

February 21, 1991

733-3771  
Seventh Day Adventist  
Association of Colorado  
2520 S. Downing Street  
Denver, Colorado 80210  
Attn: Mr. Dwayne Rollins

Re: Oil & Gas  
T30 N-R 11 W  
Section 18  
San Juan Co.,  
New Mexico

Dear Mr. Rollins:

Pursuant to our recent phone conversation, enclosed is an Oil and Gas Lease and bank draft for your interest in the captioned lands. These instruments were prepared with the following terms and conditions:

Lessor's Royalty:	One-eighth (1/8)
Term:	Two (2) years
Bonus:	\$20.00 per net mineral acre
Total Bonus:	\$ 980.00

Should the above terms be acceptable and you find the enclosed documents in order, please:

- 1) Sign the original lease at the bottom before a Notary Public exactly as typed, and insert your Social Security number or Tax I.D. number in the spaces provided;
- 2) Have the Notary Public execute the Acknowledgement on the back of the lease and affix their seal;
- 3) Deposit the signed, notarized lease and draft at your bank. They will send both the lease and draft through Maralex's bank for collection and payment.

Please retain for your records the enclosed copies of both the lease and draft. Please provide me with a copy of the Trust Agreement between the Seventh Day Adventist Association and Edrice Kelly. Should you have any questions, contact me at the captioned telephone number. Thank-you for your assistance in this matter.

Sincerely,

BEFORE EXAMINER STOGNER	
<i>John C. Ritcher</i>	
John C. Ritcher, C. P. L.	
Landman	
EXHIBIT NO.	_____
CASE NO.	10274
	275
	276



518 17th St., Suite 1030  
Denver, Colorado 80202  
(303) 571-4220

February 6, 1991

505-327-7701  
3741  
still reviewing!

Mr. Jay Burnham  
601 East Diamond  
Farmington, New Mexico 87401

Re: Oil & Gas Lease  
T 30 N-R 11 W  
Section 18  
San Juan Co.,  
New Mexico

Dear Mr. Burnham:

Pursuant to our recent phone conversation, enclosed is an Oil and Gas Lease and bank draft for your interest in the captioned lands. These instruments were prepared with the following terms and conditions:

Lessor's Royalty:	One-eighth (1/8)
Term:	Two (2) years
Bonus:	\$20.00 per net mineral acre
Total Bonus:	\$900.00

Should the above terms be acceptable and you find the enclosed documents in order, please:

- 1) Sign the original lease at the bottom before a Notary Public exactly as typed, and insert your Social Security numbers in the spaces provided;
- 2) Have the Notary Public execute the Acknowledgement on the back of the lease and affix their seal;
- 3) Deposit the signed, notarized lease and draft at your bank. They will send both the lease and draft through Maralex's bank for collection and payment.

In addition, please provide this office with a copy of the Trust Agreement dated September 20, 1981.

I am enclosing page 63 of a Title Opinion dated November 16, 1990. Requirement number 6 asks for information on the Maleta Y. Brimhall Estate. Do you have any information regarding her Estate? I would appreciate any information which you might have in your files.

Please retain for your records the enclosed copies of both the lease and draft. Should you have any questions, contact me at the captioned telephone number. Thank-you for your assistance in this matter.

Sincerely,

*Jennifer Ritcher*  
Jennifer Ritcher, C. P. L.  
Landman

May 23, 1990

Bernice Martin Taylor  
2238 Royal Oak Avenue  
Duarte, California 91010

Re: Well Proposal  
T 30N-R 11W  
Section 18:N/2  
San Juan County,  
New Mexico  
Brimhall Prospect

Dear Ms. Taylor:

Maralex Resources, Inc. (Maralex) proposes the recompletion of an existing wellbore or the drilling of a new well to be located in the NE/4 of Section 18, T30N-R11W, San Juan County, New Mexico. The recompletion will be contingent upon a mechanically sound wellbore. Said Test Well shall be drilled or recompleted to a depth of 2,200 feet or to a depth sufficient to test the Basal Fruitland Coal Formation, whichever is lesser. Maralex's estimated costs for a new, completed well are \$235,750 and for a recompletion are \$140,820, complete, as indicated on the enclosed AFE's. A record check indicates that you own an interest in the 320.00 acre drillsite spacing unit comprised of the N/2 of Section 18, T30N-R11W. Maralex invites you to participate in its proposed well or in lieu of participation, either farmout or sell your interest in the drillsite spacing unit for the Test Well on the following general terms and conditions.

I. Farmout

1. Maralex shall commence or cause to be commenced the drilling of the Test Well within ninety (90) days from the date of final execution by yourself and Maralex of a mutually acceptable formal Farmout Agreement. Should Maralex be unable to obtain the required drilling permits from the State and Federal regulatory agencies, you shall grant an extension for the commencement of or allow Maralex to move the location of the Test Well.

2. Upon Maralex completing the drilling of the Test Well as a producer, Maralex shall earn 100% of your interest in the drillsite spacing unit and you shall retain a proportionate overriding royalty interest through payout equal to the

EXHIBIT 1 (cont.)

difference between landowner's royalty plus overriding royalties in existence as of the date of this Agreement, and 20%. You agree to deliver an eighty percent (80%) net revenue interest lease before payout. Said overriding royalty shall be convertible at payout at your option to a thirty percent (30%) working interest.

3. If the Test Well is a dry hole or is incapable of producing in paying quantities, Maralex shall earn seventy percent (70%) of your interest in the drillsite spacing unit.

4. All rights earned and retained shall be proportionately reduced and shall be from the stratigraphic equivalent of the total depth drilled in the Test Well.

5. Maralex agrees to drill the Test Well prior to the expiration of the Section 29, Nonconventional Fuel Tax Credit, or any extension of the tax credit period.

6. All cost, risk and expense associated with the drilling, testing and completing and /or plugging and abandoning of the Test Well shall be borne by Maralex and you shall receive all geologic and production data obtained by the drilling of the Test Well.

7. Maralex and yourself agree to enter into a formal Farmout Agreement covering the Farmout Lands, with an attached AAPL Model Form 610 Joint Operating Agreement(1982) with an attached COPAS Accounting Procedure and Gas Balancing Agreement. Said Joint Operating Agreement shall go into effect upon payout of the Test Well.

8. This Farmout is subject to approval by Maralex of title.

9. Maralex's liability for failure to commence and drill the Test Well shall be limited to the loss of opportunity to earn the interest hereinabove described.

## II. Participation

1. Maralex and yourself agree to enter into an AAPL Form 610-1982 Joint Operating Agreement with an attached COPAS Accounting Procedure and Gas Balancing Agreement which shall incorporate (among other provisions) the following:

- a) Article IV.B. shall provide for individual loss of title.
- b) Maralex shall be designated Operator.
- c) Article VI.B.2a) shall provide for 100%/100% non-consent penalties.

EXHIBIT 1 (cont.)

d) Article VI.B.2b) shall provide for 300%/300% non-consent penalties.

e) Fixed Rate Overhead rates shall be \$2,800 for drilling well rate and \$280 for producing well rate.

III. Sale of Interest

If you elect not to farmout or participate in the Test Well, Maralex would like to purchase your interest in the drillsite spacing unit. Said offer shall be subject to you delivering an 82.5% net revenue interest lease and subject to approval of title by Maralex. If Maralex is unable to acquire the necessary farmouts, participation or pooling of 100% of the interest in the drillsite spacing unit, the offer to purchase shall be null and void.

This letter shall not survive a formal contract which shall incorporate the terms and conditions contained herein. Please indicate your election by executing in the space provided below and returning one (1) copy of this letter to the undersigned on or before June 1, 1990. This Agreement shall be null and void after that time. In addition, please contact me if you have any partners in this leasehold.

Sincerely,

A. M. O'Hare, P.E.  
President  
Maralex Resources, Inc.

\_\_\_\_\_ I elect to participate in the Test Well and return the executed AFE.

\_\_\_\_\_ I elect to Farmout my interest in the drillsite spacing unit to Maralex on the terms contained herein.

\_\_\_\_\_ I would entertain an offer to sell my interest in the drillsite spacing unit to Maralex.

Agreed to and accepted this \_\_\_\_\_ day of \_\_\_\_\_, 1990.

By: \_\_\_\_\_

Bernice Martin Taylor

**MARALEX**  
Resources, Inc.

Claim Check No. 1030  
No. 80202

Hold

Date

1ST Notice  
2ND Notice

Return

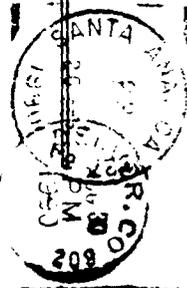
Delivered from  
PC 1713-1-A,  
Oct. 1985

**CERTIFIED**  
P 352 550 429  
**MAIL**

Do not re-mail in this envelope

MS. Mary Lund  
666 Anita Street  
Laguna Beach, CA 92651

*M. Response*



*noted  
10-19-85  
5/22  
9/19*

May 23, 1990

Mary Lund  
666 Anita Street  
Laguna Beach, CA 92651

Re: Well Proposal  
T 30N-R 11W  
Section 18:N/2  
San Juan County,  
New Mexico  
Brimhall Prospect

Dear Ms. Lund:

Maralex Resources, Inc. (Maralex) proposes the recompletion of an existing wellbore or the drilling of a new well to be located in the NE/4 of Section 18, T30N-R11W, San Juan County, New Mexico. The recompletion will be contingent upon a mechanically sound wellbore. Said Test Well shall be drilled or recompleted to a depth of 2,200 feet or to a depth sufficient to test the Basal Fruitland Coal Formation, whichever is lesser. Maralex's estimated costs for a new, completed well are \$235,750 and for a recompletion are \$140,820, complete, as indicated on the enclosed AFE's. A record check indicates that you own an interest in the 320.00 acre drillsite spacing unit comprised of the N/2 of Section 18, T30N-R11W. Maralex invites you to participate in its proposed well or in lieu of participation, either farmout or sell your interest in the drillsite spacing unit for the Test Well on the following general terms and conditions.

