

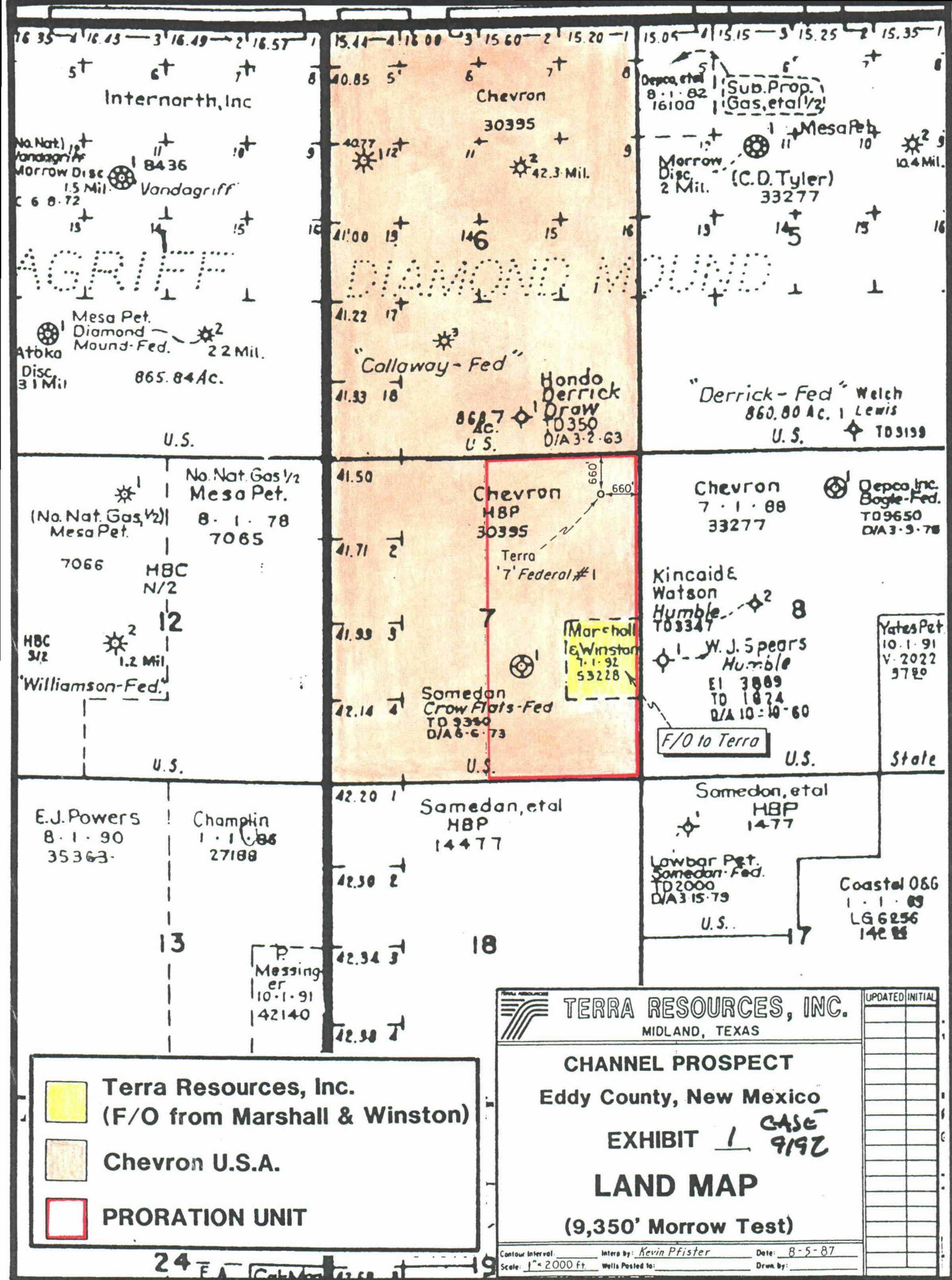


EXHIBIT 2

OWNERSHIP BREAKDOWN
CHANNEL PROSPECT
EDDY COUNTY, NEW MEXICO

I. Proration Unit - E/2 Section 7, T-16-S, R-28-E, Eddy County,
New Mexico

II. Acreage Division

A. NE/4, S/2SE/4 and NW/4SE/4 of Section 7, T-16-S, R-28-E, Eddy
County, New Mexico

1. USA (NM-30395)
2. Lease held by Chevron, USA
3. Acreage is HBP
4. Royalty is 12.5%
5. Overriding Royalty
 - a) 3% - First Interstate Bank of Denver,
N.A., and Jeannine Callaway, Co-
Trustees of the William O. Callaway
Family Trust created under the Will
of William O. Callaway, Deceased.
 - b) 1 2/3% - Jean L. Callaway
 - c) 1/3% - Carol Callaway

B. NE/4SE/4 Section 7, T-16-S, R-28-E, Eddy County New Mexico

1. USA (NM-53228)
2. Lease held by Marshall & Winston
3. Acreage is undeveloped
4. Royalty is 12.5%
5. Overriding Royalty
 - a) 4% to Howell Spear

C. Farmout Agreement from Marshall & Winston to Terra Resources

1. Covers acreage described in B. above.
2. Limited to depth sufficient to penetrate and fully test the
Morrow Formation expected to occur at about 9,350 feet.
3. Marshall & Winston to retain a 8.5% overriding royalty
before payout with 5% being convertible at payout to a 25%
backin.

