

Well file

LLOYD DAVIDSON

P. O. BOX 2182

SANTA FE, NEW MEXICO 87501

505-983-9689

November 11, 1986

Mr. R. L. Stamets
Director
New Mexico Oil Conservation Division
Santa Fe, New Mexico

Dear Sir:

I own a well known as Santa Fe Pacific Railroad Company No. 20 located in unit letter G, section 20, T16N, R6W, McKinley County New Mexico.

Temporary abandonment approval expires on January 9, 1987. Request is here made for an extension of the temporary abandonment approval until January 9, 1988. The well has a welded steel cap on top of the casing and is not leaking fluid.

Well No. 20 was drilled to 1200 feet and casing was cemented down to 1172 feet. 22 feet of Upper Gallup oil sand was logged and cored from 1168 feet to 1195 feet. A 5 foot interval was shale with no oil. After weeks of pumping the well, we never recovered more than 2 to 3 per cent oil. The rest was fresh water. It was later discovered that the oil has very high viscosity and cannot be produced with normal methods. Upon being heated, however, the oil's viscosity lowers to producible levels. Steam injection should make a good oil producer out of this well. Based upon calculations from the log and core analysis, this well has on 10 acre spacing, 237,000 barrels oil in place. It is estimated that 50 per cent of this oil can be produced with steam injection.

Examination of the logs and core analyses of well No. 20 and other nearby wells indicates that the 230 acres on my lease, shown on Flat 1, attached, in diagonal lines, has 6 million barrels oil in place and 3 million barrels should be recoverable through steaming.

Capital Oil and Gas Company drilled 7 wells on a State lease in section 16, T16N, R6W (offsetting section 20 where my No. 20 well is located) and found good oil sections but high viscosity oil. In 1983 this company, after a hearing, obtained an order from the Oil Conservation Division granting permission to steam flood these wells. This was in case No. 7825, order No. R-7278. The company commenced steam injection and found that steam greatly increased oil production. One well's production was increased from 5 barrels per day to 60 barrels per day. About this time, after steaming operation had been going for only a few days, Capital Oil went into bankruptcy, steam injection was stopped. Oil production continued for a while and then ceased. The State later cancelled the lease for non-production.

*Frank
any reason
we should not
give Lloyd an
extension?
see WR letter.*

On August 1, 1986, the State issued a new lease on the section 16 land to WR Oil and Gas Company (WR herein). This lease bears No. LH-3667. WR plans to steam flood this lease either through an order of the Oil Conservation Division transferring the order granting permission to Capital Oil to steam flood this section or by requesting a new hearing for this purpose.

In a separate action WR, after a hearing on July 23, 1986, in case No. 8943, order No. R-4875-B, was granted permission to steam flood the southern portion of the Miguel Creek field in sections 20, 21, 28 & 29 of T16N, R6W. This is on a Santa Fe Pacific Railroad lease. WR intended to commence steam injection in this area in 1986 but the order granting such permission was not entered until the latter part of October and WR decided, because of the nearness of winter weather conditions, not to commence operations until the spring or summer of 1987.

Attached plat No. 1 shows in blue color the State lease now held by WR, in yellow is shown the lease held by me (with a red circle around the location of the No. 20 well) and in ~~green~~ ^{pink} color is shown the acreage held by WR to the South and covered by Oil Conservation case No. 8943.

Plat No. 2 shows contour lines indicating the oil sand thickness in the North area. My No. 20 well is shown to be within the area proved to be commercially productive through steam flooding done in section 16 in 1983.

Plat No. 3, attached, is a copy of a plat submitted by WR in case No. 8943. It shows well No. 20 to be within the geological area to be steam flooded under case No. 8943 after expansion of this project.

By summer of 1987 well No. 20 will have steam floods in progress 3/4 mile to the Northeast and 3/4 mile to its Southeast.

In July, 1986, when it was felt that an order would be issued in case No. 8943 during August giving WR time to commence its steam operations on the acreage covered by this case before winter weather sets in, I made a deal with WR whereby I would convey well No. 20 and the acreage around it to WR and WR would assume my obligation to put well No. 20 on production or plug it by January 9, 1987. WR had planned to request permission of the Oil Conservation Division to include well No. 20 in the order in case No. 8943 granting permission to steam flood. As part of the same deal I would grant WR an option to purchase all of my acreage. A copy of this proposed contract is attached hereto.

