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W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

February 25, 1997

11746

HAND DELIVERED

Mr. William J. LeMay, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

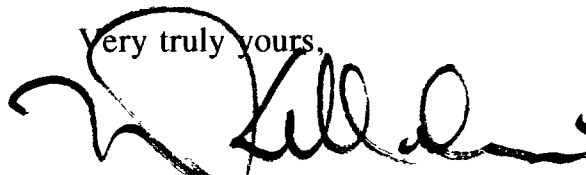
Re: Application of SDX Resources, Inc. for the Abolishment of the East Millman Seven Rivers Pool and the Palmillo Seven Rivers Pool and the Extension of the Vertical and Horizontal Limits of the East Millman Queen-Grayburg-San Andres Pool to be Redesignated the East Millman-Queen-Grayburg-San Andres-Yates-Seven Rivers Pool, Eddy County, New Mexico.

Dear Mr. LeMay:

On behalf of SDX Resources, Inc., please find enclosed our referenced application which we request be set for hearing on the next available Examiner's docket now scheduled for March 20, 1997.

Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: SDX Resources, Inc.
attn: Steve Sell

PROPOSED ADVERTISEMENT

CASE 11746 Application of SDX Resources, Inc. for the abolishment of the East Millman Seven Rivers Pool and the Palmillo Seven Rivers Pool and the Extension of the Vertical and Horizontal Limits of the East Millman Queen-Grayburg-San Andres Pool to be Redesignated the East Millman-Queen-Grayburg-San Andres-Yates-Seven Rivers Pool, Eddy County, New Mexico. Applicant, in the above styled cause, seeks an order abolishing the East Millman Seven Rivers Pool and the Palmillo Seven Rivers Pool and the Extension of the Vertical and Horizontal Limits of the East Millman Queen-Grayburg-San Andres Pool to be Redesignated the East Millman-Queen-Grayburg-San Andres-Yates-Seven Rivers Pool, Eddy County, New Mexico. Said affected acreage is located in portions or all of Sections 1, 11 12, 13, 14, 15, 21, 22, 23, 24, 27, 28, 29 of T19S, R28E, and portions or all of Sections 6, 7, 17, 18 of T19S, R29E, NMPM. This acreage is located approximately 9 miles southwest of Loco Hills, New Mexico.

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**APPLICATION OF SDX RESOURCES, INC. CASE 11746
FOR THE ABOLISHMENT OF THE EAST
MILLMAN SEVEN RIVERS POOL AND THE
PALMILLO SEVEN RIVERS POOL AND THE
EXTENSION OF THE VERTICAL AND
HORIZONTAL LIMITS OF THE EAST MILLMAN
QUEEN-GRAYBURG-SAN ANDRES POOL TO BE
REDESIGNATED THE EAST MILLMAN-QUEEN-
SAN ANDRES-YATES-SEVEN RIVERS POOL,
EDDY COUNTY, NEW MEXICO.**

A P P L I C A T I O N

Comes now SDX RESOURCES, INC., by its attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Conservation for an order abolishing the East Millman Seven Rivers Pool and the Palmillo Seven Rivers Pool and the Extension of the Vertical and Horizontal Limits of the East Millman Queen-Grayburg-San Andres Pool to be Redesignated the East Millman-Queen-Grayburg-San Andres-Yates-Seven Rivers Pool, Eddy County, New Mexico. Said affected acreage is located in portions or all of Sections 1, 11 12, 13,14,15,21,22,23,24,27, 28, 29 of T19S, R28E, and portions or all of Sections 6,7,17,18, T19S, R29E, and in support thereof states:

1. SDX Resources, Inc. is an operator of wells in the East Millman Seven Rivers Pool, in the Palmillo Seven Rivers Pool and in the East Millman-Queen-Grayburg-San Andres Pool.

2. The current boundaries of the East Millman Seven Rivers Pool, the Palmillo Seven Rivers Pool and the East Millman Queen-Grayburg-San Andres Pool are identified and described on Exhibit A attached hereto.

