

RETURNED BALLOTS AND/OR REPLIES  
FROM  
WORKING INTEREST OWNERS  
TO JUNE 8, 1989 LETTER

NMOCD CASE NO. 9694

JULY 12, 1989

ORYX ENERGY COMPANY

EXHIBIT NOS. 9

# MALLON OIL COMPANY

1099 18th Street, Suite 2750, Denver, Colorado 80202  
(303) 293-2333

June 16, 1989

Ms. Marlene Staley  
Unitization Representative  
Oryx Energy Company  
Four NorthPark East  
5656 Backwell  
P.O. Box 2880  
Dallas, TX 75221-2880

Re: 640 Acre Spacing Unit  
Section 12-T25N-R2W  
Rio Arriba County, New Mexico

Dear Ms. Staley:

In response to your June 8, 1989 letter proposing the voluntary formation of a 640 acre proration unit in Section 12, T25N, R2W, Rio Arriba County, New Mexico, this letter is written by Mallon Oil Company and on behalf of the following working interest owners who have been contacted by Mallon Oil Company and concur with Mallon Oil Company's position in this matter:

Kodiak Petroleum, Inc.  
American Penn Energy, Inc.  
James Wallis  
Carlyle A. Peterson  
Kevin M. Fitzgerald  
Karen E. McClintock  
David L. Mikesh  
James A. McGowen  
Roger R. Mitchell  
George O. Mallon, Jr.

Robert J. Mohrbacher  
Kathryn L. Mohrbacher  
Glen Fitzgerald  
Betty Fitzgerald  
Mallon Minerals Corporation  
Mallon-Mitchell 1984 Ltd.  
Partnership II  
Mallon-Mitchell 1985 Ltd.  
Partnership I  
David L. Heppie

Mallon Oil Company, along with the group of associated working interest partners listed herein, will not support the formation of the unit as proposed. Our concerns stem primarily from our potential exposure to litigation as a result of our endorsement of the voluntary pooling and the resulting dilution of the existing royalty interests in the west half of the section, which is presently dedicated under pool rules to the Mallon operated Johnson-Federal #12-5 well.

NMOCD CASE NO. 9694

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ORYX ENERGY COMPANY

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Ms. Marlene Staley  
Oryx Energy company  
June 16, 1989  
Page 2 of 2

We feel that a force pooling hearing before the New Mexico Oil Conservation Commission would be the most appropriate way to proceed with an attempt to form a 640 acre proration unit in Section 12, much as was done with your Loddy #1 well as cited in your letter. Mallon, et al. would have no objection to the force pooling through a Commission hearing and under terms consistent to those ordered by the Commission in the 640 acre pooling of the Loddy #1 well.

Sincerely,

MALLON OIL COMPANY



George O. Mallon, Jr.  
Chairman of the Board

GOM:er

MAILING LIST  
Section 12-T25N-R2W  
Rio Arriba County, New Mexico

Kodiak Petroleum, Inc.  
44 Inverness Dr. East  
Bldg. D, Suite B  
Englewood, CO 80112

R.L. Bayless  
3535 East 30th Street  
Farmington, NM 87499

American Penn Energy, Inc.  
205 Fifth Avenue S.W.  
Calgary, Alberta Canada T2P 2V7

Estate of Robert A. Mitchem  
First Interstate Bank  
P.O. Box 5825-Acct. No.1390800  
Trust Minerals -023  
Denver, CO 80217

James Wallis  
Colton Exploration Company  
6410 B North Santa Fe  
Oklahoma City, OK 73116

KM Production Company  
3535 East 30th Street  
Suite 108  
Farmington, NM 87401

Carlyle A. Peterson  
4752 Kellogg Circle  
Boulder, CO 80302

David L. Heppe  
3333 Simms Street  
Wheat Ridge, CO 80033

Kevin M. Fitzgerald  
66 North Ranch Road  
Littleton, CO 80127

George O. Mallon, Jr.  
9350 Paradise Lane  
Broomfield, CO 80020

David L. Mikesh  
7993 South Trenton Street  
Englwood, CO 80112

Karen E. McClintock  
1405 Bacchus Drive, Unit F  
Lafayette, CO 80026

James A. McGowen  
2005 Glenwood Drive  
Boulder, CO 80302

Roger Mitchell  
Burnsley Hotel  
1000 Grant Street  
Denver, CO 80202

Robert J. Mohrbacher and  
Kathryn L. Mohrbacher  
6551 West Calhoun Place  
Littleton, CO 80123

A.G. Hill  
5000 Thanksgiving Tower  
Dallas, TX 75202

Arriba Company, Ltd.  
P.O. Box 35304  
Tulsa, OK 74153

Copconda Resources, Ltd.  
600 17th Street, Suite 2705-S  
Denver, CO 80202

Glen Fitzgerald and  
Betty Fitzgerald  
Route 5, Box 336  
Shawnee, OK 74801

Thomas, Ltd.  
P.O. Box 809  
Brewton, AL 36426

MAILING LIST  
Section 12-T25N-R2W  
Rio Arriba County, New Mexico  
Page 2

Reading & Bates Petroleum Company  
3200 Mid-Continent Tower  
Tulsa, OK 74103

Hooper Kimball and Williams, Inc.  
320 South Boston  
Suite 1900  
Tulsa, OK 74103

