

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

December 14, 1998

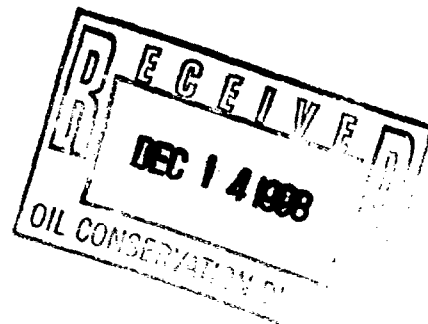
W. THOMAS KELLAHIN*

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

JASON KELLAHIN (RETIRED 1991)

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HAND DELIVERED



Mr. Mark Ashley
Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: NMOCD Case 12088
Application of Xeric Oil & Gas Corporation
for compulsory pooling
Eddy County, New Mexico

Dear Mr. Ashley:

On behalf of Xeric Oil & Gas Corporation, please find enclosed a proposed order for entry in this case which was presented to you at the Examiner's hearing held on November 19, 1998. I have also enclosed a computer diskette which contains this draft.

Finally, I have obtained from Xeric the enclosed economic analysis to support their opinion that this well will be uneconomic.

Please call me if I can be of assistance.

Very truly yours,

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

W. Thomas Kellahin

cc: Xeric Oil & Gas Company
Attn: Lisa Snelson

-- RESERVE & ECONOMIC REPORT --

PREPARED BY ----- Michael G. Mooney, Petro. Engr. COMB NAME COMBRS CATEGORY - Producing
INTEREST OWNER ----- Xeric Oil & Gas FILE NAME Card# COUNTY --- Lea
WELL &/OR LEASE ----- Carter 15 -2 EVAL. DATE 13-Dec-98 STATE ---- NM
FIELD OR RESERVOIR ----- El - Abo EFFECTIVE DATE DEC-99 OPERATOR - Xeric Oil & Gas

NET OPERATING REVENUE ----- NET OPERATING EXPENSES -----
--- GROSS PROD. --- NET PROD. --- PRICE PRICE OIL GAS TOTAL DER & UNDER SET & ADV TOTAL
YEAR OIL-BBLs GAS-MCF OIL-BBLs GAS-MCF OIL-\$ GAS-\$ REVENUE-\$ REVENUE-\$ OPEX-\$ & TRAYS- REVENUE-\$

