

CASE NO.

6400

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

EXAMINER HEARING

Application of Coronado Exploration
Corporation for compulsory pooling,
Chaves County, New Mexico.

**CASE
6400**

TRANSCRIPT OF HEARING

Lynn Teschendorf, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

Joel Carson, Esq.
LOSEE, CARSON, AND DICKERSON
Artesia, New Mexico

DAILY WALL FUND FORD
CONVERTED STOCK
1000 Shares **20000** **171-8402**
Smith Co. New Mexico 81001

I N D E X

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HARVEY VATES

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CHARLES JOY

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E X H I B I T S

Applicant Exhibit One, 20
Applicant Exhibit Two, Letters 7
Applicant Exhibit Three, Seven AFE's
Applicant Exhibit Four, Operating Agreement

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1 MR. STAMETS: Call next Case Number 6400.

2 MS. TESCHENDORF: Case 6400. Application of
3 Coronado Exploration Corporation for compulsory pooling.
4 Chaves County, New Mexico.

5 MR. STAMETS: Call for appearances in this
6 case.

7 MR. CARSON: Mr. Examiner, my name is Joel
8 Carson, Losee, Carson, and Dickerson, P. A., Artesia, New
9 Mexico, appearing on behalf of the applicant. I will have
10 two witnesses.

11 MR. STAMETS: Are there any other appearances
12 in this case? I'd like to have both witnesses stand and
13 be sworn at this time.

14 (Witnesses sworn.)

15 MR. CARSON: Mr. Examiner, may I say a couple
16 things as preliminary matters.

17 Number One, is that we filed these applica-
18 tions for forced pooling as seven separate applications,
19 but after talking to Mr. Nutter, it was published as one
20 case, and we would like to move that they be consolidated
21 for hearing and other purposes.

22 MR. STAMETS: Well, I think they already are,
23 so we will proceed under that idea.

24 MR. CARSON: All right. The second thing is
25 that a portion of our exhibits and so forth have been caught

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1 in the snow. We've got one copy of them, which we'd like to
2 give you with the opportunity to reproduce them and resubmit
3 them.

4 MR. STAMETS: That will be fine.

5 MR. CARSON: Thirdly, Mr. Examiner, let me
6 point out in all due respect to the Commission, my principal
7 witness here, I got him out of Wagon Mound in a snowstorm
8 this morning, and it looks like he didn't bring his tie.

9 MR. STAMETS: Oh, well, I don't think there
10 is any tie requirement here. Let's hope not, anyhow. I've
11 been here without one myself on occasion.

12 MR. CARSON: Thank you very much.

13
14 HARVEY YATES

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

17
18 DIRECT EXAMINATION

19 BY MR. CARSON:

20 Q Would you state your name, please?

21 A Harvey Yates, Junior.

22 Q Mr. Yates, what is your connection with
23 Coronado Exploration Corp.?

24 A I'm the president of the corporation.

25 Q Mr. Yates, would you tell the Examiner a

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CORONADO EXPLORATION
CORP. 1954
10000 10000 10000
10000 10000 10000

1 little bit about your educational background, and your ex-
2 perience in the oil business?

3 A I suppose my first introduction to the oil
4 business was working on a cable tool rig. I've worked as
5 a roughneck, and so forth. I got my undergraduate education
6 at the University of Texas. I subsequently was president
7 of Harvey E. Yates Company, HEYCO. I subsequently went to
8 law school. Recently established Coronado Exploration Com-
9 pany.

10 Q Mr. Yates, would it be accurate to say that
11 you've been involved in the oil exploration and production
12 most of your adult life?

13 A Yes.

14 Q Would you explain as briefly as possible the
15 purpose of this application?

16 A Coronado Exploration seeks a compulsory
17 pooling against the Selma Andrews Trust, operated by the
18 Republic National Bank Trust Department in Dallas for the
19 Selma Andrews Trust interest in each of the wellsites listed,
20 the seven wellsites. Selma Andrews Trust owns .79125 per-
21 cent. In other words, less than 1 percent of each wellsite.
22 We've been unable to reach a satisfactory arrangement with
23 Republic National Bank and we wish to drill on seven differ-
24 ent locations. Each well will be located at a standard
25 location.

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1 Q And those locations are set forth in the pub-
2 lication and in your application.

3 A Yes, they are.

4 Q Mr. Yates, I'm going to refer you to Applicant
5 Exhibit Number One, which I understand was prepared by the
6 other witness, but does that -- does Exhibit Number One
7 correctly show the location of the seven wells that you
8 propose to drill?

9 A Exhibit One shows the spacing unit around
10 each of the wells.

11 Q Yes, the proration unit for the seven wells.

12 A Yes, rather than the well locations.

13 Q And, Mr. Yates, the ownership of the acreage
14 underneath those seven tracts is all the same, is it not?

15 A Yes, it is.

16 Q And Selma Andrews Trust owns the same three-
17 quarters of one percent, more or less?

18 A More or less, a little more, more or less,
19 yes, sir.

20 Q Now, I'm going to refer you to Applicant's
21 Exhibit Number Two and ask you to briefly explain what that
22 exhibit purports to show.

23 A This is a series of letters between Coronado
24 Exploration and Republic National Bank, a Mr. Gamble there.
25 Coronado attempted to buy leases from the Selma Andrews

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1 Trust. Coronado was successful in buying leases from all
2 other parties involved. We were unable to reach a reasonable
3 agreement. I offered, subsequent to the last letter, I
4 called Mr. Gamble twice and I have offered to lease from
5 the Selma Andrews Trust on the same basis as any one of the
6 other five or six lessors. In other words, I would give
7 them their choice of -- my last call, in fact after this
8 hearing was set, I said, fellows, I really am not eager to
9 force pool you. I wish you would cooperate. I wish we could
10 come to some kind of amicable arrangement. Won't you carry
11 your own interest or can't we farm out or can't we lease,
12 and they said, Mr. Gamble said, the only authority I have
13 from the trust committee, is this. You just go on and force
14 pool us, so here we are.

15 Q And those letters and correspondence con-
16 tained in Exhibit Two are correspondence between your com-
17 pany and the Selma Andrews Trust.

18 A Yes.

19 MR. CARSON: I'd like to move the introduction
20 of Applicant's Exhibit Number Two.

21 MR. STAMETS: Exhibit Number Two will be ad-
22 mitted.

23 Q (Mr. Carson continuing.) Mr. Yates, I'm going
24 to refer you to Applicant's Exhibit Number Three and ask for
25 you to identify it.

1 A This exhibit is seven AFE's, one for each
2 well that we intend to drill.

3 Q Now are they all the same, Mr. Yates?

4 A Yes, they are.

5 Q So your --

6 A We expect to encounter the San Andres formation
7 at the same depth, more or less.

8 Q Are those -- in your experience is the cost
9 attributable to those AFE's reasonable and necessary?

10 A Yes, this is exactly the same -- there are
11 other parties joining me in this drilling and this is
12 exactly the AFE that we are using between us.

13 Q Mr. Yates, I'm going to refer you to Appli-
14 cant's Exhibit. I believe it's Number Four, which is a
15 uniform operating agreement, which we'll introduce into
16 evidence and then we can withdraw. Is that the operating
17 agreement that you propose to use on this drilling program?

18 A Yes. Yes, it is. This is the operating
19 agreement that Coronado Exploration had with the other
20 parties who are involved.

21 It has provisions in the agreement itself
22 which were not mentioned in the letters to Mr. Gamble, but
23 the -- in that the provisions in this particular operating
24 agreement are a bit more harsh than those offered to Mr.
25 Gamble.

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1 What I offered Mr. Gamble was a standard oper-
2 ating agreement. This particular agreement here, which is
3 the one, as I say, with all other parties, requires -- or
4 protects the operator a little more than the one I offered
5 to Mr. Gamble, but essentially it is the same.

6 Q Okay. And you're going to re-offer that oper-
7 ating agreement to Selma Andrews Trust before you commence
8 drilling?

9 A Yes.

10 Q In your -- in your COPAS provision of the
11 operating agreement you have set forth some charges for
12 drilling well, supervision costs, and producing well, super-
13 vision costs. What are those?

14 A Drilling well I have broken down between deep
15 and shallow, and of course this is shallow in that it's
16 under 5000 feet. That cost is \$1900.68. Producing well
17 rate is \$245.23.

18 Q And you'd ask that the Commission set that
19 as the supervision charge for drilling and producing wells.

20 A Yes, I would.

21 MR. STAMETS: \$1968 how much?

22 A \$1900.68.

23 MR. STAMETS: \$1900.68. Okay.

24 A Now ask me how we got the .68 cents.

25 MR. CARSON: Mr. Examiner, I'd like to move

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1 the introduction of Applicant's Exhibit Number Four.

2 MR. STAMETS: Are you going to give me Ex-
3 hibit Number Four?

4 MR. CARSON: I'll give it to you and then
5 take it back and reproduce it.

6 MR. STAMETS: I tell you what, why don't you
7 just not introduce this exhibit and just send me a copy of
8 the operating agreement.

9 MR. CARSON: That's quite satisfactory.

10 Q (Mr. Carson continuing.) Mr. Yates, let me
11 re-refer you to Applicant's Exhibit Number One and ask you
12 to explain to the Hearing Officer the procedure that you
13 intend to follow for this drilling program.

14 A I intend to, or Coronado Exploration intends
15 to drill initially three wells and do those one after the
16 other in the sense that we won't release the rig. As soon
17 as the rig is through with one location we will move imme-
18 diately to another location. We need for a period of time
19 to look at the information we gain from that drilling and
20 then prior to the end of March of 1979 we would drill at
21 least two more of these holes and then in the following
22 sixty days, ninety days, we would drill the remainder.

23 Q In other words, you plan to drill three holes,
24 one right after the other.

25 A Right away.

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1 Q And then you will evaluate your position,
2 drill two more in March?

3 A They have to be drilled prior to March.

4 Q And two more following that.

5 A Right.

6 Q Now, how long does it take to drill one of
7 these wells?

8 A From ten to fifteen days actual drilling.
9 That doesn't include completion time.

10 Q How much time to complete a well?

11 A Of course that varies markedly from well to
12 well, but hopefully a week.

13 Q So you're talking about maybe seventeen days
14 from beginning to end of a given well, is that correct?

15 A Yes, but please understand that the drilling
16 of the second well will take place while the first well is
17 being completed.

18 Q And, Mr. Yates, the Commission will require
19 you to notify the person that you're force pooling at some
20 point in time about the drilling of these wells. Now, how
21 much notice do you think would be reasonable under the cir-
22 cumstances?

23 A As I've explained, for various reasons we
24 need to drill these wells rapidly. One reason I suppose I
25 should state, is that we can get -- reduce the cost. The

1 AFE is based on our being able to either contract a rig or
2 assure the drilling contractor of enough locations to get
3 a lower drilling cost, and as a consequence, we want to
4 drill at least three at a time.

5 I think that something like ten days notice
6 should be sufficient.

7 Q One further question, Mr. Yates. Upon what
8 do you base the economics of your proposal to drill these
9 seven wells?

10 A I'm sorry, I don't --

11 Q In other words, what did you use to justify
12 the drilling of these seven wells?

13 A Geological analysis of the area.

14 Q And the increase in the price of oil?

15 A Increase in the price of oil.

16 MR. CARSON: I have no further questions of
17 this witness.

18

19

CROSS EXAMINATION

20

BY MR. STAMETS:

21

22 Q Mr. Yates, I know you've got three wells
23 scheduled right away, followed by two by the end of March.
24 So what that means is basically that you would have five
25 wells completed by the end of March.

26

A Mr. Stamets, if the initial three wells are

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1 successful, then we would anticipate going forward probably
2 with all seven. What I've given you is -- are our outside
3 numbers.

4 Q Okay. If you complete the two wells by the
5 end of March, then by what date would you have your two
6 additional wells completed?

7 A Sixty days, ninety days, something like that.

8 Q Okay, by the end of May?

9 A Something -- yes.

10 Q Okay, so if you had an order which authorized
11 you to proceed with one well after the other and any well
12 that was not drilled by May 31, 1979, that this, the order
13 which authorized this would no longer be effective as to
14 such well or such tract, would that give you sufficient time
15 to have all the wells completed?

16 A I think it would, particularly if that order
17 made it applicable to any well which was then drilling.

18 Q Okay. I think that's the way they are usually
19 written.

20 Now, ten days notice for the bank to get up
21 its share of the money seems a trifle short.

22 A Mr. Stamets, you'll see in some of my corres-
23 pondence there that I have already requested that the bank
24 come up with its share of the money. I've made every effort
25 to deal with these people, let them pay their proportionate

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1 part. I've requested -- I've sent the same AFE to these
2 people already requesting that they put up their share of
3 the money.

4 Q We realize that; however, it does appear to
5 be quite a different thing if you're dealing at arm's length,
6 as you are now, or under the terms of a forced pooling order,
7 where you have to put up or take your lumps.

8 Speaking of taking your lumps, now, you have
9 will you have a witness you can ask for the risk factor?

10 MR. CARSON: Yes, sir, we have one more
11 witness.

12 Q What would the consequences of the standard
13 notice provisions of our orders be? Currently we're asking
14 that you notify the -- anybody who is being pooled that a
15 well is going to start within ninety days before beginning
16 the well, giving them thirty days to send in their share
17 of the estimated well costs?

18 A Mr. Stamets, under the terms of the agreement
19 I have with the parties owning at least 75 percent interest
20 in each one of these wellsites, I have to have drilled five
21 wells by the end of March. I think if I had to -- I think
22 if I were under the rule you just specified, that I would
23 be in the position of needing to notify these people that
24 I was going to commence drilling for all -- for at least
25 five wells right away, even though I -- it would be much

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1 better were I able to drill three, look at them, and then
2 maybe make an election regarding another wellsite. I think
3 that the time period you're talking about in many operations
4 makes a lot of sense, but in this particular one, where
5 these wells are drilled so quickly, where we have a rig
6 moving from one place to the other, and where I'm under the
7 obligation to drill this number of wells by this -- in this
8 period of time, that that would be a bit onerous.

9 Q Let's look at it from this standpoint. If
10 you have to do it within ninety days, that can be any time
11 within ninety days; that can thirty days before, forty-five
12 days before, or whatever you chose, and then whoever was
13 having to pay their share, consider that they would have
14 thirty days, so if you left here and got an order within
15 two weeks and sent out your notice on the first three wells,
16 that would mean roughly by the --

17 A Forty-five days.

18 Q -- end of January you would have your response
19 back from the bank.

20 MR. CARSON: May I interject this one thing.
21 The standard order that I've seen in recent times in our
22 part of the country is in relationship to deep wells, and
23 if you give thirty days notice and you start drilling and
24 they have thirty days to come up with the money, the well's
25 not down, and in this particular case all three wells will

1 be down. So the operator is carrying the -- is letting
2 everybody look at the bottom of the hole before anybody's
3 come up with any money, which is no risk for the --

4 A Mr. Stamets, if at all possible, I would
5 like to commence one or two of these wells this year. I
6 realize that doesn't give much time, but on the other hand,
7 I have to get the number wells I've specified drilled by
8 the time I specified; I have a rig available; I can go on
9 and drill those wells which -- these three wells, two of
10 which I would commence, hopefully, this year and one the
11 first part of next year, and have a large portion of the
12 obligation out of the way.