In a letter to me dated October 30, 1986, copy attached, Ray Dubuison of WR declined to go forward with our deal because of the unexpectedly long delay in getting the steam flood approval order and the approach of winter. WR now plans to wait until spring or summer before commencing operations. I feel confident that after WR gets started I will be able to make a deal with it similar to the deal described above.

I need the one year extension approval because this will give me enough time to make a deal with another company in case no deal can be worked out with WR. The new company would have to have time to have a steam flood hearing before the Division involving only my acreage and time to commence operations to test well No. 20.

Well No. 20 definitely should be steam tested. If the test does not result in good oil production, the well should be plugged. But if such a test is successful, it should result in the ultimate production of approximately 3 million barrels of additional oil.

Very truly yours,

Lloyd Davidson
Lloyd Davidson



WR OIL & GAS COMPANY

Frank

October 30, 1986

Mr. Lloyd Davidson
143 Rio Vista Place
Santa Fe, New Mexico 87501

RE: Cerrillos Land Company Lease
Miguel Creek Field Prospect
McKinley County, New Mexico

Dear Lloyd:

Reference is made to that Partial Assignment of Oil and Gas Lease forwarded by you constituting our proposed agreement with respect to your leasehold interest in the captioned prospect and well No. 20 located in the SW/4 NE/4 of Section 20, T16N-R6W. Because of the unexpectedly long delay in the New Mexico Oil Conservation Commission's approval of our pilot program on the same lease on acreage to the south of you and the approach of winter, WR has been forced to re-evaluate its project plans and timetables. We are also studying the terms of the Commission's Order. Accordingly, pending our review, WR cannot at this point in time complete our trade. We remain very interested in your lands and, hopefully, we will be able to get back with you in the near future and conclude a trade.

I will keep you advised of our progress. Thank you for your patience and cooperation in this matter.

Very truly yours,

WR OIL & GAS COMPANY

Ray Dubuisson
Ray Dubuisson

vp

PARTIAL ASSIGNMENT OF OIL AND GAS LEASE

LLOYD DAVIDSON AND JERRE DAVIDSON, his wife, co-tenants with right of survivorship, ("Assignors") whose address is 143 Rio Vista Place, Santa Fe, New Mexico 87501, and WR OIL AND GAS COMPANY, ("Assignee") whose address is 14800 Quorum Drive, Suite 370, Dallas, Texas 75240 agree:

1. Recitals.

A. Assignors hold an interest ("Interest") in and to an oil and gas lease, dated October 10, 1973, ("Lease"), from Santa Fe Pacific Railroad Company, as Lessor, to Tenneco Oil Company, as Lessee, recorded in 45 Leases 7-15, McKinley County, New Mexico, records insofar as the Lease covers zones and formations from the surface down to the base of the Hospah sand, but no deeper, in and under Sections 17, 20, 21, 28 and 29, Township 16 North, Range 6 West, N. M. P. M. McKinley County, New Mexico, consisting of 1,326.85 acres, more or less, more particularly described in Exhibit "A", attached to this assignment ("Property") together with the personal property now on the property.

B. Tenneco Oil Company ("Tenneco") has a preferential right to purchase the Interest ("Preferential Right") under an assignment from Tenneco Oil Company to Northern Minerals, Inc., dated August 23, 1974, recorded in 45 Leases 221-224, McKinley County, New Mexico records.

2. Assignment.

In consideration of \$1.00 ("Down Payment"), paid to Assignors, receipt of which is acknowledged by Assignors, and a payment of \$50,000 ("Final Payment") to be paid by Assignee to Assignors as provided below, (the total \$50,001 consideration is called the ("Purchase Price"), Assignors hereby assign, transfer and convey to Assignee all of Assignors right, title and interest in and to the Interest on the terms and conditions contained in this assignment and Assignee assumes all of Assignors liability and obligations contained in the above referred to Lease from Santa Fe Pacific Railroad Company and the assignment from Tenneco Oil Company to

Northern Minerals, Inc.

