

**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:**

**APPLICATION OF READ & STEVENS, INC. FOR
COMPULSORY POOLING, LEA COUNTY, NEW
MEXICO.**

Case No. ~~13,152~~

14,152

VERIFIED STATEMENT OF ROBERT H. WATSON

Robert H. Watson, being duly sworn upon his oath, deposes and states:

1. I am a landman for Read & Stevens, Inc., and have personal knowledge of the matters stated herein.

2. Pursuant to Division Rule 1210.A(1)(b), the following information is submitted in support of the compulsory pooling application filed herein:

(a) No opposition is expected because the working interest owners being pooled have been contacted regarding the proposed well, but have simply not decided whether to join in the well, or assign or farm out their interests.

(b) A plat outlining the spacing unit being pooled is attached hereto as Exhibit A. Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying Lots 1-4 and the S $\frac{1}{2}$ N $\frac{1}{2}$ (the N $\frac{1}{2}$ equivalent) of Section 5, Township 20 South, Range 34 East, N.M.P.M., Lea County, New Mexico, and in the following manner:

(i) Lots 3, 4, and the S $\frac{1}{2}$ NW $\frac{1}{4}$ (the NW $\frac{1}{4}$ equivalent) to form a standard 160.05 acre gas spacing and proration unit for any formations and/or pools developed on 160 acre spacing within that vertical extent; and

(ii) The N $\frac{1}{2}$ to form a standard 320.20 acre gas spacing and proration unit for any formations and/or pools developed on 320 acre spacing within that vertical extent, including the Undesignated Quail Ridge-Morrow Gas Pool.

The unit is to be designated to the proposed Highway 5 Fed. Com. Well No. 1, to be drilled at an orthodox location in Lot 4 (the NW $\frac{1}{4}$ NW $\frac{1}{4}$) of Section 5.

Oil Conservation Division
Case No. _____
Exhibit No. 1

(c) The parties being pooled, their working interests in the 320 acre well unit, their addresses, and a summary of the status of each party, are as follows:

<u>Owner</u>	<u>Interest</u>	<u>Status</u>
Ard Oil, Ltd. PH 5 222 West 4 th Street Fort Worth, Texas 76102	3.574814%	No response
Francis H. Hudson, Trustee of Lindy's Living Trust Suite 1005A 6300 Ridglea Place Fort Worth, Texas 76116	7.149628%	May farm out to other interest owners
Moore & Shelton Co., Ltd. P.O. Box 3070 Galveston, Texas 77552	4.219453%	Verbal agreement to farm out

All of the above addresses are current.

(d) Copies of the proposal letters sent to the uncommitted working interest owners are attached hereto as Exhibit B. In addition, several phone calls have been made to the uncommitted owners.

(e) Pursuant to Division rules, applicant requests that a 200% risk charge be assessed against the non-consenting interest owner.

(f) A copy of the Authority for Expenditure for the proposed well is attached hereto as Exhibit C. The drilling and completion costs set forth therein are fair and reasonable, and are comparable to those of other wells of this depth drilled in this area of Lea County.

(g) Overhead charges of \$7,000 /month for a drilling well, and \$700. 'month for a producing well, are requested. These rates are fair and reasonable, and are in line with rates charged by other operators in this area for well of this depth. Applicant also requests that the order contain a provision adjusting the rates pursuant to the COPAS accounting procedure.

(h) Applicant requests that it be designated operator of the well.

VERIFICATION

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

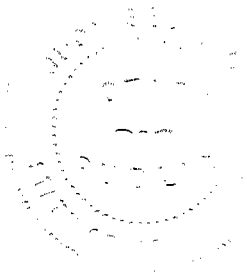
Robert H. Watson, being duly sworn upon his oath, deposes and states that: He is a landman for Read & Stevens, Inc.; he is authorized to make this verification on its behalf; he has read the foregoing statement, and knows the contents thereof; and the same is true and correct to the best of his knowledge, information, and belief.

Robert H. Watson
Robert H. Watson

SUBSCRIBED AND SWORN TO before me this 18th day of July, 2008 by Robert H. Watson.

