

TXO PRODUCTION CORP.  
Case No. 8755  
11/21/85 Examiner Hearing  
Exhibit No. 2

October 24, 1985

SEE ADDRESSEE LIST

Re: Well Proposal  
Sprinkle-Federal #3 Well  
SW/4 NW/4 Section 26,  
T-18-S, R-32-E  
Lea County, New Mexico

Gentlemen:

TXO Production Corp. hereby proposes the drilling of the Sprinkle-Federal #3 well, an 8700' Bone Spring test, at a location 2310' FNL and 330' FWL Section 26, T-18-S, R-32-E, Lea County, New Mexico. Enclosed please find two (2) copies of our Authority for Expenditure (AFE) for the drilling of this well.

At this time, TXO seeks your election to join in the well. If, after you have reviewed the AFE, you decide you would like to participate in the well, please sign one (1) copy of the AFE and return it to the attention of the undersigned at the letterhead address.

As an alternative to joining in this well, TXO would be willing to farm in your interest on the following terms:

- 1) By drilling a well at the above referenced legal location to a depth of 8700' or a depth sufficient to test the Bone Spring formation, TXO would earn an assignment from you of all your right, title, and interest in the proration unit on said acreage to 100' below the deepest depth drilled.
- 2) You would retain an overriding royalty interest equal to the difference between 25% of all the oil and gas produced and the total of all existing lease burdens of record, to the extent that TXO shall be delivered a 75% net revenue lease. You would have any option at payout to convert your overriding royalty to a 25% working interest proportionately reduced.

If you elect to join in the drilling of this well or alternatively, farm out under the aforementioned farmout terms, please advise and the respective agreements will be prepared and forward for your execution. TXO would be appreciative of an answer as soon as possible.

Due to TXO's rig schedule and continuous development obligations, TXO is filing a compulsory pooling application with the New Mexico Oil Conservation Commission to include all uncommitted interests in the proration unit of

Well Proposal  
Sprinkle-Federal #3 Well  
Page 2

the Sprinkle-Federal #3 well. TXO regrets the necessity of including your interest in the compulsory pooling application, but it is necessary due to the above noted circumstances.

Should you need any additional information regarding this proposal, please do not hesitate to contact me at the above address or call (915) 682-7992.

Very truly yours,

Jeff Bourgeois  
Landman

JB/bv  
Enclosure

ADDRESSEE LIST

Mr. Joseph S. Sprinkle  
P. O. Box 6483  
Denver, CO 80206

Mr. J. Cecil Rhodes  
511 W. Texas  
Midland, TX 79701

Mr. Lewis B. Burleson  
P. O. Box 2479  
Midland, TX 79702

Mr. O. H. Berry  
One Marienfeld Place  
Suite 188  
Midland, TX 79701

*will be handled  
by [unclear]  
[unclear]  
[unclear]*

PS Form 3811, July 1983 447-845

reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for service(s) requested.

1. ☒ Show to whom, date and address of delivery.
2. ☐ Restricted Delivery.

3. Article Addressed to:  
Mr. Joseph S. Sprinkle  
P. O. Box 6483  
Denver, CO 80206

4. Type of Service:	Article Number
<input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail	P 652 045 048

Always obtain signature of addressee or agent and  
**DATE DELIVERED.**

5. Signature - Addressee  
X *Joe Sprinkle*

6. Signature - Agent  
X

7. Date of Delivery

8. Addressee's Address (ONLY if requested and fee paid)

DOMESTIC RETURN RECEIPT

Sprinkle-Federal #3 - Well Proposal

P 652 045 048

# RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED  
NOT FOR INTERNATIONAL MAIL

(See Reverse)

Sent to Mr. Joseph S. Sprinkle	
Street and No. P. O. Box 6483	
P.O., State and ZIP Code Denver, CO 80206	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to whom and Date Delivered	
Return receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

\* U.S.G.P.O. 1983-403-517

PS Form 3800, Feb. 1982

PS Form 3811, July 1983 447-845

SENDER: Complete items 1, 2, 3 and 4.

Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for service(s) requested.

1. ☒ Show to whom, date and address of delivery.
2. ☐ Restricted Delivery.

