



I have testified as an expert witness before the New Mexico Oil Conservation Division in prior cases.

I am personally knowledgeable and familiar with the facts and circumstances of this case and the following factual statements.

C. My expert opinions are based on the following facts and events:

#### CHRONOLOGICAL SUMMARY OF SIGNIFICANT EVENTS

1. SDX Resources Inc. has a working interest ownership in the oil and gas minerals underlying Lot 2 of Irregular Section 4, T21S, R37E, NMPM, Lea County, New Mexico.

2. SDX Resources, Inc. proposes to drill and complete its Exxon Fee Well No. 2 at a standard well location in Lot 2 of Section 4 to test any and all formations in the pooled interval from the surface to the base of the Drinkard formation.

3. Based upon an oil & gas title opinion, SDX Resources, Inc. believes that Sadye Helen Johnston, a widow, or her successor are owners of an unleased mineral interest in the subject spacing unit.

4. Despite its good faith efforts, neither SDX Resources, Inc. nor its predecessors in interest has been unable to locate Sadye Helen Johnston or her successors.

5. Pursuant to Section 70-2-17(c) NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, SDX Resources, Inc. needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

6. Attached are the following exhibits in support of this case:

Exhibit A: map outlining the spacing unit to be pooled which is Lot 2 being the NW/4NE/4 of Section 4, T21S, R37E

Exhibit B: map showing vicinity of the spacing unit

Exhibit C: Topo map showing location

Exhibit D: map showing lease tracts in area

Exhibit E: a copy of that portion of T. Calder Ezzell, Jr.'s title opinion dated March 8, 1995 showing Sadye Helen Johnston, the party to be pooled owns a 1/8th (12.5%) unleased mineral interest.

Exhibit F: a copy of a letter dated October 22, 1996 from Rod J. MacDonald stating that despite his good faith efforts, he has been unable to locate Sadye Helen Johnston.

Exhibit G: is the AFE in the amount of \$371,636 completed well costs for this well which I conclude is fair reasonable and current for wells of this type in this area.

Exhibit H: a structure map on the top of the Blinebry formation.

Exhibit I: type log for the principal formations. This is expected to be an oil well on 40-acre oil well spacing but pooling should include all from the surface to the base of the Drinkard formation and include but are not limited to the North Eunice Blinebry-Tubb-Drinkard Pool.

Exhibit J: attached is an economic analysis dated July 13, 1995 prepared by Joe C. Neal showing a 2.17 year payout and only a 44.14 percent rate of return from which I have concluded that a 200% risk factor penalty is appropriate

because the length of time it will take to recover our investment is significant and the percentage rate of return is marginal.

Exhibit K: a copy of Ernest & Young average well costs overhead rates of \$4,000/mo drilling and \$450/mo producing well rates which I request be authorized for this case.

(7) I recommend that a compulsory pooling order be entered which provides that:

- (1) SDX Resources, Inc. be named operator;
- (2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;
- (3) In the event a working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200 %; and
- (4) Provision for overhead rates of \$4,000 per month drilling and \$450 per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;

D. I have formed the following opinions based upon my expertise and upon the foregoing chronology of events:

- (1) That approval of SDX Resources, Inc.'s application in Division Case 11637 is necessary in order to consolidate the interest ownership within this spacing unit for the drilling, completing and producing the subject well, will not violate correlative rights and will help prevent waste and promote the conservation of natural resources.



DISTRICT I  
P.O. Box 1980, Hobbs, NM 88241-1980

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-102  
Revised February 10, 1994  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

DISTRICT II  
P.O. Drawer DD, Artesia, NM 88211-0719

**OIL CONSERVATION DIVISION**  
P.O. Box 2088

Santa Fe, New Mexico 87504-2088

DISTRICT III  
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV  
P.O. BOX 2088, SANTA FE, N.M. 87504-2088

AMENDED REPORT

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

API Number	Pool Code	Pool Name
Property Code	Property Name EXXON FEE	Well Number 2
OGRID No.	Operator Name SDX RESOURCES, INC.	Elevation 3481'

**Surface Location**

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
2	4	21 S	37 E		660	NORTH	1980	EAST	LEA

**Bottom Hole Location If Different From Surface**

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres		Joint or Infill		Consolidation Code		Order No.			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

4 37.85 AC.	3 37.87 AC.	2 37.89 AC.	1 37.91 AC.
5 40.00 AC.	6 40.00 AC.	7 40.00 AC.	8 40.00 AC.
12 40.00 AC.	11 40.00 AC.	10 40.00 AC.	9 40.00 AC.
13 40.00 AC.	14 40.00 AC.	15 40.00 AC.	16 40.00 AC.

**OPERATOR CERTIFICATION**

I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.

Signature

Printed Name

Title

Date

**SURVEYOR CERTIFICATION**

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.