3. Tenneco Election.

A. Promptly after the execution of this assignment, Assignors will notify Tenneco of this transaction, supplying all information required under the terms of the Preferential Right, and will request Tenneco to advise Assignors if Tenneco elects to exercise the Preferential Right. The Preferential Right by its terms is deemed not to be exercised by Tenneco if Tenneco fails to notify Assignors otherwise within 10 days from Tenneco's receipt of Assignors notification. Within 7 days after Tenneco either advises Assignors of the election of Tenneco or is deemed to have elected, Assignors will notify Assignee in writing of such election of Tenneco. The notification to Assignee may be delivered in person or by certified or registered mail to Assignee at its address shown above.

B. If Tenneco elects to exercise the Preferential Right, this assignment will terminate as of the date that Tenneco makes the election and all of Assignee's right, title and interest in this assignment and in the Interest will automatically revert to Assignors as of the date of this assignment, and Assignors will return the Down Payment to Assignee and Assignee will execute and deliver to Assignors an assignment, in recordable form, re-assigning to Assignors all the Interest herein assigned to Assignee.

4. Plugging Bond for well No. 20.

A. If Tenneco elects not to exercise the Preferential Right, Assignee will become the operator of the well known as Lloyd Davidson (formerly Northern Minerals, Inc.) No. 20 Santa Fe Pacific Railroad Company, located in the SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 20, Township 16 North, Range 6 West, and will succeed to all of Assignors' rights, including the ownership of the two tanks now on the property, and the obligations regarding the well. Specifically, Assignee assumes Assignors obligation heretofore made to the Oil Conservation Division of the State of New Mexico to, on or before January 9, 1987, (1) prove to the satisfaction of the Division, by actual testing, that the well No. 20 is capable of producing oil in commercial

quantities, or (2) plug and abandon the well in accordance with the rules and regulations of the Oil Conservation Division and will cause the release of Assignors plugging bond currently on file with this Division covering this well.

B. Unless Assignee files such plugging bond covering well No. 20 with the Oil Conservation Division within 20 days after being notified that Tenneco elects not to exercise its Preferential Right, this assignment will terminate as of the date of its execution and Assignee shall pay to Assignors the sum of \$25,000 as liquidated damages for failure to file such bond. Upon the filing of such bond Assignors will provide Assignee with an affidavit, in recordable form, that this has been done. In case of such termination Assignee will execute and deliver to Assignors an assignment, in recordable form, re-assigning to Assignors all right, title and interest in the Interest acquired by Assignee hereunder and Assignors will return the Down Payment to Assignee.

5. Payment of Balance of Purchase Price.

A. If Tenneco elects not to exercise the Preferential Right, and if Assignee timely files the plugging bond provided for in paragraph 4, above, the Final Payment of \$50,000 will be paid on or before September 1, 1987, in cash or by certified check drawn on a bank whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) payable to either or both Assignors, or to the credit of Assignors in their joint account, being numbered 20-0881-5, at Sunwest Bank, P. O. Box 5375, Santa Fe, New Mexico 87501. If both Lloyd Davidson and Jerre Davidson are deceased on September 1, 1987, and if said payment of \$50,000 has not been paid prior to their deaths, then Assignee shall make such payment to the said Sunwest Bank for the benefit of the estates of Lloyd Davidson and Jerre Davidson. Immediately after payment of Final payment, Assignors, or either of them, if alive, will execute and deliver to Assignee an affidavit, in recordable form, stating that such Final Payment been paid.

6. Failure to Pay Balance of Purchase Price.

A. If the plugging bond provided for in paragraph 4, above, has been timely filed but if the Final Payment of \$50,000 is not paid within the time specified, all right, title and interest in this assignment and in the Interest will terminate and will automatically revert to Assignors, or their estates, if deceased, as of the date of this assignment insofar as all property described in Exhibit "A" is concerned except the SW $\frac{1}{4}$ NE $\frac{1}{4}$ and lots 2 and 6 of Section 20, Township 16 North, Range 6 West, McKinley County, New Mexico. Furthermore, Assignee will re-assign to Assignors, or their estates, if deceased, in recordable form, as of the date of the herein assignment, all of Assignee's right, title and interest in and to the Interest insofar as it covers the above described terminated or reverted property, herein called Second Property. The SW $\frac{1}{4}$ NE $\frac{1}{4}$ and lots 2 and 6 of said section 20 shall remain the property of Assignee.

