

July 17, 1995

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

WORKING INTEREST OWNERS  
(SEE LIST BELOW)

RE: MESAVERDE RECOMPLETION  
HILL FEDERAL 2Y  
SW/4 NE/4 (N/2) SECTION 25, T25N, R02W  
RIO ARriba COUNTY, NEW MEXICO

Gentlemen:

Meridian Oil Inc., hereby proposes to recomplete the referenced Mancos well in the Mesaverde formation at an estimated cost of \$260,210.00. Meridian rather than plug and abandon the well would like to recomplete the well to the Mesaverde formation. The Working Interest Owners in the existing Mancos well will have the same working interest in the Mesaverde formation. The cost of the recompletion will be borne by the interest owners shown below.

WORKING INTEREST OWNER	WORKING INTEREST	ESTIMATED SHARE
1. Meridian	62.50000%	\$162,631.00
2. Hooper, Kimball & Williams Inc.	12.50000%	\$ 32,526.00
3. Ibex Partnership	5.85327%	\$ 15,231.00
4. PC. Ltd.	5.85327%	\$ 15,231.00
5. Mabel Reed, Trustee of the Warren Clark Trust.	0.30518%	\$ 794.00
6. Carolyn Clark Trust	0.32806%	\$ 854.00
7. Mabel Reed and W.W. Oatman, Co-Trustee of the Warren Clark Testamentary Trust	0.16022%	\$ 417.00
8. Mountain States Natural Gas Corp.	6.25000%	\$ 16,263.00
9. Christopher L. Phillips	1.56250%	\$ 4,066.00
10. Romana B. Sweet, Trustee of the Ramona Sweet Revocable Trust	1.56250%	\$ 4,066.00
11. Trade Exploration Corporation	2.90625%	\$ 7,562.00
12. Duer Wagner III	0.21875%	\$ 569.00
TOTAL	100.0000%	\$260,210.00

The Hill Federal #2Y Mancos well is covered by that certain Operating Agreement dated May 10, 1985. The May 10, 1985, Operating Agreement under Exhibit "A" was limited in depth to only cover the Gallup (Gavilan Mancos) and Dakota formations. The Operating Agreement does not currently cover the Mesaverde formation. Since we are all subject to the May 10, 1985 Operating Agreement it is proposed that the existing Operating Agreement be amended to cover the Mesaverde formation. Upon your approval a revised Exhibit 'A' will be forwarded to you.

If you approve or disapprove of our proposal, please evidence such by signing and returning the following:

1. One (1) copy of this Letter Ballot indicating approval to amend the Operating Agreement to cover the Mesaverde formation and your joinder or non-consent election subject to said Operating Agreement.
2. One (1) copy of the attached Authority for Expenditure.

It would be appreciated if you could let me know your election within 30 days or sooner. Since the Mesaverde is not currently covered by the Operating Agreement we will start the necessary procedures to schedule Force Pooling Hearing.

If I can be of further assistance, please call me at (505) 326-9759.

Please make your election below:

1. The undersigned this \_\_\_\_\_ day of \_\_\_\_\_ 1995, hereby agrees to Amend the May 10, 1985 Operating Agreement to cover the Mesaverde formation and elects to participate as to the costs of the Mesaverde recompletion.

Name/Title: \_\_\_\_\_

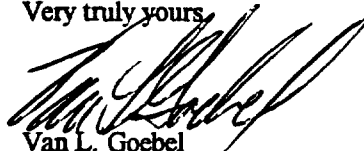
Company: \_\_\_\_\_

2. The undersigned this \_\_\_\_\_ day of \_\_\_\_\_ 1995, hereby agrees to Amend the May 10, 1985 Operating Agreement to cover the Mesaverde formation and elects to go Non-Consent in the Mesaverde recompletion.