3. Article Addressed to:  
Mr. J. Cecil Rhodes  
511 W. Texas  
Midland, TX 79701

4. Type of Service:	Article Number
<input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail	P 652 045 050

Always obtain signature of addressee or agent and  
**DATE DELIVERED.**

5. Signature - Addressee  
X

6. Signature - Agent  
X *Anna M. Thompson*

7. Date of Delivery  
*10-29-85*

8. Addressee's Address (ONLY if requested and fee paid)

DOMESTIC RETURN RECEIPT

Sprinkle-Federal #3 - Well Proposal

P 652 045 050

# RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED  
NOT FOR INTERNATIONAL MAIL

(See Reverse)

Sent to Mr. J. Cecil Rhodes	
Street and No. 511 W. Texas	
P.O., State and ZIP Code Midland, TX 79701	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to whom and Date Delivered	
Return receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

\* U.S.G.P.O. 1983-403-517

PS Form 3800, Feb. 1982

Form 3811, July 1983 447-945

SENDER: Complete items 1, 2, 3 and 4.

Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for service(s) requested.

1. ☒ Show to whom, date and address of delivery.

2. ☐ Restricted Delivery.

3. Article Addressed to:  
Mr. Lewis B. Burleson  
P. O. Box 2479  
Midland, TX 79702

4. Type of Service: ☐ Registered ☐ Insured ☒ Certified ☐ COD ☐ Express Mail

Article Number  
P 652 045 049

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature - Addressee  
X

6. Signature - Agent  
X *Lisa Randolph*

7. Date of Delivery  
OCT 29 1985

8. Addressee's Address (ONLY if requested and fee paid)

DOMESTIC RETURN RECEIPT

Sprinkle-Federal #3 - Well Proposal

\* U.S.G.P.O. 1983-403-517

PS Form 3800, Feb. 1982

P 652 045 049

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED  
NOT FOR INTERNATIONAL MAIL

(See Reverse)

Sent to  
Mr. Lewis B. Burleson

Street and No.  
P. O. Box 2479

P.O., State and ZIP Code  
Midland, TX 79702

Postage \$

Certified Fee

Special Delivery Fee

Restricted Delivery Fee

Return Receipt Showing to whom and Date Delivered

Return receipt showing to whom, Date, and Address of Delivery

TOTAL Postage and Fees \$

Postmark or Date

Form 3811, July 1983 447-945

SENDER: Complete items 1, 2, 3 and 4.

Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for service(s) requested.

1. ☒ Show to whom, date and address of delivery.

2. ☐ Restricted Delivery.

3. Article Addressed to:  
Mr. O. H. Berry  
One Marienfeld Place  
Suite 188  
Midland, TX 79701

4. Type of Service: ☐ Registered ☐ Insured ☒ Certified ☐ COD ☐ Express Mail

Article Number  
P 652 045 051

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature - Addressee  
X

6. Signature - Agent  
X *Paul Rehner*

7. Date of Delivery  
OCT 29 1985

8. Addressee's Address (ONLY if requested and fee paid)

DOMESTIC RETURN RECEIPT

Sprinkle-Federal #3 - Well Proposal

\* U.S.G.P.O. 1983-403-517

PS Form 3800, Feb. 1982

P 652 045 051

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED  
NOT FOR INTERNATIONAL MAIL

(See Reverse)

Sent to  
Mr. O. H. Berry

Street and No.  
One Marienfeld Place

P.O., State and ZIP Code  
Suite 188

Postage \$

Certified Fee

Special Delivery Fee

Restricted Delivery Fee

Return Receipt Showing to whom and Date Delivered

Return receipt showing to whom, Date, and Address of Delivery

TOTAL Postage and Fees \$

Postmark or Date

AUTHORITY FOR EXPENDITURE  
DRILLING WELLDate 9-24-85 A:       
Co. Cd.     District West Texas Well Name Sprinkle-Federal Well No. 3  
Well Location 2310' FNL and 330' FWL Section 26, T-18-S, R-32-E Depth 8700'  
Field Querecho Plains (Upper Bone Springs) County Lea State NM  
Prepared By: Randall S. Cate Submitted By:      Dallas      District     

