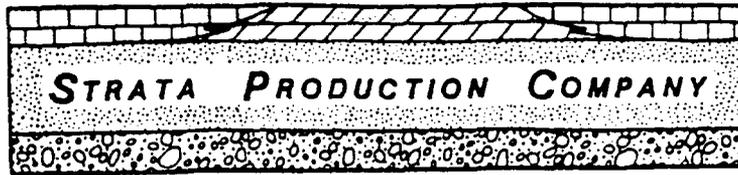


POST OFFICE DRAWER 1030
ROSWELL, NM 88202-1030



TELEPHONE (505) 622-1127
FACSIMILE (505) 623-3533

200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700
ROSWELL, NEW MEXICO, 88201
July 31, 1998

VIA - FAX #713-431-1475/U.S. MAIL

Mr. Bob Matthew
Exxon Company, USA
Post Office Box 4697
Houston, Texas 77210-4697

RE: COMPULSORY POOLING APPLICATION
Township 22 South, Range 32 East, NMPM
Section 22: NW/4NW/4, SE/4NW/4
Containing 80.0 acres m/l
Lea County, New Mexico

Dear Bob:

In accordance with our conversation of July 29, 1998, you advised that our offers to Exxon under our letter of July 27, 1998 were rejected by your management. You have asked us to transmit our economics to show Exxon why the offered 77.5% net revenue interest made by Exxon would not work for Strata in drilling a Morrow test to 15,000'.

As we discussed, Strata cannot continue these ongoing discussions and negotiations with Exxon since the terms of our Lease Operating Agreement with Exxon dictate that we must drill a well by September 21, 1998. If, as we have set out in our correspondence, Exxon would give Strata the extension to the Agreement for 180 days from the drilling obligation date to try and prove the economics to Exxon or possibly work out better terms, Strata would pay Exxon the \$200.00 per acre it has requested under the 80 acres to be committed to the well. When we have received the extension, Strata will continue its discussions with Exxon and will make efforts to come to a mutual agreement.

In summary, unless Exxon will give us an extension under the Lease Operating Agreement or we can agree on a basis for Exxon joining voluntarily prior to noon on August 5, 1998, in light of the impending deadline, we feel that we must proceed with the compulsory pooling.

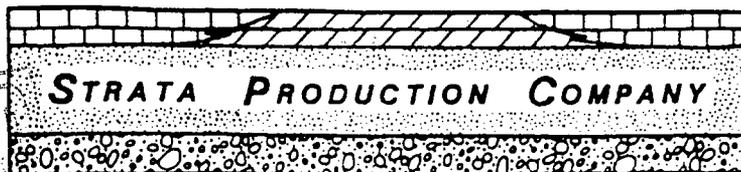
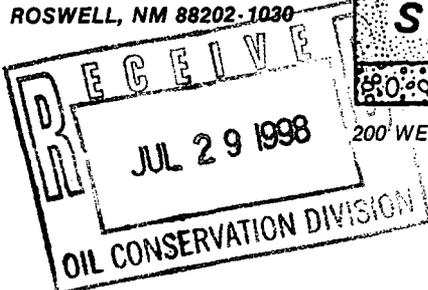
Sincerely,

A handwritten signature in dark ink, appearing to read "Jo McInerney", is written over the typed name and title.

Jo McInerney, CPL
Landman

cc: Mr. Bill Carr
Mr. David Catanach

POST OFFICE DRAWER 1030
ROSWELL, NM 88202-1030



200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700
ROSWELL, NEW MEXICO 88201

TELEPHONE (505) 622-1127
FACSIMILE (505) 623-3533

July 27, 1998

VIA - FAX #713-431-1475/U.S. MAIL

Mr. Bob Matthew
Exxon Company, USA
Post Office Box 4697
Houston, Texas 77210-4697

RE: EXXON COUNTER-PROPOSAL
Township 22 South, Range 32 East, NMPM
Section 22: NW/4NW/4, SE/4NW/4
Below the base of the Delaware formation
From approximately 8,600'
Containing 80.0 acres m/l
Lea County, New Mexico

Dear Bob:

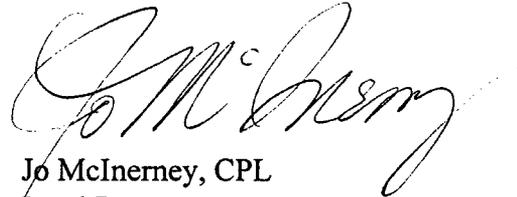
We are in receipt of your letter dated July 24, 1998 where Exxon Company, USA (Exxon) has made an offer to Strata Production Company (Strata), covering the subject lands, in lieu of participating in the well we have proposed. As you advised, Exxon would accept consideration in the amount of \$200.00 per acre for the deep rights Exxon holds below the Delaware formation for a term of one (1) year. Exxon would deliver a 77.5% net revenue interest in the referenced lands which you point out would equate to 81.25% net revenue interest under the 320.0 acre proration unit.