Name/Title: \_\_\_\_\_

Company: \_\_\_\_\_

Very truly yours,



Van L. Goebel  
Senior Landman

VLG:dg  
juy95  
0501536

cc: A.G. Hill

MERIDIAN OIL INC.  
Farmington Region  
Post Office Box 4289  
Farmington, New Mexico, 87499  
(505) 326-9700

AUTHORITY FOR EXPENDITURE

AFE No.: \_\_\_\_\_ Property Number 0501536 Date: 2/21/95  
Lease/Well Name: HILL FEDERAL #2Y DP Number: 1539B  
Field Prospect: Mesaverde Region: Farmington  
Location: Sec. 25, T25N, R2W County: Rio Arriba State: New Mexico  
AFE Type: (14) Cap. Workover Original X Supplement     Addendum     API Well Type      
Operator: Southland Royalty  
Objective Formation: Mesaverde Authorized Total Depth (Feet):      
Project Description: Recomplete to Mesaverde  
Estimated Start Date: 5/21/95 Prepared By: Janeen Prator  
Estimated Completion Date: 5/30/95

GROSS WELL DATA

	Drilling		Workover/ Completion	Construction Facility	Total
	Dry Hole	Suspended			
Days:			9		
This AFE:			\$250,210	\$10,000	\$260,210
Prior AFE's:					
Total Costs:	\$0	\$0	\$250,210	\$10,000	\$260,210

JOINT INTEREST OWNERS

	Working Interest Percent	Dry Hole \$	Complete
Company:			
MERIDIAN OIL INC:	62.50000 %	\$0	\$162,600
TRUST		\$0	
Others:	37.50000 %	\$0	\$97,610
AFE TOTAL:	100.00000 %	\$0	\$260,210

MERIDIAN OIL INC. APPROVAL

Approved: Bill B. Hill Date: 2/21/95 Approved: John S. Smith Date: 2/21/95  
Title: Geoscientist Title: Reservoir Engineer  
Approved: John S. Smith Date: 2-21-95 Approved: John S. Smith Date: 2/21/95  
Title: Landman Title: Production Engineer

PARTNER APPROVAL

Company Name: \_\_\_\_\_  
Authorized By: \_\_\_\_\_ Date: \_\_\_\_\_  
Title: \_\_\_\_\_

**Meridian Oil Inc.  
Facilities Estimate**

Well Name: Hill Federal #2Y  
Location: Sec. 25G, T25N, R02W  
AFE Type: Capital Workover 14  
Formation: Blanco Mesaverde

Prepared By: CA Newstrom  
Date: 2/17/95  
Approved By: DB [Signature]  
Date: 2-21-95

**Tangible Costs**

Account Number	Estimated Days:			Total Estimated Cost
		Cost	Cost	
247				
02	Labor-Contract, Roustabout, Consultants	2,000		2,000
03	Company Vehicles			0
08	Location, Roads & Canals			0
12	Overhead			0
17	Damages, Property Losses			0
20	Equip. Coating and Insulation			0
26	SWD Filtering			0
27	Separators			0
28	Gas Sweetening			0
29	Pumping Units			0
31	Prime Mover			0
32	Tanks			0
33	Metering Equipment			0
34	Flow Line			0
35	Compressors			0
36	Building			0
39	Flowlines, Piping, Valves & Fittings	8,000		8,000
43	Safety			0
44	Technical Contract Svc.			0
47	Rental Compressors & Maintenance			0
48	Rental Equipment			0
49	Cathodic Protection			0
50	Right Of Way			0
51	Minor Pipelines			0
53	Surface Pumps			0
54	Electrical Accessories			0
55	Miscellaneous-Facility Expense			0
57	Pulling Unit Costs			0
60	Oper. Owned Equip/Facilities			0
62	Env. Compliance-Assessment			0
63	Env. Compliance (Remediation)			0
68	Direct Labor			0
69	Benefits			0
70	Payroll Taxes and Insurance			0
72	Overhead (Contingency 5%)			0
73	Freight/Transportation			0
81	Tubing			0
82	Rods			0
83	Downhole Pumps			0
84	Alternative Artificial Lift Equip.			0
86	Convent Artificial Lift Wellhead Equip.			0
88	Communication Systems			0
95	Employee Meals			0
96	Gas Dehydrator			0
<b>Total Facility Cost</b>		<b>10,000</b>	<b>0</b>	<b>10,000</b>