EXTRAPOLATED DECLINE												
1998	605	1150	491	333	89.00	\$1.90	\$4,418	\$1,773	\$6,190	\$1,000	\$489	\$1,489
1999	6789	12882	5530	10451	9.27	1.96	56,988	20,452	77,440	12,000	5,544	17,944
2000	5566	12336	4240	9197	9.55	2.02	46,216	18,536	64,752	12,350	5,114	17,466
2001	5257	8376	4259	6093	9.83	2.08	41,890	16,802	58,692	12,730	4,835	17,365
2002	4620	8779	3748	7122	10.13	2.14	37,969	15,230	53,199	13,110	4,201	17,311
2003	4066	7725	3299	6267	10.43	2.20	34,415	13,804	48,219	13,506	3,829	17,335
2004	3578	6788	2903	5515	10.75	2.27	31,194	12,612	43,806	13,911	3,461	17,372
2005	3149	5580	2554	4853	11.07	2.34	28,274	11,541	39,815	14,329	3,128	17,457
2006	2791	5265	2248	4271	11.40	2.41	25,628	10,260	35,907	14,758	2,836	17,594
2007	2419	4653	1978	3758	11.74	2.48	23,228	9,317	32,546	15,201	2,579	17,779
2008	2146	4077	1742	3107	12.10	2.55	21,055	8,445	29,500	15,657	2,330	17,987
2009	1888	3588	1532	2811	12.46	2.63	19,084	7,655	26,739	16,127	2,112	18,239
2010	1635	3215	1309	2468	12.82	2.71	17,359	6,928	24,287	16,619	1,915	18,534
2011	1414	2856	1124	2168	13.19	2.79	15,844	6,264	22,108	17,134	1,731	18,865
2012	1214	2516	974	1907	13.56	2.87	14,488	5,664	20,152	17,674	1,564	19,238
2013	1035	2191	837	1674	13.93	2.95	13,271	5,128	18,399	18,239	1,415	19,654
2014	878	1888	721	1468	14.30	3.03	12,174	4,655	16,829	18,830	1,281	20,111
2015	741	1605	624	1285	14.67	3.11	11,174	4,244	15,418	19,441	1,161	20,602
2016	621	1341	544	1124	15.04	3.19	10,268	3,884	14,152	20,062	1,054	21,116
2017	516	1096	471	974	15.41	3.27	9,444	3,574	13,018	20,693	951	21,644
2018	424	871	404	834	15.78	3.35	8,694	3,314	12,008	21,344	854	22,198
2019	344	666	344	714	16.15	3.43	8,014	3,104	11,118	22,014	764	22,778
2020	274	471	284	614	16.52	3.51	7,404	2,944	10,348	22,694	684	23,378
2021	214	296	224	524	16.89	3.59	6,844	2,834	9,678	23,394	614	24,008
2022	164	146	164	444	17.26	3.67	6,344	2,744	9,088	24,114	554	24,668
2023	124	86	124	374	17.63	3.75	5,894	2,664	8,558	24,854	504	25,358
2024	94	46	94	314	18.00	3.83	5,494	2,594	8,088	25,564	454	26,074
2025	74	26	74	264	18.37	3.91	5,144	2,534	7,678	26,304	414	26,814
2026	54	16	54	214	18.74	3.99	4,844	2,484	7,328	27,064	374	27,584
2027	44	11	44	174	19.11	4.07	4,594	2,444	7,038	27,844	344	28,384
2028	34	6	34	144	19.48	4.15	4,394	2,404	6,798	28,644	314	29,204
2029	24	6	24	114	19.85	4.23	4,244	2,374	6,618	29,464	284	29,944
2030	14	6	14	94	20.22	4.31	4,144	2,344	6,488	30,304	254	30,704
2031	9	6	9	74	20.59	4.39	4,044	2,314	6,408	31,164	224	31,484
2032	4	6	4	54	20.96	4.47	4,044	2,284	6,328	32,044	194	32,284
2033	4	6	4	44	21.33	4.55	4,044	2,284	6,328	32,944	164	33,104
2034	4	6	4	34	21.70	4.63	4,044	2,284	6,328	33,864	134	33,934
2035	4	6	4	24	22.07	4.71	4,044	2,284	6,328	34,804	104	34,904
2036	4	6	4	14	22.44	4.79	4,044	2,284	6,328	35,764	74	35,834
2037	4	6	4	4	22.81	4.87	4,044	2,284	6,328	36,744	44	36,804
2038	4	6	4	4	23.18	4.95	4,044	2,284	6,328	37,744	14	37,814
2039	4	6	4	4	23.55	5.03	4,044	2,284	6,328	38,764	4	38,864
2040	4	6	4	4	23.92	5.11	4,044	2,284	6,328	39,804	4	39,944
2041	4	6	4	4	24.29	5.19	4,044	2,284	6,328	40,864	4	41,044
2042	4	6	4	4	24.66	5.27	4,044	2,284	6,328	41,944	4	42,164
2043	4	6	4	4	25.03	5.35	4,044	2,284	6,328	43,044	4	43,304
2044	4	6	4	4	25.40	5.43	4,044	2,284	6,328	44,164	4	44,464
