

IMC FERTILIZER GROUP
P.O. Box 71 • Carlsbad, New Mexico 88220
Telephone: (505) 887-2871



INTERNATIONAL MINERALS & CHEMICAL CORPORATION

June 17, 1985

Mr. Jens Hansen
Division Landman
Bass Enterprises Production Co.
First City Bank Tower
201 Main Street
Fort Worth, Texas 76102

Re: James Ranch Unit Well No. 16
1980' FNL & 660' FEL, Section 18
T23S-R31E
Eddy County, New Mexico

Dear Mr. Hansen:

This is in response to your letter of May 28, 1985, notifying us of your intent to apply for a permit to drill a Morrow test well at the location referenced above.

We appreciate your cooperation in notifying us of this proposed well. It reflects the type of cooperation we believe is necessary for the safe and orderly development of oil and gas and potash leases within or adjacent to the Federal Potash Enclave.

The well being proposed, as we understand from your letter and our subsequent telephone conversation, is known as the James Ranch Unit Well No. 16 and would be located at point 1980 FNL and 660' FEL, Section 18, KEY 23 S-R31 E, Eddy County, New Mexico. You state in your letter that this location is inside the R-111 area but outside the Potash Enclave and in an area of noncommercial grade ore. This conclusion, according to your letter, is based upon the results of a potash core test taken some time ago in connection with the James Ranch Unit Well No. 15, which is located some distance north of the proposed drill site. For these reasons, you state your belief that the proposed location does not pose a threat to safety and will not result in an undue loss of potash ore. You also ask us to notify Mr. Richard Stamets with the New Mexico Oil Conservation Division and Bill Luscher with the Bureau of Land Management if we do not object to the proposed location.

In view of our ongoing negotiations, we truly wish there was some way we could agree to this location. However, as I informed you in our telephone conversation, we cannot agree to the proposed location and will have to file a protest if a permit to drill is sought.

First of all, your information concerning the absence of commercial grade ore in the proposed location is apparently in error. The results of the core test taken in connection with the James Ranch Unit Well No. 15, which we also opposed, clearly showed the presence of mineralization which, if processed through our existing process, would be of commercial grade even in today's depressed market. Our data suggests that the ore in the proposed location is even higher than that where the James Ranch Unit Well No. 15 was drilled. For this reason, we disagree with your assessment that the proposed well will not pose a safety hazard.

Our concern over the drilling of oil or gas wells in commercial grade ore, as you know, is based upon the significant hazards presented by methane gas and the implications posed by such a hazard to our underground miners and the industry itself. A mine atmosphere with as little as 5% methane can trigger an explosion of enormous proportions. In its natural state, we do not encounter methane in the explosive range but the introduction of an artificial source of increased amounts, such as an oil or gas well, is of serious concern not only to us but to our miners, their unions, and the Mine Safety and Health Administration.

Moreover, the presence of methane gas could have devastating consequences even in amounts far less than 5%. Under existing MSHA safety regulations, a mine can be declared "gassy" if a single air sample shows as little as .25% methane. The effect of such a trace amount is sometimes difficult to appreciate unless you are in the mining industry. For example, under existing safety regulations, a mine declared "gassy" on a single sample containing .25% methane is required to comply with some 100 additional safety regulations. These include requirements that all underground equipment be permissible (explosion proof), main fans have to be relocated to the surface, and strict ventilation, fire control, and illumination standards must be observed. The cost of complying with these additional standards is in the millions of dollars which I hope you can appreciate is prohibitive for virtually every mine in the Potash Basin.

Second, and because the proposed site is in an area of commercial grade ore, it will likewise result in the undue waste of potash. Indeed, if the well is allowed, the safety hazard created will foreclose us from mining the ore in the vicinity of the well. The amount of ore that will be wasted is significant. Using the James Ranch Unit Well No. 15 core test results as an example, the following are estimates of the value of potash that would be wasted:

1. Considering subsidence only (the recoverable ore wasted in a pillar of sufficient size to protect the integrity of the well casing from mine subsidence), the current market value of the wasted recoverable potash in the vicinity of the well would be over \$8 million;

2. If a safety buffer zone with a 2,500-foot radius were used, between \$40 million and \$80 million of recoverable potash would be wasted.

More significantly, if the well allowed the migration of methane gas into our mine, there exists the possibility that all of our ore reserves would be lost. The current market value of these recoverable reserves is in the \$2 billion to \$3 billion range.

Finally, while you are correct in stating that the proposed location is outside the Potash Enclave, we do not believe this is sufficient to allow the well. Under our lease, we are required to mine potash beyond lease lines if commercial grade ore is present. This has occurred in a number of instances. In addition, we believe the data we have is sufficient to justify extending the Potash Enclave to include the proposed drill site.