SEPT. 25, 1996

Date Surveyed \_\_\_\_\_ CDG

Signature \_\_\_\_\_

Professional Seal \_\_\_\_\_

9-27-96

66-11-

Certificate No. \_\_\_\_\_

JOHN WEST 676

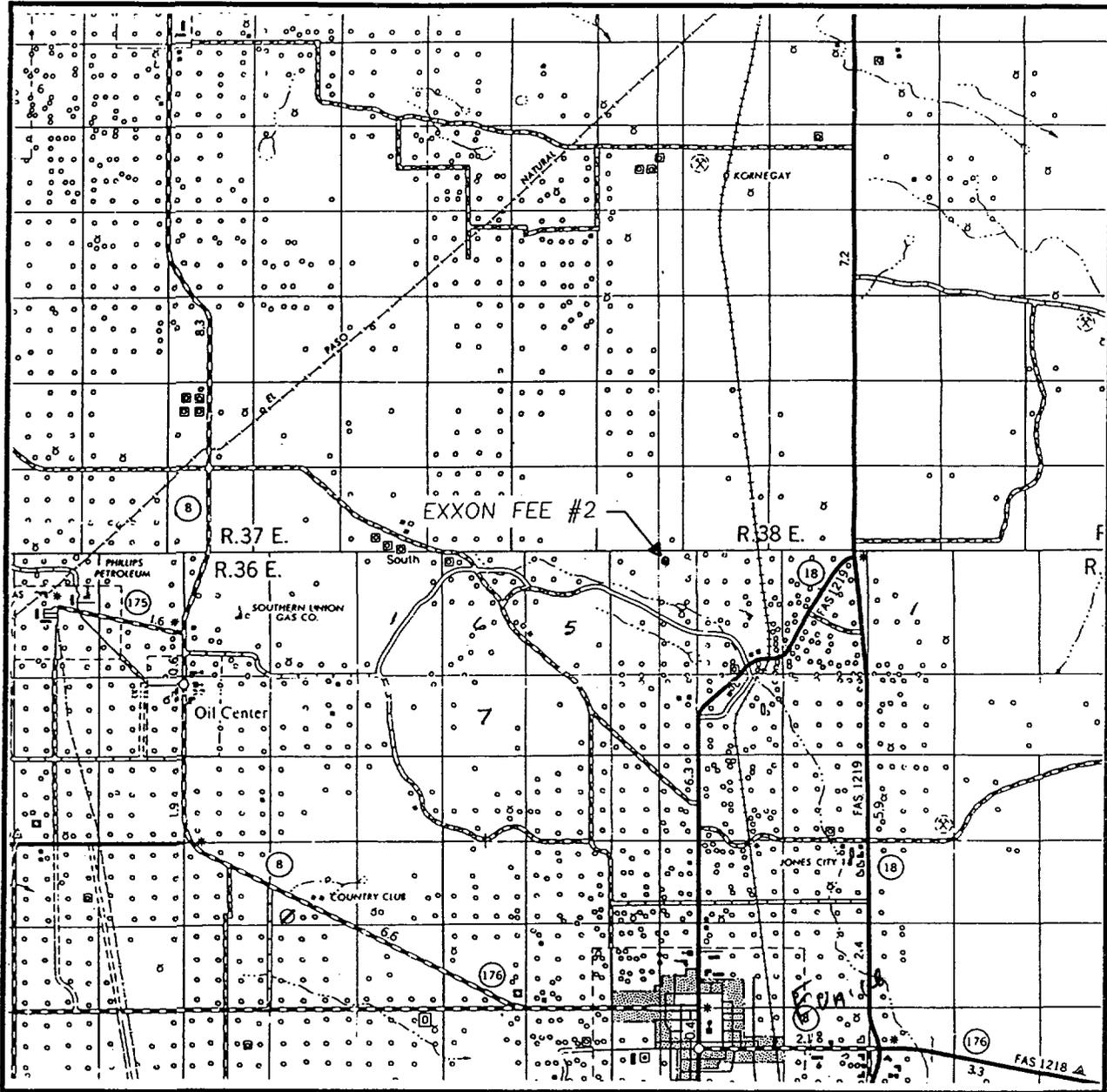
RONALD J. EIDSON 3239

PROFESSOR GARY EIDSON 12641

**EXHIBIT**

**A**

# VICINITY MAP

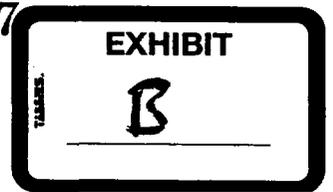


SCALE: 1" = 2 MILES

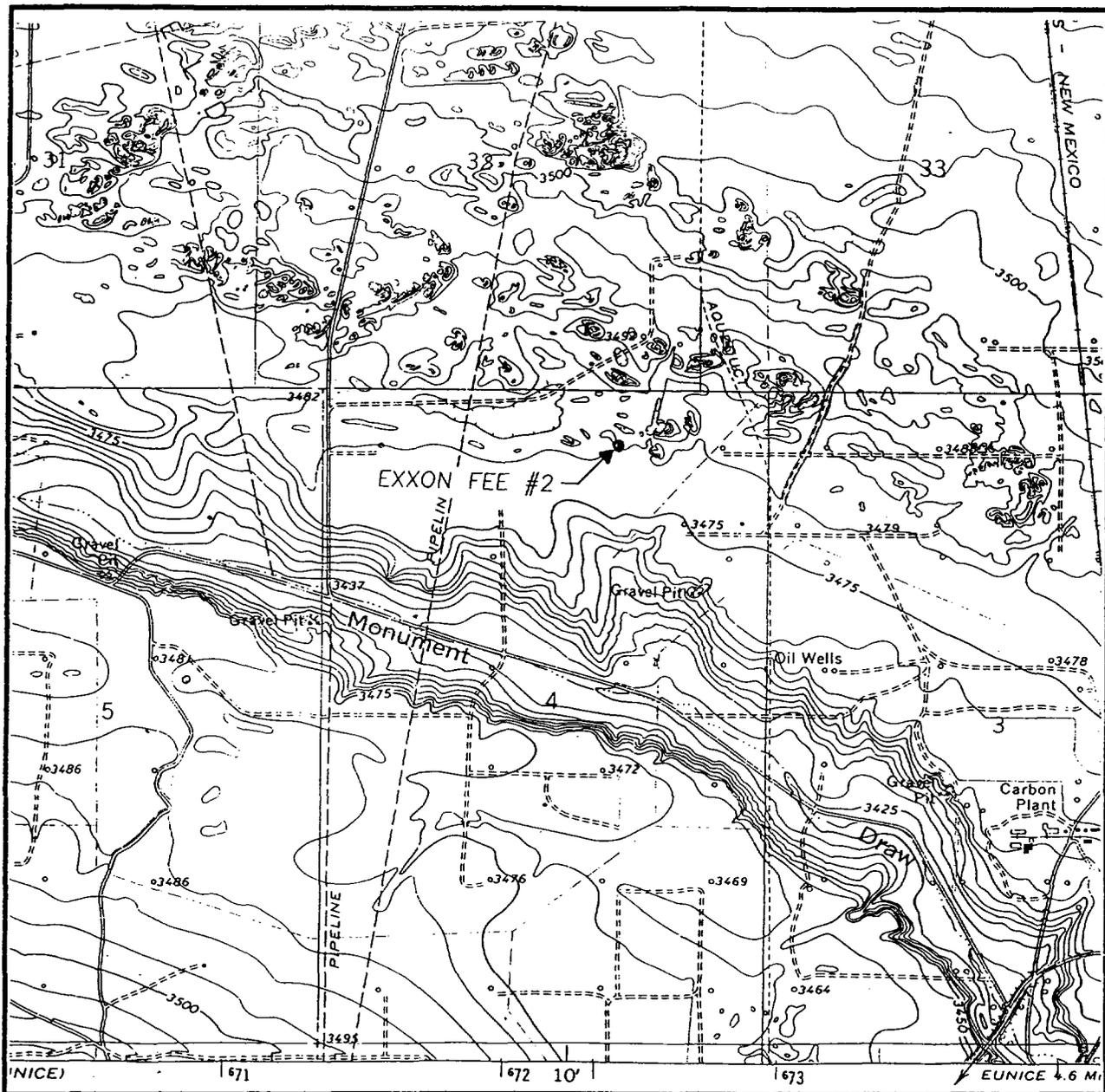
SEC. 4 TWP. 21-S RGE. 37-E  
 SURVEY N.M.P.M.  
 COUNTY LEA  
 DESCRIPTION 660' FNL & 1980' FEL  
 ELEVATION 3481'  
 OPERATOR SDX RESOURCES, INC.  
 LEASE EXXON FEE