CAT. NO.	NATURE OF EXPENDITURE	QUANTITY	ESTIMATED COST		
			CASH	MAT. L ON HAND	TOTAL
DRILLING					
01	Casing 350' 11 3/4", 2600' 8 5/8"		31 000		31 000
02	Casinghead		8 000		8 000
03	Location, Road & Dirt Work		28 000		28 000
04	Drilling - Footage/Turnkey @ \$14/Ft		121 800		121 800
05	Drilling - Daywork				
06	Drilling - Rig Support				
07	Bits				
08	Supervision 25 days @ \$250		6 250		6 250
09	Overhead				
10	Mud & Chemicals & wtr		32 000		32 000
11	Cementing Services & Supplies & csg crew		16 000		16 000
12	Testing & Logging & mud logger		20 000		20 000
13	Rentals		8 000		8 000
14	Other IDC		10 000		10 000
15	Other Equipment		5 000		5 000
TOTAL DRILLING			286 050		286 050
COMPLETION					
17	Casing 8700' 5½"		79 000		79 000
18	Tubing 8700' 2 7/8" N-80		32 000		32 000
19	Wellhead & pmp tree		8 000		8 000
20	Subsurface Equipment		5 000		5 000
21	Supervision 8 dyas @ \$250		2 000		2 000
22	Mud & Chemicals & wtr		3 000		3 000
23	Testing, Logging & Perforating		20 000		20 000
24	Stimulation acid & sand frac		45 000		45 000
25	Overhead				
26	Rentals		5 000		5 000
27	Service Rig 8 days @ \$1400/day		12 000		12 000
28	Cementing Services & Supplies		21 000		21 000
29	Other IDC		5 000		5 000
TOTAL COMPLETION			237 000		237 000
PRODUCTION EQUIPMENT					
32	Pumping Unit		32 000		32 000
33	Engine & Motor		12 000		12 000
34	Rods		13 500		13 500
35	Flow Lines		2 000		2 000
36	Meters		6 000		6 000
37	Installation		3 000		3 000
38	Storage		10 000		10 000
39	Separation & Treating		9 000		9 000
40	Other Equipment		5 000		5 000
TOTAL PRODUCTION EQUIPMENT			92 500		92 500
TOTALS			615 550		615 550

OWNER NAME  
Joseph S. SprinkleBILLING INT  
(7 decimals)  
.3125000DATE  
APPROVED

APPROVED: (this space for approval only)

Joseph S. Sprinkle

Date:

AUTHORITY FOR EXPENDITURE  
DRILLING WELLDate 9-24-85 A       
Co. Cd.     District West Texas Well Name Sprinkle-Federal Well No. 3  
Well Location 2310' FNL and 330' FWL Section 26, T-18-S, R-32-E Depth 8700'  
Field Querecho Plains (Upper Bone Springs) County Lea State NM  
Prepared By: Randall S. Cate Submitted By: WLC Dallas District     

CAT. NO.	NATURE OF EXPENDITURE	QUANTITY	ESTIMATED COST		
			CASH	MAT. L ON HAND	TOTAL
DRILLING					
01	Casing 350' 11 3/4", 2600' 8 5/8"		31 000		31 000
02	Casinghead		8 000		8 000
03	Location, Road & Dirt Work		28 000		28 000
04	Drilling - Footage/Turnkey @ \$14/ft		121 800		121 800
05	Drilling - Daywork				
06	Drilling - Rig Support				
07	Bits				
08	Supervision 25 days @ \$250		6 250		6 250
09	Overhead				
10	Mud & Chemicals & wtr		32 000		32 000
11	Cementing Services & Supplies & csg crew		16 000		16 000
12	Testing & Logging & mud logger		20 000		20 000
13	Rentals		8 000		8 000
14	Other IDC		10 000		10 000
15	Other Equipment		5 000		5 000
TOTAL DRILLING			286 050		286 050
COMPLETION					
17	Casing 8700' 5 1/2"		79 000		79 000
18	Tubing 8700' 2 7/8" N-80		32 000		32 000
19	Wellhead & pmp tree		8 000		8 000
20	Subsurface Equipment		5 000		5 000
21	Supervision 8 dyas @ \$250		2 000		2 000
22	Mud & Chemicals & wtr		3 000		3 000
23	Testing, Logging & Perforating		20 000		20 000
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39	Separation & Treating		9 000		9 000
40	Other Equipment		5 000		5 000
TOTAL PRODUCTION EQUIPMENT			92 500		92 500
TOTALS			615 550		615 550

