

BILL SELTZER

214 WEST TEXAS, SUITE 507
MIDLAND, TEXAS 79701

August 11, 1988

Re: Inexco Oil Co. - Shipp
No. 1
T-16-S, R-37-E, N.M.P.M.
Section 35: W/2 SE/4
Lea County, New Mexico
Shipp Prospect (NM-309)

Case No. 9434
M.S.

The Louisiana Land & Exploration Co.
Suite 1200
2950 North Loop West
Houston, Texas 77092-8867

Attn: Mr. Paul F. Nielson

Dear Mr. Nielson:

We are in receipt of your letter of August 6, 1988 regarding the above.

Please be advised Amerind Oil Co. has farmed out its interest in the above to Sun Exploration & Production Co. Sun Exploration & Production Co. will bear all the costs attributable to the interest of Amerind Oil Co. in drilling the test well. We will forward you a copy of the fully executed Letter Agreement upon receipt from Sun.

If you have any questions, please do not hesitate to call.

Yours very truly,

Bill Seltzer
Bill Seltzer

BS/kp

cc: (1) Mr. William F. Carr

(2) ✓ Mr. Michael Stogner
Oil Conservation Division
State of New Mexico
Order #4-8704
P.O. Box 2088
Santa Fe, New Mexico 87504

(3) Alan Beers
Sun Exploration & Production Co.

(4) Amerind Oil Co.

THE LOUISIANA LAND AND EXPLORATION COMPANY

LL&E

SUITE 1200-2950 NORTH LOOP WEST

HOUSTON, TEXAS 77092-8862

August 9, 1988

AMERIND

(713) 957-6400

AUG 11 1988

BY CERTIFIED MAIL
RETURN RECEIPT REQUESTED

OIL CO.

TO PARTIES SHOWN ON
ATTACHED ADDRESSEE LIST

Re: Inexco Oil Co. - Shipp No. 1
W/2 SE/4 Section 35,
T-16-S, R-37-E, N.M.P.M.
Shipp Prospect (NM-309)
Lea County, New Mexico

Ladies and Gentlemen:

By letter dated May 20, 1988 Inexco Oil Company, a wholly-owned subsidiary of The Louisiana Land and Exploration Company, invited each working interest owner the opportunity to participate in drilling the captioned well. Inexco proceeded against non-participating parties in a compulsory pooling hearing before the Oil Conservation Division of the State of New Mexico on July 20, 1988 (Case No. 9434). We have just received the OCD's order in this case, a copy of which is attached for your review.

Attached for your execution is a schedule of estimated well costs (AFE) for the subject well, and cover page, Exhibit "A" and execution and acknowledgement pages for the operating agreement already submitted to you with Inexco's letter of May 20, 1988. The AFE and Exhibit "A" to the operating agreement have been revised to reflect Inexco's purchase of Sohio's leases and Amerind's farmout of its leases to Sun, and Exhibit "A" has also been revised to narrow the acreage covered from 160 acres to the stand-up 80 acre proration unit covered by the compulsory pooling order.

Although H. L. Brown, Jr. and Elizabeth M. Brown have orally agreed to farm out to Inexco, we are continuing to show them as working interest parties for compulsory pooling purposes until a formal farmout agreement is executed. Tom Brown, Inc. has already executed the participation documents and can ignore this notice; consequently, attachments referenced herein are omitted from its copy of this letter. Amerind can also ignore this notice inasmuch as it is farming out to Sun; however, Inexco would appreciate written confirmation that Amerind is farming out. Attachments to this letter are omitted from Amerind's copy. Inexco will advise the OCD of all parties removed from effect of the compulsory pooling order by participation or other agreement.

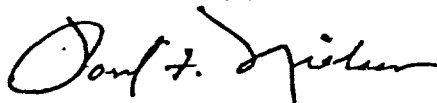
Sun has already executed Inexco's AFE but not executed and returned the operating agreement covering 160 acres submitted to Sun with Inexco's letter of May 20, 1988, due to the anticipated changes in interests of affected parties. Inexco assumes that it is Sun's desire to enter into the voluntary agreement covering 160 acres as offered by Inexco in said May 20, 1988 letter, rather than to enter into an operating agreement covering the 80 acres subject to the compulsory pooling order, under the provisions of such order. If so, it is requested that Sun execute and return the operating agreement submitted with said May 20, 1988 letter, after correcting the names of the parties and their interests to conform to the schedule of interests shown below.

Please note that, unless the working interest owner has entered into the participation agreement or other agreement with Inexco, each party has 30 days from receipt of this notice in which to return its executed AFE to Inexco with payment of its share of estimated well costs. Otherwise, the risk penalty provisions of the order will apply. The parties' respective shares of the \$780,100 estimated well costs for the completed well are as follows:

Inexco Oil Company	79.79167%	\$622,454.84
Mesa Operating L/P	9.50000%	74,109.50
Sun Expl. & Prod. Co.	9.37500%	73,134.37
Tom Brown, Inc.	.66667%	5,200.69
H. L. Brown, Jr.	.33333%	2,600.30
Elizabeth M. Brown	.33333%	2,600.30

In conclusion, in order to participate in this well without the risk penalty, you must submit to Inexco at the letterhead address (1) your executed AFE, (2) payment of your share of the estimated well costs, and (3) your execution and acknowledgement pages for the operating agreement, all within 30 days from your receipt of this notice.