**Meridian Oil Inc.  
Completion Estimate**

Well Name: Hill Federal #2Y  
Location: Sec. 25G, T25N, R02W  
AFE Type: Capital Workover 14  
Formation: Blanco Mesaverde

Prepared By: CA Newstrom  
Date: 2/17/95  
Approved By: \_\_\_\_\_  
Date: \_\_\_\_\_

**Intangible Costs**

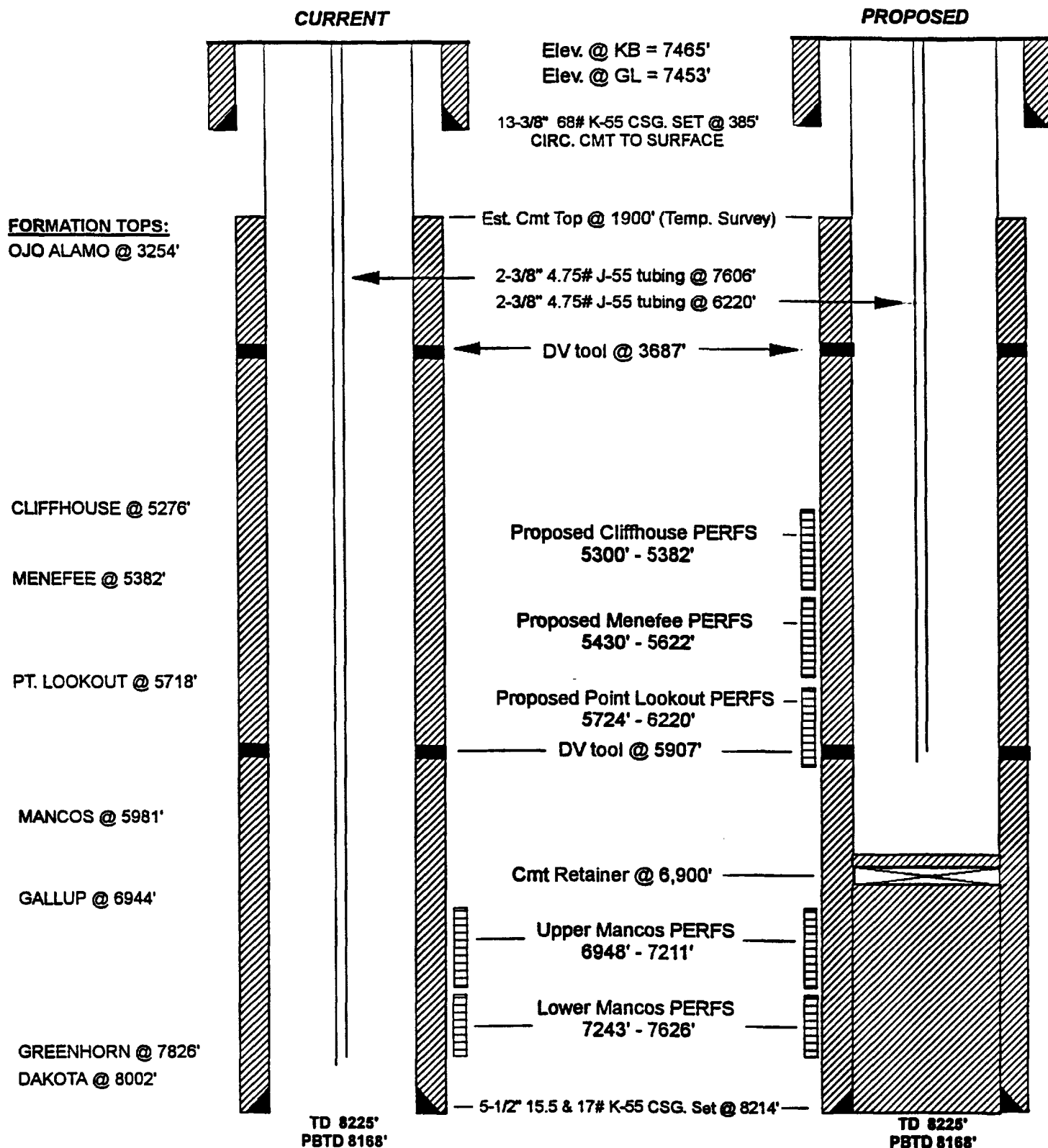
Estimated Days: 9				Total Estimated Cost
Account Number		Cost	Cost	Cost
249				
02	Location, Roads or Canals	1,250		1,250
04	Surface Restoration	1,250		1,250
05	Move-in, Move-out	7,500		7,500
07	Fees of Contractor - Daywork	37,350		37,350
10	Gas and Air Drilling	10,000		10,000
12	Specialty Fluids and Chemicals	800		800
16	Fresh Water	2,500		2,500
17	Bits			0
19	Remedial Cementing	5,000		5,000
23	Fuel/Electricity	1,000		1,000
24	BOP & Wellhead Rentals(Surface)			0
25	Drill Work String Rentals (Surface)			0
27	Tank Rentals	750		750
28	Other Rental			0
29	Transportation	1,000		1,000
30	Offsite Disposal Service	5,000		5,000
33	Tubular Inspection			0
34	Cased Hole Services (CBL, set retainer)	10,500		10,500
36	Production Testing			0
37	Swabbing & Coiled Tubing			0
38	Stimulation (4 acid breakdowns)	10,000		10,000
39	Fracturing (4 stage slickwater frac)	130,000		130,000
43	Consultants	4,000		4,000
45	Roustabout Labor	800		800
46	Miscellaneous			0
49	Packer Rental	6,500		6,500
72	Overhead (Contingency @ 5%)	11,760		11,760
	<b>Total Intangibles</b>	<b>246,960</b>	<b>0</b>	<b>246,960</b>
<b>Tangible Costs</b>				
81	Tubing and Tiebacks (misc. replacements)	2,000		2,000
82	Packers and Bridge Plugs			0
85	Tubing Equipment	250		250
86	Wellhead Equipment & Tree	1,000		1,000
	<b>Total Tangibles</b>	<b>3,250</b>	<b>0</b>	<b>3,250</b>
<b>Total Completion Cost</b>		<b>250,210</b>	<b>0</b>	<b>250,210</b>