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION

TERRA EXHIBIT NO. 2

CASE NO. 9192



January 29, 1987

Chevron U.S.A., Inc.
P.O. Box 1150
Midland, Texas 79702

Attn: Mr. D.H. Messer
Regional Land Manager

BEFORE EXAMINER STOGNER CATANACH	
OIL CONSERVATION DIVISION	
TERRA	EXHIBIT NO. <u>3</u>
CASE NO. <u>9192</u>	

RE: Farmout Request
covering Sections 7 & 8,
T-16-S, R-28-E, Eddy County,
New Mexico

Channel Prospect

Gentlemen:

Terra Resources, Inc. is interested in drilling a 9300' Morrow test well at a legal location on the captioned lands. In support of the above mentioned test well, Terra is requesting a farmout of your leasehold interest under the following terms:

1. Within one hundred twenty (120) days from execution of an agreement by all parties, Terra shall commence, or cause to be commenced a well to adequately test the Morrow formation;
2. Chevron shall reserve as an ORRI the difference between the existing lease burdens and 25%, proportionately reduced, thus delivering a 75% NRI lease;
3. After payout of the initial test well, Chevron shall have the option of converting its reserved ORRI to a 25% working interest, proportionately reduced;
4. A producer shall earn Terra a 100% assignment of your interest in the proration unit surrounding the initial test well and 75% of your interest in the remaining acreage subject to the farmout agreement;
5. Terra shall have one hundred twenty (120) days from completion of one well and the commencement of subsequent wells;
6. Subsequent wells shall be drilled 75% Terra and 25% Chevron, proportionately reduced;

7. Should Terra fail to commence the above mentioned initial well, the only penalty would be the termination of the farmout agreement.

After you have reviewed the above proposal, please advise us of the acceptability of these terms. We appreciate your consideration in this matter and look forward to your early reply.

Very truly yours,

TERRA RESOURCES, INC.

A handwritten signature in cursive script, reading "Kevin T. Pfister".

Kevin T. Pfister
Landman

KTP/lz



Chevron U.S.A. Inc.
P.O. Box 1150, Midland, TX 79702

Sam H. Martin
District Land Supervisor
Pecos District

July 15, 1987

FARMOUT REQUEST
CHANNEL PROSPECT
SECTIONS 7 & 8
T-16-S, R-28-E, NMPM
EDDY COUNTY, NEW MEXICO
CONTROL NO. 03887

Terra Resources, Inc.
10 Desta Drive
Suite 500-West
Midland, TX 79705

Attention: Mr. Kevin T. Pfister

Gentlemen:

Reference is made to your letter dated January 29, 1987 regarding the captioned farmout request. We have carefully considered your proposal and are not interested in farming out this acreage.

Thank you for the opportunity to consider your proposal.

Yours very truly,

for SAM H. MARTIN 7/16/87

SHM:kmj

July 17, 1987

Hand Delivered

Chevron USA, Inc.
P.O. Box 1150
Midland, Texas 79702
Attn: Mr. Sam Martin

RE: AFE and Operating
Agreement covering the
E/2 of Section 7,
T-16-S, R-28-E, Eddy
County, New Mexico

Channel Prospect

Gentlemen:

Terra Resources, Inc. has acquired a farmout from Marshall and Winston, Inc. covering the NE/4 SE/4 of Section 7, T-16-S, R-28-E, Eddy County, New Mexico, for the drilling of a 9350' Morrow Test Well to be located 660' FNL and 660' FEL in Section 7. Said Farmout Agreement provides for the reservation of an override to Marshall and Winston equal to the difference between 25% and existing burdens convertible at payout to a 25% working interest.

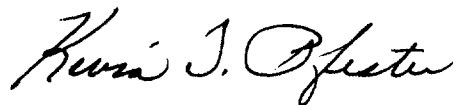
Terra again requests in the absence of your participation in the above referenced well, that you also farmout your interest in the E/2 of Section 7 less and except the NE/4 SE/4 under the same terms as presented to you in Terra's letter of January 29, 1987 and as agreed to by Marshall and Winston, Inc.