#### I. Farmout

1. Maralex shall commence or cause to be commenced the drilling of the Test Well within ninety (90) days from the date of final execution by yourself and Maralex of a mutually acceptable formal Farmout Agreement. Should Maralex be unable to obtain the required drilling permits from the State and Federal regulatory agencies, you shall grant an extension for the commencement of or allow Maralex to move the location of the Test Well.

2. Upon Maralex completing the drilling of the Test Well as a producer, Maralex shall earn 100% of your interest in the drillsite spacing unit and you shall retain a proportionate overriding royalty interest through payout equal to the

difference between landowner's royalty plus overriding royalties in existence as of the date of this Agreement, and 20%. You agree to deliver an eighty percent (80%) net revenue interest lease before payout. Said overriding royalty shall be convertible at payout at your option to a thirty percent (30%) working interest.

3. If the Test Well is a dry hole or is incapable of producing in paying quantities, Maralex shall earn seventy percent (70%) of your interest in the drillsite spacing unit.

4. All rights earned and retained shall be proportionately reduced and shall be from the surface of the earth to the stratigraphic equivalent of the total depth drilled in the Test Well.

5. Maralex agrees to drill the Test Well prior to the expiration of the Section 29, Nonconventional Fuel Tax Credit, or any extension of the tax credit period.

6. All cost, risk and expense associated with the drilling, testing and completing and /or plugging and abandoning of the Test Well shall be borne by Maralex and you shall receive all geologic and production data obtained by the drilling of the Test Well.

7. Maralex and yourself agree to enter into a formal Farmout Agreement covering the Farmout Lands, with an attached AAPL Model Form 610 Joint Operating Agreement(1982) with an attached COPAS Accounting Procedure and Gas Balancing Agreement. Said Joint Operating Agreement shall go into effect upon payout of the Test Well.

8. This Farmout is subject to approval by Maralex of title.

9. Maralex's liability for failure to commence and drill or recomplete the Test Well shall be limited to the loss of opportunity to earn the interest hereinabove described.

## II. Participation

1. Maralex and yourself agree to enter into an AAPL Form 610-1982 Joint Operating Agreement with an attached COPAS Accounting Procedure and Gas Balancing Agreement which shall incorporate (among other provisions) the following:

- a) Article IV.B. shall provide for individual loss of title.
- b) Maralex shall be designated Operator.
- c) Article VI.B.2a) shall provide for 100%/100% non-consent

penalties.

d) Article VI.B.2b) shall provide for 300%/300% non-consent penalties.

e) Fixed Rate Overhead rates shall be \$2,800 for drilling well rate and \$280 for producing well rate.

### III. Sale of Interest

If you elect not to farmout or participate in the Test Well, Maralex would like to purchase your interest in the drillsite spacing unit. Said offer shall be subject to you delivering an 82.5% net revenue interest lease and subject to approval of title by Maralex. If Maralex is unable to acquire the necessary farmouts, participation or pooling of 100% of the interest in the drillsite spacing unit, the offer to purchase shall be null and void.

This letter shall not survive a formal contract which shall incorporate the terms and conditions contained herein. Please indicate your election by executing in the space provided below and returning one (1) copy of this letter to the undersigned on or before June 1, 1990. This Agreement shall be null and void after that time. In addition, please contact me if you have any partners in this leasehold.

Sincerely,

A. M. O'Hare, P.E.  
President  
Maralex Resources, Inc.

\_\_\_\_\_ I elect to participate in the Test Well and return the executed AFE.

\_\_\_\_\_ I elect to Farmout my interest in the drillsite spacing unit to Maralex on the terms contained herein.

\_\_\_\_\_ I would entertain an offer to sell my interest in the drillsite spacing unit to Maralex.

Agreed to and accepted this \_\_\_\_\_ day of \_\_\_\_\_, 1990.

By: \_\_\_\_\_

Mary Lund

213-829-0282

NO response to this letter

contacted John Martineau on 3-12-91 - He will check status of

Jennifer Ritcher  
355 South Clarkson Street  
Denver, Colorado 80209  
(303) 777-4081  
December 2, 1990

Martineau & Knudson  
Leasehold Wilshire Boulevard Interest in Brimhall  
Suite 325  
Santa Monica, California 90403  
Attn: John R. Martineau

RE: Purchase of  
Lease  
T30N-R11W  
Section 18: SWNE  
San Juan Co.,  
New Mexico

Dear Mr. Martineau:

I represent Maralex Resources, Inc. regarding the purchase of Mary B. Taylor Hunt's interest in the Price and Brimhall areas. I have been given your letter of November 21, 1990 and will attempt to answer the questions posed in your letter.

The Brimhall well was located in the NE1/4 of section 18, T30N-R11W and the spacing unit established for the well consisted of the NE1/4. Our records indicate that the Brimhall well has not produced oil or gas for quite some time. Thus, four out of the five leases which Ms. Hunt holds an interest in have expired due to the absence of production. Four of the leases covered lands in the NE1/4 only, and expired. The fifth lease, the Scott lease, covered lands in the NW1/4 of section 18 and is held by production in the NW1/4. Ms. Hunt was never assigned an interest in the NW1/4 so she does not receive any revenue from that well but her leasehold in the NE1/4 for this particular lease is held by production. We determined that the leases had expired during our examination of title and that is the reason that the offer was reduced.

Regarding the Price well in section 17, we are excluding it from this purchase at this time as we have been unable to verify title in a timely manner. We hope to unravel the complex nature of the title in section 17 at a later date and ask that you will work with us at that time.

I am enclosing copies of the five leases in which Ms. Hunt was assigned an interest. Also enclosed is a copy of a Preliminary Verification of Interests for Acquisition Purposes covering the interest of Ms. Hunt. Please provide us with a copy of Ms. Hunt's marriage certificate or other relevant documentation for her change of name from Mary B. Taylor to Mary B. Taylor Hunt.

Thank you for your assistance in this matter. Should you have any questions, I can be reached at (303) 861-4883 during business hours.

Sincerely,



518 17th St., Suite 1030  
Denver, Colorado 80202  
(303) 571-4220

August 24, 1990

Mrs. Mary B. Taylor-Hunt  
c/o Martineau and Knudson  
2001 Wilshire Blvd., Suite 325  
Santa Monica, CA 90403

Attn: Mr. John Martineau

Re: Amendatory Letter to  
Purchase Offer Dated  
June 21, 1990 and Amended  
July 26, 1990  
Price and Brimhall Leases  
San Juan County, NM

Gentlemen:

Maralex Resources, Inc. has not been able to secure farmouts, participation, or purchase and sale agreements of all of the working interests in the drillsite spacing units for the subject wells. In our original proposal, our purchase offer was subject to our ability to "acquire the necessary farmouts, participation or pooling of 100% of the interest in the drillsite spacing unit". Maralex is in the process of applying for a compulsory pooling order of those interests that have not yet committed to the previously proposed Fruitland coalbed development project.

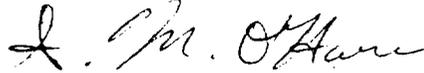
Since we do not expect an order to be issued for the pooling of the remaining interests until some time in October, we respectfully request that Paragraph 9 of that certain Letter Agreement dated June 21, 1990, and amended July 26, 1990, be amended again to change the previously scheduled closing date of September 4, 1990, to November 1, 1990. Should you agree to this extension and Maralex is unable to secure an order pooling the outstanding interests in the subject wells by that time, the terms of our Letter Agreement detailing Maralex's purchase of your working interest in the subject wells and leases shall be terminated and become null and void.

Please indicate your concurrence with this extension by signing in the space provided below and returning one copy of this executed letter to Maralex at your earliest convenience. A stamped, self-addressed envelope has been enclosed for your use.

We apologize for any inconvenience this delay in our purchase of your interest may cause you. It seems that the folks who are the most cooperative nearly always are the ones to be inconvenienced.

Thank you for your patience in this matter and please feel free to give me a call if you have any questions, suggestions or comments relating to this request.

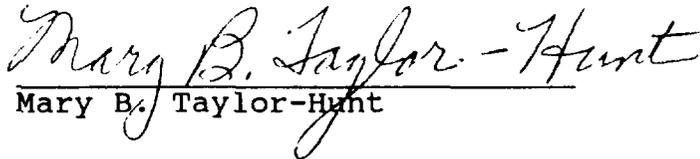
Sincerely,



A. M. O'Hare, P. E.  
President  
Maralex Resources, Inc.

AMO/mo

Accepted and agreed to this 29<sup>th</sup> day of August, 1990.

  
Mary B. Taylor-Hunt

LAW OFFICES  
MARTINEAU & KNUDSON  
2001 WILSHIRE BOULEVARD, SUITE 325  
SANTA MONICA, CALIFORNIA 90403  
(213) 829-0282

GLENN B. MARTINEAU  
(1914-1985)  
SAN MARINO OFFICE  
2540 HUNTINGTON DRIVE  
SAN MARINO, CALIFORNIA 91108  
(213) 283-7787

GERALD R. KNUDSON, JR.  
JOHN R. MARTINEAU  
RONALD C. FRIENDT

June 29, 1990

Mr. A. M. O'Hare  
Maralex Resources, Inc.  
518 17th Street, Suite 1030  
Denver, Colorado 80202

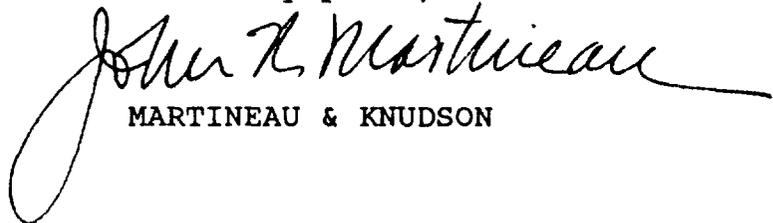
Re: Price and Brimhall Leases  
SW/4 Sec 17, NE/4 Sec 18,  
T30N, R11W  
San Juan County, NM

Dear Mr. O'Hare:

Enclosed in accordance with our telephone conversation is an original copy of your offer dated June 21, 1990 which has been signed and dated by Mrs. Mary B. Taylor-Hunt.

