

DOYLE HARTMAN

Oil Operator

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DALLAS, TEXAS 75219

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August 24, 1994

VIA FEDERAL EXPRESS

Mr. Charles Pollard

Operations Engineering Supervisor and

Mr. Scott Gengler

Oxy USA, Inc.

#6 Desta Drive, Suite 6002

Midland, TX 79705-5505

Gentlemen:

Reference is made to Oxy's proposed \$7.36 million budget for the Myers Langlie Mattix Unit for fiscal year 1995. Reference is also made to our letter to Oxy of June 9, 1993 wherein we informed Oxy that we were not agreeable to participating in a large redevelopment of the Myers Langlie Mattix Unit and therefore proposed to assign to Oxy Doyle Hartman, Oil Operator's 4.8691% working interest in the Myers Langlie Mattix Unit, in exchange for Oxy assigning to Doyle Hartman, Oil Operator its 160-acre Eumont tract situated in the SW/4 Section 2, T-22-S, R-36-E.

More than one year has transpired since we first informed Oxy of our desire not to participate in substantial new Myers Langlie Mattix Unit development drilling. During the past twelve months, our 4.8691% Myers Langlie Mattix Unit working interest has suffered a net operating loss of \$36,010.89 (7/93 - 6/94), and on a 100% basis, the unit has suffered a net operating loss of \$739,580.74 over the same time period.

Obviously, based on the financial performance of the Myers Langlie Mattix Unit over the past twelve months, it is highly questionable (under the terms of the Unit Agreement for the Myers Langlie Mattix Unit) whether the Myers Langlie Mattix Unit is still a viable secondary recovery unit, especially in consideration of the fact that the oil recovery to date from the Myers Langlie Mattix Unit is nearing the total of primary plus secondary oil reserves initially expected from the Myers Langlie Mattix Unit.

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The Myers Langlie Mattix Unit has been in existence for approximately twenty years and was unitized for the purpose of conducting secondary recovery operations that would have been impractical without the formation of a waterflood unit. The unit was not conceived of and formed for the purpose of recovering substantial and previously undeveloped primary reserves. The anticipated secondary oil reserves envisioned in the early 1970's to be recoverable from the Myers Langlie Mattix Unit have now been produced and the Hickman study of February 15, 1991 (commissioned by Oxy's predecessor) justified an extensive new Myers Langlie Mattix Unit development program based solely upon the recovery of substantial and previously unanticipated and undeveloped primary reserves.

The currently effective Myers Langlie Mattix Unit participation factors were not approved for the purpose of developing substantial and previously undeveloped primary reserves. If substantial primary oil reserves still exist within the Myers Langlie Mattix Unit, Doyle Hartman and James A. Davidson possibly desire to develop their own primary reserves, or at least contend that new and more equitable unit participation factors must be accurately computed and approved by the proper regulatory authorities and current working interest owners before any newly proposed development work can proceed. It is mandatory that new and equitable participation factors be utilized for developing any substantial and previously unanticipated primary reserves with the new participation factors being mathematically proportional to the reserves underlying those leases from which any new primary reserves are to be derived.


Consequently, it is the position of Hartman and Davidson that Oxy most certainly has not taken the necessary step of computing and obtaining approval for new and more equitable unitization factors and without doubt does not possess the proper authority for proceeding with its proposed development program. However, since we would prefer not to interfere with Oxy's future plans for the Myers Langlie Mattix Unit, we respectfully suggest that both parties sit down and work out a mutually agreeable exchange of properties whereby Oxy can proceed with its desired plans for infill drilling in the Myers Langlie Mattix Unit and Hartman and Davidson can receive from Oxy an exchange property or properties that we ourselves can develop.

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Since it is imperative that a resolution be immediately reached corresponding to the future development of the Myers Langlie Mattix Unit, we ask that you promptly make contact with James A. Davidson (915-682-6482) about setting up a meeting to initiate a mutual exchange of property.

Very truly yours,

DOYLE HARTMAN, OIL OPERATOR

A handwritten signature in black ink, appearing to read 'Doyle Hartman', with a long horizontal line extending to the right.

Doyle Hartman

DH/ao
Enclosures

CC:
VIA FACSIMILE: (915) 682-6504
Mr. James A. Davidson
214 W. Texas, Suite 710
P.O. Box 494
Midland, Texas 79702

Mr. Donald Romine
Vice President - Western Region
Oxy USA, Inc.
#6 Desta Drive, Suite 6002
Midland, TX 79705-5505

Mr. Robert Hunt
Operations Manager - Western Region
Oxy USA, Inc.
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Midland, TX 79705-5505