## Hill Federal #2Y

Unit G, Sec. 25, T25N, R02W, Rio Arriba County, NM

Lat. 36 - 22 - 17 Long. 106 - 59 - 52

Mesaverde Recompletion



**Pertinent Data Sheet - Hill Federal #2Y**

**Location:** SW/NE Section 25, T-25-N, R-02-W, Rio Arriba Co., NM  
Lat. 36 - 22 - 17 Long. 106 - 59 - 52

**Current Field:** Gavilan Mancos

**Spud:** 8/26/85

**Completed:** 10/23/85

**Elevation:** 7453' @ GL  
7465' @ KB

**TD/PBTD:** 8225'/8214'

**Casing Record:**

<b><u>Hole Size</u></b>	<b><u>Casing Size</u></b>	<b><u>Weight/Grade</u></b>	<b><u>Depth Set</u></b>	<b><u>Cmt Vol./Top</u></b>
17-3/4"	13-3/8"	68#/K-55	385'	550 sks/surface
8-5/8"/7-7/8"	5-1/2"	15.5 & 17#/K-55	8214'	1075 sks (3 stg.)/1900'(TS)
Stage Tool	5-1/2"		5907'	
Stage Tool	5-1/2"		3687'	

**Tubing Record:**

<b><u>Size</u></b>	<b><u>Weight/Grade</u></b>	<b><u>Depth Set/Jts.</u></b>
2-3/8"	4.7#/J-55	7606'/239 jts.