Judy Sedillo
Notary Public

My Commission Expires: 6/13/2012



DISTRICT I
1625 N. FRENCH DR., HOBBBS, NM 88240

DISTRICT II
1301 W. GRAND AVENUE, 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 Department

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name HIGHWAY 5 FEDERAL COM	Well Number 1
OGRID No.	Operator Name READ & STEVENS, INC	Elevation 3627'

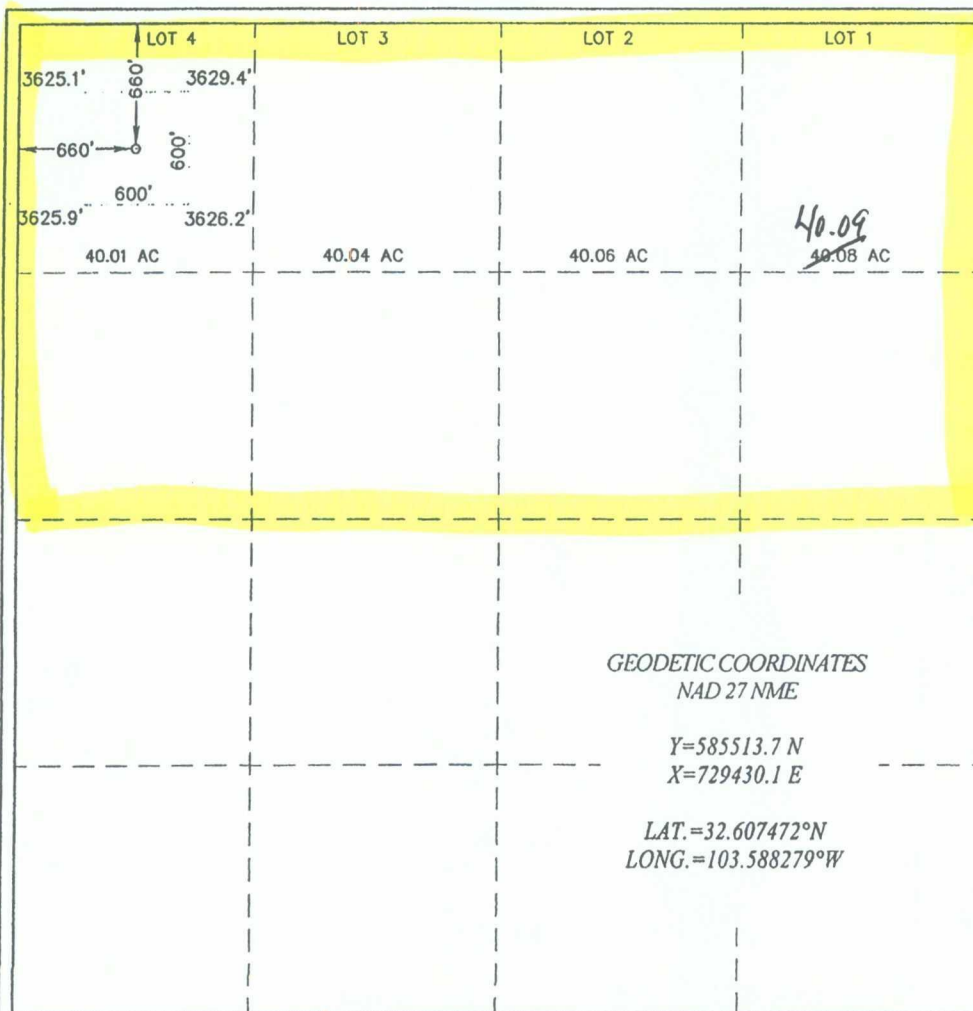
Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
4	5	20-S	34-E		660	NORTH	660	WEST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres		Joint or Infill	Consolidation Code	Order No.					

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



OPERATOR CERTIFICATION

I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

Signature _____ Date _____

Printed Name _____

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Date Surveyed: APR 11, 2008
Signature & Seal of Professional Surveyor: [Signature] AR
3239

Certificate No. Gary G. Eidson 12641
Ronald J. Eidson 3239

May 20, 2008

ARD Oil, Ltd.