2045	4	6	4	4	25.77	5.51	4,044	2,284	6,328	45,304	4	45,644
2046	4	6	4	4	26.14	5.59	4,044	2,284	6,328	46,464	4	46,834
2047	4	6	4	4	26.51	5.67	4,044	2,284	6,328	47,644	4	48,044
2048	4	6	4	4	26.88	5.75	4,044	2,284	6,328	48,844	4	49,274
2049	4	6	4	4	27.25	5.83	4,044	2,284	6,328	50,064	4	50,524
2050	4	6	4	4	27.62	5.91	4,044	2,284	6,328	51,304	4	51,784
2051	4	6	4	4	27.99	5.99	4,044	2,284	6,328	52,564	4	53,064
2052	4	6	4	4	28.36	6.07	4,044	2,284	6,328	53,844	4	54,364
2053	4	6	4	4	28.73	6.15	4,044	2,284	6,328	55,144	4	55,684
2054	4	6	4	4	29.10	6.23	4,044	2,284	6,328	56,464	4	57,024
2055	4	6	4	4	29.47	6.31	4,044	2,284	6,328	57,804	4	58,384
2056	4	6	4	4	29.84	6.39	4,044	2,284	6,328	59,164	4	59,764
2057	4	6	4	4	30.21	6.47	4,044	2,284	6,328	60,544	4	61,164
2058	4	6	4	4	30.58	6.55	4,044	2,284	6,328	61,944	4	62,584
2059	4	6	4	4	30.95	6.63	4,044	2,284	6,328	63,364	4	64,024
2060	4	6	4	4	31.32	6.71	4,044	2,284	6,328	64,804	4	65,484
2061	4	6	4	4	31.69	6.79	4,044	2,284	6,328	66,264	4	66,964
2062	4	6	4	4	32.06	6.87	4,044	2,284	6,328	67,744	4	68,464
2063	4	6	4	4	32.43	6.95	4,044	2,284	6,328	69,244	4	69,984
2064	4	6	4	4	32.80	7.03	4,044	2,284	6,328	70,764	4	71,524
2065	4	6	4	4	33.17	7.11	4,044	2,284	6,328	72,304	4	73,084
2066	4	6	4	4	33.54	7.19	4,044	2,284	6,328	73,864	4	74,664
2067	4	6	4	4	33.91	7.27	4,044	2,284	6,328	75,444	4	76,264
2068	4	6	4	4	34.28	7.35	4,044	2,284	6,328	77,044	4	77,884
2069	4	6	4	4	34.65	7.43	4,044	2,284	6,328	78,664	4	79,524
2070	4	6	4	4	35.02	7.51	4,044	2,284	6,328	80,304	4	81,184
2071	4	6	4	4	35.39	7.59	4,044	2,284	6,328	81,964	4	82,864
2072	4	6	4	4	35.76	7.67	4,044	2,284	6,328	83,644	4	84,564
2073	4	6	4	4	36.13	7.75	4,044	2,284	6,328	85,364	4	86,284
2074	4	6	4	4	36.50	7.83	4,044	2,284	6,328	87,064	4	88,024
2075	4	6	4	4	36.87	7.91	4,044	2,284	6,328	88,804	4	89,784
2076	4	6	4	4	37.24	7.99	4,044	2,284	6,328	90,564	4	91,564
2077	4	6	4	4	37.61	8.07	4,044	2,284	6,328	92,344	4	93,364
2078	4	6	4	4	37.98	8.15	4,044	2,284	6,328	94,144	4	95,184
2079	4	6	4	4	38.35	8.23	4,044	2,284	6,328	95,964	4	96,924
2080	4	6	4	4	38.72	8.31	4,044	2,284	6,328	97,804	4	98,684
2081	4	6	4	4	39.09	8.39	4,044	2,284	6,328	99,664	4	100,464
2082	4	6	4	4	39.46	8.47	4,044	2,284	6,328	101,544	4	102,264
2083	4	6	4	4	39.83	8.55	4,044	2,284	6,328	103,444	4	104,084
2084	4	6	4	4	40.20	8.63	4,044	2,284	6,328	105,364	4	105,924
2085	4	6	4	4	40.57	8.71	4,044	2,284	6,328	107,304	4	107,784
2086	4	6	4	4	40.94	8.79	4,044	2,284	6,328	109,264	4	109,664
2087	4	6	4	4	41.31	8.87	4,044	2,284	6,328	111,244	4	111,564
2088	4	6	4	4	41.68	8.95	4,044	2,284	6,328	113,244	4	113,484
2089	4	6	4	4	42.05	9.03	4,044	2,284	6,328	115,264	4	115,424
2090	4	6	4	4	42.42	9.11	4,044	2,284	6,328	117,304	4	117,384
2091	4	6	4	4	42.79	9.19	4,044	2,284	6,328	119,364	4	119,364
2092	4	6	4	4	43.16	9.27	4,044	2,284	6,328	121,444	4	121,364
2093	4	6	4	4	43.53	9.35	4,044	2,284	6,328	123,544	4	123,384
2094	4	6	4	4	43.90	9.43	4,044	2,284	6,328	125,664	4	125,424
2095	4	6	4	4	44.27	9.51	4,044	2,284	6,328	127,804	4	127,484
2096	4	6	4	4	44.64	9.59	4,044	2,284	6,328	129,964	4	129,564
2097	4	6	4	4	45.01	9.67	4,044	2,284	6,328	132,144	4	132,164
2098	4	6	4	4	45.38	9.75	4,044	2,284	6,328	134,344	4	134,764
2099	4	6	4	4	45.75	9.83	4,044	2,284	6,328	136,564	4	137,384
2100	4	6	4	4	46.12	9.91	4,044	2,284	6,328	138,804	4	139,964