Mountain States Natural Gas Corp.  
P.O. Box 35426  
Tulsa, OK 74135

Ralph (Alice) Gilliland  
c/o Ann G. St. Clair  
7420 Caruth  
Dallas, TX 75225

R.B. Operating Company  
Attn: Larry Rampy  
2 Warren Place  
6120 S. Yale, Suite 1700  
Tulsa, OK 74136

Mesa Grande, Ltd.  
1305 Philtower Bldg.  
Tulsa, OK 74103  
Attn: Larry Sweet

The Warren Clark Trust  
Carolyn Clark Oatman, and  
The Warren Clark Testamentary  
c/o Wayland Oatman  
433 Perry Brooks Blvd.  
Austin, TX 78701

Ibex Partnership  
PC, Ltd.  
P.O. Box 911  
Breckenridge, TX 76024-0911

Duer Wagner, Jr. and  
Duer Wagner, III  
3400 City Center, Tower II  
301 Commerce Street  
Fort Worth, TX 76102

Dugan Production Corp.  
P.O. Box 208  
Farmington, NM 87499

# Mesa Grande, Ltd.

---

1305 PHILTOWER BUILDING  
TULSA, OKLAHOMA 74103  
(918) 584-3802

June 14, 1989

Ms. Marlene Staley  
Unitization Representative  
Oryx Energy Company  
Four North Park East  
5656 Blackwell  
P.O. Box 2880  
Dallas, TX 75221-2880

Re: 640 Acre Spacing Unit  
Section 12-T25N-R2W  
Rio Arriba County, New Mexico

Dear Ms. Staley:

In response to your letter to me of June 8, 1989, please be advised that Mesa Grande, Ltd. chooses not to support a voluntary 640 acre spacing unit for Section 12. We believe our reasons are much the same of those expressed by Sun Exploration and Production Company in their protest of Mesa Grande, Ltd.'s application for a 640 acre oil spacing and proration unit comprising all of Section 20-T25N-R2W, Gavilan-Mancos Oil Pool, Rio Arriba County, New Mexico. Our concerns (as were Sun's previous concerns as we understood them) primarily arise due to the fact that Rule 2 (a) of the Gavilan pool rules, as amended by order R-7407-E, exempted all existing 320 acre proration units when the spacing for the Gavilan-Mancos Pool was set at 640 acres. Changing an exempt 320 acres spacing unit to form a voluntary 640 acre spacing unit will result in substantial dilution of oil and gas revenues to existing royalty interest owners without their knowledge and consent. As result, we believe that a force pooling hearing before the New Mexico Oil Conservation Division is the appropriate forum to provide the due process that is needed in cases like these.

Please be advised that Mesa Grande, Ltd., as a leasehold owner in the W/2 of Section 12, will not oppose an Oryx Energy Company and Dugan Production Corp. application for an order force-pooling and reforming the existing 320 acre proration unit now dedicated to the Mallon Oil Company operated Johnston-Federal No. 12-5 Well unit encompassing the W/2 of Section 12, to a standard 640 acre proration unit comprising all of Section 12, Gavilan-Mancos Oil Pool, Rio Arriba County, New Mexico. We believe that it would be reasonable for the working interest owners in the E/2 of Section 12 to participate in the proposed 640 acre proration unit communitizing all of Section 12 by agreeing to pay their pro rata share of the cost of drilling, completing, and equipping the Johnston-Federal No. 12-5 Well, plus simple interest at 12% per annum until the effective date establishing the 640 acre unit. Such terms are consistent with the terms to the working interest owners in the pooling order for the Oryx operated Loddy No. 1 Well. Since the Loddy #1 force pooling case is important in this matter and has been referenced by both Mesa Grande, Ltd. and Oryx in our correspondence, we are

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ORYX ENERGY COMPANY  
EXHIBIT NO. \_\_\_\_\_

Ms. Marlene Staley  
June 14, 1989  
page 2

providing other interested parties a copy of the Loddy pooling order (Case No. 9225, Order NO. R-9639) for their review and information.

Very truly yours,

A handwritten signature in black ink, appearing to read "Larry D. Sweet", with a long horizontal stroke extending to the right.

