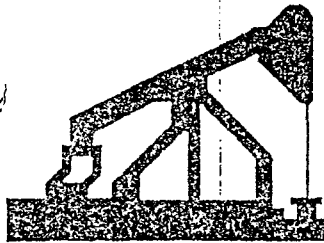


LANEXCO, INC.

P. O. BOX 2730
MIDLAND, TEXAS 79702
915/687-5047
FAX 915/687-5048

ADMINISTRATION

Tommy Phipps
Ric Flores



P. O. BOX 1206
JAL, NEW MEXICO 88252
505/395-3056
FAX 505/395-3205

OPERATIONS

Robert Lansford
Herb Dority
Mike Copeland

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June 18, 1990

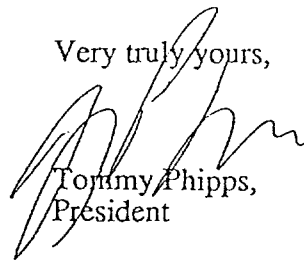
WORKING INTEREST OWNERS:

Re: State #1, 1,880' FSL and 1,650' FEL, Sec. 22, T23S, R36E,
Lea County, New Mexico

Gentlemen:

As you can see by reading the attached copy of a letter to Conoco, Inc., we have a severe problem with our State #1 well. About a month ago, the well died when we attempted to open it up to increase production because we thought the allowable had increased. We originally thought the problem was caused by an accumulation of water in the wellbore caused by having to keep the production pinched back because of the unreasonably low allowable given to Jalmat gas wells. We gave the well a small acid treatment and started swabbing it. Because of the cost of swabbing the well, we switched to a rented portable pumpjack near the first of June. It became quickly apparent that we had more than a minor accumulation of water when the well started pumping fifty barrels of water per day, which is the capacity of the pump. The water analysis indicated that the water was injected. We have stopped pumping the State #1 in order to keep from making the problem worse. The New Mexico Oil Conservation Division has ordered Conoco to shut in their injection well. We will keep you informed on further developments.

Very truly yours,


Tommy Phipps,
President

TP:se

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9994

cc. DH WPA
BS
MS *

DRILLING
Allowable file

ENGINEERING

OPERATING

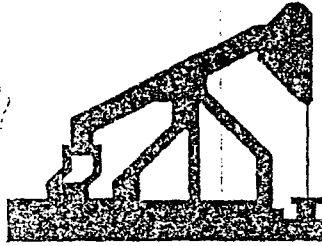
JUN 19 1990

LANEXCO, INC.

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*

*

June 13, 1990

CERTIFIED-RETURN RECEIPT REQUESTED

Conoco, Inc.
#10 Desta Drive West
Midland, Texas 79705

Attention: Mark Mosely, Division Manager

Re: Follow-up notification of well damage
State #1, 1,880' FSL and 1,650' FEL, Sec. 22, T23S, R36E,
Lea County, New Mexico

Gentlemen:

By telephone call from Robert W. Lansford, Executive Vice President of Lanexco, Inc. to Mike Bazella, Engineer on June 12, 1990 at approximately 1:30 P. M. MST, notification was given to Conoco, Inc. that severe well damage had been discovered and was occurring to the captioned well caused by invasion of the productive zone by injected water from Conoco's water injection well (Langlie Lynn Queen Unit Well #1 located in unit J, Sec. 22, T23S, R36E, Lea County, New Mexico). Mr. Lansford requested that the water injection well be shut in immediately by Conoco to stop further damage to the captioned well. Today June 13, 1990, Mr. Bazella informed Mr. Lansford by telephone that Conoco would not consider shutting in the well until Conoco received a notification letter requesting that the well be shut in. Because of your failure to honor our telephone request that the water injection well be shut in, the New Mexico Oil Conservation Division has been notified today by Lanexco.

Further delay on Conoco's part will add to the irreversible damage that has occurred from the loss of future reserves.

We again request that you shut in your water injection well. If you have any questions, contact Robert W. Lansford (505-395-3056).

Very truly yours,

Tommy Phipps,
President

TP:se

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DRILLING

ENGINEERING

OPERATING