PREPARED BY Michael G. Mooney, Petro. Engr
 INTEREST OWNER Xeric Oil & Gas
 WELL &/OR LEASE NAME Carter 13 -1
 FIELD &/OR RESERVOIR DK - Abo
 COUNTY OR PARISH Lea
 12 CLE LETTERS STATE NM
 OPERATOR NAME Xeric Oil
 PROJ CORR NAME -(COMB) COMB
 PROJ SAVE FILE NAME Cart8

SUMMARY OF EXPONENTIAL DECLINE

EVALUATION DATE	12-Dec-98
INVESTMENT	\$525,500
NO. MONTHS PROD IN 1st YEAR	1
ECO LIFE - YEARS	13.08
PAYOUT YRS	NO PAYOUT
NET INCOME/INTERST	0.62
INTERNAL RATE RETURN--Mid-Year	-8.46
NPV @ SELECT RATE-\$ 10.00%	(\$317,350)
\$/B OIL RES - bbl	46,382
\$/B GAS RES - Mcf	88,127
NET OIL RES - bbl	37,628
NET GAS RES - Mcf	71,493
NET COST/BOE - \$/BOE	10.12
NET RETURN/BOE - \$/BOE	13.87
NET INCOME/BOE - \$/BOE	6.25
WT. AVG PRICE OIL - \$/bbl	10.56
WT. AVG PRICE GAS - \$/Mcf	2.23
OIL ECO RATE - bbl/DAY	4.0
GAS ECO RATE - Mcf/DAY	7.6
ULT OIL RECOV/ACRE - bbl	1,160
ULT GAS RECOV/ACRE - Mcf	2,203
ULT OIL RECOV/ACRE-PT -bbl	12
ULT GAS RECOV/ACRE-PT -Mcf	22
\$ PER NET UNIT PROD RATE	\$32,368

PREPARED BY Michael G. Mooney, Petro. Engr
INTEREST OWNER Xeric Oil & Gas
WELL &/OR LEASE NAME Carter 19 -2
FIELD &/OR RESERVOIR OK - Abo
COUNTY OR PARISH Lea *EFF DATE (mm-yy) DEC-98
11 CAP LETTERS) STATE NM EVALUATION DATE 13-Dec-98
OPERATOR NAME Xeric Oil & Gas
PROG COND NAME (COND#) COMB8 * Required IF to be SAVED and COMBINED
PROG SAVE FILE NAME Carter * Unique name required to SAVE.
EXPONENTIAL DECLINE