OWNER NAME  
O. H. BerryBILLING INT  
(7 decimals)  
.0130208DATE  
APPROVED

APPROVED: (this space for approval only)

O. H. Berry

Date: \_\_\_\_\_

AUTHORITY FOR EXPENDITURE  
DRILLING WELLDate 9-24-85 A:       
Co. Cd.     District West Texas Well Name Sprinkle-Federal Well No. 3  
Well Location 2310' FNL and 330' FWL Section 26, T-18-S, R-32-E Depth 8700'  
Field Querecho Plains (Upper Bone Springs) County Lea State NM  
Prepared By: Randall S. Cate Submitted By:      Dallas      District     

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06	Drilling - Rig Support				
07	Bits				
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40	Other Equipment		5 000		5 000
TOTAL PRODUCTION EQUIPMENT			92 500		92 500
TOTALS			615 550		615 550

OWNER NAME

BILLING INT  
(7 decimals)DATE  
APPROVED

APPROVED: (this space for approval only)

J. Cecil Rhodes

.0390625

J. Cecil Rhodes

Date:



AUTHORITY FOR EXPENDITURE  
DRILLING WELLDate 9-24-85 A:       
Co. Cd.     District West Texas Well Name Sprinkle-Federal Well No. 3  
Well Location 2310' FNL and 330' FWL Section 26, T-18-S, R-32-E Depth 8700'  
Field Querecho Plains (Upper Bone Springs) County Lea State NM  
Prepared By: Randall S. Cate Submitted By: WLD Dallas District     

CAT. NO.	NATURE OF EXPENDITURE	QUANTITY	ESTIMATED COST		
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38	Storage		10 000		10 000
39	Separation & Treating		9 000		9 000
40	Other Equipment		5 000		5 000
TOTAL PRODUCTION EQUIPMENT			92 500		92 500
TOTALS			615 550		615 550

OWNER NAME

BILLING INT  
(7 decimals)DATE  
APPROVED

APPROVED: (this space for approval only)

Lewis B. Burleson

.0130209

Lewis B. Burleson

Date: \_\_\_\_\_

Joseph S. Sprinkle  
Oil & Gas Exploration  
(303) 320-6647

*Rec'd*  
10-23-95

491 Columbine  
Denver, Co. 80206

Mailing Address  
P.O. Box 6483  
Denver, Co. 80206

CERTIFIED MAIL P 423 761 644  
RETURN RECEIPT REQUESTED

21 October 1985

TXO Production Corp.  
900 Wilco Building  
Midland, TX 79701

Re: Sprinkle Federal #2 Well  
NE4 NW/4 Sec. 26  
Lea County, New Mexico

Attention: Mr. Jeff Bourgeois

Gentlemen:

I hereby acknowledge receipt of Order #R-8043, Case #8698 which pertains to captioned proposed well. Two copies of the AFE for this proposed well were attached.

The well completion report for the No. 1 well was filed on August 7, 1985 and to date I have not received any post completion data as to further testing, production, reservoir engineering, bottom hole pressure, etc. Several times while speaking to you over the telephone about a possible sale of my interest to TXO, you gave fragmentary reports on the No. 1. While these bits and pieces of data sounded encouraging, it is not sufficient data for me, as a prudent oil man, to make up my mind as to whether or not I wish to participate in a development well.

In the two and one half months since the completion of the No. 1 well, you surely have amassed a great deal of data which I am entitled to have and which will be crucial to me in making a decision. Therefore please consider this as a most urgent request for the data.

If I do not have this data by Nov. 6, 1985, then I will have no other alternative except to bring this to the attention of the State of New Mexico, Energy and Minerals Department, Oil Conservation Division, and ask for a continuance on the order cited above on the grounds that I am being "tight holed".

Should you have any questions or want to discuss this matter further, please do not hesitate to contact me at the number shown above. Thank you very much for your attention to this matter.

