

**STATE OF NEW MEXICO**  
**DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES**  
**OIL CONSERVATION DIVISION** AM 11 49

**APPLICATION OF DEVON ENERGY PRODUCTION COMPANY, L.P.  
FOR AN ORDER AUTHORIZING THE DRILLING OF WELLS IN THE  
POTASH AREA, EDDY COUNTY, NEW MEXICO.**

CASE NO. 13368  
CASE NO. 13369  
CASE NO. 13372

**MOTION OF DEVON ENERGY PRODUCTION COMPANY, L.P. FOR AN  
ORDER RE-INSTATING/GRANTING APPLICATION FOR PERMIT TO  
DRILL, AND DISMISSING THE OBJECTION OF IMC MINERALS/  
MOOSAIC POTASH TO THE APACHE 24 FEE WELLS NO. 6, NO.7, AND  
NO. 7A.**

---

Devon Energy Production Company, L.P. ("Devon") hereby moves the Division for an order re-instating/granting its Applications for Permit to Drill its proposed Apache 24 Fee Wells No. 6, No. 7 and No. 7A, dismissing the objection of IMC Minerals/Mosaic Potash to this location and dismissing this case, and in support of its motion states:

1. Devon Energy Production Company is the current lessee of valid oil and gas leases from all mineral interest owners covering the oil and gas mineral rights under Section 24, Township 22 South, Range 30 East, NMPM, Eddy County, New Mexico. A copy of the Oil and Gas Lease(s) from all mineral interest owners to Devon are attached hereto as Exhibit A.

2. Devon filed an Application for Permit to Drill ("APD") three wells in the SW/4 NW/4 of said Section 24: the No. 6 Well at a location 1980 feet from the North line and 660 feet from the West line and proposed to drill the well to a total depth of approximately 7900 feet to test the Delaware formation; the No. 7 Well at an unorthodox surface location 1460 feet from the North line and 1150 feet from the West line to an unorthodox bottomhole location 598 feet from the North line and 2059 feet from the West line and proposed to drill the well to a

total depth of 7850 feet; and the No. 7A at an unorthodox location 1460 feet from the North line and 1150 feet from the West line and proposed to drill to a total depth of 15,500 feet to test the Devonian formation. Devon's Applications for Permit to Drill are attached as Exhibit B.

3. Since the proposed wells are within the designated oil/potash area as described in the New Mexico Oil Conservation Division/Commission Order R-111-P ("Order R-111-P"), Devon timely and properly notified all potash lessees within a mile of the proposed well location of its intent to drill. IMC Potash Carlsbad, Inc., now Mosaic Potash, ("IMC/Mosaic") is the only potash lessee within a mile of the proposed well locations.

4. On February 19, 2004, the Oil Conservation Division granted Devon's APD to drill the No. 6 Well. The BLM has taken no action on the APD for the No.7 Well. On September 20, 2004, the Oil Conservation Division rejected Devon's application for permit to drill the No. 7A Well.

5. Kenneth Smith, Incorporated, is the surface owner of the SW/4 NW/4 of said Section 24 and is an interest owner of the oil and gas minerals and potash minerals located under these lands.

6. Mr. Smith, all other mineral interest owners (which includes the potash reserves) and Devon have reached mutual agreement for the development of the minerals under this land whereby Devon will drill for and develop the oil and gas under this land and the potash resources under this property, if any, can thereafter be mined. Attached hereto as Exhibit C is an affidavit from Mr. Smith supporting the application of Devon for the drilling of the Apache 24 Fee Wells No. 6, No. 7, and No. 7A.

7. Although IMC/Mosaic does not own potash rights under said Section 24, IMC/ Mosaic filed written objections with the Oil Conservation Division's Artesia Office. On April 12, 2004, IMC/Mosaic objected after the period for filing objections for the No.6 Well had run

and after the Division had approved the APD. On August 30, 2004, IMC/Mosaic objected to Devon's application for the No. 7 and No. 7A Wells. Copies of the objections are attached as Exhibit D.

8. On September 20, 2004, the Division's District Office rescinded Devon's APD for the No. 6 Well and rejected the APD for the No. 7A Well. The BLM has taken no action on the No. 7 Well. A copy of the Division's September 20, 2004 letter is attached hereto as Exhibit E.

9. Order R-111-P makes no provision for an LMR determination when the proposed well is located, as here, on fee lands nor does Order R-111-P authorize a potash lessee to designate a Life of Mine Reserve ("LMR") area over lands not leased to that potash lessee. See, Oil Conservation Division Order No. R-9990, Finding 11, attached hereto as Exhibit F.

10. In this case Mr. Smith, as owner of the unleased potash underlying its acreage, has consented to Devon's drilling of the Apache 24 Fee Wells and desires to have its oil and gas minerals developed first and in preference to any potash reserves underlying its fee property.

11. There is mutual agreement of the owners of the oil and gas minerals and the potash minerals under the SW/4 NW/4 of said Section 24 for the drilling of the Apache 24 Fee Wells and the provisions of Sub-part G(e)3 of Order R-111-P, the provision cited by IMC/Mosaic as the basis for its objection, have been met and Devon's APD's were improperly rescinded/rejected and should be re-instated/approved.

12. Devon has followed the provisions of Order R-111-P, subpart G(e)(2), which requires it to provide notice of its intent to drill to all potash lessees within one mile of the proposed well location and as provided in sub-part H of order No. R-111-P. Pursuant to Commission precedent, the APDs of Devon should not have been rescinded/rejected. Devon is entitled to drill the subject well as proposed with a representative of IMC/Mosaic present during the

drilling, cementing, casing and plugging of said well to observe conformation with all requirements of Order No. R-111-P.