In the spirit of good faith to the resolve this matter Strata would agree to pay Exxon \$200.00 per net acre if the well commences. We have discussed the net revenue interest with our engineer and he has advised that we could economically drill and complete this well with an 81.25%.. However, as pointed out in the hearing, the lands under the Lease Operating Agreement with Exxon covering the balance of the acreage in Section 22 holds a 2.0% previously existing ORRI. Therefore, we would need at least 82.5% NRI under the Exxon lands to bring us close to that net revenue interest. However, since we want to try and move this process along and do not have time for ongoing negotiations, Strata would accept a 81.25% net revenue interest from Exxon under the captioned lands.

If the above terms are unacceptable to Exxon, Strata would again ask Exxon to join in the well. In the alternative, Strata would agree to pay Exxon immediately for a one (1) year term assignment covering the 80 acres and Exxon would agree extend the drilling obligation date under our Lease Operating Agreement from September 21, 1998 for an additional 6 months. As time if of the essence, we feel that we must finalize a deal with Exxon prior to noon on August 5th or proceed with our application for compulsory pooling. As we stated from the outset, we would be willing to extend the time for negotiations if Exxon will grant an extension to the Lease Operating Agreement.

We appreciate your cooperation and would appreciate your soonest attention to this matter since, as you know, we are less than 2 months away from the drilling obligation date. .

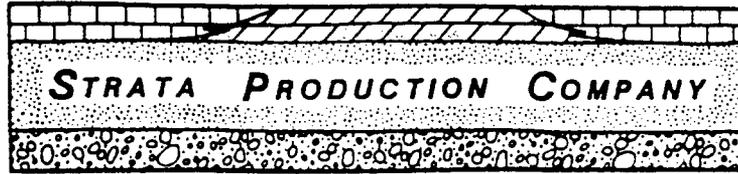
Sincerely,

A handwritten signature in cursive script, appearing to read "Jo McInerney".

Jo McInerney, CPL
Land Department

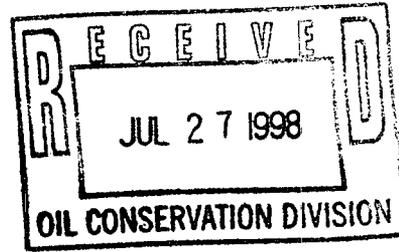
cc: Mr. Bill Carr
Mr. David Catanach

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200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700
ROSWELL, NEW MEXICO 88201

TELEPHONE (505) 622-1127
FACSIMILE (505) 623-3533



July 23, 1998

VIA - FAX #713-431-1475/U.S. MAIL

Mr. Bob Matthew
Exxon Company, USA
Post Office Box 4697
Houston, Texas 77210-4697

RE: COMPULSORY POOLING APPLICATION
Township 22 South, Range 32 East, NMPM
Section 22: NW/4NW/4, SE/4NW/4
Below the base of the Delaware formation
From approximately 8,600'
Containing 80.0 acres m/l
Lea County, New Mexico

Dear Bob:

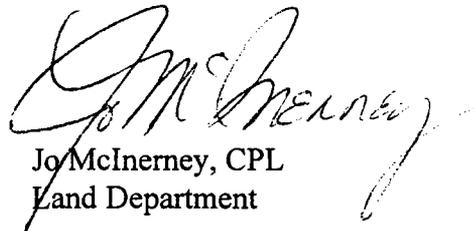
This letter will advise Exxon Company, USA, that Strata's Application for Compulsory Pooling of Exxon's interest below the base of the Delaware formation under the subject lands came before the Oil Conservation Division this morning, July 23, 1998. In accordance with Exxon's attorneys request for additional time for negotiating between the parties, the Examiner, David Catanach, granted a two week continuance to August 6, 1998, to see if Exxon and Strata might work out an agreement.

In this regard, we hereby request that Exxon please respond to Strata's correspondence of June 12, 1998 with the AFE attached covering the estimated costs for drilling and completing the Hill Federal Well #1 Well. We also ask that you respond to our correspondence of June 29, 1998 with the Joint Operating Agreement enclosed for your review and approval to the drilling of our proposed well.

Strata would be pleased to have Exxon join with Strata to participate for its share of a 25% working interest in the W/2 of Section 22, at a legal location 1980' FWL & 1980' FSL in Township 22 South, Range 32 East, NMPM, Lea County, New Mexico to test the Morrow formation.

Thank you for your attention and we look forward to hearing from Exxon in the near future.

Sincerely,



Jo McInerney, CPL
Land Department

cc: Mr. David Catanach
Oil & Gas Conservation Division