In the event Chevron elects to participate in the test well above proposed, enclosed please find a Drilling and Completion AFE and Operating Agreement.

Please advise me of your decision regarding participation or Farming out. If I can be of any further assistance in this regard, please apprise.

Very truly yours,

TERRA RESOURCES, INC.

A handwritten signature in cursive script, reading "Kevin T. Pfister".

Kevin T. Pfister
Senior District Landman

KTP/lz

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
J. SCOTT HALL
PETER N. IVES
JOHN H. BEMIS
MARTE D. LIGHTSTONE

GUADALUPE PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

July 21, 1987

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

To all affected Interest Owners and Operators:

Re: Application of Terra Resources, Inc. for Compulsory Pooling
and Unorthodox Well Location, Eddy County, New Mexico

Dear Interest Owner or Operator:

This letter is to advise you that Terra Resources, Inc. has filed an Application with the New Mexico Oil Conservation Division seeking to pool all unjoined mineral interests for the drilling of a well at an unorthodox location 660' FNL and FEL of Section 7, Township 16 South, Range 28 East, Eddy County, New Mexico. Terra Resources, Inc. proposes to complete its well in the Morrow Gas Pool.

This Application has been set for hearing before a Division examiner on August 12, 1987. You are not required to attend this hearing, but as an interest owner or operator you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Very truly yours,

J. Scott Hall

J. Scott Hall

JSH/dmg

cc: John Lodge

encl.

BEFORE EXAMINER CANTARINI	
OIL CONSERVATION DIVISION	
<u>TERRA</u>	EXHIBIT NO. <u>4</u>
CASE NO:	<u>9192</u>

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☒ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to:
Mesa Operating
Limited Partnership
P.O. Box 2009
Amarillo, TX 79189

4. Article Number
P307895280

Type of Service:
☐ Registered
☒ Certified
☐ Express Mail
☐ Insured
☐ COD

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Addressee's Address (ONLY if requested and fee paid)
Peepley

5. Signature — Addressee
☒

6. Signature — Agent
☒

7. Date of Delivery
JUL 23 1987

DOMESTIC RETURN RECEIPT

PS Form 3811, Feb. 1986

★ U.S.G.P.O. 1985-480-794

PS Form 3800, June 1985

P 307 895 280

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse.)

Mesa Operating Partnership Limited
P.O. Box 2009
Amarillo, TX 79189

Postage	\$ 22
Certified Fee	75
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	70
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$ 1.67
Postmark or Date	7/21/87

P 307 895 281
RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

★ U.S.G.P.O. 1985-480-794 PS Form 3800, June 1985	Send to Charles D. Tyler	
	Street and No. 4611 Shatner Drive	
	P.O. State and ZIP Code Houston, TX 77066	
	Postage	\$ 22
	Certified Fee	75
	Special Delivery Fee	
	Restricted Delivery Fee	
	Return Receipt showing to whom and Date Delivered	70
	Return Receipt showing to whom, Date, and Address of Delivery	
	TOTAL Postage and Fees	\$ 1.67
Postmark or Date 7/21/84		

● SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and pickup box(es) for additional service(s) requested. 1. ☒ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.	
3. Article Addressed to: Charles O. Tyler 4411 Shafter Drive Houston, TX 77066	4. Article Number P 307845281
5. Signature — Addressee X	Type of Service: ☒ Registered ☒ Certified ☐ Express Mail ☐ Insured ☐ COD
6. Signature — Agent X	Always obtain signature of addressee or agent and DATE DELIVERED.
7. Date of Delivery	8. Addressee's Address (<i>ONLY if requested and fee paid</i>)

PS Form 3811, Feb. 1986

DOMESTIC RETURN RECEIPT

PS Form 3811, Feb. 1986

DOMESTIC RETURN RECEIPT

CAMPBELL & BLACK, P.A.

LAWYERS

POST OFFICE BOX 2208

SANTA FE, NEW MEXICO 87504-2208

CLAIM CHECK
884643

☐ HOLD

DATE
AUG 3 1987

1ST NOTICE

2ND NOTICE

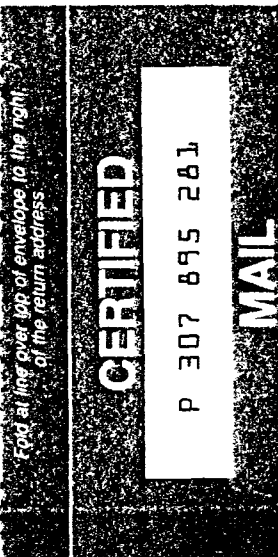
RETURN

Detached from
PS Form 3849-A
Oct. 1980

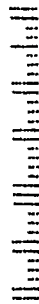
Charles D. Tyler
4611 Shatner Drive
Houston, TX 77066

