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February 13, 1998

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W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

HAND DELIVERED

Mr. Michael E. Stogner
Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

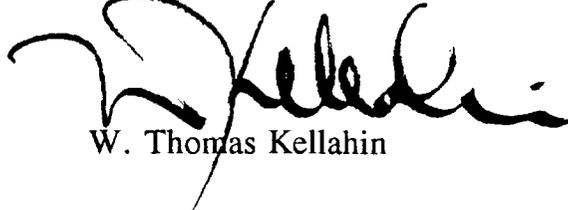
Rand L. Carroll, Esq.
Division Attorney
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: **MOTION TO DISMISS** Case 11926
Application of KCS Medallion Resources, Inc.
for Compulsory Pooling, Eddy County, New Mexico

Gentlemen:

On behalf of OXY USA Inc., an adversely affected interest owner, please find enclosed our MOTION TO DISMISS the referenced case. This case is currently set for hearing on the Examiner's Docket scheduled for February 19, 1998.

Very truly yours,


W. Thomas Kellahin

cc: James Bruce, Esq., Attorney for applicant
Oxy USA, Inc.
Attn: Richard Foppiano

Case 11887 Santa Fe Phillips
11877 Foster Redstone
9333 Reed & Stevens
4301R
305.2-2

EGE
FEB 13 1998
OIL CONSERVATION DIVISION

Oxy worthy approval
R-10561

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

**IN THE MATTER OF THE APPLICATION
OF KCS MEDALLION RESOURCES, INC.
FOR COMPULSORY POOLING
EDDY COUNTY, NEW MEXICO**

CASE NO. 11926

MOTION TO DISMISS

Comes now OXY USA Inc. ("OXY"), by its attorneys, Kellahin and Kellahin, hereby moves the Division to dismiss this case because the Applicant, KCS Medallion Resources, Inc., ("Medallion") Section 70-2-17(C) NMSA (1978) seeking a compulsory pooling order for a 320-acre gas spacing unit one-half of which is already committed to another gas spacing unit and in Support States:

RELEVANT FACTS

(1) Medallion seeks to dedicate the W/2 of Section 33, T19S, R28E, NMPM, Eddy County, New Mexico, for a well it wants to drill in the SW/4 of said Section 33 to be dedicated to any pool spaced on 320-acre gas spacing including the Undesignated Winchester-Wolfcamp Gas Pool, Undesignated Winchester-Morrow Gas Pool, Undesignated North Burton Flat-Strawn Gas Pool, Undesignated Winchester-Atoka Gas Pool. See **Exhibits 1 and 2.**

(2) Medallion has no interest in the S/2 of Section 33.

(3) In December 1975, Penroc Oil Corporation and Atlantic Richfield Company entered into a Joint Operating Agreement ("JOA") in which the oil and gas leases in the S/2 of Section 33 were voluntarily consolidated and committed to this contract which governed the drilling of the Penroc's Arco Federal Well No. 1 in Unit J of Section 33 and all subsequent wells in the S/2 of Section 33. See **Exhibit 3.**

(4) This JOA is still in full force and effect and governs the drilling of all wells to all depths in the S/2 of said Section 33.

(5) On January 1, 1996, and in accordance with this JOA, Oxy USA Inc. succeeded Penroc Oil Corporation as the operator of the S/2 of Section 33.

(6) On March 18, 1996, the Division entered Order R-10561 which approved Oxy's application to drill its Oxy "33" Federal Well No. 1 in the SE/4SE/4 (Unit P) of said Section 33 and which ordered that:

"(2) The S/2 of said Section 33 is to be dedicated to the subject well (being the Oxy "33" Federal Well No 1.) to form a standard 320-acre gas spacing and proration unit within said vertical extent, which presently includes but is not necessary limited to the Undesignated North Burton Flat-Wolfcamp Gas Pool, Undesignated North Burton Flat-Strawn Gas Pool, Undesignated Winchester-Strawn Gas Pool, Undesignated Winchester-Atoka Gas Pool, Undesignated Burton Flat-Morrow Gas Pool and Undesignated Winchester-Morrow Gas Pool." **See Exhibit 4.**

(7) On April 4, 1996, Oxy obtained an approved Application for Permit to Drill its Oxy "33" Federal Well No. 1 dedicated to a 320-acre gas spacing unit consisting of the S/2 of Section 33. **See Exhibit 5.**

(8) On June 26, 1996, Oxy, on behalf of all of the interest owners in the S/2 of Section 33 and for an estimated total costs of \$799,502.00 (actual costs of \$672,300.00) drilled its Oxy "33" Federal Well No. 1 to a total depth of 11,286 feet being sufficient to penetrate through the base of the Morrow formation. **See Exhibit 6.**

(9) The OXY "33" Federal Well No. 1 was completed on August 9, 1996 with casing set through the base of the Morrow formation and is currently producing gas from the Wolfcamp formation within the Undesignated Winchester-Wolfcamp Gas Pool **See Exhibit 7.**

(10) The OXY "33" Federal Well No.1 has "behind the pipe" potential for future gas production from the Morrow formation. **See Exhibit 8.**

(11) The working interest owners in the S/2 of Section 33 have paid for but have not yet recovered the costs of OXY's "33" Federal Well No. 1.

(12) On October 28, 1997, Medallion proposed to OXY that Medallion drill another Morrow test in the SW/4 of Section 33 and that the W/2 of Section 33 be dedicated to this new well.

(13) On December 5, 1997, OXY prepared and circulated for internal approval an AFE to drill the OXY "33" Federal Well No. 2 as a Morrow test in the SW/4 of Section 33.

(14) On December 11, 1997, OXY advised Medallion that the SW/4 was not available for a W/2 spacing unit because it was committed to a S/2 spacing unit and the JOA both of which are still in full force and effect.

(15) On January 26, 1998, Medallion filed a compulsory pooling application seeking to pool the W/2 of Section 33 for a well to be drilled in the SW/4 of Section 33.

(16) On February 6, 1998, and in accordance with the JOA, OXY sent its AFE to all of the working interest owners in the S/2 of Section 33 for approval to drill the OXY "33" Federal Well No. 2 to be located in the SW/4 of Section 33.

(17) On February 12, 1998, OXY staked the well location for the OXY "33" Federal Well No. 2 in the SW/4 of Section 33.

