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Including the 29 month period when we were "flying blind" on allowable, MO&K has produced 72%, or 3,241,246 Mcf, of the 4,500,757 Mcf standard allowable for a section of this size through the end of February, 1991. This has resulted, upon recalculation, of total cumulative over-production of 675,815 Mcf, or 15% more than the 57% penalized allowable.

For the five month period from last October through the end of February, the proration schedule correctly listed a total cumulative penalized allowable for the Smith Federal of 502,606 Mcf. With the guidance of the schedule during that five month period, MO&K's actual production amounted to 492,890 Mcf.

Given the circumstances under which we have arrived at these corrected figures, MO&K respectfully requests that the OCD grant a grace period of 24 months, beginning June 1, 1991, during which time any over-production accrued by May 31, 1991, can be worked off. In granting this request, we ask the OCD to consider the following points:

(A) MO&K acknowledges the fact that this over-production exists and accepts the responsibility for bringing it back into compliance with State guidelines.

(B) The over-production was accrued unknowingly over a 29 month period, during the time that the proration schedule was in error and provided no Monthly Allowable, O/P Limit or Cumulative Over-Production figures.

(C) MO&K acted in good faith by voluntarily limiting production during this period and by requesting that the proration schedule be corrected.

(D) We believe that a long-term shut-in of the well, until the over-production is eliminated, may adversely affect near-wellbore relative permeability, and in turn, affect future deliverability.

(E) MO&K, a small, financially leveraged company, having based a large part of its operations on the production from this lease, will suffer severe economic consequences if production is drastically curtailed or shut-in.

To address Amoco's concerns as stated in their February 25, 1991 letter to the OCD:

(F) A historical analysis of surrounding wells and a new formation pressure test and engineering analysis indicate more than adequate reserves remaining to work-off this over-production during a 24 month period.