

TXO PRODUCTION CORP.
Case No. 8755
11/21/85 Examiner Hearing
Exhibit No. 13

January 11, 1985

Mr. Joseph B. Sprinkle
P. O. Box 6463
Denver, Colorado 80206

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

Gentlemen:

TXO Production Corp. hereby proposes the drilling of the Sprinkle Federal #1, a 13,300' Morrow Test at a location of 660' FNL & 660' FWL of 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 copy of the AFE and return it to the attention of the undersigned at the letterhead address.

As an alternative to joining in the 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 in the N/2 of Section 26, T-18-S, R-32-E, Lea County, New Mexico to a depth of 13,300 feet or a depth sufficient to test the Morrow Formation, TXO would earn an assignment from you of all your right title and interest in the proration unit on said acreage to 100 feet 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 an option at payout to convert your overriding royalty interest to a 25% working interest proportionately reduced.

These terms are subject to a mutually acceptable farmout agreement and TXO management approval.

If you elect to join in the drilling of this well or, alternatively farmout under the aforementioned general farmout terms, please advise and the respective agreements will be prepared and forwarded for your execution.

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TXO is putting this well in line on our rig schedule and therefore, if within two weeks after the receipt of this letter, you have failed to confirm in writing of your decision to join or farmout, a compulsory pooling application will be filed with the New Mexico Oil Conservation Commission. If you would like to discuss the well further, please do not hesitate to contact me at the above address or telephone number.

Thank you for your cooperation in this matter.

Very truly yours,

Jeff Bourgeois
Landman

JB/dp
Enclosure