13 Next year, if I'm required to give the notice
14 you're talking about, I run the risk of not being able to
15 get a rig, and -- or find myself at the end of the time
16 in a jam, having the choice, essentially, of just -- of
17 drilling and not getting these people adequate notice and
18 therefore not having this forced pooling effective, or
19 breaching my contract with the lessors.

20 Q We'll certainly give your request every con-
21 sideration.

22 MR. CARSON: I have one more witness in this
23 case.

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

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1 MR. CARSON: May I proceed, Mr. Examiner?

2 MR. STAMETS: Yes.

3
4 CHARLES JOY

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

7
8 DIRECT EXAMINATION

9 BY MR. CARSON:

10 Q Would you state your name, please?

11 A Charles Joy.

12 Q And what are you by profession, Mr. Joy?

13 A Consulting engineer.

14 Q And are you a consultant to Mr. Yates and
15 Coronado Exploration Company in connection with this --

16 A Yes, sir.

17 Q -- hearing? I'll refer you to Applicant's
18 Exhibit Number One and ask if that exhibit was prepared by
19 you or under your supervision?

20 A Yes, sir.

21 Q Oh, I'm sorry. I'm getting ahead of myself.
22 Mr. Joy, have you previously testified before
23 this Commission?

24 A Yes, sir, I have.

25 Q And have your qualifications been accepted?

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CORPORATE INVESTMENT SERVICES
300 West Main Street
Suite 200, New Mexico 87101

1 A Yes, sir.

2 MR. STAMETS: The witness is considered
3 qualified.

4 Q Now, Mr. Joy, going back to where we were,
5 referring you to Applicant's Exhibit Number One, was that
6 exhibit prepared by you or under your supervision?

7 A It was prepared by me.

8 Q Will you explain to the Hearing Officer
9 what that exhibit purports to show?

10 A The yellow colors indicate the tracts that
11 Mr. Yates plans to drill on and force pool, and the orangey
12 red represents the San Andres wells completed in the area,
13 and the green represents the Devonian wells drilled in the
14 area.

15 Q Mr. Joy, would you tell the Examiner which
16 of the wells in the area have paid out or will pay out in
17 the San Andres formation?

18 A Well, take this viewpoint, it is my personal
19 opinion that the odds would be great in attempting to drill
20 an economical San Andres in this general area. I viewed
21 the mechanical logs from wells drilled in this area and
22 find that the porosities average from five to seven percent,
23 which would greatly reduce any reserves underlying the area.
24 The pay zone consists of three zones, Slaughter's Numbers
25 One, Two, and Three, and for the most part zones Numbers

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1 Two and Three are primarily water-bearing. Therefore, only
2 one zone is oil-bearing.

3 Performance in the area has been poor. Very
4 few economic wells have been drilled in Township 10 South
5 and Township 11 South, Range 28 East.

6 The discovery well for the Racetrack San
7 Andres Field was the Daniel Farrow Avalanche Journal No. 1
8 Well, located 660 feet from the south line and 1980 feet
9 from the west line of Section 18, Township 10 South, Range
10 28 East, Chaves County, New Mexico.

11 This well was completed in September, 1964,
12 and produced 11,904 barrels prior to being converted to a
13 salt water disposal well.

14 Also seven drv holes have been drilled in
15 Township 10 South, Range 28 East. The L. E. Ranch San Andres
16 Field was discovered in September, 1963, with completion of
17 the L. E. Ranch 21 No. 1 Well, located 330 feet from the
18 west line and from the south line of Section 21, Township
19 10 South, Range 28 East, Chaves County, New Mexico.

20 The field was comprised of two wells. The
21 L. E. Ranch 21 No. 1 produced a total of 318 barrels and
22 29-1, 1412 barrels before these wells were shut in.

23 The Chisum San Andres Field was discovered
24 in 1969 and as of 1-1-78 the nine wells completed in this
25 field had a cumulative recovery of 75.914 barrels of oil,

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1 for an average of 8,434 barrels per well.

2 As of this date the average well in the
3 aforementioned field had been uneconomical.

4 Q And, Mr. Joy, are there actually any wells
5 in 10 South, 28 East, that are presently producing or if
6 they're a San Andres well that they've paid out?

7 A There is none producing and none of the wells
8 have paid out.

9 Q Mr. Joy, in your professional capacity have
10 you formed any opinion as to what would be a reasonable
11 penalty to be assessed against the nonconsenting working
12 interest owner?

13 A Well, due to the high risk involved, I don't
14 think it would be unreasonable for an operator to recover
15 the drilling costs and 200 percent over and above the
16 drilling costs.

17 MR. CARSON: I have no further questions.
18 I would like to move the introduction of Applicant's Exhibit
19 Number One.

20 MR. STAMETS: It will be admitted.

21 MR. CARSON: I have no further questions.

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

24 Anything further in this case? Take the
25 case under advisement.

(Hearing concluded.)

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REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of HEARING before the Oil Conservation Division was reported by me; that said transcript is a full, true, and correct record of th hearing, prepared by me to the best of my ability, knowledge, and skill, from my notes taken at the time of the hearing.

Sally W. Boyd CSR
Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6400, heard by me on 12/12 19 76.

Richard H. Ham, Examiner
Oil Conservation Division

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Dallas 26, New Mexico 87601



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

January 2, 1979

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Re: CASE NO. 6400
ORDER NO. R-5895

Mr. Joel Carson
Losee, Carson & Dickerson
Attorneys at Law
Post Office Box 239
Artesia, New Mexico 88210

Applicant:

Coronado Exploration Corporation

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/Ed

Copy of order also sent to:

Hobbs OCC	<u>x</u>
Artesia OCC	<u>x</u>
Artec OCC	

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. 6400
Order No. R-5895**

**APPLICATION OF CORONADO EXPLORATION
CORPORATION FOR COMPULSORY POOLING,
CHAVES COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on December 7, 1978, at Santa Fe, New Mexico, before Examiner Richard L. Statets.

NOW, on this 22th day of December, 1978, 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, Coronado Exploration Corporation, seeks an order pooling all mineral interests in the San Andres formation underlying each of the following 40-acre tracts:

SW/4 SW/4 of Section 7; SW/4 SW/4 of Section 9;
SW/4 SE/4 of Section 18; NW/4 NW/4 of Section 19;
and NW/4 NW/4 of Section 20, all in Township 10
South, Range 28 East, Race Track-San Andres Pool,
Chaves County, New Mexico;

the NE/4 NE/4 of Section 28, Township 10 South,
Range 28 East, LE Ranch-San Andres Pool, Chaves
County; and

the SW/4 NE/4 of Section 15, Township 11 South,
Range 28 East, East Chisum-San Andres Pool, Chaves
County.

-2-

Case No. 6400
Order No. R-5895

(3) That the applicant has the right to drill and proposes to drill a well at a standard location on each of said 40-acre tracts.

(4) That there are interest owners in each of the proposed proration units 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 each of said units the opportunity to recover or receive without unnecessary expense his just and fair share of the oil in said pools, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(6) That the applicant should be designated the operator of the subject wells and units.

(7) That any non-consenting working interest owner in any of said units should be afforded the opportunity to pay his share of estimated well costs attributable to such unit to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production attributable to such unit 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 that 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 \$1900.68 per month while drilling and \$245.23 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates) for each of said wells; that the operator should be authorized to withhold

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Case No. 6400
Order No. R-5895

from production attributable to such well 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 such 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 any of the subject wells 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 any of said pooled units to commence drilling of the well to which said unit is dedicated on or before June 1, 1979, 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, in the San Andres formation underlying each of the following 40-acre tracts are hereby pooled to form standard oil spacing and proration units:

SW/4 SW/4 of Section 7; SW/4 SW/4 of Section 8;
SW/4 SE/4 of Section 18; NW/4 NW/4 of Section 19;
and NW/4 NW/4 of Section 20, all in Township 10
South, Range 28 East, Race Track-San Andres Pool,
Chaves County, New Mexico;

the NE/4 NE/4 of Section 28, Township 10 South,
Range 28 East, LE Ranch-San Andres Pool, Chaves
County; and

the SW/4 NE/4 of Section 15, Township 11 South,
Range 28 East, East Chisum-San Andres Pool, Chaves
County.

PROVIDED HOWEVER, that the operator of said units shall commence the drilling of each of said wells on or before the 1st day of June, 1979, and shall continue the drilling of each of said wells 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 any of said wells on or before

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Case No. 6400
Order No. R-5895

the 1st day of June, 1979, Order (1) of this order shall be null and void and of no effect whatsoever as to such well, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should any of said wells 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 as to such well.

(2) That Coronado Exploration Corporation is hereby designated the operator of the subject wells and units.

(3) That after the effective date of this order and within 90 days prior to commencing each of said wells, 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 15 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 in the appropriate unit an itemized schedule of actual well costs within 90 days following completion of a well attributable to such unit; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that 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 for each well from production attributable to such well:

(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 15 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 \$1900.68 per month while drilling and \$245.23 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates) for each of said wells; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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 each of such wells, 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 interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from any of the subject wells which are not disbursed for any reason shall

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Case No. 6400
Order No. R-5895

immediately be placed in escrow in Chaves County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

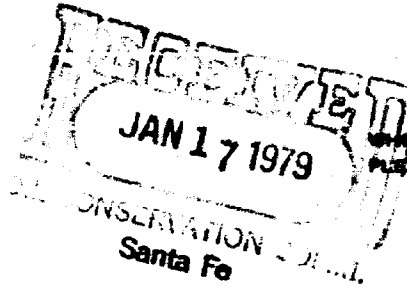

JOE D. RAMEY,
Director


S E A L

dr/

CORONADO EXPLORATION CORPORATION

1005 MARQUETTE N.W.
ALBUQUERQUE, NEW MEXICO 87102
TELEPHONE (505) 242-2050
(505) 243-6762



WHEN REPLYING
PLEASE REFER TO:

Case #6400
Order #R-5895

Stamets

January 15, 1979

Joe D. Ramey, Director
State of New Mexico
Oil Conservation Division
P.O. Box 2088
Santa Fe, NM 87501

Dear Sir,

Pursuant to #13 of the above captioned order related to the application of Coronado Exploration Corporation for compulsory pooling in Chaves County, New Mexico, we enclose seven AFE's to serve as itemized schedules of estimated well costs, one covering each of the following 40 acre tracts:

SW/4 SW/4 of Section 7; SW/4 SW/4 of Section 8;
SW/4 SE/4 of Section 18; NW/4 NW/4 of Section 19;
and NW/4 NW/4 of Section 20, all in Township 10
South, Range 28 East, Race Track-San Andres Pool,
Chaves County, New Mexico;

the NE/4 NE/4 of Section 28, Township 10 South,
Range 28 East, LE Ranch-San Andres Pool, Chaves
County; and

the SW/4 NE/4 of Section 15, Township 11 South,
Range 28 East, East Chisum-San Andres Pool, Chaves
County.

Sincerely,

Virginia Lawrence
Virginia Lawrence
Head of Land Department

VL/lv
Encs.

WORK SHEET - AUTHORITY FOR EXPENDITURE

WELL NAME J.P. WHITE #1

TYPE AFE

DRILLING

JAN 12 1979

INTANGIBLE Sec. 18, T10S, R28E

						ESTIMATED COSTS		
						To Casing Point	Completion	Total
SURFACE LEADS OR DAMAGES						800		800
SURVEY - LOCATION						200		200
ROAD AND DIRT WORK & Liner						4,200	900	5,100
CONTRACT - FOOTAGE 2400' @ \$9.00/Ft.						21,600		21,600
CONTRACT - DAYWORK 1 1/2 days @ \$2800/day						4,200		4,200
SOILS, GRASSER, PIT LEVEL, SAFETY DEVICES BOP							900	900
TRUCKING						300	600	900
RIGGING UP AND MOVING IN						-	-	-
CEMENTING SERVICE: SURFACE CASING & INTER-STRING CASING CREW						2,500		2,500
DRILLING MUD AND CHEMICALS						7,900		7,900
ELECTRIC LOGGING - OPEN HOLE						4,100		4,100
OBT						-		-
CORING						-		-
FLUID AND CORE ANALYSIS						-		-
GITS						800		800
KIND OF FUEL: FURNISHED BY								
WATER FURNISHED BY FROM						3,300		3,300
SUPERVISION						-		-
ABANDONMENT						5,000	-	-
CLEANUP AND BACKFILL						300		300
SHOE, FLOAT, CEMENTING, RUNNING OIL STRING, LINER, CASING CREW							6,000	6,000
ELECTRIC LOGGING AND PERFORATING IN CASING							1,700	1,700
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS						-	-	-
ACIDIZING, STIMULATION & FRACTURING							13,600	13,600
CABLE TOOL OR ROTARY COMPLETION							5,000	5,000
MISCELLANEOUS INTANGIBLE						4,000	2,800	6,800
TOTAL INTANGIBLE						59,200	31,500	85,700
TANGIBLE								
CONDUCTOR	Footage	Size	Grade	Weight	Cplg			
	30'	12-3/4"	H-40	29.31	STC	250		250
SURFACE CASING	300'	8-5/8"	J-55	24.0	STC	2,400		2,400
INTER-STRING								
LINER								
OIL STRING	2400'	4-1/2"	K-55	10.5	STC		9,800	9,800
TUBING	2400'	2-3/8"	J-55	4.7	EUE		5,700	5,700
WELL HEAD, SAFETY EQUIPMENT, ETC.						600	600	1,200
ARTIFICIAL LIFT, ETC.								
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.								
MISCELLANEOUS TANGIBLE						850	1,000	1,850
TOTAL TANGIBLE COST						4,100	17,100	21,200
TOTAL WELL COST						63,300	48,600	106,900
LEASE EQUIPMENT OR PLANT								
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery &							5,000	5,000
TANKS Flow Line Pumping Unit							20,000	20,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS								
TRUCKING								
CONSTRUCTION COSTS, LABOR & WELDING								
SANDWATERMOTOR ELECTRIFICATION							1,500	1,500
MISCELLANEOUS LEASE COSTS							1,100	1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS							27,600	27,600
GRAND TOTAL ESTIMATE COSTS						63,300	76,200	134,500
						ESTIMATED DAYS		

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by Harvey E. Yates, Jr. Date 11/12/78 AFE no.