B. Any and all wells whether test wells, water wells, injection wells or producing wells drilled on Second Property prior to the payment by Assignee of the Final Payment shall be covered by a plugging bond or bonds filed with the Oil Conservation Division of the State of New Mexico in accordance with the rules and regulations of that Division.

C. In case such termination or reversion of Second Property occurs, Assignee shall have no further duty or liability to Assignors as far as the Second Property is concerned except as follows:

- (1) Assignee will cause the release of any and all liens which have attached, or which may attach later, to Second Property for services rendered, materials supplied or other debts or obligations incurred from the date of this assignment until the date of such reversion;
- (2) Any and all equipment or other personal property which have not become unmovable fixtures attached to Second Property will belong to Assignee and Assignee will remove such equipment and personal property from Second Property within 30 days after such reversion of Second Property unless Assignors purchase the equipment and personal property at a price and upon terms agreed upon;
- (3) any and

all wells drilled by Assignee upon Second Property will be plugged and abandoned at Assignees expense in accordance with the rules and regulations of the Oil Conservation Division within 60 days after such reversion unless either Assignor, or their estates, advise Assignee within 15 days after such reversion that he or she or their estates assume the responsibility of plugging and abandoning such wells; (4) Assignee will protect Second Property from cancellation of the Lease from Santa Fe Pacific Railroad and the assignment from Tenneco Oil Company because of any violation of the terms of either of these instruments; (5) Assignors shall have derrick floor rights and Assignee will furnish to Assignors copies of all logs, core analyses and other reports obtained on all wells drilled on Second Property.

7. Condition of Property.

A. Assignee has examined and inspected the property and the Interest and accepts the Interest in the present condition of the Interest, and without warranty of title, express or implied. Assignors have not made any representation to Assignee concerning the good or workable condition of any of the equipment or personal property on the well on the property, or any representation as to the amount or recoverability of hydrocarbons in and under the Interest to induce Assignee to enter into this transaction. Any prior statements by Assignors, oral or written, as to the amount or the recoverability of such hydrocarbons were purely expressions of opinion, and Assignee has not relied upon any such statements in entering into this transaction.

Dated _____

ASSIGNEE

WR OIL AND GAS COMPANY

By: _____

Its _____

ASSIGNORS

Lloyd Davidson

Jerre Davidson

STATE OF NEW MEXICO

COUNTY OF SANTA FE

The foregoing instrument was acknowledged before me on _____
by Lloyd Davidson and Jerre Davidson.

Notary Public

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me on _____
by _____ who is _____
of WR OIL AND GAS COMPANY, a Delaware Corporation, on behalf of the
corporation.