**JOHN WEST ENGINEERING  
 HOBBS, NEW MEXICO**

**(505) 393-3117**



# LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:  
HOBBS SE - 5'

SEC. 4 TWP. 21-S RGE. 37-E

SURVEY N.M.P.M.

COUNTY LEA

DESCRIPTION 660' FNL & 1980' FEL

ELEVATION 3481'

OPERATOR SDX RESOURCES INC.

LEASE EXXON FEE

U.S.G.S. TOPOGRAPHIC MAP

HOBBS SE, N.M.

**JOHN WEST ENGINEERING  
HOBBS, NEW MEXICO**

**(505) 393-3117**



Dallas McCasland (S) 2878 A-1543 Mirage Ener, Inc. McCasland (S) Warren U  
 Cont'l 25 Two States 'A' (Etk Oil, etc.) Mirage Ener, Inc. Hendrix Dekalb-St. 33 U.  
 (Pet) W.L.G. Hill Dallas McCasland (S) Y-15 3288 State "Peter-St" U.S. D.N

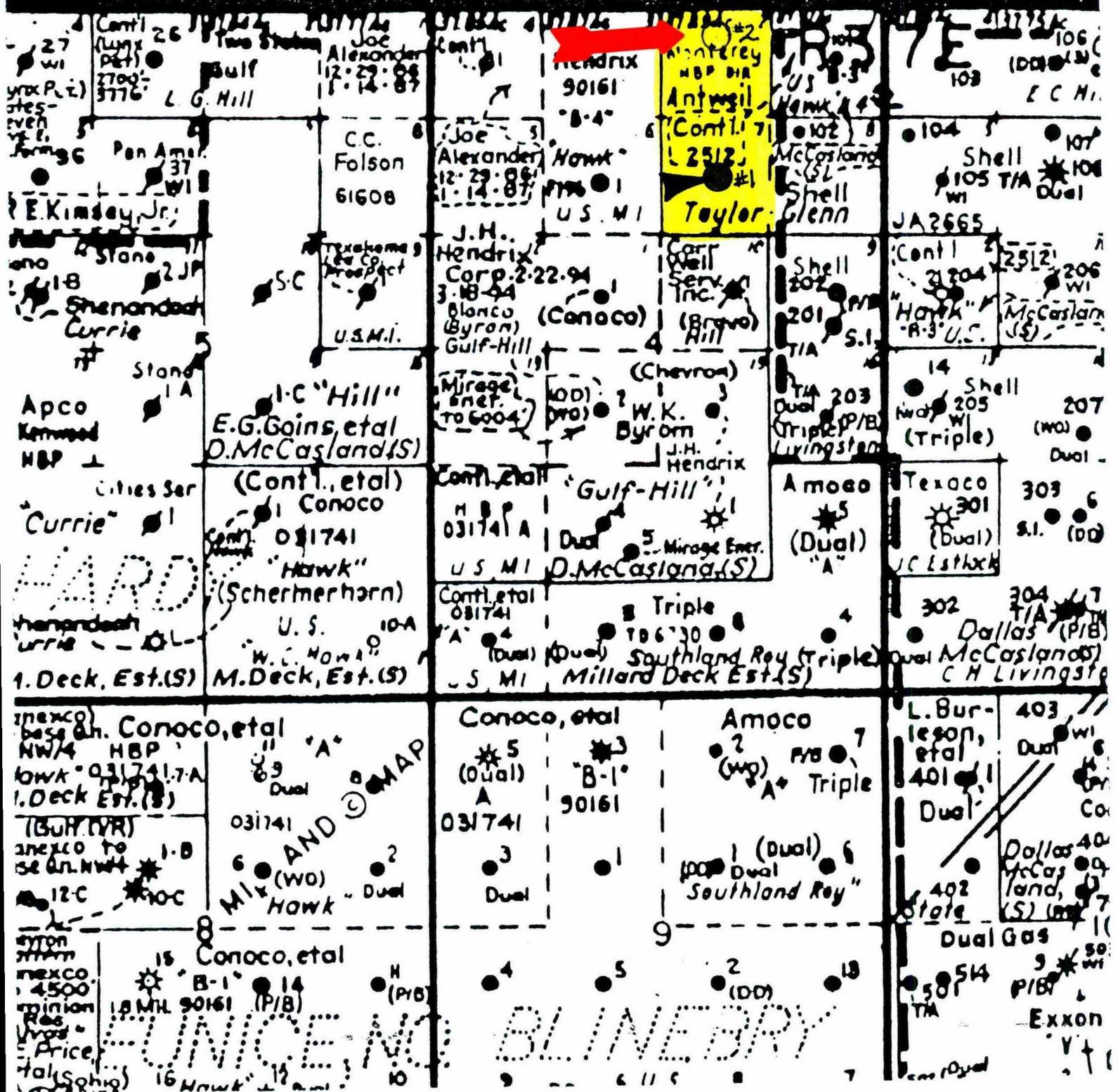


EXHIBIT  
 D

JOHN C. COE  
 PAUL W. EATON  
 BRADLEY E. GIFFORD  
 MARSHALL L. HENNING  
 STANLEY E. SHANNON  
 ERIC S. LANPHERE  
 C. S. MARTIN  
 ROBERT E. TRIMBLE, JR.  
 MARSHALL S. MARTIN  
 BRIAN H. LEFCE  
 DOUGLAS L. LANGFORD  
 JOHN J. KELLY  
 MICHAEL J. HODGINS  
 T. CALDER (KIDELL, JR.)  
 WILLIAM S. BURFORD  
 RICHARD E. ELSON  
 RICHARD R. WILSON  
 THOMAS J. HERRING  
 JAMES J. WEDDLE  
 NANCY S. GUSACK  
 JEFFREY L. FORNACIARI  
 JEFFREY B. HENNETT  
 JAMES BRUCE  
 JERRY F. BRACKFORD  
 JEFFREY W. HOLLBERG  
 ALBERT L. FITZ  
 BERNARD H. HANCOCK  
 JOHN C. CHAMBERS  
 BARRY S. COFFMAN  
 MICHAEL A. GROSS  
 BERNARD S. HANCOCK, JR.  
 BRENDON J. HENNETT  
 SANDY T. HANNETT  
 MARK C. BOY

FRED W. SCHNEIDERMAN  
 JAMES H. HUBBON  
 JEFFREY S. SANDY  
 ROBERT W. BISHOP  
 WILLIAM F. JENSEN  
 STANLEY H. HODGSON, JR.  
 R. A. THOMAS  
 ELLEN S. CASEY  
 MARGARET CARVER LINDSAY  
 S. GARY PRINCE  
 STEPHEN H. CHAMPTON  
 MARTIN MEYER  
 GREGORY S. SPEICER  
 ANDREW J. CLAYTON  
 JAMES A. BELLEFIC  
 BARRY W. LARSON  
 STEPHANIE LAMBERY  
 JOHN R. WELSH, JR.  
 MARGARET S. HENNETT  
 BRIAN T. CARTWRIGHT  
 LISA H. SHARP  
 ROBERT W. BISHOP  
 BRADLEY W. HODGSON  
 CHARLES A. SUTTON  
 NEWMAN S. COFF  
 BARBARA E. GUSACK  
 HOLLY HODGSON  
 MARCIA S. LINCOLN  
 SCOTT A. BRADY  
