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\*NEW MEXICO BOARD OF LEGAL SPECIALIZATION  
RECOGNIZED SPECIALIST IN THE AREA OF  
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED (1991))

March 22, 2002

HAND DELIVERED

Ms. Lori Wrotenbery, Director  
Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

*Case 12848*

Re: Application of SDX Resources, Inc.  
for the creation of the Red Lake San Andres  
Pool and the Corresponding Vertical Contraction of the  
Red Lake Queen-Grayburg-San Andres Pool Eddy County, New Mexico.

Dear Ms. Wrotenbery:

On behalf of SDX Resources, Inc., please find enclosed our referenced application which we request be set for hearing on the next available Examiner's docket now scheduled for April 18, 2002.

Very truly yours,



W. Thomas Kellahin

FCX: SDX Resources, Inc.  
Attn: Steve Sell

## PROPOSED ADVERTISEMENT

CASE 12848 Application of SDX Resources, Inc. for the creation of the Red Lake San Andres Pool and the correspond contraction of the Red Lake Queen-Grayburg-San Andres Pool, Eddy County, New Mexico. Applicant seeks the creation of a Red Lake-San Andres Pool to include the SE/4 of Section 19, the E/2, SW/4, E/2NW/4 and SW/4NW/4 of Section 20, the SW/4, SW/4NW/4, W/2SE/4 of Section 21, NE/4 Section 30, N/2 Section 29, NW/4, NE/4SW/4 and NW/4NE/4 of Section 28, Townships 17 South, Range 28 East the vertical limits of which are all of the San Andres formations as shown from a depth 1925 feet to 3500 feet on the log of the SDX Welch RL State Well No. 1 locate in Unit (E) of Section 28, T17S, R28E and the corresponding contraction of the Red Lake Queen-Grayburg-San Andres Pool to delete said acreage from that pool. This acreage is located approximately 11-1/2 miles east of Artesia, New Mexico.

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

**IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:**

**APPLICATION OF SDX RESOURCES, INC FOR THE  
CREATION OF THE RED LAKE SAN ANDRES POOL  
AND THE CONTRACTION OF THE RED LAKE QUEEN  
-GRAYBURG-SAN ANDRES, POOL,  
EDDY COUNTY, NEW MEXICO.**

CASE NO. 12848

**A P P L I C A T I O N**

Comes now SDX RESOURCES, INC. ("SDX"), by its attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Conservation for an order create a Red Lake-San Andres Pool to include the SE/4 of Section 19, the E/2, SW/4, E/2NW/4 and SW/4NW/4 of Section 20, the SW/4, SW/4NW/4, W/2SE/4 of Section 21, NE/4 Section 30, N/2 Section 29, NW/4, NE/4SW/4 and NW/4NE/4 of Section 28, Townships 17 South, Range 28 East the vertical limits of which are all of the San Andres formations as shown from a depth 1925 feet to 3500 feet on the log of the SDX Welch RL State Well No. 1 locate in Unit (E) of Section 28, T17S, R28E and the corresponding contraction of the Red Lake Queen-Grayburg-San Andres Pool to delete said acreage from that pool.

and in support thereof states:

1. SDX owns all of the rights to develop the oil and gas interest in the San Andres Formation under the following described acreage: the SE/4 of Section 19, the E/2, SW/4, E/2NW/4 and SW/4NW/4 of Section 20, the SW/4, SW/4NW/4, W/2SE/4 of Section 21, NE/4 Section 30, N/2 Section 29, NW/4, NE/4SW/4 and NW/4NE/4 of Section 28, Townships 17 South, Range 28 East ("proposed new pool") See **Exhibit "A"**

2. The proposed new pool is currently include within the vertical and horizontal limits of the Red Lake Queen-Grayburg-San Andres Pool, an oil pool spacing of 40-acre spacing units.

3. Within the boundary of this proposed new pool area, Smith & Marrs, Incorporated is the operator of the "Red Lake Sand Unit" which has unitized the Premier formation which lies just above the San Andres formations,

4. Smith & Marrs, Incorporated is the operator of certain wells in the Premier Sand Formations.

5. With the exception of SDX's Welch RL State Well No. 1, located in Unit E of Section 28, T17S, R29E, there are no Red Lake Queen-Grayburg-San Andres wells completed within in the San Andres formation in the proposed new pool.

6. In accordance with Division Rule 104 which precludes more than one operator in a spacing per pool, SDX is precluded from drilling and operating a San Andres well within the proposed new pool area and as a result is precluded from developing it's property.

7. In order to afford SDX an opportunity to drill and produce wells in the San Andres formation it is necessary to have the San Andres formation exclude from the Red Lake Queen-Grayburg-San Andres Pool.

8. In order to prevent the drilling of unnecessary wells and to protect correlative rights and provide for the orderly development of the San Andres reservoir it is necessary to contract the Red Lake Queen-Grayburg-San Andre Pool has requested.

9. The granting of this Application will not adversely affect the opportunities of the owners of the shallower zones.

10. Notification of this application and request for hearing to be held on April 18, 2002 has been sent to those operators identified on Exhibit "B" attached.

Wherefore, Applicant requests that, after notice and hearing, this application be granted.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin  
Kellahin & Kellahin  
P. O. Box 2265  
Santa Fe, New Mexico 87504