Very truly yours,

*Joseph S. Sprinkle*  
Joseph S. Sprinkle

CC: legal

*Earl H. Johnson, P.C.*

*Attorney at Law*

*1385 South Colorado Blvd. #720  
Denver, Colorado 80222*

October 29, 1985

*(303) 756-8624*

TXO Production Corp.  
900 Wilco Building  
Midland, Texas 79701

Re: Sprinkle Federal No. 1 Well  
Sprinkle Federal No. 2 Well  
Sprinkle Federal No. 3 Well - Proposed  
T18S, R32E, Lea County, New Mexico

Gentlemen:

Mr. Joseph S. Sprinkle has delivered to me your correspondence regarding the above-captioned wells. It is evident therefrom that you have consistently refused to furnish him with any post-completion data on the two wells drilled. He finds it very difficult to make any type of evaluation as to whether or not to join in the drilling of the well or whether to farm out the acreage.

He again requests from you all of your post-completion data regarding the two wells drilled. He requests that no further wells be drilled until the data be furnished to him. In no event will he agree to the drilling of Federal No. 3 on the basis of TXO's rig schedule and development obligation. It is absolutely necessary that he be apprized of all of the development concerning this acreage.

If the above information is not received within ten days of the date of this letter, it will be necessary to commence the necessary legal action to prohibit any further drilling operation on the acreage.

Yours truly,

*Earl H. Johnson*  
Earl H. Johnson, P.C.

EHJ/bb

cc: State of New Mexico  
Energy & Minerals Department  
Oil Conservation Division

JB  
Earl H. Johnson, P.C.

Attorney at Law

1385 South Colorado Blvd. #720

Denver, Colorado 80222

November 6, 1985

(303) 756-8624

Mr. Jeff Bourgeois  
TXO Production Corp.  
900 Wilco Building  
Midland, Texas 79701

Re: Sprinkle Federal No. 1 Well  
Sprinkle Federal No. 2 Well  
Sprinkle Federal No. 3 Well - Proposed  
T18S, R32E, Lea County, New Mexico

Dear Mr. Bourgeois:

As I related to you during our telephone conversation of this date, you are to direct all correspondence, telephonic or written, to this office.

1. You are to furnish to this office all reports of every nature, including legal reports, which pertain to Wells No. 1 and 2.

2. You are to furnish all reports of every nature, including legal documents which pertain to Well No. 1, Well No. 2, and proposed Well No. 3 to this office on or before Monday, November 11, 1985 before 12:00 noon. If they are not received, we will assume you do not have them or are unwilling to produce them.

3. Mr. Sprinkle will forward to you the money required for the drilling of Well No. 2 by mail by Tuesday, November 12, 1985 at 9:00 a.m.

After Tuesday morning at 9:00 a.m., there will be no further negotiations between this office and your office. We shall then commence the necessary legal action for the clarification of this matter.

Yours truly,

*drilling reports  
where sent*

Earl H. Johnson  
Earl H. Johnson, P.C.

EHJ/bb  
cc: Joseph S. Sprinkle

November 8, 1985

Mr. Earl H. Johnson  
Attorney-at-Law  
1385 South Colorado Blvd. #720  
Denver, Colorado 80222

Re: Sprinkle Federal #1  
Sprinkle Federal #2  
Section 26,  
T-18-S, R-32-E  
Lea County, New Mexico

Gentlemen:

In accordance with our conversation of November 7, 1985, enclosed please find a copy of the actual costs of the Sprinkle Federal #1 well through September 30, 1985. Also, as we discussed, enclosed is a copy of the drilling reports for the Sprinkle Federal #2 from spud date through the date the casing was run in said well.

After you have reviewed the enclosed materials, please do not hesitate to contact me should you have any questions.

Very truly yours,

Jeff Bourgeois  
Landman

JB/dp  
Enclosure

SPRINKLE FED #2  
TD 8700', Prop 77154  
AFE 860252 - \$615,250  
Lea Co/NM TXO WI  
MORANCO RIG #7

1980' FNL & 660' FWL, Sec 26, T-18-S, R-32-E, Lea Co/NM. Elev 3758 GL & 3773 KB.  
Moranco rig #7.

9-30-85 MI RI. Will spud approx. noon 10-1-85.

10-1-85 RU Rotary tools. CORRECTION: Correct location is 1980' FWL & 660' FNL.

10-2-85 RU Rotary Tools. Will spud late today.

10-3-85 Prep to spud this am.