ARGUMENT

The problem with Medallion's application is that they are seeking a compulsory pooling order covering all of the formations and pools which the Division has already approved and ordered be dedicated to a spacing unit consisting of the S/2 of Section 33 and which is still in effect and committed to Oxy's "33" Federal Well No. 1. Medallion has no interest in the SW/4 of Section 33, yet they are asking the Division to take action which will void Order R-10561 and preclude the owners in the SW/4 of Section 33 from being able to recover costs they spent for the OXY "33" Federal Well No. 1 located in the SE/4 of Section 33.

The problem with Medallion's proposal is that the SW/4 of Section 33 is dedicated to Oxy's "33" Federal Well No. 1 and cannot be included in any of the spacing units they are now proposing. In New Mexico there can only be one operator of a spacing unit. Once acreage is included within a spacing unit, it is unavailable to another who desires to develop it either through voluntary agreement or compulsory pooling. Medallion seeks an orientation for its proposed 320-acre gas spacing unit which would conflict with OXY's existing and approved 320-acre gas spacing unit. Medallion's interest in the NW/4 of Section 33 may now only be developed in 320-acre spaced formations and/or pools with a N/2 spacing unit. To do otherwise would establish a new precedent and lead to the disruption of correlative rights in thousands of existing gas spacing units.

The problem with Medallion's application is that it violates Section 70-2-17(C) NMSA 1978 by seeking a pooling order to include the SW/4 of Section 33 which is already dedicated to an established spacing unit formed on a voluntary basis.

The problem with Medallion's proposal is they are asking to drill a Morrow well in the SW/4 which is already subject to an existing JOA in which Medallion has no interest. By doing so, Medallion is asking the Division to invalidate an existing voluntary agreement and to disrupt the correlative rights of the owners in the S/2 of Section 33 who are already proceeding to drill their own Morrow gas well in the SW/4 of Section 33. It does not matter that the OXY "33" Federal Well No. 1 is currently producing only from the Winchester-Wolfcamp Gas Pool. It was drilled through the Morrow formation and still has the potential to produce gas from that formation. Medallion cannot dedicate

the SW/4 of Section 33 to any of the 320-acre gas formations and/or pools until the JOA covering the S/2 of Section 33 has terminated.

WHEREFORE Oxy USA Inc. requests that the Division Hearing Examiner grant this motion and dismiss Oil Conservation Division Case 11926 because:

(a) Section 70-2-17 NMSA (1978) is applicable only for those instances in which the proposed well is to be located on acreage not already committed to a spacing unit and oriented so as not to conflict with any existing spacing unit and the parties in that proposed spacing unit have not agreed to pool their interests;

(b) In this case, the S/2 of Section 33 is already committed on a voluntarily basis to a producing gas well and therefore SW/4 cannot be made the subject of a W/2 unit compulsory pool case without violating the provisions of Section 70-2-17 NMSA (1978).



W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

CERTIFICATE OF SERVICE

I certify that a copy of this pleading was hand delivered to counsel for applicant this 13th day of February, 1998.



W. Thomas Kellahin

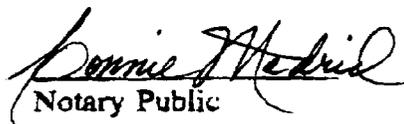
VERIFICATION

State of Texas)
)ss.
County of Midland)

Comes now Richard E. Foppiano, being first duly sworn, upon his oath deposes and states: That he is a licensed professional petroleum engineer and regulatory affairs engineering advisor for OXY USA Inc., Midland, Texas, that he has read the foregoing pleadings and know the contents thereof, and that the same is true and correct of his own knowledge, information and belief.


Richard E. Foppiano

SUBSCRIBED AND SWORN to before me by Richard E. Foppiano, who personally appeared before me this 13th day of February, 1998.


Notary Public

My Commission Expires: 12/9/2000



Seal

Sabre Op
1-Eddy A
WM

Devon Energy Corp
1-State CB
TA

OXY USA Inc.
1-State CX
WM

Southland Royalty
1-SRC State 32
TA

Penroc Oil
1-Angell Ranch Com
TA

Yates, John A
1-Nola Roberts

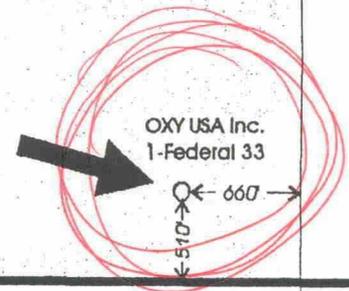
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P&P Prodr
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ARAM

Penroc Oil
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2-ARC



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Southland Royalty
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OXY USA Inc.
1-Federal 4

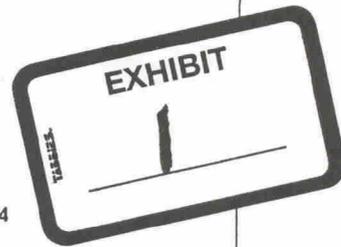
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CHI Op
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DOCKET: EXAMINER HEARING - THURSDAY - FEBRUARY 19, 1998

8:15 AM - 2040 South Pacheco

Santa Fe, New Mexico

ickets Nos 6-98 and 7-98 are tentatively set for March 5, 1998 and March 19, 1998. Applications for hearing must be filed at least 23 days in advance of hearing date. The following cases will be heard by an Examiner:

CASE 11923: Application of Shahara Oil, L.L.C. for a unit agreement, Lea County, New Mexico. Applicant seeks approval of its Shahara State Unit Agreement for an area encompassing 320 acres, more or less, of State lands consisting of the W/2 of Section 16, Township 17 South, Range 33 East. Said unit area is located approximately 5.5 miles east-southeast of Maljamar, New Mexico.

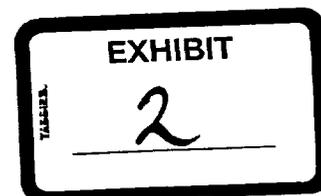
CASE 11924: Application of Shahara Oil, L.L.C. for a waterflood/tertiary recovery project, qualification for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act" for said project, and for two unorthodox oil well locations, Lea County, New Mexico. Applicant seeks approval to institute a waterflood and tertiary recovery project utilizing micro-organisms for enhanced recovery in the Maljamar-Grayburg-San Andres Pool within its proposed Shahara State Unit Area (being the subject of Case No. 11923) to comprise the W/2 of Section 16, Township 17 South, Range 33 East, by the injection of water through 8 certain existing wells. Applicant further seeks to qualify this project for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act" (Law 1992, Chapter 38, Sections 1 through 5). Applicant further seeks approval to drill two new producing wells along the western edge of the proposed Unitized Area at locations considered to be unorthodox. The proposed project area is located approximately 5.5 miles east-southeast of Maljamar, New Mexico.