3. In order to prevent the drilling of unnecessary wells, to protect correlative rights and provide for the orderly development of these reservoirs and to provide the opportunity to economically recover additional oil and gas reserves from the Queen, Grayburg, San Andres, Yates and Seven Rivers formation, all these formations would be consolidated and managed as one pool

4. SDX Resources seeks to abolish the East Millman Seven Rivers Pool and the Palmillo Seven Rivers Pool and the Extension of the Vertical and Horizontal Limits of the East Millman Queen-Grayburg-San Andres Pool to be Redesignated the East Millman-Queen-Grayburg-San Andres-Yates-Seven Rivers Pool, Eddy County, New Mexico for the following reasons:

(a) the East Millman Seven Rivers Pool and the Palmillo Seven Rivers Pool are currently marginally productive reservoirs at or nearing their economic limit as evidenced by the fact that the majority of the producing wells in these pools have been plugged and abandoned;

(b) there is potential for the recovery of additional oil and gas reserves from these two pools through secondary recovery operations;

(c) there is potential for the recovery of additional oil and gas from the East Millman Queen-Grayburg-San Andres Pool through the re-institution of secondary recover operations;

(d) the applicant has determined that conducting separate secondary recovery operations within each of these three pools would necessarily require the drilling of numerous uneconomic wells;

(e) the abolishment of the East Millman Seven Rivers Pool and the Palmillo Seven Rivers Pool and the concomitant extension of the Vertical and Horizontal Limits of the East Millman Queen-Grayburg-San Andres Pool will allow the applicant the opportunity

to institute a single secondary recovery project in order to economically recover oil and gas reserves from all of these reservoirs.

5. SDX Resources Inc. is not aware of any "split operating rights" between these three pools.

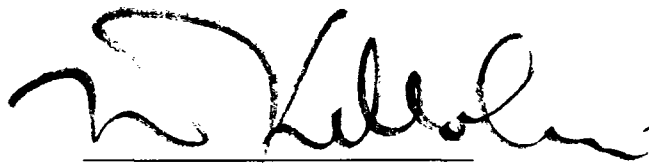
6. The vertical and horizontal Limits of the East Millman Queen-Grayburg-San Andres Pool should be extended and this pool should be redesignated the East Millman-Queen-Grayburg-San Andres-Yates-Seven Rivers Pool.

7. The granting of this Application will allow the same ownership in all these formations because the spacing units will be the same.