10-4-85 500' (500' in 24 hrs) TD. Drlg cmt plug. BW MW 10, vis 28. SPUD @ 8:00 pm, 10-3-85. RU rig. Test BOP & manifold to 3000# & hydril to 1500#. Replace blind rams. PU BHA. Tag plug @ 380' & plugged bit. IOH & unplug jet. Repair drum chain. Drl cmt 380-500'.

10-5-85 4370' (100' in 5 1/2 hrs) TD. Drlg 1m/sh. BW MW 10, vis 28, C1 181,000. Yest, wash to bottom. Had plug @ 1240' & 20' no other plugs just cmt stringers. Trip f/new bit. Drlg. Now drlg 7 7/8" hole w/bit #2.

10-6-85 4880' (510' in 23 1/2 hrs) TD. Drlg 1m. BW MW 10.1, vis 29, C1 183,000. 3/4" @ 4370'. Now drlg 7 7/8" hole w/bit #2.

10-7-85 5045' (165' in 20 3/4 hrs) TD. Working stuck DC. Lm. BW MW 10.1, vis 29, C1 183,000. 1 1/4" @ 4845'. Yest, IOH f/bit. Working stuck DC. Bit @ 2730'. Top of DC @ 2115'.

10-8-85 5045' (0 in 24 hrs) TD. IOH w/magnet. Lm. BW MW 10, vis 29, C1 172,000. Yest, WO surf jars. PU jars. Hit 5 times dn, still stuck, LD jars. WO wireline truck. Freepoint w/Rayco Wireline @ 2165' 100% free. @ 2167' stuck. WO outside keyseat shot. Rn keyseat shot & shot f/2155'-2180' & work pipe free. Work pipe thru tite hole. FIOH & left 2 cones in hole. WO magnet & JB. ITH w/magnet & ream tite hole @ 2009' & 2160'. Fishing. Chain out of hole. Rec all junk.

10-9-85 5297' (252' in 17 3/4 hrs) TD. Drlg 1m. BW MW 10.1, vis 29, C1 173,000. Yest, chain out hole w/fish. ITH. Reamed @ 2009' & 2160'. Ream 180' to bottom. Now drlg 7 7/8" hole w/bit #3.

10-10-85 5650' (353' in 23 1/4 hrs) TD. Drlg 1m. BW MW 10.1, vis 29, C1 173,000. 1" @ 5335'. Now drlg 7 7/8" hole w/bit #3.

10-11-85 6245' (595' in 23 hrs) TD. Drlg 1m/sh/snd. BW MW 10.1, C1 182,000. 3/4" @ 5854'. Yest, pmp sweep @ 5693'. Now drlg 7 7/8" hole w/bit #3.

10-12-85 6800' (515' in 23 1/4 hrs) TD. Drlg 1m/sh. BW MW 10.1, vis 29, C1 183,000. 3/4" @ 6351'. Now drlg 7 7/8" hole w/bit #3.

10-13-85 7180' (380' in 23 1/4 hrs) TD. Drlg 1m/sh. BW MW 10.2, vis 30, C1 195,000. 3/4" @ 6854'. Now drlg 7 7/8" hole w/bit #3.

10-14-85 7447' (267' in 22 3/4 hrs) TD. IOH f/new bit. Sh/lm. BW MW 10.1, vis 29, C1 185,000. 3/4" @ 7359'. Yest, IOH.

10-15-85 7635' (188' in 16 1/4 hrs.) TD. Drlg 1m/sh. BW MW 10.1, vis 29, C1 180,000. Yest, IOH f/new bit (loss lug's off key seat wiper gone). Cut drlg line. Ream 110' to bottom. Now drlg 7 7/8" hole w/bit #4.

10-16-85 7975' (340' in 23 1/4 hrs) TD. Drlg 1m/sh. BW MW 10.1, vis 29, C1 180,000. 3/4" @ 7852'. Now drlg 7 7/8" hole w/bit #4.

10-17-85 8130' (155' in 13 1/4 hrs) TD. Drlg 1m/sh. BW MW 10.1, vis 36, WL 21, C1 170,000. 1" @ 7946'. Yest, check pmp & pmp soft line. Chain out of hole. Hole in box of 2nd DC. Change bit & ITH. Wash & ream 30' to bottom. Now drlg 7 7/8" hole w/bit #5.