Larry D. Sweet  
Attorney-in-Fact

cc: Mailing List Attached

MAILING LIST  
Section 12-T25N-R2W  
Rio Arriba County, New Mexico

Kodiak Petroleum, Inc.  
5700 South Quebec, Suite 320  
Englewood, CO 80111

American Penn Energy, Inc.  
205 Fifth Avenue S. W.  
Calgary, Alberta, Canada T2P 2V7

James Wallis  
Colton Exploration Company  
6410 B North Santa Fe  
Oklahoma City, OK 73116

Carlyle A. Peterson  
4752 Kellogg Circle  
Boulder, CO 80302

Kevin M. Fitzgerald  
1065 West Powers  
Littleton, CO 80120

David L. Mikesh  
7993 South Trenton Street  
Englewood, CO 80112

James A. McGowen  
Codigo 1250 Apt. 627  
Escagu, Costa Rica

Robert J. Mohrbacher and  
Kathryn L. Mohrbacher  
6551 West Calhoun Place  
Littleton, CO 80123

Arriba Company, Ltd.  
P.O. Box 35304  
Tulsa, OK 74153

Glen Fitzgerald and  
Betty Fitzgerald  
Route 5, Box 336  
Shawnee, OK 74801

Mallon Oil Company,  
Mallon Minerals Corporation,  
Mallon-Mitchell 1984 Ltd. Partnership II,  
and Mallon-Mitchell 1985 Ltd. Partnership I  
Attn: Kevin Fitzgerald  
1099 18th St.  
Suite 2750  
Denver, CO 80202

R. L. Bayless  
3535 East 30th Street  
Farmington, NM 87499

Robert A. Mitchem  
7838 West 90th  
Broomfield, CO 80020

KM Production Company  
3535 East 30th Street  
Suite 108  
Farmington, NM 87401

David L. Heppe  
3333 Simms Street  
Wheatridge, CO 80033

George A. Mallon, Jr.  
9350 Paradise Lane  
Broomfield, CO. 80020

Karen E. McClintock  
1405 Bacchus Drive, Unit F  
Lafayette, CO 80026

Roger Mitchell  
219 South Third Street  
Elkhart, IN 46516

A. G. Hill  
5000 Thanksgiving Tower  
Dallas, TX 75202

Copconda Resources, Ltd.  
600 Seventeenth Street  
Suite 2705-S  
Denver CO 80202

Thomas, Ltd.  
P.O. Box 809  
Brewton, Alabama 36426

The Warren Clark Trust  
Carolyn Clark Oatman, and  
The Warren Clark Testamentary  
c/o Wayland Oatman  
433 Perry Brooks Bld.  
Austin, TX 78701

Page Two

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3200 Mid-Continent Tower  
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Suite 1900  
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P.O. Box 35426  
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Ralph (Alice) Gilliland  
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7420 Caruth  
Dallas, Texas 75225

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PC, Ltd.  
P.O. Box 911  
Breckenridge, TX 76024-0911

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3400 City Center, Tower III  
301 Commerce Street  
Fort Worth, TX 76102

Dugan Production Corp.  
P.O. Box 208  
Farmington, NM 87499

R. B. Operating Company  
Attn: Larry Rampy  
2 Warren Place  
6120 S. Yale, Suite 1700  
Tulsa, Oklahoma 74136

ROBERT L. BAYLESS

PETROLEUM PLAZA BUILDING  
P. O. BOX 168  
FARMINGTON, NEW MEXICO 87499  
(505) 325-2659

June 15, 1989

Oryx Energy Company  
Four NorthPark East  
5656 Blackwell  
P.O. Box 2880  
Dallas, Texas 75221-2880

Attention: Ms. Marlene Staley  
Unitization Representative

RE: Formation of Voluntary  
640-Acre Spacing Unit  
Gavilan Mancos Oil Pool  
Mallon Oil Company  
Johnson Federal #12-5  
Section 12, T25N, R2W  
Rio Arriba County, New Mexico

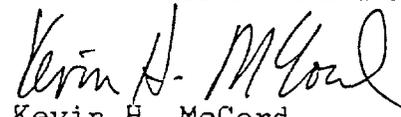
Gentlemen:

We are in receipt of your letter of June 8, 1989. Please be advised that Robert L. Bayless and KM Production Company would be interested in the formation of a 640-acre spacing unit for Section 12, T25N, R2W, but not under the terms and conditions you have proposed, i.e. \$40,000 for a 50% interest in the spacing unit. You should be allowed a 50% participation in this well by paying your proportionate share of the cost of the drilling, completion, and incurred operating costs of this well, plus interest. We believe there has been ample precedence in these matters (i.e. the Loddy #1 force pooling case) that indicates this to be the proper method of handling an upsizing of a spacing unit with an existing producing well. Robert L. Bayless and KM Production Company would endorse the handling of this situation in this manner.

Very truly yours,

  
Robert L. Bayless

KM PRODUCTION COMPANY

  
Kevin H. McCord  
Managing Agent

KHM/lmc

Enclosures: Ballots (2)

NMOCD CASE NO. 9694

JULY 12, 1989

ORYX ENERGY COMPANY

EXHIBIT NO. \_\_\_\_\_

B A L L O T

Section 12, T25N, R2W, NMPM  
Rio Arriba County, New Mexico  
Voluntary 640 Acre Spacing Unit Ballot  
For Gavilan Mancos Oil Pool

Approve formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

\_\_\_

Disapprove formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool  
(under the current provisions set forth  
in your letter dated June 8, 1989)

X

Owner: Robert L. Bayless  
(Company or Individual Name)

By: *Robert L. Bayless*  
Robert L. Bayless

Its: Owner  
(Title, i.e., President, Attorney-in-  
Fact, etc.)