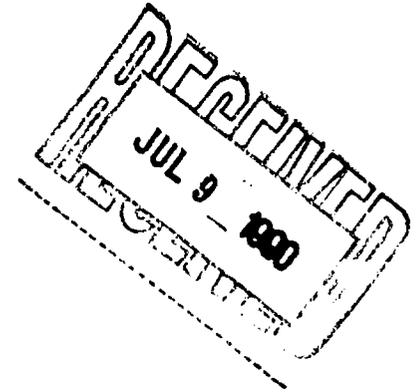
Please let us know how you wish to accomplish the closing pursuant to paragraph 9 of the offer.

Sincerely yours,

  
MARTINEAU & KNUDSON

JRM/jd  
Enclosure

cc: Mrs. Mary B. Taylor-Hunt



July 26, 1990

Mrs. Mary B. Taylor-Hunt  
c/o Martineau and Knudson  
2001 Wilshire Blvd., Suite 325  
Santa Monica, CA 90403

Attn: Mr. John Martineau

RE: Amendatory Letter to  
Purchase Offer Dated  
June 21, 1990  
Price and Brimhall Leases  
San Juan County, NM



Gentlemen:

Due to conflicts with other working interest owners and discrepancies with title, Maralex respectfully requests that Paragraph 9. of that certain Purchase and Sale Agreement dated June 21, 1990, be amended to change the previously scheduled closing date of August 1, 1990, to September 4, 1990.

We believe that the additional month will give us the time needed to remedy the problems that we have encountered.

If you can be of any help in regards to title, lease operating agreements, etc. please call me collect at the above phone number.

Please indicate your concurrence with this proposed amendment to our Agreement by signing in the space provided below and returning a copy of this letter in the enclosed self-addressed envelop at your earliest convenience. Thank you for your cooperation in this matter.

Sincerely,

A. M. O'Hare, P.E.  
President  
Maralex Resources, Inc.

AMO/mo

I hereby agree to amend that certain Purchase and Sale Agreement between Maralex Resources Inc. and Mrs. Mary B. Taylor-Hunt dated June 21, 1990, and executed by me on June 30, 1990, to postpone the closing date to September 4, 1990.

AGREED TO AND ACCEPTED THIS 2nd DAY OF August, 1990.

Mary B. Taylor-Hunt  
Mary B. Taylor-Hunt

June 21, 1990

Mrs. Mary B. Taylor-Hunt  
C/O Martineau and Knudson  
2001 Wilshire Blvd., Suite 325  
Santa Monica, CA 90403

Attn: Mr. John Martineau

Re: Price and Brimhall Leases  
SW/4 Sec 17, NE/4 Sec 18,  
T30N, R11W  
San Juan County, NM

Gentlemen:

Maralex Resources, Inc. (Maralex) hereby submits the following offer to Mary B. Taylor-Hunt (hereinafter referred to as "Seller"), subject to the terms and conditions contained herein:

1. Maralex shall pay Seller, in cash, the sum of nine hundred two and no/100 dollars (\$902.00) for all of Seller's right, title and interest in the oil and gas properties described on Exhibit "A" attached hereto (hereinafter referred to as the "Properties").
2. Seller shall provide Maralex with access to its files and other information in its possession relating to the Properties including all title, contracts, well data, operating agreements, and production record files. Maralex shall be entitled to a reasonable period of time prior to closing to conduct its review of Seller's files.
3. The price set forth in Paragraph (1) above is based upon the assumption that the working interest and net interest of Seller in the Properties are as described on Exhibit "A". Such price shall be subject to adjustment in the event that the actual interests of Seller differ.
4. Such price shall also be subject to adjustment in the event that during its review of the Properties, Maralex discovers any defects in or problems relating to the Properties which impair their value, including

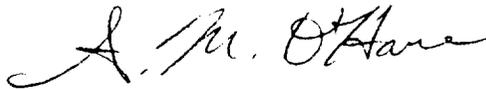
such defects relating to (i) title, burdens, preferential rights and consents; (ii) requirements to deliver production from the Properties at some future time without then or thereafter receiving full payment therefore; and (iii) material adverse regulatory requirements, commitments, contingencies or litigations.

5. The Properties shall be free and clear of all liens, mortgages and other burdens or encumbrances, except the burdens on production reflected in the determination of the net interests described on Exhibit "A".
6. Seller shall assign its interest in the Properties in a form and manner acceptable to Maralex, and such assignment shall warrant title against all persons claiming any right, title or interest by, through or under Seller.
7. The Effective Time and Date of the acquisition and the apportionment of revenues, expenses and taxes relating to the Properties conveyed on the Closing Date shall be 7:00 a.m. Denver time on July 1, 1990.
8. Seller shall indemnify and hold Maralex harmless with respect to any claims, obligations, actions and liabilities to or by third parties arising from activities involving the Properties which occur prior to the closing. MARALEX shall indemnify and hold Seller harmless with respect to any claims, obligations, actions and liabilities to or by third parties subsequent to the closing. In addition, each party shall indemnify and hold harmless the other party from and against any liability for any brokers' or finders' fees arising with respect to brokers or finders engaged by the party in connection with the sale or purchase of the Properties.
9. The Closing Date shall be no later than August 1, 1990, at a time and place mutually agreed upon by MARALEX and Seller.
10. The purchase and sale of the Properties shall be subject to the receipt of all necessary approvals, filings and waivers that may be required under any lease, operating agreement or other agreement, governmental law or regulation.

11. This offer shall expire unless accepted by Seller in writing on or before 4:30 p.m., Denver time on July 2, 1990.

We appreciate the opportunity to submit this offer to you. If it is acceptable, please sign both copies of this letter and return one (1) to the undersigned. Feel free to call me at (303) 571-4220 if you have any questions relating to this offer.

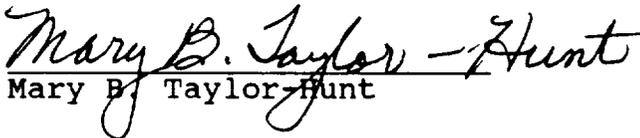
Sincerely,



A. M. O'Hare  
President

Enclosure

AGREED TO AND ACCEPTED this June 30 day of \_\_\_\_\_, 1990.



Mary B. Taylor-Hunt

Exhibit "A"

Attached to and made a part of that certain Purchase Agreement dated June 21, 1990, by and between Maralex Resources, Inc. and Mrs. Mary B. Taylor-Hunt (Seller).

<u>Lease and Wells</u>	<u>Working Interest</u>	<u>Net Interest</u>	<u>Overriding Royalty Interest</u>
Price No. 1 Southwest quarter (SW/4) Section 17, T30N, R11W San Juan County, NM	0.02417	0.02043	0.00000
Brimhall No. 1 Northeast quarter (NE/4) Section 18, T30N, R11W San Juan County, NM	0.02417	0.02047	0.00000



February 12, 1991

518 17th St., Suite 1030  
Denver, Colorado 80202  
(303) 571-4220

Meridian Oil Production, Inc.  
3535 E. 30th Street  
P. O. Box 4289  
Farmington, New Mexico 87499-4289  
Attn: Robert J. Hopkins  
Senior Landman

Re: Offer to Purchase  
T 30N-R11W  
Section 18: N1/2  
Section 19: N1/2  
Section 8: S1/2  
Section 17: S1/2  
T30N-R12W  
Section 24: E1/2  
San Juan County,  
New Mexico

Dear Mr. Hopkins:

Maralex Resources, Inc. (Maralex) proposes the drilling of a well to be located in the NE1/4 of Section 19, T30N-R11W, San Juan County, New Mexico, hereinafter referred to as Initial Test Well. Said Initial Test Well shall be drilled to a depth of 2200 feet or to a depth sufficient to test the Basal Fruitland Coal Formation, whichever is lesser.

A record check indicates that Meridian Oil Production, Inc., El Paso Production Company and Southland Royalty Company (Meridian) own an interest in drillsite spacing unit for the Initial Test Well and in each of the 320.00 acre drillsite spacing units as captioned. Meridian has indicated to Maralex that it does not choose to participate in the drilling of these wells.

Due to the heavily burdened Southland Royalty Company lease in Section 24, Maralex requests that Meridian go non-consent on the drilling of the well in the NE1/4 of Section 24, per the terms of the attached Operating Agreement.

Maralex requests that Meridian either sell its interest in the lands contained in the drillsite spacing units of wells drilled in Sections 18 and 19, T30N-R11W or farmout its interest in the drillsite spacing units for the wells drilled in Sections 8, 17, 18 and 19 on the following general terms and conditions.

I. Farmout

1. The Farmout Lands shall include:

Township 30 North, Range 11 West, N.M.P.M.  
Section 8: S1/2  
Section 17: S1/2  
Section 18: N1/2  
Section 19: N1/2  
San Juan County, New Mexico

2. Maralex shall commence or cause to be commenced the drilling of a 2200 foot Fruitland Coal well in the NE1/4 of Section 19, T30N-R11W, hereinafter referred to as "Initial Test Well", within ninety (90) days from the date of final execution by Meridian and Maralex of a mutually acceptable formal Farm out Agreement. Should Maralex be unable to obtain the required drilling permits from the State and Federal regulatory agencies, Meridian shall grant an extension for the commencement of or allow Maralex to move the location of the Initial Test Well .

3. Upon Maralex completing the drilling of the Initial Test Well as a producer, Maralex shall earn 100% of Meridian's interest in the drillsite spacing unit and Meridian shall retain a proportionate overriding royalty interest equal to the difference between landowner's royalty plus overriding royalties in existence, and of record as of the date of this Agreement, and twenty-five percent (25%). Meridian agrees to deliver a seventy-five percent (75%) net revenue interest lease. Said overriding royalty shall be perpetual and shall not be convertible at payout to a working interest.

