



OXY USA INC.  
Bcx 300, Tulsa, OK 74102

August 19, 1994

Doyle Hartman  
Attention Ms. Carol Farmer  
P.O. Box 10426  
Midland, TX 79702

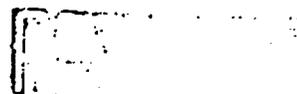
Re: Myers Langlie Mattix Unit  
7-3050700-6, Contract # 3730  
Lea Co., NM  
OXY USA Inc. - Operator

Dear Ms. Farmer:

This letter comes as a follow-up and confirmation of our phone call earlier today. As we discussed, OXY is currently conducting numerous capital improvement projects on the captioned unit. You questioned what options Doyle Hartman has regarding participation in these projects.

Under terms of the Unit Operating Agreement dated January 1, 1993, working interest owners do not have a non-consent option for such capital projects. Rather, the agreement provides the following:

1. Article 3.2.4 states that the operator must seek working interest owner approval of any single expenditure in excess of \$15,000. OXY has done this through the AFE balloting process.
2. Article 4.3.2 defines "approval" as an affirmative vote of three or more owners having a combined interest of at least 65%. Each AFE project currently being billed by OXY has received such approval. Once approved, the financial responsibility for such projects becomes the obligation of each working interest owner, regardless of their vote.
3. Article 17 does provide that a working interest owner may withdraw from the unit (and any future obligations) by assigning its interest to the other working interest owners. However, the assigning of interest does not relieve the owner from any obligation incurred prior to the date of execution and delivery of the assignment.



/Page 2 ...

AUG 25 1994

To Doyle Hartman  
August 19, 1994  
Page 2 ...

For your convenience, I have attached copies of the Agreement Articles I have referenced. I trust this will address the questions you have raised, but do not hesitate to contact me should you have further questions.

Sincerely,



Jerry Crew  
Joint Interest Contracts

JC/mw  
Attachments

xc: Pat McGee, MID Land (w/attachment)  
Jim Maury, MID Finance "

jection or for other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of Fifteen Thousand Dollars (\$15,000.00); provided that, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit equipment, if the current list price of new equipment similar thereto is Three Thousand and Five Hundred Dollars (\$3,500.00) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided that, such designation shall not prevent any Working Interest Owner at its own expense from appearing in person or from designating another representative in its own behalf.

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to unit operations hereunder; provided that, the audits shall:

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator.
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator; and
- (c) be made upon not less than thirty (30) days' written notice to Unit Operator.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit E.

3.2.9 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit E.

3.2.10 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.

3.2.11 Removal of Unit Operator and the Selection of a Successor.

AUG 25 1948

3.2.12 Enlargement of the Unit Area.

3.2.13 Adjustment and Readjustment of Investments.

3.2.14 Termination of the Unit Agreement.

#### ARTICLE 4

##### MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall in writing inform Unit Operator of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of the Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation in effect at the time such vote is taken.

4.3.2 Vote Required. Except as may otherwise be provided herein or in the Unit Agreement, Working Interest Owners shall act upon and determine all matters coming before them by the affirmative vote of three (3) or more Working Interest Owners having a combined Voting Interest of at least sixty-five percent (65%), provided that, should any one Working Interest Owner own more than thirty-five percent (35%) Voting Interest, its negative vote or failure to vote shall not defeat a motion and such motion shall pass if such motion is approved by a majority of the Voting Interest, and such affirmative vote shall be controlling on all parties.

applicable state laws, regulations, and rulings now in effect or hereafter enacted that have an effect similar to the federal provisions referred to herein.

ARTICLE 16

NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Section 4.1 hereof.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. If any Working Interest Owner so desires, it may withdraw from this agreement by conveying, assigning and transferring, without warranty of title either express or implied, to the other Working Interest Owners who do not desire to withdraw herefrom, all of the former's right, title and interest in and to its lease or leases or other operating rights in the Unit Area insofar as said lease, leases or rights pertain to the Unitized Formation, together with the withdrawing Working Interest Owner's interest in all wells, pipe lines, casing, injection equipment, facilities and other personal property used in conjunction with the development and operation of the Unit Area; provided, however, that such transfer, assignment or conveyance shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the execution and delivery thereof. The interest so transferred, assigned and conveyed shall be taken and owned by the other Working Interest Owners in proportion to their respective Phase II Unit Participations. After the execution and delivery of such transfer, assignment or conveyance, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement. Thereupon, the right of such Working Interest Owner to any benefits subsequently accruing hereunder and under the Unit Agreement shall cease; provided, that upon delivery of said transfer, assignment or conveyance, the assignees (in the ratio of the respective interests so acquired) shall pay to the assignor for its interest in all jointly owned equipment, casing and other personal property the fair net salvage value thereof, less its proportionate share of the costs of terminating the Unit, as same are

determined and fixed by Working Interest Owners. This Section shall not prevent a Working Interest Owner from assigning, conveying or otherwise transferring its interest, in whole or in part, provided such assignment, conveyance or transfer is made subject to the terms of this agreement and the Unit Agreement.

