

UMC Petroleum Corporation

February 11, 1997

Via Facsimile Transmission (505) 982-2047
and Federal Express Mail 2496727892

Kellahin and Kellahin
Attorneys at Law
El Patio Building
117 North Guadalupe
Santa Fe, New Mexico 87504-2265
Attention: Mr. W. Thomas Kellahin

Re: UMC Petroleum Corporation ("UMC")
Townsend State Well N^o 1 ("Well")
API Number: 30-025-33713
Lot 16, Section 2, T16S-R35W
Lea County, New Mexico

Gentlemen:

This letter is in response to your letter to UMC dated February 6, 1997, written on behalf of Amerind Oil Company, Ltd. and Michael J. Shearn (collectively "Amerind"), regarding the captioned.

As Amerind is aware, uncertainty exists as to what constitutes *standard* or *non-standard* proration and spacing units in elongated sections such as the captioned Section 2. UMC's Application for Permit to Drill the Well ("APD"), approved by the State of New Mexico Oil Conservation Division ("OCD"), designated an 80-acre unit consisting of Lots 16 and 17. UMC filed the APD with the belief that such designation constituted a standard unit. After receiving approval of the APD on December 9, 1996, UMC commenced the Well on December 19, 1996.

In January of this year, Amerind filed applications to pool the working interest of Yates Petroleum Corporation into two northern adjacent or cornering proposed units in Section 2, such units consisting of Lots 7 and 10 (Case 11,717) and Lots 8 and 9 (Case 11,716). Both of Amerind's proposed units consist of the same configuration within Section 2 as UMC's unit designation of Lots 16 and 17 (plat attached). Apparently, Amerind believed that its proposed units were standard as it did not file accompanying applications seeking non-standard unit designations. After reviewing Amerind's pooling applications, the OCD issued a letter on February 5th stating that Amerind's proposed unit designation of Lots 7 and 10 was non-standard. Unsatisfied with the OCD's findings, Amerind is now claiming that UMC's prior unit designation of Lots 16 and 17 is also non-standard. Further, Amerind has demanded that the unit for the Well be reconfigured to include Lots 9 and 16 so as to result in Amerind's ownership of a fifty percent working interest in the Well. Inasmuch as Amerind has been aware of UMC's unit designation and UMC's assumption of all cost and risk in drilling the Well, Amerind's demand for participation at this late date is both untimely and unacceptable to UMC.



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Page 2 of 2

While the OCD's February 5, 1997 letter not does not specifically state that Lots 16 and 17 comprise either a standard or non-standard unit, it does create uncertainty. In light of this uncertainty and Amerind's demand for fifty percent of UMC's interest in the Well, UMC has filed an application with the OCD for a non-standard unit consisting of Lots 16 and 17.

Please feel free to call if you have any questions.

Sincerely,

UMC PETROLEUM CORPORATION



Edward L. McLaughlin
Vice President - Land

ELM/kv

Attachment

- xc:
- NMOCD - Santa Fe
Attn: Mr. Michael E. Stogner
 - NMOCD - Hobbs
Attn: Mr. Jerry Sexton
 - Amerind Oil Company, Ltd.
Attn: Mr. Robert C. Liebrock
 - Mr. Michael Shearn
 - Commissioner of Public Lands
Attn: Mr. Jeff Albers
 - James Bruce, Esquire





