200 WEST FIRST STREET, ROSWELL

ROSWELL, NEV

May 27

BEFORE THE OIL CONSERVATION DIVISION Santa Fe, New Mexico

Case No. <u>12011</u> Exhibit No. <u>4</u>

Submitted by: <u>Strata Petroleum Company</u>

Hearing Date: July 23, 1998

VIA - FEDERAL EXPRESS

Mr. Bob Matthew Exxon Company, USA Post Office Box 4697 Houston, Texas 77210-4697

> RE: EXXON AGMT #AB-91-0029 Cercion Federal Wells Township 22 South, Range 32 East, NMPM Section 21: E/2 Section 22: W/2 Lea County, New Mexico

Dear Bob:

Strata Production Company ("Strata") recently drilled the Cercion Federal #8 Well in Section 22: SW/4NW/4, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico under the terms of the Lease Operating Agreement with Exxon Corporation effective September 25, 1992 ("Agreement"). The well was drilled to 8,900' and showed potential in the Delaware formation. However, with current oil prices, it was uneconomic to complete. Therefore, the well was plugged and abandoned on March 25, 1998.

The original five year term of the Agreement has terminated and Strata will now be subject to the provisions of the Agreement under the Continuous Development Program. Therefore, to keep the Agreement in force, we must commence operations for drilling our next well on or before September 25, 1998.

Strata plans to commence drilling operations in the W/2 of Section 22 on or before September 25, 1998 to test the Morrow formation at approximately 15,000'. Since the proration unit for Morrow production is 320.0 acres, we would like to work out an agreement with Exxon covering rights below the Delaware formation under the Cercion Federal Well #2 in the NW/4NW/4 and the Cercion Federal Well #4 in SE/4NW/4 of Section 22 which were drilled under the terms of our Farmout Agreement with Exxon dated July 9, 1991. Strata received assignments from Exxon covering these two wells from the surface to 8,637 feet and the surface to 8,641 feet respectively. Since Exxon retained the deeper horizons under the Cercion Federal #2 and #4 Wells, we would like to ask Exxon to review this proposed well location at this time and advise whether it would be interested in participating with Strata in a Morrow test.

If Exxon is not interested in participating, Strata would propose that Exxon amend the current Agreement to include the deep rights Exxon retained under the 80 acres.

Further, if the Morrow test is successful in the W/2 of Section 22, Strata may be interested in drilling another Morrow test in the E/2 of Section 22.

We have recently completed a leasehold check of this acreage in Lea County and located a Lease Operating Agreement between Exxon Corporation and POGO Producing Company effective June 1, 1992. According to the well information, POGO completed the last well under its Lease Operating Agreement with Exxon in February, 1997. Therefore, if this information is correct and no extensions or other contracts have been entered into between the parties, the undrilled acreage in the NE/4 and W/2SE/4 has reverted to Exxon.

If this is the case, and Exxon is interested in further development of its leasehold, Strata would like to obtain an Option Farmout from Exxon covering the balance of the acreage that was not earned by POGO. Strata would propose the following terms for Exxon's consideration:

1) Within one hundred and eighty (180) days from the drilling of a Morrow test in the W/2 of Section 22, Township 22 South, Range 32 East, Strata will have the right, but not the obligation, to drill a second Morrow test at a legal location of its choice in the E/2 of Section 22.

2) If the well is capable of producing in paying quantities, Strata would earn rights from the surface to 100' below the deepest producing interval drilled.

3) Exxon will reserve as an overriding royalty, the difference between existing lease burdens and 20% to deliver an 80.0% net revenue interest lease.

4) If Strata exercises its option and a well is drilled in the E/2 of Section 22 ("Option Well"), Strata will have satisfied its drilling obligation for its next well as set out under the terms of the Continuous Development Program of the Lease Operating Agreement ("Agreement") effective September 25, 1992. However, it is understood that any subsequent well to be commenced after the Option Well shall be drilled in accordance with the terms of the Agreement covering the remaining undrilled acreage located in Township 22 South, Range 32 East, Section 21: E/2 and Section 22: W/2, Lea County, New Mexico.

Since time is of the essence, we would sincerely appreciate Exxon's response to Strata's proposals at its earliest convenience. We have enclosed a map of the area for reference purposes, together with copies of the Lease Operating Agreements (Strata and POGO) and Farmout Agreement dated July 9, 1991 for your further information.