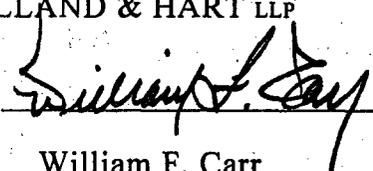
13. Based on the facts of this case and clear Commission precedent, the Division should dispose of this matter without hearing, immediately order the reinstatement and approval of the drilling permits for the Apache 24 Fee Wells No. 6, 7 and 7A and dismiss this case.

WHEREFORE, Devon Energy Production Co. request the Division:

- (1) apply the precedent established by its Order No. R-9990 to the facts of this case;
- (2) re-instate Division approval of Devon's Application for Permit to Drill the Apache 24 Fee Well No. 6, 7 and 7A: and
- (3) dismiss the objection of IMC Potash Carlsbad, Inc/Mosaic Potash to this proposed well location.

Respectfully submitted,

HOLLAND & HART LLP

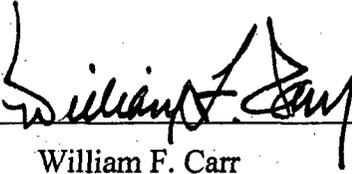
By: 

William F. Carr  
Ocean Munds-Dry

ATTORNEYS FOR DEVON ENERGY  
PRODUCTION COMPANY

**CERTIFICATE OF SERVICE**

I certify that I have caused a copy of the foregoing pleading to be delivered to Gail McQuesten, Esq. Attorney for the Oil Conservation Division by Hand Delivery, Dan Morehouse, Mosaic Potash by facsimile [Fax No. (505) 887-0589] and to Charles High, Esq., attorney for Mosaic Potash, by facsimile [Fax No. (915) 546-5360] on this 24th day of November 2004.

  
William F. Carr

**OIL & GAS LEASE**

THIS AGREEMENT made this 20<sup>th</sup> day of October, 2003, between GEORGIA L. BERGSTEN A/K/A GEORGIA LOU LONDON BERGSTEN and TRUSTEES in common law property of 2202 Lee Drive, N.E., Albuquerque, NM 87110, herein called "Lessor" (whether one or more) and T. VERNE DWYER, 500 West Wall, Suite 310, Midland, Texas 79701, "Lessee" 8135 Fm Gazer Avenue N.W., Albuquerque, NM 87113

Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby 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, waters, other fluids, and air into subsurface strata laying pipelines, 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 EDDY COUNTY, NEW MEXICO, to-wit:

**TOWNSHIP 22 SOUTH, RANGE 30 EAST**

**SECTION 24: SW/4 NW/4**

Said land is estimated to comprise 40.00 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 three (3) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 3/16<sup>th</sup> of that produced and saved from said land, same to be delivered at the wells or to the credit of Lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 3/16<sup>th</sup> of the gas used, provided that on gas sold on or off the premises, the royalties shall be 3/16<sup>th</sup> 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 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 shut-in royalty equal to \$1.00 per net acre of Lessor's gas 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 shall 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. The payment or tender of royalties or shut-in royalties may be made by check or draft. Any timely payment or tender of 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 or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if Lessee shall correct such error within 30 days after Lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable Lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contracted entered into in good faith by Lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event Lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, Lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and Lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve Lessee of the obligation to pay royalties on actual production pursuant to the provisions of paragraph 3 hereof.

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, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance to ten percent. 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 on 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 net oil or gas acreage 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but Lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if Lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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 pipelines 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 their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, 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, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as Lessee has been furnished with evidence satisfactory to Lessee as to the persons entitled to such sums. 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 royalty or shut-in royalty due from such Lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which Lessee or any assignee thereof shall properly comply or make such payments.

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 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 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 to apply royalties and shut-in royalties payable 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, 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 or his 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 shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

T VERNE DWYER  
OIL & GAS INVESTMENTS  
500 W WALL STE 310  
MIDLAND TX 79701

*Georgia L. Bergsten*  
GEORGIA L. BERGSTEN A/K/A GEORGIA LOU LONDON  
BERGSTEN DEALING IN HER SOLE AND SEPARATE  
PROPERTY

PRINTED NAME: *GEORGIA L. BERGSTEN*

SS #:

SS #:

EXHIBIT

tabbies

A

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF NEW MEXICO  
COUNTY OF Bernalillo

The foregoing instrument was acknowledged before me this 20 day of November, 2003, by GEORGIA L. BERGSTEN.

My Commission Expires Aug. 2, 2007



[Signature]  
Notary Public, State of New Mexico  
Printed Name Lisa Lillie

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF NEW MEXICO  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2003, by \_\_\_\_\_

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

Notary Public, State of New Mexico

Printed Name \_\_\_\_\_

RECEPTION NO: 0315624 STATE OF  
NEW MEXICO, COUNTY OF EDDY  
RECORDED 12/22/2003 8:27 AM  
BOOK 0534 PAGE 0112  
JEAN BLENDE, COUNTY CLERK



# OIL & GAS LEASE

THIS AGREEMENT made this 2<sup>nd</sup> day of October, 2003, between **WILLIAM JEFF GLENN AND LORA NELL GLENN, AS TRUSTEES OF THE WILLIAM JEFF GLENN AND LORA NELL SMITH GLENN REVOCABLE TRUST DATED FEBRUARY 13, 1992, of 375 Ridge Road, Silver City, NM 89061**, herein called "Lessor" (whether one or more) and **T. VERNE DWYER, 500 West Wall, Suite 310, Midland, Texas 79701**, "Lessee":

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby 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, waters, other fluids, and air into subsurface strata laying pipelines, 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 **EDDY COUNTY, NEW MEXICO**, to-wit:

## TOWNSHIP 22 SOUTH, RANGE 30 EAST

### SECTION 24: SW/4 NW/4

Said land is estimated to comprise 40.00 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 three (3) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 3/16<sup>th</sup> of that produced and saved from said land, same to be delivered at the wells or to the credit of Lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 3/16<sup>th</sup> of the gas used, provided that on gas sold on or off the premises, the royalties shall be 3/16<sup>th</sup> 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 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 shut-in royalty equal to \$1.00 per net acre of Lessor's gas 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 shall 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. The payment or tender of royalties or shut-in royalties may be made by check or draft. Any timely payment or tender of 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 or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if Lessee shall correct such error within 30 days after Lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable Lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contracted entered into in good faith by Lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event Lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, Lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and Lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve Lessee of the obligation to pay royalties on actual production pursuant to the provisions or paragraph 3 hereof.