Date: 6/15/89

PLEASE RETURN BY JUNE 16, 1989, TO:

ORYX ENERGY COMPANY  
ATTN: MARLENE STALEY  
P. O. BOX 2880  
DALLAS, TEXAS 75221-2880

NMOCD CASE NO. 9694

JULY 12, 1989

ORYX ENERGY COMPANY

EXHIBIT NO. \_\_\_\_\_

B A L L O T

Section 12, T25N, R2W, NMPM  
Rio Arriba County, New Mexico  
Voluntary 640 Acre Spacing Unit Ballot  
For Gavilan Mancos Oil Pool

Approve formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

X

Disapprove formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

Owner: DUGAN PRODUCTION CORP.  
(Company or Individual Name)

By: *Thomas A. Dugan*  
(Individual's Name)

Its: Thomas A. Dugan  
President  
(Title, i.e., President, Attorney-in-  
Fact, etc.)

Date: June 12, 1989

PLEASE RETURN BY JUNE 16, 1989, TO:

ORYX ENERGY COMPANY  
ATTN: MARLENE STALEY  
P. O. BOX 2880  
DALLAS, TEXAS 75221-2880

NMOC D CASE NO. 9694

JULY 12, 1989

ORYX ENERGY COMPANY

EXHIBIT NO. \_\_\_\_\_

B A L L O T

Section 12, T25N, R2W, NMPM  
Rio Arriba County, New Mexico  
Voluntary 640 Acre Spacing Unit Ballot  
For Gavilan Mancos Oil Pool

RECEIVED BY  
DUER WAGNER & CO.  
JUN 15 1989  
FORT WORTH

Approve formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

—

Disapprove formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

—

Owner: Alice Sillman  
(Company or Individual Name)

By: My Son & Daughter  
(Individual's Name)

ABSTAIN FROM VOTING  
UNTIL NON-CONSENT  
PENALTY IS ESTABLISHED.

Its: \_\_\_\_\_  
(Title, i.e., President, Attorney-in-  
Fact, etc.)

Date: 6-15-89

PLEASE RETURN BY JUNE 16, 1989, TO:

ORYX ENERGY COMPANY  
ATTN: MARLENE STALEY  
P. O. BOX 2880  
DALLAS, TEXAS 75221-2880

NMOC CASE NO. 9694  
JULY 12, 1989  
ORYX ENERGY COMPANY  
EXHIBIT NO. \_\_\_\_\_

B A L L O T

Section 12, T25N, R2W, NMPM  
Rio Arriba County, New Mexico  
Voluntary 640 Acre Spacing Unit Ballot  
For Gavilan Mancos Oil Pool

Approve formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

\_\_\_\_

Disapprove formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

X

Owner: DAVID L. HERPE  
(Company or Individual Name)

By: David L. Herpe  
(Individual's Name)

Its: \_\_\_\_\_  
(Title, i.e., President, Attorney-in-Fact, etc.)

Date: 6/11/89

PLEASE RETURN BY JUNE 16, 1989, TO:

ORYX ENERGY COMPANY  
ATTN: MARLENE STALEY  
P. O. BOX 2880  
DALLAS, TEXAS 75221-2880

NMOCD CASE NO. 9694

JULY 12, 1989

ORYX ENERGY COMPANY

EXHIBIT NO. \_\_\_\_\_

B A L L O T

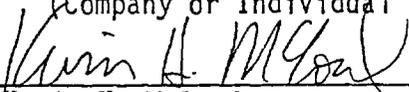
Section 12, T25N, R2W, NMPM  
Rio Arriba County, New Mexico  
Voluntary 640 Acre Spacing Unit Ballot  
For Gavilan Mancos Oil Pool

Approve formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

Disapprove formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool  
(under the current provisions set forth  
in your letter dated June 8, 1989)

X

Owner: KM Production Company  
(Company or Individual Name)

By:   
Kevin H. McCord

Its: Managing Agent  
(Title, i.e., President, Attorney-in-  
Fact, etc.)

Date: 6/15/89

PLEASE RETURN BY JUNE 16, 1989, TO:

ORYX ENERGY COMPANY  
ATTN: MARLENE STALEY  
P. O. BOX 2880  
DALLAS, TEXAS 75221-2880

NMOCD CASE NO. 9694

JULY 12, 1989

ORYX ENERGY COMPANY

EXHIBIT NO. \_\_\_\_\_

B A L L O T

Section 12, T25N, R2W, NMPM  
Rio Arriba County, New Mexico  
Voluntary 640 Acre Spacing Unit Ballot  
For Gavilan Mancos Oil Pool

Approve formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

Disapprove formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

The above election has been made by Wayland Oatman on behalf of  
Carolyn Clark Oatman, Warren Clark Trust and Warren Clark  
Testamentary Trust.

Owner: \_\_\_\_\_  
(Company or Individual Name)

By: W. W. Oatman  
\_\_\_\_\_  
(Individual's Name)  
W.W. OATMAN

Its: \_\_\_\_\_  
(Title, i.e., President, Attorney-in-  
Fact, etc.)

