

Bird Creek Resources, Inc.

1412 S. Boston, Suite 550
Tulsa, Oklahoma 74119
(918) 582-7713
Fax: (918) 560-4958

March 4, 1993

Doyle Hartman
P.O. Box 10426
Midland, TX 79702

Attention: Ms. Carolyn Sebastian

Re: Culebra Bluff SWD #1
SW/4 NW/4, Section 2-23S-28E
Eddy County, New Mexico

Gentlemen:

This is to advise that Bird Creek Resources, Inc. hereby proposes to convert the State "GO" #1 to a salt water disposal well to be known as the Culebra Bluff SWD #1.

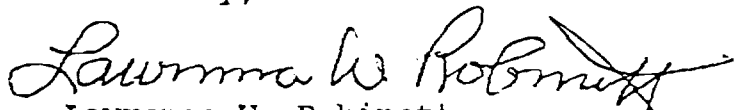
Please advise whether you desire to participate in this operation for your proportionate interest (21.83535%). In this regard, please find enclosed two (2) copies of our AFE covering the proposed conversion and a copy of our Salt Water Disposal Operating Agreement with extra signature page.

If you wish to participate, please execute the AFE and the extra signature page and forward them to this office for our files.

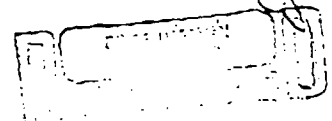
In order to proceed with this conversion in a timely fashion, we are requesting that you make your election within fifteen (15) days from your receipt of this proposal. If we have not received your election within said fifteen (15) days it will be deemed an election to not participate in this proposal.

If you have any questions or require any further information in this regard, please do not hesitate to contact me.

Sincerely,


Lawrence W. Robinette
Land Manager

Enclosures



MAR 8 1993

AUTHORITY FOR EXPENDITURE

CULEBRA BLUFF SWD #1

SW/4 NW/4, Section 2-23S-28E
Eddy County, New Mexico

Primary Objective: Conversion to Salt Water Date: 2/23/93
Disposal

Producer

Dry Hole

INTANGIBLE WELL COST

pit?

Survey and Stake Location	\$ 1,000	\$ -
Location & Road Damages	3,000	-
Secondary Containment	25,000	-
Contract Drilling- @ \$ /ft	-	-
days @ \$ /day	-	-
Bits	-	-
Completion Unit 3 days @ \$1200/day	3,600	-
Cementing	-	-
Mud and Chemicals	-	-
Water	5,000	-
Transporation	-	-
Dump cement, set CIBP	2,100	-
Perforating cased hole	3,300	-
Formation Treating	57,000	-
Testing	-	-
Miscellaneous Labor	-	-
Direct Supervision	2,000	-
Rental, BOP's, Frac Tanks, RBP	4,000	-
Casing Crew	-	-
Well Control Insurance	-	-
Drilling Overhead	-	-
Plug and Abandon if Dry Hole	-	-
Contingencies	<u>4,000</u>	<u>-</u>
Total Intangibles	\$110,000	\$ -

TANGIBLE WELL COST

Tubulars-Conductor @ \$ /ft	\$	\$
" @ \$ /ft	-	-
" @ \$ /ft	-	-
4,000' 3 1/2" @ \$ 5.00/ft	20,000	-
Packers & Anchors - 7", coated; internally	6,000	-
Wellhead - Csg. head & spool	2,000	-
Tree & connections - nickel plated	7,500	-
Electrical Equipment - Installed	17,000	-
Flow lines, connections, etc.	6,000	-
Battery	50,000	-
Heater, Separators, Treaters	-	-
Triplex Pump	46,000	-
Pump - Transfer & sump pumps	1,000	-
Equipment - Fence	5,000	-
5% Contingencies	<u>6,500</u>	<u>-</u>
Total Tangibles	\$167,000	\$ -
TOTAL	<u>\$277,000</u>	<u>\$ -</u>

COMPANY _____

BY: _____

DATE: _____

DOYLE HARTMAN

Oil Operator

500 N. MAIN

P.O. BOX 10426

MIDLAND, TEXAS 79702

(915) 684-4011

VIA FACSIMILE AND CERTIFIED MAIL

April 16, 1993

Bird Creek Resources, Inc.
1412 South Boston, Suite 550
Tulsa, OK 74119

Attn: Mr. Lawrence W. Robinette
Land Manager

Re: State "GO" #1/Culebra Bluff SWD #1
Eddy County, New Mexico
Unit E, SW/4NW/4, Section 2, T-23-S, R-28-E, N.M.P.M.