Mr. Tim A. Keys
Oxy USA, Inc.
#6 Desta Drive, Suite 6002
Midland, TX 79710

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Mr. Scott Gengler
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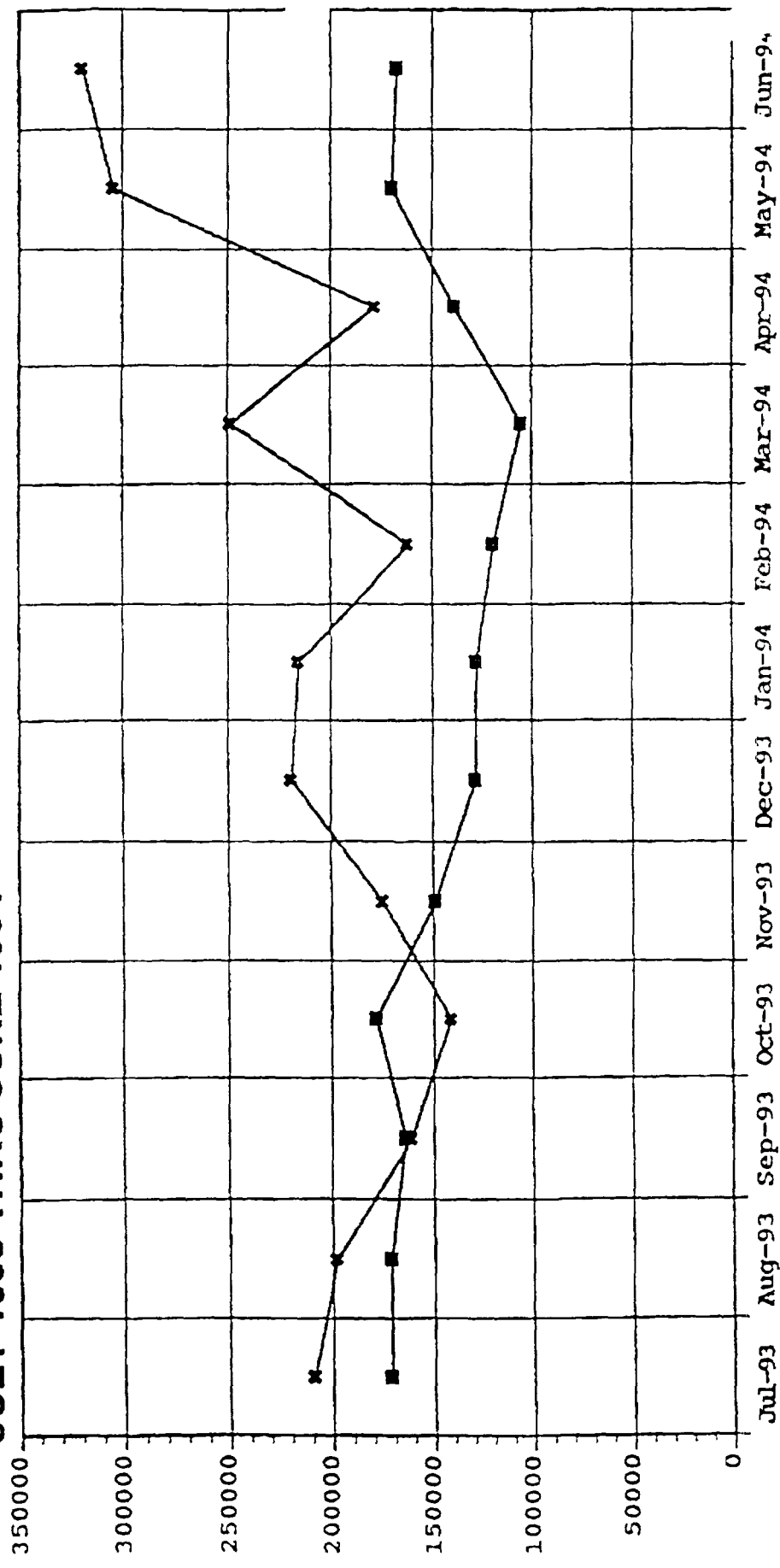
Mr. John Thoma
Financial Consultant
Oxy USA, Inc.
#6 Desta Drive, Suite 6002
Midland, TX 79705-5505

Mr. Patrick N. McGee
Land Manager
Oxy USA, Inc.
#6 Desta Drive, Suite 6002
Midland, TX 79705-5505

Ms. Carol Glass
Landman
Oxy USA, Inc.
#6 Desta Drive, Suite 6002
Midland, TX 79705-5505

Mr. Don Mashburn
Ms. Carolyn Sebastian
Mr. Steven Hartman
Ms. Lisa Holderness
Doyle Hartman, Oil Operator
500 Main Street
Midland, TX 79701

MYERS LANGLEIE MATTIX UN
NET REVENUE VS. BILLINGS
JULY 1993 THRU JUNE 1994



■ 8/8THS REVENUE × GROSS BILLINGS

Financial Performance
Myers Langlie Mattix Unit
For the Period July 93 to June 94

