

RANDY V. WATTSINDEPENDENT LANDMAN
OIL & GAS PROPERTIES110 East 10th, Suite 3
Post Office Box 2367
Roswell, New Mexico 86202

July 22, 1991

Bus. (505) 622-5300
Res. (505) 622-1820
Fax. (505) 623 5556

Mr. Robert Stovall
State of New Mexico
Energy, Minerals and Natural Resources Dept.
Oil Conservation Division
P.O. Box 2088
State Land Office Bldg.
Santa Fe, New Mexico 87504

*Case
No. 10355*

Re: Application of Nearburg Producing Company for
Compulsory Pooling and a Non-Standard Spacing
Unit set for July 25, 1991
Section 30, T-19-S, R-36-E
Lea County, New Mexico

Dear Mr. Stovall:

In connection with letter dated July 19, 1991 from David N. Grimes which pertained to the mineral interest owned by Sarah Link Grimes and the above referenced Application, we would like to set out the manner which we contacted the Mrs. Grimes in order to procure an Oil and Gas Lease or allow her the opportunity to participate in the proposed well.

We initially contacted Sarah Grimes by phone on June 20, 1991 who indicated her husband, David Grimes managed her minerals and that we should call him at his office the following day. We phoned Mr. Grimes on June 21, 1991 and he requested that we mail our proposal for his consideration. Mr. Grimes responded by letter dated June 25, 1991 and indicated Mrs. Grimes would like to consider the possibility of participating in the well. In the letter Mr. Grimes requested a "copy of AFE, Operating Agreement, plans for well, information on proposed location and schedule of events".

We contacted Nearburg who indicated a new AFE was being prepared to eliminate the cost related to a long string of interminate casing which was used in the drilling of the two previous well in this area. This adjustment would considerably reduced the cost relating to the drilling of our proposed well. They also indicated that the Operating Agreement had not been completed, but would forward both as soon as possible.

We received the AFE on July 2, 1991, phoned Mr. Grimes and discussed same and mailed a copy by letter dated July 3, 1991. The AFE provided information concerning well location, proposed depth, description of work and estimated spud and completion dates as well, of course, as the related costs of drilling and completing. In the letter mailed with the AFE, we set out the working interest ownership that would be attributable to Mrs. Grimes mineral interest should she elect to participate. We also informed Mr. Grimes that we were waiting for the Operating Agreement and would forward same as soon as we received same.

Mr. Robert Stovall
Letter dated July 22, 1991
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We were out of the office on July 5th and July 8th on business and were unable to return phone calls from Mr. Grimes until the 9th. We also received the Operating Agreement on this day. It was obvious that Mr. Grimes was upset regarding the notification of the hearing and we tried to explain that we had set up the July 25, 1991 hearing due to our uncertainty in reaching an agreement with three other mineral owners and in no way was it an indication that we had any doubts that we would not reach a satisfactory agreement on Mrs. Grimes' minerals. We also offered to have Nearburg's Geologist set up a meeting with him to go over the geology, but he declined. The Operating Agreement was mailed Federal Express on July 9, 1991 along with a letter increasing our proposal for a Lease as follows: 1) \$50.00 per acre for a six month Lease, reserving a 1/4 royalty or 2) \$125.00 per acre for a three year Lease, reserving a 1/4 royalty. As with all our previous correspondence, we ask that Mr. Grimes call collect once he had a chance to consider our proposals


On July 16, 1991, we consummated a trade with Fina Oil and Chemical Company pertaining to their minerals under the drill site Section. This trade provided for a six month term, 1/4 royalty and a bonus of \$50.00 per acre. We phoned Mr. Grimes to indicate this trade and he informed us that his attorney was still reviewing the Operating Agreement and would contact us once the review was done.

This was the last time we heard from Mr. Grimes until we received the letter (on July 20th) that was mailed to you from Mr. Grimes. We had attempted to contact Mr. Grimes again, by phone, on July 19th and left a detailed message on his recorder. This was another follow-up call to see if he had ever review the Operating Agreement with his attorney.

In summary, we have procured trades with Oxy USA, Inc. pertaining to 1000+ acres in this area and with Hanley Petroleum, Amoco and with numerous mineral owners under this prospect and feel that we have spent as much time, if not more time, with Mr. Grimes in order to reach an agreement on his wife's minerals.

Thank you for your consideration to the foregoing.

Respectfully,



Randy V. Watts

RVW/me

cc: David N. Grimes
William F. Carr
Mark K. Nearburg

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OIL & GAS PROPERTIES

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