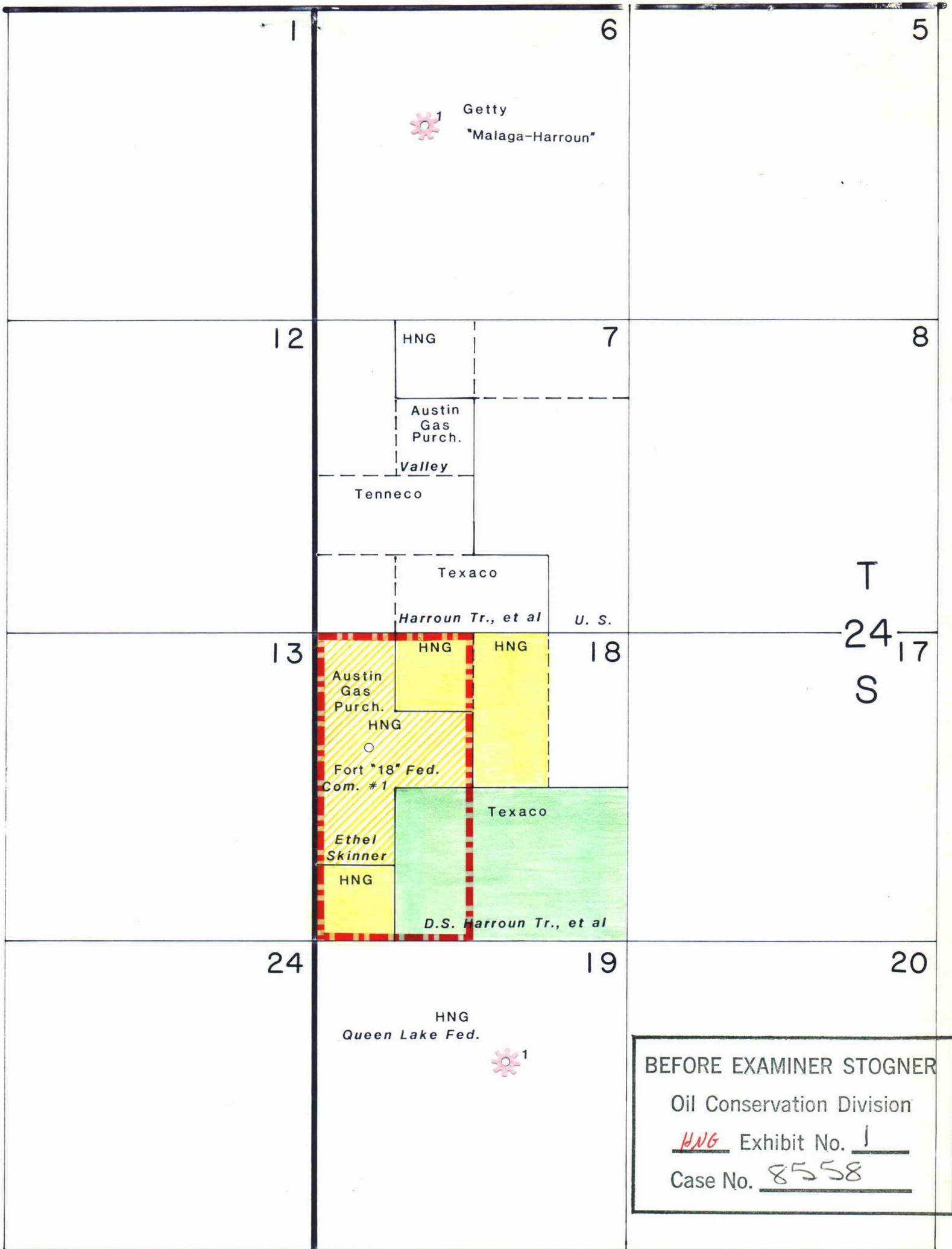


EXHIBIT 1



R-28-E

R-29-E

EAST MALAGA AREA
EDDY COUNTY, NEW MEXICO

-  HNG acreage
-  To be earned
-  Texaco acreage
-  Proration un.

SCALE 1" - 2000'



P. O. BOX 2267, MIDLAND, TEXAS 79702 (915) 683-4871

January 11, 1985

Getty Oil Company (Texaco Inc.)
P. O. Box 1231 ←
Midland, Texas 79702

BEFORE EXAMINER STOGNER
Oil Conservation Division
HNG Exhibit No. 4
Case No. 8558

Attn: Woody Woods (*Getty Hand*) ↔ *one week to 10-day later he received the letter*

RE: Fort "18" Com #1
1980' FSL & 660' FWL Section 18,
T-24-S, R-29-E
Eddy County, New Mexico
N.E. Malaga Area

Gentlemen:

HNG Oil Company would like to invite you to participate in the drilling of the captioned well to a depth of approximately 12,400 feet or to adequately test the Atoka formation. We would like to form a west-half proration unit. According to our records, you own the E/2 SW/4 of Section 18 comprising 80 acres, thus, this would give you approximately a 25% working interest in said well. Dry hole costs would be approximately \$1,000,000.00 and completed well costs of approximately \$1,500,000.00. We will spud this well on or before March 30, 1985.

In lieu of participating in this well, HNG would accept a farm-in from you with Getty (Texaco) reserving an overriding royalty interest equal to the difference between present leasehold burdens and 25%, with the option to convert said overriding royalty interest to a 25% working interest after payout. If you do decide to farmout, HNG would also like the option within 180 days from completion of the initial test, to start a well at a legal location of our choice in the E/2 Section 18 with Getty (Texaco) farming out its ownership in the SE/4 of said section on all the same terms and conditions as set out above.