CASE 11925: Application of KCS Medallion Resources, Inc. for an unorthodox gas well location, Eddy County, New Mexico. Applicant seeks approval of an unorthodox gas well location within the Turkey Track-Morrow Gas Pool for its PDM Well No. 1 to be drilled 860 feet from the South line and 660 feet from the West line (Unit M) of Section 16, Township 19 South, Range 29 East, being approximately 12.5 miles south-southwest of Loco Hills, New Mexico. The S/2 of said Section 16 is to be dedicated to said well to form a standard 320-acre gas spacing and proration unit for said pool.

CASE 11926: Application of KCS Medallion Resources, Inc. for compulsory pooling, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 33, Township 19 South, Range 28 East, and in the following manner: the W/2 of Section 33 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, including but not limited to the Undesignated Winchester-Morrow Gas Pool, the Winchester-Atoka Gas Pool, the North Burton Flar-Strawn Gas Pool, and the Winchester-Wolfcamp Gas Pool; the SW/4 of Section 33 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent; the N/2 SW/4 of Section 33 to form a standard 80-acre spacing unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, including but not limited to the Undesignated Old Millman Ranch-Bone Spring Associated Pool; and the NW/4 SW/4 of Section 33 for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, including but not limited to the Undesignated Old Millman Ranch-Bone Spring Associated Pool, the Undesignated Fadeaway Ridge-Delaware Pool, and the Undesignated East Millman Yates-Seven Rivers-Queen-Grayburg-San Andres Pool. Said units will be dedicated to its Many Sands "33" Well No. 1, to be drilled at an orthodox location 1650 feet from the South line and 660 feet from the West line (Unit L) of said Section 33. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for the risk involved in drilling said well. Said unit is located approximately 11 miles east-southeast of Lakewood, New Mexico.

CASE 11877: (Continued from February 5, 1998, Examiner Hearing.)

Application of Fasken Land and Minerals, Ltd. for compulsory pooling and an unorthodox gas well location, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying all of Section 12, Township 23 South, Range 24 East, forming a standard 640-acre gas spacing and proration unit for any and all formations and/or pools developed on 640-acre gas spacing within said vertical extent, which presently may include but is not necessarily limited to the Rock Tank-Upper Morrow Gas Pool and the Rock Tank-Lower Morrow Gas Pool. Said unit is to be dedicated to its Camero "12" Federal Com Well No. 1 to be drilled and completed at an unorthodox gas well location 500 feet from the North line and 2265 feet from the West line (Unit E) of said Section 12. Also to be considered will be the costs of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Fasken Oil and Ranch, Ltd. as the operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 15 miles southwest of Carisbad, New Mexico.



A.A.P.L. FORM 610
MODEL FORM OPERATING AGREEMENT—1956
Non-Federal Lands

OPERATING AGREEMENT

DATED

_____, 19____,

FOR UNIT AREA IN TOWNSHIP 19 South, RANGE 28 East

Eddy COUNTY, STATE OF New Mexico

EXHIBIT "2"

Attached to and made a part of Farmout Agreement dated December 12, 1975, between Atlantic Richfield Company, and Penroc Oil Corporation, covering S/2 Section 33, T-19-S, R-28-E, Eddy County, New Mexico.

AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM A.A.P.L. NO. 610
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
ROSS-MARTIN COMPANY, BOX 800, TULSA 74101

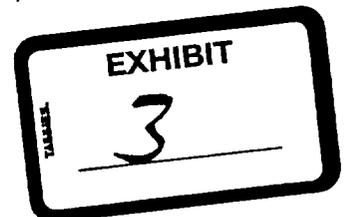


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OPERATING AGREEMENT

THIS AGREEMENT, entered into this _____ day of _____, 19____, between
PENROC OIL CORPORATION

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them.

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- (6) The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

No well shall be drilled until the drillsite title and form of lease covering said drillsite has been accepted by the parties participating in the drilling of the well. In connection with such drillsite all abstracts, title opinions and curative work presently in the possession of any party shall, on request, be furnished to any other party, without charge, and such other party shall have a reasonable time to examine same.

B. FAILURE OF TITLE:

Should any oil and gas lease, or interest therein, or oil and gas interests, be lost through failure of title (provided, such loss shall not be deemed a failure of title should the party whose lease or interest is affected by such failure of title secure a new lease or title covering the same interest and subject same to this agreement within a period of ninety (90) days, commencing on the date it is determined finally that title failure has occurred) then this agreement shall, nevertheless, continue in force as to all remaining leases and interests, and

- (1) The party whose lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and
- (2) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Unit Area by the amount of the interest lost; and
- (3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the Unit Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and
- (4) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, or equipment previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and
- (5) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production.

C. Loss of Leases for Causes Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein is lost due to the fact that the production therefrom is shut in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as "Exhibit "B" and for the primary term therein stated. As to such interests, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If the interest of any party in any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighthth ($\frac{1}{8}$) royalty, such party shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

PENROC OIL CORPORATION shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained, or liabilities incurred, except such as may result from gross negligence or from ^{willful} breach of the provisions of this agreement.

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

7. TEST WELL

On or before the _____ day of _____, 19____, Operator shall commence the drilling of a well for oil and gas in the following location:

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

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ~~xxx~~ ^{ten} percent (^{10.5}) per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and ~~the proceeds from the sale of~~ ~~in each party's interest in oil and gas produced~~ ~~XXXXXXXXXXXXXXXXXXXX~~ and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof. Operator, without prejudice to including reasonable attorney fees in the event of suit to collect any delinquency other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ~~one hundred eighty (180) days~~ ~~XXXXXXXXXXXX~~ after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ~~one hundred eighty (180) days~~ ~~XXXXXXXXXXXX~~ after abandonment of such well or wells. It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of -----TEN THOUSAND AND NO/100----- Dollars (\$ 10,000.00) except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$ 5,000.00.