4. By drilling the Initial Test Well referred to herein, and completing it as a producer or abandoning it as a dry hole, Maralex shall earn the option but not the obligation, for a period of sixty (60) days from the date of drilling rig release of the Initial Test Well to commence or cause to be commenced a similar test, hereinafter referred to as " Option Test Well", on an undrilled drilling and spacing unit within the Farmout Lands. The earning provisions for the Option Test Well shall be the same as those provided in Paragraph 3. herein for the Initial Test Well but shall apply to the particular drilling and spacing unit which is drilled.

5. By drilling the Option Test Well and completing it as a producer or abandoning it as a dry hole, Maralex shall earn the option, but not the obligation, for a period of sixty (60) days from drilling rig release of the Option Test Well referred to in Paragraph 4. herein, to commence, or cause to be commenced, additional Option Test Wells on

undrilled spacing units within the Farmout Lands. The earning provisions for each Option Test Well shall be the same as provided in Paragraph 3 herein but shall apply to the particular drilling and spacing unit which is drilled.

6. This option to drill shall be a continuing right and shall remain in effect until all of the Farmout Lands have been drilled.

7. All rights earned and retained shall be proportionately reduced and shall be from the surface of the earth to the stratigraphic equivalent of the total depth drilled in the Initial Test Well and Option Test Wells.

8. Maralex agrees to drill the Initial Test Well and Option Test Wells prior to the expiration of the Section 29, Nonconventional Fuel Tax Credit, or any extension of the tax credit period.

9. All cost, risk and expense associated with the drilling, testing and completing and /or plugging and abandoning of the Initial Test Well and Option Test Wells shall be borne by Maralex and Meridian shall receive all geologic and production data obtained by the drilling of the Initial Test Well and Option Test Wells.

10. Maralex and Meridian agree to enter into a formal Farmout Agreement covering the Farmout Lands.

11. This Farmout is subject to approval by Maralex of title.

12. Maralex's liability for failure to commence and drill the Initial Test Well and Option Test Wells shall be limited to the loss of opportunity to earn the interest hereinabove described.

13. Meridian agrees to pay its proportionate share of the cost of Title Opinions secured by Maralex for the drilling of the wells on the Farmout Lands and for the Opinion covering the E1/2 of Section 24, T30N-R12W.

## II. Sale of Interest

If Meridian elects not to farmout in the Farmout Lands, Maralex would like to purchase Meridian's interest in the below described lands on the following terms and conditions:

1. This offer to purchase shall apply to Meridian's interest in the following lands:  
Township 30 North, Range 11 West  
Section 18: NW1/4  
160.00 gross and 92.00 net acres, more or less  
Township 30 North, Range 11 West  
Section 19: SE1/4NW1/4, W1/2NE1/4  
120.00 gross and 120.00 net acres, more or less  
San Juan County, New Mexico

2. Maralex shall pay fifty and no/100ths dollars (\$50.00) per net acre based on 212.00 net acres for a total bonus consideration of \$10,600.00.

3. Said assignment shall be from the surface of the earth to the base of the Fruitland Formation.

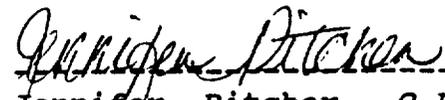
4. Said offer shall be subject to approval of title by Maralex. If Maralex is unable to acquire the necessary farmouts, participation or pooling of 100% of the interest in the drillsite spacing unit, the offer to purchase shall be null and void.

5. The offer set forth herein is based upon Meridian owning the interests set forth in paragraph II.1. and shall be adjusted on a per net acre basis if during Maralex's title review, it is discovered that Meridian owns a lesser interest than set forth in said paragraph.

6. The closing date of the sale shall be on or before April 1, 1991.

This letter shall not survive a formal contract which shall incorporate the terms and conditions contained herein. Please indicate your election by executing in the space provided below and returning one (1) copy of this letter to the undersigned on or before March 1, 1991. This Agreement shall be null and void after that time. In addition, please contact me if you have any partners in this leasehold.

Sincerely,

  
Jennifer Ritcher, C.P.L.  
Landman

\_\_\_\_\_ I elect to Farmout my interest in the Farmout Lands  
to Maralex on the terms contained herein.

\_\_\_\_\_ I accept the above offer to sell my interest in  
the acreage described in Paragraph II.1. herein to  
Maralex.

Agreed to and accepted this \_\_\_\_\_ day of \_\_\_\_\_, 1991.

By: \_\_\_\_\_

Meridian Oil Production, Inc.  
El Paso Production Company  
Southland Royalty Company

COPY

July 3, 1990

Meridian Oil, Inc.  
Attn: Mr. Kent Beers  
P. O. Box 4289  
Farmington, NM 87499

Re: Well Proposals  
Sections 8, 17, 18, 19  
T30N, R11W, and  
Section 24, T30N, R12W,  
San Juan County, NM

Gentlemen:

Maralex Resources, Inc. (Maralex) proposes the drilling and/or recompletion of Basal Fruitland Coal test wells to be located in the sections shown above in San Juan County, New Mexico. Maralex's estimated costs, (as shown on the attached AFE's) are \$235,750 for a newly completed well and \$140,820 for a recompleted well. Wells to be located in the southwest quarter of Section 17, T30N, R11W and the northeast quarters of Section 18, T30N, R11W and Section 24, T30N, R12W will be recompleted from the Pictured Cliffs formation to the Basal Fruitland Coal Formation. The other two wells will be located in the northeast quarters of the subject sections and will be new wells. A record check indicates that Meridian owns an interest in each of the subject 320.00 acre drillsite spacing units. Maralex invites Meridian to participate in the proposed wells or in lieu of participation, either farmout or enter into a mutually acceptable Joint Operating Agreement and elect to non-consent each well proposal on the following general terms and conditions.

I. Farmout and Continuous Option Farmout

Maralex proposes the recompletion of an abandoned wellbore located in the NE/4 of Section 24, T30N, R12W, San Juan County, New Mexico, hereinafter referred to as "Initial Test Well". In support of our test, Maralex requests a Farmout and Continuous Option Farmout of your interest in the lands described in Paragraph 1, below, and hereinafter referred to as "Farmout Lands", on the following general terms and conditions:

1. The Farmout Lands shall include the following:

Township 30 North, Range 12 West  
Section 24: Northeast quarter (NE/4)  
San Juan County, New Mexico

Township 30 North, Range 11 West  
Section 8: Northeast quarter (NE/4)  
Section 17: Southeast quarter (SE/4)  
Section 18: Northwest quarter (NW/4)  
Section 19: Northeast quarter (NE/4)  
San Juan County, New Mexico

2. The Initial Test Well shall be drilled or recompleted to a depth of 2,100 feet or to a depth sufficient to test the Basal Fruitland Coal Formation, whichever is the lesser depth.

3. Maralex shall commence or cause to be commenced the drilling of the Initial Test Well within sixty (60) days from the date of final execution by Meridian and Maralex of a mutually acceptable formal Farmout Agreement. Should Maralex be unable to obtain the required drilling permits from the necessary regulatory agencies, or is unable to secure the necessary right-of-ways from surface owners, Meridian shall grant an extension for the commencement of, or allow Maralex to move the location of the Initial Test Well.

4. Upon Maralex completing the drilling of the Initial Test Well as a producer, Maralex shall earn 100% of Meridian's interest in the drillsite spacing unit and Meridian shall retain a proportionate overriding royalty interest through payout equal to the difference between landowner's royalty plus overriding royalties in existence as of the date of this Agreement, and 20%. Meridian agrees to deliver an eighty percent (80%) net revenue interest lease before payout. Said overriding royalty shall be convertible at payout at Meridian's option to a thirty percent (30%) working interest.

5. If the Initial Test Well is a dry hole or is incapable of producing in paying quantities, Maralex shall

Meridian Oil, Inc.  
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July 3, 1990

earn seventy percent (70%) of Meridian's interest in the drillsite spacing unit.

6. By drilling the Initial Test Well and completing it as a producer or abandoning it as a dry hole, Maralex shall earn the option but not the obligation, for a period of sixty (60) days from drilling rig (or completion rig, as the case may be) release of the Initial Test Well to commence or cause to be commenced a similar test, hereinafter referred to as "Option Test Well", on an undrilled drillsite spacing unit within the Farmout Lands which would include all or a portion of Meridian's acreage within the drillsite spacing unit. Maralex shall diligently drill said Option Test Well to a depth of 2,100 feet or to a depth sufficient to test the Basal Fruitland Coal Formation, whichever is the lesser depth. The earning provisions for the Option Test Well shall be the same as those provided in Paragraphs 4 and 5 herein for the Initial Test Well but shall apply to the particular drillsite spacing unit which is drilled.

7. By drilling the Option Test Well and completing it as a producer or abandoning it as a dry hole, Maralex shall earn the option but not the obligation, for a period of sixty (60) days from drilling rig release of the Option Test Well to commence, or cause to be commenced, additional Option Test Wells on undrilled spacing units within the Farmout Lands which would include all or a portion of Meridian's acreage within the drillsite spacing unit. The earning provisions for each Option Test Well shall be the same as provided in Paragraphs 4 and 5 herein but shall apply to the particular drillsite spacing unit drilled. This right shall be a continuing right and shall remain in effect until all of the Farmout Lands have been drilled.

8. For the purpose of this Agreement, the drillsite spacing unit shall be comprised of approximately 320.00 gross acres.

9. All rights earned and retained shall be proportionately reduced and shall be limited to the interval from the surface to the stratigraphic equivalent of the base of the Basal Fruitland Coal Formation drilled in the Initial Test or Option Test Wells.

Meridian Oil, Inc.  
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July 3, 1990

10. Maralex agrees to drill the Initial Test Well and the Option Test Wells prior to the expiration of the Section 29, Nonconventional Fuel Tax Credit, or any extension of the tax credit period.

11. All cost, risk and expense associated with the drilling, testing and completing and/or plugging and abandoning of the Initial Test Well and Option Test Wells shall be borne by Maralex. Meridian shall receive all geologic and production data obtained by the drilling of these wells.

