

DOC

Diversified
Operating
Corporation

February 7, 1989

Mr. Joe Dyk
Petroleum Engineer
Lone Mountain Production
408 Petroleum Building
Billings, Montana 59103-3394

RE: Spudding in Incorrect Location
McKinley, New Mexico

Dear Mr Dyk:

As you are well aware, Salazar Drilling Rig #4, contracted by Diversified Operating Corporation, "DOC", to drill the Enchantment #36-15, SW/SE Sec 36, T16N R7W, McKinley County, moved in, rigged up, drilled 100' of surface hole, and set surface on the wrong location. The drilled location was apparently in Section 6, T16N R7W, McKinley County, Lone Mountain Production's prospect.

I, as Operations Manager, had the Enchantment well staked in November 1988. The Drilling Prognosis with directions to the Enchantment #36-15 and a map were sent to Salazar Drilling as well as DOC's drilling representative.

I asked that Salazar check the location on the weekend of January 28th and 29th and report any problems with move in, rig up, and spud on Monday, January 30th. None were relayed.

On January 29th, Salazar's crews dug pits prior to rig move-in on the wrong location. Joe Salazar explained the wrong location by stating that the ranch foreman directed his personnel to the location. He personally did not check the Enchantment location with the map and directions which I sent to him. DOC's drilling representative, Mr. W.C. Maddox arrived on the morning of January 30th and followed rig up trucks to the location in Section 6. The rig was on location but not rigged up. He did not locate any wellsite stake at the location, but that is not uncommon after the rig is on location. Mr. Maddox assumed that Salazar was on the correct hole.

On January 31st I was telephoned by Joe Salazar of problems. Ed Kerr, landman for PH Resources, who turned the deal to DOC, related the error in locations. He drove directly to the Enchantment location with the directions I had specified. The Enchantment stake identified the company "DOC", well name, "Enchantment #36-15", and legal location, "SW/SE Section 36 T16N R7W".

NM-67402

RECEIVED
BLM MAIL ROOM

89 FEB 10 PM 1:11

FARMINGTON RESOURCE AREA
FARMINGTON, NEW MEXICO
MINERALS BRANCH

BRANCH CHIEF _____
SOLIDS _____
FLUIDS D&P K. H. 203 NM
FLUIDS I&E _____
FSM _____
I & E-E _____
I & E-W _____
ALL SUPV _____
FILES _____