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MORANCO RIG #7

FINA  
REJECTED

SPRINKLE FED #2  
TD 8700', Prop 77154  
AFE 860252 - \$615,250  
Lea Co/NM TXO WL 100%  
MORANCO RIG #7

FINA  
REJECTED

10-18-85 8316' (186' in 23 3/4 hrs) TD. Drlg 1m/sh. 8W MW 10.2, vis 39, WL 15  
CI 169,000. Now drlg 7 7/8" hole w/bit #5.

10-19-85 8512' (192' in 22 3/4 hrs) TD. Drlg 1m/sh. 8W MW 10.2, vis 40, WL 15,  
CI 180,000. 1 1/4" @ 8453'. Now drlg 7 7/8" hole w/bit #5. Drlg break  
f/8393-8910', 4-5 min/ft. Drlg break 8495-8507', 3 min/ft. Show  
reported. DDC: \$5,962 CDC: \$154,008. Day #16.

10-20-85 8654' (142' in 23 3/4 hrs) TD. Drlg 1m/sh. 8W MW 10.2, vis 40, WL 12,  
CI 179,000. Now drlg 7 7/8" hole w/bit #5.

10-21-85 8700' (46' in 8 1/2 hrs) TD. Logging. Loggers TD 8711'. Lm/sh. 8W MW 10.2,  
vis 42, WL 10.4, CI 178,000. 1 1/4" @ 8700'. Yest, TOH f/logs. Circ  
f/logs. RU & logging. Drlg break f/8531-38', 3 1/2 min/ft, good shows.

10-22-85 8700' TD. Running 5 1/2" csg. Yest, logging. ITH. Circ & WOO. LD OP & DC.  
Change out 5 1/2" csg rams. Running 5 1/2" csg.

↓  
11/8/85 - Running 5 1/2"  
P. H. Long

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TXO PRODUCTION CORP.

900 WILCO BUILDING

MIDLAND, TEXAS 79701

October 31, 1985

Mr. Joseph S. Sprinkle  
P. O. Box 6483  
Denver, CO 80206

Re: Sprinkle Federal #1 Well  
Township 18 South, Range 32 East, NMPM  
Section 26: N/2  
Lea County, New Mexico

Dear Sirs:

Please find attached, a detailed report of actual costs to date that have been charged to the Sprinkle Federal #1 well in Lea County, New Mexico. This report only includes costs that have been processed through September 30, 1985, and will not reflect subsequent costs for invoices still being processed for October, 1985.

This should fulfill TXO's obligation to provide you with actual well costs according to the Oil Conservation Division Case No. 8494, Order No. R-7850.

If you have any questions concerning these costs, please call.