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, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance to ten percent. 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 net oil or gas acreage 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but Lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operation be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if Lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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 pipelines 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 their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, 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, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as Lessee has been furnished with evidence satisfactory to Lessee as to the persons entitled to such sums. 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 royalty or shut-in royalty due from such Lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which Lessee or any assignee thereof shall properly comply or make such payments.

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 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 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 to apply royalties and shut-in royalties payable 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, 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 or his 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 shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

THE WILLIAM JEFF GLENN AND LORA NELL SMITH GLENN REVOCABLE TRUST DATED FEBRUARY 13, 1992

*William Jeff Glenn*  
BY: WILLIAM JEFF GLENN, TRUSTEE

*Lora Nell Glenn*  
BY: LORA NELL GLENN, TRUSTEE

Tax I.D. No. [Redacted]

[Redacted]

T Verne Dwyer  
500 West Wall  
Midland TX  
79701

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF NEW MEXICO

COUNTY OF Santa Fe

The foregoing instrument was acknowledged before me this 16<sup>th</sup> day of October, 2003, by WILLIAM JEFF GLENN AND LORA NELL GLENN, in the capacity herein stated.

My Commission Expires 2-20-04

Barbara Barris  
Notary Public, State of New Mexico

Printed Name Barbara Barris



RECEPTION NO: 0314331 STATE OF  
NEW MEXICO, COUNTY OF EDDY  
RECORDED 11/17/2003 10:13 AM  
BOOK 0530 PAGE 0728 B. Mound  
JEAN BLENDEN, COUNTY CLERK



## OIL &amp; GAS LEASE

THIS AGREEMENT made this 20<sup>th</sup> day of October, 2003, between KENNETH MARK SMITH A/K/A KENNETH M. SMITH, AND WIFE, PATSY LOU SMITH, of 267 Smith Ranch Road, Hobbs, NM 88240, herein called "Lessor" (whether one or more) and T. VERNE DWYER, 506 West Wall, Suite 310, Midland, Texas 79701, "Lessee":

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby 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, waters, other fluids, and air into subsurface strata laying pipelines, 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 EDDY COUNTY, NEW MEXICO, to-wit:

## TOWNSHIP 22 SOUTH, RANGE 30 EAST

## SECTION 24: SW/4 NW/4

Said land is estimated to comprise 40.00 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 three (3) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 3/16<sup>th</sup> of that produced and saved from said land, same to be delivered at the wells or to the credit of Lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 3/16<sup>th</sup> of the gas used, provided that on gas sold on or off the premises, the royalties shall be 3/16<sup>th</sup> 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 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 shut-in royalty equal to \$1.00 per net acre of Lessor's gas 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 shall 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. The payment or tender of royalties or shut-in royalties may be made by check or draft. Any timely payment or tender of 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 or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if Lessee shall correct such error within 30 days after Lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable Lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contracted entered into in good faith by Lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event Lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, Lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and Lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve Lessee of the obligation to pay royalties on actual production pursuant to the provisions of paragraph 3 hereof.

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, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance to ten percent. 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 on 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 net oil or gas acreage 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but Lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operation be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if Lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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 pipelines 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 their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, 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, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as Lessee has been furnished with evidence satisfactory to Lessee as to the persons entitled to such sums. 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 royalty or shut-in royalty due from such Lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which Lessee or any assignee thereof shall properly comply or make such payments.

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 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 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 to apply royalties and shut-in royalties payable 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, 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 or his 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 shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

  
KENNETH MARK SMITH

  
PATSY LOU SMITH

T. Verne Dwyer  
506 West Wall Ste 310  
Midland TX 79701

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF NEW MEXICO

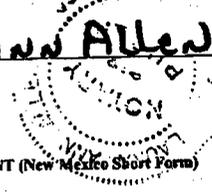
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 6<sup>th</sup> day of November, 2003, by KENNETH MARK SMITH.

My Commission Expires 5-7-2006

Laura Ann Allen  
Notary Public, State of New Mexico

Printed Name LAURA ANN ALLEN



INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF NEW MEXICO

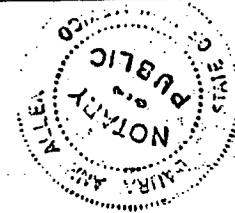
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 6<sup>th</sup> day of November, 2003, by PATSY LOU SMITH.

My Commission Expires 5-7-2006

Laura Ann Allen  
Notary Public, State of New Mexico

Printed Name LAURA ANN ALLEN



RECEPTION NO: 0314596 STATE OF  
NEW MEXICO, COUNTY OF EDDY  
RECORDED 11/24/2003 10:33 AM  
BOOK 0531 PAGE 0472 E. Ruiz  
JEAN BLENDE, COUNTY CLERK



# OIL & GAS LEASE

THIS AGREEMENT made this 2<sup>nd</sup> day of October, 2003, between WILLIAM C. SMITH A/K/A WILLIAM CREED SMITH, AND WIFE, NANCY SMITH, of P.O. Box 727, Lovington, NM 88260, herein called "Lessor" (whether one or more) and T. VERNE DWYER, 500 West Wall, Suite 310, Midland, Texas 79701, "Lessee":

1. Lessor, in consideration OFTEN AND OTHER DOLLARS in hand paid, receipt of which is hereby 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, waters, other fluids, and air into subsurface strata laying pipelines, 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 EDDY COUNTY, NEW MEXICO, to-wit:

## TOWNSHIP 22 SOUTH, RANGE 30 EAST

### SECTION 24: SW/4 NW/4

Said land is estimated to comprise 40.00 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 three (3) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 3/16<sup>th</sup> of that produced and saved from said land, same to be delivered at the wells or to the credit of Lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 3/16<sup>th</sup> of the gas used, provided that no gas sold on or off the premises, the royalties shall be 3/16<sup>th</sup> 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 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 shut-in royalty equal to \$1.00 per net acre of Lessor's gas 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 shall 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. The payment or tender of royalties or shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made is a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if Lessee shall correct such error within 30 days after Lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable Lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contracts entered into in good faith by Lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event Lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, Lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and Lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve Lessee of the obligation to pay royalties on actual production pursuant to the provisions of paragraph 3 hereof.