Month/ Year	8/8th's Net Revenue	Gross Billing	Net Income (Loss)	Cumulative	Hartman's Net Revenue	Hartman's Billing	Hartman's Net Income (Loss)	CUMULATIVE
Jul-93	171,415.75	208,774.35	-37,358.60	-37,358.60	8,348.38	10,165.39	-1,819.03	-1,819.03
Aug-93	171,165.94	197,834.70	-26,668.77	-64,027.38	8,334.20	9,632.73	-1,298.53	-3,117.56
Sep-93	164,088.65	160,767.54	3,332.11	-60,695.25	7,990.13	7,827.90	162.23	-2,955.33
Oct-93	178,171.44	141,029.52	37,141.93	-23,553.32	8,675.30	6,866.84	1,808.46	-1,146.87
Nov-93	148,874.22	174,930.98	-25,956.76	-49,510.10	7,253.66	8,517.53	-1,263.87	-2,410.74
Dec-93	128,518.22	219,130.10	-90,611.88	-140,121.98	6,257.65	10,669.62	-4,411.97	-6,822.71
Jan-94	128,168.82	215,647.51	-87,480.69	-227,602.67	6,240.54	10,500.05	-4,259.51	-11,082.22
Feb-94	119,604.46	161,060.58	-42,356.12	-269,958.79	5,823.63	7,885.99	-2,062.36	-13,144.58
Mar-94	104,982.46	248,728.10	-143,735.63	-413,694.42	5,112.16	12,110.77	-6,998.61	-20,143.19
Apr-94	138,748.10	178,379.28	-39,631.19	-453,325.61	6,755.75	8,685.43	-1,929.68	-22,072.87
May-94	169,839.73	304,448.07	-134,608.34	-587,933.94	8,269.62	14,823.82	-6,554.20	-28,627.07
Jun-94	167,419.64	319,066.44	-151,646.80	-739,580.74	8,151.79	15,535.60	-7,383.81	-36,010.89
Totals	1,791,116.44	2,530,697.17	-739,580.74		87,210.78	123,221.67	-36,010.89	

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irrigat ditch of a surface owner, provided th. nothing herein shall be con-
strued as leasing or otherwise conveying to Working Interest Owners a site for
a water, gas injection, processing or other plant or camp site. Working Inter-
est Owners shall pay the owner for damages to growing crops, timber, fences,
improvements, and structures on the Unit Area that result from Unit Operations.

SECTION 14. TRACT PARTICIPATION. Participation of each Tract is
shown in Exhibit "C" and has been computed in accordance with the following:

(a) Phase I Participation. Phase I begins the effective date hereof
and continues until the first day of the month next following the date that the
cumulative volume of oil produced after January 1, 1969, from the Unitized
Formation underlying all of the Tracts in the Unit Area totals 299,013 barrels.
The Tract Participation of each Tract during Phase I, shown on Exhibit "C", is
based upon the following formula:

Tract Participation Percentage

Phase I equals

$$100 \frac{A}{B}$$

Where: "A" equals total income from oil and gas produced from such
Tract from the Unitized Formation during the period January 1,
1968, through December 31, 1968.

"B" equals the summation of the total income from oil and
gas produced from all qualified Tracts from the Unitized
Formation during the period January 1, 1968, through
December 31, 1968.

(b) Phase II Participation. Phase II shall begin the first day of
the month next following the date on which the last of the 299,013 barrels
referred to in (a) above is produced and shall continue for the remainder of
the term of this agreement. The Participation of each Tract during Phase II,
shown on Exhibit "C", is based upon the following formula:

Tract Participation Percentage.

Phase II equals

$$85 \frac{E}{F} \text{ plus } 10 \frac{G}{H} \text{ plus } 5 \frac{I}{J}$$

Where: "E" equals the estimated quantity of oil ultimately recoverable
from the Unitized Formation by primary recovery operations
credited to each Tract.

"F" equals the summation of the estimated quantity of oil
ultimately recoverable from the Unitized Formation by

pr y recovery operations credited to all ified Tracts.

"G" equals the cumulative oil produced from the Unitized Formation underlying each Tract as of July 1, 1966.

"H" equals the summation of the cumulative oil produced from the Unitized Formation underlying all qualified Tracts as of July 1, 1966.

"I" equals the number of acres contained in each Tract.

"J" equals the summation of the number of acres contained in all qualified Tracts.

If less than all Tracts within the Unit Area qualify for participation hereunder as of the effective date hereof, Unit Operator shall file with the Supervisor, the Commissioner and the Commission a schedule showing the qualified Tracts as of said effective date, which schedule shall be designated Revised Exhibit C and considered for all purposes as a part of this agreement. Said revised Exhibit C shall set forth opposite each qualified Tract the revised Tract Participation therefor which shall be calculated by using the same factors and formula which were used to arrive at the Tract Participations set out in Exhibit C attached hereto, but applying the same only to the qualified Tracts. Said revised Exhibit C, upon approval by the Supervisor and the Commissioner, shall supersede, effective as of the effective date hereof, the Exhibit C attached hereto.

The Tract Participations shown on Exhibit C attached hereto, or as may be shown on the Revised Exhibit C as above provided, shall govern the allocation of unitized substances on and after the effective date of this Unit Agreement, and until the Tract Participations are revised pursuant to this agreement and such revised Tract Participations are approved by the Supervisor and the Commissioner.

(c) Within Sixty (60) days after the requirements for commencement of Phase II have been met, the Operator will notify the Oil and Gas Department of the New Mexico State Land Office of such conversion to Phase II.