Gentlemen:

Reference is made to your proposal dated March 4, 1993 with AFE attached pertaining to the conversion of the existing State "GO" #1, located in Unit E, Section 2, T-23-S, R-38-E, N.M.P.M., Eddy County, New Mexico to the Culebra Bluff SWD #1 and our initial response dated March 23, 1993, received by your offices March 25, 1993. Copies attached for your reference. The purpose of this letter is to acknowledge receipt of your letter dated April 14, 1993 (copy attached) alleging our failure to respond to same and Bird Creek's attempt to place Doyle Hartman in a non-consent position regarding this conversion.

Please be advised that your letter proposal of March 4, 1993 does not 1) set out realistic cost of recovery and payout nor 2) address charges for third party water disposal. In view of the fact that your guidelines fail to meet EPA disposal rates as well as area customary disposal rates in southeast New Mexico, we do not accept that same is a legitimate proposal. Due to the fact that Bird Creek's conversion proposal is not a bona fide presentation of legitimate standard industry practices as to customary rates charged for disposal in southeast New Mexico, Doyle Hartman is in no way past the thirty (30) day notification/response period set forth in Article VI.B.1. Proposed Operations and Article VI.E.2 Abandonment of Wells of Joint Operating Agreement dated December 15, 1978. We still have the right to participate in this conversion and are not in a non-consent position nor do the parties meet the State of New Mexico pooling requirements at this time; nor will we accept these positions as having been met. All work on the conversion of the State "GO" #1 to the Culebra Bluff SWD #1 should be delayed until receipt of Hartman's official election notification or until these matters have been satisfactorily resolved.

Bird Creek Resources, Inc.
April 16, 1993
Page 2

We appreciate your assistance in this regard.

Very truly yours,

DOYLE HARTMAN, Oil Operator



Wm. Allan Smith
Landman

enclosures (3)

rep
wp51\corresp.cms\statego2.#1

cc: NMOCD
P.O. Drawer DD
Artesia, NM 88211
Attn: Mike Williams
District Supervisor

NMOCD
P.O. Box 1788
Carlsbad, NM 88220
Attn: Richard Manus
Area Manager

NMOCD
Petroleum Bureau
P.O. Box 2088
Santa Fe, NM 87501
Attn: David Catanach
Petroleum Engineer

Gallegos Law Firm
141 East Palace Avenue
Santa Fe, NM 87501
Attn: J.E. Gallegos

**Bird Creek Resources, Inc.**

1412 S. Boston, Suite 550
Tulsa, Oklahoma 74119
(918) 582-7713
Fax: (918) 560-4958

April 19, 1993

VIA FACSIMILE AND CERTIFIED MAIL

Doyle Hartman
P.O. Box 10426
Midland, TX 79702

Attention: Mr. William Allan Smith

Re: State "GO" #1/Culebra Bluff SWD #1
SW/4 NW/4, Section 2-23S-28E
Eddy County, New Mexico

Gentlemen:

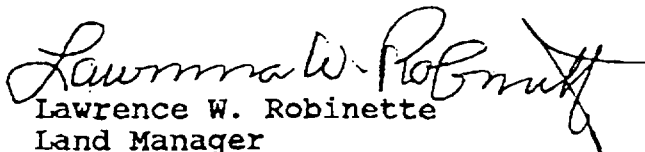
Per our conversation this date and your letter of April 16, 1993, this is to advise that the charges for third party disposal will be not less than \$0.375 per barrel. However, the most of the contracts call for a charge of \$0.50 before payout and \$0.40 after payout. In view of the fact that this well will be on a closed pipeline delivery system and therefore will not be a Class II Commercial Salt Water Disposal Well, these rates are in line with the charges on similar systems.

As to your question regarding payout, we estimate that payout will occur in approximately twenty-four (24) months. However, Bird Creek makes no warranties or representations with regard to this estimate and any reliance thereon is taken at own risk.

Also, as I indicated we are still of the opinion that you have exceeded your election period under the existing Operating Agreement, however, in the interest of bringing this matter to a conclusion, we have agreed with you to extend your election period an additional ten (10) days from this date. Therefore, we will expect to have your written election on or before April 30, 1993.

If you have any further questions or have any problems in this regard, please do not hesitate to contact me.

Sincerely,


Lawrence W. Robinette
Land Manager

DOYLE HARTMAN

Oil Operator

500 N. MAIN

P.O. BOX 10428

MIDLAND, TEXAS 79702

(915) 684-4011

RECEIVED
DIVISION
APR 23 1993

VIA FACSIMILE AND CERTIFIED MAIL

April 23, 1993

Bird Creek Resources, Inc.
1412 S. Boston, Suite 550
Tulsa, OK 74119

Attn: Mr. Lawrence W. Robinette

Re: State "GO" conversion to Culebra Bluff SWD #1
Eddy County, New Mexico
SW/4NW/4, Section 2, T-23-S, R-28-E, N.M.P.M.