 GARDNER L. BROOKS  
 CHRISTINE E. LAKE  
 PAUL S. HANCOCK  
 DARLA H. SELMA

ATTORNEYS AT LAW  
 700 UNITED BANK PLAZA  
 POST OFFICE BOX 10  
 ROSWELL, NEW MEXICO 86203  
 (505) 622-6510  
 FAX (505) 623-9332

1800 CLAYDESTA CENTER  
 8 BESTA DRIVE  
 POST OFFICE BOX 2000  
 MIDLAND, TEXAS 79702  
 (505) 683-4880  
 FAX (505) 683-6516

700 TEAM BANK BUILDING  
 POST OFFICE BOX 8838  
 AMARILLO, TEXAS 79108  
 (505) 372-8880  
 FAX (505) 370-8781

200 MONTECALMO  
 POST OFFICE BOX 8068  
 SANTA FE, NEW MEXICO 87504  
 (505) 844-4884  
 FAX (505) 842-8823

800 MARQUETTE H.H. SUITE 800  
 POST OFFICE BOX 2043  
 ALBUQUERQUE, NEW MEXICO 87103  
 (505) 760-1500  
 FAX (505) 760-1500

March 8, 1995

IN RE: LIMITED OPINION OF TITLE TO: )  
 )  
 Lots 2 and 7 Section 4, Township 21 South, )  
 Range 37 East, N.M.P.M., Lea County, )  
 New Mexico, comprising 77.89 acres, )  
 more or less. )

No. 28,809

SDX Properties, Inc.  
 P. O. Box 5061  
 Midland, Texas

ATTENTION: Mr. Steve Sell  
 Rod J. McDonald, Esquire

Gentlemen:

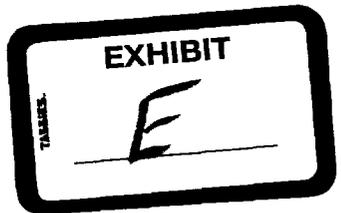
In connection with our examination of title to the oil and gas leasehold estate relative to the captioned lands, we have examined the following:

(a) Hervey, Dow, Hill & Hinkle Opinion of Title No. 7722 bearing date of August 2, 1944, and based upon an examination of abstracts certified to cover the captioned lands for the period of time from the inception of the records to July 29, 1944, at 7:00 a.m.; and

(b) Security Title-Lea County Abstract Company Supplemental Abstract of Title No. 37782 of 391 pages which, subject to certain exceptions as noted hereinbelow, is certified to reflect all conveyances and instruments affecting the mineral estate relative to the captioned lands for the period of time from July 29, 1944 at 7:00 a.m. to November 17, 1994 at 7:00 a.m. insofar as the same appear in the records of the Office of the County Clerk, Clerk of the Probate Court and Clerk of the District Court for Lea County, New Mexico.