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, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance to ten percent. 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 on 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 net oil or gas acreage 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but Lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operation be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if Lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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.

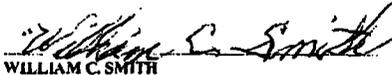
7. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all 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 pipelines 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.

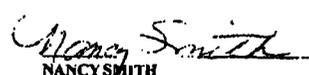
8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, 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, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his heirs, executor or administrator until such time as Lessee has been furnished with evidence satisfactory to Lessee as to the persons entitled to such sums. 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 royalty or shut-in royalty due from such Lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which Lessee or any assignee thereof shall properly comply or make such payments.

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 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 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 to apply royalties and shut-in royalties payable 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, 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 or his 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 shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

  
WILLIAM C. SMITH

  
NANCY SMITH

T. Verne Dwyer  
500 West Wall  
Suite 310  
Midland, TX  
79701

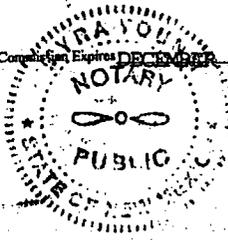
INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF NEW MEXICO

COUNTY OF LEA

The foregoing instrument was acknowledged before me this 14th day of OCTOBER, 2003, by WILLIAM C. SMITH.

My Commission Expires DECEMBER 11, 2005



Myra Young  
Notary Public, State of New Mexico  
Printed Name MYRA YOUNG

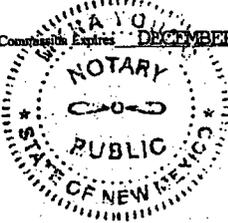
INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF NEW MEXICO

COUNTY OF LEA

The foregoing instrument was acknowledged before me this 14th day of OCTOBER, 2003, by NANCY SMITH.

My Commission Expires DECEMBER 11, 2005



Myra Young  
Notary Public, State of New Mexico  
Printed Name MYRA YOUNG

RECEPTION NO: 0314330 STATE OF  
NEW MEXICO, COUNTY OF EDDY  
RECORDED 11/17/2003 10:11 AM  
BOOK 0530 PAGE 0726 *B. Blunden*  
JEAN BLENDE, COUNTY CLERK



**District I**  
1625 N. French Dr., Hobbs, NM 88240  
**District II**  
1301 W. Grand Ave., Artesia, NM 88210  
**District III**  
1000 Rio Brazos Rd., Aztec, NM 87410  
**District IV**  
1220 S. St Francis Dr., Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals and Natural Resources  
Oil Conservation Division  
1220 S. St Francis Dr.  
Santa Fe, NM 87505

Form C-

**APPLICATION FOR PERMIT TO DRILL**

Operator Name and Address DEVON ENERGY PRODUCTION COMPANY, LP 20 N. Broadway Oklahoma City, OK 73102		OGRID Number 6137
		API Number 30-015-33248
Property Code 33470	Property Name Apache 24 Fee	Well No. 006

**Surface Location**

UL or Lot	Section	Township	Range	Lot Idn	Feet From	N/S Line	Feet From	E/W Line	County
E	24	22S	30E	E	1980	N	660	W	Eddy

**Proposed Pools**

QUAHADA RIDGE;DELAWARE, SOUTHEAST 50443

Work Type New Well	Well Type OIL	Cable/Rotary	Lease Type Private	Ground Level Elevation 3366
Multiple N	Proposed Depth 7900	Formation Delaware	Contractor	Spud Date 02/01/2004

**Proposed Casing and Cement Program**

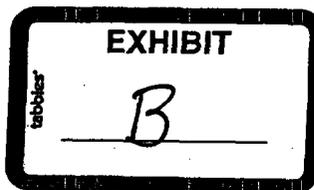
Type	Hole Size	Casing Size	Casing Weight/ft	Setting Depth	Sacks of Cement	Estimated TOC
Surf	17.5	13.375	48	625	600	0
Int1	11	8.625	32	3800	1000	0
Prod	7.875	5.5	15.5	7900	1300	0

**Casing/Cement Program: Additional Comments**

13 3/8 cmt lead w/350sx Class C & tail w/250 sx Class C, circ to surface 8 5/8 cmt lead w/800 sx Class C & tail w/200 sx Class C, circ to surface, 5 1/2 cmt lead w/430 sx Class C & tail w/300 sx Class C & Lead w/450sx Class C & tail w/175sx Class C thru DV tool @4000, circ to surface No Hydrogen sulfide or other hazardous gases or fluids have been encountered, reported or are known to exist at this depth in this area

**Proposed Blowout Prevention Program**

Type	Working Pressure	Test Pressure	Manufacturer
Double Ram	3000	3000	
Annular	2000	2000	



I hereby certify that the information given above is true and complete to the best of my knowledge and belief.		<b>OIL CONSERVATION DIVISION</b>	
Electronically Signed By: Karen Cottom		Electronically Approved By: Bryan Arrant	
Title: Operations Technician		Title: Geologist	
Date: 12/17/2003		Approval Date: 02/19/2004	Expiration Date: 02/19/2005
Phone: 405-228-7512		Conditions of Approval: There are conditions. See Attached.	

