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- Proration unit - Proposed well location

Exhibits 1 through 6 Complete Set

BEFO	RE EXAMI	NER C	CATANACH
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CASE NO. 10468

BETT BY ANY ONE CATAMACH

COMMUNITIZATION AGREEMENT

1.:	317	NO.	1-A
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STATE OF NEW MEXICO)

KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF LEA

THAT THIS AGREEMENT* is entered into as of the 1990, by and between the parties subscribing, ratifying or consenting hereto, such parties hereinafter being referred to as "Parties hereto";

MHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by the Legislature, as set forth in Sec. 19-10-53, New Mexico Statutes, Annotated, 1978 Laws, in the interest of conservation of oil & gas and the prevention of waste to consent to and approve the development or operation of State lands under agreements made by lessees of oil & gas leases thereon, jointly or severally with other oil & gas lessees of State Lands, or oil and gas lessees or mineral owners of privately owned or fee lands, for the purpose of pooling or communitizing such lands to form a proration unit or portion thereof, or well-spacing unit, pursuant to any order, rule or regulation of the New Mexico Oil Conservation Division of the New Mexico Energy Minerals and Natural Resources Department where such agreement provides for the allocation of the production of oil or gas from such pools or communitized area on an acreage or other basis found by the Commissioner to be fair and equitable.

WHEREAS, the parties hereto, being oil and gas lessees of record, covering lands subject to this agreement, insofar as such leases cover the lands hereinafter described, which leases are more particularly, described in the schedule attached hereto, marked Exhibit "A" and made a part hereof, for all purposes and;

MHEREAS, said leases, insofar as they cover the $\underline{\text{Morrow}}$ formation (hereinafter referred to as "said formation") in and under the land hereinafter described cannot be independently developed and operated in conformity with the well spacing program established for such formation in and under said lands and:

WHEREAS, the parties hereto desire to communitize and pool their respective interests in said leases subject to this agreement for the purpose of developing, operating and producing hydrocarbons in the said formation in and under the land hereinafter described subject to the terms hereof.

NOW THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the undersigned as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

Township 21 South Range 35 East N. M. P. M.

^{*}This agreement not to be used for helium or carbon dioxide.

Section 16: E/2

Lea County, New Mexico
containing 320 acres, more or less, and so hereby declare that it is the judgment of the parties hereto that the communitization, pooling and consolidation of the aforesaid land into a single unit for the development and production of hydrocarbons from the said formation in and under said land is necessary and advisable in order to properly develop and produce the hydrocarbons in the said formation beneath said land in accordance with the spacing rules of the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, State of New Mexico, and in order to promote the conservation of the hydrocarbons in and that may be produced from said formation in and under said lands, and would be in the public interest;

AND, for the purposes aforesaid, the parties hereto do hereby communitize for proration or spacing purposes only the leases described in Exhibit "A" hereto insofar as they cover hydrocarbons within and that may be produced from the said formation (hereinafter referred to as "Communitized Substances") beneath the above-described land, into a single communitization, for the development, production, operation and conservation of the hydrocarbons in said formation beneath said lands.

Attached hereto and made a part of this agreement for all purposes, is Exhibit "A" showing the acreage, and ownership (Lessees of Record) of all lands within the communitized area.

- 2. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leases described in Exhibit "A" hereto in the proportion that the number of surface acres covered by each of such leases and included within the communitized area bears to the total number of acres contained in the communitized area.
- 3. Subject to Paragraph 4, the royalties payable on communitized substances allocated to the individual leases and the rentals provided for in said leases shall be determined and paid in the manner and on the basis prescribed in each of said leases. Except as provided for under the terms and provisions of the leases described in Exhibit "A" hereto or as herein provided to the contrary, the payment of rentals under the terms of said leases shall not be affected by this agreement; and except as herein modified and changed or heretofore amended, the oil and gas leases subject to this agreement shall remain in full force and effect as originally issued and amended.
- 4. The State of New Mexico hereafter is entitled to the right to take in kind its share for the communitized substances allocated to such tract, and Operator shall make deliveries of such royalty share taken in kind in conformity with applicable contracts, laws, and regulations.
- 5. There shall be no obligation upon the parties hereto to offset any well or wells situated on the tracts of land comprising the

communitized area, nor the undersigned be required to measure separately the communitized substances by reason of the diverse ownership of the separate tracts of land comprising the said communitized area; provided, however, that the parties hereto shall not be released from their obligation to protect the communitized area from drainage of communitized substances by wells which may be drilled within offset distance (as that term is defined) of the communitized area.

