

facsimile
TRANSMITTAL

to: Leslyn Swierc, CPL
fax #: 688-6010
re: Letter Agreement with C. W. Trainer and Frederick H. Prince, IV - Checkers
Prospect (NM-096), Lea Co., NM
date: September 13, 1996
pages: 6, including this cover sheet.

Leslyn,

Attached is a copy of our agreement with Trainer & Prince, with the consideration and NRI's scratched out. Also attached is a copy of our revised AFE for the first well, which has been corrected by our engineering department for a math error.

Please review the enclosed and advise ASAP if Burlington and Penwell can now cancel their upcoming OCD hearings and proceed with execution of Penwell's proposed AFE and joint operating agreement.

Thanks for your help on this and we look forward to working with you on this prospect.



From the desk of...

Mark Wheeler
Land Manager - Permian Basin
Penwell Energy, Inc.
600 N. Marlenfeld, Suite 1100
Midland, Texas 79701

915-683-2534
Fax: 915-683-1562

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 11613 Exhibit No. 8
Submitted By:
Burlington Resources
Hearing Date: October 2, 1996

PENWELL ENERGY, INC.

1100 ARCO BUILDING
800 N. MARIENFELD
MIDLAND, TEXAS 79701

OFF: (915) 683-2534
FAX: (915) 683-4514

September 10, 1996

Mr. C. W. Trainer and
Mr. Frederick H. Prince, IV
500 W. Texas, Suite 710
Midland, TX 79701

Re: Letter Agreement
Checkers Prospect (NM-096)
Lea County, New Mexico

Dear Mr. Trainer:

This letter is to confirm our verbal agreement whereby Penwell Energy, Inc. ("Penwell ") agrees to purchase the leasehold interests currently owned by C. W. Trainer and Frederick H. Prince, IV, hereinafter ("Trainer") without warranty of title, express or implied, in and to that certain oil and gas lease as described on Exhibit "A", attached hereto and made a part hereof ("Said Lease").

The terms and conditions of this Agreement are as follows:

1. Trainer shall furnish to Penwell without warranty, express or implied, copies of Said Lease, contract files, title opinions and all other pertinent instruments and information pertaining to the captioned prospect in its possession.
2. Penwell agrees that on or before November 15, 1996, it shall use its best efforts to commence, or cause to be commenced, operations for the drilling of the Checkers "24" Federal #1 Well ("Initial Well") in search of oil and/or gas at the following location:

1980' from the East and South Lines of Section 24,
T-22-S, R-32-E, NMPM, Lea County, New Mexico.
3. Penwell, as operator, agrees to drill the Initial Well in a good and workmanlike manner, in an attempt to adequately test the Bone Spring formation at a depth of approximately 9,000' below the surface of the ground.
4. Said Lease covers 280.00 gross acres and 228.41 net acres owned by Trainer and Prince. Penwell agrees to pay

Letter Agreement

Mr. C. W. Trainer and
Mr. Frederick H. Prince, IV
September 10, 1996
Page -2-

to Trainer, upon obtaining agreement from all leasehold owners for Penwell to operate all wells to be drilled on the prospect, the sum of [REDACTED] as consideration for an assignment of all of Trainer's and Prince's leasehold interest under Said Lease, from the surface of the ground down to 100' below the deepest depth drilled in each well drilled on the prospect.

5. It is understood between the parties hereto that Trainer agrees to deliver to Penwell a [REDACTED] net revenue interest in Said Lease before payout of the Checkers "24" Federal #1 well and a [REDACTED] net revenue interest after payout of said well and a [REDACTED] NRI on all subsequent wells drilled on the prospect, all proportionately reduced to the leasehold interest owned by Trainer.

6. In order for Penwell to maintain any acreage outside of the established governmental proration unit for the Checkers "24" Federal #1 well, Penwell must drill a subsequent test well within one hundred eighty (180) days after the completion of said well, and thereafter on a one hundred eighty (180) day continuous development basis.

7. In the event that Penwell is unsuccessful in obtaining operations for all wells drilled on the acreage described on the attached Exhibit "A", this purchase of leasehold offer may be withdrawn at Penwell's option and Penwell shall have no obligation to Trainer whatsoever.

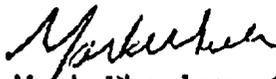
8. It is agreed and understood that Trainer and Prince shall have the continuing option to take their share of oil and gas production "in kind", as long as the entire cost, risk and liability associated with said option is borne solely by Trainer and Prince.

9. Trainer and Prince shall be furnished with daily drilling reports, logs, production reports (C-115), and other information and data obtained from the drilling of any well drilled on the acreage described in Exhibit "A".

Letter Agreement
Mr. C. W. Trainer and
Mr. Frederick H. Prince, IV
September 10, 1996
Page -3-

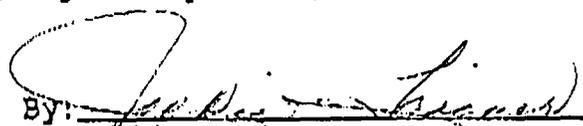
If this letter correctly sets forth your understanding of our verbal agreement, please execute in the space provided below and return to the undersigned one (1) fully executed copy of this agreement on or before September 13, 1996.

Yours very truly,


Mark Wheeler, CPL
Land Manager, Permian Basin

AGREED TO AND ACCEPTED this 12th day of September, 1996.