Based upon our examination of the foregoing, and solely thereon, we now report the status of title to the oil and gas leasehold estate relative to the captioned lands, for acquisition purposes, as follows:

I. TITLE TO THE OIL, GAS AND OTHER MINERALS  
 Not reported.



II. TITLE TO THE LEASEHOLD ESTATE

- A. As to the gas, gas condensate and oil produced incidentally to gas from the Blinebry Formation only:
- |  |      |
|--|------|
| Morexco, Inc. . . . .                                      | 7/8* |
| Sadye Helen Johnston, a widow, or her successors . . . . . | 1/8* |
- B. As to all other depths, formations and substances (including oil produced from the Blinebry Formation):
- |                       |      |
|-----------------------|------|
| Morexco, Inc. . . . . | All* |
|-----------------------|------|

\*The interest of Morexco, Inc. is subject to the 1/8 royalty under Lease 1 together with a 1/8 overriding royalty interest reserved by Exxon Corporation as discussed below. Therefore, the interest of Morexco earns its proportionate share of a net 75% of 8/8 of production. The 1/8 interest credited to Sadye Helen Johnston apparently did not pass to Exxon, and therefore this interest is subject only to the 1/8 royalty under Lease 1.

III. OIL AND GAS LEASE - RENTALS - ASSIGNMENTS - PRODUCTION HISTORY

A. Oil and Gas Lease: The materials under examination reflect the existence of the following oil and gas lease covering the captioned lands:

Lease 1: From M. F. Taylor, et ux. Anna Taylor, and N. O. Glenn, et ux. Frances Glenn, as lessors, to F. J. Danglade, as lessee, dated April 3, 1939, recorded in Book 35, page 482 of the Oil and Gas Lease Records of Lea County, New Mexico, covering Lots 5, 6, 9, 10 and 11 of Section 3 and Lots 2, 7, and 8 of Section 4, Township 21 South, Range 37 East, N.M.P.M., recited to contain 317.89 acres, more or less. The lease provides for a ten year primary term with the customary thereafter clause and provides for a 1/8 royalty on production. The rental clause of the lease provides for annual delay rentals in the amount of \$158.95 payable to the lessors' credit at the Amarillo National Bank of Amarillo, Texas, on or before April 3, 1940, and annually thereafter until such time as production is obtained. This oil and gas lease covers the entire mineral estate underlying the captioned lands.

B. Delay Rentals: The materials under examination are silent as to the payment of annual delay rentals pursuant to the terms of Lease 1.

REQUIREMENT A: You should satisfy yourself that any delay rentals becoming due and payable pursuant to Lease 1 were paid in a timely and proper fashion.

C. Assignments: The materials under examination reflect the following Assignments affecting the leasehold estate relative to the captioned lands:

operator may, upon application to the district supervisor of the OCC, receive a reclassification of said well to an oil well. Any well which is not classified as a gas well shall be classified as an oil well. The standard gas proration unit in the Blinebry Oil & Gas Pool is 160 acres and the oil proration unit is 40 acres. Acreage dedicated to gas well in the Blinebry Oil & Gas Pool shall not be simultaneously dedicated to an oil well in the pool and the dual completion of a well so as to produce separate gas and oil allowables is prohibited.

REQUIREMENT D: Inasmuch as there is some confusion as to whether the Hill No. 1 Well was ever plugged and abandoned, you should satisfy yourself that it is currently classified as an oil well, and that the 120 acre gas proration unit created under the 1954 Pooling Agreement has terminated.

4. Interest of Sadye Helen Johnston: As discussed above, Sadye Helen Johnston acquired an undivided 1/8 interest in Lease 1 insofar as it covers gas, gas condensate and oil produced incidentally to gas from the Blinebry Zone by Assignment from Famariss Petroleum Corporation. The materials under examination reflect no instruments since that time purporting to deal with this interest. In addition, we note that certain instruments in the materials examined make reference to a .66667 working interest in the Hill No. 1 Well, earning a net revenue interest of .55558. These recitations would appear to be inconsistent with an outstanding 1/8 working interest.

REQUIREMENT E: If the matter is important to you, you should make inquiry of Mr. George H. O'Brien and/or the current operator of the Hill No. 1 Well to determine whether the previous operator's well files contain any information with respect to the interest of Sadye Helen Johnston or any other matters which could affect the ownership of the captioned lands.

5. Rose Antweil Estate: Morris R. Antweil acquired an undivided 1/4 of the Lease 1 Blinebry gas rights under the Assignment from Monterey Oil Company on December 13, 1954. Subsequently, Mr. Antweil acquired an additional 3/16 interest under the 1964 Assignment from Famariss Crude Oil Marketing Company, Inc. Morris R. Antweil was married to Rose Antweil, who died on June 10, 1976. Her estate was administered in Lea County Probate Court Cause No. 4047 and her estate would have presumptively included any interest under Lease 1 held as community property with her husband Morris R. Antweil. This woman's Will conveys an undivided 1/2 of her separate property to her husband with the residue to pass to Alan J. Antweil and Lyle Walker as co-trustees. However, the Final Account and Report filed by the executor on February 19, 1987, reflects that the Estate of Rose Antweil had a negative net worth. The Final Account recites that Alan Antweil, a beneficiary under the Will, was willing to assume all debts and obligations of the Estate in exchange for all of the Estate's property. The Probate Court entered a Final Decree on April 22, 1987, finding that the only heirs of Rose Antweil, deceased, were Morris R. Antweil (who had died on August 20, 1986), her son Alan J. Antweil, and three grandchildren, Julie Ann Silverman, Barry L. Antweil and Mark R. Antweil. Despite the provisions of this woman's Will, all of the property of the Estate was acquired by her son Alan J. Antweil when he assumed the decedent's outstanding debts and obligations. The Final Decree states that it is identical in form and substance to the proposed Final Decree which was served upon and approved by all of the heirs and devisees of the decedent. This is advisory.

Subject to the foregoing comments and requirements, title to the leasehold estate under Lease 1, insofar as it covers the captioned lands, is approved for acquisition purposes, as of November 17, 1994 at 7:00 a.m.