Your attention and cooperation is appreciated and if you have any questions or additional information is needed, please contact the undersigned.

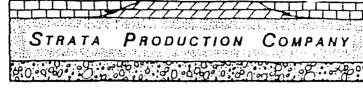
Sincerely Jo McInerney, CPL Landman

Enc. Stated

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| Service Conditions, Declared Veloe, and Linki of Liability - By using this Airbill, you agree to the service conditions in our current Service Guide or U.S. Government Service Guide. Both are available on request. SEE BACK OF SERVER'S COVP OF THIS JARBILL FOR INFORMATION AND ADDITIONAL IFEMAS. | 3 Release Signature Sign to authorize delivery without obtaining signature |
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TELEPHONE (505) 622-1127 FACSIMILE (505) 623-3533

200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700 ROSWELL, NEW MEXICO 88201

June 2, 1998

VIA - FAX #713-431-1475/U.S. MAIL

Mr. Bob Matthew Exxon Company, USA Post Office Box 4697 Houston, Texas 77210-4697

> RE: REQUEST FOR TERM ASSIGNMENT Township 22 South, Range 32 East, NMPM Section 22: NW/4NW/4, SE/4NW/4 Containing 80.0 acres m/l Lea County, New Mexico

Dear Bob:

In accordance with our conversation regarding Strata's correspondence of May 27, 1998, you have advised that the Term Assignment with POGO Producing Company covering Exxon's acreage in Township 22 South, Range 32 East, Section 22: E/2 has been extended for one year. Therefore, Strata's request for an Option Farmout was not possible. However, you did advise that the deep rights Exxon holds in the NW/4NW/4 and SE/4NW/4 of Section 22 may be available to Strata through a Term Assignment or Farmout Agreement.

Since Strata plans to drill its next obligation well under its Term Assignment with Exxon covering the SW/4, NE/4NE/4 and SW/4NW/4 of Section 22 we would request a one year Term Assignment from Exxon covering the NW/4NW/4 and SE/4NW/4 of Section 22. Since we are planning a Morrow test and Exxon has elected not to participate, this will give us the spacing necessary for Morrow production.

In this regard, Strata hereby submits the following proposal for Exxon's consideration:

1) \$250.00 per acre for rights below the Base of the Delaware formation under Section 22: NW/4NW/4 and SE/4NW/4 for a term of one year.

2) Exxon would reserve a 5.0% overriding royalty interest which is the same overriding royalty covering the balance of the lands in the W/2 of Section 22 under the Term Assignment dated September 25, 1992 between Exxon and Strata.

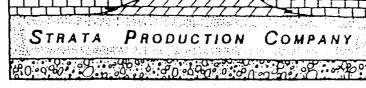
Exxon's consideration of our proposal is appreciated and if you have any questions, or if additional information is needed, please contact us.

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Sincerely, Jo McInerney, CPL Landman

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TELEPHONE (505) 622-1127 FACSIMILE (505) 623-3533

200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700 ROSWELL, NEW MEXICO 88201

June 12, 1998

VIA - CERTIFIED MAIL-RETURN RECEIPT REQUESTED

Mr. Bob Matthew Exxon Company, USA Post Office Box 4697 Houston, Texas 77210-4697

> RE: REQUEST FOR TERM ASSIGNMENT Township 22 South, Range 32 East, NMPM Section 22: NW/4NW/4, SE/4NW/4 Below the base of the Delaware formation Containing 80.0 acres m/l Lea County, New Mexico

Dear Bob:

In accordance with our conversation regarding Strata's offer to Exxon of June 2, 1998 you advised that although the \$250.00 per acre Strata offered for a one year term assignment was agreeable to Exxon, the 5% overridng royalty interest was unacceptable.

You further advised that Exxon would only deliver a 75% NRI to Strata for a one year assignment. Since Strata is drilling a deep Morrow test, this NRI is not acceptable to Strata. In addition, Strata has already earned the upper zones from the surface to the Base of the Delaware under its Farmout Agreement with Exxon. Therefore, Strata cannot realize any additional pay in the upper formations to make this low NRI workable. Due to these facts Strata cannot accept less than the 82.5% NRI as originally proposed.

