

KELLAHIN, KELLAHIN and AUBREY

Attorneys at Law

W. Thomas Kellahin
Karen Aubrey

El Patio - 117 North Guadalupe
Post Office Box 2265

Telephone 982-4285
Area Code 505

Jason Kellahin
Of Counsel

Santa Fé, New Mexico 87504-2265

September 14, 1988

*DK
MS.*

Mr. David Catanach
New Mexico Department of
Energy & Minerals
Oil Conservation Division
Land Office Building
Santa Fe, NM 87501

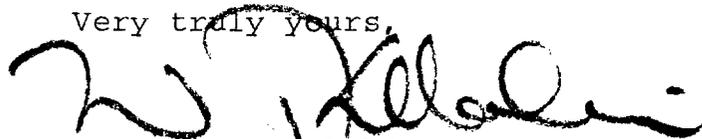
Re: Case No. 9472
Application of Terra Resources, Inc., for Compulsory Pooling
and Unorthodox Well Location, Eddy County, New Mexico

Dear Mr. Catanach:

Our firm represents Terra Resources, Inc. I have received a copy of a letter sent to you by Mr. Scott Hall, attorney for Marathon Oil Company, dated September 13, 1988.

Mr. Hall failed to tell you that our concurrence in having the Terra Resources case once again continued is specifically conditioned upon Marathon's agreement that they will not seek any further delay in our case and that this matter will be heard on September 28, 1988.

Very truly yours,



W. Thomas Kellahin

WTK/dm

cc: Kevin Pfister (Terra Resources)
Scott Hall, Esq.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

October 12, 1988

POST OFFICE BOX 2098
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. Thomas Kellahin
Kellahin & Kellahin
Attorneys at Law
Post Office Box 2265
Santa Fe, New Mexico

Re: CASE NO. 9472
ORDER NO. R-2759

Applicant:

Terra Resources, Inc.

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Division order recently entered in the subject case.

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other William F. Carr

KELLAHIN, KELLAHIN and AUBREY
Attorneys at Law

W. Thomas Kellahin
Karen Aubrey

El Patio - 117 North Guadalupe
Post Office Box 2265

Telephone 982-4285
Area Code 505

Jason Kellahin
Of Counsel

Santa Fé, New Mexico 87504-2265

October 17, 1988

see file 94172

**NOTIFICATION OF POOLING
CERTIFIED MAIL RETURN RECEIPT**

Michael H. Moore
310 West Wall, Suite 404
Midland, TX, 79701

Re: Terra Resources, Inc.
Sleepy #1 Well
Humphrey's Prospect
NMOCD Order R-8759

Dear Interest Owner:

Our firm represents Terra Resources, Inc. which has obtained from the New Mexico Oil Conservation Division a compulsory pooling order covering all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation for the W/2 of Irregular Section 31, T18S, R26E, Eddy County, New Mexico. A copy of this pooling Order (R-8759) is enclosed.

In accordance with the terms of the Division Pooling Order, I am providing you with notice of your right to elect to participate in the well to be drilled pursuant to this Order.

Terra Resources, Inc. proposes to drill the subject well at a location shown on the enclosed Form C-102. Your interest in the well is derived from your interest in the Cost-A-Plente Working Interest Unit operated by Yates Petroleum Corporation pursuant to an Operating Agreement dated August 31, 1979.

Should you desire to participate in this well and avoid the payment of the 200% risk factor penalty out of your share of production, then within thirty days (30) of the date you receive this letter, Terra Resources, Inc. must receive a cashier's check for your proportionate share of the completed well costs and a letter signed by you agreeing to execute a standard joint operating agreement.

If you decide not to participate then you need to do nothing further. In that event, Terra Resources, Inc. will pay your share of the costs of the well and will recover your share out of production, plus an additional 200%.

KELLAHIN, KELLAHIN and AUBREY

Michael H. Moore
October 17, 1988
Page 2

To aid you in your decision, I have enclosed certain exhibits from the hearing:

- (1) Exhibit 3 is a landman's plat of the area;
- (2) Exhibit 2 is the plat showing the various tracts for the spacing unit for the well; and the estimated percentage of the interests in each of the tracts in the spacing unit;
- (3) Exhibit 10 is the estimated well costs for the well; and
- (4) Exhibit 4 is a Form C-102 showing the well location.

I have not attempted to calculate for you the actual sum of money you must send to Mr. Pfister in order to participate. If you desire to know that information you may call Kevin Pfister, Terra Resources, Inc., 10 Desta Drive, Suite 500 West, Midland, Texas 79705, phone (915) 684-3861.

Very truly yours,

Original signed by
W. THOMAS KELLAHIN
W. Thomas Kellahin

WTK/dim
Encl.

cc: Terra Resources, Inc.
Oil Conservation Division (SF)
William F. Carr, Esq.