Respectfully submitted,

HINKLE, COX, EATON, COFFIELD & HENSLEY



T. Calder Ezzell, Jr.

TCE/tw

**ROD J. MACDONALD**

*Attorney at Law*

511 W. Ohio  
Suite 530  
Midland, Texas 79701

(915) 688-3939  
Fax (915) 685-3700

Licensed in Texas,  
New Mexico and Colorado

October 22, 1996

SDX Resources, Inc.  
P. O. Box 5061  
Midland, Texas 79704

Attn: Steve Sell

Re: Exxon Fee Well No. 2  
Lot 2 of Section 4, T-21-S, R-37-E  
Lea County, New Mexico

Dear Steve:

Pursuant to your request, I have researched the various records in the Office of the County Clerk of Lea County, New Mexico, and the Office of the District Clerk of Lea County, New Mexico, in an attempt to locate information on the whereabouts of Sadye Helen Johnston.

Please note that Sadye Helen Johnston acquired an interest in the captioned land by virtue of that certain Assignment dated December 31, 1963, recorded in Book 226, page 408, Oil and Gas Records, by and between Farmiss Petroleum Corporation, as Assignor, and Sadye Helen Johnston, as Assignee.

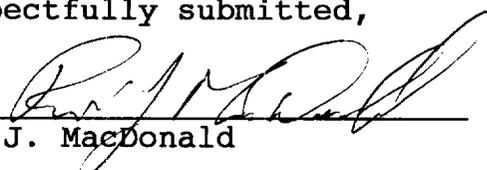
Since the date she acquired the instrument there have been no further documents in the records examined, either from her or into her.

We have also examined the local listings in the phonebook and talked to several parties at the County Clerk's Office, Lea County, New Mexico, in an attempt to locate information on Sadye Helen Johnston, all to no avail.

Based upon our examination, we are unable to locate the whereabouts of Sadye Helen Johnston.

Should you have any questions on this matter, please call me.

Respectfully submitted,

  
\_\_\_\_\_  
Rod J. MacDonald



**AUTHORIZATION FOR EXPENDITURE**

AFE #96-64

Purpose: Drill new well  
 Objective - Depth: 7,200' Lease: Exxon Fee Well # 2  
 - Formation: Blinebry Field: Blinebry  
 Estimated Spud Date: County: Lea State: NM  
 Estimated Completion Date: Legal: 660' FNL & 1980' FEL, Sec. 4, T21S R37E

INTANGIBLE COST	Amount	Unit Cost	Dry Hole	Completion	Total
Legal - Drilling Title Opinion			1,000	0	1,000
Drilling - Daywork	2 Days	4000.00 \$/Dy	8,000	0	8,000
- Footage	7,200 Feet	12.00 \$/Ft	86,400	0	86,400
- Turnkey	0 Feet		0	0	0
Mud & Chemicals			8,000	0	8,000
Water - Brine, Fresh			7,000	2,000	9,000
Cement - Surface	0 Sacks		7,500	0	7,500
- Intermediate	0 Sacks		0	0	0
- Production	0 Sacks		0	15,000	15,000
- Plug, Bond, Cleanup			5,000	0	5,000
Location - Road, Pad Cleanup			7,000	0	7,000
- Labor & Roustabout			1,000	0	1,000
- Survey, Archaeological			800	0	800
- Damages			2,500	0	2,500
- Environmental Impact			0	0	0
Services - Wireline Logging			8,500	0	8,500
- Testing (DST Profile, etc)			0	0	0
- Coring & Analysis	0 Feet		0	0	0
- Pulling & Reverse Unit	6 Days	1650.00 \$/Dy	0	9,900	9,900
- Perforating			0	3,500	3,500
- Acidizing, PPI Tool			0	8,500	8,500
- Fracturing			0	19,000	19,000
- Mud Logging	10 Days	550.00 \$/Dy	5,500	0	5,500
- Engineering, Geological & Geophysical			0	0	0
Transportation (water etc)			500	500	1,000
Welding			0	1,000	1,000
Rental - BOP, Frac Tanks, Packer, etc.			0	1,500	1,500
Equipment			0	2,000	2,000
Supplies - Well Signs, etc.			200	0	200
Supervision	Days	\$/Dy	3,500	2,000	5,500
Insurance			1,200	0	1,200
Administrative Overhead			1,500	1,000	2,500
<b>SUBTOTAL INTANGIBLE COST</b>			<b>155,100</b>	<b>65,900</b>	<b>221,000</b>
Contingencies (10%)			15,510	6,590	22,100
Sales Tax (6%)			10,237	4,349	14,586
<b>TOTAL INTANGIBLE COST</b>			<b>180,847</b>	<b>76,839</b>	<b>257,686</b>

TANGIBLE COST	Specifications	Amount	Unit Cost	Dry Hole	Completion	Total
Casing - Surface	8 5/8"	1,300 Feet	8.00 \$/Ft	10,400	0	10,400
- Intermediate		0 Feet	0.00 \$/Ft	0	0	0
- Production	5 1/2"	7,200 Feet	4.75 \$/Ft	0	34,200	34,200
Tubing	2 7/8"	7,200 Feet	2.25 \$/Ft	0	16,200	16,200
Rods	3/4" & 7/8"	7,200 Feet	1.00 \$/Ft	0	7,200	7,200
Wellheads, Casing Heads and Misc. Fittings				500	3,500	4,000
Packer or Tubing Anchor				0	0	0
Pumping Equip. - Downhole Pump				0	1,500	1,500
- Unit w/ Motor, Panel				0	28,000	28,000
- Electrical system				0	5,000	5,000
Battery - Tanks, Stairs, Walkway				0	0	0
- Heater Treater				0	0	0
- Fittings				0	0	0
- Meter & Installation				0	0	0
- Flowlines	1,000 Feet	1.00 \$/Ft	0	1,000	1,000	
- Injection Equipment				0	0	0
Other				0	0	0
Sales Taxes (6%)				654	5,796	6,450
<b>TOTAL TANGIBLE COST</b>				<b>11,554</b>	<b>102,396</b>	<b>113,950</b>
<b>TOTAL COST</b>				<b>192,401</b>	<b>179,235</b>	<b>371,636</b>