Yours truly,


Paul F. Nielsen
Staff Landman

PFN:bj
Attachments

ADDRESSEE LIST

Mesa Operating Limited Partnership
P. O. Box 2009
Amarillo, Texas 79189-2009
Attention: Mr. Larry Hemingway

Amerind Oil Co.
500 Wilco Bldg.
Midland, Texas 79701-4467
Attention: Mr. Robert C. Leibrock

Sun Exploration and Production Company
ClayDesta Plaza
Suite 600, No. 24 Smith Road
Midland, Texas 79705
Attention: Mr. Alan Beers

Tom Brown, Inc.
P. O. Box 2608
Midland, Texas 79702
Attention: Mr. Charles Hedges

Mr. H. L. Brown, Jr.
P. O. Box 2237
Midland, Texas 79702
Attention: Mr. Peter Courtney

Ms. Elizabeth M. Brown
P. O. Box 2237
Midland, Texas 79702
Attention: Mr. Peter Courtney

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:

CASE NO. 9434
Order No. R-8704

APPLICATION OF INEXCO OIL COMPANY,
A WHOLLY-OWNED SUBSIDIARY OF THE
LOUISIANA LAND AND EXPLORATION
COMPANY, FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 20, 1988, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 29th day of July, 1988, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Inexco Oil Company, a wholly-owned subsidiary of The Louisiana Land and Exploration Company, seeks an order pooling all mineral interests from the surface to the base of the Shipp-Strawn Pool underlying the W/2 SE/4 of Section 35, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical limits or the SW/4 SE/4 of said Section 35 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical limits, both aforementioned units to be dedicated to a well to be drilled at a standard oil well location thereon.

(3) There are interest owners in the proposed proration units who have not agreed to pool their interests.

(4) Amerind Oil Company appeared at the hearing and presented testimony in opposition to the subject application.

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Order No. R-8704
Page No. 2

(5) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(6) Inexco Oil Company should be designated the operator of the subject well and units.

(7) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) \$4250.00 per month while drilling and \$425.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) Upon the failure of the operator of said pooled units to commence drilling of the well to which said units are dedicated on or

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Order No. R-8704
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before October 31, 1988, the order pooling said units should become null and void and of no effect whatsoever.

(14) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(15) The operator of the well and units should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Shipp-Strawn Pool underlying the W/2 SE/4 of Section 35, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical limits or the SW/4 SE/4 of said Section 35 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre oil spacing within said vertical limits to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER THAT, the operator of said units shall commence the drilling of said well on or before the 31st day of October, 1988, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Shipp-Strawn Pool;

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 31st day of October, 1988, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Inexco Oil Company is hereby designated the operator of the subject well and units.

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject units an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) \$4250.00 per month while drilling and \$425.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges

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Order No. R-8704
Page No. 5

attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unleased mineral interest shall be considered a seven-eighths ($7/8$) working interest and a one-eighth ($1/8$) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

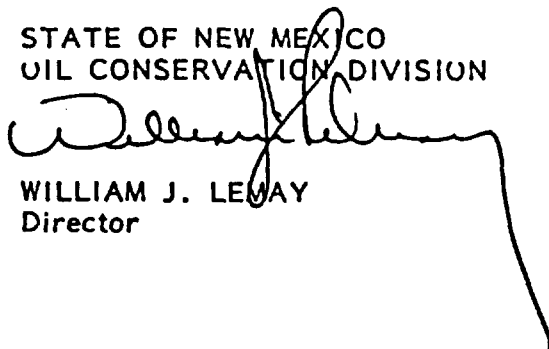
(13) Should all the parties to this force pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force pooling provisions of this order.

(15) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

S E A L

STATE OF NEW MEXICO

ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION



GARREY CARRUTHERS
GOVERNOR

August 1, 1988

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. James Bruce
Hinkle, Cox, Eaton,
Coffield & Hensley
Attorneys at Law
Post Office Box 2068
Santa Fe, New Mexico

Re: CASE NO. 9434
ORDER NO. R-3704

Applicant:

Inexco Oil Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Division order recently entered in the subject case.

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other William F. Carr

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

RECEIVED

JUL 18 1961
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF INEXCO OIL COMPANY FOR
COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

CASE NO. 9434

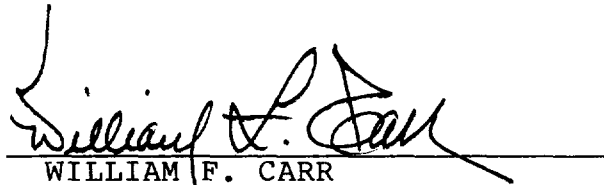
ENTRY OF APPEARANCE

COMES NOW CAMPBELL & BLACK, P.A., and hereby enters its
appearance in the above-referenced case on behalf of Amerind Oil
Company.

Respectfully submitted,

CAMPBELL & BLACK, P.A.

By:



WILLIAM F. CARR

Post Office Box 2208

Santa Fe, New Mexico 87504
(505) 988-4421

ATTORNEYS FOR AMERIND OIL COMPANY