* See Section 31 (b) for additional provision.

12. OPERATIONS BY LESS THAN ALL PARTIES *

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday ~~or~~ Sunday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests ^{existing on the effective date hereof} payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

*See Section 31 B & C for additional provisions

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it and from and after such reversion such Non-Consenting Party shall own the same interest in such well, the operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the accounting procedure schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale. Any contract made by OPERATOR specifically for the sale of non-taking party's share of Unit production shall not be for a term longer than is commensurate with the minimum needs of the industry under the circumstances and shall in no event be for a term exceeding one year.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own ^{or rental} tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if/all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

*within fifteen (15) days after receipt of notice of the proposed abandonment of such well,

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Delay rentals and shut-in well payments which may be required under the terms of any lease shall be paid by the party who has subjected such lease to this agreement, at its own expense. Proof of each payment shall be given to Operator at least ten (10) days prior to the rental or shut-in well payment date. Operator shall furnish similar proof to all other parties concerning payments it makes in connection with its leases. Any party may request, and shall be entitled to receive, proper evidence of all such payments. If, through mistake or oversight, any delay rental or shut-in well payment is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to pay a rental or shut-in well payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, the interests of the parties shall be revised on an acreage basis effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Unit Area on account of the ownership of the lease which has terminated. In the event the party who failed to pay the rental or the shut-in well payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

- (1) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;
- (2) proceeds, less operating expenses thereafter incurred attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which would, in the absence of such lease termination, be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and
- (3) any moneys, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Unit Area or becoming a party to this contract.

Operator shall attempt to notify all parties when a gas well is shut-in or returned to production, but assumes no liability whatsoever for failure to do so.

18. PREFERENTIAL RIGHT TO PURCHASE

Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

19. SELECTION OF NEW OPERATOR

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

20. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit Area and in wells, equipment and production unless such disposition covers either:

- (1) the entire interest of the party in all leases and equipment and production; or
- (2) an equal undivided interest in all leases and equipment and production in the Unit Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the rights of the other parties.

If at any time the interest of any party is divided among and owned by four or more co-owners, Operator may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

21. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

22. LIABILITY OF PARTIES

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render them liable as partners.

23. RENEWAL OR EXTENSION OF ~~LEASES~~ JOINT LOSS LEASES

the loss of which would be a joint loss under Section 2 hereof,
 If any party secures a renewal of any oil and gas lease subject to this contract/each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area.

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

Each party who participates in the purchase of a renewal lease shall be given an assignment^{without warranty} of its proportionate interest therein by the acquiring party.

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

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

24. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly ~~execute~~ ^{tender} an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, ^{if such tender is accepted by all parties} and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

26. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

27. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

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

28. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand (\$1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

29. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all possible diligence to remove the force majeure as quickly as possible.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure" as here employed shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental restraint, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

30. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

31. OTHER CONDITIONS, IF ANY, ARE:

(a) Notwithstanding anything herein to the contrary, if any working interest owner shall, subsequent to the execution of this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its working interest (hereinafter called "subsequently created interest"), such subsequently created interest shall be specifically made subject to all the terms and provisions of this agreement. If the working interest owner from which such subsequently created interest is created (a) fails to pay when due its share of costs and expenses chargeable hereunder, and its share of production accruing hereunder is insufficient to cover such costs and expenses, or (b) elects to go non-consent under Section 12, or (c) elects to abandon a well under Section 16 hereof, elects to surrender a lease under Section 24 hereof, or otherwise withdraws from this agreement, the subsequently created interest shall be chargeable with a pro-rata portion of all costs and expenses hereunder in the same manner as if such subsequently created interest were a working interest, and Operator shall have the right to enforce against such subsequently created interest the lien and all other rights granted in Section 9 hereof for the purpose of collecting costs and expenses chargeable to the subsequently created interest, the party or parties entitled to receive the working interest production of the non-participating party shall receive such production free and clear of burdens against such production which may have been created subsequent to this agreement and the non-participating party creating such subsequent burdens shall save the participating party or parties harmless with respect to the receipt of such working interest production.

(b) In spite of any provision to the contrary appearing in Sections 11 & 12 hereof, consent to the drilling a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth Operator shall give immediate notice to Non-Operators. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday or Sunday and legal holiday) in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice to so reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of all of the parties. If one or more, but less than all, of the parties elect to set pipe and to attempt a completion, the provision of Section 12 shall apply to the operations thereafter conducted by less than all parties.

+ (c) If there be any conflict between this Operating Agreement and that certain Farmout Agreement by and between Atlantic Richfield Company and Penroc Oil Corporation dated December 12, 1975, then the latter Agreement shall prevail.

(d) This agreement shall always be subject to Atlantic Richfield Company's preferential right to purchase the oil and gas produced from the Unit Area as provided in that certain Farmout Agreement dated November 21, 1975, by and between Atlantic Richfield Company and Penroc Oil Corporation.

(e) In the performance of this contract, Operator shall not engage in any conduct or practice which violates any applicable law, order or regulation prohibiting discrimination against any person by reason of race, religion, color, sex, national origin or age; and Operator further agrees to comply fully with the non-discrimination provisions of Section 202 of Executive Order No. 11246 (30 F.R. 12319), which are hereby included in this contract as fully as if copied herein. Operator shall also abide by the requirements of Executive Order 11598 Occupational Safety and Health Act and by Executive Order 11640 Veterans Hire Regulation which orders are inserted herein by reference.

(f) This agreement shall be subject to the conservation laws of the State of New Mexico; to the valid rules, regulations, and orders of the Oil Conservation Commission of New Mexico; and to all other applicable federal, state, and municipal laws, rules, regulations, and orders.