Gentlemen:

Reference is made to your letter to us dated April 19, 1993 which was received via facsimile on April 22, 1993, and also to our letter to you dated April 16, 1993, wherein we clearly stated that in no way will Doyle Hartman, Oil Operator accept the position that it is non-consent as to your proposed conversion of the State "GO" No. 1 well (E-2-23S-28E) to a salt water disposal well.

It is apparent that Bird Creek is intent on confiscating Doyle Hartman's interest in the State "GO" No. 1 well and is attempting to accomplish this by failing to take into account what the actual cost or alternative costs would be for Bird Creek to dispose of its produced salt water without the conversion of the State "GO" No. 1 well to a salt water disposal well. Payout of Bird Creek's proposed well conversion can only be calculated at the rates charged for trucking and disposing of water in southeast New Mexico; anything less is damaging to the other owners of the State "GO" No. 1 wellbore that are not in a like position to Bird Creek.

As you are aware, without a disposal well, there are two ways that Bird Creek has available to dispose of its produced salt water. The first is dumping the water into surface pits which is outlawed, and the second is to have the water trucked to an approved disposal well.

Bird Creek has unilaterally elected to convert our well to a salt water disposal well while not taking into account the dissimilar position of the other wellbore owners. Bird Creek's tactics as to the State "GO" No. 1 well are in our opinion heavy-handed and are not acceptable. Moreover, we are not agreeable to the proposed disposal contracts that have been submitted by Bird Creek that call for combined transportation and disposal rates which are less than the prevalent southeast New Mexico salt water disposal rates (inclusive of trucking).

Bird Creek Resources, Inc.
April 23, 1993
Page 2

We are appalled that Bird Creek would attempt to evaluate its economics for payout of its proposed State "GO" No. 1 well conversion on rates less than the southeast New Mexico area rates charged for salt water disposal (inclusive of trucking). We feel it is highly probable that during the discovery and hearing process related to a necessary hearing by Bird Creek before the NMOCD to obtain approval of a salt water disposal well (NMOCD Rule 701E), we will find that Bird Creek most likely did in fact justify its proposed State "GO" No. 1 Water Disposal System utilizing alternative water disposal costs (inclusive of trucking) of \$1.00+ per barrel. By attempting to charge approximately 50% of the prevalent southeast New Mexico salt water disposal rates (inclusive of trucking), Bird Creek will realize substantial savings of its current salt water disposal costs at the expense other State "GO" No. 1 wellbore owners (i.e., Hartman and the other wellbore owners will be subsidizing Bird Creek).

We again hereby request that Bird Creek deal with all of the State "GO" No. 1 wellbore owners on a fair and equitable basis and establish an acceptable rate for salt water disposal so all of the interest owners can receive a fair and equitable payout of their investment.

In addition to the foregoing and as revealed in the undersigned's telephone conversation with Mr. Gary Adams at 11:03 a.m. on this date, Mr. Adams stated that the conversion of the State "GO" No. 1 well will be utilized as an overflow disposal well for another Bird Creek salt water disposal system and obviously any economics and costs as submitted under the AFE will be skewed in favor of Bird Creek and the other State "GO" No. 1 wellbore owners will be at a disadvantage as to the recoupment of their investment.

Again, in closing, and in order to make our position crystal clear, Doyle Hartman is not non-consent under the terms of the original Joint Operating Agreement covering the State "GO" No. 1 well because we have never been provided an accurate AFE, nor proper charges to cover the alternative cost of transporting and disposing of produced salt water. Finally, after this morning's conversation with Gary Adams, we are not even sure if water will ever be input into the State "GO" No. 1 well.

Very truly yours,

DOYLE HARTMAN, Oil Operator


Wm. Allan Smith
Landman

enclosures (5)

rcp
vp51\corresp.was\brderk.cul

Bird Creek Resources, Inc.
April 23, 1993
Page 3

cc: NMOCD
P.O. Drawer DD
Artesia, NM 88211
Attn: Mike Williams
District Supervisor
VIA FACSIMILE AND CERTIFIED MAIL

Bureau of Land Management
P.O. Box 1788
Carlsbad, NM 88220
Attn: Richard Manus
Area Manager
VIA FACSIMILE AND CERTIFIED MAIL

NMOCD
Petroleum Bureau
P.O. Box 2088 ✓
Santa Fe, NM 87501
Attn: David Catanach
Petroleum Engineer
VIA FACSIMILE AND CERTIFIED MAIL

I. - SECONDARY OR OTHER ENHANCED RECOVERY, PRESSURE MAINTENANCE
SALT WATER DISPOSAL, AND UNDERGROUND STORAGE

RULE 701. - INJECTION OF FLUIDS INTO RESERVOIRS

(as of 3-1-91)

A. Permit for Injection Required

(1) The injection of gas, liquefied petroleum gas, air, water, or any other medium into any reservoir for the purpose of maintaining reservoir pressure or for the purpose of secondary or other enhanced recovery or for storage or the injection of water into any formation for the purpose of water disposal shall be permitted only by order of the Division after notice and hearing, unless otherwise provided herein.