RE: Highway 5 Federal Com. No. 1
N/2 Section 5, T20S-R34E
Lea County, New Mexico
R&S #10,265W

Dear Owner:

Read & Stevens, Inc. (R&S) proposes to drill the subject 13,800' Morrow test at a location 660' FNL & WL of Section 5, T20S-R34E and dedicate the N/2 of Section 5 as the proration unit.

Enclosed please find the following items for your review and consideration:

- 1) Two(2) copies of our A.F.E.
- 2) One full copy of our proposed Operating Agreement and Recording Supplement to the Operating Agreement along with extra signatures pages for each.
- 3) Copy of drilling title opinion.
- 4) Communitization Agreement with two extra signature pages.

Please indicate your election in this proposed operation by signing and returning one copy of this letter along with the AFE and extra signature pages to the Operating Agreement, Recording Supplement and Communitization Agreement. Please acknowledge your signatures on the Recording Supplement and Communitization Agreement. Please furnish your election by June 20, 2008.

If you should elect not to participate, Read & Stevens hereby offers the following two options for your consideration:

- 1) Farmout your interest to R&S for a term of six months, delivering a 75% NRI leasehold.
- 2) R&S will offer to purchase all of your leasehold under the proration unit for \$500 per net acre.

The enclosed title opinion is for your files. Please review and furnish any required title curative to this office.

EXHIBIT

B

Page 2.

AFE Proposal Letter – Highway 5 Federal Com. #1

May 20, 2008

Should you have any questions, please contact this office.

Respectfully,



Robert H. Watson
Land Manager

_____ Elect to participate. AFE and signature pages enclosed.

_____ Elect to sell or farmout in lieu of participation.

_____ Elect NOT to participate.

ARD Oil, Ltd.

By: _____

Date: _____

Contacts with Ard Oil, Ltd.

- (1) Proposal Letter with AFE & JOA mailed on 5/20/2008.
- (2) Made telephone contact with Ron Grappe a week later to go over our proposal and ask if he had any questions or concerns. I also stated that if Ard Oil did not wish to participate, R&S would make an offer to either purchase the interest out-right, or purchase a term assignment of Ard Oil's interest. Mr. Grappe was non-committal about their plans.
- (3) By conversation with Randall Hudson (who represents other Hudson interests) I learned of title problems involving the Hudson Trusts 1-4. The Hudson Trusts 1, 2, & 3 hired David Vandiver (Artesia attorney) to draft assignments between the four trusts to update and cure the title defects. I left telephone messages and e-mail messages with the Ard office in an effort to keep them in the loop. Apparently there is no communication between Ard Oil and the other Hudson Trusts. I never received any response from Ard Oil.
- (4) Left telephone messages with Ard Oil office on 6/26/2008, 7/7/2008, and 7/17/2008. Mr. Grappe's secretary stated that he was busy on other matters. I never received any response to my telephone calls or e-mail messages.

May 20, 2008

Francis H. Hudson, Trustee of Lindy's Living Trust

RE: Highway 5 Federal Com. No. 1
N/2 Section 5, T20S-R34E
Lea County, New Mexico
R&S #10,265W

Dear Owner:

Read & Stevens, Inc. (R&S) proposes to drill the subject 13,800' Morrow test at a location 660' FNL & WL of Section 5, T20S-R34E and dedicate the N/2 of Section 5 as the proration unit.

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Page 2.

AFE Proposal Letter – Highway 5 Federal Com. #1

May 20, 2008

Should you have any questions, please contact this office.

Respectfully,



Robert H. Watson
Land Manager

_____ Elect to participate. AFE and signature pages enclosed.

_____ Elect to sell or farmout in lieu of participation.

_____ Elect NOT to participate.

Francis H. Hudson, Trustee of Lindy's Living Trust

By: _____

Date: _____

May 20, 2008

Moore & Shelton Company, Ltd.

RE: Highway 5 Federal Com. No. 1
N/2 Section 5, T20S-R34E
Lea County, New Mexico
R&S #10,265W

Dear Owner:

Read & Stevens, Inc. (R&S) proposes to drill the subject 13,800' Morrow test at a location 660' FNL & WL of Section 5, T20S-R34E and dedicate the N/2 of Section 5 as the proration unit.