MOVED, LEFT NO ADDRESS
WILLOW PLACE BRANCH
HOUSTON, TX 77066

RETURNED
TO
SENDER
MOVED, LEFT NO ADDRESS
WILLOW PLACE BRANCH
HOUSTON, TX 77066



RETURN RECEIPT
REQUESTED



P 307 895 281
RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

* U.S.G.P.O. 1985-480-794

PS Form 3800, June 1985

Sent to Charles D. Tyler	
Street and No. 4611 Shatner Drive	
P.O. State and ZIP Code Houston, TX 77066	
Postage	\$ 22
Certified Fee	75
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	70
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$ 1.67
Postmark or Date 7/21/87	

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☒ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to: **Chevron USA, Inc.**
Box 1635
Houston, TX 77251

4. Article Number **P307895282**

Type of Service: ☒ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail

Always obtain signature of addressee or agent and **DATE DELIVERED.**

5. Signature — Addressee **X**
6. Signature — Agent **X**
7. Date of Delivery **JUL 24 1987**

8. Addressee's Address (ONLY if requested and fee paid)

PS Form 3811, Feb. 1986

DOMESTIC RETURN RECEIPT

P 307 895 282
RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

PS Form 3800, June 1985

★ U.S.G.P.O. 1985-480-794

Sent to Chevron USA, Inc.	
Street and No. Box 1635	
P.O. State and ZIP Code Houston, TX 77251	
Postage	\$ 22
Certified Fee	75
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	70
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$ 1.67
Postmark or Date 7/21/87	

P 307 895 283

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

(See Reverse)

PS Form 3800, June 1985

U.S.G.P. © 1985-480-794

Charles D. Tyler
et ux Denis Tyler

Street and No.
P.O. Box 1150

P.O. State and ZIP Code
Midland, TX 79702

Postage	\$ 22
Certified Fee	75
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	70
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$ 1-67
Postmark or Date	7/21/87

NOTE: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4 for address in the "RETURN TO" space on the reverse side. Failure to do this will prevent the item being returned to you. The return receipt fee will provide you the name of the person to whom it is returned and the date of delivery. For additional fees the following services are available. Consult the back of this receipt for fees and check box(es) for additional service(s) requested.

Show to whom delivered, date, and addressee's address.

Article Addressed to:

Charles D. Tyler
et ux Denis Tyler

P.O. Box 1150

Midland, TX 79702

Signature - Addressee

Signature - Agent

Date of Delivery

7-23-87 41 Hawkins

PS Form 3811, Feb. 1986

DOMESTIC RETURN RECEIPT

4. Article Number

P307895 283

Type of Service:

☒ Registered
☒ Certified
☐ Express Mail
☐ Insured
☐ COD

Always obtain signature of addressee or agent and DATE DELIVERED. (ONLY if requested and fee paid)

8. Addressee's Address (ONLY if requested and fee paid)

CAMPBELL & BLACK, P.A.
LAWYERS

POST OFFICE BOX 2208

SANTA FE, NEW MEXICO 87504-2208

Claim Check
No. 713532

☐ Hold

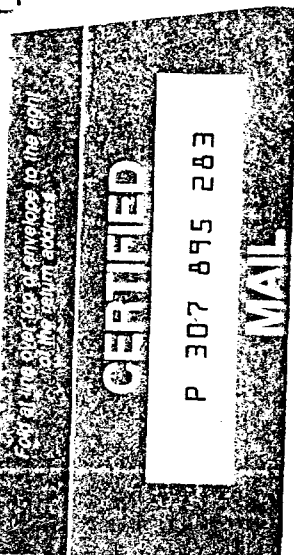
Date

7-23-87
1ST NOTICE

2ND NOTICE

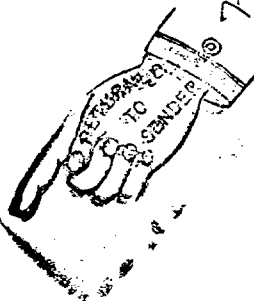
Return

Detached from
PS Form 3849-A,
Oct. 1985



RETURN RECEIPT
REQUESTED

Charles D. Tyler
et us Doris Tyler
P.O. Box 1150
Midland, TX 79702



7-24-87
gmm

CLAIM CHECK
884370

☐ HOLD

JUL 27 1987

1ST NOTICE

2ND NOTICE

RETURN

Detached from
PS Form 3849-A,
Oct. 1985

P 307 895 283

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

(See Reverse)

★ U.S.G.P.O. 1985-480-794	
PS Form 3800, June 1985	
Charles D. Tyler et us Doris Tyler	
Street and No. P.O. Box 1150	
P.O. State and ZIP Code Midland, TX 79702	
Postage	\$ 22
Certified Fee	75
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	70
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$ 1-67
Postmark or Date 7/21/87	

P 307 895 284

RECEIVED JAN 1986

1979
Ardmore Partners Ltd.
354 State Street
Hackensack, NJ 07661
22
75

70

167

7/21/87

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.

Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☒ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to: 4. Article Number

Ardmore Partners 1979, Ltd. 3507895284

Type of Service:

☒ Registered
☒ Certified
☐ Express Mail
☐ Insured
☐ COD

Always obtain signature of addressee or agent and DATE DELIVERED.

8. Addressee's Address (ONLY if requested and fee paid).

5. Signature - Addressee

6. Signature - Agent

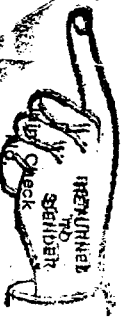
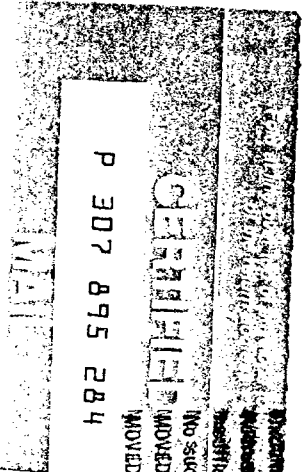
7. Date of Delivery

POSTAGE PAID PERMIT NO. 1986

DOMESTIC RETURN RECEIPT

**RETURN RECEIPT
REQUESTED**

CAMPBELL & BLACK, P.A.
LAWYERS
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208



NO SUCH STREET
MOVED LEFT AND ADDRESS
MOVED INTO ADDRESS

Ardmore Partners, 1979, Ltd.
354 State Street
Hackensack, NJ

2ND Notice
Return

EXCHANGED
P88

Detached from
PS Form 3849-A,
Oct. 1985

Detached from
PS Form 3849-A,
Oct. 1980

1ST NOTICE
2ND NOTICE
RETURN

JUL 31 1987

THANK YOU
CLAIM CHECK
884524 SERVICE

P 307 895 284
RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

★ U.S.G.P.O. 1985-480-794

Sent to Ardmore Partners Ltd.	
Post Office No. 354 State Street	
P.O. State and ZIP Code Hackensack, NJ 07061	
Postage	22
Certified Fee	75
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	70
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	1.67
Postmark or Date 7/21/87	

PS Form 3800, June 1981

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☒ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to: **APD COMPANY**
Joshay Tower
Minneapolis, Minn
55402

5. Signature — Addressee
X

6. Signature Agent
X *[Signature]*

7. Date of Delivery
July 27, 1987

4. Article Number
P307895285

Type of Service:
☒ Registered ☐ Insured
☐ Certified ☐ COD
☐ Express Mail

8. Addressee's Address (ONLY if requested and fee paid)
Always obtain signature of addressee or agent and DATE DELIVERED.

PS Form 3811, Feb. 1986

DOMESTIC RETURN RECEIPT

P 307 895 285

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

APD Company	
Joshay Tower	
Minneapolis, Minn 55402	
Postage	22
Certified Fee	75
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	70
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	1.67
Postmark or Date	7/26/87

PS Form 3800, June 1985

4 967-001 1985-480-794
U.S. POSTAL SERVICE

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☒ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to:
Samedan Oil Corp.
Box 909
Ardmore, OK 73401

4. Article Number
P307895286

Type of Service:
☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail

Always obtain signature of addressee or agent and **DATE DELIVERED.**

5. Signature — Addressee
[Signature]

6. Signature — Agent
[Signature]

7. Date of Delivery
7-23-87

8. Addressee's Address (ONLY if requested and fee paid)

PS Form 3811, Feb. 1986

DOMESTIC RETURN RECEIPT

★ U.S.G.P.O. 1985-480-794

PS Form 3800, June 1985

P 307 895 286

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
 NOT FOR INTERNATIONAL MAIL
 (See Reverse)

Sent to Samedan Oil Corp.	
Street and No. Box 909	
P.O. State and ZIP Code Ardmore, OK 73401	
Postage	\$ 22
Certified Fee	75
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	70
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$ 1.67
Postmark or Date 7/21/87	

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to:
Eagle Oil & Gasco.
510 Hamilton Bldg.
Wichita Falls, TX 76301

4. Article Number
P 307 895 287

Type of Service:
☐ Registered ☐ Insured
☐ Certified ☐ COD
☐ Express Mail

Always obtain signature of addressee or agent and **DATE DELIVERED.**

5. Signature - Addressee
X

6. Signature - Agent
X

7. Date of Delivery
7/23/87

8. Addressee's Address (ONLY if requested and fee paid)

PS Form 3811, Feb. 1986

DOMESTIC RETURN RECEIPT

P 307 895 287
RECEIPT FOR CERTIFIED MAIL
 NO INSURANCE COVERAGE PROVIDED
 NOT FOR INTERNATIONAL MAIL
 (See Reverse)