Date: 6-12-89

PLEASE RETURN BY JUNE 16, 1989, TO:

ORYX ENERGY COMPANY  
ATTN: MARLENE STALEY  
P. O. BOX 2880  
DALLAS, TEXAS 75221-2880

NMOCD CASE NO. 9694

JULY 12, 1989

ORYX ENERGY COMPANY

EXHIBIT NO. \_\_\_\_\_

B A L L O T

Section 12, T25N, R2W, NMPM  
Rio Arriba County, New Mexico  
Voluntary 640 Acre Spacing Unit Ballot  
For Gavilan Mancos Oil Pool

Approve formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

X

Disapprove formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

—

Owner: Sun Operating Limited Partnership, by Oryx Energy  
(Company or Individual Name)

By: Marlene Staley  
(Individual's Name)

Its: Unitization Representative  
(Title, i.e., President, Attorney-in-Fact, etc.)

*Company,*  
*etc. Managing General*  
*Partner*

Date: June 8, 1989

PLEASE RETURN BY JUNE 16, 1989, TO:

ORYX ENERGY COMPANY  
ATTN: MARLENE STALEY  
P. O. BOX 2880  
DALLAS, TEXAS 75221-2880

NMOCD CASE NO. 9694  
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ORYX ENERGY COMPANY  
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B A L L O T

Section 12, T25N, R2W, NMPM  
Rio Arriba County, New Mexico  
Voluntary 640 Acre Spacing Unit Ballot  
For Gavilan Mancos Oil Pool

Approve formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

Disapprove formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

Owner: DOER WAGNER JR.  
(Company or Individual Name)  
By: [Signature]  
(Individual's Name)  
Its: ATTORNEY-IN-FACT  
(Title, i.e., President, Attorney-in-  
Fact, etc.)  
Date: JUNE 20, 1989

ABSTAIN FROM VOTING UNTIL  
A NON-CONSENT PENALTY  
IS ESTABLISHED.

PLEASE RETURN BY JUNE 16, 1989, TO:

ORYX ENERGY COMPANY  
ATTN: MARLENE STALEY  
P. O. BOX 2880  
DALLAS, TEXAS 75221-2880

NMOCD CASE NO. 9694

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Section 12, T25N, R2W, NMPM  
Rio Arriba County, New Mexico  
Voluntary 640 Acre Spacing Unit Ballot  
For Gavilan Mancos Oil Pool

Approve formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

Disapprove formation of voluntary 640 acre  
spacing unit, Gavilan Mancos Oil Pool

Owner:

DUER WAGNER III  
(Company or Individual Name)

By:

[Signature]  
(Individual's Name)

Its:

(Title, i.e., President, Attorney-in-  
Fact, etc.)

Date:

JUNE 20, 1989

} ABSTAIN FROM VOTING  
UNTIL NON-CONSENT PENALTY  
IS ESTABLISHED.

PLEASE RETURN BY JUNE 16, 1989, TO:

ORYX ENERGY COMPANY  
ATTN: MARLENE STALEY  
P. O. BOX 2880  
DALLAS, TEXAS 75221-2880

NMOCD CASE NO. 9694

JULY 12, 1989

ORYX ENERGY COMPANY

EXHIBIT NO. \_\_\_\_\_

JULY 12, 1989

ORYX ENERGY COMPANY

EXHIBIT NO. 10

*file*

ORIGINAL *h<sup>o</sup> 7-2-89*

Form 3100-11\*  
(March 1984)

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT  
P. O. Box 1449  
Santa Fe, New Mexico

FORM APPROVED  
OMB No. 1004-0008  
Expires January 31, 1986  
Serial No. NM 58855

OFFER TO LEASE AND LEASE FOR OIL AND GAS

The undersigned (reverse) offers to lease all or any of the lands in item 2 that are available for lease pursuant to the Mineral Leasing Act of 1920 (30 U.S.C. 181 et seq.), the Mineral Leasing Act for Acquired Lands (30 U.S.C. 351-359), the Attorney General's Opinion of April 2, 1941 (40 Op. Atty. Gen. 41); or the

Read Instructions Before Completing

RECEIVED  
BUREAU OF LAND MGMT.  
N.M.S.O. SANTA FE  
JUN 26 1984  
FM  
112814516

1. Name Dugan Production Company Corp.

Street P. O. Box 208

City, State, Zip Code Farmington, NM 87499

2. This offer/lease is for: (Check Only One)  PUBLIC DOMAIN LANDS  ACQUIRED LANDS (percent U.S. interest \_\_\_\_\_)

Surface managing agency if other than BLM: \_\_\_\_\_ Unit/Project \_\_\_\_\_

Legal description of land requested:

T. \_\_\_\_\_ R. \_\_\_\_\_ Meridian \_\_\_\_\_ State \_\_\_\_\_ County \_\_\_\_\_

Amount remitted: Filing fee \$ \_\_\_\_\_

Rental fee \$ \_\_\_\_\_

Total acres applied for \_\_\_\_\_

Total \$ \_\_\_\_\_

DO NOT WRITE BELOW THIS LINE

3. Land included in lease:

T. 25 N., R. 2 W., NMP Meridian State New Mexico County Rio Arriba

Sec. 12: NE 1/4

San Juan Field

NOTED  
S/E 7/5/84 RB  
HI 7/12/84  
MTP JUL 12 1984  
COP 7/13/84 MBR  
USE  
CUB 1  
POT  
GEO  
MC

Total acres in lease 160

Rental retained \$ 320.00

In accordance with the above offer, or the previously submitted simultaneous oil and gas lease application or competitive bid, this lease is issued granting the exclusive right to drill for, mine, extract, remove and dispose of all the oil and gas (except helium) in the lands described in item 3 together with the right to build and maintain necessary improvements thereupon for the term indicate below, subject to renewal or extension in accordance with the appropriate leasing authority. Rights granted are subject to applicable laws, the terms, conditions, and attached stipulations of this lease, the Secretary of the Interior's regulations and formal orders in effect as of lease issuance, and to regulations and formal orders hereafter promulgated when not inconsistent with lease right granted or specific provisions of this lease.

Type and primary term of lease:

- Simultaneous noncompetitive lease (ten years)
- Regular noncompetitive lease (ten years)
- Competitive lease (five years) ←
- Other \_\_\_\_\_

THE UNITED STATES OF AMERICA

by Marshall A. Reinos (Signing Officer)

Chief, Mineral Leasing Unit 1 JUL - 2 1989 (Title) (Date)

EFFECTIVE DATE OF LEASE AUG 1 - 1984

4. (a) Undersigned certifies that (1) offeror is a citizen of the United States; an association of such citizens; a municipality; or a corporation organized under the laws of the United States or of any State or Territory thereof; (2) all parties holding an interest in the offer are in compliance with 43 CFR 3100 and the leasing authorities; (3) offeror's chargeable interests, direct and indirect, in either public domain or acquired lands do not exceed 200,000 acres in oil and gas options or 246,080 acres in options and leases in the same State, or 300,000 acres in leases and 200,000 acres in options in either leasing District in Alaska; and (4) offeror is not considered a minor under the laws of the State in which the lands covered by this offer are located.

(b) Undersigned agrees that signature to this offer constitutes acceptance of this lease, including all terms, conditions, and stipulations of which offeror has been given notice, and any amendment or separate lease that may include any land described in this offer open to leasing at the time this offer was filed but omitted for any reason from this lease. The offeror further agrees that this offer cannot be withdrawn, either in whole or part, unless the withdrawal is received by the BLM State Office before this lease, an amendment to this lease, or a separate lease, whichever covers the land described in the withdrawal, has been signed on behalf of the United States.

This offer will be rejected and will afford offeror no priority if it is not properly completed and executed in accordance with the regulations, or if it is not accompanied by the required payments. 18 U.S.C. Sec. 1001 makes it a crime for any person knowingly and willfully to make to any Department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

Duly executed this 8 day of June, 19 84. Dugan Production Corporation Tommy Roberts  
By: Tommy Roberts, Attorney-in-Fact (Signature of Lessee or Attorney-in-Fact)

#### LEASE TERMS

Sec. 1. Rentals—Rentals shall be paid to proper office of lessor in advance of each lease year. Annual rental rates per acre or fraction thereof are:

- (a) Simultaneous noncompetitive lease, \$1.00 for the first 5 years, thereafter, \$3.00;
- (b) Regular noncompetitive lease, \$1.00;
- (c) Competitive lease, \$2.00; or
- (d) Other, see attachment.

If all or part of a noncompetitive leasehold is determined to be within a known geological structure or a favorable petroleum geological province, annual rental shall become \$2.00, beginning with the lease year following notice of such determination. However, a lease that would otherwise be subject to rental of more than \$2.00 shall continue to be subject to the higher rental.

If this lease or a portion thereof is committed to an approved cooperative or unit plan which includes a well capable of producing leased resources, and the plan contains a provision for allocation of production, royalties shall be paid on the production allocated to this lease. However, annual rentals shall continue to be due at the rate specified in (a), (b), (c), or (d) for those lands not within a participating area.

Failure to pay annual rental, if due, on or before the anniversary date of this lease (or next official working day if office is closed) shall automatically terminate this lease by operation of law. Rentals may be waived, reduced, or suspended by the Secretary upon a sufficient showing by lessee.

Sec. 2. Royalties—Royalties shall be paid to proper office of lessor. Royalties shall be computed in accordance with regulations on production removed or sold. Royalty rates are:

- (a) Simultaneous noncompetitive lease, 12½%;
- (b) Regular noncompetitive lease, 12½%;
- (c) Competitive lease, see attachment; or
- (d) Other, see attachment.

Lessor reserves the right to specify whether royalty is to be paid in value or in kind, and the right to establish reasonable minimum values on products after giving lessee notice and an opportunity to be heard. When paid in value, royalties shall be due and payable on the last day of the month following the month in which production occurred. When paid in kind, production shall be delivered, unless otherwise agreed to by lessor, in merchantable condition on the premises where produced without cost to lessor. Lessee shall not be required to hold such production in storage beyond the last day of the month following the month in which production occurred, nor shall lessee be held liable for loss or destruction of royalty oil or other products in storage from causes beyond the reasonable control of lessee.