Sincerely,



Mark Roberts

MR/cc

Attachment

cc: Jeff Bourgeois



REPORT NO: AFE/REP4  
 REPORT TITLE: AFE COMPARISON REPORT FOR: 85/10

COMPANY: TXO PRODUCTION CORP.  
 REGION: SOUTHERN  
 DISTRICT: WEST TEXAS  
 TYPE: 011 TXO DEVELOPMENT DRLG

AFE: 851904 NAME: SPRINKLE FEDERAL #1

	CATEGORY	GROSS ESTIMATE	GROSS COST
DRILLING	SURFACE & INTERM CASING-1	90,000.00	90,148.74
	CASINGHEAD-104	15,000.00	2,091.77
	LOCATION WORK-243	50,000.00	24,972.30
	FOOTAGE/TURNKEY DRILLING-	0.00	0.00
	DAYWORK DRILLING-266	247,500.00	353,956.18
	RIG SUPPORT-267	25,000.00	351.20
	BITS-231	42,000.00	200.00
	SUPERVISION-204	14,250.00	11,997.57
	DRILLING OVERHEAD-227	0.00	11,252.71
	MUD & CHEMICALS-230	65,000.00	54,008.26
	CEMENTING SERV & SUPPLIES	28,000.00	66,231.92
	TESTING & LOGGING-234	35,000.00	35,496.56
	RENTALS-242	12,000.00	23,724.30
	OTHER IDC-244,245,246,290	10,000.00	0.00
	OTHER EQUIPMENT-120	10,000.00	0.00
	LEGAL-213	0.00	5,202.02
	N/O INTANGIBLE COSTS-274	0.00	0.00
DRILLING		643,750.00	679,633.53
COMPLETION	PRODUCTION CASING-102	125,000.00	117,155.42
	TUBING-103	77,000.00	34,587.29
	WELLHEAD EQUIPMENT-104	10,000.00	36,502.51
	SUBSURFACE EQUIPMENT-108	10,000.00	9,564.59
	SUPERVISION-204	4,500.00	11,269.99
	MUD & CHEMICALS-230	4,500.00	5,810.00
	TESTING, LOGGING & PERF-23	12,000.00	21,103.52
	STIMULATION-236	20,000.00	54,063.77
	COMPLETION OVERHEAD-227	0.00	8,353.08
	RENTALS-242	8,500.00	21,128.19
	SERVICE RIG-241	27,000.00	44,768.61
	CEMENTING SERV & SUPPLIES	20,000.00	4,089.13
	OTHER COMPLETION-246,290	10,000.00	3,611.08
	N/O INTANGIBLE COSTS-274	0.00	0.00
COMPLETION		328,500.00	372,207.18
PRODUCTION EQUIPMENT	PUMPING UNIT-105	0.00	0.00
	ENGINE & MOTORS-106	0.00	0.00
	SUCKER RODS-107	0.00	0.00
	FLOW LINES-110	2,500.00	1,132.88
	METERS-112	8,500.00	3,365.00
	INSTALLATION/OVERHEAD-111	2,000.00	0.00
	STORAGE-115	15,000.00	16,722.47
	SEPARATION & TREATING-117	15,000.00	12,147.21
	OTHER EQUIPMENT-120,152	10,000.00	4,221.18
PRODUCTION EQUIPMENT		51,000.00	37,588.74
PREPAYMENTS	PREPAYMENTS-291	0.00	0.00
PREPAYMENTS		0.00	0.00
		1023,250.00	1089,429.45
		1023,250.00	1089,429.45

Earl H. Johnson, P.C.

*Attorney at Law*

AFE #851904  
PROP# 75964

1385 South Colorado Blvd. #720  
Denver, Colorado 80222

November 13, 1985

(303) 756-8624

Mr. Mark Roberts  
TXO Production Corp.  
900 Wilco Building  
Midland, Texas 79701

Re: Sprinkle Federal No. 1 Well  
Township 18 South, Range 32 East, NMPM  
Section 26: N/2  
Lea County, New Mexico

Dear Mr. Roberts:

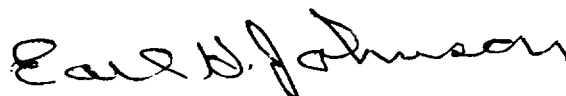
Contrary to your statements set forth in your letter of October 31, 1985, TXO has not fulfilled it's obligation to provide Mr. Sprinkle with actual well costs.

1. Your costs provide only through and including September 30, 1985, and do not reflect any subsequent costs.
2. You have not provided Mr. Sprinkle with what his actual costs are regarding Well Number 1.
3. You have not provided Mr. Sprinkle with a monthly payout statement sheet pertaining to his interest.

He is entitled to all of the above.

If you have any questions concerning the above, please do not hesitate to contact me.

Yours truly,

  
Earl H. Johnson, P.C.

EHJ/bb

*Earl H. Johnson, P.C.*

*Attorney at Law*

*1385 South Colorado Blvd. #720  
Denver, Colorado 80222*

November 13, 1985

*(303) 756-8624*

TXO Production Corp.  
900 Wilco Building  
Midland, Texas 79701  
ATTN: Jeff Bourgeois

Re: Sprinkle Federal No. 3 Well  
Township 18 South, Range 32 East, NMPM  
Section 26: SW/4 NW/4  
Lea County, New Mexico

Gentlemen:

Please refer to your letter of October 24, 1985, in which you made an offer for Mr. Sprinkle to farmout his interest in the above-captioned acreage.

Your offer is refused.

However, Mr. Sprinkle has authorized me to make the following proposal for farmout for the Number 3 Well. Mr. Sprinkle will retain a 10% net overriding royalty until payout. His interest will then convert to a 20% Net Revenue Working Interest.

Yours truly,

*Earl H. Johnson*  
Earl H. Johnson, P.C.

EHJ/bb  
CERTIFIED MAIL - #P327468356  
RETURN RECEIPT REQUESTED