Form 3160-3  
(August 1999)UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENTFORM APPROVED  
OMB No. 1004-0136  
Expires November 30, 2000

## APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NMNM69051
1b. Type of Well: <input checked="" type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input type="checkbox"/> Other <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name
2. Name of Operator DEVON ENERGY PRODUCTION CO LP Contact: LINDA GUTHRIE E-Mail: linda.guthrie@dvn.com		7. If Unit or CA Agreement, Name and No.
3a. Address 20 NORTH BROADWAY, STE 1500 OKLAHOMA CITY, OK 73102	3b. Phone No. (include area code) Ph: 405.228.8209 Fx: 405.552.1319	8. Lease Name and Well No. APACHE 24 FEDERAL 7
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface SWNW 1470FNL 950FWL At proposed prod. zone NENW 598FNL 2059FWL		9. API Well No.
14. Distance in miles and direction from nearest town or post office* APPROX 46 MILES WEST OF JAL NM		10. Field and Pool, or Exploratory QUEHADA RIDGE SOUTHEAST DEL
15. Distance from proposed location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any)	16. No. of Acres in Lease 440.00	11. Sec., T., R., M., or Blk. and Survey or Arca Sec 24 T22S R30E Mer NMP SME: BLM
17. Spacing Unit dedicated to this well 40.00	18. Distance from proposed location to nearest well, drilling, completed, applied for, on this lease, ft.	12. County or Parish EDDY
19. Proposed Depth 8115 MD 7850 TVD	20. BLM/BIA Bond No. on file	13. State NM
21. Elevations (Show whether DF, KB, RT, GL, etc.) 3354 GL	22. Approximate date work will start 06/15/2004	23. Estimated duration 15 DAYS

## 24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, shall be attached to this form:

- Well plat certified by a registered surveyor.
- A Drilling Plan.
- A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).
- Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- Operator certification.
- Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature (Electronic Submission)	Name (Printed/Typed) LINDA GUTHRIE	Date 05/11/2004
Title REGULATORY SPECIALIST		
Approved by (Signature)	Name (Printed/Typed)	Date
Title	Office	

Application approval does not warrant or certify the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.  
Conditions of approval, if any, are attached.

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

Additional Operator Remarks (see next page)

Electronic Submission #30592 verified by the BLM Well Information System  
For DEVON ENERGY PRODUCTION CO LP, sent to the Carlsbad

\*\* OPERATOR-SUBMITTED \*\* OPERATOR-SUBMITTED \*\* OPERATOR-SUBMITTED \*\*

**Additional Operator Remarks:**

Devon Energy proposes to drill a directional Delaware well to 7850 TD for commercial quantities of oil and gas. If the well is deemed non commercial, the well bore will be plugged and abandoned per Federal regulations. Devon Energy Production Company, LP will drill the well per the Master Drilling and Surface Use Program submitted for the Quahada Ridge, SE Field.

Directions: From the junction of Co. Rd. 802 and State Hwy 128, go north on 802 (WIPP Road) for approx. 5.0 miles to lease road; then west on lease road for approx 2.5 miles to a point on the proposed location.

No new access road is proposed for this location.

APD Form

2447A  
STRAIGHT HOLE  
OJL - FEE  
TDPO

District I  
1625 N. French Dr., Hobbs, NM 88240  
District II  
1301 W. Grand Ave., Artesia, NM 88210  
District III  
1000 Rio Brazos Rd., Aztec, NM 87410  
District IV  
1220 S. St Francis Dr., Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals and Natural Resources  
Oil Conservation Division  
1220 S. St Francis Dr.  
Santa Fe, NM 87505

Form C-101  
Permit 1519

**APPLICATION FOR PERMIT TO DRILL**

Operator Name and Address DEVON ENERGY PRODUCTION COMPANY, LP 20 N. Broadway Oklahoma City, OK 73102		OGRID Number 6137
		API Number
Property Code	Property Name APACHE 24 FEE	Well No. 007A

**Surface Location**

UL or Lot	Section	Township	Range	Lot Idn	Feet From	N/S Line	Feet From	E/W Line	County
E	24	22S	30E		1460	N	1150	W	Eddy

**Proposed Pools**

WILDCAT;DEVONIAN (GAS) 96061

Work Type New Well	Well Type Gas	Cable/Rotary	Lease Type Private	Ground Level Elevation 3355
Multiple N	Proposed Depth 15500	Formation Devonian	Contractor	Spud Date 11/15/2004

**Proposed Casing and Cement Program**

Type	Hole Size	Casing Size	Casing Weight/ft	Setting Depth	Sacks of Cement	Estimated TOC
Surf	20	16	65.4	625	700	0
Intl	14.75	10.75	40.5	3800	2000	0
Prod	9.5	7.625	33.7	12050	2000	0
Liner1	6.5	5.5	17	15500	350	

**Casing/Cement Program: Additional Comments**

16 - Cmt lead w/450 sx Class C & tail w/ 250 sx Class C, circ to surf, 10 3/4 - cmt lead w/ 1700 sx Class C & tail w/ 300 sx Class C, circ to surface, 7 5/8 - cmt lead w/ 800 sx Cl C, tail w/ 400 sx Cl C, lead w/600 sx Cl C & tail w/200 sx thru DV tool at 4000, 5 1/2 liner cmt w/ 350 sx Cl C. Hydrogen Sulfide gas may be present in the Devonian. H2S Contingency plan will be on location. 0-625 mud wt 8.4 - 8.8 vis 29-36 NC filtrate fresh water 625-3800 mud wt 8.5-10.0 vis 29-32 NC filtrate Brine 3800-12050 mud wt 9.0 - 12.5 vis 34-38 10 cc, mud up at 10,000 12050-15,500 mud wt 8.4, vis

**Proposed Blowout Prevention Program**

Type	Working Pressure	Test Pressure	Manufacturer
Double Ram	10000	10000	
Annular	5000	5000	

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.		<b>OIL CONSERVATION DIVISION</b>	
Electronically Signed By: Linda Guthrie		Electronically Approved By:	
Title: Regulatory Specialist		Title:	
Date: 09/16/2004	Phone: 405-228-8209	Approval Date:	Expiration Date:
		Conditions of Approval: No Conditions	

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

APPLICATION OF DEVON ENERGY PRODUCTION COMPANY, L.P. FOR AN  
ORDER AUTHORIZING THE DRILLING OF A WELL IN THE POTASH AREA,  
EDDY COUNTY, NEW MEXICO.