SECTION 13. TRACTS QUALIFIED FOR PARTICIPATION. On and after the effective date hereof, and until expansion as provided in Section 4 hereof, the tracts within the Unit Area which shall be entitled to participation (as provided in Section 14, Tract Participation, hereof) in the production of Unitized Substances shall be composed of the Tracts shown on Exhibit A and listed in Exhibit "B" which qualify as follows:

TABLE 6

Summary of Economics - Escalated Case
 Project Waterflood Redevelopment
 Myers Langlie Mattix Unit
 Lea County, New Mexico

	Proved Developed <u>Producing</u>	Proved <u>Undeveloped</u>	Total <u>Proved</u>
Effective Date:	- - - - -	January 1, 1991-	- - - - -
Interest:			
Working, Decimal	- - - - -	1.00 - - - - -	- - - - -
Net Revenue, Decimal	- - - - -	.75 - - - - -	- - - - -
Gross Reserves:			
Oil, MBBL	1,352	11,000	12,352
Gas, MMCF	473	3,850	4,323
Net Reserves:			
Oil, MBBL	1,014	8,250	9,264
Gas, MMCF	355	2,888	3,243
Net Operating Revenue, M\$	26,715	277,834	304,549
Expenses:			
Wellhead Taxes, M\$	1,773	18,441	20,214
Operating Costs, M\$	16,982	47,830	64,812
Total, M\$	18,755	66,271	85,026
Investments, M\$	0	44,119	44,119
Future Net Revenue:			
Undiscounted, M\$	7,960	167,444	175,404
Discounted @ 12% M\$	6,041	54,419	60,460
Payout, Years	--	4.10	--
Annualized Rate of Return, %	--	49.90	--
Income/Investment Ratio:			
Undiscounted	--	4.80	--
Discounted @ 12%	--	2.50	--

TABLE 6

TABLE 7

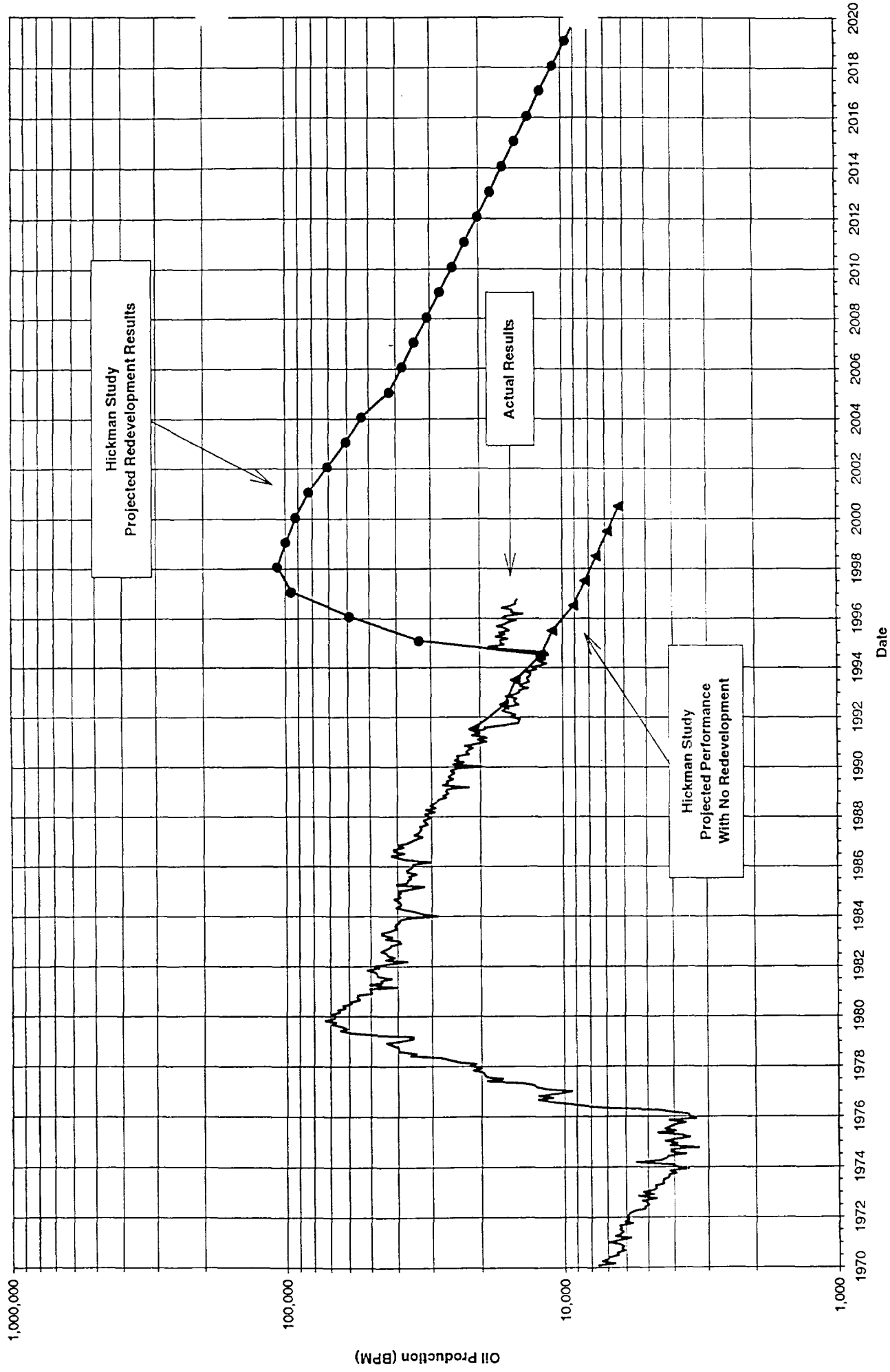
Summary of Economics - Unescalated Case
 Project Waterflood Redevelopment
 Myers Langlie Mattix Unit
 Lea County, New Mexico