KELLAHIN, KELLAHIN and AUBREY
Attorneys at Law

W. Thomas Kellahin
Karen Aubrey

El Patio - 117 North Guadalupe
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Jason Kellahin
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Santa Fé, New Mexico 87504-2265

October 17, 1988

**NOTIFICATION OF POOLING
CERTIFIED MAIL RETURN RECEIPT**

Richard L. Moore
310 West Wall, Suite 404
Midland, TX, 79701

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Humphrey's Prospect
NMOCD Order R-8759

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Oil Conservation Division (SF)
William F. Carr, Esq.

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Area Code 505

W. Thomas Kellahin
Karen Aubrey

Jason Kellahin
Of Counsel

October 17, 1988

**NOTIFICATION OF POOLING
CERTIFIED MAIL RETURN RECEIPT**

Loco 79 Ltd.
305 South 5th Street
Artesia, NM, 88210

Re: Terra Resources, Inc.
Sleepy #1 Well
Humphrey's Prospect
NMOCD Order R-8759

Dear Interest Owner:

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Loco 79 Ltd.
October 17, 1988
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WTK/dim
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Oil Conservation Division (SF)
William F. Carr, Esq.

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Karen Aubrey

El Patio - 117 North Guadalupe
Post Office Box 2265

Telephone 982-4285
Area Code 505

Jason Kellahin
Of Counsel

Santa Fé, New Mexico 87504-2265

October 17, 1988

**NOTIFICATION OF POOLING
CERTIFIED MAIL RETURN RECEIPT**

Eugene E. Nearburg
P.O. Box 31405
Dallas, TX, 75231

Re: Terra Resources, Inc.
Sleepy #1 Well
Humphrey's Prospect
NMOCD Order R-8759

Dear Interest Owner:

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KELLAHIN, KELLAHIN and AUBREY

Eugene E. Nearburg
October 17, 1988
Page 2

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W. Thomas Kellahin

WTK/dim
Encl.

cc: Terra Resources, Inc.
Oil Conservation Division (SF)
William F. Carr, Esq.

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Of Counsel

Santa Fé, New Mexico 87504-2265

October 17, 1988

**NOTIFICATION OF POOLING
CERTIFIED MAIL RETURN RECEIPT**

Roy G. Barton
P.O. Box 978
Hobbs, NM, 88240

Re: Terra Resources, Inc.
Sleepy #1 Well
Humphrey's Prospect
NMOCD Order R-8759

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KELLAHIN, KELLAHIN and AUBREY

Roy G. Barton
October 17, 1988
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W. Thomas Kellahin

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Oil Conservation Division (SF)
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W. Thomas Kellahin

Karen Aubrey

Jason Kellahin

Of Counsel

October 17, 1988

**NOTIFICATION OF POOLING
CERTIFIED MAIL RETURN RECEIPT**

Stephen S. Moore
310 West Wall, Suite 404
Midland, TX, 79701

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Humphrey's Prospect
NMOCD Order R-8759

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Stephen S. Moore
October 17, 1988
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W. Thomas Kellahin

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Oil Conservation Division (SF)
William F. Carr, Esq.

KELLAHIN, KELLAHIN and AUBREY
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W. Thomas Kellahin
Karen Aubrey

El Patio - 117 North Guadalupe
Post Office Box 2265

Telephone 982-4285
Area Code 505

Jason Kellahin
Of Counsel

Santa Fé, New Mexico 87504-2265

October 17, 1988

**NOTIFICATION OF POOLING
CERTIFIED MAIL RETURN RECEIPT**

Ralph Nix
101 S. 7th
Artesia, NM, 88210

Re: Terra Resources, Inc.
Sleepy #1 Well
Humphrey's Prospect
NMOCD Order R-8759

Dear Interest Owner:

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KELLAHIN, KELLAHIN and AUBREY

Ralph Nix
October 17, 1988
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W. Thomas Kellahin

W. Thomas Kellahin

WTK/dim
Encl.

cc: Terra Resources, Inc.
Oil Conservation Division (SF)
William F. Carr, Esq.

KELLAHIN, KELLAHIN and AUBREY

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Of Counsel

Santa Fé, New Mexico 87504-2265

October 17, 1988

**NOTIFICATION OF POOLING
CERTIFIED MAIL RETURN RECEIPT**

Robert E. Bowling
305 South 5th Street
Artesia, NM, 88210

Re: Terra Resources, Inc.
Sleepy #1 Well
Humphrey's Prospect
NMOCD Order R-8759

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Robert E. Bowling
October 17, 1988
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Karen Aubrey

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Of Counsel

October 17, 1988

**NOTIFICATION OF POOLING
CERTIFIED MAIL RETURN RECEIPT**

Dorchester Exploration, Inc.
1204 Vaughn Building
Midland, TX, 79701

Re: Terra Resources, Inc.
Sleepy #1 Well
Humphrey's Prospect
NMOCD Order R-8759

Dear Interest Owner:

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KELLAHIN, KELLAHIN and AUBREY

Dorchester Exploration, Inc.
October 17, 1988
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cc: Terra Resources, Inc.
Oil Conservation Division (SF)
William F. Carr, Esq.

