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FACSIMILE COVER SHEET

DATE: April 4, 1997

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TIME: 6:15 PM (Santa Fe time)

TO: David Catanach
OF: Oil Conservation Division
FAX NO: (505) 827-8177FROM: W. THOMAS KELLAHIN

REF: NMOCD Case 11746

Application of SDX Resources
to alter the East Millman-Seven Rivers
Pool and other relief, Eddy County, NM

Dear Mr. Catanach:

On April 1, 1997, you expressed to me concern about the possible impact of this application on the Seven Rivers/Yates owners within the two waterflood units: one operated by SDX and the other operated by S&J. You were concerned that any production from the Seven Rivers/Yates would be outside the Unit Agreement and would be paid only to the owners of the 40-acre tract where the well is located. However, if the Seven Rivers/Yates is added and downhole commingled with unit wells that are already producing from the other formations, how can you determine how much to pay the Seven Rivers/Yates owners?

I have obtained the enclosed letter from Mr. Steve Sell of SDX Resources in response to your question. In addition, Order R-10589 entered in case 11482 shows that the SDX project is a leasehold project and would therefore have common ownership. Please let me know if require anything further.

Regards,

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From: STEVE SELL To: Tom Kellahin

Date: 4/1/97 Time: 14:01:13

SDX RESOURCES, INC.511 W. OHIO, SUITE 601
MIDLAND, TX 79701
TEL: (915) 685-1761 FAX: (915) 685-0533
TOLL FREE: (800) 344-1761

April 1, 1997

Mr. Tom Kellahin
Kellahin and Kellahin
P.O. Box 2265
Santa Fe, NM 87504-2265

via: Fax Modem

RE: CASE # 11746

Dear Tom:

In reference to Mr. Catanach comment relative to determination of how Seven Rivers owners are to be paid. Please be advised that under the only two water flood Units operated by (1) SDX Resources, Inc. - East Millman Unit (2) Stephens & Johnson Operating Company - East Millman Pool Unit, that ownership is common in the Seven Rivers and Queen, Grayburg, and San Andres therefore we have no need to separately meter the Seven Rivers. If ownership were not common we would not commingle the Seven Rivers with the Queen, Grayburg, San Andres.

Futher, please note that there are currently 118 (as of July 1996) active wells in the East Millman Field ownership breaks down as follows:

Operator	Active wells	118*
SDX Resources, Inc.	72*	Waterflood
Stephens & Johnson Operating Co.	19*	Waterflood
CFM Oil Company	11*	
Dwayne H. Parrish	5*	
Marbob Energy Corporation	4*	
Pronghorn Management Corp.	2*	
Frostman Oil Corporation	2*	
Maralo Incorporated	1*	
Yates Drilling Corp.	1*	
Rodney Webb	1*	

* Source - Petroleum Information Corporation.

Should you require any additional information, please advise. Thank you for your attention to this matter.

Best regards,

Steve Sell

cc: Mr. Mike Kincaid - Stephens & Johnson