- 6. The commencement, completion, and continued operation or production of a well or wells for communitized substances on the communitized area shall be considered as the commencement, completion, continued operation or production as to each of the leases described in Exhibit "A" hereto.
- 7. The production of communitized substances and disposal thereof shall be in conformity with the allocations, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State laws or statutes. This agreement shall be subject to all applicable Federal and State laws, executive orders, rules and regulations affecting the performance of the provisions hereof, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if compliance is prevented by or if such failure results from compliance with any such laws, orders, rules and regulations.
- 8. Ultramar Oil and Gas Limited shall be the Operator of said communitized area and all matters of operation shall be determined and performed by Ultramar Oil and Gas Limited .
- 9. This agreement shall be effective as of the date hereinabove written upon execution by the necessary parties, notwithstanding the date of execution and upon approval by the Commissioner of Public Lands, shall remain in full force and effect for a period of one year from the date hereof and as long thereafter as communitized substances are produced from the communitized area in commercial quantities; provided, that this agreement shall not expire if there is a well capable of producing gas in paying quantities located upon some part of the communitized area, if such well is shut-in due to the inability of the operator to obtain a pipeline connection or to market the gas therefrom, and if a shut-in royalty has been timely and properly paid pursuant to the provisions of one of the State of New Mexico oil and gas leases covering lands subject to this agreement so as to prevent the expiration of such lease; provided further, however, that prior to production in commercial quantities from the communitized area, and upon fulfillment of all requirements of the Commissioner of Public Lands with respect to any dry hole or abandoned well drilled upon the communitized area, this Agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production of communitized substances if. within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of non-production.

- 10. Operator will furnish the Oil Conservation Division of the New Mexico Energy Minerals and Natural Resources Department, and the Commissioner of Public Lands, of the State of New Mexico, with any and all reports, statements, notices and well logs and records which may be required under the laws and regulations of the State of New Mexico.
- 11. It is agreed between the parties hereto that the Commissioner of Public Lands, or his duly authorized representatives, shall have the right of supervision over all operations under the communitized area to the same extent and degree as provided in the oil and gas leases described in Exhibit "A" hereto and in the applicable oil and gas regulations of the State of New Mexico.
- 12. If any order of the Oil Conservation Division of the New Mexico Energy Minerals and Natural Resources Department, upon which this agreement is predicated or based is in anyway changed or modified, then in such event said agreement is likewise modified to conform thereto.
- 13. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instruments, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.
- 14. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

duministrators, successors and assigns.
IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written. OPERATOR: Ultramar Oil and Gas Limited BY: R. M. Bayliss, Vice President
LESSEES OF RECORD: See attached sheet
STATE OF TEXAS
COUNTY OF HARRIS A :
The foregoing instrument was acknowledged before me this 4 day of 400 least 1992 by R. M. Bayliss as Vice President on behalf of

Ultramar Oil and Gas Limited

XCOMPANYX

PATTI J. BARGER Notary Public, State of Texas My Commission Expires: 02-05-94 LESSEES OF RECORD:

SANTA FE ENERGY OPERATING PARTNERS,
L.P.

By: Santa Fe Pacific Exploration
Company, Managing General
Partner

APPROVED

By:

T. S. Parker
Attorney-in-Fact

WARRIOR, INC.

By:

Attorney-in-Fact

MILLARD DECK OIL COMPANY

By:

Lawrence M. Story, President

7 00 0 <i>4</i>	Y Y
7-30-94 My Commission Expires	Notary Public
STATE OF TEXAS)	Sandra Lavers
)SS	Notary Public, State of Texas
The foregoing instrument was acknowled 1992 by T. S. Parker, as Santa Fe Pacific Exploration of Santa Fe Energy Operating Partners	dged before me this 28th day of April, Attorney in Fact on behalf of Company, Managing General Partner, L.P.
My Commission Expires	Notary Public
STATE OF)	
COUNTY OF)	
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ine toregoing instrument was ackn	owledged before me this <u>day of</u> , as Attorney in Fact
on behalf of	, as Attorney in Fact Company.
My Commission Expires	Notary Public
STATE OF)	
COUNTY OF)	
The foregoing instrument was acknowld 19 by Comp	edged before me this day of, as Attorney in Fact on behalf bany.
My Commission Expires	Notary Public
STATE OF)	
COUNTY OF)	
The foregoing instrument was ackn	owledged before me this day of
behalf of by	owledged before me this day of as Attorney in Fact on Company.
My Commission Expires	Notary Public

EXHIBIT "A"