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. 9472
ORDER NO. R-8759

APPLICATION OF TERRA RESOURCES, INC.
FOR COMPULSORY POOLING AND 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 September 28, 1988, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 11th day of October, 1988, 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) The applicant, Terra Resources, Inc., seeks an order pooling all mineral interests from the top of the Wolfcamp formation to either the base of the Morrow formation or to a depth of 9300 feet, whichever is deeper, (which includes but is not necessarily limited to the Undesignated Dayton-Wolfcamp Gas Pool, Undesignated Boyd-Morrow Gas Pool and Undesignated Atoka-Pennsylvanian Gas Pool) underlying Lots 1 through 4 and the E/2 W/2 of Irregular Section 31, Township 18 South, Range 26 East, NMPM, Eddy County, New Mexico, forming a standard 316-acre gas spacing and proration unit.

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Order No. R-8759
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(3) The applicant has the right to drill and proposes to drill a well on the subject spacing and proration unit 1980 feet from the North line and 1617 feet from the West line (Unit F) of said Section 31.

(4) The applicant presented testimony and evidence showing that a discrepancy in the official survey as registered with the U.S. Public Lands Survey was discovered at the time the above-described location was staked. According to the applicant, the fractional lots bordering the western boundary line of said Section 31 are approximately 100 feet shorter than indicated on the official survey plat. In actuality, the subject well is 1980 feet from the North line and 1513 feet from the West line of said Section 31 (990 feet west and 660 feet north of the quarter section lines of the NW/4 of said Section 31.)

(5) For the purpose of describing the subject well in this order, measurements based on the survey plat as registered with the U.S. Public Lands Survey will be used; however, the actual location will be shown in parentheses.

(6) The subject well location is within one mile of the Dayton-Wolfcamp, Boyd-Morrow and Atoka-Pennsylvanian Gas Pools, and is therefore subject to the provisions governing each pool.

(7) The Dayton-Wolfcamp and Boyd-Morrow Gas Pools are currently governed by the Statewide General Rules and Regulations; however, the Atoka-Pennsylvanian Gas Pool is governed by Special Rules promulgated by Division Order No. R-8170, as amended, which provides that wells be located in the northwest or the southeast quarter of a Section and no nearer than 990 feet to the outer boundary of the quarter section nor nearer than 330 feet to any governmental quarter-quarter section line of subdivision inner boundary.

(8) The subject well location is at a standard gas well location for pools governed under Statewide Rules, but is at an unorthodox gas well location for the Atoka-Pennsylvanian Gas Pool.

(9) No interested party or offsetting operators appeared at the hearing or objected to this application.

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(10) If, at the time of completion, it is determined that the production from this well should be placed in the Atoka-Pennsylvanian Gas Pool, the unorthodox gas well location portion of this application should be approved.

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

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

(13) The applicant should be designated the operator of the subject well and unit.

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

(15) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional ~~200~~ percent thereof as a reasonable charge for the risk involved in the drilling of the well.

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

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

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(18) \$3900.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling and \$390.00 per month should be fixed as a reasonable charge for supervision while producing; this charge should be adjusted annually based upon the percentage increase or decrease in the average weekly earnings of crude petroleum and gas production workers; the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(20) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before December 31, 1988, the order pooling said unit should become null and void and of no further effect whatsoever.

(21) Should all the parties to this force pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(22) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the top of the Wolfcamp formation to either the base of the Morrow formation or to a depth of 9300 feet, whichever is deeper, (which includes but is not necessarily limited to the Undesignated Dayton-Wolfcamp Gas Pool, Undesignated Boyd-Morrow Gas Pool and Undesignated Atoka-Pennsylvanian Gas Pool) underlying Lots 1 through 4 and the E/2 W/2 of Section 31, Township 18 South, Range 26 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 316-acre, more or less, gas spacing and proration unit to be dedicated to a well to be drilled 1980 feet from the North line and 1617 (1513) feet from the West line (Unit F) of said

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PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 31st day of December, 1988, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test from the top of the Wolfcamp to the base of the Morrow formation; and

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 31st day of December, 1988, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown; and

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

(2) If, at the time of completion, gas production from the subject well is placed in the Atoka-Pennsylvanian Gas Pool the unorthodox gas well location portion of this application is hereby approved.

(3) Terra Resources, Inc. is hereby designated the operator of the subject well and unit.

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

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

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the

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Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45 day period the Division will determine reasonable well costs after public notice and hearing.