Notary Public

Exhibit "A" attached to Partial
Assignment of Oil and Gas Lease
dated _____

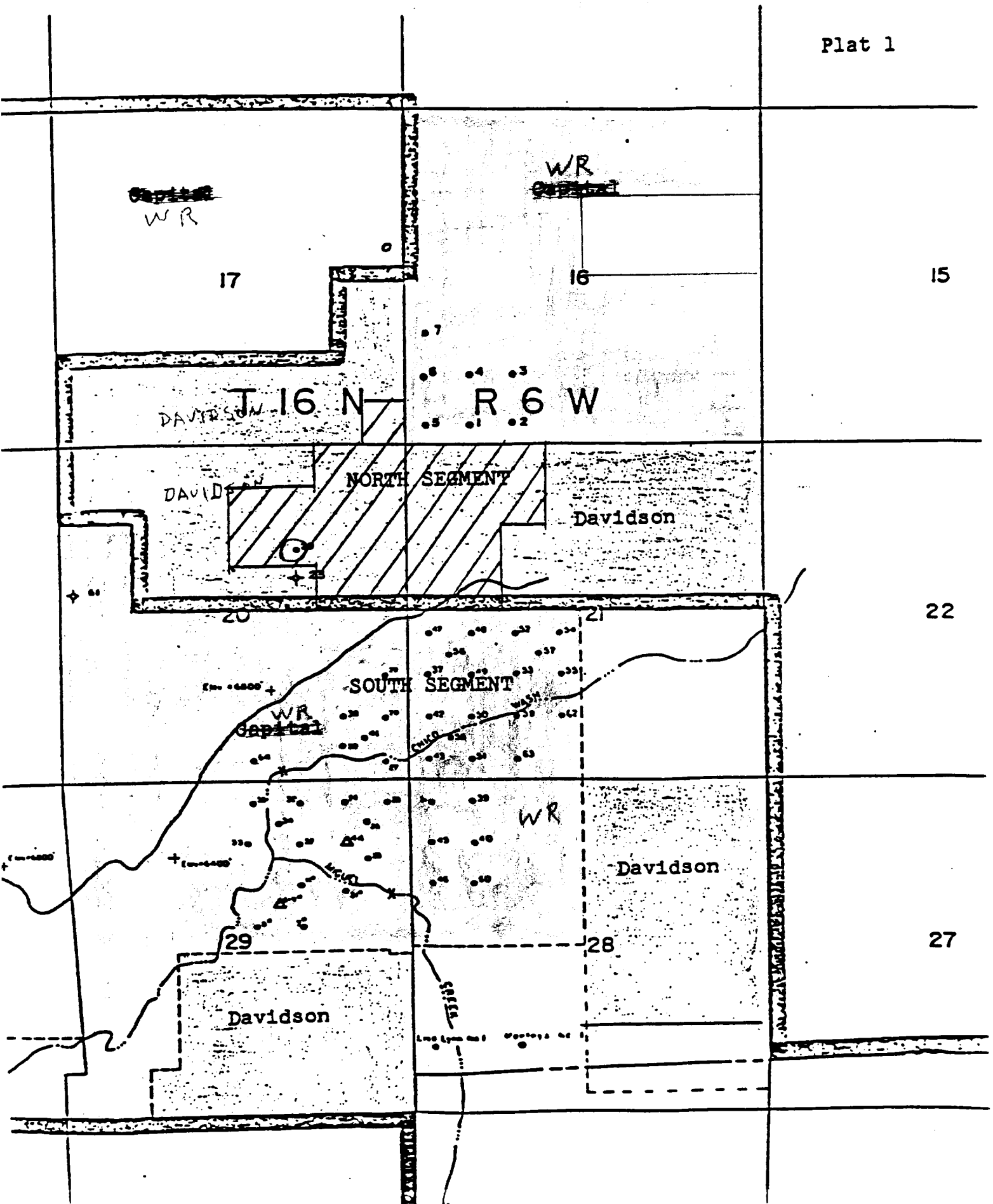
MCKINLEY COUNTY, NEW MEXICO

TOWNSHIP 16 NORTH, RANGE 6 WEST

<u>DESCRIPTION</u>	<u>SECTION</u>	<u>ACRES</u>	<u>TOTAL ACRES</u>
S/2 SW/4	17	80.00	
Lot 3 SE/4	17	27.01	
Lot 4 SE/4	17	27.34	
Lot 7 SE/4	17	10.46	
Lot 8 SE/4	17	10.33	
SW/4 SE/4	17	40.00	195.14
N/2 NW/4	20	80.00	
Lot 1 NE/4	20	27.56	
Lot 2 NE/4	20	27.69	
Lot 5 NE/4	20	10.27	
Lot 6 NE/4	20	10.29	
W/2 NE/4	20	80.00	
SE/4 NW/4	20	40.00	275.81
NE/4	21	160.00	
NW/4	21	160.00	320.00
NE/4	28	160.00	
N/2 SE/4	28	80.00	240.00
Lot 3 SE/4	29	28.00	
Lot 4 SE/4	29	25.66	
Lot 5 SE/4	29	37.72	
Lot 10 SE/4	29	10.34	
Lot 11 SE/4	29	28.22	
Lot 12 SE/4	29	24.12	
NW/4 SE/4	29	40.00	
Lot 6 SW/4	29	37.72	
Lot 13 SW/4	29	24.12	
NE/4 SW/4	29	40.00	295.90
GRAND TOTAL			1,326.85

Mc KINLEY COUNTY, NEW MEXICO

Plat 1



SAND THICKNESS - FEET

Wells Drilled and Core

Plat 3

TOWNSHIP 16 NORTH, RANGE 6 WEST, N.M.P.M.
MCKINLEY COUNTY, NEW MEXICO
MIGUEL CREEK FIELD

No. 1	-----	38	Feet
2	-----	14	"
3	-----	14	"
4	-----	26	"
5	-----	12	"
6	-----	12	"
7	-----	12	"
20	-----	22	"
23	-----	6	"
47	-----	12	"
48	-----	12	"