12. Maralex and Meridian agree to enter into a formal Farmout Agreement covering the Farmout Lands. Maralex and Meridian agree to enter into an AAPL Model Form 610 Joint Operating Agreement (1982) with an attached COPAS Accounting Procedure and Gas Balancing Agreement. Said Joint Operating Agreement shall go into effect upon payout, on a well by well basis, of the Initial Test Well and Option Test Wells. Maralex shall be designated Operator of the Initial Test Well and Option Test Wells.

13. This Farmout and Continuous Option Farmout is subject to approval by Maralex of title.

14. The liability for failure to commence and drill the Initial Test Well or Option Test Wells shall be limited to the loss of opportunity to earn the interest hereinabove described.

## II. Participation

1. Maralex and Meridian agree to enter into an AAPL Form 610-1982 Joint Operating Agreement with an attached COPAS Accounting Procedure and Gas Balancing Agreement which shall incorporate (among other provisions) the following:

a) Article IV.B. shall provide for individual loss of

Meridian Oil, Inc.  
Page 5  
July 3, 1990

title.

- b) Maralex shall be designated Operator.
- c) Article VI.B. (2a) shall provide for 100%/100% non-consent penalties.
- d) Article VI.B. (2b) shall provide for 300%/300% non-consent penalties.
- e) Fixed Rate Overhead rates shall be \$2,800 for drilling well rate and \$280 for producing well rate.

### III. Non-Consent

If Meridian elects not to farmout or participate in the Initial Test Well or Option Test Wells, Meridian and Maralex shall enter into the AAPL Form 610-1982 Joint Operating Agreement with the terms outlined above and then Meridian shall choose not to participate under the non-consent provisions of that Agreement. If Maralex is unable to acquire the necessary farmouts, participation or pooling of 100% of the interest in the drillsite spacing unit, the Joint Operating Agreement will be null and void.

This letter shall not survive a formal contract which shall incorporate the terms and conditions contained herein. Please indicate Meridian's election by executing in the space provided below and returning one (1) copy of this letter to the undersigned on or before July 20, 1990. This Agreement shall be null and void after that time. In addition, please contact me if Meridian has any partners in this leasehold.

Sincerely,

A. M. O'Hare, P.E.  
President  
Maralex Resources, Inc.

Meridian Oil, Inc.

Page 6

July 3, 1990

\_\_\_\_\_ Meridian elects to participate in each of the proposed wells and is returning executed AFE's.

\_\_\_\_\_ Meridian elects to Farmout their interest in the drillsite spacing unit to Maralex on the terms contained herein.

\_\_\_\_\_ Meridian will make a non-consent election regarding their interest in the proposed wells.

Agreed to and accepted this \_\_\_\_\_ day of \_\_\_\_\_, 1990.

Firm Name: \_\_\_\_\_

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

JR/mo

Certified

May 23, 1990

C. & E. Operators  
Two Energy Square  
Suite 1100  
Dallas, TX 75206  
Attn: Mr. Webb Carr

Re: Well Proposal  
T30N-R11W  
Section 18:N/2  
San Juan County,  
New Mexico  
Brimhall Prospect

Gentlemen:

Maralex Resources, Inc. (Maralex) proposes the recompletion of an existing wellbore or the drilling of a new well to be located in the NE/4 of Section 18, T30N-R11W, San Juan County, New Mexico. The recompletion will be contingent upon a mechanically sound wellbore. Said Test Well shall be drilled or recompleted to a depth of 2,200 feet or to a depth sufficient to test the Basal Fruitland Coal Formation, whichever is lesser. Maralex's estimated costs for a new, completed well are \$235,750 and for a recompletion are \$140,820, complete, as indicated on the enclosed AFE's. A record check indicates that C&E owns an interest in the 320.00 acre drillsite spacing unit comprised of the N/2 of Section 18, T30N-R11W. Maralex invites C&E to participate in its proposed well or in lieu of participation, either farmout or sell its interest in the drillsite spacing unit for the Test Well on the following general terms and conditions.

I. Farmout

1. Maralex shall commence or cause to be commenced the drilling of the Test Well within ninety (90) days from the date of final execution by C&E and Maralex of a mutually acceptable formal Farmout Agreement. Should Maralex be unable to obtain the required drilling permits from the State and Federal regulatory agencies, C&E shall grant an extension for the commencement of or allow Maralex to move the location of the Test Well.

2. Upon Maralex completing the drilling of the Test Well as a producer, Maralex shall earn 100% of C&E's interest in the drillsite spacing unit and C&E shall retain a proportionate overriding royalty interest through payout equal to the difference between landowner's royalty plus overriding royalties in existence as of the date of this Agreement, and 20%. C&E agrees to deliver an eighty percent (80%) net revenue interest lease before payout. Said

overriding royalty shall be convertible at payout at C&E's option to a thirty percent (30%) working interest.

3. If the Test Well is a dry hole or is incapable of producing in paying quantities, Maralex shall earn seventy percent (70%) of C&E's interest in the drillsite spacing unit.

4. All rights earned and retained shall be proportionately reduced and shall be from the surface of the earth to the stratigraphic equivalent of the total depth drilled in the Test Well.

5. Maralex agrees to drill the Test Well prior to the expiration of the Section 29, Nonconventional Fuel Tax Credit, or any extension of the tax credit period.

6. All cost, risk and expense associated with the drilling, testing and completing and /or plugging and abandoning of the Test Well shall be borne by Maralex and C&E shall receive all geologic and production data obtained by the drilling of the Test Well.

7. Maralex and C&E agree to enter into a formal Farmout Agreement covering the Farmout Lands, with an attached AAPL Model Form 610 Joint Operating Agreement (1982) with an attached COPAS Accounting Procedure and Gas Balancing Agreement. Said Joint Operating Agreement shall go into effect upon payout of the Test Well.

8. This Farmout is subject to approval by Maralex of title.

9. Maralex's liability for failure to commence and drill or recomplete the Test Well shall be limited to the loss of opportunity to earn the interest hereinabove described.

## II. Participation

1. Maralex and C&E agree to enter into an AAPL Form 610-1982 Joint Operating Agreement with an attached COPAS Accounting Procedure and Gas Balancing Agreement which shall incorporate (among other provisions) the following:

a) Article IV.B. shall provide for individual loss of title.

b) Maralex shall be designated Operator.

c) Article VI.B.2a) shall provide for 100%/100% non-consent penalties.

d) Article VI.B.2b) shall provide for 300%/300% non-consent penalties.

e) Fixed Rate Overhead rates shall be \$2,800 for drilling well rate and \$280 for producing well rate.

### III. Sale of Interest

If C&E elects not to farmout or participate in the Test Well, Maralex would like to purchase C&E's interest in the drillsite spacing unit. Said offer shall be subject to C&E delivering an 82.5% net revenue interest lease and subject to approval of title by Maralex. If Maralex is unable to acquire the necessary farmouts, participation or pooling of 100% of the interest in the drillsite spacing unit, the offer to purchase shall be null and void.

This letter shall not survive a formal contract which shall incorporate the terms and conditions contained herein. Please indicate C&E's election by executing in the space provided below and returning one (1) copy of this letter to the undersigned on or before June 1, 1990. This Agreement shall be null and void after that time. In addition, please contact me if C&E has any partners in this leasehold.

Sincerely,

A. M. O'Hare, P.E.  
President  
Maralex Resources, Inc.

\_\_\_\_\_ C&E elects to participate in the Test Well and returns the executed AFE.

\_\_\_\_\_ C&E elects to Farmout its interest in the drillsite spacing unit to Maralex on the terms contained herein.

\_\_\_\_\_ C&E would entertain an offer to sell its interest in the drillsite spacing unit to Maralex.

Agreed to and accepted this \_\_\_\_\_ day of \_\_\_\_\_, 1990.

By: \_\_\_\_\_

C&E Operators

COPY

September 5, 1990

Mr. John W. Richardson  
C/O Mrs. Nancy Trotter  
251 Landis Ave., Suite 204  
Chula Vista, CA 92010

Re: Farmout and Continuous  
Option Farmout Request  
Sec. 17 & 18, T30N, R11W  
San Juan County, NM

Dear Mrs. Trotter:

Maralex Resources, Inc. (Maralex) proposes the drilling of a 2,200 foot Basal Fruitland Coal test well to be located in the SE/4 of Section 17, T30N, R11W, San Juan County, New Mexico, hereinafter referred to as "Initial Test Well". In support of our test, Maralex requests a Farmout and Continuous Option Farmout of your interest in the lands described in Paragraph 1, below, and hereinafter referred to as "Farmout Lands", on the following general terms and conditions:

1. The Farmout Lands shall include the following:

Township 30 North, Range 11 West  
Section 17: Southwest quarter (SW/4)  
Section 18: Northeast quarter (NE/4)  
San Juan County, New Mexico

2. The Initial Test Well shall be drilled to a depth of 2,200 feet or to a depth sufficient to test the Basal Fruitland Coal Formation, whichever is the lesser depth.

3. Maralex shall commence or cause to be commenced the drilling of the Initial Test Well within sixty (60) days from the date of final execution by John W. Richardson and Maralex of a mutually acceptable formal Farmout Agreement. Should Maralex be unable to obtain the required drilling permits from the necessary regulatory agencies, or is unable to secure the necessary right-of-ways from surface owners, John W. Richardson shall grant an extension for the commencement of, or allow Maralex to move the location of the Initial Test Well.

4. MARALEX shall bear the entire cost, risk and expense

of drilling, testing and completing the Test Well and of plugging and abandoning the Test Well, if a dry hole. Upon the date of first gas sales, MARALEX shall earn an assignment of ninety percent (90%) of your interest in the spacing unit. John W. Richardson shall retain a proportionate ten percent (10%) working interest and shall bear a proportionate ten percent (10%) of the overhead cost and all other operating costs attributable to the Test Well. At payout of the Initial Test Well, MARALEX shall reassign to you an additional fifteen percent (15%), proportionately reduced working interest in the drillsite spacing unit and you shall bear a proportionate twenty-five percent (25%) of the overhead and all other operating costs attributable to the Initial Test Well.