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

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

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

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) ~~\$3900.00~~ per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and ~~\$390.00~~ per month is hereby fixed as a reasonable charge for supervision while producing, provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order; the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings Crude Petroleum and

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(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

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Gas Production Workers of the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

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

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

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

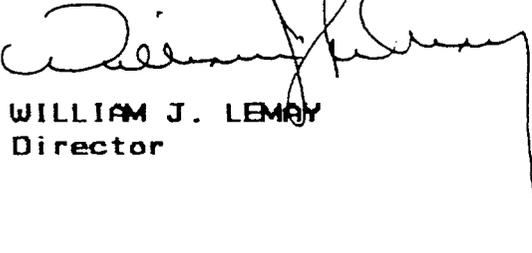
(14) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force pooling provisions of this order.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, appearing to read "William J. Lemoy", is written over the typed name. A long vertical line extends downwards from the end of the signature.

WILLIAM J. LEMOY
Director

S E A L

NEW MEXICO OIL CONSERVATION COMMISSION
WELL LOCATION AND ACREAGE DEDICATION PLAT

Form C-102
Supersedes C-128
Effective 1-1-65

- 4 -

All distances must be from the outer boundaries of the Section.

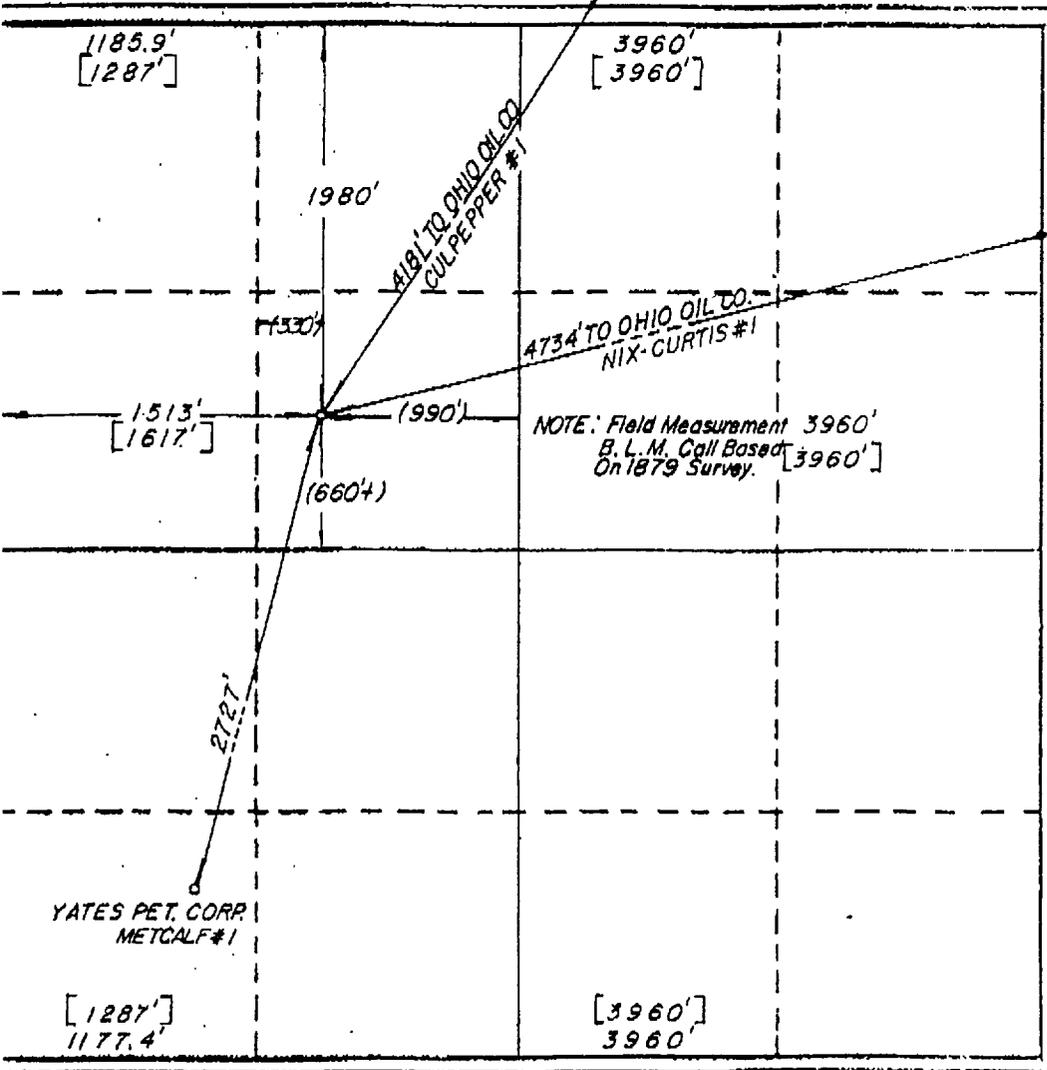
Operator TERRA RESOURCES, INC.		Lessee SLEEPY		Well No. #1
Unit Letter F	Section 31	Township 18-SOUTH	Range 26-EAST	County EDDY
Actual Footage Location of Well: 1980 feet from the NORTH line and 1513 feet from the WEST line				
Ground Level Elev. 3468'	Producing Formation	Pool	Dedicated Acreage Acres	