Enclosed please find the following items for your review and consideration:

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Page 2.
AFE Proposal Letter – Highway 5 Federal Com. #1
May 20, 2008

Should you have any questions, please contact this office.

Respectfully,



Robert H. Watson
Land Manager

_____ Elect to participate. AFE and signature pages enclosed.

_____ Elect to sell or farmout in lieu of participation.

_____ Elect NOT to participate.

Moore & Shelton Company, Ltd.

By: _____

Date: _____

EXHIBIT "A"

**ATTACHED TO AND MADE A PART OF THAT CERTAIN MODEL FORM
RECORDING SUPPLEMENT TO OPERATING AGREEMENT DATED JUNE 1, 2008, BY
AND BETWEEN READ & STEVENS, INC., AS OPERATOR, AND
MAGNUM HUNTER PRODUCTION, INC., ET AL, AS NON-OPERATOR(S)**

I. CONTRACT AREA:

Township 20 South, Range 34 East, NMPM
Section 5: Lots 1,2,3 & 4; S/2N/2 (N/2)
Limited to depths below 5000' subsurface
Containing 320.2 acres, more or less, in Lea County, New Mexico

II. ADDRESSES AND INTERESTS OF PARTIES TO THIS AGREEMENT:

<u>Owner Name</u>	<u>Working Interest</u>	
	<u>Before Tanks</u>	<u>After Tanks</u>
Read & Stevens, Inc.	.24987508	.21487508
Magnum Hunter Production, Inc.	.32817965	.32817965
Edward R. Hudson, Jr.	.03574814	.03574814
Zorro Partners, Ltd.	.03574814	.03574814
HOG Partnership L.P.	.09376562	.09376562
E.R. Hudson, and William A. Hudson II, Domiciliary, Foreign Personal Representatives of the Estate of Josephine T. Hudson, deceased	.03574814	.03574814
Francis H. Hudson, Trustee of Lindy's Living Trust uti dated 7-8-94, as amended	.07149628	.07149628
US Trust/Bank of America, Trustee of the Delmar Hudson Lewis Living Trust dated 9-9-02, as amended	.07149628	.07149628
Moore & Shelton Company, Ltd.	.04219453	.04219453
Ard Oil, Ltd.	.03574814	.03574814
Diamond Star Production Co., LLC	-0-	.00500000
Carolyn R. Beall	-0-	.00500000
Betty R. Young	-0-	.00500000
CLM Production Company	-0-	.00500000
Lincoln Oil & Gas, LLC	-0-	.00500000
William H. Palmer, LLC	-0-	.00500000
Robert H. Watson	-0-	.00500000
	<u>1.00000000</u>	<u>1.00000000</u>

Magnum Hunter Production, Inc.
600 N. Marienfeld - Suite 600
Midland, Texas 79701
Attn: Mr. Don McClung

E.R. Hudson Jr. and William A. Hudson II, Domiciliary
Foreign Personal Representatives of the Estate of
Josephine T. Hudson, deceased
616 Texas Street
Fort Worth, Texas 76102-4612
Attn: Mr. Randall Hudson

HOG Partnership, L.P.
5950 Cedar Springs Road - Ste. 200
Dallas, Texas 75235
Attn: Ms. Sue Raby

Read & Stevens, Inc.
P.O. Box 1518
Roswell, NM 88202

Diamond Star Production Co., LLC
P.O. Box 638
Ardmore, OK 73402-0638

Zorro Partners, Ltd.
616 Texas Street
Fort Worth, TX 76102-4612

Betty R. Young
P.O. Box 1518
Roswell, NM 88202

Francis H. Hudson, Trustee of Lindy's Living Trust
6300 Ridglea Place - Suite 1005A
Fort Worth, Texas 76116

U.S. Trust/Bank of America Private Wealth Management
500 W. 7th Street - 4th Floor
Fort Worth, Texas 76102
Attn: Mr. Larry W. Farris

Moore & Shelton Company, Ltd.
P.O. Box 3070
Galveston, Texas 77552

Ard Oil, Ltd.
222 W. 4th Street, PH-5
Fort Worth, Texas 76102
Attn: Mr. Ron Grappe