For these reasons, we are unable to agree to the proposed location and will be forced to protest the proposed well if you seek a permit to drill. We are unaware of the target reservoir, but would be more than willing to discuss with you an alternative site that would perhaps allow you to reach the target without penetrating our commercial grade reserves. Please let me know if you would like to discuss this.

Again, we appreciate the cooperative spirit in which you notified us of the proposed location and regret that our response could not be favorable to you. I hope, however, that you will understand and appreciate our sincere concern over the hazard that will be created if the well is drilled in the location proposed.

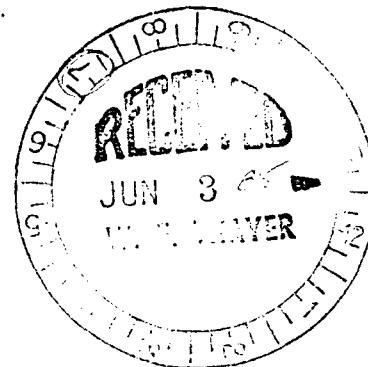
Very truly yours,

W. E. Thayer
Production Manager

WET:d

BASS ENTERPRISES PRODUCTION CO.

FIRST CITY BANK TOWER
201 MAIN ST.
FORT WORTH, TEXAS 76102
817/390-8400



May 28, 1985

INTERNATIONAL MINERALS AND CHEMICAL CORPORATION
P. O. Box 71
Carlsbad, New Mexico 88220

Attention: Walt Thayer

RE: James Ranch Unit Well No. 16
1980' FNL & 660' FEL, Section 18
T23S-R31E
Eddy County, New Mexico

Dear Sir:

Under your letter of November 7, 1984, IMC requested that so long as good faith negotiations are progressing between Bass and IMC, permits to drill wells within the potash enclave or the immediate vicinity would not be applied for without prior notice to the potash operators.

To confirm our conversation of Friday, May 24, and in regard to your November 7, 1984 letter, Bass Enterprises Production Co. plans to drill a Morrow test well at the referenced location pursuant to our 1985 Plan of Development for the James Ranch Unit and in accordance with the terms and provision of a contract between Bass and Conoco.

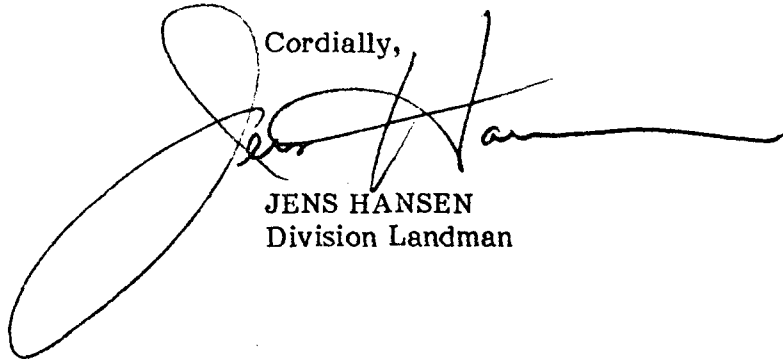
Although our proposed well location is within the R-111 area, the 1979 United States Geological Survey map showing the distribution of potash reserves indicates our location to be outside the potash enclave. Additionally, results of the potash core test taken in the James Ranch Unit Well No. 15 located in the S/2 of Section 7, which is north of and contiguous to the N/2 of Section 18, indicated the absence of potash in commercial quantities. For these reasons we believe our location does not pose a threat to either safety or an undue loss of potash.

As a result, it is our intention to submit an application for a drilling permit to the Bureau of Land Management and seek approval with the New Mexico Oil Conservation Division for permission to drill a well within the R-111 area. If

International Minerals and Chemical Corporation
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you do not object to our location it would be greatly appreciated if you would advise Richard Stamets with the New Mexico Oil Conservation Division and Bill Lusher with the BLM so that our drilling application may be approved at the earliest possible date.

Cordially,

A large, stylized handwritten signature in black ink, appearing to read 'Jens Hansen', is written over the word 'Cordially,'.

JENS HANSEN
Division Landman

JH:jh

cc: New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501
Attention: Richard Stamets

Bureau of Land Management
P. O. Box 1449
Santa Fe, New Mexico 87501
Attention: Bill Lusher

Bureau of Land Management
P. O. Box 1397
Roswell, New Mexico 88201
Attention: Joe Lara

cc: Mr. Richard Stamets
New Mexico Oil Conservation Div.
P. O. Box 2088
Santa Fe, New Mexico 87501

Mr. Bill Luscher
Bureau of Land Management
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Santa Fe, New Mexico 87501

Mr. Dick Wilson
Bureau of Land Management
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Mr. Joe Lara
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Managers of the Potash Industry

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Mr. R. W. Hougland
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Mr. Jim Walls
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