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

Yes No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION	
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.	
Name	
Position	
Company	
Date	
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 knowledge and belief.	
AUGUST 22, 1988	
Date Surveyed	
Richard B. Duniven Registered Professional Engineer and/or Land Surveyor	
<i>Richard B. Duniven</i>	
Certificate No.	4882

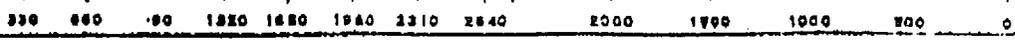


EXHIBIT 10
TERRA RESOURCES, INC.
DRILLING & COMPLETION DETAILED COST ESTIMATE

HUMPHREYS PROSPECT

Well No.: 1 Lease Name: SLEEPY Field: BOYD (MORROW)
Well location: N/2 of SECTION 31 Legal Description: T18S, R26E
County: EDDY State: NEW MEXICO Proposed Depth: 9,300'
Objective Formation: MORROW AFE No. _____ Terra W.I. _____

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION	TOTAL
Survey-Stake Location	1	1,500			1,500
Permits & Hearings	2		83		
Building Road, bridges, canals	3	3,500	84		3,500
Building Location & Pits	4	9,000	85		9,000
Insurance (for Terra only)	5	4,200	86		4,200
Move in - Rig up - Rig down Move out	6		87		
Rat Hole	7				
Footage Contract 9300' @ \$14.50/ft.	8	134,900			134,900
Daywork Contract 5/2 days @ \$3800/day	9	19,000	88	7,600	26,600
Turnkey Agreement	10		90		
Rig for Completion \$1400/day x 8 days			101	11,200	11,200
Drill Bits	12		102	500	500
Rental Equipment	13	2,000	103	2,000	4,000
Fishing Tools & Service	14		104		
Company Labor	15	500	107	500	1,000
Auto & Travel	16	500	108	500	1,000
Contract Labor	17	2,500	113	2,500	5,000
Trucking, Hauling, Service Equip.	18	1,500	114	1,000	2,500
Power & Fuel	19		115		
Water	20	16,000	116	2,000	18,000
Mud & Chemicals	21	18,000	117		18,000
Drill Pipe, Casing, Rod Inspection	22	1,000	125	1,000	2,000
Formation Testing (incl. DST)	23	7,000			7,000
Coring ___' of core @ \$___/ft	24				
Mud Logging @ \$300/day	25	9,800			9,800
Logs	26	16,500	126	4,500	21,000
Temperature Survey	27		148		
Bottom Hole Pressure Test	28		149	3,000	3,000
Directional Services	29		152		
Engineering, Geological, Geophysical	30	6,000	153	3,600	9,600
Cmtg., Conductor or Surf. Csg. (incl. float equip.)	31	9,500			9,500
Cmtg., Interm. or Prod. Csg. (incl. float equip.)	32		154	5,500	5,500
Squeeze Jobs	33		155		
Perf. or Shooting	34		156	4,500	4,500
Frac. and/or acidize			157	7,500	7,500
Swabbing	36		158		
Plugging, if dry	37	6,000	159		6,000
Damage Claims	38	2,500	165		2,500
Cleaning Location	39	2,500	166		2,500
District Expense	40	8,700	172		8,700
Communications	41	500	177		500
Environmental & Safety Equipment	42		178		
Misc. Material & Service (Contingency)	43	5,900	179	3,600	9,500
<hr style="border-top: 1px dashed black;"/>					
TOTAL INTANGIBLES		\$289,000		\$61,000	\$350,000