#### ARTICLE 18

##### CREATION OF NEW INTEREST

18.1 Creation of New Interest. If any Working Interest Owner shall, after executing this agreement, create any overriding royalty, production payment, or other similar interest, hereafter referred to as "new interest", out of its interest subject to this agreement, such new interest shall be subject to all the terms and provisions of this agreement. In the event the Working Interest Owner owning the interest from which the new interest was created withdraws from this agreement under the terms of Article 17, or fails to pay any expenses and costs chargeable to it under this agreement and the production to the credit of such Working Interest Owner is insufficient for that purpose, the owner of the new interest will be liable for the pro rata portion of all costs and expenses for which the original Working Interest Owner creating such new interest would have been liable by virtue of his ownership of the new interest had the same not been transferred. In this event, the lien provided in Section 11.5 may be enforced against such new interest. If the owner of the new interest bears a portion of the costs and expenses or the same is enforced against such new interest, the owner of the new interest will be subrogated to the rights of the Unit Operator with respect to the interest primarily chargeable with such costs and expenses.

#### ARTICLE 19

##### ABANDONMENT OF WELLS

19.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the

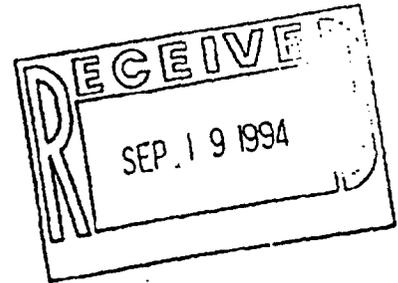


P. N. McGee  
Manager-Land  
Western Region

OXY USA INC.  
Box 50250, Midland, TX 79710

Phone (915) 685-5908  
FAX: (915) 685-5754

September 13, 1994



Doyle Hartman  
Oil Operator  
3811 Turtle Creek Blvd. Suite 730  
Dallas, Texas 75219

Re: Myers Langlie Mattix Unit, Lea County, New Mexico.

Dear Mr. Hartman:

In reply to your letters of August 23, and August 24, 1994, it appears we have substantial differences of opinion concerning the potential of the captioned Unit. Such differences of opinion are not unusual in the oil patch. It is clear from your letters you no longer desire to participate in the Myers Langlie Mattix Unit. However, your proposal to exchange your interest in the Unit for OXY's State "N" Lease is not acceptable. Your offer substantially under values the State "N" and is hereby declined as wholly inadequate. OXY has no desire to sell the State "N," therefore, any offer to acquire it must fully compensate OXY for the development potential. Your offer is several orders of magnitude below our internal valuation.

Should you desire to terminate your participation in the Unit, Article 17.1 of the Unit Operating Agreement permits any party in your position to withdraw from further participation by assigning all of their right, title, and interest in the Unit, the Unitized Formation, their lease or leases and any other operating rights, etc. to those parties who desire to continue Unit Operations. By such withdrawal you will avoid any future liability or responsibilities concerning unit operations. Of course nothing in Article 17 permits any party to avoid obligations that have been incurred prior to the delivery of their interests to the remaining parties. Therefore, if you wish to withdraw you should do so promptly to avoid incurring additional obligations.

OXY totally disagrees with your contention the unit is no longer viable. OXY sought and obtained unit operatorship based upon our opinion that we could improve existing unit operations. Recent financial results substantially demonstrate our position in this regard and we expect our planned future operations to continue the improvement.

Regarding your proposal to revise the participation factors for the unit, nothing in the Unit Agreement or Unit Operating Agreement permits such a revision. Only two events allow revision of the participation factors, an expansion of the Unit, and a failure of a tract or tracts to qualify for inclusion. Neither instance is applicable. Further, the Unit Agreement specifically and expressly prohibits "any re-

Doyle Hartman  
Myers Langlie Mattix Unit  
Lea Co., New Mexico

September 13, 1994  
Page 2

evaluation of engineering or geological interpretations used in determining Tract Participations" and it further prohibits the removal of any tract from the Unit by reason of depletion.

The provisions cited above make it clear that at the time the Unit Agreement and Unit Operating Agreement were negotiated, the parties anticipated additional time, information, and technology, would reveal substantial variations in reserve composition and disposition. They considered the question and allocated the risk between the parties according to the information they possessed at the time, expressly prohibiting your proposed second guessing.

In short, your allegations are without merit and your proposals are either prohibited or inadequate. However, butting heads profits no one. To this end we are willing to consider a reasonable cash purchase proposal or trade for your interest in the Myers Langlie Mattix Unit. As the party who is dissatisfied with the status quo we feel it is incumbent upon you to propose a basis for reasonable discussion. That basis should include your immediate payment of your overdue JIB's with interest thereon.

Very truly yours,

OXY USA Inc.



P. N. McGee  
Manager-Land  
Western Region

cc: D. Romine  
B. Hunt