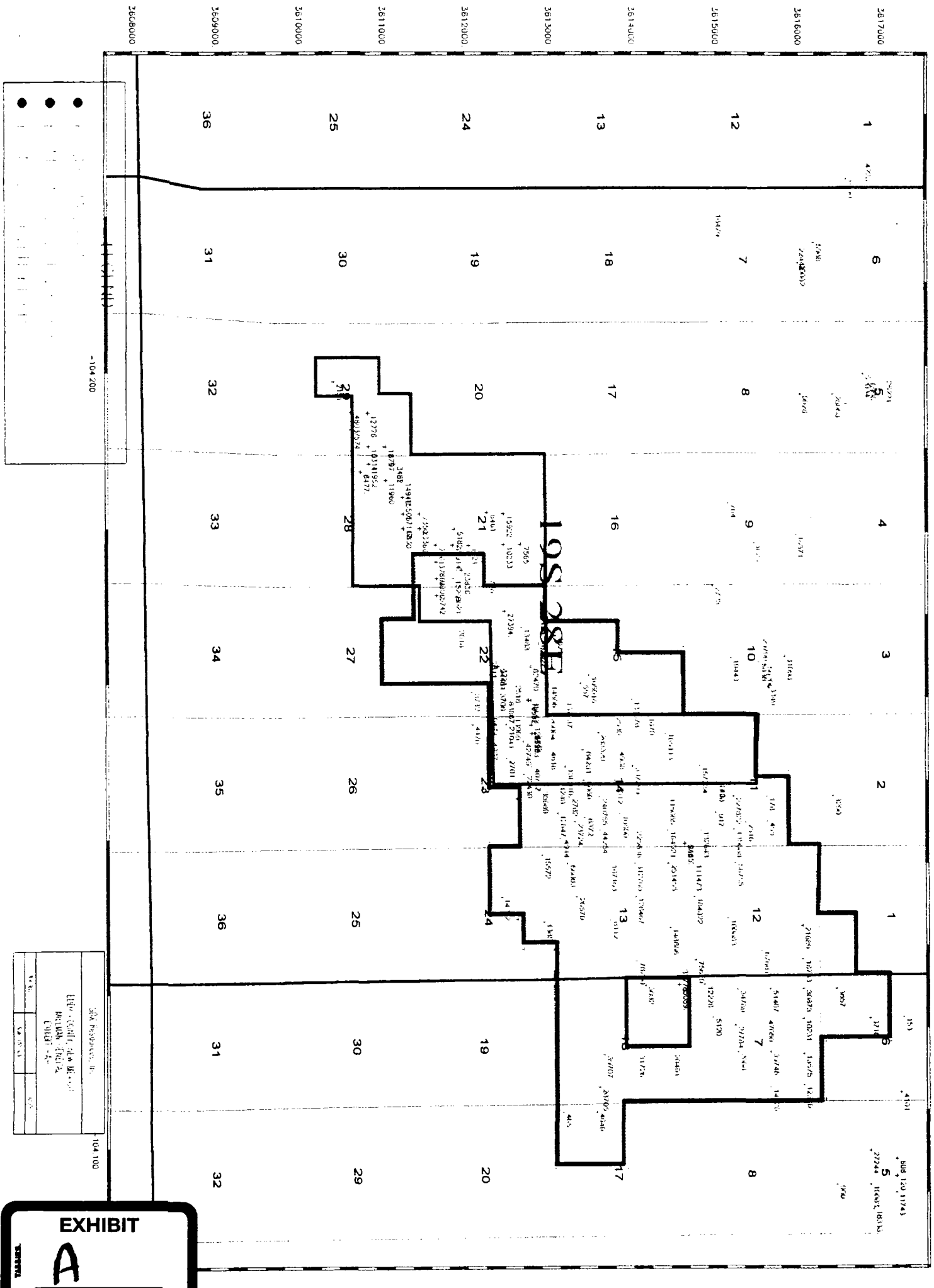
8. Notification of this application and request for hearing to be held on March 20, 1997 has been sent to those parties identified on Exhibit "B" attached.

Wherefore, Applicant requests that, after notice and hearing, this application be granted.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504



EXHIBIT

A

SAR RESOURCES, INC.

SAR RESOURCES, INC.

SAR RESOURCES, INC.

104,200

104,200

104,200

*S & J Operating Company
P.O. Box 2249
Wichita Falls, TX 76307
Attn: Mike Kincaid*

*Yates Drilling Company
105 S. 4th Street
Artesia, NM 88210
Attn: Doug Hurlbut*

*Maralo, Inc.
223 W. Wall Street*

600

*Midland, TX 79701
Attn: Shane Lough*

*Marbob Energy Corporation
P.O. Box 217
Artesia, NM 88210
Attn: Rae Miller*

*Rodney Webb
P.O. Box 1124
Artesia, NM 88211-1124*

*OXY USA, Inc.
Box 50205
Midland, TX 79710
Attn: T. Kent Woolley*

*Frostman Oil Company
201 Washington
Artesia, NM 88211-7522*

*Pronghorn Management Co.
P.O. Box 1770
Hobbs, NM 88241*

*CFM Oil Company
78 E. Cottonwood Rd.*

Artesia, NM 88210

*Dwayne H. Parrish
1306 S. 9th St.
Artesia, NM 88210*

*Melrose Energy Co.
5817 NW Grand Blvd.
Oklahoma City, OK 73118
Attn: Mike Corjay*

*Yates Petroleum Corp.
105 S. 4th Street
Artesia, NM 88210
Attn: Rob Bullock*

*Bass Enterprises Production Co.
P.O. Box 2760
Midland, TX 79702
Attn: John Smitherman*

*Louis Dreyfus Natural Gas Co.
14000 Quail Springs Pkwy, Suite*

*Oklahoma City, OK 73134
Attn: Rusty Waters*

*Meridian Oil Inc.
3300 North A Street
Midland, TX 79707
Attn: Dennis Sledge*

*Chevron USA, Inc.
P.O. Box 1150
Midland, TX 79702
Attn: NM Land Dept.*