Accepted by Date

J.P. WHITE A-1

DRILLING

WELL HAVE

- TYPE AFE

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by Harvey E. Yates, Jr. Date 11/12/78 AFE no. _____

Accepted by _____ Date _____

WORK SHEET - AUTHORITY FOR EXPENDITURE
J.P. WHITE B-1

WELL NAME

TYPE AFE

DRILLING

INTANGIBLE

Sec. 7, T10S, R28E

ESTIMATED COSTS

	To Casing Point	Completion	Total Produce
SURFACE LEASE OR DAMAGES	800		800
SURVEY - LOCATION	200		200
ROAD AND DIRT WORK & Liner	4,200	900	5,100
CONTRACT - FOOTAGE 2400' @ \$9.00/Ft.	21,600		21,600
CONTRACT - DAYWORK 1 1/2 days @ \$2800/day	4,200		4,200
BOILER, DEGRASSER, PIT LEVEL, SAFETY DEVICES BOP		900	900
TRUCKING	300	600	900
TIEING UP AND MOVING IN	-	-	-
CEMENTING SERVICE: SURFACE CASING & INTER-STRING CASING CREW	2,500		2,500
DRILLING MUD AND CHEMICALS	7,900		7,900
ELECTRIC LOGGING - OPEN HOLE	4,100		4,100
BET	-		
CORROS	-		
FLUID AND CORE ANALYSIS	-		
SITS	800		800
KIND OF FUEL: FURNISHED BY			
WATER FURNISHED BY FROM	3,300		3,300
SUPERVISION	-		
ABANDONMENT	5,000	-	-
CLEANUP AND BACKFILL	300		300
SHOE, FLOAT, CEMENTING, RUNNING OIL STRING, LINER, CASING CREW		6,000	6,000
ELECTRIC LOGGING AND PERFORATING IN CASING		1,700	1,700
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS	-	-	-
ACIDIZING, STIMULATION & FRACTURING		13,600	13,600
CABLE TOOL OR ROTARY COMPLETION		5,000	5,000
MISCELLANEOUS INTANGIBLE	4,000	2,800	6,800
TOTAL INTANGIBLE	59,200	31,500	85,700
TANGIBLE			
CONDUCTOR Footage 30' Size 12-3/4" Grade H-40 Weight 29.31 Cplg. STC	250		250
SURFACE CASING Footage 300' Size 8-5/8" Grade J-55 Weight 24.0 Cplg. STC	2,400		2,400
INTER-STRING			
LINER			
OIL STRING Footage 2400' Size 4-1/2" Grade K-55 Weight 10.5 Cplg. STC		9,800	9,800
TUBING Footage 2400' Size 2-3/8" Grade J-55 Weight 4.7 Cplg. EUE		5,700	5,700
WELL HEAD, SAFETY EQUIPMENT, ETC.	600	600	1,200
ARTIFICIAL LIFT, ETC.			
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.			
MISCELLANEOUS TANGIBLE	850	1,000	1,850
TOTAL TANGIBLE COST	4,100	17,100	21,200
TOTAL WELL COST	63,300	48,600	106,900
LEASE EQUIPMENT OR PLANT			
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery & Tanks		5,000	5,000
Flow Line Pumping Unit		20,000	20,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS			
TRUCKING			
CONSTRUCTION COSTS, LABOR & WELDING			
SALE OF EXCESS ELECTRIFICATION		1,500	1,500
MISCELLANEOUS LEASE COSTS		1,100	1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS		27,600	27,600
GRAND TOTAL ESTIMATE COSTS	63,300	76,200	134,500
ESTIMATED DAYS			

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by Harvey E. Yates, Jr. Date 11/12/78 AFE no. _____

Accepted by _____ Date _____

WORK SHEET - AUTHORITY FOR EXPENDITURE

WELL NAME <u>J.P. WHITE C-1</u>		TYPE AFE <u>DRILLING</u>	
INTANGIBLE <u>Sec.8,T10S,R28E</u>		ESTIMATED COSTS	
		To Casing Point	Completion
SURFACE LEASE OR DAMAGES		800	800
SURVEY - LOCATION		200	200
ROAD AND MNT WORK & Liner		4,200	900
CONTRACT - POSTAGE 2400' @ \$9.00/Ft.		21,600	21,600
CONTRACT - PAYMENT 1 1/2 days @ \$2800/day		4,200	4,200
ROILER, DEASSER, PIT LEVEL, SAFETY DEVICES BOP		900	900
TRUCKING		300	600
RIGGING UP AND MOVING IN		-	-
CEMENTING SERVICE: SURFACE CASING & INTER-STRING CASING CREW		2,500	2,500
DRILLING MUD AND CHEMICALS		7,900	7,900
ELECTRIC LOGGING - OPEN HOLE		4,100	4,100
CCT		-	-
CORING		-	-
FLUID AND CORE ANALYSIS		-	-
BITS		800	800
KIND OF FUEL: FURNISHED BY			
WATER FURNISHED BY FROM		3,300	3,300
SUPERVISION		-	-
ABANDONMENT		5,000	-
CLEANUP AND BACKFILL		300	300
SHOE, FLOAT, CEMENTING, RUNNING ON STRING, LINER, CASING CREW		6,000	6,000
ELECTRIC LOGGING AND PERFORATING IN CASING		1,700	1,700
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS		-	-
ACIDIZING, STIMULATION & FRACTURING		13,600	13,600
CABLE TOOL OR ROTARY COMPLETION		5,000	5,000
MISCELLANEOUS INTANGIBLE		4,000	2,800
TOTAL INTANGIBLE		59,200	31,500
TANGIBLE			
CONDUCTOR	Footage <u>30'</u> Size <u>12-3/4"</u> Grade <u>H-40</u> Weight <u>29.31</u> Cplg. <u>STC</u>	250	250
SURFACE CASING	<u>300'</u> <u>8-5/8"</u> <u>J-55</u> <u>24.0</u> <u>STC</u>	2,400	2,400
INTER-STRING			
LINER			
OIL STRING	<u>2400'</u> <u>4-1/2"</u> <u>K-55</u> <u>10.5</u> <u>STC</u>	9,800	9,800
TUBING	<u>2400'</u> <u>2-3/8"</u> <u>J-55</u> <u>4.7</u> <u>EUE</u>	5,700	5,700
WELL HEAD, SAFETY EQUIPMENT, ETC.		600	600
ARTIFICIAL LIFT, ETC.			
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.			
MISCELLANEOUS TANGIBLE		850	1,000
TOTAL TANGIBLE COST		4,100	17,100
TOTAL WELL COST		63,300	48,600
LEASE EQUIPMENT OR PLANT			
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery & Flow Line Pumping Unit		5,000	5,000
TANKS		20,000	20,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS			
TRUCKING			
CONSTRUCTION COSTS, LABOR & WELDING			
ELECTRIFICATION		1,500	1,500
MISCELLANEOUS LEASE COSTS		1,100	1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS		27,500	27,600
GRAND TOTAL ESTIMATE COSTS		63,300	76,200
		ESTIMATED DAYS	

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by Harvey E. Yates, Jr. Date 11/12/78 AFE no. _____

Accepted by _____ Date _____

WORK SHEET - AUTHORITY FOR EXPENDITURE

WELL NAME <u>J.P. WHITE D-1</u>		TYPE AFE <u>DRILLING</u>	
INTANGIBLE <u>Sec. 20, T10S, R28E</u>		ESTIMATED COSTS	
		To Casing Point	Completion
SURFACE LEASE OR DAMAGES		800	800
SURVEY - LOCATION		200	200
ROAD AND PRT WORK & Liner		4,200	900
CONTRACT - POSTAGE 2400' @ \$9.00/ft.		21,600	21,600
CONTRACT - RENTWORK 1 1/2 days @ \$2800/day		4,200	4,200
ROILER, DRASSER, PIT LEVEL, SAFETY DEVICES BOP		300	900
TRUCKING		300	600
RIGGING UP AND MOVING IN		-	-
CEMENTING SERVICE: SURFACE CASING & INTER-STRING CASING CREW		2,500	2,500
CUTTING AND AIR CHEMICALS		7,900	7,900
ELECTRIC LOGGING - OPEN HOLE		4,100	4,100
BPT		-	-
COSTING		-	-
FLUID AND CORE ANALYSIS		-	-
SITE		800	800
KIND OF FUEL: FURNISHED BY		-	-
WATER FURNISHED BY FROM		3,300	3,300
SUPERVISION		-	-
ABANDONMENT		5,000	-
CLEANUP AND BACKFILL		300	300
SHOE, FLOAT, CEMENTING, RUNNING OIL STRING, LINER, CASING CREW		-	6,000
ELECTRIC LOGGING AND PERFORATING IN CASING		-	1,700
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS		-	-
ACIDIZING, STIMULATION & FRACTURING		-	13,600
CABLE TOOL OR ROTARY COMPLETION		-	5,000
MISCELLANEOUS INTANGIBLE		4,000	2,800
TOTAL INTANGIBLE		59,200	31,500
TANGIBLE			
	Footage Size Grade Weight Ctg.		
CONDUCTOR	30' 12-3/4" H-40 29.31 STC	250	250
SURFACE CASING	300' 8-5/8" J-55 24.0 STC	2,400	2,400
INTER-STRING			
LINER			
OIL STRING	2400' 4-1/2" K-55 10.5 STC		9,800
TUBING	2400' 2-3/8" J-55 4.7 EUE		5,700
WELL HEAD, SAFETY EQUIPMENT, ETC.		600	600
ARTIFICIAL LIFT, ETC.			
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.			
MISCELLANEOUS TANGIBLE		850	1,000
TOTAL TANGIBLE COST		4,100	17,100
TOTAL WELL COST		63,300	48,600
LEASE EQUIPMENT OR PLANT			
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery & Flow Line Pumping Unit			5,000
TANKS			20,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS			
TRUCKING			
CONSTRUCTION COSTS, LABOR & WELDING			
SACCHERONCHERONX Electrification			1,500
MISCELLANEOUS LEASE COSTS			1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS			27,600
GRAND TOTAL ESTIMATE COSTS		63,300	76,200
		ESTIMATED DAYS	

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by Harvey E. Yates, Jr. Date 11/12/78 AFE no.

Accepted by Date

WORK SHEET - AUTHORITY FOR EXPENDITURE

WELL NAME		TYPE AFE		DRILLING		
J.P. WHITE E-1						
INTANGIBLE		Sec. 28, T10S, R28E		ESTIMATED COSTS		
		To Casing Point	Completion	Total Produce		
SURFACE LEASE OR DAMAGES		800		800		
SURVEY - LOCATION		200		200		
ROAD AND DIRT WORK & Liner		4,200	900	5,100		
CONTRACT - POSTAGE 2400' @ \$9.00/Ft.		21,600		21,600		
CONTRACT - DAYWORK 1 1/2 days @ \$2800/day		4,200		4,200		
BOLLER, BRASSER, PIT LEVEL, SAFETY DEVICES BOP			900	900		
TRUCKING		300	600	900		
RIGGING UP AND MOVING IN		-	-	-		
CEMENTING SERVICE: SURFACE CASING & INTER-STRING CASING CREW		2,500		2,500		
DRILLING MUD AND CHEMICALS		7,900		7,900		
ELECTRIC LOGGING - OPEN HOLE		4,100		4,100		
ROT		-		-		
CORING		-		-		
FLUID AND CORE ANALYSIS		-		-		
BITS		800		800		
KIND OF FUEL: FURNISHED BY						
WATER FURNISHED BY FROM		3,300		3,300		
SUPERVISION		-		-		
ABANDONMENT		5,000	-	-		
CLEANUP AND BACKFILL		300		300		
SHOE, FLOAT, CEMENTING, RUNNING ON STRING, LINER, CASING CREW			6,000	6,000		
ELECTRIC LOGGING AND PERFORATING IN CASING			1,700	1,700		
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS		-	-	-		
ACIDIZING, STIMULATION & FRACTURING			13,600	13,600		
CABLE TOOL OR ROTARY COMPLETION			5,000	5,000		
MISCELLANEOUS INTANGIBLE		4,000	2,800	6,800		
TOTAL INTANGIBLE		59,200	31,500	85,700		
TANGIBLE						
CONDUCTOR		Footage 30'	Size 12-3/4"	Grade H-40	Weight 29.31	Calc. STC 250
SURFACE CASING		300'	8-5/8"	J-55	24.0	STC 2,400
INTER-STRING						
LINER		2400'	4-1/2"	K-55	10.5	STC 9,800
OIL STRING		2400'	2-3/8"	J-55	4.7	EUE 5,700
TUBING						
WELL HEAD, SAFETY EQUIPMENT, ETC.						600
ARTIFICIAL LIFT, ETC.						
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.						
MISCELLANEOUS TANGIBLE						850
TOTAL TANGIBLE COST						4,100
TOTAL WELL COST						63,300
LEASE EQUIPMENT OR PLANT						
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery &						5,000
TANKS Flow Line Pumping Unit						20,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS						
TRUCKING						
CONSTRUCTION COSTS, LABOR & WELDING						
SANDPUMPING/ELECTRIFICATION Electrification						1,500
MISCELLANEOUS LEASE COSTS						1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS						27,600
GRAND TOTAL ESTIMATE COSTS						63,300
						76,200
						134,500
		ESTIMATED DAYS				

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by Harvey E. Yates, Jr. Date 11/12/78 AFE no.

Accepted by _____ Date _____

WORK SHEET - AUTHORITY FOR EXPENDITURE

WELL NAME		J.P. WHITE F-1		TYPE AFE		DRILLING	
INTANGIBLE		Sec.15,T11S,R28E		ESTIMATED COSTS			
				To Casing Point	Completion	Total Production	
SURFACE LEASE OR DAMAGES				800		800	
SURVEY - LOCATION				200		200	
ROAD AND SHT WORK & Liner				4,200	900	5,100	
CONTRACT - POSTAGE 2400' @ \$9.00/Ft.				21,600		21,600	
CONTRACT - DAYWORK 1 1/2 days @ \$2800/day				4,200		4,200	
SOLER, DEGRASSER, PIT LEVEL, SAFETY DEVICES BOP					900	900	
TONGERS				300	600	900	
BRIDGING UP AND MOVING IN							
CEMENTING SERVICE: SURFACE CASING & INTER-STRING, CASING CREW				2,500		2,500	
DRILLING MUD AND CHEMICALS				7,900		7,900	
ELECTRIC LOGGING - OPEN HOLE				4,100		4,100	
BOP							
CORING							
FLUID AND CORE ANALYSIS							
BITS				800		800	
KIND OF FUEL: FURNISHED BY							
WATER FURNISHED BY FROM				3,300		3,300	
SUPERVISION							
ABANDONMENT				5,000		5,000	
CLEANUP AND BACKFILL				300		300	
SHOE, FLOAT, CEMENTING, RUNNING OIL STRING, LINER, CASING CREW					6,000	6,000	
ELECTRIC LOGGING AND PERFORATING IN CASING					1,700	1,700	
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS							
ACIDIZING, STIMULATION & FRACTURING					13,600	13,600	
CABLE TOOL OR ROTARY COMPLETION					5,000	5,000	
MISCELLANEOUS INTANGIBLE				4,000	2,800	6,800	
TOTAL INTANGIBLE				59,200	31,500	90,700	
TANGIBLE							
CONDUCTOR	Footage 30'	Size 12-3/4"	Grade H-40	Weight 29.31	Cplg. STC	250	250
SURFACE CASING	300'	8-5/8"	J-55	24.0	STC	2,400	2,400
INTER-STRING							
LINER	2400'	4-1/2"	K-55	10.5	STC		
OIL STRING	2400'	2-3/8"	J-55	4.7	EUE	9,800	9,800
TUBING						5,700	5,700
WELL HEAD, SAFETY EQUIPMENT, ETC.						600	1,200
ARTIFICIAL LIFT, ETC.							
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.							
MISCELLANEOUS TANGIBLE						850	1,850
TOTAL TANGIBLE COST						4,100	21,200
TOTAL WELL COST						63,300	106,900
LEASE EQUIPMENT OR PLANT							
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery & Tanks						5,000	5,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS						20,000	20,000
TRUCKING							
CONSTRUCTION COSTS, LABOR & WELDING							
ELECTRIFICATION						1,500	1,500
MISCELLANEOUS LEASE COSTS						1,100	1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS						27,600	27,600
GRAND TOTAL ESTIMATE COSTS				63,300	76,200	139,500	
				ESTIMATED DAYS			

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by Harvey E. Yates, Jr. Date 11/12/78 AFE no.