Strata hereby proposes the drilling of the Under the Hill Federal #1 well at a location 1980' FWL and 1980' FSL of Section 22, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico. $\sum_{concered} reach^{*} FeL^{*}$

Strata estimates the total cost to drill and complete this well to be \$1,479,485.00 as shown on the enclosed Authority for Expenditure ("AFE") #UTHF-22-32-22.

Given that standard proration units in this area are 320.0 acres for wells to this depth, Exxon will hold 25% working interest and Strata will hold 75% working interest.

Please review the enclosed AFE and if Exxon approves same and elects to participate, please execute one copy of the AFE where indicated and return to Strata with your share of dry hole costs as set out on the attached invoice.

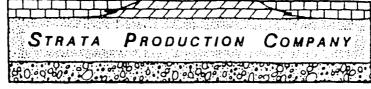
Thank you for your attention and if you have any questions, please contact the undersigned.

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Sincerely

Jo McInerney, CPL Landman



TELEPHONE (505) 622-1127 FACSIMILE (505) 623-3533

200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700 ROSWELL, NEW MEXICO 88201

INVOICE

UNDER THE HILL FEDERAL #1 WELL <u>Township 22 South, Range 32 East, NMPM</u> Section 22: 1980' FWL & 1980' FSL (W/2) Lea County, New Mexico

COPRECTED FROM FEL

June 12, 1998

Exxon Company, USA Post Office Box 4697 Houston, Texas 77210-4697

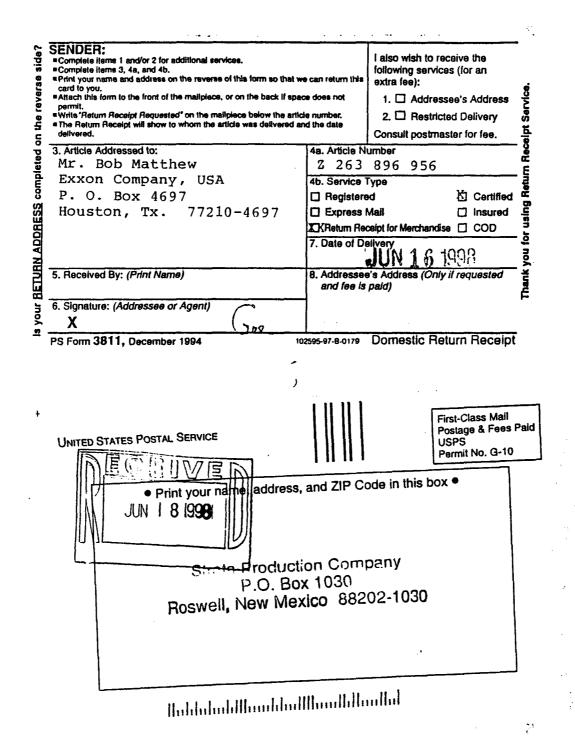
To invoice you for your proportionate share of **AFE ESTIMATED DRY HOLE:**

25.0% X AFE TOTAL ESTIMATED DRY HOLECOSTS:\$1,074,992.00

TOTAL DUE: \$268,748.00

0,740.00

Thank you.



STRATA PRODUCTION CON. ANY P.O. BOX 1030 ROSWELL, NEW MEXICO 88202

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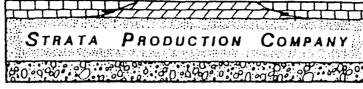
| AFE NUMBER: | | | | |
|-------------|---------|--|--|--|
| DATE: | 5-12-98 | | | |