★ U.S.G.P.O. 1985-480-794

PS Form 3800, June 1985

Sent to Eagle Oil & Gasco.	
Street and No. 510 Hamilton Bldg.	
P.O., State and ZIP Code Wichita Falls, TX 76301	
Postage	\$ 22
Certified Fee	75
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	70
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$ 1.67
Postmark or Date 7/23/87	

AUTHORITY FOR EXPENDITURE

AFE NO. _____

OPERATOR Terra Resources, Inc.
 DIVISION Southwest District DATE July 17, 1987
 DEPARTMENT Exploration-Development LOCATION Midland, Texas
 WELL LEASE Channel Prospect Well No. 1, See attached for location
 LOCATION ETC. Eddy County, New Mexico

QUANTITY	DESCRIPTION OF WORK TO BE DONE OR MATERIAL	PROJECT COSTS
	Drill and Test	\$265,000
	Completion	<u>228,000</u>
	Total	\$493,000

STUGNER
 BEFORE EXAMINER CATANACH
 OIL CONSERVATION DIVISION
TERRA EXHIBIT NO. 5
 CASE NO. 9192

JUSTIFICATION: 9,300' Atoka - Morrow Test Well.

PARTNER APPROVAL REQUIRED YES ☒ NO ☐

PARTICIPANTS	WORKING INTEREST	COST	GROSS AFE AMOUNT
Terra Resources, Inc. Chevron USA, Inc.	12.5% 87.5%	\$61,625 \$431,375	\$493,000
			APPROVED _____ DISAPPROVED _____
			COMPANY REPRESENTATIVE _____
			Chevron USA, Inc. _____
			COMPANY _____
			DATE _____

THE ABOVE AFE IS AN ESTIMATE ONLY. WORKING INTEREST OWNERS SHOULD NOT CONSIDER THESE ESTIMATES AS ESTABLISHING ANY LIMITS ON THE MONIES WHICH WILL BE REQUIRED TO PERFORM THE PROPOSED OPERATIONS.

TERRA RESOURCES, INC.
 AFE DETAIL INPUTS
DRILLING & COMPLETION DETAILED COST ESTIMATE

Lease Name CHANNEL PROSPECT Well No. 1 Field DIAMOND MOUND
 Well Location 660' FNL & FEL Sec. 7 T-16-S R-28-E
 County EDDY State NEW MEXICO Terra W.I. 100%
 Objective Formation ATOKA - MORROW Proposed Depth 9,300'

<u>CATEGORY</u>	<u>DRILL&TEST</u>	<u>COMPLETION</u>	<u>TOTAL</u>
1. Survey - Stake Location	1,000		1,000
2. Permits & Hearings			
3. Building Road, bridges, canals	5,000	5,000	10,000
4. Building location & pits	10,000		10,000
5. Insurance	5,200		5,200
6. Move in-Rig up-Rig down-Move out			
7. Rat hole			
8. Footage contract 9,300' @ \$14/ft.	130,200		130,200
9. Day work contract 3/1 days @ \$4000/day	12,000	4,000	16,000
10. Turnkey Agreement			
11. Rig for Completion 5 days		6,000	6,000
12. Drill Bits		500	500
13. Rental Equip.	2,500	2,500	5,000
14. Fishing Tools & Service			
15. Company Labor	200	800	1,000
16. Auto & Travel	300	700	1,000
17. Contract Labor	500	1,500	2,000
18. Trucking, Hauling, Serv. Equip.	1,500	2,500	4,000
19. Power & Fuel			
20. Water	9,000	2,000	11,000
21. Mud & Chemicals	12,000		12,000
22. Drill pipe, Casing, Tubing Insp.	500	500	1,000
23. Formation Testing (Including DST)	4,000		4,000
24. Coring and Core Analysis ____ ft of core Cut @ ____/ft.			
25. Mud Logging	9,000		9,000
26. Logs	11,500	4,500	16,000
27. Temp. Survey			
28. Bottom Hole Pressure Test		3,000	3,000
29. Directional Services			
30. Engineering, Geological, Geophysical	5,000	2,000	7,000
31. Cmtg, Conductor or Surf. Csg. (Inc. Float Equip.)	3,500		3,500
32. Cmtg, Inter, or Prod. Csg. (Inc. Float Equip.)	4,500	12,500	17,000
33. Squeeze Jobs			
34. Perf. or Shooting		6,000	6,000
35. Frac and/or Acidize		25,000	25,000
36. Swabbing			
37. Plugging			
38. Damage & Claims	1,000	500	1,500
39. Cleaning Location	3,000		3,000
40. District Expense	9,000	1,500	10,500
41. Communications	1,000	500	1,500
42. Environmental & Safety Equip.			
43. Misc. Material. & Service (Taxes)	2,600	1,500	4,100
<u>TOTAL INTANGIBLES</u>	<u>\$244,000</u>	<u>\$83,000</u>	<u>\$327,000</u>