Robert H. Watson
3905 Futura
Roswell, NM 88201

Carolyn R. Beall
P.O. Box 3098
Midland, TX 79702-3098

CLM Production Company
P.O. Box 881
Roswell, NM 88202

Lincoln Oil & Gas, LLC
701 Three Cross
Roswell, NM 88201

William V. Palmer, LLC
3226 Anderson Drive
Lovington, NM 88260

III. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT:

- 1) Lessor: USA NMNM-101115
Lessee: Read & Stevens, Inc.
Date: September 1, 1998
Description: T20S-R34E, NMPM
Section 5: Lot 4 & SW/4NW/4
Containing 80.01 acres in Lea County, NM
- 2) Lessor: USA LC-065607
Lessee: Bruce K. Matlock
Date: September 1, 1948
Description: T20S-R-34-E, NMPM
Section 5: Lots 1, 2 & 3; S/2NE/4; SE/4NW/4
Containing 240.19 acres in Lea County, NM

AUTHORITY FOR EXPENDITURE
READ & STEVENS, INC.
05/27/2008

AFE: 201 DRILL & COMPLETE MISS/MORROW
Property: 010265 HIGHWAY 5 FEDERAL COM #1
Location: SEC. 5: NW/4-T20S-R34E
Operator: READ & STEVENS, INC.
Begin Date: 06/01/2008

Field:
ST/County: NM/LEA
Well Type: Gas
Obj Zones: D&C MISS/MORROW

CATEGORY	DESCRIPTION	DRY HOLE/ DRILLING	COMPLETION	RECOMPLETION	TOTAL
INTANGIBLE COSTS					
FUEL:		96,000.00	0.00	0.00	96,000.00
LOCATION PREP & DAMAGE:		65,000.00	0.00	0.00	65,000.00
MOB/DEMOB:		125,000.00	0.00	0.00	125,000.00
DRILL RATE DAYWORK:		970,000.00	0.00	0.00	970,000.00
BITS & REAMERS:		100,000.00	0.00	0.00	100,000.00
MUD & CHEMICALS:		120,000.00	5,000.00	0.00	125,000.00
WATER:	INCL. TRANSPORTATION	50,000.00	5,000.00	0.00	55,000.00
EQUIPMENT RENTALS:	SURFACE & DOWNHOLE	80,000.00	45,000.00	0.00	125,000.00
ELECTRIC LOGS:	WIRELINE	75,000.00	25,000.00	0.00	100,000.00
CORING & TESTING:		13,000.00	0.00	0.00	13,000.00
MUD LOGGING:		35,000.00	0.00	0.00	35,000.00
HAULING & FREIGHT:		10,000.00	2,000.00	0.00	12,000.00
SUPERVISION:		55,000.00	10,000.00	0.00	65,000.00
CEMENT & SERVICES:	INCL. CENT, DV, ECP, ETC.	78,000.00	85,000.00	0.00	163,000.00
CONTRACT SERVICE:	INSPECTION, BATTERY INSTALL, ETC	35,000.00	55,000.00	0.00	90,000.00
DRILLING OVERHEAD:		10,000.00	5,000.00	0.00	15,000.00
LOCATION PREPARATION & DAMAGE		0.00	45,000.00	0.00	45,000.00
PERFORATION:		0.00	12,000.00	0.00	12,000.00
ACIDIZING:		0.00	15,000.00	0.00	15,000.00
COMPLETION UNIT:		0.00	30,000.00	0.00	30,000.00
FRACTURING SERVICE:		0.00	140,000.00	0.00	140,000.00
TOTAL INTANGIBLE COSTS		1,917,000.00	479,000.00	0.00	2,396,000.00
TANGIBLE COSTS					
SURFACE CASING:		20,000.00	0.00	0.00	20,000.00
PROTECTIVE CASING:		175,000.00	0.00	0.00	175,000.00
WELLHEAD:		12,000.00	13,000.00	0.00	25,000.00
SURFACE EQUIPMENT:		10,000.00	0.00	0.00	10,000.00
OTHER TANGIBLES:		3,000.00	0.00	0.00	3,000.00
PRODUCTION CASING:		0.00	345,000.00	0.00	345,000.00
TUBING:		0.00	73,000.00	0.00	73,000.00
SUB-SURFACE EQUIPMENT:		0.00	15,000.00	0.00	15,000.00
SURFACE WELL EQUIPMENT:		0.00	15,000.00	0.00	15,000.00
FLOWLINE:		0.00	10,000.00	0.00	10,000.00
TANKAGE:		0.00	75,000.00	0.00	75,000.00
SEPARATOR:		0.00	45,000.00	0.00	45,000.00
TOTAL TANGIBLE COSTS		220,000.00	591,000.00	0.00	811,000.00
TOTAL DEVELOPMENT COSTS		2,137,000.00	1,070,000.00	0.00	3,207,000.00