Minimum royalty shall be due for any lease year after discovery in which royalty payments aggregate less than \$1.00 per acre. Lessee shall pay such difference at end of lease year. This minimum royalty may be waived, suspended, or reduced, and the above royalty rates may be reduced, for all or portions of this lease if the Secretary determines that such action is necessary to encourage the greatest ultimate recovery of the leased resources, or is otherwise justified.

An interest charge shall be assessed on late royalty payments or underpayments in accordance with the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) (96 Stat. 2447). Lessee shall be liable for royalty payments on oil and gas lost or wasted from a lease site when such loss or waste is due to negligence on the part of the operator, or due to the failure to comply with any rule, regulation, order, or citation issued under FOGRMA or the leasing authority.

Sec. 3. Bonds—Lessee shall file and maintain any bond required under regulations.

Sec. 4. Diligence, rate of development, unitization, and drainage—Lessee shall exercise reasonable diligence in developing and producing, and shall prevent unnecessary damage to, loss of, or waste of leased resources. Lessor reserves right to specify rates of development and production in the public interest and to require lessee to subscribe to a cooperative or unit plan, within 30 days of notice, if deemed necessary for proper development and operation of area, field, or pool embracing these leased lands. Lessee shall drill and produce wells necessary to protect leased lands from drainage or pay compensatory royalty for drainage in amount determined by lessor.

Sec. 5. Documents, evidence, and inspection—Lessee shall file with proper office of lessor, not later than 30 days after effective date thereof, any contract or evidence of other arrangement for sale or disposal of production. At such times and in such form as lessor may prescribe, lessee shall furnish detailed statements showing amounts and quality of all products removed and sold, proceeds therefrom, and amount used for production purposes or unavoidably lost. Lessee may be required to provide plats and schematic diagrams showing development work and improvements, and reports with respect to parties in interest, expenditures, and depreciation costs. In the form prescribed by lessor, lessee shall keep a daily drilling record, a log, information on well surveys and tests, and a record of subsurface investigations and furnish copies to lessor when required. Lessee shall keep open at all reasonable times for inspection by any authorized officer of lessor, the leased premises and all wells, improvements, machinery, and fixtures thereon, and all books, accounts, maps, and records relative to operations, surveys, or investigations on or in the leased lands. Lessee shall maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that

supports costs claimed as manufacturing, preparation, and/or transportation costs. All such records shall be maintained in lessee's accounting offices for future audit by lessor. Lessee shall maintain required records for 6 years after they are generated or, if an audit or investigation is underway, until released of the obligation to maintain such records by lessor.

During existence of this lease, information obtained under this section shall be closed to inspection by the public in accordance with the Freedom of Information Act (5 U.S.C. 552).

Sec. 6. Conduct of operations—Lessee shall conduct operations in a manner that minimizes adverse impacts to the land, air, and water, to cultural, biological, visual, and other resources, and to other land uses or users. Lessee shall take reasonable measures deemed necessary by lessor to accomplish the intent of this section. To the extent consistent with lease rights granted, such measures may include, but are not limited to, modification to siting or design of facilities, timing of operations, and specification of interim and final reclamation measures. Lessor reserves the right to continue existing uses and to authorize future uses upon or in the leased lands, including the approval of easements or rights-of-ways. Such uses shall be conditioned so as to prevent unnecessary or unreasonable interference with rights of lessee.

Prior to disturbing the surface of the leased lands, lessee shall contact lessor to be apprised of procedures to be followed and modifications or reclamation measures that may be necessary. Areas to be disturbed may require inventories or special studies to determine the extent of impacts to other resources. Lessee may be required to complete minor inventories or short term special studies under guidelines provided by lessor. If in the conduct of operations, threatened or endangered species, objects of historic or scientific interest, or substantial unanticipated environmental effects are observed, lessee shall immediately contact lessor. Lessee shall cease any operations that would result in the destruction of such species or objects.

Sec. 7. Mining operations—To the extent that impacts from mining operations would be substantially different or greater than those associated with normal drilling operations, lessor reserves the right to deny approval of such operations.

Sec. 8. Extraction of helium—Lessor reserves the option of extracting or having extracted helium from gas production in a manner specified and by means provided by lessor at no expense or loss to lessee or owner of the gas. Lessee shall include in any contract or sale of gas the provisions of this section.

Sec. 9. Damages to property—Lessee shall pay lessor for damage to lessor's improvements, and shall save and hold lessor harmless from all claims for damage or harm to persons or property as a result of lease operations.

Sec. 10. Protection of diverse interests and equal opportunity—Lessee shall: pay when due all taxes legally assessed and levied under laws of the State or the United States; accord all employees complete freedom of purchase; pay all wages at least twice each month in lawful money of the United States; maintain a safe working environment in accordance with standard industry practices; and take measures necessary to protect the health and safety of the public.

Lessor reserves the right to ensure that production is sold at reasonable prices and to prevent monopoly. If lessee operates a pipeline, or owns controlling interest in a pipeline or a company operating a pipeline, which may be operated accessible to oil derived from these leased lands, lessee shall comply with section 28 of the Mineral Leasing Act of 1920.

