

PROPOSED ALLOCATION FORMULA
SOUTH HOSPANH UNIT (Upper Sand)
HOSPANH LEASE (Lower Sand)
MCKINLEY COUNTY, NEW MEXICO

South Hospah Field Commingled Oil Production X .201* = South Hospah (Upper Sand) Oil Production

South Hospah Field Commingled Oil Production X .799* = Hospah Lease (Lower Sand) Oil Production

*Based on current remaining Recoverable Reserves

EXHIBIT 3

PROPOSED ALLOCATION FORMULA
SOUTH HOSPAH UNIT (Upper Sand)
HOSPAH LEASE (Lower Sand)
MCKINLEY COUNTY, NEW MEXICO

DETAIL	CURRENT CONDITIONS		
	SOUTH HOSPAH UNIT (Upper Sand)	HOSPAH LEASE (Lower Sand)	TOTAL (Upper and Lower Sands)
Effective Date	10/01/91	10/01/91	10/01/91
Current Production (bopd)	41	132	173
Lease Operating Expenses (\$M)	17.4	57.6	75
1992 Capital Expenses (\$M)	0	50	50
Annual Decline Rate	15.00%	10.00%	11.15%
Gross Remaining Recoverable Reserves (mbbls)	15.9	63.2	79.1
Remaining Life (years)	1.17	1.42	1.42
Percentage of Remaining Recoverable Reserves	$(15.9/79.1)*100 = 20.1\%$	$(63.2/79.1)*100 = 79.9\%$	