Payout shall be defined as that time at which the value of production from the Initial Test Well, after deducting landowners' royalty, and all other lease burdens in existence on the date of first gas sales, operating costs and applicable taxes equals One Hundred Percent (100%) of all costs incurred by MARALEX for the drilling, testing, completing and equipping of the Test Well. If, and when, MARALEX recovers the amounts aforesaid, MARALEX, by not later than the first Monday of the month following "payout", shall notify you that payout has been achieved and you shall have the right to examine MARALEX'S books and records to verify and confirm such amounts, as well as the date of payout. MARALEX agrees, upon completion of the Initial Test Well as a commercial producer, to furnish you a written statement reflecting the costs to be recovered under the foregoing provision and thereafter a monthly statement reflecting the progress of recovery of such costs.

5. If the Initial Test Well is a dry hole or is incapable of producing in paying quantities, Maralex shall earn seventy-five percent (75%) of your interest in the drillsite spacing unit.

6. By drilling the Initial Test Well and completing it as a producer or abandoning it as a dry hole, Maralex shall earn the option but not the obligation, for a period of sixty (60) days from drilling rig release of the Initial Test Well to commence or cause to be commenced a similar test, hereinafter referred to as "Option Test Well", on an undrilled drillsite spacing unit within the Farmout Lands which would include all or a portion of your acreage within the drillsite spacing unit. Maralex shall diligently drill said Option Test Well to a depth of 2,200 feet or to a depth

sufficient to test the Basal Fruitland Coal Formation, whichever is the lesser depth. The earning provisions for the Option Test Well shall be the same as those provided in Paragraphs 4 and 5 herein for the Initial Test Well but shall apply to the particular drillsite spacing unit which is drilled.

7. For the purpose of this Agreement, the drillsite spacing unit shall be comprised of approximately 320.00 gross acres.

8. All rights earned and retained shall be proportionately reduced and shall be limited to the stratigraphic equivalent of the Basal Fruitland Coal Formation drilled in the Initial Test or Option Test Well.

9. Maralex agrees to drill the Initial Test Well and the Option Test Well prior to the expiration of the Section 29, Nonconventional Fuel Tax Credit, or any extension of the tax credit period.

10. All cost, risk and expense associated with the drilling, testing and completing and/or plugging and abandoning of the Initial Test Well and Option Test Wells shall be borne by Maralex. John W. Richardson shall be entitled to receive all geologic and production data obtained by the drilling of these wells.

11. Maralex and John W. Richardson agree to enter into a formal Farmout Agreement covering the Farmout Lands. Maralex and John W. Richardson agree to enter into an AAPL Model Form 610 Joint Operating Agreement (1982) with an attached COPAS Accounting Procedure and Gas Balancing Agreement. Said Joint Operating Agreement shall go into effect upon first gas sales of the Initial Test Well and Option Test Wells. Maralex shall be designated Operator of the Initial Test Well and Option Test Wells.

12. This Farmout and Continuous Option Farmout is subject to approval by Maralex of title and assumes that the interests owned in each of the Farmout Lands is as set forth in Exhibit A attached hereto and made a part hereof. Any differences between this schedule and actual ownership may result in a change in this proposal.

13. This Farmout and Continuous Option Farmout is also subject to receiving necessary farmouts, participation, or pooling of all other interests in each drillsite spacing

unit.

14. The liability for failure to commence and drill the Initial Test Well or Option Test Wells shall be limited to the loss of opportunity to earn the interest hereinabove described.

This letter shall not survive a formal contract which shall incorporate the terms and conditions contained herein. If the terms of this Agreement are acceptable to you, please so indicate by executing in the space provided below and return one (1) copy of this letter to the undersigned on or before September 17, 1990. This Agreement shall be null and void after that time.

Sincerely,

A. M. O'Hare, P.E.  
President  
Maralex Resources, Inc.

AMO/mo

Agreed to and accepted this \_\_\_ day of \_\_\_\_\_, 1990.

\_\_\_\_\_  
John W. Richardson

EXHIBIT A

Attached to and made a part of that certain Farmout and Continuous Option Farmout Agreement dated September 5, 1990, by and between Maralex Resources, Inc. and John W. Richardson.

<u>Farmout Lands</u>	<u>Working Interest</u>	<u>Net Revenue Interest</u>
SE/4 Sec 17, T30N, R11W	0.012085	0.010215
NE/4 Sec 18, T30N, R11W	0.012085	0.010235

August 17, 1990

COPY

Mrs. Nancy Trotter  
251 Landis Ave.  
Suite 204  
Chula Vista, CA 92010

Re: Price & Brimhall Leases  
Secs. 17 & 18, T30N, R11W  
San Juan County, NM

Dear Mrs. Trotter:

This letter is intended to clarify the previous letters submitted to you regarding your father's interest in the subject properties.

Our first letter dated July 5, 1990, offered to purchase your father's working interest in both of the subject wellbore's and leases for \$785.00. You rejected this offer as being "disappointing". It is our understanding from conversations with the operator of both wells, that neither well has produced enough gas to pay for operating costs for more than a year. In other words, those wells as currently configured are no longer assets. In fact, since the state of New Mexico, for environmental reasons, requires non-producing wells to be properly plugged and abandoned, both wells are now a liability. Plugging costs will probably be between three and five thousand dollars per well.

It is precisely for that reason that the operator agreed to farmout his interest in the wells to Maralex. The operator feels that both wells have reached the end of their productive lives from the existing producing zone. He is encouraging us to plug back the wellbores from the Pictured Cliffs Formation to attempt a completion in the Fruitland Coal Formation. Maralex used a projection of the expected cash flow from the recompletion work to come up with the offer presented to you previously. That same offer, adjusted for the interest owned, has been accepted by five other working interest owners in these leases.

Our most recent letter, dated July 31, 1990, was intended to provide you with the options of participating in the recompletion or drilling of new wells, farming out your father's interest in the property to Maralex, or signing an

Operating Agreement and then electing to non-consent the project under the terms of the Operating Agreement. The impact of each of these options on your father's interest in the wells and leases will be expounded upon in the remainder of this letter.

If you elect participation in the project, your father will be responsible for his proportionate share of all costs associated with the recompletion of the existing wells or drilling and completion of two new wells. Participation in the recompletions will require an investment by your father of approximately \$1,800 per well. If recompletions are not possible due to wellbore conditions, lack of commitment by the owners, regulatory constraints, etc., then your father will have to contribute approximately \$2,600 each for the drilling of two new wells. He will also pay his share of the costs associated with operating those wells and keeping them producing after they are successfully completed. Likewise, he will be credited with his proportionate share of the gas sales from those wells.

A farmout of your father's interest in the two wells will result in all of his working interest being temporarily conveyed to Maralex. Your father would retain an overriding royalty interest in the property until payout of the costs incurred to get the wells producing again. Under the Farmout, Maralex would pay all costs associated with the recompletion of the existing wells or drilling and completion of two new wells, along with all operating costs for the production of gas from the wells. Your father would receive a smaller share of the revenue during the payback period in the form of an overriding royalty. The overriding royalty is an interest that is paid revenues from the well before any other cost is paid and comes directly off the top, so to speak. We believe under the terms of our current offer to you that your father will retain about a four-and-a-half (4.5) percent proportionately reduced override until payout. After payout your father will "back in" for a proportionately reduced thirty (30) percent working interest and his override will disappear (unless you decide that it would be better to keep the override rather than convert it back to a working interest). Along with the operator, two other working interest owners in these wells have accepted the terms of our farmout proposal.

Simply stated, when an individual farms out his interest in an oil and gas lease, he does so with the understanding that the "Farmee" will pay all costs and expenses associated

with the proposed work and the "Farmor" well get a small share of income until the "Farmee" gets his money back and then the "Farmor" comes back into the well at a smaller interest than he had prior to the "Farmout".

An Operating Agreement is a formal agreement detailing the methods and procedures to be followed in the operation of the well or wells specified in the agreement. One of the provisions contained in most Operating Agreements deals with the situation where one party proposes to do work on the well and other parties owning an interest in the well decide that they don't have the money or don't think the proposed work will meet their economic criteria for participation in the work. This provision is often referred to as a "non-consent clause". Under this provision the "non-consenting" owner can stand out or refuse to join in the proposed work. The remaining owners can elect to pay their proportionate share of the cost of the non-consenting party's interest and proceed with the work. If the work is successful then the non-consenting party will not share in the revenue from the well until all of the participants recover their cost plus a penalty that is assessed against the non-consenting party. This penalty is intended to offset some of the risk assumed by the participants in the proposed work. It is also intended to discourage owners from sitting back and reaping the benefits of work they are not willing to pay for.

Compulsory pooling through a state regulatory agency has results that are very similar to the results obtained under the non-consent provisions of an Operating Agreement. The main difference is that the state decides what kind of penalty is assessed and how much overhead can be charged for the work performed and for operation of the wells. Although the pooling order can be sought at any time, the order issued by the state goes into effect only if the parties fail to reach some kind of agreement before the well goes on production. If an agreement is reached then the pooling order issued by the state has no effect on the parties. Essentially then the compulsory pooling offers the parties another option to consider.

I've enclosed a copy of our letter application for the compulsory pooling. We have not yet submitted that application due to your objections and have therefore missed the filing date for the next hearing. Several of the companies and individuals named on the application requested that we pool their interests in front of the state so they could compare our proposals with the state orders. The

remaining owners either claim no interest in the wells or have not responded to either our letters or phone calls.

We sincerely believe that the work we are proposing will be beneficial to everyone involved and want you to know that we have no intention of taking advantage of people like you and your father. One of the reasons we are attempting to pool the interests that have not accepted one of the proposals we have offered is to meet the obligations of the Farmouts we have secured from some of the other owners in these wells. Some of these obligations have tight deadlines. Therefore, we respectfully request that you consent to our submittal of the pooling application without reservation. We will continue to make every effort to reach some kind of agreement that is satisfactory to you.

Please let me know if there is anything else I can do to help you reach a decision regarding your father's interest in the subject wells.