(g) Gas well production shall be governed by Exhibit "E", Gas Balancing Agreement attached hereto.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

PENROC OIL CORPORATION

By: *Stirling J. Quilley*
President

O P E R A T O R

ATLANTIC RICHFIELD COMPANY

By: _____
Attorney-in-Fact

N O N - O P E R A T O R

BEFORE ME, the undersigned authority, on this day personally appeared _____, Attorney-in-Fact for ATLANTIC RICHFIELD COMPANY, a corporation, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed same as the act and deed of said Atlantic Richfield Company, for the purposes and considerations and in the capacity therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this _____ day of _____, 197 ,

Notary Public

CORPORATION ACKNOWLEDGMENT

STATE OF Texas }
COUNTY OF Midland }

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared Sterling J. Talley known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said Penroc Oil Corporation, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 22nd day of December A.D., 19 75



Belle Lou Eyer
NOTARY PUBLIC

CORPORATION ACKNOWLEDGMENT

STATE OF _____ }
COUNTY OF _____ }

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared _____ known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said _____, a corporation, and that _____ he _____ executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____ A.D., 19 _____

NOTARY PUBLIC

PERSONAL ACKNOWLEDGMENT

STATE OF _____ }
COUNTY OF _____ }

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared _____ known to me to be the person whose name _____ subscribed to the foregoing instrument, and acknowledged to me that _____ he _____ executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____ A.D., 19 _____

NOTARY PUBLIC

EXHIBIT "A"

Attached to and made a part of Operating Agreement dated _____, between Penroc Oil Corporation, Operator, and Atlantic Richfield Company, covering lands in Eddy County, New Mexico.

I. LANDS SUBJECT TO AGREEMENT:

S/2 of Section 33, Township 19 South, Range 28 East, as to all rights from the surface down to the total depth drilled plus 100 feet in the test wells drilled pursuant to Farmout Agreement between Atlantic Richfield Company and Penroc Oil Corporation dated December 12, 1975.

II. INTEREST OF THE PARTIES TO AGREEMENT AND ADDRESSES TO WHICH NOTICES SHOULD BE SENT:

Penroc Oil Corporation
P. O. Drawer 831
Midland, Texas 79701

Atlantic Richfield Company
P. O. Box 1610
Midland, Texas 79701

50.00000%

50.00000%

ARCO Permian

III. OIL AND GAS LEASEHOLD SUBJECT TO AGREEMENT:

Oil and gas lease from U.S.A. as lessor to T. A. Fraser and J. Mack Barnes, lessee, bearing Serial Number NM-0428657 dated September 1, 1963 covering above lands and other lands not herein involved, owned by Atlantic Richfield Company.

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. 11458
ORDER NO. R-10561

APPLICATION OF OXY USA INC. FOR AN UNORTHODOX GAS WELL LOCATION,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 8, 1996, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 18th day of March, 1996 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, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) At the time of the hearing this matter was consolidated with Division Case No. 11454 for the purposes of testimony.
- (3) The applicant, Oxy USA Inc., seeks authority to drill its Oxy "33" Federal Well No. 1 at an unorthodox gas well location 510 feet from the South line and 660 feet from the East line (Unit P) of Section 33, Township 19 South, Range 28 East, NMPM, Eddy County, New Mexico, to test all prospective gas bearing intervals from the top of the Wolfcamp formation to the base of the Morrow formation. The S/2 of said Section 33 is to be dedicated to the subject well to form a standard 320-acre gas spacing and proration unit within said vertical extent.
- (4) Division records indicate that the dedicated acreage for the proposed Oxy "33" Federal Well No. 1 is located:
 - (a) within one mile of the North Burton Flat-Wolfcamp Gas Pool;
 - (b) within one mile of both the North Burton Flat-Strawn Gas and Winchester-Strawn Gas Pools;



- (c) within the governing boundaries of the Winchester-Atoka Gas Pool;
- (d) within one mile of both the Burton Flat-Morrow Gas and Winchester-Morrow Gas Pools.

(5) The North Burton Flat-Strawn Gas, Winchester-Strawn Gas, Winchester-Atoka Gas, Burton Flat-Morrow Gas, and Winchester-Morrow Gas Pools are all subject to the Division's statewide rules and regulations, which currently provide for 320-acre spacing and proration units with wells to be located no closer than 1650 feet from the nearest end boundary, nor closer than 660 feet from the nearest side boundary, nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary.

(6) The North Burton Flat-Wolfcamp Gas Pool is subject to special rules and regulations, as promulgated by Division Order No. R-4949, as amended, which provide: for 320-acre spacing and proration units (**Rule 1**); for wells to be located no closer than 660 feet to the nearest side boundary of the tract nor closer than 1980 feet from the nearest end boundary of the tract (**Rule 4**); and for a production limitation of 1,500 MCF of gas per day for each well (**Rule 5**).

(7) Applicant's evidence and testimony indicates that the primary objective within the Oxy "33" Federal Well No. 1 is the Undesignated Old Millman Ranch-Bone Spring Associated Pool.

(8) The Old Millman Ranch-Bone Spring Associated Pool is currently governed by the General Rules and Regulations for the "*Associated Oil and Gas Pools of Northwest and Southeast New Mexico/Special Rules and Regulations for the Old Millman Ranch-Bone Spring Pool*", as promulgated by Division Order No. R-5353, as amended by Division Order No. R-5353-M, which rules provide for oil wells within the Old Millman Ranch-Bone Spring Associated Pool to be spaced on 40-acre tracts with (oil) wells to be located no closer than 330 feet from the outer boundary of the proration unit and for gas wells to be spaced on 80-acre tracts with (gas) wells to be located within 150 feet of the center of either quarter-quarter section or lot within said 80-acre tract.

(9) The subject well, which is projected to be a gas well within the Undesignated Old Millman Ranch-Bone Spring Associated Pool, is located within 150 feet of the center of the SE/4 SE/4 (Unit P) of said Section 33 and is therefore considered to be a standard Bone Spring gas well location. Oxy proposes to dedicate the S/2 SE/4 of said Section 33 to this well in order to form a standard 80-acre gas spacing and proration unit therein.

(10) Oxy proposes to "package" the Bone Spring interval with secondary objectives which include the Wolfcamp, Strawn, Atoka and Morrow formations in order to reduce the risk associated with drilling a stand-alone Bone Spring well at this location.

(11) Further testimony presented by the applicant indicates that the economics of the project necessitate drilling the subject well with multiple pay targets.

(12) The geologic and engineering evidence and testimony presented by the applicant indicates that only a small portion of the structure containing sufficient sand thickness of 30 feet and a porosity cutoff of 12% underlies the extreme southeastern one-third of the SE/4 SE/4 (Unit P) of said Section 33; therefore, the proposed location is the southeastern-most "orthodox" Bone Spring gas well location available to the applicant in order to intercept any potential hydrocarbon production from this structure.