	Proved Developed <u>Producing</u>	Proved <u>Undeveloped</u>	Total <u>Proved</u>
Effective Date:	- - - - -	January 1, 1991	- - - - -
Interest:			
Working, Decimal	- - - - -	1.00	- - - - -
Net Revenue, Decimal	- - - - -	.75	- - - - -
Gross Reserves:			
Oil, MBBL	1,352	11,000	12,352
Gas, MMCF	473	3,850	4,323
Net Reserves:			
Oil, MBBL	1,014	8,250	9,264
Gas, MMCF	355	2,888	3,243
Net Operating Revenue, M\$	21,046	171,179	192,225
Expenses:			
Wellhead Taxes, M\$	1,397	11,362	12,759
Operating Costs, M\$	12,768	26,064	38,832
Total, M\$	14,165	37,426	51,591
Investments, M\$	0	40,052	40,052
Future Net Revenue:			
Undiscounted, M\$	6,881	93,702	100,583
Discounted @ 12% M\$	5,342	31,414	36,756
Payout, Years	--	4.27	--
Annualized Rate of Return, %	--	41.24	--
Income/Investment Ratio:			
Undiscounted	--	3.34	--
Discounted @ 12%	--	1.95	--

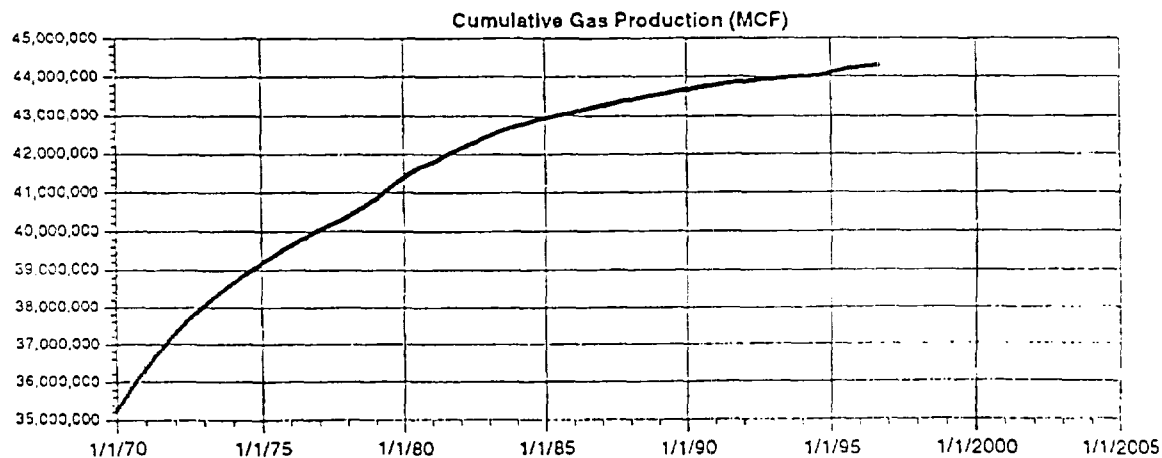
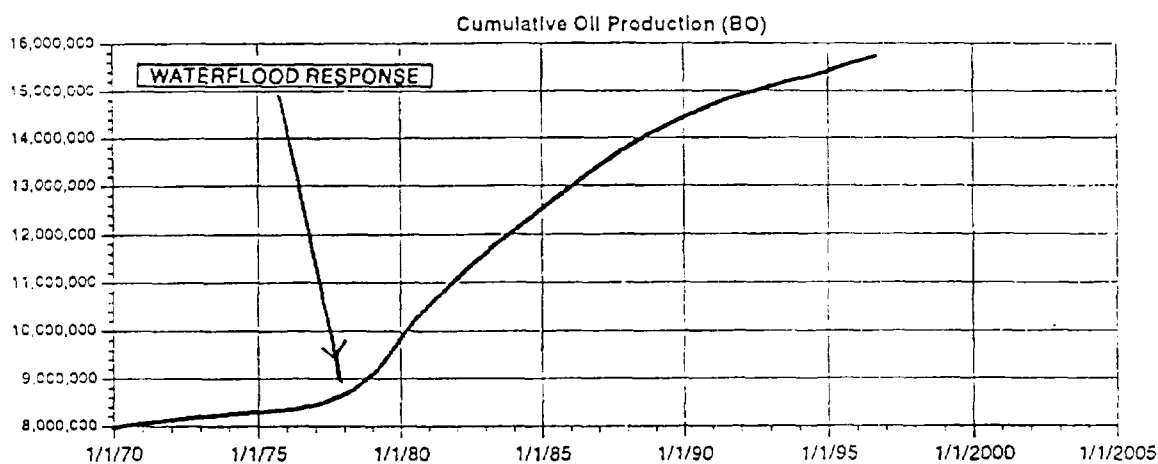
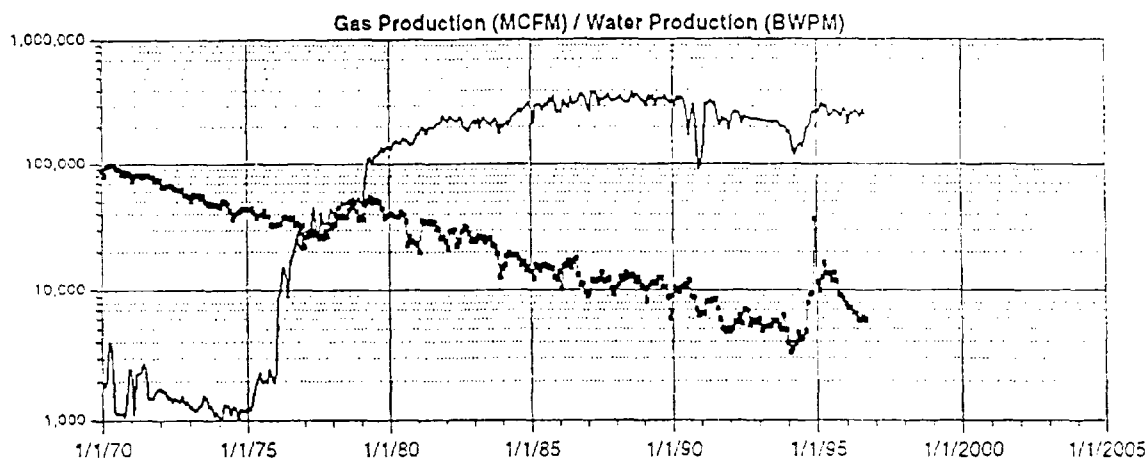
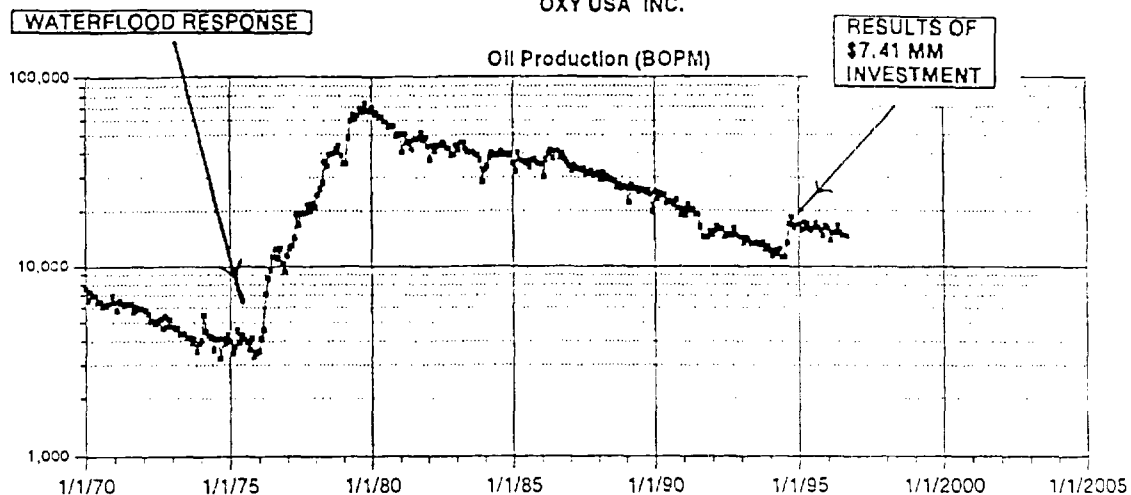
*Payout based on project effective date