CASE NO. \_\_\_\_\_

AFFIDAVIT OF KENNETH SMITH

I, Kenneth Smith, being first duly sworn upon my oath, state as follows:

1. I am over the age of twenty-one years and have personal knowledge of the facts contained in this Affidavit. The facts contained in this Affidavit are true and accurate.
2. I am the owner of the surface and the minerals located at the SW/4 NW/4 in Section 24, Township 22 South, Range 30 East, NMPM, Eddy County, New Mexico.
3. I signed an oil and gas lease on October 20, 2003, which allows Devon Energy Production Company, L.P. ("Devon") to develop the oil and gas under said land.
4. As this is the only lease for minerals, I remain the owner of any potash minerals in the SW/4 NW/4 of Section 24.
5. I understand that Devon proposes to drill wells known as the Apache 24 Fee Well No. 6, No. 7 and No. 7A on the SW/4 NW/4 of Section 24.
6. It is my intention as owner of the surface and minerals in said area, to have the oil and gas minerals developed first and in preference to any potash reserves underlying



my land and I therefore support Devon's application for the drilling of the Apache 24 Fee Wells No. 6, 7, and 7A.

7. The attached Exhibit A is a true and correct copy of my agreement with Devon.

DATED this 22 day of Nov., 2004.

*Kenneth Smith*  
KENNETH SMITH

STATE OF NM )  
 ) ss.  
COUNTY OF Lea )

Subscribed and sworn to before me this 22<sup>nd</sup> day of NOV, 2004  
by Affiant Name.

*Linda K. Mahoney*  
Notary Public





April 12, 2004

IMC Potash Carlsbad Inc.  
P. O. Box 71  
1361 Potash Mines Road  
Carlsbad, New Mexico 88221-0071  
505.887.2871 x32

Karen Cottom  
Engineering Technician  
Devon Energy Production Company, L.P.  
20 North Broadway  
Oklahoma City, Oklahoma 73102-8260

*Ken -  
FYI  
rec'd this  
today - Linda  
Guthrie*

Dear Ms. Cottom:

IMC Potash Carlsbad Inc. objects to the location of Devon Energy's Application to Drill the Apache 24 Fee #6, 1980' FNL, 660' FWL, Unit E Section 24, Township 22 South, Range 30 East, NMPM. This location is in an area clearly designated as measured ore by the BLM, and is in IMC's LMR containing valuable potash ore. IMC's 5 year mine plan shows we expect to mine within 1/4 mile of this location in 2007.

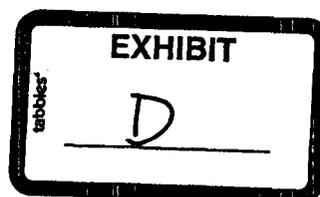
Drilling the well applied for by Devon definitely constitutes a hazard to proposed mining in this area.

IMC Potash Carlsbad Inc. objects the drilling of a well at this location.

Sincerely,

Dan Morehouse  
Superintendent,  
Mine Engineering and Construction

cc: Don Purvis                      Charlie High  
     Joe Lara                         Craig Cranston  
     Tim Gum                         Joe Mraz





August 30, 2004

IMC Potash Carlsbad Inc.  
P. O. Box 71  
1361 Potash Mines Road  
Carlsbad, New Mexico 88221-0071  
505.887.2871

Linda Guthrie  
Devon Energy Production Company, L.P.  
20 North Broadway  
Oklahoma City, Oklahoma 73102-8260

Dear Ms. Guthrie:

IMC Potash Carlsbad Inc. objects to the location of Devon Energy's Application to Drill the Apache 24 Fee #7, 1460' FNL, 1150' FWL, Unit E, Section 24, Township 22 South, Range 30 East, NMPM. This location is in an area clearly designated as measured ore by the BLM, and is in IMC's LMR containing valuable potash ore. IMC's 5 year mine plan shows we expect to mine within approximately 1/4 mile of this location in 2007. Although this Unit E is privately held, there is no point within this tract that is outside the 1/4 mile buffer required by R-111-A and any well within the tract would constitute a hazard to the mining of federally owned potash reserves currently under lease to IMC.

Drilling the well applied for by Devon definitely constitutes a hazard to proposed mining in this area. It will expose the men and women working underground to greatly increased hazards and therefore should not be allowed.

IMC Potash Carlsbad Inc. hereby objects to the drilling of a well at this location.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Morehouse", written over a horizontal line.

Dan Morehouse  
Mine Engineering Superintendent

cc: Don Purvis                      Charlie High  
Joe Lara                              Craig Cranston  
Joe Mraz



# NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

**BILL RICHARDSON**

Governor

**Joanna Prukop**

Cabinet Secretary

**Mark E. Fesmire, P.E.**

Director

**Oil Conservation Division**

September 20, 2004  
Devon Energy Production Company, L.P.  
20 North Broadway  
Oklahoma City, OK 73102  
Attn: Lind Guthrie or To Whom It May Concern

**RE: Devon Energy Production Company, L.P.  
Apache 24 Fee # 6, located in Unit E (1980' FNL & 660' FWL) of  
Section 24, Township 22 South, Range 30 East, Eddy County, New Mexico  
API # 30-015-33248**

Dear Ms. Guthrie or To Whom It may Concern,

In regards to the above referenced well, the New Mexico Oil Conservation Division (NMOCD) rescinds said application to drill (APD) per the letter of objection from IMC which Devon Energy received dated April 12, 2004.