, 1990, by	rt of that Communitization Agreement dated and between Santa Fe Energy Operating, Part
L.P., Warrior, Inc.	and Millard Deck Oil Company, paramy covering the E/2 Section 16
	35 East, Lea, County, New Mexico.
perator of Communitized Area:	
Company : Ultramar Oil as	nd Gas Limited
Description of Leases Committe	d:
Tract No. 1	_
Lessor:	State of New Mexico acting by and through its Commissioner of Public Lands
Lessee of Record: Serial No. of Lease: Date of Lease: Description of Lands	Santa Fe Energy Operating Partners, L.P. VB-0177 January 1, 1988
Committed:	SE/4 of Section 16, T-21-S, R-35-E, N.M.P.M., Lea County, New Mexico
No. of Acres:	
Tract No. 2	
Lessor:	State of New Mexico acting by and through its Commissioner of Public Lands
Lessee of Record: Serial No. of Lease: Date of Lease: Description of Lands	Warrior, Inc. and Millard Deck Oil Company E-1732 February 10, 1948
Committed:	NE/4 of Section 16, T-21-S, R-35-E, N.M.P.M., Lea County, New Mexico
No. of Acres:	

Tract No. 3		
Lessor:		State of New Mexico acting by and through its Commissioner of Public Lands
Lessee of Record: Serial No. of Lease: Date of Lease: Description of Lands Committed:		
No. of Acres:		
Tract No. 4		
Lessor:		State of New Mexico acting by and through its Commissioner of Public Lands
Lessee of Record: Serial No. of Lease: Date of Lease: Description of Lands Committed:		
No. of Acres:		
	RECAP	PITULATION
TRACT NO.	NO. OF ACRES	PERCENTAGE OF INTEREST IN COMMUNITIZED AREA
Lease No. 1	160	50%
Lease No. 2	160	50%
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Leasex Noxx

OWNERSHIP

Record Title:	
The NE/4:	
Warrior, Inc. and Millard Deck Oil Company	All
The SE/4:	
Santa Fe Energy Operating Partners, L.P	All
Operating Rights:	
All of the E/2:	
Santa Fe Energy Operating Partners, L.P	50%
Ultramar Oil and Cas Limited	50ያ

10468

LAW OFFICES OF

KEMP, SMITH, DUNCAN & HAMMOND

A PROFESSIONAL CORPORATION

400 WEST ILLINOIS, SUITE 1400 POST OFFICE BOX 2796

MIDLAND, TEXAS 79702-2796

TELEPHONE (915) 687-0011 FAX (915) 687-1735

J. RANDY TURNER MEMBER TEXAS AND NEW MEXICO BARS

April 11, 1991

EL PASO, TEXAS 78801-144) 2000 MBANK PLAZA P. O. DRAWER 2800, 78888-2800 (BIB) 823-4424 FAX. (BIB) 846-8380 EASYLINK: 62637283 TELEX. BIOSOIGSBU KEMP UO

ALBUQUERQUE, NEW MEXICO 87(02-812) 800 MARQUETTE, N W. SUITE 1200 P.O. 80X 1276, 87(03-1276 (808) 847-8318 FAX (808) 843-6088

SANTA FE, NEW MEXICO 87801-1881 300 PASEO DE PERALTA, SUITE 200 P. O. 80X 8680, 87804-8880 (808) 988-1913 FAX: (808) 988-7883

BROWNSVILLE, TEXAS 78821-4066 3808 BOCA CHICA BOULEVARD, SUITE 450 (818) 844-8778 FAX: (818) 844-4887

Mr. Philip R. Bishop Bishop, Payne, Lamsens & Brown Eighteenth Floor NCNB Texas National Bank Building 500 West Seventh Street Fort Worth, TX 76102

Re: Ultramar Oil and Gas Limited's request that Miller Deck Oil Company execute a New Mexico State Communitization Agreement

Dear Mr. Bishop:

Enclosed is the most recent public financial information on the Ultramar companies. I hope that after you have reviewed this information you will feel comfortable in accepting an indemnification agreement from Ultramar Oil and Gas Limited.

The State of New Mexico is pressing us to get this Communitization Agreement executed. Our leases will be in jeopardy if this is not done soon. Therefore, I ask that you please expedite this request.

Very truly yours,

KEMP, SMITH, DUNCAN & HAMMOND, P.C.