B. Method of Making Application

(1) Application for authority for the injection of gas, liquefied petroleum gas, air, water or any other medium into any formation for any reason, including but not necessarily limited to the establishment of or the expansion of water flood projects, enhanced recovery projects, pressure maintenance projects, and salt water disposal, shall be by submittal of Division Form C-108 complete with all attachments.

(2) The Applicant shall furnish, by certified or registered mail, a copy of the application to the owner of the surface of the land on which each injection or disposal well is to be located and to each leasehold operator within one-half mile of the well.

C. Administrative Approval

(1) If the application is for administrative approval rather than for a hearing, it must also be accompanied by a copy of a legal publication published by the applicant in a newspaper of general circulation in the county in which the proposed injection well is located. (The details required in such legal notice are listed on Side 2 of Form C-108).

(2) No application for administrative approval may be approved until 15 days following receipt by the Division of Form C-108 complete with all attachments including evidence of mailing as required under paragraph B (2) above and proof of publication as required by paragraph C (1) above.

(3) If no objection is received within said 15-day period, and a hearing is not otherwise required, the application may be approved administratively.

D. Hearings

(1) If a written objection to any application for administrative approval of an injection well is filed within 15 days after receipt of a complete application, or if a hearing is required by these rules or deemed advisable by the Division Director, the application shall be set for hearing and notice thereof given by the Division.

E. Salt Water Disposal Wells

(1) The Division Director shall have authority to grant an exception to the requirements of Rule 701-A for water disposal wells only, without hearing, when the waters to be disposed of are mineralized to such a degree as to be unfit for domestic, stock, irrigation, or other general use, and when said waters are to be disposed of into a formation older than Triassic (Lea County only) and provided no objections are received pursuant to Rule 701-C.

(2) Disposal will not be permitted into zones containing waters having total dissolved solids concentrations of 10,000 mg/l or less except after notice and hearing, provided however, that the Division may establish exempted aquifers for such zones wherein such injection may be approved administratively.

(3) Notwithstanding the provisions of Paragraph (2) above, the Division Director may authorize disposal into such zones if the waters to be disposed of are of higher quality than the native water in the disposal zone.

F. Pressure Maintenance Projects

(1) Pressure maintenance projects are defined as those projects in which fluids are injected into the producing horizon in an effort to build up and/or maintain the reservoir pressure in an area which has not reached the advanced or "stripper" state of depletion.

(2) All applications for establishment of pressure maintenance projects shall be set for hearing. The project area and the allowable formula for any pressure maintenance project shall be fixed by the Division on an individual basis after notice and hearing.

(3) Pressure maintenance projects may be expanded and additional wells placed on injection only upon authority from the Division after notice and hearing or by administrative approval.

(4) The Division Director shall have authority to grant an exception to the hearing requirements of Rule 701-A for the conversion to injection of additional wells within a project area provided that any such well is necessary to develop or maintain efficient pressure maintenance within such project and provided that no objections are received pursuant to Rule 701-C.

G. Water Flood Projects

(1) Water flood projects are defined as those projects in which water is injected into a producing horizon in sufficient quantities and under sufficient pressure to stimulate the production of oil from other wells in the area, and shall be limited to those areas in which the wells have reached an advanced state of depletion and are regarded as what is commonly referred to as "stripper" wells.

(2) All applications for establishment of water flood projects shall be set for hearing.

(3) The project area of a water flood project shall comprise the proration units owned or operated by a given operator upon which injection wells are located plus all proration units owned or operated by the same operator which directly or diagonally offset the injection tracts and have producing wells completed on them in the same formation; provided however, that additional proration units not directly nor diagonally offsetting an injection tract may be included in the project area if, after notice and hearing, it has been established that such additional units have wells completed thereon which have experienced a substantial response to water injection.

(4) The allowable assigned to wells in a water flood project area shall be equal to the ability of the wells to produce and shall not be subject to the depth bracket allowable for the pool nor to the market demand percentage factor.

(5) Nothing herein contained shall be construed as prohibiting the assignment of special allowables to wells in buffer zones after notice and hearing. Special allowables may also be assigned in the limited instances where it is established at a hearing that it is imperative for the protection of correlative rights to do so.

(6) Water flood projects may be expanded and additional wells placed on injection only upon authority from the Division after notice and hearing or by administrative approval.

(7) The Division Director shall have authority to grant an exception to the hearing requirements of Rule 701-A for conversion to injection of additional wells provided that any such well is necessary to develop or maintain thorough and efficient water flood injection for any authorized project and provided that no objections are received pursuant to Rule 701-C.