Accepted by Date

A.J. LOSEE
JOEL M. CARSON
CHAD DICKERSON

DEC 18 1978

LAW OFFICES
LOSEE & CARSON, P.A.
300 AMERICAN HOME BUILDING
P. O. DRAWER 238
ARTESIA, NEW MEXICO 88210

AREA CODE 505
748-3508

Santa Fe

14 December 1978

Mr. Dick Stamets
Oil Conservation Division
P. O. Box 2089
Santa Fe, New Mexico 87501

Dear Dick:

I am enclosing the exhibits for case No. 6400, which we agreed we would reproduce and furnish in triplicate. Thanks for the help.

Yours truly,

LOSEE, CARSON & DICKERSON, P.A.

Joel M. Carson

JMC:bjm
Enclosures

cc: Mr. Harvey E. Yates, Jr.

RECEIVED
OIL COMPANY

2
6400
Applicant
12/7/78

November 14, 1978

Mr. F.L. Gamble
Republic National Bank
Trust Department
P.O. Box 241
Dallas, TX 75221

Re: Selma Andrews Trust

Wells:

JP White #1	SW SE 18, T10S, R28E
JP White #A-1	NE NW 10, T10S, R28E
JP White #B-1	SW SW 7, T10S, R28E
JP White #C-1	SW SW 8, T10S, R28E
JP White #D-1	NW NW 20, T10S, R28E
JP White #E-1	NW NW 26, T10S, R28E
JP White #F-1	SW NE 15, T11S, R28E

Dear Mr. Gamble:

Listed above are seven wells, which this company intends to drill on orthodox locations to 2500 feet to test the San Andres formation's P-1 zones, as soon as possible. This company has offered to lease from the Selma Andrews Trust acreage surrounding each well on terms equivalent to those terms obtained from any one of the six other lessors. You have refused to lease on those terms and have demanded terms which I believe you could not hope to receive from a reasonable operator in the area were your interest significantly larger than .78125%.

I enclose herewith AFEs covering each well. This company will be the operator. If you wish to carry your interest in one or more of the wells, you may do so subject to your paying in advance the Trust's portion of the cost of drilling. The operating form will be the standard AAPL Form 610-1977 "Model Form Operating Agreement" with COPAS-1974 "Accounting Procedures Joint Operations" form attached. The overhead drilling well rate will be \$2,300.00 per month and the producing well rate will be \$245.23. If you wish to carry the Trust's interest, please notify me immediately.

page 2

A force pooling hearing for each of the subject wells has been placed on the New Mexico Oil Conservation Commission Docket for December 7, 1978. I advise you of this now to give you time to prepare for the hearings. This company will seek the maximum penalty of 200% plus 100% for each well with the Trust receiving a 1/8th royalty during the repayment and penalty periods.

Yours truly,

Harvey F. Yates, Jr.

HEYJr:kb

cc: Joel Carson
Attorney



NOV 02 1978

REPUBLIC NATIONAL BANK OF DALLAS

P. O. Box 241 Dallas, Texas 75221
(214) 651-5221

TRUST DEPARTMENT

E. L. GAMBLE
TRUST ADMINISTRATIVE OFFICER
PETROLEUM LANDMAN

October 31, 1978

Ms. Virginia Lawrence
Coronado Exploration Corporation
1005 Marquette N.W.
Albuquerque, NM 87102

Re: Selma E. Andrews Trust #5188-00
L E Ranch 28, W/2 sec. 19, T10S, R28E,
Chaves County, New Mexico

Dear Ms. Lawrence:

Thank you for the lease proposal on the undivided 1/128 mineral interest owned by the Andrews Trust, in the referenced land. (2.5 net acres)

Your 3/16 royalty offer is acceptable to our Trust Investment Committee provided that the lease covers only the rights from the surface down to the base of the San Andres formation at the depth found in that area of Chaves County, New Mexico described in said lease. The committee also has agreed to accept the \$30 per net acre bonus, however, they will not approve a five-year lease. They will go along with a well commencement date within one year from November 1, 1978 or termination of the lease and the primary term of the lease to be three years.

The lease should contain either a "Pugh" clause or 120 day continuous development language. The shut-in-gas language will be restricted to three years past the end of the primary term, and the warranty language in the lease will be deleted.

We will hold your correspondence in our pending file until you contact us relative to our proposal.

Yours very truly,

E. L. Gamble

ELG/1f



Selma E. Andrews
Trust #5188-00
L.E. Ranch 28

25 October 1978

Mr. E. L. Gamble
Trust Administrative Officer
Republic National Bank
P. O. Box 241
Dallas, Texas 75221

Dear Mr. Gamble,

In reference to your earlier correspondence with Mr. Harvey E. Yates, Jr., we are interested in leasing the west half of Section 19, Township 10 South, Range 28 East in Chaves County, New Mexico on the following terms:

- 1) \$30/acre bonus
- 2) 5 year primary term
- 3) 3/16 royalty

We understand that you would prefer a 25% royalty. Unfortunately, the expected production will not warrant such a high royalty; we feel that a 3/16 royalty is the absolute maximum we can pay.

As a concession to your desire to see some activity on your lease, we are willing to commence drilling on the acreage within a year, failing in which the lease would automatically terminate.

I enclose for your perusal a copy of Lease Form 342 with an added paragraph to cover the drilling commitment. You will note that the lessee designated is New Mexico Exploration Company, a limited partnership for which Coronado Exploration Corporation, of which Mr. Yates is president, is the general partner. If this lease is satisfactory to your Trust Investment Committee, please advise us and we will forward a sight draft in the amount of \$75.00 to cover the Selma Andrews Trust interest of 1/128 in the 320 acres.

E.L. Gamble-10/25/78
Page 2

Please address any further correspondence regarding this proposal to me at the heading address. We appreciate your consideration in this matter.

Sincerely,

Virginia Lawrence
Head, Land Department

VL:ps

Enc.

- 1) We can go to \$3.5/acre (maybe \$4.00 - check it)
- 2) Previous offer was 3 years
- 3) Previous lease: 3/10 about 5,000'
1/4 below 5,000'
But don't do it this time



REPUBLIC NATIONAL BANK OF DALLAS

P. O. Box 241 Dallas, Texas 75221

(214) 653-5421

TRUST DEPARTMENT

E. L. GAMBLE
TRUST ADMINISTRATIVE OFFICER
PETROLEUM LANDMAN

June 7, 1978

Mr. Harvey E. Yates, Jr.
Yates Exploration Co., Inc.
1007 Marquette N.W.
Albuquerque, NM 87102

Re: Selma E. Andrews Trust #5188-00
L. E. Ranch
Chaves County, New Mexico

Dear Mr. Yates:

Thank you for the Oil & Gas lease proposal outlined in your letter dated April 21, 1978 covering numerous sections in townships 9 and 10, Chaves County, New Mexico.

As far as we can determine, the only acreage shown in your exhibit "A" to the lease, that is presently leased is the W/2 section 13, E/2 section 14, and sections 23 and 24 all in T10S, R27E. The lease expiration date is April 8, 1981.

Relative to your proposal, we are more interested in a short term lease (six months to one year) with a continuous development paragraph and providing a 1/4 royalty. Of course any lease agreement would have to be approved by our Trust Investment Committee.

We would appreciate hearing from you at your convenience.

Yours very truly,

E. L. Gamble

ELG/lf



L.F. Ranch

21 April 1978

Mr. Lee Gamble
Selma I. Andrews Trust #5188-00
Republic National Bank
P.O. Box 241
Dallas, Texas

Dear Mr. Gamble,

I request that you consider leasing to this company all of the acreage described on Exhibit A under the lease attached hereto. The bonus I offer is \$30.00 per acre.

You will note that the standard lease form has been altered to provide for a continuous drilling program following the end of the primary term and to provide for a reduction to proration unit upon termination of the continuous drilling program.

If I can acquire the acreage of other lessors on reasonable terms, I plan to drill no fewer than five San Andres wells during the next twelve months.

I understand that some of the acreage described on Exhibit A may be leased to other parties. I request that you agree that if any acreage described on Exhibit A becomes available within twelve months, you would add it to the proposed lease upon receipt of bonus money covering the acreage to be added.

Yours truly,

Harvey F. Yates, Jr.

HEXJr:vl

Enc.

WORK SHEET - AUTHORITY FOR EXPENDITURE

WELL NAME J.P. WHITE #1

TYPE AFE DRILLING

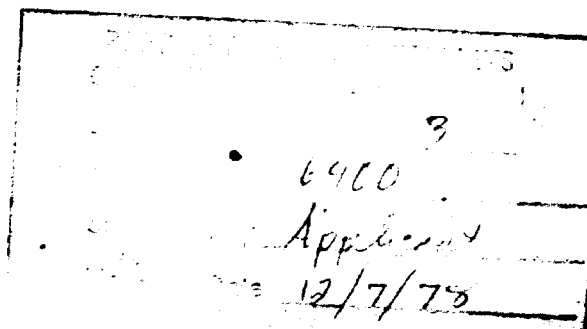
INTANGIBLE Sec. 18, T10S, R28E

							ESTIMATED COSTS		
							To Casing Point	Completion	Total Produce
SURFACE LEASE OR DAMAGES							800		800
SURVEY - LOCATION							200		200
ROAD AND DIRT WORK & Liner							4,200	900	5,100
CONTRACT - POSTAGE 2400' @ \$9.00/ft.							21,600		21,600
CONTRACT - DAYWORK 1 1/2 days @ \$2800/day							4,200		4,200
ROLLER, REGRASSER, PIT LEVEL, SAFETY DEVICES BOP								900	900
TRUCKING							300	600	900
RIGGING UP AND MOVING IN							-	-	-
CEMENTING SERVICE: SURFACE CASING & INTER-STRING, CASING CREW							2,500		2,500
DRILLING MUD AND CHEMICALS							7,900		7,900
ELECTRIC LOGGING - OPEN HOLE							4,100		4,100
OBT							-		
CORING							-		
FLUID AND CORE ANALYSIS							-		
BITS							800		800
KIND OF FUEL: FURNISHED BY									
WATER FURNISHED BY FROM							3,300		3,300
SUPERVISION							-		
ABANDONMENT							5,000	-	-
CLEANUP AND BACKFILL							300		300
SHOE, FLOAT, CEMENTING, RUNNING OIL STRING, LINER, CASING CREW								6,000	6,000
ELECTRIC LOGGING AND PERFORATING IN CASING								1,700	1,700
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS							-	-	-
ACIDIZING, STIMULATION & FRACTURING								13,600	13,600
CABLE TOOL OR ROTARY COMPLETION								5,000	5,000
MISCELLANEOUS INTANGIBLE							4,000	2,800	6,800
TOTAL INTANGIBLE							59,200	31,500	85,700
TANGIBLE									
CONDUCTOR Footage 30' Size 12-3/4" Grade H-40 Weight 29.31 Cplg STC							250		250
SURFACE CASING Footage 300' Size 8-5/8" Grade J-55 Weight 24.0 Cplg STC							2,400		2,400
INTER-STRING									
LINER									
OIL STRING Footage 2400' Size 4-1/2" Grade K-55 Weight 10.5 Cplg STC								9,800	9,800
TUBING Footage 2400' Size 2-3/8" Grade J-55 Weight 4.7 Cplg EUE								5,700	5,700
WELL HEAD, SAFETY EQUIPMENT, ETC.							600	600	1,200
ARTIFICIAL LIFT, ETC.									
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.									
MISCELLANEOUS TANGIBLE							850	1,000	1,850
TOTAL TANGIBLE COST							4,100	17,100	21,200
TOTAL WELL COST							63,300	48,600	106,900
LEASE EQUIPMENT OR PLANT									
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery & Tanks								5,000	5,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS Flow Line Pumping Unit								20,000	20,000
TRUCKING									
CONSTRUCTION, COSTS, LABOR & WELDING									
ELECTRIFICATION								1,500	1,500
MISCELLANEOUS LEASE COSTS								1,100	1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS								27,600	27,600
GRAND TOTAL ESTIMATE COSTS							63,300	76,200	134,500
							ESTIMATED DAYS		

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by _____ Date _____ AFE no. _____