Sincerely,

A. M. O'Hare, P. E.  
President  
Maralex Resources, Inc.

AMO/mo

Enclosure

A. DONALD TROTTER, M.D., F.A.C.S.

251 LANDIS AVENUE, SUITE 204

CHULA VISTA, CALIFORNIA 92010-5587

TELEPHONE 426-1500

FAX 619-426-1522

EAR, NOSE AND THROAT  
HEAD AND NECK SURGERY  
MICROSURGERY OF THE EAR  
COSMETIC FACIAL PLASTIC SURGERY

DIPLOMATE OF THE  
AMERICAN BOARD OF OTOLARYNGOLOGY  
HEAD AND NECK SURGERY  
FELLOW AMERICAN ACADEMY OF  
FACIAL PLASTIC & RECONSTRUCTIVE SURGERY

Aug. 16, 1990

Maralex Resources, Inc.  
518 17th St., Ste. 1030  
Denver, CO 80202  
Att: A.M Ohare

Re: Price & Brimwall Leases  
Johnny Richardson  
SW/4 Sec17, NE/4 Sec 18,  
T30n, R11W

Dear Mr. Ohare,

I am daughter and trustee for the Johnny Richardson Trust.

I am responding to your recent proposals regarding the wells.  
We would be interested in negotiating a farm out agreement. What is  
your proposal?

Sincerely yours,

Nancy Trotter



July 31, 1990

John W. Richardson  
c/o Nancy Trotter  
251 Landis Ave.  
Suite 204  
Chula Vista, CA 92010

Re: Well Proposal  
Section 17, T30N, R11W,  
San Juan County, NM

Dear Mr. Richardson:

Maralex Resources, Inc. (Maralex) proposes the drilling of a Basal Fruitland Coal test well to be located in the southwest quarter of Section 17, Township 30 North, Range 11 West in San Juan County, New Mexico. Maralex's estimated cost for a newly completed well (as shown on the attached AFE) is \$235,750. A record check indicates that you own an interest in the subject 320.00 acre drillsite spacing unit. Maralex invites you to participate in the proposed well or in lieu of participation, either farmout or enter into a mutually acceptable Joint Operating Agreement and elect to non-consent the well proposal on the following general terms and conditions.

I. Farmout and Continuous Option Farmout

Maralex proposes the drilling of a wellbore to be located in the SW/4 of Section 17, T30N, R11W, San Juan County, New Mexico, hereinafter referred to as "Initial Test Well". In support of our test, Maralex requests a Farmout and Continuous Option Farmout of your interest in the lands described in Paragraph 1, below, and hereinafter referred to as "Farmout Lands", on the following general terms and conditions:

1. The Farmout Lands shall include the following:

Township 30 North, Range 11 West  
Section 17: Southwest quarter (SW/4)  
Section 18: Northeast quarter (NE/4)  
San Juan County, New Mexico

2. The Initial Test Well shall be drilled to a depth of 2,100 feet or to a depth sufficient to test the Basal Fruitland Coal Formation, whichever is the lesser depth.

3. Maralex shall commence or cause to be commenced the drilling of the Initial Test Well within sixty (60) days from the date of final execution by John W. Richardson and Maralex of a mutually acceptable formal Farmout Agreement. Should Maralex be unable to obtain the required drilling permits from the necessary regulatory agencies, or is unable to secure the necessary right-of-ways from surface owners, John W. Richardson shall grant an extension for the commencement of, or allow Maralex to move the location of the Initial Test Well.

4. Upon Maralex completing the drilling of the Initial Test Well as a producer, Maralex shall earn 100% of John W. Richardson's interest in the drillsite spacing unit and Mr. Richardson shall retain a proportionate overriding royalty interest through payout equal to the difference between landowner's royalty plus overriding royalties in existence as of the date of this Agreement, and twenty percent (20%). Mr. Richardson agrees to deliver an eighty percent (80%) net revenue interest lease before payout. Said overriding royalty shall be convertible at payout at Mr. Richardson's option to a thirty percent (30%) working interest.

5. By drilling the Initial Test Well and completing it as a producer or abandoning it as a dry hole, Maralex shall earn the option but not the obligation, for a period of sixty (60) days from drilling rig release of the Initial Test Well to commence or cause to be commenced a similar test, hereinafter referred to as "Option Test Well", on an undrilled drillsite spacing unit within the Farmout Lands which would include all or a portion of John W. Richardson's acreage within the drillsite spacing unit. Maralex shall diligently drill said Option Test Well to a depth of 2,100 feet or to a depth sufficient to test the Basal Fruitland Coal Formation, whichever is the lesser depth. The earning provisions for the Option Test Well shall be the same as those provided in Paragraphs 4 and 5 herein for the Initial Test Well but shall apply to the particular drillsite spacing unit which is drilled.

6. For the purpose of this Agreement, the drillsite spacing unit shall be comprised of approximately 320.00 gross acres.

7. All rights earned and retained shall be proportionately reduced and shall be limited to the stratigraphic equivalent of the Fruitland Coal Formation drilled in the Initial Test or Option Test Well.

8. Maralex agrees to drill the Initial Test Well and the Option Test Well prior to the expiration of the Section 29, Nonconventional Fuel Tax Credit, or any extension of the tax credit period.

9. All cost, risk and expense associated with the drilling, testing and completing and/or plugging and abandoning of the Initial Test Well and Option Test Well shall be borne by Maralex. John W. Richardson shall receive all geologic and production data obtained by the drilling of these wells.

10. Maralex and John W. Richardson agree to enter into a formal Farmout Agreement covering the Farmout Lands. Maralex and John W. Richardson agree to enter into an AAPL Model Form 610 Joint Operating Agreement (1982) with an attached COPAS Accounting Procedure with no Gas Balancing Agreement. Said Joint Operating Agreement shall go into effect upon payout, on a well by well basis, of the Initial Test Well and Option Test Well. Maralex shall be designated Operator of the Initial Test Well and Option Test Well.

11. This Farmout and Continuous Option Farmout is subject to approval by Maralex of title.

12. The liability for failure to commence and drill the Initial Test Well or Option Test Well shall be limited to the loss of opportunity to earn the interest hereinabove described.

## II. Participation

1. Maralex and John W. Richardson agree to enter into an AAPL Form 610-1982 Joint Operating Agreement with an attached COPAS Accounting Procedure with no Gas Balancing Agreement which shall incorporate (among other provisions) the following:

a) Article IV.B. shall provide for individual loss of title.

- b) Maralex shall be designated Operator.
- c) Article VI.B. (2a) shall provide for 100%/100% non-consent penalties.
- d) Article VI.B. (2b) shall provide for 300%/300% non-consent penalties.
- e) Fixed Rate Overhead rates shall be \$2,800 for drilling well rate and \$280 for producing well rate.

### III. Non-Consent

If John W. Richardson elects not to farmout or participate in the Initial Test Well or Option Test Well, John W. Richardson and Maralex shall enter into the AAPL Form 610-1982 Joint Operating Agreement with the terms outlined above and then John W. Richardson shall choose not to participate under the non-consent provisions of that Agreement. If Maralex is unable to acquire the necessary farmouts, participation or pooling of 100% of the interest in the drillsite spacing unit, the Joint Operating Agreement will be null and void.

This letter shall not survive a formal contract which shall incorporate the terms and conditions contained herein. Please indicate your election by executing in the space provided below and returning one (1) copy of this letter to the undersigned on or before August 17, 1990. This Agreement shall be null and void after that time.

Sincerely,

A. M. O'Hare, P.E.  
President  
Maralex Resources, Inc.

\_\_\_\_\_ John W. Richardson elects to participate in the proposed well and is returning an executed AFE.  
\_\_\_\_\_ John W. Richardson elects to Farmout his interest in the drillsite spacing unit to Maralex on the terms contained herein.  
\_\_\_\_\_ John W. Richardson will make a non-consent election regarding his interest in the proposed well.

Agreed to and accepted this \_\_\_\_\_ day of \_\_\_\_\_, 1990.

Firm Name: \_\_\_\_\_

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

JAR/mo

Certified

## ELLIOTT A. RIGGS

Petroleum Geologist

P. O. BOX 711

FARMINGTON, NEW MEXICO 87499-0711

July 11, 1990

Maralex Resources, Inc.  
518 17th Street, Suite 1030  
Denver, Colorado 80202

Attn: Mr. A. M. O'Hare

Re: Brimhall Prospect  
N/2 Sec. 18, T30N, R11W  
San Juan County, New Mexico

Dear Mr. O'Hare:

I have carefully reviewed your letters of May 23, 1990, June 6, 1990 and June 18, 1990.

Please be advised that for a variety of reasons, I am not interested in either joining, farming out or selling my interest in this HBP acreage.

In thinking about your proposal, I have additional substantial concerns about your utilization of an existing producible borehole in order to plug back and recomplete in the shallower Fruitland Coal. In fact, and due to my substantial interest in this well, and the fact that it is HBP a number of old leases, I view with a high degree of concern any effort on the part of either the operator or Maralex to enter this borehole in a recompletion effort by parties other than the original owners of this borehole.

In the event any outside interests, other than the operator operating under an operating agreement, and approved AFE for expenditures, which would diminish my interest in this property, I would expect the parties doing so to provide me with proper indemnification for any losses that might occur to me as a result of their efforts.

By this letter, I am serving notice on the operator that any action on his part that would permit a diminishment of my interest in this well, can only be done with my acquiescence, permission and proper indemnification, regardless of how I would participate in this effort.

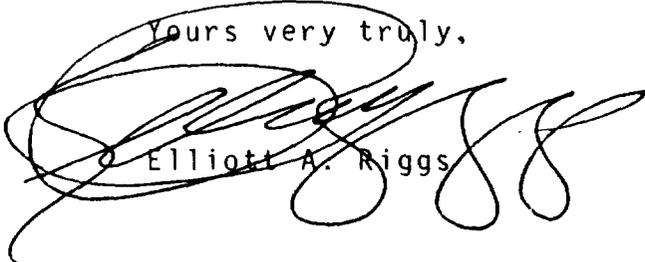
Maralex Resources, Inc.  
July 11, 1990  
Page 2

I might point out that the most sanitary way for any new activity in this communitization unit is with a new borehole since any potential use of the old borehole creates substantial title problems, liability problems and the irretrievable loss of a producible completed zone. The possible cost reduction to your group by utilization of an existing borehole does not have a commensurate economic positive effect for the owners of the existing borehole. In fact, it would probably result in an economic loss.

