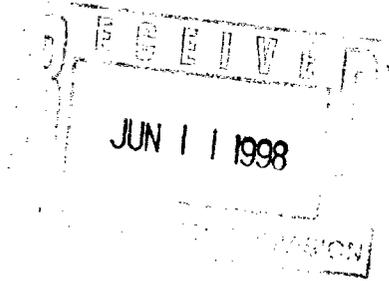


PRIMERO
OPERATING, INC.

POST OFFICE BOX 1433
ROSWELL, NEW MEXICO 88202
(505) 622-1001 FAX (505) 625-0227



May 21, 1998

Catanach
DAC
Case FILE
1/1922

New Mexico Oil Conservation Division
P. O. Box 1980
Hobbs, New Mexico 88240-1980

RE: Tilley #1
Section 26, T16S-R35E
Lea County, NM

Gentlemen:

In compliance with Order No. R-10966 of the Oil Conservation Division, please be advised that Primero Operating, Inc. has timely spud the Tilley #1 well on May 12, 1998. A copy of the Order is enclosed for your files.

Very truly yours,

PRIMERO OPERATING, INC.

A handwritten signature in cursive script that reads "LeAnn Lawlis".

LeAnn Lawlis

II
enclosure

cc: NMOCD/Santa Fe
w/enclosure

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. 11922
Order No. R-10966

APPLICATION OF BRANEX RESOURCES
INC. FOR COMPULSORY POOLING AND
UNORTHODOX GAS WELL LOCATION,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 5 and March 5, 1998, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 10th day of March, 1998, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised.

FINDS THAT:

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

(2) The applicant, Branex Resources, Inc., seeks an order pooling all mineral interests from 10,667 feet (the approximate top of the Canyon formation) to 12,658 feet (at a point within the Devonian formation) underlying the S/2 of Section 26, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, and in the following manner:

the S/2 thereby forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320 acres within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Shoe Bar-Atoka Gas Pool;

the SW/4 thereby forming a standard 160-acre gas spacing and proration unit for any and all formations and/or pools spaced on 160 acres within said vertical extent; and,

CASE NO. 11922
 Order No. R-10966
 Page -2-

the SE/4 SW/4 thereby forming a standard 40-acre spacing and proration unit for any and all formations and/or pools spaced on 40 acres within said vertical extent.

Said units are to be dedicated to the existing Kennedy & Mitchell Inc. Tilley 758 Well No. 3 (to be re-designated the Tilley Well No. 1) located at an unorthodox gas well location 330 feet from the South line and 1815 feet from the West line (Unit N) of Section 26, which is proposed to be re-entered by the applicant for the purpose of testing the Atoka and Morrow intervals.

(3) The applicant has the right to re-enter the aforesaid Kennedy & Mitchell Inc. Tilley 758 Well No. 3.

(4) There are interest owners in the proposed proration units who have not agreed to pool their interests.

(5) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said units the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(6) At the request of the applicant, Primero Operating, Inc. should be named operator of the subject well and units.

(7) No offset operator and/or interest owner appeared at the hearing in opposition to the proposed unorthodox gas well location.

(8) Applicant's re-entry and completion costs for an Atoka completion are estimated to be \$139,012.00.

(9) For the purpose of this order, estimated well costs should be established at \$139,012.00.

(10) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(11) The applicant requested that a risk penalty of 200 percent be assessed against non-consenting interest owners.

(12) Inasmuch as the subject well has already been drilled, the remaining risk penalty should apply only to re-entry and completion operations to be conducted on the well. The risk penalty should therefore be reduced accordingly.

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(13) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 100 percent thereof as a reasonable charge for the risk involved in re-entry and completion operations.

(14) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as reasonable well costs in the absence of such objection.

(15) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(16) \$5,000.00 per month while re-entering and \$500.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what is reasonable, attributable to each non-consenting working interest.

(17) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(18) Upon the failure of the operator of said pooled units to commence re-entry and completion operations on the well to which said units are dedicated on or before July 1, 1998, the order pooling said units should become null and void and of no effect whatsoever.

(19) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(20) The operator of the well and units shall notify the Director of the Division of Oil and Gas Conservation in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from 10,667 feet (to the approximate top of the Canyon formation) to 12,658 feet (at a point within the Devonian formation) underlying the S/2 of Section 26, Township 16 South, Range 35 East, NMPN, Lea County, New Mexico, are hereby pooled in the following manner:

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the S/2 thereby forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320 acres within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Shoe Bar-Atoka Gas Pool;

the SW/4 thereby forming a standard 160-acre gas spacing and proration unit for any and all formations and/or pools spaced on 160 acres within said vertical extent; and,

the SE/4 SW/4 thereby forming a standard 40-acre spacing and proration unit for any and all formations and/or pools spaced on 40 acres within said vertical extent.

Said units shall be dedicated to the existing Kennedy & Mitchell Inc. Tilley 758 Well No. 3 (to be re-designated the Tilley Well No. 1) located at an unorthodox gas well location 330 feet from the South line and 1815 feet from the West line (Unit N) of Section 26, also hereby approved, which is proposed to be re-entered by the applicant for the purpose of testing the Atoka and Morrow intervals.

PROVIDED HOWEVER THAT, the operator of said units shall commence re-entry and completion operations on the subject well on or before the 1st day of June, 1998, and shall thereafter continue with due diligence to test the Atoka and Morrow intervals.

PROVIDED FURTHER THAT, in the event said operator does not commence re-entry and completion operations on the subject well on or before the 1st day of June, 1998, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should said well not be completed or abandoned within 120 days after commencement of operations thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Primero Operating, Inc., is hereby designated the operator of the subject well and units.

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject units an itemized schedule of estimated well costs (\$139,012.00).

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the re-entry of the well, 100 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) \$5,000.00 per month while re-entering and \$500.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(11) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

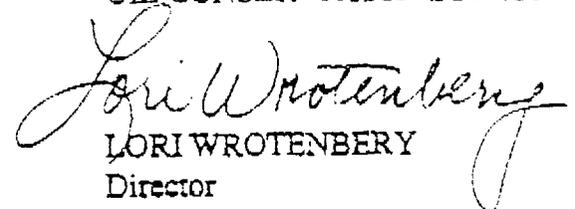
(13) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

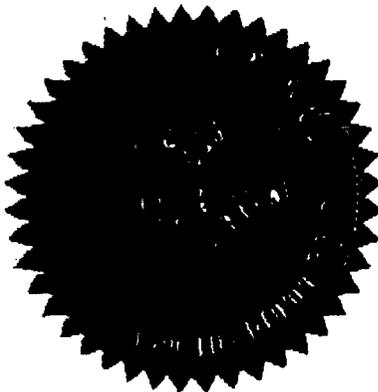
(14) The operator of the well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(15) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director



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