup>Energy, Inc</sup> ~~Oil Company~~, seeks an order pooling all mineral interests from the surface through the base of the San Andres formation underlying the NE/4 SW/4 of Section 6, Township 19 South, Range 38 East, NMPM, Lea 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 <sup>oil and</sup> in said pool, the subject application should be approved by <sup>^</sup> 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 \$ 100<sup>00</sup> per ~~month~~ <sup>day</sup> while drilling and \$ 175<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

W.N.M.C.F. MICROGRAPH



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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 September 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, from the surface through the base of the San Andres formation underlying the NE/4 SW/4 of Section 6, Township 19 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40-acre oil 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 September, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the San Andres formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of September, 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 Apollo <sup>Energy, Inc.</sup> ~~Oil 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.

W.N.M.C.F. MICROGRAPH



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(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 \$ 100.00 per ~~month~~ <sup>day</sup> while drilling and \$ 175.00 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 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 Lea 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.

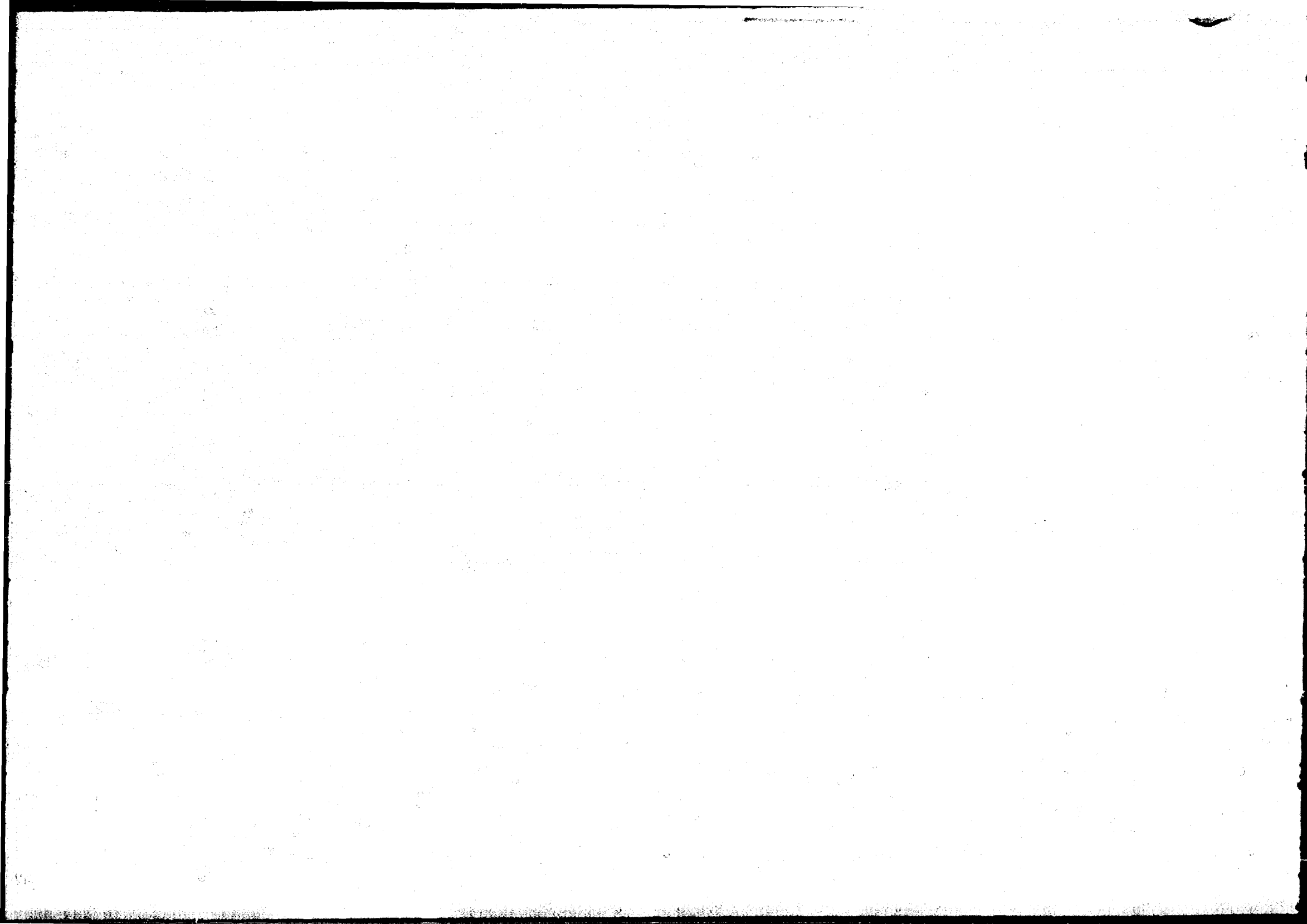
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

JOE D. RAMEY,  
Director

S E A L





DOCKET MAIL

4/30/82 (Peebles)