In the strongest possible terms I am communicating to you, and to the operator, my major concerns about any attempt to plug and abandon the producing deeper zone in these two well for a shallower recompletion effort. I do not believe it is in the best interest of the working interest owners of the Price and Brimhall wells.

If I may be of any further assistance to you, please feel free to get in touch.

Yours very truly,



Elliott A. Riggs

EAR/mlm

cc: Bradley H. Keyes Estate, Operator  
Certified Mail, Return Receipt Requested

507  
June 6, 1990

Mr. Elliott A. Riggs  
P. O. Box 711  
Farmington, NM 87401

Re: Price and Brimhall Leases  
SW/4 Sec 17, NE/4 Sec 18,  
T30N, R11W  
San Juan County, NM

Dear Mr. Riggs:

Maralex Resources, Inc. (Maralex) hereby submits the following offer to Elliott A. Riggs (hereinafter referred to as "Seller"), subject to the terms and conditions contained herein:

1. Maralex shall pay Seller, in cash, the sum of five thousand four hundred ten and no/100 dollars (\$5,410.00) for all of Seller's right, title and interest in the oil and gas properties described on Exhibit "A" attached hereto (hereinafter referred to as the "Properties").
2. Seller shall provide Maralex with access to its files and other information in its possession relating to the Properties including all title, contracts, well data, operating agreements, and production record files. Maralex shall be entitled to a reasonable period of time prior to closing to conduct its review of Seller's files.
3. The price set forth in Paragraph (1) above is based upon the assumption that the working interest and net interest of Seller in the Properties are as described on Exhibit "A". Said price assumes that Seller delivers an 82.5 percent net revenue lease and retains a proportionately reduced override amounting to the difference between the current burdens and the net revenue interest stated above. Such price shall be subject to adjustment in the event that the actual interests of Seller differ.
4. Such price shall also be subject to adjustment in the event that during its review of the Properties,

Maralex discovers any defects in or problems relating to the Properties which impair their value, including such defects relating to (i) title, burdens, preferential rights and consents; (ii) requirements to deliver production from the Properties at some future time without then or thereafter receiving full payment therefore; and (iii) material adverse regulatory requirements, commitments, contingencies or litigations.

5. The Properties shall be free and clear of all liens, mortgages and other burdens or encumbrances, except the burdens on production reflected in the determination of the net interests described on Exhibit "A".
6. Seller shall assign its interest in the Properties in a form and manner acceptable to Maralex, and such assignment shall warrant title against all persons claiming any right, title or interest by, through or under Seller.
7. The Effective Time and Date of the acquisition and the apportionment of revenues, expenses and taxes relating to the Properties conveyed on the Closing Date shall be 7:00 a.m. Denver time on July 1, 1990.
8. Seller shall indemnify and hold Maralex harmless with respect to any claims, obligations, actions and liabilities to or by third parties arising from activities involving the Properties which occur prior to the closing. MARALEX shall indemnify and hold Seller harmless with respect to any claims, obligations, actions and liabilities to or by third parties subsequent to the closing. In addition, each party shall indemnify and hold harmless the other party from and against any liability for any brokers' or finders' fees arising with respect to brokers or finders engaged by the party in connection with the sale or purchase of the Properties.
9. The Closing Date shall be no later than August 1, 1990, at a time and place mutually agreed upon by MARALEX and Seller.
10. The purchase and sale of the Properties shall be subject to the receipt of all necessary approvals, filings and waivers that may be required under any

lease, operating agreement or other agreement, governmental law or regulation.

11. This offer shall expire unless accepted by Seller in writing on or before 4:30 p.m., Denver time on June 22, 1990.

We appreciate the opportunity to submit this offer to you. If it is acceptable, please sign both copies of this letter and return one (1) to the undersigned. Feel free to call me at (303) 571-4220 if you have any questions relating to this offer.

Sincerely,

A. M. O'Hare  
President

Enclosure

AGREED TO AND ACCEPTED this \_\_\_\_\_ day of  
\_\_\_\_\_, 1990.

\_\_\_\_\_  
Elliott A. Riggs

Exhibit "A"

Attached to and made a part of that certain Purchase Agreement dated June 6, 1990, by and between Maralex Resources, Inc. and Mr. Elliott A. Riggs (Seller).

<u>Lease and Wells</u>	<u>Working Interest</u>	<u>Net Interest</u>	<u>Overriding Royalty Interest</u>
Price No. 1 Southwest quarter (SW/4) Section 17, T30N, R11W San Juan County, NM	0.120846	0.10215	0.02030*
Brimhall No. 1 Northeast quarter (NE/4) Section 18, T30N, R11W San Juan County, NM	0.120846	0.10234	0.02190*

\*This is the difference between the existing burdens as determined by Maralex and the 82.5 percent interest to be delivered as part of this sale. These interests shall be proportionately reduced and shall be retained by Seller.

May 23, 1990

Elliot A. Riggs  
Box 711  
Farmington, New Mexico 87401

Re: Well Proposal  
T 30N-R 11W  
Section 18:N/2  
San Juan County,  
New Mexico  
Brimhall Prospect

Dear Mr. Riggs:

Maralex Resources, Inc. (Maralex) proposes the recompletion of an existing wellbore or the drilling of a new well to be located in the NE/4 of Section 18, T30N-R11W, San Juan County, New Mexico. The recompletion will be contingent upon a mechanically sound wellbore. Said Test Well shall be drilled or recompleted to a depth of 2,200 feet or to a depth sufficient to test the Basal Fruitland Coal Formation, whichever is lesser. Maralex's estimated costs for a new, completed well are \$235,750 and for a recompletion are \$140,820, complete, as indicated on the enclosed AFE's. A record check indicates that you own an interest in the 320.00 acre drillsite spacing unit comprised of the N/2 of Section 18, T30N-R11W. Maralex invites you to participate in its proposed well or in lieu of participation, either farmout or sell your interest in the drillsite spacing unit for the Test Well on the following general terms and conditions.

I. Farmout

1. Maralex shall commence or cause to be commenced the drilling of the Test Well within ninety (90) days from the date of final execution by yourself and Maralex of a mutually acceptable formal Farmout Agreement. Should Maralex be unable to obtain the required drilling permits from the State and Federal regulatory agencies, you shall grant an extension for the commencement of or allow Maralex to move the location of the Test Well.

2. Upon Maralex completing the drilling of the Test Well as a producer, Maralex shall earn 100% of your interest in the drillsite spacing unit and you shall retain a proportionate overriding royalty interest through payout equal to the

difference between landowner's royalty plus overriding royalties in existence as of the date of this Agreement, and 20%. You agree to deliver an eighty percent (80%) net revenue interest lease before payout. Said overriding royalty shall be convertible at payout at your option to a thirty percent (30%) working interest.

3. If the Test Well is a dry hole or is incapable of producing in paying quantities, Maralex shall earn seventy percent (70%) of your interest in the drillsite spacing unit.

4. All rights earned and retained shall be proportionately reduced and shall be from the surface of the earth to the stratigraphic equivalent of the total depth drilled in the Test Well.

5. Maralex agrees to drill the Test Well prior to the expiration of the Section 29, Nonconventional Fuel Tax Credit, or any extension of the tax credit period.

6. All cost, risk and expense associated with the drilling, testing and completing and /or plugging and abandoning of the Test Well shall be borne by Maralex and you shall receive all geologic and production data obtained by the drilling of the Test Well.

7. Maralex and yourself agree to enter into a formal Farmout Agreement covering the Farmout Lands, with an attached AAPL Model Form 610 Joint Operating Agreement(1982) with an attached COPAS Accounting Procedure and Gas Balancing Agreement. Said Joint Operating Agreement shall go into effect upon payout of the Test Well.

8. This Farmout is subject to approval by Maralex of title.

9. Maralex's liability for failure to commence and drill or recomplete the Test Well shall be limited to the loss of opportunity to earn the interest hereinabove described.

## II. Participation

1. Maralex and yourself agree to enter into an AAPL Form 610-1982 Joint Operating Agreement with an attached COPAS Accounting Procedure and Gas Balancing Agreement which shall incorporate (among other provisions) the following:

- a) Article IV.B. shall provide for individual loss of title.
- b) Maralex shall be designated Operator.
- c) Article VI.B.2a) shall provide for 100%/100% non-consent

penalties.

d) Article VI.B.2b) shall provide for 300%/300% non-consent penalties.

e) Fixed Rate Overhead rates shall be \$2,800 for drilling well rate and \$280 for producing well rate.

### III. Sale of Interest

If you elect not to farmout or participate in the Test Well, Maralex would like to purchase your interest in the drillsite spacing unit. Said offer shall be subject to you delivering an 82.5% net revenue interest lease and subject to approval of title by Maralex. If Maralex is unable to acquire the necessary farmouts, participation or pooling of 100% of the interest in the drillsite spacing unit, the offer to purchase shall be null and void.

This letter shall not survive a formal contract which shall incorporate the terms and conditions contained herein. Please indicate your election by executing in the space provided below and returning one (1) copy of this letter to the undersigned on or before June 1, 1990. This Agreement shall be null and void after that time. In addition, please contact me if you have any partners in this leasehold.

Sincerely,

A. M. O'Hare, P.E.  
President  
Maralex Resources, Inc.

\_\_\_\_\_ I elect to participate in the Test Well and return the executed AFE.

\_\_\_\_\_ I elect to Farmout my interest in the drillsite spacing unit to Maralex on the terms contained herein.

\_\_\_\_\_ I would entertain an offer to sell my interest in the drillsite spacing unit to Maralex.

Agreed to and accepted this \_\_\_\_\_ day of \_\_\_\_\_, 1990.

By: \_\_\_\_\_

Elliot A. Riggs