**Formation Tops:**

Nacimiento	2530'
Ojo Alamo	3254'
Kirtland	3404'
Cliff House	5284'
Point Lookout	5722'
Mancos	5981'
Gallup-Mancos	6944'
Greenhorn	7826'
Dakota	8002'

**Logging Record:** IEL, GR-CNL/CDL, TEMPERATURE SURVEY

**Present Completion:** Mancos  
Perforations: 6948' - 7211' (selective)  
7243' - 7626' (selective)

*Supplement to Ex. 2  
of Southland Royalty*

November 7, 1995

**CERTIFIED MAIL-RETURN RECEIPT REQUESTED**

WORKING INTEREST OWNERS

**RE: MESAVERDE RECOMPLETION  
HILL FEDERAL #2Y  
SW/4 NE/4 (N/2), SECTION 25, T25N, R02W  
RIO ARriba COUNTY, NEW MEXICO**

*Gentlemen:*


*Meridian Oil Inc. In its letter dated July 17, 1995 (copy enclosed) proposed to recomplete the referenced Mancos well in the Mesaverde formation. The Mancos is no longer productive and we have received a bureau of Land Management demand letter requesting that we either plug the well or re-establish production. We would still like to attempt a Mesaverde recompletion.*

*When we first proposed the Mesaverde recompletion, many of you requested that Gas balancing be initiated. It is my understanding that Meridian's Gas Balancing/Revenue Settlement Department has now contacted you regarding Gas Balancing.*

*Meridian again respectfully request your election in regards to the recompletion proposal as made in our letter of July 17, 1995. It would be appreciated if you could let me know your election by the end of November in order to avoid the Force Pooling Hearing scheduled for December 7, 1995.*

*If you have any questions in this regard, please contact the undersigned at (505) 326-9759.*

Very truly yours,

  
Van L. Goebel  
Senior Landman

VLG:dg  
Enclosures  
0501536



November 28, 1995

*Supplement to Exh. #2  
of Southland  
Royalty*

**CERTIFIED MAIL-RETURN RECEIPT REQUESTED**

*Working Interest Owners*

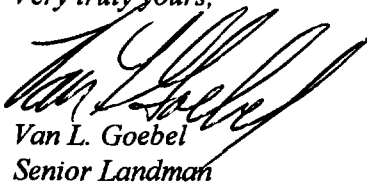
**RE: MESAVERDE RECOMPLETION  
HILL FEDERAL 2Y  
SW/4 NE/4 (N/2) SECTION 25, T25N, R02W  
RIO ARRIBA COUNTY, NEW MEXICO**

*Gentlemen:*

*Meridian Oil Inc, on behalf of Southland Royalty Company as Operator, in its letter dated July 17, 1995 proposed to plug the Mancos formation and recomplete the Mesaverde formation in the referenced well. The Mancos is no longer productive and we have received a Bureau of Land Management demand letter requesting that we either plug the well or re-establish production. At the request of the working interest owners Meridian has initiated Gas Balancing for the Mancos formation, which would indicate that the working interest owners are in agreement that the Mancos is no longer productive and should be plugged. Rather than plug the well Meridian would like to plug the Mancos and recomplete the Mesaverde formation. By using the existing wellbore for the Mesaverde test we would reduce costs and provide the opportunity to develop a new productive formation to the benefit of the working interest owners. We have not received any objections to the plugging of the Mancos formation and if we receive no response by December 7, 1995 to the contrary, we shall interpret this as agreement by all the working interest owners that the Mancos should be plugged. We request that each of you individually evaluate the merits of the proposed Mesaverde recompletion and request you make your election to either participate or go non-consent and to amend the existing May 10, 1985 Operating Agreement to cover the Mesaverde formation. We are scheduled to go before the State of New Mexico Oil Conservation Division for Compulsory Pooling of the Mesaverde Formation on December 7, 1995.*

*If I can be of further assistance, please let me know in writing or call me at (505) 326-9759.*

*Very truly yours,*

  
Van L. Goebel  
Senior Landman

VLG:dg  
0501536

cc: Arden Walker  
Bill Hobbs  
Curtis Newstrom  
Lori Lantz