Actual and Projected Performance
Oxy USA Inc
Myers Langlie Mattix Unit
Langlie Mattix Pool
Lea County, New Mexico

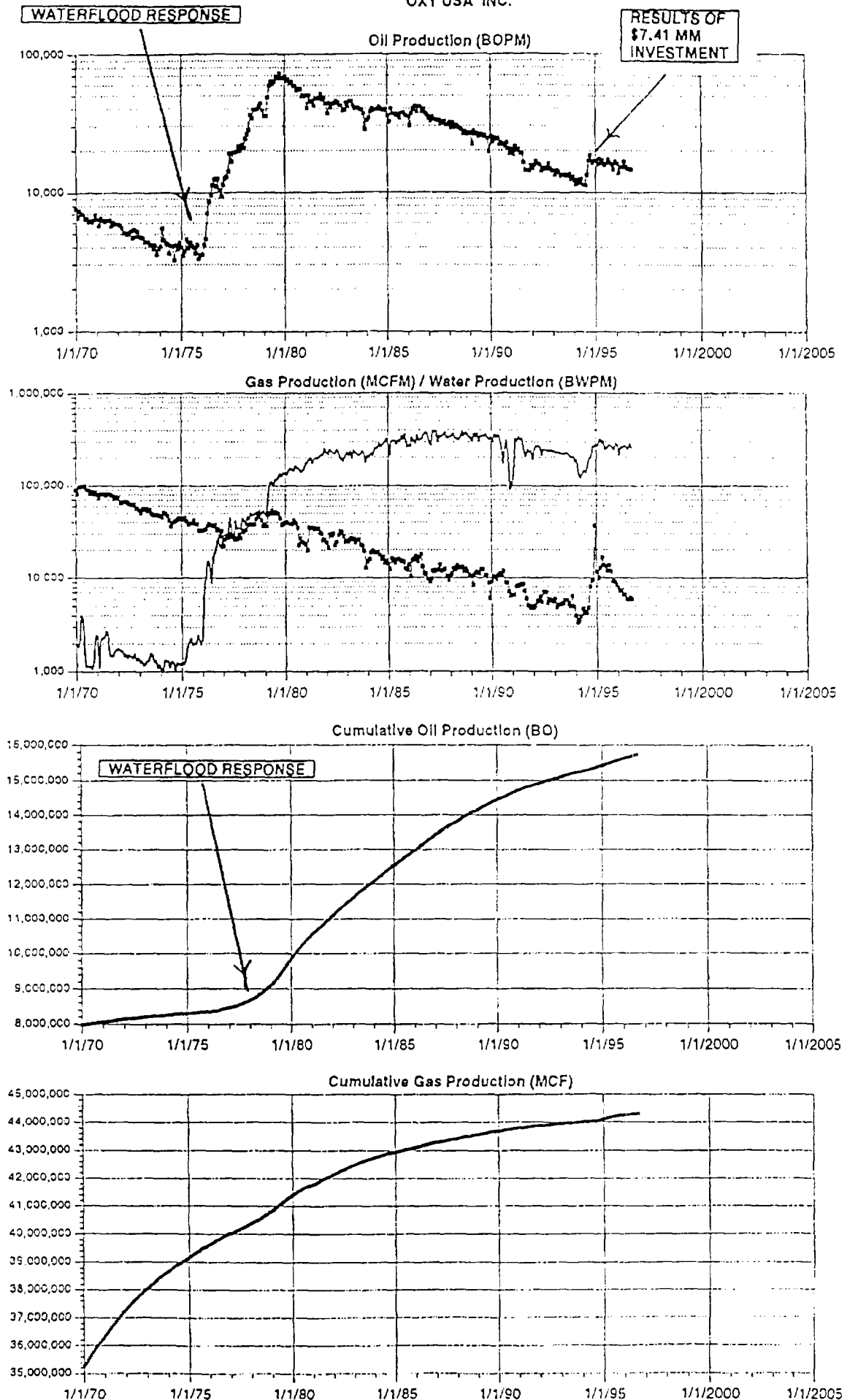
9/1996: 15.73185 MMBBLS



MYERS LANGLEY MATTIX UNIT SUMMARY
 LANGLEY MATTIX (SEVEN RIVER / N GRBG) SR
 LEA COUNTY, NEW MEXICO
 OXY USA INC.



LANGLIE MATTIX (SEVEN RIVER) ON GRBG) SR
LEA COUNTY, NEW MEXICO
OXY USA INC.