Lessee shall comply with Executive Order No. 11246 of September 24, 1965, as amended, and regulations and relevant orders of the Secretary of Labor issued pursuant thereto. Neither lessee nor lessee's subcontractors shall maintain segregated facilities.

Sec. 11. Transfer of lease interests and relinquishment of lease—As required by regulations, lessee shall file with lessor any assignment or other transfer of an interest in this lease. Lessee may relinquish this lease or any legal subdivision by filing in the proper office a written relinquishment, which shall be effective as of the date of filing, subject to the continued obligation of the lessee and surety to pay all accrued rentals and royalties.

Sec. 12. Delivery of premises—At such time as all or portions of this lease are returned to lessor, lessee shall place affected wells in condition for suspension or abandonment, reclaim the land as specified by lessor and, within a reasonable period of time, remove equipment and improvements not deemed necessary by lessor for preservation of producible wells.

Sec. 13. Proceedings in case of default—If lessee fails to comply with any provisions of this lease, and the noncompliance continues for 30 days after written notice thereof, this lease shall be subject to cancellation. Lessee shall also be subject to applicable provisions and penalties of FOGRMA (96 Stat. 2447). However, if this lease includes land known to contain valuable deposits of leased resources, it may be cancelled only by judicial proceedings. This provision shall not be construed to prevent the exercise by lessor of any other legal and equitable remedy, including waiver of the default. Any such remedy or waiver shall not prevent later cancellation for the same default occurring at any other time.

Sec. 14. Heirs and successors-in-interest—Each obligation of this lease shall extend to and be binding upon, and every benefit hereof shall inure to the heirs, executors, administrators, successors, beneficiaries, or assigns of the respective parties hereto.

UNITED STATES  
 DEPARTMENT OF THE INTERIOR  
 BUREAU OF LAND MANAGEMENT

RENTALS AND ROYALTIES FOR OIL AND GAS LEASES

SCHEDULE "A" - NONCOMPETITIVE

RENTALS. To pay the lessor in advance on or before the first day of the month in which the lease issues a rental at the following rates:

- a. If the lands are wholly outside the known geologic structure of a producing oil or gas field, 50 cents per acre or fraction thereof for each lease year.
- b. On leases wholly or partly within the geologic structure of a producing oil or gas field:
  1. If not committed to a cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production beginning with the first lease year after 30 days' notice that all or part of the land is included in such a structure and for each year thereafter, prior to a discovery of oil or gas on the lands herein, \$2 per acre or fraction thereof.

2. On the lands committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, for the lands not within the participating area an annual rental of 50 cents per acre or fraction thereof each lease year following discovery.

MINIMUM ROYALTY. To pay the lessor in lieu of rental at the expiration of each lease year after discovery a minimum royalty of \$1 per acre or, if there is production, the difference between the actual royalty paid during the year and the prescribed minimum royalty of \$1 per acre, provided that on unitized leases, the minimum royalty shall be payable only on the participating acreage.

ROYALTY ON PRODUCTION. To pay the lessor 12 1/2 percent royalty on the production removed or sold from the leased lands.

SCHEDULE "B" - COMPETITIVE

ROYALTY ON PRODUCTION. To pay the lessor the following royalty on production removed or sold from the leased lands.

1. When the average production for the month in barrels per well per day is:

OVER	NOT OVER	PERCENT OF ROYALTY	OVER	NOT OVER	PERCENT OF ROYALTY
	50	12.5	130	150	19
50	60	13	150	200	20
60	70	14	200	250	21
70	80	15	250	300	22
80	90	16	300	350	23
90	110	17	350	400	24
110	130	18	400		25

2. On gas, including inflammable gas, helium, carbon dioxide and all other natural gases and mixtures thereof, and on natural or casinghead gasoline and

other liquid products obtained from gas; when the average production of gas per well per day for the month does not exceed 5,000,000 cubic feet, 12-1/2 percent; and when said production of gas exceeds 5,000,000 cubic feet, 16-2/3 percent of the amount or value of the gas and liquid products produced, said amount or value of such liquid products to be net after an allowance for the cost of manufacture.

MINIMUM ROYALTY. To pay the lessor in lieu of rental at the expiration of each lease year after discovery a minimum royalty of \$1 per acre or, if there is production, the difference between the actual royalty paid during the year and the prescribed minimum royalty of \$1 per acre, provided that on unitized leases, the minimum royalty shall be payable only on the participating acreage.

RENTALS. To pay the lessor in advance on or before the first day of the month in which the lease issued and for each lease year thereafter prior to a discovery of oil or gas on the leased lands, an annual rental of \$2 per acre or fraction thereof.

NOTICE

The average production per well per day for oil and gas shall be determined pursuant to 30 CFR, Part 221, "Oil and Gas Operating Regulations."

In determining the amount or value of gas and liquid products produced, the amount or value shall be net after an allowance for the cost of manufacture. The allowance for cost of manufacture may exceed two-thirds of the amount or value of any product only on approval by the Secretary of the Interior.