By:

Randy Turner

JRT/1f

xc: Bo Blue

Ultramar Oil and Gas Limited

COST NO. 10468

REPORT OF THE SECOND ON THE SE

INDEMNIFICATION AGREEMENT

j	0468	
·#	C.Z. Y.Y.	-

For a valuable consideration, the receipt and sufficiency of which are hereby acknowledged, ULTRAMAR OIL AND GAS LIMITED, the Operator under that certain Communitization Agreement dated March 1, 1991, which communitizes the Morrow Formation underlying the E/2 of Section 16, T-21-S, R-35-E, Lea County, New Mexico, for the operation of the Petro-Quest Osudo #1 Well, hereby agrees to indemnify and hold MILLARD DECK OIL COMPANY harmless from any and all losses, claims, demands or liabilities of any kind arising by virtue of MILLARD DECK OIL COMPANY's execution of said Communitization Agreement.

nitization Agreement.	
DATED:	
	ULTRAMAR OIL AND GAS LIMITED
	By:
	Name:
	Title:

KEMP, SMITH, DUNCAN & HAMMOND OTHER OFFICES: El Paso, Texas 79901-1441 de la company SION Attomeys at Law 2000 MBank Plaza (915) 533-4424 - FAX (915) 546-5360 400 West Illinois, Suite 1400 Midland, Texas 79701-4310 (915) 687-0011 Albuquerque, New Mexico 79701-4310 500 Marquette, N.W., Suite 1200 10468 FAX (915) 687-1735 (505) 247-2315 - FAX (505) 843-6099 **FAX COVER SHEET** Santa Fe, New Mexico 87501-1861 300 Paseo de Peralta, Suite 200

(505) 982-1913 - FAX (505) 988-7563

PLEASE DELIVER THE FOLLOWING PAGES IMMEDIATELY TO: Firm: State: City:_ FAX Telephone Number: _ Client No. PAGES INCLUDING THIS COVER SHEET. IF YOU HAVE ANY PROBLEMS THERE ARE regarding transmission or if you do not receive all of the Mages, please call AT (915) 687-0011. Signature of Operator

THE INFORMATION CONTAINED IN THIS FACSIMILE MESSAGE IS ATTORNEY PRIVILEGED AND CONFIDENTIAL INFORMATION INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY NAMED ABOVE. IF THE READER OF THIS MESSAGE IS NOT THE INTENDED RECIPIENT, OR THE EMPLOYEE OR AGENT RESPONSIBLE TO DELIVER IT TO THE INTENDED RECIPIENT, YOU ARE HEREBY NOTIFIED THAT ANY DISSEMINATION, DISTRIBUTION OR COPYING OF THIS COMMUNICATION IS STRICTLY PROHIBITED. IF YOU HAVE RECEIVED THIS COMMUNICATION IN ERROR, PLEASE IMMEDIATELY NOTIFY US BY TELEPHONE AND RETURN THE ORIGINAL MESSAGE TO US AT THE ABOVE ADDRESS VIA THE U.S. POSTAL SERVICE. THANK YOU.

68b. 7400

LAW OFFICES OF

KEMP, SMITH, DUNCAN & HAMMOND

A PROFESSIONAL CORPORATION

400 WEST ILLINOIS, SUITE 1400

POST OFFICE BOX 2796
MIDLAND, TEXAS 79702-2796

TELEPHONE (915) 687-0011 FAX (915) 687-1735

JAMES R. "RUSTY" FULLER MEMBER TEXAS, NEW MEXICO AND OKLAHOMA BARS

December 6, 1990

EL PASO, TEXAS 79801-1461

ROOD MBANK PLAZA

P. O. DRAWER 2000, 78808-2000

[616] 833-4824 FAX: (616) 846-8360

EASYLINK: 82097203

TELEX: 8108018890 KEMP UO

ALBUQUERQUE, NEW MEXICO 67102-2121 BOO MARQUETTE, N.W., SUITE 1200 P.O. BOX 1276, 67103-1276 (BOB) 847-2318 PAX: (BOB) 843-6089

SANTA FE, NEW MEXICO B7EGI-ISSI 300 PASEO DE PERALTA, SUITE 200 P O. 80% 8680, 87804-8680 [808] 982-1813 FAX: (808) 982-7863

BROWNSVILLE, TEXAS 78821-4066 3505 BOCA CHICA SOULEVARD, SUITE 460 (512) 544-5772 FAX: (512) 544-4557

Mr. Lawrence M. Story, President Millard Deck Oil Company P. O. Box 1317 Fort Worth, TX 76101

Re: Communitization Agreement covering the Morrow Formation in and under the E/2 of Section 16, T-21-S, R-35-E, N.M.P.M., Lea County, New Mexico

Dear Mr. Story:

We have been retained by Ultramar Oil and Gas Limited to prepare a Communitization Agreement covering the above-referenced land. Our title examination reflects that Millard Deck Oil Company and Warrior, Inc. are the record title owners of State of New Mexico Lease No. E-1732, which is dated February 10, 1948, and which covers the NE/4 of Section 16, T-21-S, R-35-E, N.M.P.M., Lea County, New Mexico. Millard Deck Oil Company also owns operating rights under Lease No. E-1732, insofar as it covers the NE/4 of Section 16 from the surface down to 10,000 feet beneath the surface.