DRILLING & COMPLETION DETAILED COST ESTIMATE
 SLEEPY #1
 HUMPHREYS PROSPECT
 EDDY COUNTY, NEW MEXICO
 PAGE 2

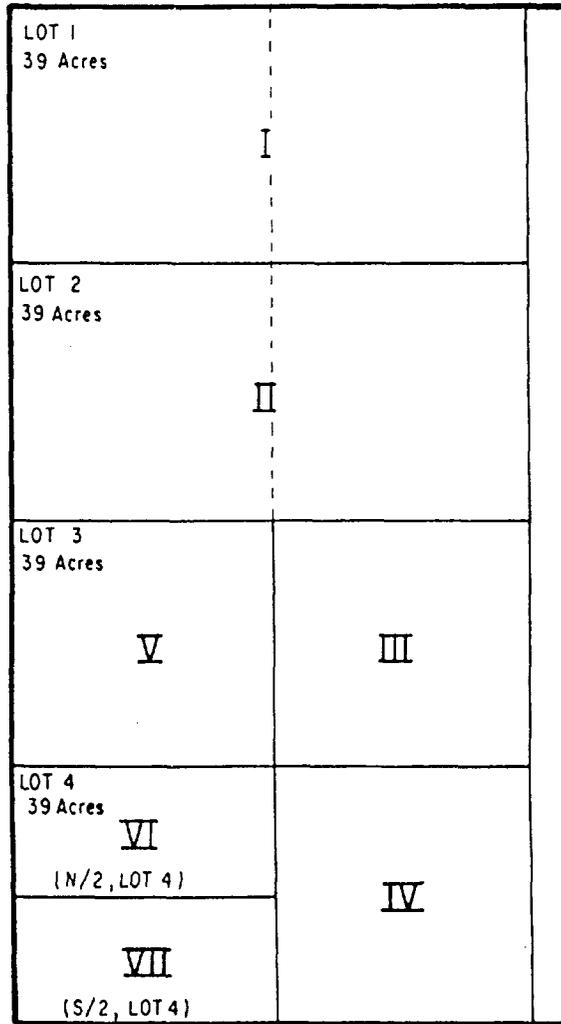
CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION	TOTAL
Surface Casing 1400' of 8-5/8"OD, 24#/ft, J-55 @ \$9/ft.	50	12,600			12,600
Intermediate Casing	51				
Production Casing 7000' of 5-1/2"OD, 15.5#/ft, K-55 @ \$6/ft. 1500' of 5-1/2"OD, 17#/ft, K-55 @ \$6.75/ft. 800' of 5-1/2"OD, 17#/ft, N-80 @ \$8.25/ft.			52	58,700	58,700
Liner			53		
Tubing 9200' of 2-3/8"OD, 4.7#/ft, N-80 @ \$3.15/ft.			54	29,000	29,000
Xmas Tree & Tubing Head Components	55	4,400	182	8,000	12,400
Pumping Unit or Prime Mover			56		
Production Platform - Mat. & Labor			58		
Rods			59		
Subsurface Pump			60		
Tanks			61	6,000	6,000
Circulating Pump			63	800	800
Dehydrator			64		
Heater Treater or Gunbarrel			65		
Separator/FWKO			66	9,000	9,000
Flowline & Connection 1500' of 2"OD Linepipe @ \$2/ft			68	9,000	9,000
Meter, Meter Run & Connections			70	2,500	2,500
Buildings			71		
Packer/TAC			72	2,500	2,500
Miscellaneous Equip. (fittings, etc.)	73	1,000	185	1,500	2,500
<hr/>					
TOTAL TANGIBLE		\$18,000		\$127,000	\$145,000
Installation of Tubing			54		
Installation of Pmpg Unit & Prime Mover			56		
Installation of Tanks			61	2,500	2,500
Installation of Dehydrator			64		
Installation of Heater Treater or Gun Barrel			65		
Installation of Separator/FWKO			66	1,000	1,000
Installation of Flowline			68	4,000	4,000
Installation of Miscellaneous Equip.	73		185	500	500
<hr/>					
TOTAL INTANGIBLES INSTALLATION COSTS				\$8,000	\$8,000
<hr/>					
TOTAL WELL COST COMPLETED		\$307,000		\$196,000	\$503,000

Prepared by: C. Robert Winkler Date: 9/6/88
 Approved by: [Signature] Date: 9-7-88

EXHIBIT 2

HUMPHREYS PROSPECT

Plat Denoting Tracts set forth in that
certain Summary of Leasehold and Mineral Owners
dated August 24, 1988 covering the
W/2 of Section 31, T-18-S, R-26-E,
Eddy County, New Mexico



W/2 Section 31 = 316 Net Acres

EXHIBIT _____

HUMPHREYS PROSPECT
Summary of Leasehold and Mineral Owners
W/2 Section 31, T-18-2, R-26-E
Eddy County, New Mexico
August 24, 1988

Tract I

Lot 1 (NW/4NW/4 - 39 acres), NE/4NW/4 Section 31, T-18-S, R-26-E
 (79 total acres)

<u>No.</u>	<u>Name</u>	<u>Interest</u>	<u>Acres</u>	<u>Lessee</u>
1	Paul Humphreys	1/2	39.5	Marathon
2	Sally Contant, Tr	1/2	39.5	Marathon

% of Unit = 79/316 = 25%

Tract II

Lot 2 (SW/4NW/4 - 39 acres), SE/4NW/4 Section 31, T-18-S, R-26-E
 (79 total acres)