By: 
C. W. Trainer

By: 
Jackie Trainer

By: _____
Frederick H. Prince, IV

/cmw:checkers (2m)
xc: SF / JT

Letter Agreement
Mr. C. W. Trainer and
Mr. Frederick H. Prince, IV
September 10, 1996
Page -3-

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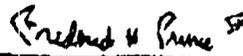
Yours very truly,


Mark Wheeler, CPL
Land Manager, Permian Basin

AGREED TO AND ACCEPTED this _____ day of September, 1996.

By: 
C. W. Trainer

By: _____
Jackie Trainer

By: 
Frederick H. Prince, IV

/cmw:checkers (2m)
xc: SF / JT

EXHIBIT "A"

Attached to that certain Letter Agreement
dated September 10, 1996 between C. W. Trainer, et al
and Penwell Energy, Inc.

Oil and Gas Lease "Said Lease" Subject to This Agreement:

Federal Oil and Gas Lease NM-81633 between the United
State of America, Bureau of Land Management, as Lessor,
and Frederick H. Prince, IV, as Lessee, insofar and only
insofar as said lease covers the SE/4, NE/4 NE/4 and W/2
SW/4 of Section 24, T-22-S, R-32-E, NMPM, Lea County, New
Mexico, from the surface of the ground down to 100' below
the base of the Bone Spring formation.

PENWELL ENERGY, INC.
AUTHORITY FOR EXPENDITURE

WELL NAME: Checkers "24" Federal #1
LOCATION: 1980' FSL & 1980' FEL
Section 24 - T22S - R32E

PROSPECT NAME: Checkers
COUNTY & STATE: Lea, New Mexico
OBJECTIVE: 9,000' Bone Spring Oil Well

<u>INTANGIBLE COSTS</u>	<u>BCP</u>	<u>ACP</u>	<u>TOTAL</u>
APD & ARCHAEOLOGICAL	750	450	1,200
TITLE OPINION & CURATIVE	2,000	0	2,000
SURVEYING / STAKE LOCATION	500	300	800
DAMAGES & R-O-W'S	150	150	300
ROADS, LOCATION, PITS, LINERS, ETC.	22,000	2,500	24,500
DRILLING - FOOTAGE	126,000	0	126,000
DRILLING - DAYWORK	6,200	0	6,200
DRILLING MUD & CHEMICALS	7,500	0	7,500
WATER	13,000	3,000	16,000
BITS, REAMERS, ETC.	0	500	500
FUEL	0	0	0
CEMENTING SURFACE	4,000	0	4,000
CEMENTING INTERMEDIATE	14,000	0	14,000
CEMENTING PRODUCTION	0	17,000	17,000
TUBULAR SERVICES AND TOOLS	2,500	2,500	5,000
CASING CREWS / PU LD MACHINE	0	0	0
FLOAT EQUIPMENT	700	3,300	4,000
TESTING; DST & COMPLETION	0	0	0
OPEN HOLE LOGGING / CORES	18,200	0	18,200
MUD LOGGING	5,000	0	5,000
WELDING & HOURLY LABOR	1,200	8,500	9,700
EQUIPMENT RENTAL	2,400	11,000	13,400
TRUCKING, TRANSPORTATION, FORKLIFT	2,000	5,000	7,000
COMPLETION UNIT	0	15,000	15,000
FORMATION STIMULATION	0	38,000	38,000
WIRELINE SERVICES	700	4,000	4,700
GEOLOGIC / ENGINEERING	2,000	1,000	3,000
CONTRACT LABOR	6,000	4,000	10,000
DRILLING WELL RATE (A/O)	400	2,000	2,400
INSURANCE	3,000	0	3,000
MISCELLANEOUS	500	500	1,000
CONTINGENCY (5%)	12,035	5,935	17,970
TOTAL INTANGIBLES	252,735	124,635	377,370

TANGIBLE COSTS

CONDUCTOR CASING	0	0	0
SURFACE CASING	15,300	0	15,300
	0	0	0
INTERMEDIATE CASING	48,300	0	48,300
	0	0	0
DEEP INTERMEDIATE CASING	0	0	0
	0	0	0
PRODUCTION CASING / LINER	0	52,650	52,650
	0	0	0
TUBING	0	25,500	25,500
WELLHEAD EQUIPMENT	4,500	3,000	7,500
SURFACE LIFT & ELECTRICITY	0	58,000	58,000
RODS AND PUMP	0	28,000	28,000
PACKERS, BP'S, DOWNHOLE EQUIPMENT	0	750	750
GAS PRODUCTION EQUIPMENT	0	0	0
SEPARATOR, TREATER	0	8,500	8,500
FLOWLINES, VALVES, CONNECTIONS	0	8,000	8,000
TANKS (Water and Production)	0	6,500	6,500
MISCELLANEOUS	0	0	0
CONTINGENCY (5%)	3,405	9,545	12,950
TOTAL TANGIBLES	71,505	200,445	271,950
TOTAL WELL COSTS	324,240	325,080	649,320

PLUGGING COST 5,760
TOTAL DRY HOLE 330,000

Penwell Energy, Inc.

By: 
Bill Pierce, Engineer

We approve / disapprove:
_____ % Before Tanks / _____ % After Tanks

Company: _____
By: _____

Printed Name: _____
Title: _____
Date: _____