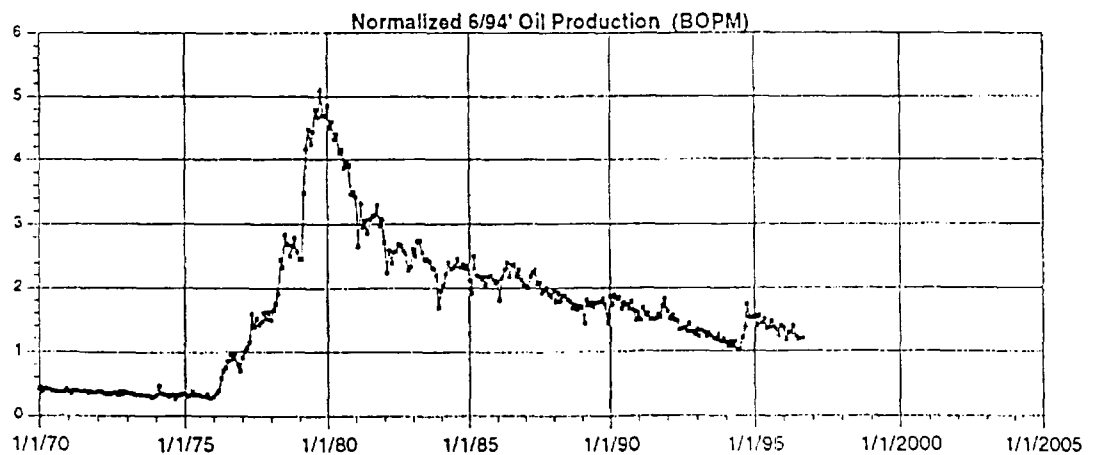
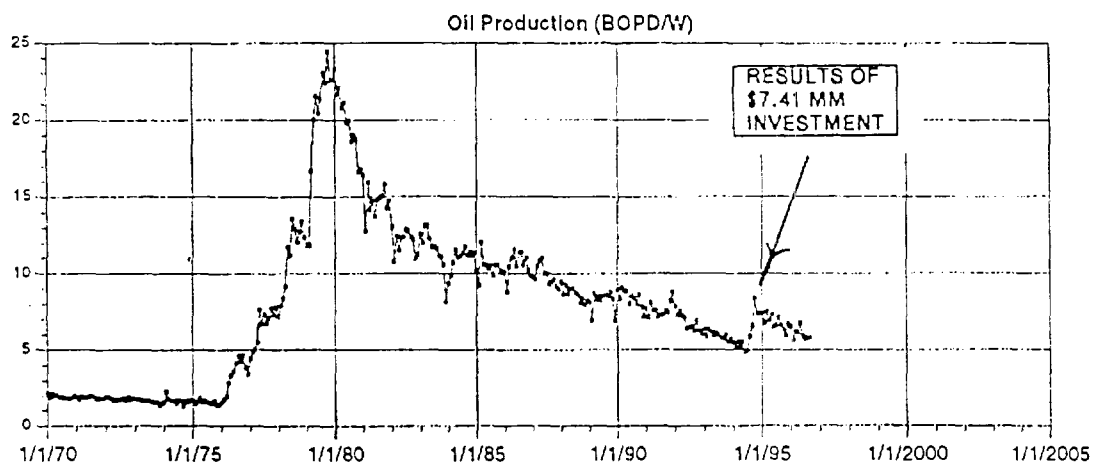
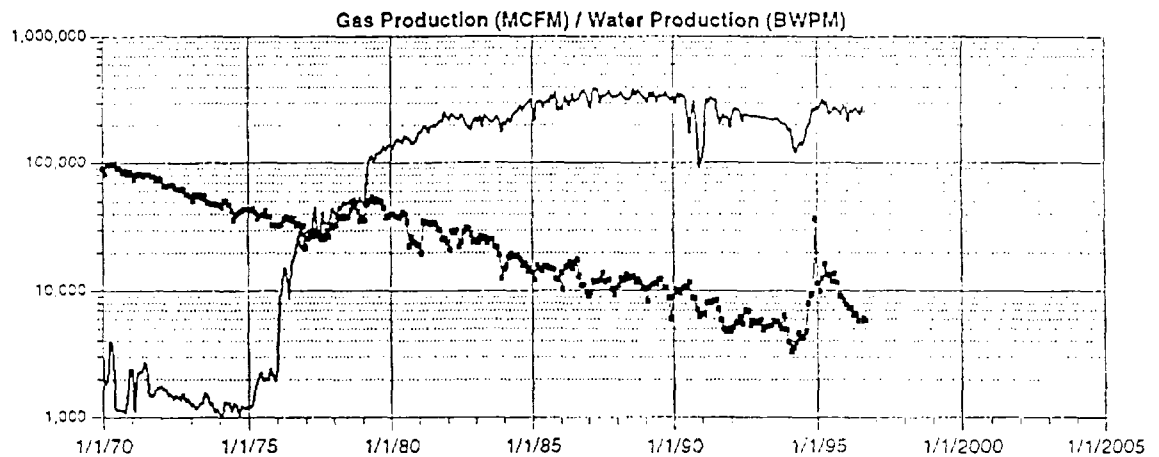
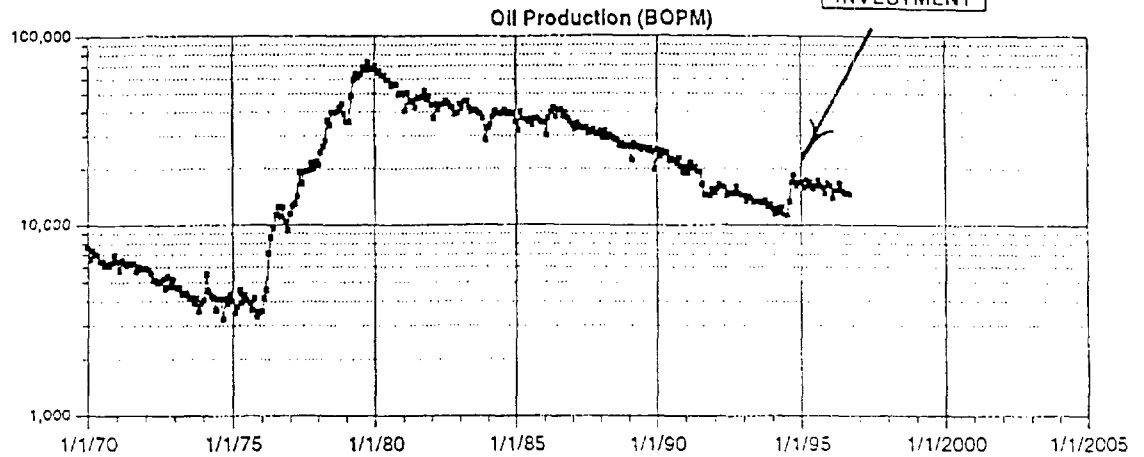
MYERS LANGLEIE MATTIX UNIT SUMMARY & 6/94' NORMALIZATION

LANGLIE MATTIX (SEVEN RIN ON GRBG) SR

LEA COUNTY, NEW MEXICO

OXY USA INC.

RESULTS OF
\$7.41 MM
INVESTMENT



*** ACTIVITY REPORT ***

TRANSMISSION OK

TX/RX NO.	7241
CONNECTION TEL	19156826504
CONNECTION ID	Buddy Davidson
START TIME	08/24 15:28
USAGE TIME	03'30
PAGES	6
RESULT	OK

*** ACTIVITY REPORT ***

TRANSMISSION OK

TX/RX NO.	7242
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CONNECTION ID	Hartman 011
START TIME	08/24 15:32
USAGE TIME	02'23
PAGES	6
RESULT	OK

*** ACTIVITY REPORT ***

TRANSMISSION OK

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CONNECTION ID	Buddy Davidson
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PAGES	8
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