I apologize for the lateness of this letter of notification.

Please call if you have any questions regarding this matter,

Respectfully yours,

Bryan G. Arrant

PES

CC: Tim Gum, District Supervisor-Artesia  
Dan Morehouse, Mine Engineering Superintendent for IMC  
Well File



10/12/2004 11:29 FAX  
SUNNY ENERGY  
10/12/2004

**Guthrie, Linda**

---

**From:** OCD Online System Administrator [ocdonline@state.nm.us]  
**Sent:** Monday, September 20, 2004 11:49 AM  
**To:** Guthrie, Linda  
**Subject:** OCD Permit Rejection

OCD has REJECTED the following permit:

Permit Type: APD  
ULSTR: E-24-22S-30E  
Well Name: APACHE 24 FEE #007A

Please view the comments for this permit at OCD Online:  
<http://www.emnrd.state.nm.us/ocdPermitting/ViewAPD.aspx?PermitID=1519&Version=OCD>

Confidentiality Notice: This e-mail, including all attachments is for the sole use of the intended recipient(s) and may contain confidential and privileged information. Any unauthorized review, use, disclosure or distribution is prohibited unless specifically provided under the New Mexico Inspection of Public Records Act. If you are not the intended recipient, please contact the sender and destroy all copies of this message. --  
This email has been scanned by the MessageLabs Email Security System.

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

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

CASE NO. 10490  
ORDER NO. R-9990

APPLICATION OF NORANDA MINERALS, INC. REQUESTING THE DIVISION TO  
RESCIND OR DENY AN APPLICATION TO DRILL A CERTAIN WELL IN THE  
OIL/POTASH AREA, LEA COUNTY, NEW MEXICO

ORDER OF THE DIVISION

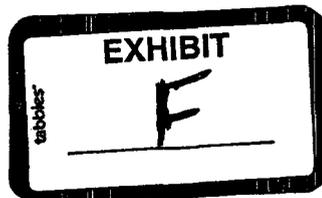
BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 3 and 4, 1992 and at 8:00 a.m. on October 26, 1992 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 18th day of October, 1993, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law and in accordance with New Mexico Oil Conservation Division/Commission Order No. R-111-P, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) On April 1, 1992, Yates Petroleum Corporation ("Yates") filed an "Application for Permit to Drill" its Snyder "AKY" Well No. 1 at a standard oil well location 2310 feet from the South line and 990 feet from the West line (Unit L) of Section 1, Township 20 South, Range 32 East, NMPM, to test the Delaware formation, Lea County, New Mexico.
- (3) On or about April 15, 1992, Noranda Minerals, Inc. (Noranda) filed with the Division an objection to said Yates' "Application for Permit to Drill" the Snyder "AKY" Well No. 1.



(4) Noranda, the applicant in this matter, under those portions of the "New Mexico Oil and Gas Act", Sections 70-2-1 through 70-2-36, NMSA (1978) pertaining to "potash", seeks an order of the Division rescinding or denying the approval by the Division of the aforementioned "Application for Permit to Drill" which would authorize Yates to drill its Snyder "AKY" Well No. 1 at a standard oil well location 2310 feet from the South line and 990 feet from the West line (Unit L) of Section 1, Township 20 South, Range 32 East, NMPM, to test the Delaware formation, Lea County, New Mexico.

(5) Snyder Ranches, Inc. ("Snyder Ranches") is the current fee owner of both the oil and gas minerals and potash minerals underlying the SW/4 NE/4, the S/2 NW/4, the NW/4 SW/4 and the SE/4 of said Section 1 (the "Snyder Ranches fee acreage"). Previously, Snyder Ranches sold the surface but retained the mineral estate for the Snyder Ranches fee acreage. Snyder Ranches appeared at the hearing in opposition to Noranda and in support of Yates.

(6) Yates as the current lessee of a valid oil and gas lease from Snyder Ranches for the Snyder Ranches fee acreage in said Section 1 and proposed operator of the Snyder "AKY" Well No. 1, appeared at the hearing and presented evidence in opposition to Noranda.

(7) Noranda is the current lessee of a valid potash lease with the State of New Mexico for all of Section 2, Township 20 South, Range 32 East, NMPM and for all of Section 36, Township 19 South, Range 32 East, NMPM. Noranda is also the current lessee of a valid federal potash lease with the United States Bureau of Land Management for the balance of said Section 1, all of Section 11 and the N/2 and SW/4 of Section 12, Township 20 South, Range 32 East, NMPM, all of Section 35, Township 19 South, Range 32 East, NMPM, all of Section 31, Township 19 South, Range 33 East, NMPM, and all of Sections 6 and 7, Township 20 South, Range 33 East, NMPM, all in Lea County, New Mexico.

(8) The proposed Yates well is within the designated oil/potash area as described in the New Mexico Oil Conservation Division/Commission Order No. R-111-P ("Order R-111-P").

(9) Order R-111-P provides that for wells on State Lands or on Federal Lands, the Division shall inquire of the New Mexico State Land Office ("SLO") or the United States Bureau of Land Management ("BLM"), as the case may be, as to whether the lands involved are within an area designated a Life of Mine Reserve ("LMR").

(10) According to Order R-111-P, an LMR determination by either the SLO or the BLM is within the exclusive authority of those agencies and such a determination by them is binding upon the Division.