REVISED DRILLING & COMPLETION DETAILED COST ESTIMATE
 CHANNEL PROSPECT #1
 EDDY COUNTY, NEW MEXICO
 PAGE TWO

	DRILL&TEST	COMPLETION	TOTAL
50. Surface Casing 300' of 13-3/8" OD 48#/ft @ \$12/ft	3,600		3,600
51. Intermediate Casing 1700' of 8-5/8" OD 24#/ft @ \$7.50/ft	12,800		12,800
52. Production Casing 6100' of 5-1/2" OD 15.5#/ft @ \$4.70/ft 3200' of 5-1/2" OD 17#/ft @ \$5/ft		44,700	44,700
53. Liner			
54. Tubing 9000' of 2-3/8" OD 4.7#/ft @ \$3.15/ft		28,400	28,400
55. Christmas Tree	4,600	7,900	12,500
56. Pumping Unit, Prime Mover			
58. Production Platform			
59. Rods			
60. Subsurface Pump			
61. Tanks		8,000	8,000
63. Circulating Pump			
64. Dehydrator			
65. Heater Treater or Gunbarrel			
66. Separators		8,500	8,500
68. Flowline & connections 8000' of 2-1/2" OD		16,000	16,000
70. Meter, Meter run		2,500	2,500
71. Buildings			
72. Packer		2,500	2,500
73. Miscellaneous Equipment		1,500	1,500
TOTAL TANGIBLES	\$21,000	\$120,000	\$141,000
56. Installation Pumping Unit or Prime Mover			
61. Installation of Tanks		500	500
64. Installation of Dehydrator			
65. Installation of Heater Treater/Gunbarrel			
66. Installation of Separator		1,000	1,000
68. Installation of Flowline		23,500	23,500
73. Installation of Miscellaneous Equip.			
TOTAL INTANGIBLE INSTALLATION COSTS		<u>\$25,000</u>	<u>\$25,000</u>
TOTAL PROJECT AFE COST	\$265,000	\$228,000	\$493,000

Prepared by: Shirley Cramer Date: 7-13-87
 Approved by: [Signature] Date: 7-13-87

NO. OF COPIES RECEIVED	
DISTRIBUTION	
SANTA FE	
FILE	
U.S.G.S.	
LAND OFFICE	
OPERATOR	

P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

5A. Indicate Type of Lease
STATE ☐ REC ☐
5. State Oil & Gas Lease No.

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. Type of Work DRILL ☒ DEEPEN ☐ PLUG BACK ☐		7. Unit Agreement Name
b. Type of Well OIL WELL ☐ GAS WELL ☒ OTHER ☐ SINGLE ZONE ☒ MULTIPLE ZONE ☐		8. Farm or Lease Name Chevron "7" Federal
2. Name of Operator Terra Resources, Inc.		9. Well No. 1
3. Address of Operator 10 Desta Drive, Suite 500 West Midland, Texas 79705		10. Field and Pool, or Wildcat Diamond Mound
4. Location of Well UNIT LETTER <u>A</u> LOCATED <u>660</u> FEET FROM THE <u>East</u> LINE AND <u>660</u> FEET FROM THE <u>North</u> LINE OF SEC. <u>7</u> TWP. <u>16-S</u> RGC. <u>28-E</u> NMPM		12. County Eddy
19. Proposed Depth 9350		19A. Formation Morrow
20. Rotary or C.T. Rotary		
21. Elevations (Show whether DF, RT, etc.) 3650' RKB	21A. Kind & Status Plug. Bond Blanket	21B. Drilling Contractor Undetermined
		22. Approx. Date Work will start 9-15-87

PROPOSED CASING AND CEMENT PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	SACKS OF CEMENT	EST. TOP
17½"	13-3/8"	48	300	320	Circulate
11"	8-5/8"	24	1800	525	Circulate
7-7/8"	5-1/2"	15.5 & 17.0	9350	500	6600'

- 1) Drill 17½" hole to 300' w/fresh water mud. Set 13-3/8" csg at 300' and circulate cement back to surface.
- 2) Drill 11" hole to 1800' w/brine water. Set 8-5/8" csg at 1800' & circulate cement back to surface.
- 3) Drill 7-7/8" hole to 9350' w/fresh water mud. Set 5-1/2" csg @ 9350' and cement back to 6600'.

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
TERRA EXHIBIT NO. 6
CASE NO. 9192

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: IF PROPOSAL IS TO DEEPEN OR PLUG BACK, GIVE DATA ON PRESENT PRODUCTIVE ZONE AND PROPOSED NEW PRODUCTIVE ZONE. GIVE BLOWOUT PREVENTER PROGRAM, IF ANY.

hereby certify that the information above is true and complete to the best of my knowledge and belief.

