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W. THOMAS KELLAHIN*

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

JASON KELLAHIN (RETIRED 1991)

February 6, 1997

VIA FACSIMILE AND FEDERAL EXPRESS
(303) 573-0813

UMC Petroleum Corporation
410 17th Street
Suite 1400
Denver, Colorado 80202
Attn: Mr. Ed McLaughlin
Land Department (303) 573-5100

URGENT

Re: ***NOTIFICATION OF ELECTION TO PARTICIPATE***

*Communitization of Lot 9 and Lot 16 to form a
standard 80-acre oil proration and spacing unit for
UMC Petroleum Corporation's Townsend State Well No 1
API Number: 30-025-33713
727 feet FEL and 3526 feet FSL
Irregular Section 2, T16S, R35E, NMPM
Lea County, New Mexico
West Lovington-Strawn Pool*

Dear Mr. McLaughlin:

On behalf of Amerind Oil Company, Ltd. and Michael Shearn, (collectively "Amerind") the working interest owners of Lot 9 of Irregular Section 2, T16S, R35E, NMPM, I am authorized to hereby elect to join with UMC Petroleum Corporation ("UMC") the working interest owner of Lot 16 of said Irregular Section 2, to form a standard 80-acre oil proration and spacing unit for production from the West Lovington-Strawn Pool to be dedicated to UMC's Townsend State Well No. 1 which UMC is currently drilling at a standard well location in Lot 16.

In accordance with the Special Rules and Regulations of the New Mexico Oil Conservation Division promulgated for the West Lovington Strawn Pool (Order R-9722, as amended), the Division has determined that either Lot 15 or Lot 9 are the only lots in Irregular Section 2 which can be combined with Lot 16 in Irregular Section 2 to form a standard proration and spacing unit. See **Attached Exhibit 1.**

On December 20, 1996, Yates Petroleum Corporation and UMC entered into a Joint Operating Agreement consolidating Lots 10 and 15 to form a standard proration and spacing unit for Yates' Field APK State Com Well No. 1 which has already been permitted to be drilled in Lot 10. UMC, by its own actions, is now precluded from dedicating Lot 16 with Lot 15. Thus Lot 9 is the only lot left which can be consolidated with Lot 16 to form a standard unit.

UMC's attempt to combine Lot 16 and Lot 17 constitutes a "**non-standard proration and spacing unit**" which has not been approved by the Division. Amerind objects to any attempt by UMC to do so. The New Mexico Oil Conservation Division (Santa Fe) has confirmed that UMC has failed to comply with Rule 2 of the Special Rules and Regulations of the West Lovington-Strawn Pool. Upon completion of the Townsend State Well No. 1, the well must be shut-in and no allowable will be assigned until UMC has formed a proper spacing unit. In addition, the C-102 attached to UMC's Application for Permit to Drill ("APD") incorrectly identifies the lot numbering system for Irregular Section 2 and improperly attempts to dedicate the well to a spacing unit consisting of Lots 16 and 17. Finally, the fact that UMC obtained an approved APD from the OCD-Hobbs does **not constitute** approval of UMC's proposed spacing unit.

Therefore, in accordance with the Special Rules and Regulations for the West Lovington-Strawn Pool and pursuant to Section 70-2-17(C) NMSA (1978), Amerind hereby agrees to pool its interest in Lot 9 with UMC's interest in Lot 16 to form a standard proration and spacing unit and to join in the subject well. Accordingly, please transmit to me, by facsimile and Federal Express, for Amerind's approval the following:

- (1) the AFE for the well,
- (2) the drilling program for the well,
- (3) the completion program for the well,
- (4) proposed Communitization Agreement,
- (5) proposed Joint Operating Agreement,
- (6) all daily drilling and completing reports,
- (7) any and all logs, including mud logs,
- (8) any and all reservoir, including fluid, data/reports



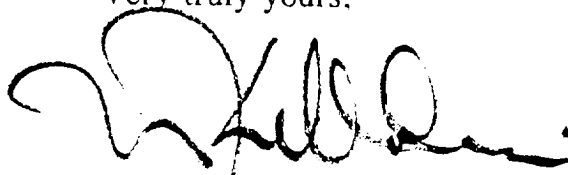
UMC Petroleum Corporation
February 6, 1997
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In addition, I wish to advise you that Amerind has considerable experience in drilling and completing Strawn oil wells of this type. In order to maximize the opportunity for a successful completion of this well, Amerind strongly urges UMC **not** to attempt to compete the well in the entire pay interval in the Strawn formation **but, instead**, to limit any perforations to the bottom 10 feet to 15 feet of the Strawn limestone pay interval. Such a limited completion is essential to preserve reservoir energy and to maximize potential production. If this is not UMC's completion program, then you are hereby demanded to discontinue operations on the well until this matter can be resolved.

Because UMC is currently drilling this well and is about to commence completion operations, time is of the essence. Thus, should UMC not consent to the foregoing by noon, Tuesday, February 10, 1997, then I will have no alternative but to commence compulsory pooling proceedings before the New Mexico Oil Conservation Division in which, among other things, Amerind will seek to be declared the operator of the well.

I look forward to your cooperation in allowing Amerind to participate in the decisions about this well, to pay its proper share of costs and to form a standard spacing unit.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', with a stylized, flowing script.

W. Thomas Kellahin

cc: NMOCD-Santa Fe
Attn: Michael E. Stogner
cc: NMOCD-Hobbs
Attn: Jerry Sexton
cc: Amerind Oil Company, Ltd.
Robert C. Liebrock
cc: Michael Shearn
cc: Commissioner of Public Lands
Attn: Jeff Alpers



Price

3

4

3

2

AMERIND

Mobil State

YATES
Daisy St.

YATES

Gallagher State

LG-478

VA-604

12

11

10

YATES

AMERIND
State "AY"

VA-604

LG-478

13

14

15

16

UMC PET.
Townsend St.

UMC PET.
Townsend St.

UMC PETR.

20

19

18

17

R 35 E

EXHIBIT

2





(a) Lots 10 and 15 would be standard;

(b) Lots 10 and 11 would be non-standard; and,

(c) Lots 7 and 10 would also be non-standard;

(4) Mr. Kellahin's request of February 3, 1997 to consolidate this case with Case No. 11716;


(5) Mr. Carr's entry of appearance in this matter, dated February 3, 1997; and,

(6) Mr. Carr's motion to dismiss, dated February 5, 1997.

Considering the fact that all of said irregular Section 2 is subject to the "*Special Rules and Regulations for the West Lovington-Strawn Pool*", as promulgated by Division Order No. R-9722, as amended, which includes a provision for 80-acre spacing, and that a request for a non-standard 80-acre oil spacing and proration unit to comprise Lots 7 and 10, that is the subject of the force pooling application, was not included in the call of Case 11, 717 or legal advertisement for said case, this matter is hereby dismissed.

Also, considering the above action in Case 11717, Amerind may wish to continue Case No. 11716 and re-advertise said application accordingly.

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Hobbs
Case File 11,717
Case File 11,716
William J. LeMay, OCD Director - Santa Fe
Rand Carroll, Legal Counsel - OCD, Santa Fe
Florene Davidson - OCD, Santa Fe

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