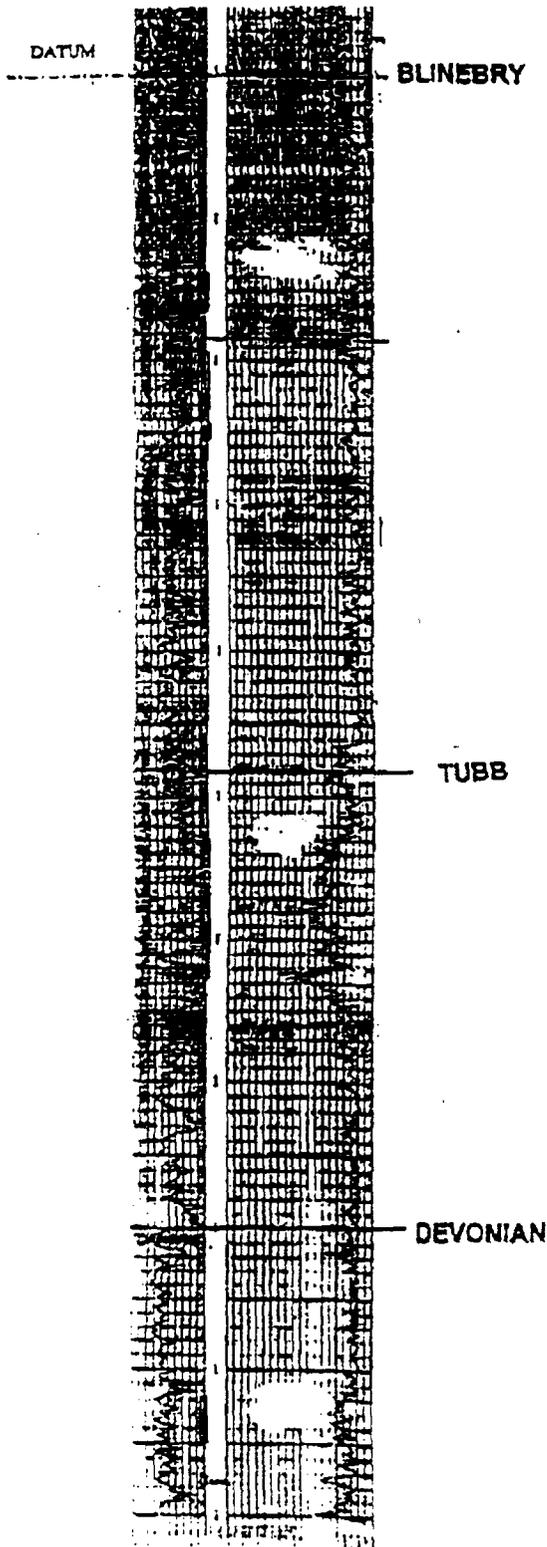
**Joint Interest Approval** - It is recognized that amounts provided for herein are estimates only, and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, either more or less than herein set out.

Prepared by: Chuck Morgan Date: 10/17/96  
 Operator

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_ Tax ID# \_\_\_\_\_  
 Non-Operator







TD: 6,703'  
COMP: 2-24-63

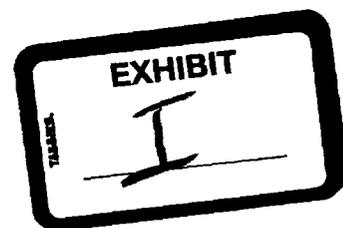


FIGURE 4  
TYPE LOG

JOE C. NEAL & ASSOCIATES  
PETROLEUM AND ENVIRONMENTAL CONSULTANTS

July 13, 1995

SDX Resources, Inc.  
511 W. Ohio Ave., Suite 601  
Midland, Texas 79701

Attention: Mr. Steve Seil

Re: Evaluation of Oil and Gas Reserves  
Blinebry-Drinkard Zone, Exxon Fee Prospect

Gentlemen:

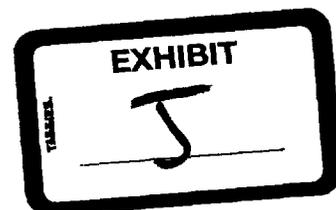
In accordance with your request, we have performed an engineering evaluation on the Blinebry-Drinkard Prospect located in Township 21 South, Range 37 East, Lea County, New Mexico. The prospect contains two (2) forty (40) acre locations in the east 1/2 of the northeast 1/4 of section 4. Both wells are classified as proved undeveloped by virtue of their proximity to producing wells.

This study involved evaluation of offset wells to develop a type curve to be utilized for the undeveloped wells. Summarized below are the results of our evaluation based on a 100 percent working interest. The base lease on this prospect is 75 percent. The initial well carries a 25 percent working interest back-in after payout.

Reserves for two (2) Blinebry-Drinkard Prospect wells.

Effective Date September 1, 1995

	<u>Proved</u> <u>Undeveloped</u>
Net Reserves to	
Evaluated Interests:	
Oil, BBL	131,462
Gas, MCF	334,634
Future Net Revenue Before	
Severance Taxes, \$	3,514,413
Severance Taxes, \$	261,918
Operating Costs, \$	625,025
Capital Costs, \$	819,416
Future Net Revenue:	
Undiscounted, \$	1,808,053
Discounted Per Annum at 10 percent, \$	957,297



## Geology

Lithologically, the Blinebry formation consists of Permian age, tan to brown, finely crystalline dolomite and limestone with scattered siltstone and shale beds. Porosity is intercrystalline and averages around 8.5 percent. Tubb sandstones range from red to gray and are very fine to fine grained and usually dolomitic. Porosity is intergranular for the most part and varies widely. The Blinebry formations dips to the west-northwest at about seventy (70) feet per mile.