(13) According to the evidence presented and to Division records said Section 33 had previous "deep" gas development within the Winchester-Morrow Gas Pool from a well in Unit B and within the Winchester-Atoka Gas Pool from a well in Unit J. In the offset acreage to the south in Section 4, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico, the E/2 equivalent had attributed to North Burton Flat-Wolfcamp Gas Pool production from a well in Unit H.

(14) According to applicant's evidence the offset acreage to the southeast in Section 3, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico, the N/2 equivalent has previously been developed in the North Burton Flat-Wolfcamp Pool by two wells in Units H and C. In addition, the N/2 equivalent of said Section 3 has previously been developed in the Winchester-Strawn Gas Pool by the aforesaid well in Unit H.

(15) The applicant has notified all affected offset operators of its application, and no offset operator and/or interest owner appeared at the hearing in opposition to the application.

(16) Approval of the subject application will afford the applicant the opportunity to economically and efficiently recover oil and gas reserves from the Bone Spring, Wolfcamp, Strawn, Atoka, and Morrow formations within the S/2 equivalent of said Section 33, thereby preventing waste, will serve to prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Oxy USA Inc., is hereby authorized to drill its Oxy "33" Federal Well No. 1 at an unorthodox gas well location 510 feet from the South line and 660 feet from the East line (Unit P) of Section 33, Township 19 South, Range 28 East, NMPM, Eddy County, New Mexico, to test all prospective gas bearing intervals from the top of the Wolfcamp formation to the base of the Morrow formation.

(2) The S/2 of said Section 33 is to be dedicated to the subject well to form a standard 320-acre gas spacing and proration unit within said vertical extent, which presently includes but is not necessarily limited to the Undesignated North Burton Flat-Wolfcamp Gas Pool, Undesignated North Burton Flat-Strawn Gas Pool, Undesignated Winchester-Strawn Gas

Pool, Undesignated Winchester-Atoka Gas Pool, Undesignated Burton Flat-Morrow Gas Pool,
and Undesignated Winchester-Morrow Gas Pool.

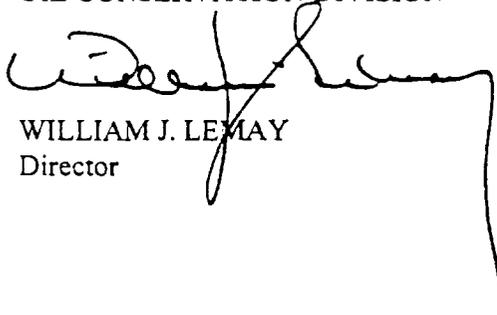
IT IS FURTHER ORDERED THAT:

(3) The S/2 SE/4 of said Section 33 shall be dedicated to the subject well in order to form a standard 80-acre gas spacing and proration unit within the Undesignated Old Millman Ranch-Bone Spring Associated Pool. The location of the proposed Oxy "33" Federal Well No. 1 is considered to be a standard gas well location for said Bone Spring Pool.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

SEAL

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1. TYPE OF WORK
 DRILL DEEPEN

2. TYPE OF WELL
 OIL WELL GAS WELL OTHER SINGLE ZONE MULTIPLE ZONE

3. NAME OF OPERATOR
 OXY USA Inc. 16696

4. ADDRESS AND TELEPHONE NO.
 P.O. Box 50250 Midland, TX 79710-0250 915-685-5717

5. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)
 At surface 510 FSL 660 FEL SESE (P)
 At proposed prod. zone

6. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*
 12 miles Northeast of Carlsbad, NM

7. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drig. unit line, if any)
 510'

8. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.
 N/A

9. ELEVATIONS (Show whether DF, RT, GR, etc.)
 3306'

10. LEASE ORIGINATOR AND SERIAL NO.
 NM0428657

11. IF INDIAN, ALLOTTEE OR TRIBE NAME

12. UNIT AGREEMENT NAME

13. FARM OR LEASE NAME WELL NO.
 OXY 33 Federal #1

14. AP WELL NO.
 30-015-

15. FIELD AND POOL, OR WILDCAT
 Winchester Morrow 08760

16. SEC., T., R., M., OR BLM, AND SURVEY OR AREA
 Sec 33 T19S R28E

17. COUNTY OR PARISH 18. STATE
 Eddy NM

19. NO. OF ACRES IN LEASE
 640

20. NO. OF ACRES ASSIGNED TO THIS WELL
 320

21. PROPOSED DEPTH
 11275'

22. ROTARY OR CABLE TOOLS
 Rotary

23. APPROX. DATE WORK WILL START*
 5/15/96

PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2"	13-3/8" H40	48#	400'	500sx - Circulated
11"	8-5/8" K55	24-32#	3000'	980sx - Circulated
7-7/8"	5-1/2" N80	17-20#	11275'	435sx - TOC @ 8500' (see stip.)

It is proposed to drill this well to a TD of 11275' and test the Morrow formation.

The Blowout Prevention Program is as follows:

- 1) One set of Drill Pipe Rams (5M).
- 2) One set of Blind Rams (5M).
- 3) One Hydrill (5M).

UOL - Case No. 11458 - Order No. R-10561



APR 10 9 40 AM '96 RECEIVED

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

21. SIGNED David Stewart TITLE Regulatory Analyst DATE 4/4/96

(This space for Federal or State office use)

PERMIT NO. _____ APPROVAL DATE _____ APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

Application approval does not warrant or certify that the applicant holds legal or colorable title to those rights in the subject lease which would entitle the applicant to conduct operations in accordance with the conditions of approval, if any.