NO OF WELLS (1 or more)*	1	RESERVE CATEGORY: Producing
OIL WELL PROD - bbl/DAY	30	REMARKS BELOW:
G O R -- Mcf/bbl	1.92	
GAS WELL PROD - Mcf/DAY	0	
CONDENSATE - bbl/Mcf	0.90	
EXPONENT - W- DECIMAL	0.99	
EFF. DECLINE RATE - %	17.00	
YEARS OF CONSTANT PROD	0	
SET WCO LIMIT 1-YRS 0-WO	0	
WCO RATE bbl OR Mcf/DAY	0	
MAX YEARS TO CALC (4-30)	30	
INPUT OF ECONOMIC DATA		
1DC & OTHER EXP - \$	450550	2nd YR 3rd YR 4th YR 5th YR
TANG & L&E EQUIP - \$	75000	0 0 0 0
LEASOLD COST - \$	0	INITIAL W.T. OWNED - \$ 100.0000
DIR OPR EXP/WELL - \$/YR	12000	INITIAL REVENUE INTEREST - \$ 51.1150
DIA OPR EXP WSC --- \$	3.30	PENAL W.T. OWNED - \$ 100.0000
YEAR NO. TO START WSC	3	FINAL REVENUE INTEREST - \$ 51.1250
LEAS OPR EXP - \$ NET REV	0.30	ACTIVATOR FOR REVERSION 0
SEV TAX - \$ NET OIL REV	5.94	0 FOR NO REVERSION *****
SEV TAX - \$ NET GAS REV	5.75	1 FOR GROSS INCOME \$ 0
SEV TAX GAS - \$/Mcf	1.00	2 FOR NET INCOME *****
ADY TAX - \$ OF NET REV	2.20	OIL PRICE - \$/BBL 5.00
LOAN PRINCIPAL - \$	0	OIL PRICE WSC - \$ 3.00
ANNUAL INTEREST RATE %	6.50	OIL WSC START YEAR NO. 1
TERM 0-FIX 1-DEDICATED	0	MAX OIL PRICE - \$/BBL 30.00
TOTAL NO. MONTHS (FIX)	0	GAS PRICE - \$/MCF 1.90
DEDICATION OF TOT REV %	0.00	GAS PRICE WSC - \$ 1.00
CUMULATIVE PROD - bbl	0	GAS WSC START YEAR NO. 1
CUMULATIVE PROD - Mcf	0	MAX GAS PRICE - \$/MCF 3.00
ASSIGNED ACRES / WELL	40	SELECT DISCOUNT RATE - % 10.00
AVERAGE THICKNESS - FT.	100	WID-YEAR -1 YEAR-END-0 1
NET PROFIT INTEREST - %	0.00	BOB FACTOR 5.00
TRANSPORTATION - \$/bbl	50.00	FED INCOME TAX RATE - % 31.30
TRANSPORTATION - \$/Mcf	50.00	STATE INCOME TAX RATE - % 0.50
PGY DEPLETION RATE - %	15.00	RECOVERY PERIOD (5, 7, 10) 7
DEPL LIMITATION OF NET-Y	100.00	DEPL METHOD (1, 2, 1.5, 2.0) 2004
SEC 29 TAX CREDIT - \$/Mcf	6.00	WID-PERIOD CONVENTION CODE 5
SALVAGE - \$	10.00	LOSS CARRY FWD (1-CM 2-CPP) 2
PROD. RISK FACTOR ---- %	100.00	1DC RISK FACTOR ----- % 100.00
LEASOLD RISK FACTOR -- %	100.00	TANG & EQUIP RISK FACTOR - % 100.00