Signed Vern M. Cooper Title Operations Engineer Date 8-11-87
(This space for State Use)

APPROVED BY _____ TITLE _____ DATE _____
CONDITIONS OF APPROVAL, IF ANY:

**NEW MEXICO OIL CONSERVATION COMMISSION
WELL LOCATION AND ACREAGE DEDICATION PLAT**

Form C-102
Supersedes C-128
Effective 1-1-65

All distances must be from the outer boundaries of the Section.

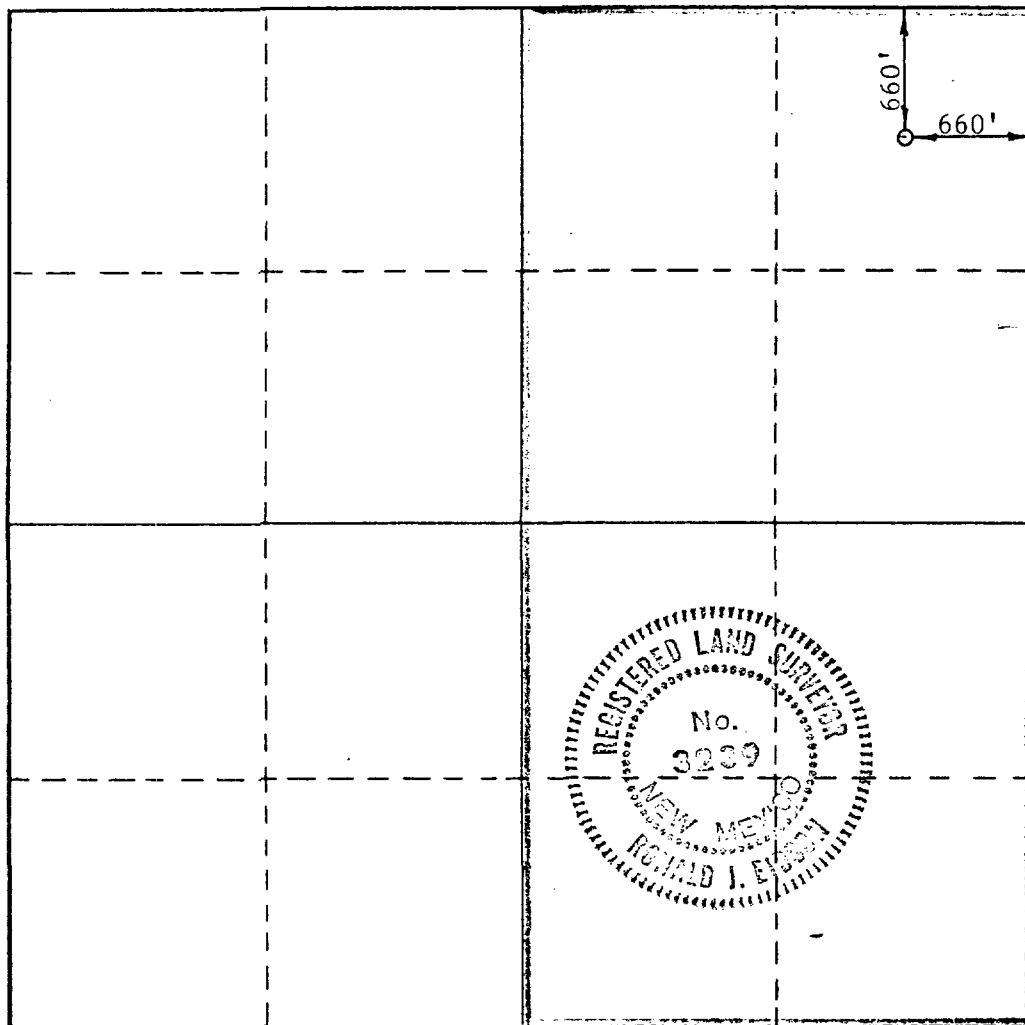
Operator Terra Resources, Inc.			Lease Chevron 7		Well No. 1
Unit Letter A	Section 7	Township 16 South	Range 28 East	County Eddy	
Actual Footage Location of Well: 660 feet from the North line and 660' feet from the East line					
Ground Level Elev. 3635.1	Producing Formation Atoka - Morrow	Pool Diamond Mound		Dedicated Acreage: 320 Acres	

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☒ No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Name
Vern M. Capner
Position
Operations Engineer
Company
Terra Resources, Inc.
Date
8-11-87

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed
August 7, 1987
Registered Professional Engineer and/or Land Surveyor
Ronald J. Eidson
Certificate No. **JOHN W. WEST, 676**
RONALD J. EIDSON, 3239