APPROVED BY Area Manager DATE 5/6/96

*See Instructions On Reverse Side

DISTRICT II
 P.O. Drawer DD, Artesia, NM 88210

DISTRICT III
 1000 Rio Brazos Rd., Artec, NM 87410

OIL CONSERVATION DIVISION

P.O. Box 2088
 Santa Fe, New Mexico 87504-2088

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-015-	Pool Code 087600	Pool Name Winchester Morrow
Property Code .	Property Name Oxy "33" Federal	Well Number 1
OGPD No. 16696	Operator Name OXY USA INC	Elevation 3306'

Surface Location

Well or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
P	33	19 S	28 E		510	South	660	East	Eddy

Bottom Hole Location if Different From Surface

Well or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres 320	Joint or Infill N	Consolidation Code	Order No. R-10561	Case No. 11458
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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

	<p align="center">OPERATOR CERTIFICATION</p> <p><i>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief</i></p> <p align="right"></p> <p>Signature</p> <p align="center">David Stewart</p> <p>Printed Name</p> <p align="center">Regulatory Analyst</p> <p>Title</p> <p align="right">4/9/96</p> <p>Date</p>
	<p align="center">SURVEYOR CERTIFICATION</p> <p><i>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.</i></p> <p align="right">December 18, 1995</p> <p>Date Surveyed</p> <p align="right"></p> <p>Signature of Surveyor Professional Surveyor</p>
	<p align="right">W.O. No: 5438a</p>
	<p align="right">Certificate No: Gary L. Jones 7977</p> <p align="center">BASIN SURVEYS</p>



OXY USA INC.
 AUTHORITY FOR EXPENDITURE

Region : Western

AFE NO: 9.3073341-6

Lease/Plant Name: OXY 33 FEDERAL #2
 Description : DRILL AND EQUIP
 Partnership/Funding: 1998 PLANNED CAPITAL
 Location : 660' FSL & 1650' FWL, SECTION 33, T19S, R28E, EDDY COUNTY, NM

Field:	WINCHESTER MORROW	Region AFE No:	12894
Operator Name:	OXY USA INC.	PF/Plant/Loc Code:	1446
Oper. AFE No:		Lease/Plant CC No:	73053381-6
State/County No:	30015	Co./Div No:	140 77
Capital Proj.No:	99999	Sec Rec Proj. No:	
Budget Appr No:	980200	Offshore Zone:	

Remarks :

It is proposed to drill and equip the OXY 33 Federal #2 as a Morrow producer in the Winchester Morrow Field, Eddy County, NM.

Projected TD is 11,300 ft. with Morrow formation as the primary completion objective. Secondary objectives are the Atoka and Strawn zones. The Wolfcamp zone is not available due to an existing producers in the section. The drilling procedure will include setting 8-5/8" intermediate casing at 3000 ft. with a 4-1/2" production string at 11,300 ft.

The requested funds provide for the drilling and equipment of the producing gas well.

Estimated Cost Detail

	Materials	Labor Incidentals	Total
Gross Cost	205,902	593,600	799,502
Net Cost@ 14.32510 % W.I.	29,496	85,034	114,529

CONCURRENCES

Asset Team Leader	Business Team Leader	Operations Team Leader	Engineering	Geology	Land	Acctg Team Lead
	BC	LT	12/9/97	RL	12/10/97	12/9/97
OXY APPROVAL:						Date: 12/12/97
PARTNER APPROVAL: _____						Date: _____
COMPANY: _____						

Prepared By: GARY WOMACK
 Phone #: 685-5772

Date: 05-DEC-97



LEASE - WELL NO. OXY 33 Federal #2

DATE: 05-Dec-97

LOCATION 660' FSL & 1650' FWL

DEPTH: 11,300

S 33 T 19S R 28 COUNTY Eddy

STATE New Mexico

AFE NO.

DESCRIPTION	GRADE	\$/FT	QUAN.	W	ESTIMATE PRODUCER	ESTIMATE DRY HOLE	REVISED ESTIMATE	ACTUAL COST
TANGIBLES								
Casing								
Surface	13-3/8", 48#	H-40 ST&C	A	15.91	400	6,364	6,364	
Intermediate	8-5/8", 32#	K-55 ST&C	A	10.92	1000	10,920	10,920	
Intermediate	8-5/8", 24#	K-55 ST&C	A	8.18	2000	16,360	16,360	
Production	4-1/2", 11.6#	N-80 LT&C	A	4.65	9400	43,710	0	
Production	4-1/2", 11.6#	S-95 LT&C		5.65	1900	10,735	0	
Wellhead Connections						12,000	4,000	
Tubing	2-3/8", 4.7#	N-80		2.59	11100	28,813	0	
Sucker Rods						0	0	
Bottom Hole Pump						0	0	
Engine or Motor						0	0	
Pumping Unit						0	0	
Electrical Equipment						0	0	
Line Pipe & Fittings						5,000	0	
Packer and Accessories						8,000	0	
TANK BATTERY								
Stock Tanks	2	500 bbl				12,000	0	
Separator, Heater Treater, Dehydrator						20,000	0	
Meter Run & Housing						12,000	0	
Labor & Transportation						20,000	0	
Total Tangibles						205,902	37,644	
INTANGIBLES								
Contract Drilling Labor						255,600	255,600	
Rotary Day Work						35,500	35,000	
Service Rig Work			10			20,000	0	
Rig Mobilization						20,000	20,000	
Subsurface Casing Equipment						8,000	2,000	
D.S.T., Electric, Radioactivity Logs, etc.						23,000	23,000	
Acidizing, Fracing						20,000	0	
Perforating						15,000	0	
Misc. Company & Contract Labor						20,000	15,000	
Road Building, Location						20,000	20,000	
Cement & Cementing Services						25,000	15,000	
Cement Squeeze Jobs								
Drilling Mud, Chemicals						40,000	40,000	
Diamond Coring & Analyses, Bits, Reamers								
Mud Logging Unit						14,500	14,500	
Rental of Miscellaneous Equipment						25,000	20,000	
Contract Hauling						15,000	10,000	
Water, Fuel						15,000	15,000	
Miscellaneous Incidentals						20,000	20,000	
Archaeological Services						2,000	2,000	
Total Intangibles						593,600	507,100	
Total Estimated Cost - 100%						799,502	544,744	
Total Estimated Cost - 14.3251%						114,529	78,035	

AMENDED REPORT

I. REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT

Operator name and Address OKY USA Inc. P.O. Box 50250 Midland, TX 79710-0250		OGRID Number 16695
		Reason for Filing Code NW
AFT Number 30-015-28970	Pool Name Undesignated Winchester Wellcamp	Pool Code 827760
Property Code 18922	Property Name OKY 33 Federal	Well Number 1

II. Surface Location

UL or lot no.	Section	Township	Range	Lot/Ida	Feet from the	North/South line	Feet from the	East/West line	County
P	33	19S	28E		510	South	660	East	Eddy