EXHIBIT **C**

Initial: _____

AUTHORITY FOR EXPENDITURE
READ & STEVENS, INC.
05/27/2008

PAGE 2

AFE: 201 DRILL & COMPLETE MISS/MORROW
Property: 010265 HIGHWAY 5 FEDERAL COM #1
Location: SEC. 5: NW/4-T20S-R34E
Operator: READ & STEVENS, INC.
Begin Date: 06/01/2008

Field:
ST/County: NM/LEA
Well Type: Gas
Obj Zones: D&C MISS/MORROW

Owner: ARD3032

Owner Name: ARD OIL, LTD.

	AFE Estimate		Your Share
DRILLING	2,137,000.00	0.03574814	76,393.78
COMPLETION	1,070,000.00	0.00000000	0.00
TOTAL	\$3,207,000.00		\$76,393.78

Joint Interest Approval - It is recognized that amounts provided for herein are estimates only, and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than herein set out, including cost of Operator's Well Control & Extra Expense Insurance.

Approved by: _____

Date: _____

Tax Id:

ARD OIL, LTD.
222 W. 4TH STREET, PH-5
FORT WORTH TX 76102

AUTHORITY FOR EXPENDITURE
READ & STEVENS, INC.
05/16/2008

PAGE 2

AFE: 201 DRILL & COMPLETE MISS/MORROW
Property: 010265 HIGHWAY 5 FEDERAL COM #1
Location: SEC. 5: NW/4-T20S-R34E
Operator: READ & STEVENS, INC.
Begin Date: 06/01/2008

Field:
ST/County: NM/LEA
Well Type: Gas
Obj Zones: D&C MISS/MORROW

Owner: HUD2321 Owner Name: FRANCIS H. HUDSON, TRUSTEE OF

	AFE Estimate		Your Share
DRILLING	2,137,000.00	0.07149628	152,787.55
COMPLETION	1,070,000.00	0.00000000	0.00
TOTAL	\$3,207,000.00		\$152,787.55

Joint Interest Approval - It is recognized that amounts provided for herein are estimates only, and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than herein set out, including cost of Operator's Well Control & Extra Expense Insurance.

Approved by: _____ Date: _____

Tax Id: 452-80-8190

FRANCIS H. HUDSON, TRUSTEE OF
LINDY'S LIVING TRUST
6300 RIDGLEA PLACE, STE 1005A
FORT WORTH TX 76116

AUTHORITY FOR EXPENDITURE
READ & STEVENS, INC.
05/16/2008

PAGE 2

AFE: 201 DRILL & COMPLETE MISS/MORROW
Property: 010265 HIGHWAY 5 FEDERAL COM #1
Location: SEC. 5: NW/4-T20S-R34E
Operator: READ & STEVENS, INC.
Begin Date: 06/01/2008

Field:
ST/County: NM/LEA
Well Type: Gas
Obj Zones: D&C MISS/MORROW

Owner: MOO1934

Owner Name: MOORE & SHELTON COMPANY, L

	AFE Estimate		Your Share
DRILLING	2,137,000.00	0.04219453	90,169.71
COMPLETION	1,070,000.00	0.00000000	0.00
TOTAL	\$3,207,000.00		\$90,169.71

Joint Interest Approval - It is recognized that amounts provided for herein are estimates only, and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than herein set out, including cost of Operator's Well Control & Extra Expense Insurance.

Approved by: _____

Date: _____

Tax id: 76-0185037

MOORE & SHELTON COMPANY, L
P.O. BOX 3070
GALVESTON TX 77552