(11) However, Order R-111-P makes no provision for an LMR determination when the proposed well is located on fee lands, nor does Order R-111-P authorize a potash lessee to designate an LMR over lands not leased to that potash lessee.

(12) While this particular matter is yet unresolved, it is a moot issue in this particular instance in that the proposed well location is within the half-mile buffer zone of a declared and recognized LMR filed by Noranda and designated by both the BLM and SLO.

(13) Sub-part G(e)3 of the Rules and Regulations Governing said oil/potash area, Order R-111-P, provides that;

application to drill in the LMR area, including buffer zones, may be approved only by mutual agreement of lessor and lessees of both potash and oil and gas interests".

(14) Snyder Ranches, as the owner of the unleased potash underlying its acreage, has consented to Yates drilling the Snyder "AKY" Well No. 1 and desires to have its oil and gas minerals developed first and in preference to any potash reserves underlying its fee property.

(15) Yates has followed the provisions of Order R-111-P, sub-part G(e)2, which requires it to provide notice of its intent to drill to all potash lessees within one mile of the proposed well location.

(16) The subject Noranda Minerals, Inc. application should therefore be denied and the Yates Petroleum Corporation's "Application for Permit to Drill" the Snyder "AKY" Well No. 1 at a standard oil well location 2310 feet from the South line and 990 feet from the West line (Unit L) of Section 1, Township 20 South, Range 32 East, NMPM, to test the Delaware formation, Lea County, New Mexico, remain in full force and effect.

(17) At the time of the hearing Yates presented two casing and cementing plans for the subject well as shown in Exhibits 12 and 12A. The proposal submitted in Exhibit 12A calls for four strings of casing all to be cemented back to surface:

20 inch to 1150 feet;  
13-3/8 inch to 3100 feet;  
8-5/8 inch to 4500 feet; and,  
5-1/2 inch to 8000 feet.

This proposed casing and cementing program meet the criteria for wells drilled and completed to the Delaware formation in the oil/potash area, as provided in sub-part D of Order R-111-P.

(18) Exhibit No. 12A in this case should be incorporated by reference into this order.

(19) Subsequent to the hearing both Yates and Noranda requested postponement of a decision in this matter because of a possible financial transaction between Noranda and Horizon Potash Corporation of Carlsbad, New Mexico ("Horizon") and the concurrent negotiations for a mutual agreement of understanding between Yates, Noranda, and Horizon. Such an agreement and transaction could have resulted in a dismissal of this application.

(20) In late April, 1993 the Division was notified that such discussions and possible transaction had terminated and that these proceedings were to resume. Also, at that time both Yates and Noranda submitted the required post hearing findings and memoranda requested by the Division at the conclusion of the hearings. Such information was not received from the third party in this case, Snyder Ranches, until May 26, 1993.

(21) By correspondence dated April 22, 1993, the applicant, Noranda requested this matter be reopened to consider surface ownership of the subject fee acreage as described in Finding Paragraph No. (5), above, and to allow the submission of an Exhibit designated "No. 38", which is a "Subsidence Waiver Agreement" between Kenneth Smith, Inc. and Noranda.

(22) As provided in sub-part H of Order R-111-P, a representative of Noranda or a representative of any potash lessee within one mile of the Snyder "AKY" Well No. 1 may be present during drilling, cementing, casing, and plugging of said well to observe conformation with all requirements of Order R-111-P and of this order.

(23) Many of the same technical issues such as waste, safety, and the methodology of determining LMR's brought out in this case paralleled those of said Commission Cases 10446 and 10447. The fundamental difference still remains however that all parties owning potash and oil and gas interest underlying a particular lease reached an agreement on the extraction of their minerals. Further, the Division's potash/oil and gas rules provided the opportunity for those lessors owning potash leases within a mile of the proposed well to present evidence and air its concerns and gives them the opportunity to witness the critical operations over the life of the subject well.

**IT IS THEREFORE ORDERED THAT:**

(1) The application of Noranda Minerals Inc. ("Noranda") to rescind or deny approval of an "Application for Permit to Drill" authorizing Yates Petroleum Corporation ("Yates") to drill its Snyder "AKY" Well No. 1 at a standard oil well location 2310 feet from the South line and 990 feet from the West line (Unit L) of Section 1, Township 20 South, Range 32 East, NMPM, to test the Delaware formation, Lea County, New Mexico, is hereby denied.

**IT IS FURTHER ORDERED THAT:**

(2) The Yates Petroleum Corporation "Application for Permit to Drill" said well is hereby in full force and effect.

(3) The Division shall take administrative notice of Noranda's correspondence to the Division dated April 22, 1993 and Yates' response; however, such Motion to Reopen and Supplement the Record in this case is hereby denied.

(4) All provisions of Commission Order R-111-P applicable to the casing, actual drilling, cementing and plugging of a deep well within the "Designated Potash Area" shall be strictly adhered to.

**FURTHER**

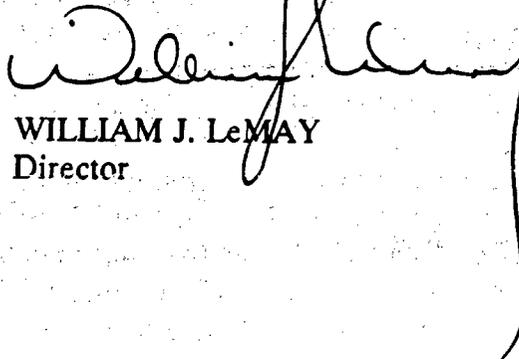
(5) Yates shall cause its Snyder "AKY" Well No. 1 to be cased and cemented in the manner described in Finding Paragraph No. (17), above. Additionally Yates' Exhibit No. 12A presented at the time of the hearing shall be incorporated by reference into this Order.

Case No. 10490  
Order No. R-9990  
Page 6

---

(6) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION



WILLIAM J. LeMAY  
Director

SEAL