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UTHF-22-32-22

| NAME: | VILL NAME: UNDER THE HILL FEDERAL #1 AME: WEST BOOTLER RIDGE | | | | DEPTH: | 13,000 FT. MORROW | |
|---|--|---------------------------|-----------------------------------|------------|--|--|----------------------------------|
| L DESCRIPTION: W/2 SECTION 22-T22S-R32E | | | COUNTY/STATE: | LEA, N.M. | | | |
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| | INTANGIBLE DRILL | ING COSTS | | | | | |
| 0.002 | SURVEYING | | | | 800 | | |
| 1-005 | LOCATION, ROAD & DAN | MAGUS | | | 25,000 | | |
| 0.010 | DRILLING - FOOTAGE RA | TE | \$22.00/IFF. | 15,000 FT. | 349,800 | | |
| 0.015 | DRILLING- DAYWORK | | \$7500/DAY | 6 DAYS | 47,700 | | |
| 0-130 | CEMENT & SERVICES: S | | | 700 SX | 10,500 | | |
| 0-132 | | | IDIATE CASING | 2000 SX. | 30,000 | | |
| 0-132 0-025 | SUPERVISION | 7 5/8"INTERMIE | | 2300 SX | 37,500 | | |
| 0-025 | GEOLOGIST | | 60 DAYS @ \$450 4 DAYS @ \$450 | | 28,620 | | |
| 0.046 | MUD MATERIALS & SPEC | CIAL EQUIPMEN | - | | 40,000 | ······································ | |
| 0-043 | WATER | | 30,000 BBLS. | | 37,500 | ····· | |
| 0-090 | INVLING AND TRANSPORT | RTATION | | | 4,000 | | |
| 0-070 | MUDLOGGING | | \$450/IDAY | 45 DAYS | 21,465 | | |
| 0-075 | LOGGING | | | | 47,700 | | |
| 0-126 | PTT LINING AND FUNCING | | | | 5,800 | | |
| 0-020 0-102 | ADMINISTRATIVE OVERI LEGAL | IIIAD | | | 14,000 | | |
| 0-055 | DRILL STEM THSTS | | I TEST | | 10,000 | | |
|)-125 | MISCELLANEOUS | | 11651 | | 15,700 | | |
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| | INTANGIRLE COMP | LETION COS | TS | | | •. | |
| 2-003 | COMPLICTION UNIT | | 10 DAYS @ \$130/ | IR. | | 16,536 | |
| 2.002 | REVERSE UNIT AND EQU | прменг | | | | 5,300 | |
| 2-046 | WATER | | 3000 BBLS. | | ······ | 3,657 | |
| 2-015 2-025 | CEMENTINO SERVICES PI | | | | | 25,000 | |
| 2-025 | PERFORATING, CORREL. STIMULATION: | | AL. ACID TREATMEN | | | 26,500 | |
| 2-086 | WELDING | 2000 0 | | | <u></u> | 10,600 | |
| 2-000 | SUPERVISION | | IS DAYS @ \$450/[| лү | | 3,600 | |
| 2.090 | TRANSPORTATION, INST. | ALLATION & L/ | JOR | | ······ | 4,770 | |
| 2-010 | Equipment rental: | 2- FRAC 1 | | | | 1,229 | |
| 2-045 2-100 | | 7 5/8" PAC | | | | 3,500 | |
| 2-095 | LABOR, ROUSTABOULS | MISCELL | \$630/DAY | | | <u> </u> | |
| 2-056 | CASING CREWS: | | TON LINER | | | 3,180 | |
| 2-021 | ADAINISTRATIVE OVERI | | | | | 7,000 | |
| 2-125 | MISCELLANEOUS | | | | | 10,000 | |
| | TOTAL INTANC | CINE E COSTE | | | 212 0.02 | | |
| | IOTAL INTAIC | SIDE COSTS | | | 752,993 | 131,892 | 884,88 |
| | TANGIILE COMPLE | TION COST | ž | | | | |
| 4-002 | WELLIBAD | | | | 25,000 | 25,000 | |
| 4-003 | SURFACI CASING | 13 3/8" - 7 | | | 14,501 | | |
| 4-005 | INTERMEDIATE CASING | 10 3/4" - 4 | | | 80,759 | | |
| 4-005 4-007 | INTERMEDIATE CASING PRODUCTION LINER | 7 5/8" - 12 | | | 201,739 | | |
| 4-010 | TUBING | 5" - 3,200 2 7/8" - 15 | | | . <u></u> | 36,125 | |
| 4.032 | ANCHORS | 2 //8 - [] | ,000 P.1. | | | 130,380 | |
| 4-020 | LINER HANGER | | | | | 15,000 | |
| 4-035 | FLOWLINES VALVES & F | TEINOS | | | ······································ | 7,500 | |
| 4-002 | SPECIAL EQUIPMENT-PA | CKER, ON-OFF | fool, profiles, etc | 3. | | 15,900 | |
| 4-045 | TANKS | 2 - 500 BE | IL. STEEL & 1 - 250 BI | BL. F.G. | | 16,000 | |
| 4-055 | 3 PHASE ILP. GAS UNIT | | | | ····· | 25,000 | |
| 4-125 | MIC. WELL EQUIPMENT | | | • | | 5,000 | |
| | TOTAL TANGI | BLE COSTS | | | 321,999 | 272,601 | \$94,60 |
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| | TOTAL WEL | L COST | | | 1,074,992 | 404,493 | 1,479,48 |
| | <u></u> | <u></u> | <u></u> | | | | |
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| REPARED | | 9135 | | | | | |
| REPARED | | - | | TTILE: | PRESIDENT | | date: <u>6/10/</u> 9 |
| REPARED I RATA PI PPROVEE | DBY: <u>BRUCE A STUD</u> RODUCTION CONDANY DBY: <u>A A</u> MARK MURP | - | | | PRESIDENT | | |
| REPARED | DBY: <u>BRUCE A STUD</u> RODUCTION CONDANY DBY: <u>A A</u> MARK MURP | - | | | PRESIDENT | | DATE: <u>6 / 10 / 1</u> DATE: |
| REPARED RATA PI PPROVEE | DBY: <u>IRUCE A STUD</u> RODUCTION CONPANY DBY: <u>A A A</u> MARK WIURP | - | | | PRESIDENT | | |