Our examination also reflects that Santa Fe Energy Operating Partners, L.P. is the record title owner of State of New Mexico Lease No. VB-0177 dated January 1, 1988, which covers the SE/4 of said Section 16. Furthermore, Santa Fe Energy Operating Partners, L.P. is to be the operator under the above-referenced Communitization Agreement.

Although Millard Deck Oil Company and Warrior, Inc. do not own operating rights in the Morrow Formation (located approximately 12,400 feet beneath the surface), the State of New Mexico requires that all of the lessees of record and the operator of the communitized area execute the Communitization Agreement. Mr. Jack West has informed us that you are the President of Millard Deck Oil Company; therefore, we have enclosed three originals of the above-referenced Communitization Agreement for your signature. Please execute and acknowledge the three originals and forward them to us in the self-addressed stamped envelope which I have enclosed for your convenience.

Millard Deck Oil Company December 6, 1990 Page 2

We are circulating counterparts of this Communitization Agreement to Warrior, Inc. and Santa Fe Energy Operating Partners, L.P. for their execution. After all of the originals have been returned to us, we will forward them to the Commissioner of Public Lands for approval.

Thank you for your assistance in this matter. If you have any questions, please feel free to give me a call.

Very truly yours,

KEMP, SMITH, DUNCAN & HAMMOND

Bv:

Rusty Fuller

JRF/lf

Enclosures

10468

LAW OFFICES OF

KEMP, SMITH, DUNCAN & HAMMOND

A PROFESSIONAL CORPORATION

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J RANDY TURNER MEMBER TEXAS AND NEW MEXICO BARS

April 8, 1992

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BROWNSVILLE, TEXAS 78821-4066 3505 BOCA CHICA BOULEVARD, SUITE 450 (BIZ) 844-8772 FAX. (BIZ) 844-4857

CERTIFIED MAIL -RETURN RECEIPT REQUESTED

Millard Deck Oil Company c/o Mr. Philip R. Bishop Bishop, Payne, Lansens & Brown Eighteenth Floor NCNB Texas National Bank Building 500 West Seventh Street Ft. Worth, TX 76102

Application of Ultramar Oil and Gas Limited for compulsory pooling

Dear Mr. Bishop:

For nearly two years, this law firm, on behalf of Ultramar Oil and Gas Limited, has attempted to secure the execution by Millard Deck Oil Company of a Communitization Agreement communitizing the Morrow formation underlying the E/2 of Section 16, T-21-S, R-35-E, N.M.P.M., Lea County, New Mexico.

We have made it clear to you that Millard Deck Oil Company owns only a record title interest according to the records of the New Mexico State Land Office and that no economic interest of Millard Deck Oil Company would be affected by the Communitization Agreement. At your request, we also furnished you with financial information of Ultramar Oil and Gas Limited and related companies in an attempt to demonstrate that an indemnification given by Ultramar would adequately protect Millard Deck from any liability for executing such Communitization Agreement. Despite our attempts to get you to respond to this information, you never responded.

Ultramar has been advised by the State of New Mexico that Ultramar must submit a fully executed Communitization Agreement immediately or we must commence compulsory pooling proceedings on the record title interest of Millard Deck. Our failure to obtain Millard Deck's execution of the Communitization Agreement or to force pool Millard Deck's interest will result in the State shutting in Ultramar's well.

Millard Deck Oil Company April 8, 1992 Page 2

Pursuant to your advice, Millard Deck has refused to execute the Communitization Agreement. Therefore, we are left with no choice but to go to the expense and trouble of instituting compulsory pooling proceedings with the New Mexico Oil Conservation Division. Enclosed is a copy of our Application which has been set for hearing on April 30, 1992. A representative of Millard Deck need not be present at the hearing; however, we anticipate the hearing examiner granting our Application for compulsory pooling whether or not a representative of Millard Deck attends the hearing.

Very truly yours,

KEMP, SMITH, DUNCAN & HAMMOND, P.C.

By:

Randy Turne

JRT/pb Enclosure

P 546 945 770

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED NOT FOR INTERNATIONAL MAIL (See Reverse)

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PS Form 3800, June 1985	Postmark or Date		

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