Accepted by _____ Date _____



WORK SHEET - AUTHORITY FOR EXPENDITURE

WELL NAME <u>J.P. WHITE A-1</u>		TYPE AFE <u>DRILLING</u>	
INTANGIBLE <u>Sec.19,T10S,R28E</u>		ESTIMATED COSTS	
		To Casing Point	Completion
			Total Produce
SURFACE LEASE OR DAMAGES		800	800
SURVEY - LOCATION		200	200
ROAD AND SRT WORK & Liner		4,200	900
CONTRACT - POSTAGE 2400' @ \$9.00/Ft.		21,600	21,600
CONTRACT - DAYWORK 1 1/2 days @ \$2800/day		4,200	4,200
COILER, DEGRASSER, PIT LEVEL, SAFETY DEVICES BOP			900
TRUCKING		300	600
SHEDS UP AND MOVING IN		-	-
CEMENTING SERVICE: SURFACE CASING & INTER-STRING CASING CREW		2,500	2,500
DRILLING MUD AND CHEMICALS		7,900	7,900
ELECTRIC LOGGING - OPEN HOLE		4,100	4,100
DOT		-	
COING		-	
FLUID AND CORE ANALYSIS		-	
BITS		800	800
KIND OF FUEL: FURNISHED BY			
WATER FURNISHED BY FROM		3,300	3,300
SUPERVISION		-	
ABANDONMENT		5,000	-
CLEANUP AND BACKFILL		300	300
SHOE, FLOAT, CEMENTING, RUNNING ON STRING, LINER, CASING CREW			6,000
ELECTRIC LOGGING AND PERFORATING IN CASING			1,700
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS		-	-
ACIDIZING, STIMULATION & FRACTURING			13,600
CABLE TOOL OR ROTARY COMPLETION			5,000
MISCELLANEOUS INTANGIBLE		4,000	2,800
TOTAL INTANGIBLE		59,200	31,500
TANGIBLE			
CONDUCTOR	Footage <u>30'</u> Size <u>12-3/4"</u> Grade <u>H-40</u> Weight <u>29.31</u> Cplg. <u>STC</u>	250	250
SURFACE CASING	<u>300'</u> <u>8-5/8"</u> <u>J-55</u> <u>24.0</u> <u>STC</u>	2,400	2,400
INTER-STRING			
LINER			
OIL STRING	<u>2400'</u> <u>4-1/2"</u> <u>K-55</u> <u>10.5</u> <u>STC</u>		9,800
TUBING	<u>2400'</u> <u>2-3/8"</u> <u>J-55</u> <u>4.7</u> <u>EUE</u>		5,700
WELL HEAD, SAFETY EQUIPMENT, ETC.		600	600
ARTIFICIAL LIFT, ETC.			
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.			
MISCELLANEOUS TANGIBLE		850	1,000
TOTAL TANGIBLE COST		4,100	17,100
TOTAL WELL COST		63,300	48,600
LEASE EQUIPMENT OR PLANT			
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery & Tanks			5,000
Flow Line Pumping Unit			20,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS			
TRUCKING			
CONSTRUCTION COSTS, LABOR & WELDING			
Electrification		1,500	1,500
MISCELLANEOUS LEASE COSTS		1,100	1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS		27,600	27,600
GRAND TOTAL ESTIMATE COSTS		63,300	76,200
	ESTIMATED DAYS		

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by _____ Date _____ AFE no. _____

Accepted by _____ Date _____

WORK SHEET - AUTHORITY FOR EXPENDITURE
J.P. WHITE B-1

WELL NAME

TYPE AFE

DRILLING

INTANGIBLE

Sec. 7, T10S, R28E

ESTIMATED COSTS

	To Casing Point	Completion	Total Production
SURFACE LEASE OR DAMAGES	800		800
SURVEY - LOCATION	200		200
ROAD AND DIRT WORK & Liner	4,200	900	5,100
CONTRACT - POSTAGE 2400' @ \$9.00/Ft.	21,600		21,600
CONTRACT - DAYWORK 1 1/2 days @ \$2800/day	4,200		4,200
COILED, REGRASSED, FIT LEVEL, SAFETY DEVICES BOP		900	900
TRUCKING	300	600	900
REPAIRS UP AND MOVING IN	-	-	-
CEMENTING SERVICE: SURFACE CASING & INTER - STRING CASING CREW	2,500		2,500
DRILLING MUD AND CHEMICALS	7,900		7,900
ELECTRIC LOGGING - OPEN HOLE	4,100		4,100
DOT	-		-
CORING	-		-
FLUID AND CORE ANALYSIS	-		-
BITS	800		800
KIND OF FUEL: FURNISHED BY			
WATER FURNISHED BY FROM	3,300		3,300
SUPERVISION	-		-
ABANDONMENT	5,000	-	-
CLEANUP AND BACKFILL	300		300
SHOE, FLOAT, CEMENTING, RUNNING OIL STRING, LINER, CASING CREW		6,000	6,000
ELECTRIC LOGGING AND PERFORATING IN CASING		1,700	1,700
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS	-	-	-
ACIDIZING, STIMULATION & FRACTURING		13,600	13,600
CABLE TOOL OR ROTARY COMPLETION		5,000	5,000
MISCELLANEOUS INTANGIBLE	4,000	2,800	6,800
TOTAL INTANGIBLE	59,200	31,500	85,700
TANGIBLE			
CONDUCTOR Footage 30' Size 12-3/4" Grade H-40 Weight 29.31 Cplg. STC	250		250
SURFACE CASING Footage 300' Size 8-5/8" Grade J-55 Weight 24.0 Cplg. STC	2,400		2,400
INTER-STRING			
LINER Footage 2400' Size 4-1/2" Grade K-55 Weight 10.5 Cplg. STC		9,800	9,800
OIL STRING Footage 2400' Size 2-3/8" Grade J-55 Weight 4.7 Cplg. EUE		5,700	5,700
TUBING			
WELL HEAD, SAFETY EQUIPMENT, ETC.	600	600	1,200
ARTIFICIAL LIFT, ETC.			
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.			
MISCELLANEOUS TANGIBLE	850	1,000	1,850
TOTAL TANGIBLE COST	4,100	17,100	21,200
TOTAL WELL COST	63,300	48,600	106,900
LEASE EQUIPMENT OR PLANT			
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery & Flow Line Pumping Unit		5,000	5,000
TANKS		20,000	20,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS			
TRUCKING			
CONSTRUCTION COSTS, LABOR & WELDING			
BACKFLOW PREVENTER Electrification		1,500	1,500
MISCELLANEOUS LEASE COSTS		1,100	1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS		27,600	27,600
GRAND TOTAL ESTIMATE COSTS	63,300	76,200	134,500
ESTIMATED DAYS			

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by _____ Date _____ AFE no. _____
 Accepted by _____ Date _____

WORK SHEET - AUTHORITY FOR EXPENDITURE

WELL NAME J.P. WHITE C-1

TYPE AFE DRILLING

INTANGIBLE Sec. 8, T10S, R28E

						ESTIMATED COSTS		
						To Casing Point	Completion	Total Produce
SURFACE LEASE OR DAMAGES						800		800
SURVEY - LOCATION						200		200
ROAD AND DIRT WORK & Liner						4,200	900	5,100
CONTRACT - POSTAGE 2400' @ \$9.00/ft.						21,600		21,600
CONTRACT - DAYWORK 1 1/2 days @ \$2800/day						4,200		4,200
ROLLER, REGRASSER, PVT LEVEL, SAFETY DEVICES BOP							900	900
TRUCKING						300	600	900
SHUTTING UP AND MOVING IN						-	-	-
CEMENTING SERVICE: SURFACE CASING & INTER-STRING CASING CREW						2,500		2,500
DRILLING MUD AND CHEMICALS						7,900		7,900
ELECTRIC LOGGING - OPEN HOLE						4,100		4,100
BPT						-		-
CORING						-		-
FLUID AND CORE ANALYSIS						-		-
BITS						800		800
KIND OF FUEL: FURNISHED BY								
WATER FURNISHED BY FROM						3,300		3,300
SUPERVISION						-		-
ABANDONMENT						5,000	-	-
CLEANUP AND BACKFILL						300		300
SHOE, FLOAT, CEMENTING, RUNNING ON STRING, LINER, CASING CREW							6,000	6,000
ELECTRIC LOGGING AND PERFORATING IN CASING							1,700	1,700
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS						-	-	-
ACIDIZING, STIMULATION & FRACTURING							13,600	13,600
CABLE TOOL OR ROTARY COMPLETION							5,000	5,000
MISCELLANEOUS INTANGIBLE						4,000	2,800	6,800
TOTAL INTANGIBLE						59,200	31,500	85,700
TANGIBLE								
CONDUCTOR Footage 30' Size 12-3/4" Grade H-40 Weight 29.31 Cplg. STC						250		250
SURFACE CASING 300' 8-5/8" J-55 24.0 STC						2,400		2,400
INTER-STRING								
LINER								
OIL STRING 2400' 4-1/2" K-55 10.5 STC							9,800	9,800
TUBING 2400' 2-3/8" J-55 4.7 EUE							5,700	5,700
WELL HEAD, SAFETY EQUIPMENT, ETC.						600	600	1,200
ARTIFICIAL LIFT, ETC.								
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.								
MISCELLANEOUS TANGIBLE						850	1,000	1,850
TOTAL TANGIBLE COST						4,100	17,100	21,200
TOTAL WELL COST						63,300	48,600	106,900
LEASE EQUIPMENT OR PLANT								
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery &							5,000	5,000
TANKS Flow Line Pumping Unit							20,000	20,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS								
TRUCKING								
CONSTRUCTION COSTS, LABOR & WELDING								
ELECTRIFICATION Electrification							1,500	1,500
MISCELLANEOUS LEASE COSTS							1,100	1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS							27,600	27,600
GRAND TOTAL ESTIMATE COSTS						63,300	76,200	134,500
ESTIMATED DAYS								

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by _____ Date _____ AFE no. _____

Accepted by _____ Date _____

WORK SHEET - AUTHORITY FOR EXPENDITURE

WELL NAME J.P. WHITE D-1

- TYPE AFE DRILLING

INTANGIBLE Sec. 20, T10S, R28E

						ESTIMATED COSTS		
						To Casing Point	Completion	Total Produce
SURFACE LEASE OR DAMAGES						800		800
SURVEY - LOCATION						200		200
ROAD AND DIRT WORK <u>5' Liner</u>						4,200	900	5,100
CONTRACT - POSTAGE <u>2400' @ \$9.00/Ft.</u>						21,600		21,600
CONTRACT - DAYWORK <u>1 1/2 days @ \$2800/day</u>						4,200		4,200
SOILER, REGRADER, PIT LEVEL, SAFETY DEVICES <u>BOP</u>							900	900
TRUCKING						300	600	900
GRADING UP AND SETTING IN						-	-	-
CEMENTING SERVICE: SURFACE CASING & INTER-STRING CASING CREW						2,500		2,500
DRILLING MUD AND CHEMICALS						7,900		7,900
ELECTRIC LOGGING - OPEN HOLE						4,100		4,100
OST						-		-
CORING						-		-
FLUID AND CORE ANALYSIS						-		-
BITS						800		800
KIND OF FUEL: <u>TURNISHED BY</u>								
WATER FURNISHED BY <u>FROM</u>						3,300		3,300
SUPERVISION						-		-
ABANDONMENT						5,000	-	-
CLEANUP AND BACKFILL						300		300
SHOE, FLOAT, CEMENTING, RUNNING ON STRING, LINER, CASING CREW							6,000	6,000
ELECTRIC LOGGING AND PERFORATING IN CASING							1,700	1,700
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS						-	-	-
ACIDIZING, STIMULATION & FRACTURING							13,600	13,600
CABLE TOOL OR ROTARY COMPLETION							5,000	5,000
MISCELLANEOUS INTANGIBLE						4,000	2,800	6,800
TOTAL INTANGIBLE						59,200	31,500	85,700
TANGIBLE								
CONDUCTOR <u>Footage 30' Size 12-3/4" Grade H-40 Weight 29.31 Cplg. STC</u>						250		250
SURFACE CASING <u>300' 8-5/8" J-55 24.0 STC</u>						2,400		2,400
INTER-STRING								
LINER								
OIL STRING <u>2400' 4-1/2" K-55 10.5 STC</u>							9,800	9,800
TUBING <u>2400' 2-3/8" J-55 4.7 EUE</u>							5,700	5,700
WELL HEAD, SAFETY EQUIPMENT, ETC.						600	600	1,200
ARTIFICIAL LIFT, ETC.								
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.								
MISCELLANEOUS TANGIBLE						850	1,000	1,850
TOTAL TANGIBLE COST						4,100	17,100	21,200
TOTAL WELL COST						63,300	48,600	106,900
LEASE EQUIPMENT OR PLANT								
PRODUCTION FACILITIES, TREATERS, ETC. <u>Share of Battery & Tanks</u>							5,000	5,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS <u>Flow Line Pumping Unit</u>							20,000	20,000
TRUCKING								
CONSTRUCTION COSTS, LABOR & WELDING								
ELECTRIFICATION							1,500	1,500
MISCELLANEOUS LEASE COSTS							1,100	1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS							27,600	27,600
GRAND TOTAL ESTIMATE COSTS						63,300	76,200	134,500
						ESTIMATED DAYS		

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Prepared by _____ Date _____ AFE no. _____

Accepted by _____ Date _____

WORK SHEET - AUTHORITY FOR EXPENDITURE

REL. NAME J.P. WHITE E-1

- TYPE AFE DRILLING

INTANGIBLE						ESTIMATED COSTS		
Sec.28,T10S,R28E						To Casing Point	Completion	Total Production
SURFACE LEASE OR DAMAGES						800		800
SURVEY - LOCATION						200		200
ROAD AND DIRT WORK & Liner						4,200	900	5,100
CONTRACT - FOOTAGE 2400' @ \$9.00/Ft.						21,600		21,600
CONTRACT - DAYWORK 14 days @ \$2800/day						4,200		4,200
BOILER, REGRABER, PIT LEVEL, SAFETY DEVICES BOP							900	900
TRUCKING						300	600	900
RIGGING UP AND MOVING IN						-	-	-
CEMENTING SERVICE: SURFACE CASING & INTER-STRING CASING CREW						2,500		2,500
DRILLING MUD AND CHEMICALS						7,900		7,900
ELECTRIC LOGGING - OPEN HOLE						4,100		4,100
BET						-		-
CORING						-		-
FLUID AND CORE ANALYSIS						-		-
BITS						800		800
KIND OF FUEL: FURNISHED BY								
WATER FURNISHED BY FROM						3,300		3,300
SUPERVISION						-		-
ABANDONMENT						5,000	-	-
CLEANUP AND BACKFILL						300		300
SHOE, FLOAT, CEMENTING, RUNNING ON STRING, LINER, CASING CREW							6,000	6,000
ELECTRIC LOGGING AND PERFORATING IN CASING							1,700	1,700
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS						-	-	-
ACIDIZING, STIMULATION & FRACTURING							13,600	13,600
CABLE TOOL OR ROTARY COMPLETION							5,000	5,000
MISCELLANEOUS INTANGIBLE						4,000	2,800	6,800
TOTAL INTANGIBLE						59,200	31,500	85,700
TANGIBLE								
CONDUCTOR Footage 30' Size 12-3/4" Grade H-40 Weight 29.31 Ctg. STC						250		250
SURFACE CASING Footage 300' Size 8-5/8" Grade J-55 Weight 24.0 Ctg. STC						2,400		2,400
INTER-STRING								
LINER Footage 2400' Size 4-1/2" Grade K-55 Weight 10.5 Ctg. STC							9,800	9,800
OIL STRING Footage 2400' Size 2-3/8" Grade J-55 Weight 4.7 Ctg. EUE							5,700	5,700
TUBING								
WELL HEAD, SAFETY EQUIPMENT, ETC.						600	600	1,200
ARTIFICIAL LIFT, ETC.								
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.								
MISCELLANEOUS TANGIBLE						850	1,000	1,850
TOTAL TANGIBLE COST						4,100	17,100	21,200
TOTAL WELL COST						63,300	48,600	106,900
LEASE EQUIPMENT OR PLANT								
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery & Flow Line Pumping Unit							5,000	5,000
TANKS							20,000	20,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS								
TRUCKING								
CONSTRUCTION COSTS, LABOR & WELDING								
ELECTRIFICATION Electrification							1,500	1,500
MISCELLANEOUS LEASE COSTS							1,100	1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS							27,600	27,600
GRAND TOTAL ESTIMATE COSTS						63,300	76,200	134,500
ESTIMATED DAYS								