Bottom Hole Location

UL or lot no.	Section	Township	Range	Lot/Ida	Feet from the	North/South line	Feet from the	East/West line	County

Law Code F	Producing Method Code F	Gas Connection Date 8/19/96	C-129 Permit Number	C-129 Effective Date	C-129 Expiration Date
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III. Oil and Gas Transporters

Transporter OGRID	Transporter Name and Address	POD	O/G	POD ULSTR Location and Description
015694	Navajo Refining Co. P.O. Box 159 Artesia, NM 88210	2817768	0	RECEIVED SEP 10 1996 OIL CON. DIV. DIST. 2
015629	Natural Gas Pipeline Co. 701 E. 22nd St. Lombard, IL 60148	2817769	G	

IV. Produced Water

POD 2817770	POD ULSTR Location and Description
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V. Well Completion Data

Spud Date	Ready Date	TD	FBTD	Perforation
5/30/96	7/27/96	11286'	11226'	8952-9094'
Hole Size	Casing & Tubing Size	Depth Set	Sacks Cement	
17 1/2"	13 7/8"	391'	420	
11"	8 7/8"	3420'	1100	
7 7/8"	5 1/2"	11286'	500	
	2 7/8"	8872'		

VI. Well Test Data

Date New Oil	Gas Delivery Date	Test Date	Test Length	Tbg. Pressure	Cog. Pressure
8/9/96	8/9/96	8/29/96	24	2610	-
Choke Size	Oil	Water	Gas	AOF	Test Method
13/64	230	0	1968	12367	F

I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information given above is true and complete to the best of my knowledge and belief.

Signature: *David Stewart*
 Printed name: David Stewart
 Title: Regulatory Analyst
 Date: 8/5/96
 Phone: 915-685-5717

OIL CONSERVATION DIVISION
 Approved by: ORIGINAL SIGNED BY TIM W. GUM
 Title: DISTRICT II SUPERVISOR
 Approval Date: ~~SEP~~ 25 1996
Sept

* If this is a change of operator fill in the OGRID number and name of the previous operator

Previous Operator Signature	Printed Name	Title
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(July 1992)

OPERATOR'S COPY UNITED STATES DEPARTMENT OF THE INTERIOR BUREAU OF LAND MANAGEMENT

OMB NO. 1004-0137/109'S COPY Expires: February 28, 1995

NSL-R-10561

SEP 06 1996

LEASE DESIGNATION AND SERIAL NO NMC428657

IF INDIAN, ALLOTTEE OR TRIBE NAME

UNIT AGREEMENT NAME

FARM OR LEASE NAME, WELL NO OXY 33 Federal #1

API WELL NO. 30-015-28970

FIELD AND POOL OR WILDCAT

Undesignated Winches for Log/Fea-

SEC. T. R. M. OR BLOCK AND SURVEY OR AREA

Sec 33 T195 R28E

COUNTY OR PARISH Eddy

STATE N.M.

WELL COMPLETION OR RECOMPLETION REPORT AND LOG

1. TYPE OF WELL: OIL WELL [] GAS WELL [X] DRY [] OTHER []

2. NAME OF OPERATOR: OXY USA Inc. 16696

3. ADDRESS AND TELEPHONE NO. P.O. Box 50250 Midland, TX 79710-0250 915-685-5717

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements): At surface 510 FSL 660 FEL SESE (P) At top prod. interval reported below At total depth

14. PERMIT NO. - DATE ISSUED 5/6/96

13. DATE SPUDDED 5/30/96 18. DATE T.D. REACHED 6/26/96 17. DATE COMPL. (Ready to prod) 8/9/96 15. ELEVATIONS (OF. SKS. BT. CE. ETC.) 3306'

19. ELEV. CASINGHEAD 20. TOTAL DEPTH, MD & TVD 11286' 21. PLUG. BACK T.D., MD & TVD 11226' 22. IF MULTIPLE COMPL. HOW MANY? 23. INTERVALS DRILLED BY ROTARY TOOLS X CABLE TOOLS

24. PRODUCING INTERVAL(S), OF THIS COMPLETION—TOP, BOTTOM, NAME (MD AND TVD) 8952-9094' Wolfcamp 25. WAS DIRECTIONAL SURVEY MADE NO

26. TYPE ELECTRIC AND OTHER LOGS RUN Platform Express: DLL/CNO/HAL/GR/CAL 27. WAS WELL COILED YES

28. CASING RECORD (Report all strings set in well) Table with columns: CASING SIZE/GRADE, WEIGHT, LB./FT., DEPTH SET (MD), HOLE SIZE, TOP OF CEMENT, CEMENTING RECORD, AMOUNT PULLED

29. LINER RECORD Table with columns: SIZE, TOP (MD), BOTTOM (MD), SACKS CEMENT, SCREEN (MD) 30. TUBING RECORD Table with columns: SIZE, DEPTH SET (MD), PACKER SET (MD)

31. PERFORATION RECORD (Interval, size and number) 4 SPF @ 10197-10206' - Total 37 holes 4 SPF @ 8952-63, 66-8980, 9090-9094' Total 128 holes 32. ACID, SHOT, FRACTURE, CEMENT SQUEEZE, ETC. Table with columns: DEPTH INTERVAL (MD), AMOUNT AND KIND OF MATERIAL USED

33. PRODUCTION DATE FIRST PRODUCTION 8/9/96 PRODUCTION METHOD (Flowing, gas lift, pumping—size and type of pump) Flowing WELL STATUS (Producing or shut-in) Producing

Table with columns: DATE OF TEST, HOURS TESTED, CHOKER SIZE, PROD'N. FOR TEST PERIOD, OIL—BSL, GAS—MCF, WATER—BSL, GAS-OIL RATIO

34. DISPOSITION OF GAS (Sold, used for fuel, vented, etc.) Sold

35. LIST OF ATTACHMENTS 3160-5, Dev Sur, Logs (2 sets)

36. I hereby certify that the foregoing and attached information is complete and correct as determined from all available records.

SIGNED David Stewart Regulatory Analyst CARLSBAD, NEW MEXICO DATE 9/5/96

ACCEPTED FOR RECORD [Signature]

(See Instructions on Reverse Side)

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

EXHIBIT 8