AUTHORIZATION FOR EXPENDITURE



TELEPHONE (505) 622-1127 FACSIMILE (505) 623-3533

200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700 ROSWELL, NEW MEXICO 88201

June 29, 1998

VIA - FEDERAL EXPRESS

Mr. Bob Matthew Exxon Company, USA 233 Benmar, Suite 160 Houston, Texas 77060

> RE: JOINT OPERATING AGREEMENT Township 22 South, Range 32 East, NMPM Section 22: W/2 Containing 320.0 acres m/l Lea County, New Mexico

Dear Bob:

In accordance with our conversation, attached is the Joint Operating Agreement ("JOA") dated June 1, 1998 covering the subject lands which has been prepared by Strata Production Company, Operator. Please review same and contact me with regard to the participation of Exxon Company, USA ("Exxon") in the well Strata is proposing 1980' FWL and 1980' FSL of Section 22 to test the Morrow formation. As we discussed, we plan to commence drilling operations on or before September 21, 1998.

We contemplate Exxon's working interest in the well to be 25% with a 25% net revenue interest, less existing burdens if Exxon elects to participate. Upon approval of the enclosed JOA, please execute and return the attached signature pages with one copy of the Recording Supplement signed and ackowledged by Exxon for filing in the Lea County records. We also request that one copy of the AFE we previously tranmitted, be returned to Strata with Exxon's share of dry hole costs for the drilling of the well.

If you have any questions, please contact the undersigned.

inceré McInerney, C

Jø McInerney, CPL Landman

Enc.

| recEx USA Airbill Tretty 802530937437 | SLA12 SLA12 Sender's Copy |
|---|--|
| From (please print and press hard) | Express Package Service Packages under 150 lbs. Oververy commonweat may be later in tome press. Try FedEx Priority Overnight Try FedEx Standard Overnight |
| Date 6/29/98 Sender's FedEx Account Number 1400-0415-4 | INext business afternoont FedEx First Overnight |
| Sender's Jo McInerney Phone (505)622-1127 | (Estivest next business informing delivery to select locations) (Niepher reser apply) FedEx (2Day FedEx (2Day FedEx (2Day (Third business day) (Third business day) |
| Company STRATA PRODUCTION COMPANY | 4D Express Freight Service Packages over 150 lbs. |
| Andress 200 W 1ST ST STE 700 | FedEx Overnight Freight FedEx 2Day Freight FedEx Express Saver Freight ISecord Number Saver Freight (Call for delivery schedule. See back for detailed descriptions of freight services.) |
| City ROSWELL State NM ZIP 88201 | 5 Packaging FedEx FedEx FedEx FedEx Other Letter Pak Box Tube Pkg. |
| 2 Your Internal Billing Reference Information Joint Operating Agreement | Special Handling One box must be checked Special Handling |
| Recipient's Mr, Bob Matthew Phone (713)431-1029 Company Exxon_Company, USA Address 233 Benmar, Suite 160 Check here if residence | PackagingfedExFedExfedE |
| (To 'HOLD' at FedEx tocation, (NVP C) input (Deliver to PC) Boxes or PCI ZIP (Codes) Dept/Roor/Suite/Room | CreditC ExpC CreditC DataC DataC DataC CreditC DataC DataC CreditC DataC DataC CreditC DataC CreditC DataC CreditC |
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