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WORK SHEET - AUTHORITY FOR EXPENDITURE

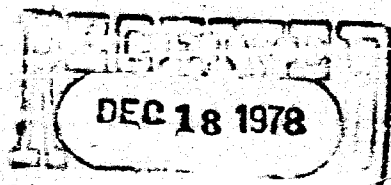
WELL NAME J.P. WHITE F-1 TYPE AFE DRILLING

INTANGIBLE						ESTIMATED COSTS		
Sec. 15, T11S, R28E						To Casing Point	Completion	Total Produce
SURFACE LEASE OR DAMAGES						800		800
SURVEY - LOCATION						200		200
ROAD AND BRT WORK & Liner						4,200	900	5,100
CONTRACT - POSTAGE 2400' @ \$9.00/ft.						21,600		21,600
CONTRACT - DAYWORK 14 days @ \$2800/day						4,200		4,200
ROILER, REMASSER, PT LEVEL, SAFETY DEVICES BOP							900	900
TRUCKING						300	600	900
SERVED UP AND MOVING IN						-	-	-
CEMENTING SERVICE: SURFACE CASING & INTER-STRING CASING CREW						2,500		2,500
DRILLING MUD AND CHEMICALS						7,900		7,900
ELECTRIC LOGGING - OPEN HOLE						4,100		4,100
BOP						-		-
Casing						-		-
FLUID AND CORE ANALYSIS						-		-
BITS						800		800
KIND OF FUEL: FURNISHED BY								
WATER FURNISHED BY FROM						3,300		3,300
SUPERVISION						-		-
ABANDONMENT						5,000	-	-
CLEANUP AND BACKFILL						300		300
SHOE, FLOAT, CEMENTING, RUNNING IN, STRING, LINER, CASING CREW							6,000	6,000
ELECTRIC LOGGING AND PERFORATING IN CASING							1,700	1,700
SQUEEZING, BRIDGING PLUGS & RETRIEVABLE PLUGS						-	-	-
ACIDIZING, STIMULATION & FRACTURING							13,600	13,600
CABLE TOOL OR ROTARY COMPLETION							5,000	5,000
MISCELLANEOUS INTANGIBLE						4,000	2,800	6,800
TOTAL INTANGIBLE						59,200	31,500	85,700
TANGIBLE								
CONDUCTOR	Footage	Size	Grade	Weight	Cats			
	30'	12-3/4"	H-40	29.31	STC	250		250
SURFACE CASING	300'	8-5/8"	J-55	24.0	STC	2,400		2,400
INTER-STRING								
LINER								
OIL STRING	2400'	4-1/2"	K-55	10.5	STC		9,800	9,800
TUBING	2400'	2-3/8"	J-55	4.7	EUE		5,700	5,700
WELL HEAD, SAFETY EQUIPMENT, ETC.						600	600	1,200
ARTIFICIAL LIFT, ETC.								
PRODUCTION PACKER, HANGERS, DOWNHOLE FLOW CONTROL, ETC.								
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TOTAL TANGIBLE COST						4,100	17,100	21,200
TOTAL WELL COST						63,300	48,600	106,900
LEASE EQUIPMENT OR PLANT								
PRODUCTION FACILITIES, TREATERS, ETC. Share of Battery &							5,000	5,000
TANKS Flow Line Pumping Unit							20,000	20,000
LINE PIPE, FLOWLINE, VALVES & FITTINGS								
TRUCKING								
CONSTRUCTION COSTS, LABOR & WELDING								
ELECTRIFICATION							1,500	1,500
MISCELLANEOUS LEASE COSTS							1,100	1,100
TOTAL LEASE EQUIPMENT OR PLANT COSTS							27,600	27,600
GRAND TOTAL ESTIMATE COSTS						63,300	76,200	134,500
						ESTIMATED DAYS		

The figures presented here are estimates only. You are responsible for the actual cost if such costs differ from the estimated costs.

Prepared by _____ Date _____ AFE no. _____

Accepted by _____ Date _____



OIL CONSERVATION COUNCIL
Santa Fe

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

MODEL FORM OPERATING AGREEMENT

6400
Applicant
10/7/79

OPERATING AGREEMENT

DATED

September 30, 1978.

OPERATOR CORONADO EXPLORATION CORPORATION

CONTRACT AREA Portions of Townships 9 and 10 South,

Ranges 27 and 28 East, N.M.P.M.

COUNTY OR PARISH OF CHAVES 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
KRAFTBLT PRODUCTS, BOX 800, TULSA 74101

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between CORONADO EXPLORATION CORPORATION

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 interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and 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 covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean 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.

**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 or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties which will be borne by the 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

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

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

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

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

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

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

24
25 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight,
26 any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously
27 paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against
28 the party who failed to make such payment. Unless the party who failed to make the required payment
29 secures a new lease covering the same interest within ninety (90) days from the discovery of the fail-
30 ure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of
31 the parties shall be revised on an acreage basis, effective as of the date of termination of the lease in-
32 volved, and the party who failed to make proper payment will no longer be credited with an interest in
33 the Contract Area on account of ownership of the lease or interest which has terminated. In the event
34 the party who failed to make the required payment shall not have been fully reimbursed, at the time of
35 the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an
36 acreage basis, for the development and operating costs theretofore paid on account of such interest, it
37 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the
38 cost of any dry hole previously drilled or wells previously abandoned) from so much of the following
39 as is necessary to effect reimbursement:

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

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

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

51
52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
55 the Contract Area.

56 57 ARTICLE V. 58 OPERATOR

59 60 A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

61 62 CORONADO EXPLORATION CORPORATION

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

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

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

The parties hereto have the option to acquire separate oil and gas leases collectively covering undivided interests in all of the Contract Area. The L.F. Minerals leases will each be made upon the condition that a well ["Test Well(s)"] is commenced on the leased premises within one year from the date of the lease. Operator shall select the drilling site for the Test Wells and Non-Operators shall have 15 days after receipt of the drilling site selection and the A.F.E. for the well within which to elect to participate or not participate in the drilling operation. If Non-Operators, or either of them, elect not to participate in the drilling operation, the Non-Operator(s) electing not to participate shall be deemed to have relinquished to the parties participating in the well, in the proportions set forth in Exhibit "A", all of its right, title and interest in and to all of the lands in the spacing unit upon which the Test Well is proposed to be drilled. All of the wells drilled under the provisions of the Article VI-A will hereinafter be referred to as the "Well" Provided for in Article VI-A.

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 **300%**
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 **300%** 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) **400%** 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 VIII.C., and

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

4
5 Gas production attributable to any Non-Consenting Party's relinquished interest upon such Party's
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-
7 tract. Such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-
9 ered from the Non-Consenting Party's relinquished interest. If such Non-Consenting Party has not
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of
16 all production, severance, gathering and other taxes, and all royalty, overriding royalty and other
17 burdens applicable to Non-Consenting Party's share of production.

18
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of
24 salvage.

25
26 Within sixty (60) days after the completion of any operation under this Article, the party con-
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the
35 amount of proceeds realized from the sale of the well's working interest production during the preceding
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any
39 such operation which would have been owned by a Non-Consenting Party had it participated therein
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52
53 Notwithstanding the provisions of this Article VIB.2., it is agreed that without the mutual consent
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing
56 well spacing pattern for such source of supply.

57
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article
62 VI.A.

63
64 **C. Right to Take Production in Kind:**

65
66 Each party shall have the right to take in kind or separately dispose of its proportionate share of
67 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-
68 velopment and producing operations and in preparing and treating oil for marketing purposes and
69 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-
70 sition by any party of its proportionate share of the production shall be borne by such party. Any

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-

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 sixty (60) 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~~ except drilling and reworking operations, 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. The provision covering advance payment on drilling and reworking operations is found in XV-A.

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:

☒ 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 Fifteen thousand ----- Dollars (\$ 15,000.00) 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 Fifteen thousand ----- Dollars (\$ 15,000.00).

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 20% of 8/8ths 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

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

G. Taxes:

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

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

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

H. Insurance:

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

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

ARTICLE VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

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

D. Subsequently Created Interest:

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

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

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 VIII.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 severalty 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

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.

1 **Option No. 2:** In the event the well described in Article VI.A., or any subsequent well drilled
2 under any provision of this agreement, results in production of oil and/or gas in paying quantities, this
3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-
4 tion, and for an additional period of _____ days from cessation of all production; provided, however,
5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in
6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-
7 erations have been completed and if production results therefrom, this agreement shall continue in
8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well
9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil
10 and or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-
11 tions are commenced within _____ days from the date of abandonment of said well.

12
13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from
14 any liability which has accrued or attached prior to the date of such termination.

15
16 **ARTICLE XIV.**
17 **COMPLIANCE WITH LAWS AND REGULATIONS**
18

19 **A. Laws, Regulations and Orders:**
20

21 This agreement shall be subject to the conservation laws of the state in which the committed
22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of
23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and
24 orders.

25
26 **B. Governing Law:**
27

28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-
29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-
30 terpretation or construction, shall be governed and determined by the law of the state in which the
31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most
32 of the land in the Contract Area is located shall govern.

33
34 **ARTICLE XV.**
35 **OTHER PROVISIONS**
36

37 **A. Advance Payment on Drilling and Reworking Operations:**
38

39 Operator shall have the right from time to time to demand
40 and receive from Non-Operators payment in advance of their respective
41 shares of the estimated amount of the expense to be incurred in
42 any proposed drilling or reworking operation hereunder, which right
43 may be exercised by submission to Non-Operators of an itemized
44 statement of such estimated expense, together with an invoice for
45 its share thereof. If Non-Operators, or either of them fail to
46 pay their share of such estimate within 60 days after said estimate
47 and invoice are received, the Non-Operator(s) failing to pay said
48 invoice within said time shall be deemed to have relinquished to
49 Operator all of its right, title and interest in and to the spacing
50 and proration unit upon which the proposed well is to be drilled
51 or reworked. Proper adjustment shall be made at the completion
52 of the drilling or reworking operation between advances and actual
53 expense, to the end that each party shall pay and bear its proportion-
54 ate share of actual expenses incurred and no more.

55 **B. Area of Mutual Interest:**
56

57 In order to protect the parties against the use by any of
58 them to the exclusion of the others of information obtained for
59 the account of all parties hereto, an "Area of Mutual Interest"
60 is hereby created which shall include the following lands in Chaves
61 County, New Mexico, to-wit:
62
63
64
65
66
67
68
69
70

Township 9 South, Range 27 East, N.M.P.M.

Section 24: E/2, SW/4
Section 25: All
Section 26: All
Section 27: SE/4 NE/4, SE/4
Section 34: E/2
Section 35: All
Section 36: All

Township 10 South, Range 27 East, N.M.P.M.

Section 1: All
Section 2: All
Section 3: E/2
Section 10: E/2
Section 11: All
Section 12: All
Section 13: All
Section 14: All
Section 15: E/2
Section 22: E/2
Section 23: All
Section 24: All
Section 25: All
Section 26: All
Section 27: E/2
Section 34: E/2
Section 35: All
Section 36: All

Township 9 South, Range 28 East, N.M.P.M.

Section 17: All
Section 18: SE/4
Section 19: All
Section 20: W/2
Section 30: All
Section 31: W/2

Township 10 South, Range 28 East, N.M.P.M.

All 36 sections.

If any party hereto should hereafter acquire a lease or leases, or mineral right or rights or any other form of oil, gas or mineral right, including but not limited to the ownership of minerals in fee, royalties, overriding royalties, rights or any interest therein (an interest therein being defined as including the right to acquire by purchase or under contractual arrangement, such as a farmout, farmin or acreage contribution with another party) at any time subsequent to the date of this agreement and during the term of this agreement, such acquiring party shall give written notice to the other parties at the appropriate address set forth in Exhibit "A" hereto, within 15 days of acquisition, and such other parties shall have separate options for a period of 15 days after receipt of written notice within which to give notice in writing to the acquiring party at its address of its election to exercise its option with respect to an interest in said oil, gas or mineral right or rights acquired as hereinabove defined. The party exercising its option to acquire such interest shall pay the other party its proportionate share of the consideration paid for such oil, gas or mineral right within 30 days after it gives notice of the exercise of its option, and it shall, as of the date of its written notice of exercise of option, assume its proportionate share of the obligations incurred incidental and appurtenant to

the purchase or other acquisition of such oil, gas or mineral right or rights or interest therein, all as hereinabove defined. If all parties elect to participate in any such acquisition, this agreement shall automatically be deemed amended to include such oil, gas or mineral rights or interests therein. Notwithstanding Article XIII, the provisions of this Area of Mutual Interest shall automatically terminate five years from the date hereof, and thereafter the parties to this agreement shall not be bound by this Article XV.B.

ARTICLE XVI
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 30th day of September, 1978.

OPERATOR
CORONADO EXPLORATION CORPORATION

ATTEST:

Donald P. Nott Secretary
Harvey E. Yates, Jr. President

NON-OPERATORS

GREAT EASTERN ENERGY & DEVELOPMENT CORP.

ATTEST:

James B. Hovis Secretary
James B. Hovis President

NEW MEXICO EXPLORATION COMPANY

ATTEST:

Donald P. Nott
Harvey E. Yates, Jr. For CORONADO EXPLORATION CORPORATION, General Partner

STATE OF NEW MEXICO)
:ss
COUNTY OF BERNALILLO)

The foregoing instrument was acknowledged before me this 30th day of September, 1978, by HARVEY E. YATES, JR., President of CORONADO EXPLORATION CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires:

September 22, 1981

Virginia Lawrence
Notary Public

STATE OF VIRGINIA)
:ss
COUNTY OF HENRICO)

The foregoing instrument was acknowledged before me this 9th day of October, 1978, by JAMES B. HOVIS, President of GREAT EASTERN ENERGY AND DEVELOPMENT CORP., a Virginia corporation, on behalf of said corporation.

My commission expires:

12-18-81

Virginia Lawrence
Notary Public

STATE OF NEW MEXICO)
:ss
COUNTY OF BERNALILLO)

The foregoing instrument was subscribed, acknowledged and sworn to before me this 30th day of September, 1978 by Harvey E. Yates, Jr., as President of CORONADO EXPLORATION CORPORATION, a New Mexico corporation, as attorney-in-fact pursuant to a power of attorney given in the New Mexico Exploration Company Agreement of Limited Partnership for the limited partner of NEW MEXICO EXPLORATION COMPANY, Jack Pennell. The said Harvey E. Yates, Jr., being first duly sworn, states, by his execution of the foregoing instrument, that the statements contained therein are true to the best of his knowledge, information and belief.