The Drinkard field is a giant north-south trending anticline that was discovered in the mid-1940's. This is a multi-pay structure with production from Yates, Seven Rivers, Queen, Grayburg, Glorieta, Yeso (Blinebry and Tubb), Abo, Silurian, Montoya, Simpson, Ellenburger and Granite Wash. The major reservoir is the Yeso, with over eight hundred (800) wells drilled and over 124,000,000 barrels of oil equivalent having been produced.

## Engineering

Scout tickets, production and logs were reviewed on the surrounding wells. The majority of the wells required a fracture treatment for a successful completion. This being an area where wells have produced for 50 years, without a doubt drainage has occurred. The extent of the drainage can not be definitely determined. The best evidence of drainage exists to the south east where a well was drilled about four hundred (400) feet from a plugged and abandoned well in 1989. Production on the well has been poor. We have developed a type curve for the two (2) proved undeveloped, based on partial drainage. The undeveloped locations have undeveloped space to the northwest, which should diminish drainage.

Table 1 is a Summary of the proved undeveloped locations. Table 2 is a One Line Summary of the two proved undeveloped locations. Tables 3 and 4 are individual reserves and economics for the proved undeveloped locations. The summary economics show a 2.17 year payout and a 44.14 percent rate of return.

Definitions for oil and gas reserves have been attached to this report for your information. Also included as Figure 1 is an Area Map showing Lea County, New Mexico. Figure 2 is a Lease Ownership Map showing the SDX acreage. Figure 3 is a structure map on top of the Blinebry formation, generalized geological chart, and proposed proved undeveloped locations. Figure 4 is a type log on the nearby Pan Am Petroleum Southland Royalty "A" No. 8 well showing Blinebry, Tubb and Drinkard Zones. Reserves evaluated in this report are classified as proved undeveloped. Proved undeveloped oil and gas reserves are those reserves immediately adjoining productive acreage not yet developed, but which can reasonably be judged economically productive on the basis of available geological and engineering data. Assumptions on which these evaluations are made are reasonable and realistic. Reserves were determined for the proved undeveloped properties by analogy with offset wells.

This study was performed using industry-accepted principles of engineering evaluation that are predicated on established scientific concepts. The application of such principles involves extensive judgements and is subject to changes in existing technical knowledge, economic conditions, and statutory or regulatory provisions. Reserve evaluations are imprecise due to inherent uncertainties and limitations in the data base. Joe C. Neal & Associates reserves the right to alter the calculation of reserves discussed in this report if corrections to these data are subsequently required.

The value estimated in this report is based on the assumptions that the properties are not negatively affected by the existence of hazardous substances or detrimental environmental conditions. We are experts in the identification of hazardous substances or detrimental environmental conditions but was not asked to make that determination. It is possible that tests and inspections conducted by a qualified hazardous substance and environmental expert could reveal the existence of hazardous material and environmental conditions on or around the properties that would negatively affect the properties' value.

Property identification, working and revenue interests and product prices were provided by SDX Resources, Inc. Operating expenses were also furnished by SDX Resources, Inc. These data were not verified by inspection of internal records and files, nor was a physical inspection made of the producing properties.

Net oil and gas reserves are estimated quantities of crude oil, natural gas, and natural gas liquids attributed to the revenue interest of SDX Resources, Inc. after deduction of royalty and/or overriding royalty interests. Net income to the interest of SDX Resources, Inc. is the future net revenue after deduction of state and county taxes, operating expenses, and investments, if applicable. The resulting net income is before federal income tax and does not consider any encumbrances against the properties, if such exist. Minor variations in composite column totals result from computer rounding.

Values of the estimated net proved undeveloped reserves are expressed in terms of future net revenue and present value of future net revenue. Present value of future net revenue is calculated by discounting the future net revenue at the rate of ten percent per annum compounded monthly over the expected period of realization. The present value set forth in this report does not necessarily represent the fair market value of the evaluated interests.

Current oil and gas prices were escalated at 4 percent per year to a maximum of \$35.00 per barrel and \$3.50 per MCF respectively. Oil volumes shown herein are expressed in barrels which are equivalent to 42 United States gallons. Gas volumes are expressed at standard conditions of 60 degrees Fahrenheit and at the standard pressure base of the respective area in which the reserves are located.

Operating expenses, including direct and indirect overhead expenses, were escalated at 4 percent per annum until the major stream reached its maximum price and then held constant there after. Severance and ad valorem taxes were deducted in the lease reserves and economics projections at the standard state rates. Salvage values of the producing properties have not been included in this evaluation.

This report is solely for the information to and assistance of SDX Resources, Inc. in their financial planning. It is not to be used, circulated, quoted or otherwise referred to for any other purpose without the express written consent of the undersigned except as required by law. Data utilized in this report will be maintained in our files and are available for your use. It has been our privilege to serve you by preparing this evaluation.

Yours very truly,

Joe C. Neal & Associates  


JCN/ch  
attachments  
reference: 95051



# West Texas and Eastern New Mexico

## 5 Oil Wells

Responses	1994	Monthly Drilling Well Rates		Monthly Producing Well Rates	
		1995	1994	1995	1994
118	88	Mean	Median	Mean	Median
98	67	Mean	Median	Mean	Median
32	20	Mean	Median	Mean	Median
4	4	Mean	Median	Mean	Median
1	2	Mean	Median	Mean	Median
14	5	Mean	Median	Mean	Median

# West Texas and Eastern New Mexico

## 5 Gas Wells

Responses	1994	Monthly Drilling Well Rates		Monthly Producing Well Rates	
		1995	1994	1995	1994
41	47	Mean	Median	Mean	Median
48	37	Mean	Median	Mean	Median
20	18	Mean	Median	Mean	Median
3	5	Mean	Median	Mean	Median
2	3	Mean	Median	Mean	Median
12	5	Mean	Median	Mean	Median