<u>No.</u>	<u>Name</u>	<u>Interest</u>	<u>Acres</u>	<u>Lessee</u>
1	A. M. Routh	1/4	19.750	Terra (66522-03)
2	Jack B. Wilkinson	82.8/840	7.787	Terra (66522-07)
3	Don L. Bradshaw	1/4 less 82.8/840	11.963	Terra (66522-02)
4	Claudia Jane Burch	10% of 1/2 plus 5.5% of 40% of 1/2	4.819	Terra (66522-14)
5	R. J. Ramsland, Sr.	2.5% of 40% of 1/2	0.395	Terra (66522-16)
6	J. Barnes Ramsland	18% of 40% of 1/2	2.844	Terra (66522-17)
7	R. J. Ramsland, Jr.	5.5% of 40% of 1/2	0.869	Terra (66522-15)
8	J. Clems Barnes	18% of 40% of 1/2	2.844	Terra (66522-12)
9	V. Elaine Barnes	5.5% of 40% of 1/2	0.869	Terra (66522-08)
10	Christine Mallams	5.5% of 40% of 1/2	0.869	Terra (66522-11)
11	Laurie M. Barr	5.5% of 40% of 1/2	0.869	Terra (66522-19)
12	Steve C. Barnes	5.5% of 40% of 1/2	0.869	Terra (66522-13)
13	Olie S. Barnes	2.5% of 40% of 1/2	0.395	Terra (66522-09)
14	Sleepy Wynn	2.5% of 40% of 1/2	0.395	Terra (66522-04)
15	Shirley Ann Wynn	18% of 40% of 1/2	2.844	Terra (66522-05)
16	C. F. Wynn	5.5% of 40% of 1/2	0.869	Terra (66522-01)
17	Claude Forrest Wynn	1/2 of 20% of 1/2 plus 10% of 1/2	7.900	Terra (66522-01)
18	Shirley Barnes Wynn	1/2 of 20% of 1/2 plus 1/3 of 20% of 1/2	6.583	Terra (66522-06)
19	Elizabeth Ramsland	1/3 of 20% of 1/2	2.633	Terra (66522-18)
20	Julia Ellen Barnes	1/3 of 20% of 1/2	2.634	Terra (66522-10)

% of Unit = 79/316 = 25%

Tract III

NE/4SW/4 of Section 31, T-18-S, R-26-E (40 total acres)

<u>No.</u>	<u>Name</u>	<u>Interest</u>	<u>Acres</u>	<u>Lessee</u>
1	Sara S. Jones	3/48	2.5	Terra (66520-01)
2	Ann H. Stromberg	3/48	2.5	Terra (66520-02)
3	Hugh W. Kiddy	1/6	6.666	Terra (66520-04)
4	Ellis Hnulik	1/6	6.666	Terra (66520-03)
5	Troy Zelaney	13/24	21.667	Terra (66520-01)

% of Unit = 40/316 = 12.658228%

Tract IV

SE/4SW/4 of Section 31, T-18-S, R-26-E below 5,000 feet (40 total acres)

<u>No.</u>	<u>Name</u>	<u>Interest</u>	<u>Acres</u>	<u>Lessee</u>
1	Sara S. Jones	3/48	2.500	Terra (66519-01)
2	Ann H. Stromberg	3/48	2.500	Terra (66519-02)
3	Hugh W. Kiddy	1/6	6.666	Terra (66519-04)
4	Ellis Hnulik	1/6	6.666	Terra (66519-03)
5	Troy Zelaney	13/24	21.667	Terra (66519-01)

% of Unit = 40/316 = 12.658228%

Tract V

<u>No.</u>	<u>Name</u>	<u>Interest</u>	<u>Acres</u>	<u>Lessee</u>
1	Nat'l Bk. of Comm., Tr	1/2	19.5000	Terra (66533-02)
2	Elk Oil Co.	3/8	14.6250	Terra (66533-01)
3	Sara Garretson	1/16	2.4375	Yates, et al
4	Ralph Nix	1/16	2.4375	Yates, et al

% of Unit = 39/316 = 12.341772%

Ownership of Unit Interest

Terra	= 34.125/316	= 10.799051%
Yates Petroleum	= 70% of 4.875/316	= 1.079905%
Abo Petroleum	= 10% of 4.875/316	= 0.154272%
Myco Industries	= 10% of 4.875/316	= 0.154272%
Yates Drilling	= 10% of 4.875/316	= 0.154272%
Total		12.341772%

Tract VI

N/2 of Lot 4 (N/2SW/4SW/4 - 19.5 acres) of Section 31, T-18-S, R-26-E (19.5 total acres)

Note: A well presently exists upon this acreage (Yates Metcalf LT Well No.1) which may or may not be commercial. This well and acreage is part of a working interest unit called Cost-A-Plente and is operated by Yates. As Terra is not certain as to whether the Metcalf LT Well is producing in paying quantities, Terra is force pooling the lessors and mineral owners under this tract.

<u>No.</u>	<u>Name</u>	<u>Interest</u>	<u>Acres</u>	<u>Lessee</u>
1	Greta M. Edgington	1/2	9.750	OPEN or leased to Yates, et al
2	Eugen E. Nearburg	1/4	4.825	participated in Cost-A-Plente WI Unit
3	Tom L. Ingram	1/4	4.825	participated in Cost-A-Plente WI Unit

% of Unit = 19.5/316 = 6.170886%

Ownership of Unit Interest

This tract was dedicated by all parties above to the Cost-A-Plente WI Unit. Attached as Exhibit "A" to this summary is a copy of the participants in the unit and their working interest as presently known by Terra.