Witness my hand and official seal.

My commission expires:

September 22, 1981

Virginia Lawrence
Notary Public

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF
OPERATING AGREEMENT BETWEEN
CORONADO EXPLORATION CORPORATION,
OPERATOR, AND THE NON-OPERATORS

1. Lands subject to agreement:

Township 9 South, Range 28 East

Tract 1 - Section 17: E/2
2 - Section 19: W/2
3 - Section 20: W/2
4 - Section 30: E/2
5 - Section 31: W/2
6 - Section 18: SE/4 and

Township 9 South, Range 27 East

6 - Section 24: SW/4
7 - Section 25: E/2
8 - Section 26: E/2
9 - Section 27: SE/4 NE/4
10 - Section 27: SE/4
Section 34: SE/4
11 - Section 35: W/2

Township 10 South, Range 28 East

12 - Section 1: E/2
13 - Section 2: E/2
14 - Section 4: E/2
15 - Section 5: E/2
16 - Section 6: E/2
17 - Section 7: W/2
18 - Section 8: W/2
19 - Section 9: W/2
20 - Section 10: W/2
21 - Section 11: W/2
22 - Section 12: W/2
23 - Section 13: E/2

Township 10 South, Range 28 East

Tract 24 - Section 14: E/2
25 - Section 15: E/2
26 - Section 17: E/2
27 - Section 18: E/2
28 - Section 19: W/2
29 - Section 20: W/2
30 - Section 22: W/2
31 - Section 23: W/2
32 - Section 24: W/2
33 - Section 25: E/2
34 - Section 26: E/2
35 - Section 27: E/2
36 - Section 28: E/2
37 - Section 30: E/2
38 - Section 31: W/2
39 - Section 33: W/2
40 - Section 34: W/2
41 - Section 35: W/2

Township 10 South, Range 27 East

42 - Section 1: E/2
43 - Section 2: E/2
44 - Section 3: SE/4
Section 10: SE/4
45 - Section 11: W/2
46 - Section 12: W/2
47 - Section 15: SE/4
Section 22: SE/4
48 - Section 26: E/2
49 - Section 35: W/2
50 - Section 27: SE/4
Section 34: SE/4

2. Restriction, if any, as to depths or formations:

None

3. Fractional interests of parties to this agreement and their addresses:

Great Eastern Energy & Development Corporation 4/8ths
516 Mutual Building
Richmond, Virginia 23219

New Mexico Exploration Company 4/8ths
(A New Mexico Limited Partnership)
1005 Marquette N.W.
Albuquerque, New Mexico 87102

EXHIBIT "B"

Producer's 88—(Producer's Revised 1965) (New Mexico) Form 342

Printed on order sold by Hall-Pearbough Press, Roswell, N. M.

OIL & GAS LEASE

THIS AGREEMENT made this _____ day of _____, 19____, between _____

(Post Office Address)

herein called lessor (whether one or more) and _____, lessee:

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

following described land in _____ County, New Mexico, to-wit:

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise _____ acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of 5 years from this date (called "primary term"), and as long thereafter as oil or gas is produced from said land or land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, 3/16 of that produced and saved from said land, same to be delivered at the well or to the credit of lessor in the pipe line to which the wells may be connected; (b) on gas, including casinghead gas and all gas substances produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the mouth of the well of 3/16 of the gas so sold or used, provided that no gas sold at the well the royalty shall be 3/16 of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas and/or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate

as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of \$1.00/net acre which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payment or tender, annually, the commencement of said operations may be further deferred for successive periods of twelve (12) months each during the primary term. Payment

or tender may be made to the lessor or to the credit of the lessor in the _____ Bank

at _____, which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's heirs and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessee shall deliver to lessee a recordable instrument making provision for another acceptable method of payment or tender, and any depository charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or any lessee if more than one, on or before the rental paying date. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made; provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, lease, leases, mineral estates, or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard production unit fixed by law or by the New Mexico Oil Conservation Commission or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production therefrom should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 60 days thereafter and diligently prosecutes the same, or if it be within the primary term commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term oil or gas is not being produced but lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 30 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

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

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns; but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the deceased or his estate in the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.

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

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

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

Executed the day and year first above written.

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

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

My Commission expires _____, 19____ Notary Public

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

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

My Commission expires _____, 19____ Notary Public

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

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

My Commission expires _____, 19____ Notary Public

STATE OF _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

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

My Commission expires _____, 19____ Notary Public

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

STATE OF NEW MEXICO

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

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

My Commission Expires: _____ Notary Public

STATE OF _____

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

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

My Commission Expires: _____ Notary Public

COPAS

EXHIBIT " C "

Attached to and made a part of OPERATING AGREEMENT
between CORONADO EXPLORATION CORPORATION and the
Non-Operators dated September 30, 1978, and covering
Lands in Townships 9 & 10 South, Ranges 27 & 28 East

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.

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 \$ 1,900.68 (Wells shallower than 5,000'); \$2,800 (Wells
Producing Well Rate \$ 245.23 / deeper than 5,000')

(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.

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

2. Overhead - Major Construction

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

- 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.

EXHIBIT "D"

**ATTACHED TO AND MADE A PART OF
OPERATING AGREEMENT BETWEEN
CORONADO EXPLORATION CORPORATION,
OPERATOR, AND THE NON-OPERATORS**

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit of the parties hereto, as follows:

- (A) Workmen's Compensation Insurance as contemplated by the laws of the State of New Mexico, and Employers' Liability Insurance with limits of not less than \$100,000 per employee;
- (B) Public Liability (Bodily Injury) Insurance with limits of not less than \$500,000 for each occurrence, and Public Liability (Property Damage) Insurance with limits of \$100,000 for each occurrence and \$250,000 in the aggregate.
- (C) Automobile Public Liability Insurance covering all automotive equipment used under this agreement, with limits of not less than \$250,000 for bodily injury for one person and \$500,000 for more than one person in any one accident, and \$50,000 for property damage in any one accident. (If automotive equipment used is owned exclusively by Operator, no charge will be made to the joint account for premiums for this coverage except as provided in Section IV, Paragraph 5 of the Accounting Procedure - Exhibit "C".)

Except as authorized by Article VII.H and by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

Dockets Nos. 40-78 and 41-78 are tentatively set for hearing on December 20, 1978 and January 3, 1979. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - DECEMBER 7, 1978

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

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

- CASE 6392:** In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Corinne Grace, The Travelers Indemnity Company, and all other interested parties to appear and show cause why the Indian Hills Com. Well No. 1 located in Unit J of Section 8, Township 21 South, Range 24 East, Eddy County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 6393:** In the matter of the hearing called by the Oil Conservation Division on its own motion to consider the amendment of Rule 104 F of the Division Rules and Regulations to provide for the administrative approval of the unorthodox location of wells drilled within secondary recovery or pressure maintenance projects.
- CASE 6394:** In the matter of the hearing called by the Oil Conservation Division on its own motion to consider the adoption of an administrative procedure and Forms C-132 and C-132-A, all for the purpose of making wellhead price ceiling category determinations under the Natural Gas Policy Act of 1978.
- CASE 6395:** Application of David Pasken for pool contraction and pool extension, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the Indian Basin-Morrow Gas Pool by the deletion therefrom of Section 9, Township 21 South, Range 24 East, Eddy County, New Mexico, and the extension of the Cemetery-Morrow Gas Pool to include the aforesaid Section 9.
- CASE 6396:** Application of Amoco Production Company for pool creation and contraction, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the House Drinkard oil pool by the deletion therefrom of the NE/4 and E/2 SE/4 of Section 12 and the E/2 NE/4 of Section 13, both in Township 20 South, Range 38 East, and the W/2 of Section 7 and the NW/4 of Section 18, Township 20 South, Range 39 East, and the creation of a new gas pool for Lower Drinkard production in the NE/4 of Section 12, Township 20 South, Range 38 East, all in Lea County, New Mexico.
- CASE 6397:** Application of Western Oil Producers, Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying all of Section 4, Township 24 South, Range 35 East, Cinta Roja-Morrow Gas Pool, 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6398:** Application of Texas Oil & Gas Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location for the Wolfcamp and Pennsylvanian formations of its State Com Well No. 1, to be located 660 feet from the South and West lines of Section 18, Township 21 South, Range 26 East, Catclaw Draw Field, Eddy County, New Mexico, all of said Section 18 to be dedicated to the well in the Morrow formation.
- CASE 6399:** Application of Texas Oil & Gas Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 32, Township 18 South, Range 27 East, Eddy County, New Mexico, to be dedicated to a well to be drilled 710 feet from the North line and 2330 feet from the West line of said section. 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6400:** Application of Coronado Exploration Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying each of the following 40-acre tracts: SW/4 SW/4 Section 7; SW/4 SW/4 Section 8; SW/4 SE/4 Section 18; NW/4 NW/4 Section 19; and NW/4 NW/4 Section 20, all in Township 10 South, Range 28 East, Race Track-San Andres Pool, Chaves County, New Mexico. Also the NE/4 NE/4 Section 28, Township 10 South, Range 28 East, LE Ranch-San Andres Pool, Chaves County, and the SW/4 NE/4 Section 15, Township 11 South, Range 28 East, East Chisum-San Andres Pool, Chaves County. Each of the aforesaid 40-acre tracts would comprise a drilling unit to be dedicated to a well to be drilled at a standard location thereon. Also to be considered, with respect to each of the above described drilling units and well, will be the cost of drilling and completing the well and the allocation of the cost thereof as well as actual operating costs and charges for supervision; also to be considered will be the designation of applicant as operator of each well and a charge for risk involved in drilling each well.

- CASE 6401:** Application of Southland Royalty Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Pictured Cliff and Mesaverde production within the wellbore of its Jicarilla 101 Well No. 1 located in Unit J of Section 1, Township 26 North, Range 4 West, Rio Arriba County, New Mexico.
- CASE 6402:** Application of Southland Royalty Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Gallup and Dakota production within the wellbore of its Jicarilla 101 Well No. 2 located in Unit M of Section 12, Township 26 North, Range 4 West, Rio Arriba County, New Mexico.
- CASE 6403:** Application of Consolidated Oil & Gas, Inc. for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Basin Dakota and Blanco Mesaverde production within the wellbore of its O'Shea Well No. 1 located in Unit K of Section 3, Township 31 North, Range 13 West, San Juan County, New Mexico.
- CASE 6404:** Application of Sun Production Company for compulsory pooling, non-standard gas proration unit, and an unorthodox well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dumont Gas Pool underlying the SE/4 of Section 35, Township 19 South, Range 36 East, Lea County, New Mexico, to form a non-standard 160-acre proration unit to be dedicated to a well to be drilled at an unorthodox location 810 feet from the South line and 2030 feet from the East line of said section. 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6405:** Application of LaRue and Muncy for exception to Order No. R-111-A, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to the casing/cementing rules for the Oil-Potash Area as promulgated by Order No. R-111-A to permit its Federal FR Well No. 1 located in Unit I of Section 15, Township 18 South, Range 30 East, Eddy County, New Mexico, to be completed in the following manner: set surface casing and circulate cement; eliminate salt protection string; and do not circulate cement on production casing.

A. J. LOSEE
JOEL M. CARSON
CHAD DICKERSON

LAW OFFICES
LOSEE & CARSON, P.A.
300 AMERICAN HOME BUILDING
P. O. DRAWER 239
ARTESIA, NEW MEXICO 88210

NOV 20 1978

AREA CODE 505
746-3508

15 November 1978

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

Dear Mr. Ramey:

Enclosed for filing, please find three copies each of seven Applications of Coronado Exploration Corp. for compulsory pooling, in Chaves County, New Mexico.

We ask that these cases be set for hearing before an examiner and that you furnish us with a docket of said hearings.

Yours truly,

LOSEE, CARSON & DICKERSON, P.A.


Joel M. Carson

JMC:bjm
Enclosures

cc w/enclosures: Coronado Exploration Corp.

NOV 28 1973

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF
CORONADO EXPLORATION CORP. FOR
COMPULSORY POOLING, CHAVES COUNTY,
NEW MEXICO

CASE NO. 6400

APPLICATION

COMES NOW CORONADO EXPLORATION CORP., by its attorneys,
and in support hereof, respectfully states:

1. Applicant has the right to drill its J. P. White Well at a depth of 2,500 feet as an oil well, which is to be located at an orthodox location in the SW/4 SE/4 of Section 18, Township 10 South, Range 28 East, N.M.P.M., Chaves County, New Mexico.
2. The applicant has dedicated the SW/4 SE/4 of said section to this well, and there are interest owners in the proration unit who have not agreed to pool their interests.
3. Applicant should be designated the operator of the well and the proration unit.
4. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said unit, all mineral interests, whatever they may be, from the surface to a depth of 2,500 feet underlying the SW/4 SE/4 of said Section 18, should be pooled.

5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

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

WHEREFORE, applicant prays that:

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

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the surface to a depth of 2,500 feet underlying the SW/4 SE/4 of said Section 18, Township 10 South, Range 28 East, N.M.P.M., Chaves County, New Mexico, to form a 40-acre spacing unit dedicated to applicant's well.

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

CORONADO EXPLORATION CORP.

By: 

Joel M. Carson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

NOV 28 1973

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF
CORONADO EXPLORATION CORP. FOR
COMPULSORY POOLING, CHAVES COUNTY,
NEW MEXICO

CASE NO. 6400

APPLICATION

COMES NOW CORONADO EXPLORATION CORP., by its attorneys,
and in support hereof, respectfully states:

1. Applicant has the right to drill its J. P. White "A" Well at a depth of 2,500 feet as an oil well, which is to be located at an orthodox location in the NW/4 NW/4 of Section 19, Township 10 South, Range 28 East, N.M.P.M., Chaves County, New Mexico.
2. The applicant has dedicated the NW/4 NW/4 of said section to this well, and there are interest owners in the proration unit who have not agreed to pool their interests.
3. Applicant should be designated the operator of the well and the proration unit.
4. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said unit, all mineral interests, whatever they may be, from the surface to a depth of 2,500 feet underlying the NW/4 NW/4 of said Section 19, should be pooled.

5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

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

WHEREFORE, applicant prays that:

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

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the surface to a depth of 2,500 feet underlying the NW/4 NW/4 of said Section 19, Township 10 South, Range 28 East, N.M.P.M., Chaves County, New Mexico, to form a 40-acre spacing unit dedicated to applicant's well.

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

CORONADO EXPLORATION CORP

By: 

Joel M. Carson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

NOV 28 1978

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF
CORONADO EXPLORATION CORP. FOR
COMPULSORY POOLING, CHAVES COUNTY,
NEW MEXICO

CASE NO. 6400

APPLICATION

COMES NOW CORONADO EXPLORATION CORP., by its attorneys,
and in support hereof, respectfully states:

1. Applicant has the right to drill its J. P. White "B1" Well at a depth of 2,500 feet as an oil well, which is to be located at an orthodox location in the SW/4 SW/4 of Section 7, Township 10 South, Range 28 East, N.M.P.M., Chaves County, New Mexico.
2. The applicant has dedicated the SW/4 SW/4 of said section to this well, and there are interest owners in the proration unit who have not agreed to pool their interests.
3. Applicant should be designated the operator of the well and the proration unit.
4. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said unit, all mineral interests, whatever they may be, from the surface to a depth of 2,500 feet underlying the SW/4 SW/4 of said Section 7, should be pooled.