Tract VII

S/2 of Lot 4, (S/2SW/4SW/4 - 19.5 acres) of Section 31, T-18-S,
R-26-E, (19.5 total acres)

<u>No.</u>	<u>Name</u>	<u>Interest</u>	<u>Acres</u>	<u>Lessee</u>
1	Eileen A. Metcalf	14/32	8.75	Open or leased to Yates et al
2	Leonard Pfof	6/32	3.75	Open or leased to Yates et al
3	Glenn A. Pfof	6/32	3.75	Open or leased to Yates et al
4	Susan J. Kravig	1/32	0.625	Open or leased to Yates et al
5	Norman Pfof	1/32	0.625	Open or leased to Yates et al
6	Jerry R. Pfof	1/32	0.625	Open or leased to Yates et al
7	Thomas D. Pfof	1/32	0.625	Open or leased to Yates et al
8	Jack L. Pfof	1/32	0.625	Open or leased to Yates et al
9	Douglas Pfof	1/32	0.625	Open or leased to Yates et al

% of Unit = 19.5/316 = 6.170886%

Note: If this lease is still valid, Yates, et al dedicated the lease to the Cost-A-Plente Working Interest Unit. Exhibit "A" to this Summary denotes all original unit participants interest in Tract VII.-

Summary of W/2

<u>Tract No.</u>	<u>% of Unit</u>
I	25.000000%
II	25.000000%
III	12.658228%
IV	12.658228%
V	12.341772%
VI	6.170886%
VII	6.170886%
Total	100.000000%

Ownership of Tracts

Tracts

<u>Company</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>V</u>	<u>VI</u>	<u>VII</u>	<u>Total</u>
Marathon	25	--	--	--	--	--	--	25.000000
Terra	--	25	12.658228	12.658228	10.799051	--	--	61.115070
Yates Pet	--	--	--	--	1.079905	--	--	1.079905
Abo Pet	--	--	--	--	0.154272	--	--	0.154272
Myco Pet	--	--	--	--	0.154272	--	--	0.154272
Yates Drl	--	--	--	--	0.154272	--	--	0.154272
Cost-A-Plente WI Unit Part	--	--	--	--	--	6.170886	6.170886	12.341772
						Total		100.000000%

EXHIBIT A
 COSTA-PLENTE WORKING INTEREST UNIT
 TOWNSHIPS 14 AND 19 SOUTH, RANGE 26 EAST, T.14N. R.19E.
 EDDY COUNTY, NEW MEXICO

INTERESTS OF THE PARTIES UNDER AGREEMENT

	Column 1	Column 2	Column 3	Column 4	Column 5 *
	Net Acres in Contract Area	Percentage of Contract Area	Working Interest In Initial, Substitute, or Optional Test Well Before Payout	Working Interest In Initial, Substitute, or Optional Test Well After Payout, and In Subsequent Wells	Contributing Parties Retained Overriding Royalty Until Payout of First Production Well
Park D. Wilson	✓ 264.88607	31.5515	5.0000	18.2757	1.1634
Palo Pecos Corporation	✓ 114.90357	13.6866	-0-	6.8433	.5997
Yates Petroleum Corporation	193.04292	22.9948	22.9948	22.9948	
Yates Drilling Company	✓ 32.00000	3.8116	11.3271	7.5683	
Abco Petroleum Corporation	32.00000	3.8116	3.8116	3.8116	
IXCO Industries, Inc.	✓ 32.00000	3.8116	-0-	1.9058	.1670
Dorchester Exploration, Inc.	✓ 53.17064	6.3333	-0-	3.1667	.2775
Ralph Nix	✓ 26.27250	3.1294	-0-	1.5647	.1371
Martin Yates, III	✓ 23.83500	2.8321	-0-	1.4195	.1244
Arco Production Company	23.16850	2.7597	2.7597	2.7597	
Ray G. Barton, Jr.	12.50000	1.4899	1.4899	1.4889	
Richard Lyons Moore	7.333334	.8735	.8735	.8735	
Michael Harrison Moore	7.333333	.8735	.8735	.8735	
Stephen Scott Moore	7.333333	.8735	.8735	.8735	
Eugene E. Wearburg	4.87500	.5807	.5807	.5807	
Tom L. Ingram	4.87500	.5807	.5807	.5807	
S. P. Yates	✓ -0-	-0-	11.2703	5.5352	
John A. Yates	✓ -0-	-0-	28.3064	14.1532	
Los Chisos	✓ -0-	-0-	6.2613	3.1307	
Yates 79, Ltd.	✓ -0-	-0-	2.0000	1.0000	
Robert E. Boling	✓ -0-	-0-	1.0000	.5000	
	839.53618	100.0000	107.0000	100.0000	