5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

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

WHEREFORE, applicant prays that:

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

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the surface to a depth of 2,500 feet underlying the SW/4 SW/4 of said Section 7, Township 10 South, Range 28 East, N.M.P.M., Chaves County, New Mexico, to form a 40-acre spacing unit dedicated to applicant's well.

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

CORONADO EXPLORATION CORP.

By: 

Joel M. Carson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

NOV 26 1978

BEFORE THE OIL CONSERVATION DIVISION

OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF
CORONADO EXPLORATION CORP. FOR
COMPULSORY POOLING, CHAVES COUNTY,
NEW MEXICO

CASE NO. 6400

APPLICATION

COMES NOW CORONADO EXPLORATION CORP., by its attorneys,
and in support hereof, respectfully states:

1. Applicant has the right to drill its J. P. White
"C1" Well at a depth of 2,500 feet as an oil well, which is to be
located at an orthodox location in the SW/4 SW/4 of Section 8,
Township 10 South, Range 28 East, N.M.P.M., Chaves County, New
Mexico.

2. The applicant has dedicated the SW/4 SW/4 of said
section to this well, and there are interest owners in the pro-
ration unit who have not agreed to pool their interests.

3. Applicant should be designated the operator of
the well and the proration unit.

4. To avoid the drilling of unnecessary wells,
to protect correlative rights and to afford to the owner of each
interest in said unit the opportunity to recover or receive
without unnecessary expense his just and fair share of the
gas in said unit, all mineral interests, whatever they may be,
from the surface to a depth of 2,500 feet underlying the SW/4 SW/4
of said Section 8, should be pooled.

5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

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

WHEREFORE, applicant prays that:

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

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the surface to a depth of 2,500 feet underlying the SW/4 SW/4 of said Section 8, Township 10 South, Range 28 East, N.M.P.M., Chaves County, New Mexico, to form a 40-acre spacing unit dedicated to applicant's well.

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

CORONADO EXPLORATION CORP

By: 

Joel M. Carson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

NOV 20 1973

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF :
CORONADO EXPLORATION CORP. FOR :
COMPULSORY POOLING, CHAVES COUNTY, : CASE NO. 6400
NEW MEXICO :
:

APPLICATION

COMES NOW CORONADO EXPLORATION CORP., by its attorneys,
and in support hereof, respectfully states:

1. Applicant has the right to drill its J. P. White
"D1" Well at a depth of 2,500 feet as an oil well, which is to be
located at an orthodox location in the NW/4 NW/4 of Section 20,
Township 10 South, Range 28 East, N.M.P.M., Chaves County, New
Mexico.

2. The applicant has dedicated the NW/4 NW/4 of said
section to this well, and there are interest owners in the pro-
ration unit who have not agreed to pool their interests.

3. Applicant should be designated the operator of
the well and the proration unit.

4. To avoid the drilling of unnecessary wells,
to protect correlative rights and to afford to the owner of each
interest in said unit the opportunity to recover or receive
without unnecessary expense his just and fair share of the
gas in said unit, all mineral interests, whatever they may be,
from the surface to a depth of 2,500 feet underlying the NW/4 NW/4
of said Section 20, should be pooled.

5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

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

WHEREFORE, applicant prays that:

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

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the surface to a depth of 2,500 feet underlying the NW/4 NW/4 of said Section 20, Township 10 South, Range 28 East, N.M.P.M., Chaves County, New Mexico, to form a 40-acre spacing unit dedicated to applicant's well.

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

CORONADO EXPLORATION CORP.

By: 

Joel M. Carson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

NOV 28 1978

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF
CORONADO EXPLORATION CORP. FOR
COMPULSORY POOLING, CHAVES COUNTY,
NEW MEXICO

CASE NO. 6400

APPLICATION

COMES NOW CORONADO EXPLORATION CORP., by its attorneys,
and in support hereof, respectfully states:

1. Applicant has the right to drill its J. P. White "El" Well at a depth of 2,500 feet as an oil well, which is to be located at an orthodox location in the NE/4 NE/4 of Section 28, Township 10 South, Range 28 East, N.M.P.M., Chaves County, New Mexico.
2. The applicant has dedicated the NE/4 NE/4 of said section to this well, and there are interest owners in the proration unit who have not agreed to pool their interests.
3. Applicant should be designated the operator of the well and the proration unit.
4. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said unit, all mineral interests, whatever they may be, from the surface to a depth of 2,500 feet underlying the NE/4 NE/4 of said Section 28, should be pooled.

5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

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

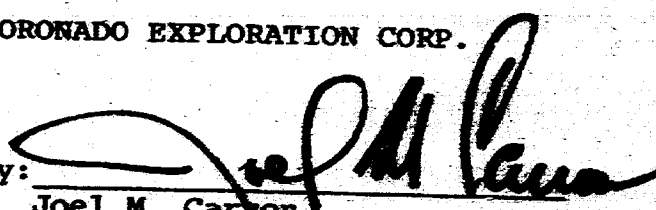
WHEREFORE, applicant prays that:

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

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the surface to a depth of 2,500 feet underlying the NE/4 NE/4 of said Section 28, Township 10 South, Range 28 East, N.M.P.M., Chaves County, New Mexico, to form a 40-acre spacing unit dedicated to applicant's well.

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

CORONADO EXPLORATION CORP.

By: 
Joel M. Carson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

NOV 20 1973

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF
CORONADO EXPLORATION CORP. FOR
COMPULSORY POOLING, CHAVES COUNTY,
NEW MEXICO

CASE NO. 6400

APPLICATION

COMES NOW CORONADO EXPLORATION CORP., by its attorneys,
and in support hereof, respectfully states:

1. Applicant has the right to drill its J. P. White
"F1" Well at a depth of 2,500 feet as an oil well, which is to be
located at an orthodox location in the SW/4 NE/4 of Section 15,
Township 11 South, Range 28 East, N.M.P.M., Chaves County, New
Mexico.

2. The applicant has dedicated the SW/4 NE/4 of said
section to this well, and there are interest owners in the pro-
ration unit who have not agreed to pool their interests.

3. Applicant should be designated the operator of
the well and the proration unit.

4. To avoid the drilling of unnecessary wells,
to protect correlative rights and to afford to the owner of each
interest in said unit the opportunity to recover or receive
without unnecessary expense his just and fair share of the
gas in said unit, all mineral interests, whatever they may be,
from the surface to a depth of 2,500 feet underlying the SW/4 NE/4
of said Section 15, should be pooled.

5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

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

WHEREFORE, applicant prays that:

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

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the surface to a depth of 2,500 feet underlying the SW/4 NE/4 of said Section 15, Township 11 South, Range 28 East, N.M.P.M., Chaves County, New Mexico, to form a 40-acre spacing unit dedicated to applicant's well.

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

CORONADO EXPLORATION CORP.

By: 

Joel M. Carson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

11-15-78

Joel Carson for 12-7-78

Repl Coronado Exploration Corp.
for compulsory poolings of 40 acres

✓ T10S R28E
→ Sec 18: SW/SE J P White No 1 st loc
~~Ranch San Andres~~

Race Track
San Andres ✓
→ T10S R28E
→ Sec 19: NW/NW J.P. White A No 1
T10S R28E
→ Sec 7: ~~NW/NW~~ ^{SW/SW} J P White B No 1
~~Ranch San Andres~~

→ T10S R28E
→ Sec 8: SW/SW J P White C No 1
T10S R28E
→ Sec 20: NW/NW J. P White D No 1
T10S R28E
→ Sec 28: ~~SE~~ NE/NE J. P White E No 1
L E Ranch - San Andres ✓

T11S R28E
→ Sec 15: SW/NE ✓ J. P White F No 1
E. Chisum - San Andres ✓

pool
to a depth of
2500 FT - 57 Oil

Chaves County

County, _____

Township _____ Range _____

Township _____ Range _____

Township _____ Range _____

Township _____ Range _____

Form 104--(Four on Township)

6	5	4	3	2	1	6	5	4	3	2	1
7	8	9	10	11	12	7	8	9	10	11	12
13	14	15	16	17	18	13	14	15	16	17	18
19	20	21	22	23	24	19	20	21	22	23	24
25	26	27	28	29	30	25	26	27	28	29	30
31	32	33	34	35	36	31	32	33	34	35	36
6	5	4	3	2	1	6	5	4	3	2	1
7	8	9	10	11	12	7	8	9	10	11	12
13	14	15	16	17	18	13	14	15	16	17	18
19	20	21	22	23	24	19	20	21	22	23	24
25	26	27	28	29	30	25	26	27	28	29	30
31	32	33	34	35	36	31	32	33	34	35	36

Handwritten notes and markings:

- Top-left grid: A large 'X' is drawn across the grid, and a small square is marked in the center.
- Top-right grid: A large 'X' is drawn across the grid, and a small square is marked in the center.
- Bottom-left grid: A large 'X' is drawn across the grid, and a small square is marked in the center.
- Bottom-right grid: A large 'X' is drawn across the grid, and a small square is marked in the center.

Application of Coronado Exploration
Corp. for compulsory pooling,
Chaves County, New Mexico.

Applicant, in the above-styled cause,
asks an order pooling all mineral
interests in the San Andres formation
underlying the following 40-acre tracts:
~~SW 1/4 SE 1/4 Section 18; N 1/2 SW 1/4 SW 1/4~~
Section 7; SW 1/4 SW 1/4 Section 8; SW 1/4 SE 1/4
Section 18; NW 1/4 NW 1/4 Section 19; and
NW 1/4 NW 1/4 Section 20, all in Township
10 South, Range 28 East, Race Track - San
Andres Pool, Chaves County, New Mexico.
Also the NE 1/4 NE 1/4 Section 28, Township
10 South, Range 28 East, L E Ranch - San
Andres Pool, Chaves County, and the
SW 1/4 NE 1/4 Section 15, Township 11 South,
Range 28 East, East Chisum - San Andres
Pool, Chaves County. Each of the aforesaid
40-acre tracts ^{complete a drilling unit} would be dedicated to a
well to be drilled at a standard location
thereon. With respect to each of the above
described ^{drilling} units and wells, also to be
considered will be the cost of drilling and
completing the wells and the allocation of the
cost thereof as well as actual operating
costs and charges for supervision; also to
be considered & will be the designation
of applicant as operator of each well and
a charge for risk involved in drilling
each well.

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. 6400Order No. R- 5895

APPLICATION OF CORONADO EXPLORATION
CORPORATION FOR COMPULSORY POOLING,
CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISIONBY THE DIVISION:

This cause came on for hearing at 9 a.m. on December 7
19 78, at Santa Fe, New Mexico, before Examiner Richard L. Stamets
NOW, on this _____ day of December, 19 78, 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, Coronado Exploration Corporation,
seeks an order pooling all mineral interests in the San Andres
formation underlying ~~the~~ each of the following
40-acre tracts:

SW/4 SW/4 of Section 7; SW/4 SW/4 of Section 8;
SW/4 SE/4 of Section 18; NW/4 NW/4 of Section 19;
and NW/4 NW/4 of Section 20, all in Township 10
South, Range 28 East, Race Track-San Andres Pool,
Chaves County, New Mexico;

~~Also~~ the NE/4 NE/4 of Section 28, Township 10
South, Range 28 East, LE Ranch-San Andres Pool,
Chaves County; and the SW/4 NE/4 of Section 15,
Township 11 South, Range 28 East, East Chisum-San
Andres Pool, Chaves County.

Each of the aforesaid 40-acre tracts would comprise
a drilling unit to be dedicated to a well to be
drilled at a standard location thereon.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location on each of said 40-acre tracts.

(4) That there are interest owners ^{each of} 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 ^{each of} in said unit, the opportunity to recover or receive without unnecessary expense his just and fair share of the ^{oil} ~~gas~~ in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(6) That the applicant should be designated the operator of the subject wells and units.

(7) That any non-consenting working interest owner ^{in any of said units} should be afforded the opportunity to pay his share of estimated well costs ^{attributable to such unit} to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production ^{attributable to such unit} 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 that 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.

*\$1900.68 per month while drilling
and \$245.73 per month while producing*

(11) That ~~per month~~ should be fixed as a reason-
for each of said wells;
able charge, for supervision (combined fixed rates) *that the*
attributable to such well
operator should be authorized to withhold from production the
proportionate share of such supervision charge, attributable to
each non-consenting working interest, and in addition thereto,
the operator should be authorized to withhold from *such* 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 *any of* the subject
wells 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 *any of* said pooled
unit, to commence drilling of the well to which said unit is
dedicated on or before June 1, 1978, 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,
in the San Andres formation underlying ~~the~~ each
of the following 40-acre tracts *are hereby pooled to form*
standard oil spacing and production units:

SW/4 SW/4 of Section 7; SW/4 SW/4 of Section 8;
SW/4 SE/4 of Section 18; NW/4 NW/4 of Section 19;
and NW/4 NW/4 of Section 20, all in Township 10
South, Range 28 East, Race Track-San Andres Pool,
Chaves County, New Mexico;

also the NE/4 NE/4 of Section 28, Township 10
South, Range 28 East, LE Ranch-San Andres Pool,
Chaves County; and the SW/4 NE/4 of Section 15,
Township 11 South, Range 28 East, East Chisum-San
Andres Pool, Chaves County.

Each of the aforesaid 40-acre tracts would comprise
a drilling unit to be dedicated to a well to be
drilled at a standard location thereon.

*See
under*

*See
under*

any of said
PROVIDED FURTHER, that should ~~paid~~ 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 *as to such well.*

(2) That Coronado Exploration Corpora^{tion} is hereby designated the operator of the subject well and units.

(3) That after the effective date of this order and within *each* 90 days prior to commencing ~~the~~ 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 *15* ~~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 *in the appropriate unit* an itemized schedule of actual well costs within 90 days following completion of *a well attributable to such unit* the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided

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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 ^{for each well} from production ^{attributable to such well}.

(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 ¹⁵ 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 ^{\$1900.68 per month while drilling and \$245.23 per month while producing are} ~~per month~~ is hereby fixed as a reasonable charge for supervision (combined fixed rates) ^{for each of said wells.} that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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 ^{each of} such wells, not in excess of what are reasonable, attributable to each non-consenting working interest.

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(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 interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

5923 13

Asbury

*Continued to
December 20*

CASE 6401: SOUTH AND SOUTHWEST COMPANY
FOR DOMESTIC COMINGLING, RIO ABRIJA
COUNTY, NEW MEXICO