Upon notifying us of your intent to either join or farmout, we will forward to you for your approval an AFE and Joint Operating Agreement.

Your earliest consideration of this proposal would be greatly appreciated. If you have any questions concerning this matter, please feel free to contact the undersigned.

Yours very truly,

HNG OIL COMPANY

Original Signed By:

B. Craig Duke

B. Craig Duke

BCD/jw

EXHIBIT 2

	ACRES	% of W.I. in Proration Unit
HNG Oil Company		
Lease: KGS-NM54409	79.84	25.03763
Lease: J. C. Barnes, Jr. & R.F. Fort	20.00	6.27195 <i>undivided</i>
Austin Gas Purchasing, Inc. -----		
RepublicBank First National Midland, Independent Executor of the Estate of Roberta M. Regan, dec'd		
Hal A. Finch		
Mary Ann Woodward		
Theresa Sims		
Margaret Mixan		
Dan H. Voss, Tr.		
Dorothy Voss King		
Nina P. Voss		
Terra Resources, Inc.		
Martha Steed Lyne		
Paul P. Steed, Jr.		
Leota Steed, Independent Executrix of the Estate of Netum A. Steed, dec'd		
Patricia N. Wilson		
Randolph E. Wilson		
Wynant Stone Wilson, Independent Executor of the Estate of Ruth Elizabeth Cochrell Wilson		
Wynant Stone Wilson		
Ruth Elinor Wilson Melton		
Alice Naomi Wilson Burke---		
Lease: Ethel O. Skinner et al	139.04	43.60261
Texaco, Inc.		
Lease: D. S. Harroun, Tr., et al	<div style="border: 1px solid black; border-radius: 50%; padding: 2px; display: inline-block;">80.00</div> 318.88 Acres	25.08781 100.00000%

←

*Farmout to HNG
attempting to secure
for 18 mos.*

*within tolerance
for 320 acre*

BEFORE EXAMINER STOGNER

Oil Conservation Division

HNG Exhibit No. 2

Case No. 8558

EXHIBIT 3



AFE NO. 31-01 4055

LSE. NO.

HNG W.I. .9600000000

AFE AMOUNT \$1,489,125

HNG EST. COST \$1,429,560

AFE DATE 3-22-85

DRILLING AFE

- WILDCAT
 - DRILLING
 - COMPLETION
 - RE-ENTRY
- DEVELOPMENT
 - DRILLING
 - COMPLETION
 - RE-ENTRY
- INJECTION 9
 - DRILLING
 - COMPLETION
 - RE-ENTRY

LEASE & WELL NO. Fort "18" Com #1	DEPTH & FORM 12,400' Atoka
LOCATION 1980' FNL & 660' FWL, Section 18, T24S, R29E	
COUNTY & STATE Eddy County, New Mexico	FIELD Undesignated
OPERATOR HNG Oil Company	SPUD DATE 3-24-85

INTANGIBLE WELL COST				
CODE	DESCRIPTION	DRILLING	COMPLETION	TOTAL
5501	Access, Location & Roads	30,000		30,000
5502	Rig Move	40,000		40,000
5503	Footage Cost			
5504	Day Work Cost 50 days @ \$4,300	215,000		215,000
5505	Bits & Reamers	55,000		55,000
5506	Fuel	40,000		40,000
5507	Water	10,000		10,000
5508	Mud & Chemicals	55,000	10,000	65,000
5509	Cementing & Service	60,000	15,000	75,000
5510	Coring			
5511	Surveying & Testing	50,000		50,000
5512	Mud Logging	25,000		25,000
5513	Perforating		12,000	12,000
5514	Stimulation		20,000	20,000
5515	Transportation	10,000	10,000	20,000
5516	Drilling Overhead & Supervision	25,000	5,000	30,000
5517	Equipment Rental	40,000	5,000	45,000
5518	Completion Rig 5 days @ \$4,300		21,500	21,500
5519	Other Drilling Expense	30,000	5,000	35,000
5522	Directional Drilling			
	Contingencies (10% of Intangible)	68,500	10,350	78,850
	TOTAL INTANGIBLES	753,500	113,850	867,350

TANGIBLE WELL COST				
CODE	DESCRIPTION	DRILLING	COMPLETION	TOTAL
5101	40' Of 20" Conductor Casing	2,500		2,500
5102	500' Of 13-3/8" Surface Casing	13,000		13,000
5103	2400' Of 9-5/8" Intermediate Casing	46,000		46,000
5103	10600' Of 7" Intermediate Casing	216,000		216,000
5103	' Of " Intermediate Casing			
5104	2500' Of 4-1/2" Production Casing		28,750	28,750
5104	' Of " Tie-Back Casing			
5105	10400' Of 2-3/8" Tubing		82,500	82,500
5105	' Of " Tubing			
5119	Liner Equipment	12,500		12,500
5106	Well Head Equipment	40,000	40,000	80,000
5107	Tanks		10,000	10,000
5108	Flow Lines		3,000	3,000
5109	Valves & Fittings		9,000	9,000
5110	Rods			
5111	Pumping Equipment-Surface			
5112	Production Equipment-Subsurface		13,000	13,000
5113	Engines & Motors			
	(Continued on back of AFE)			

2/19/85 - joint int. deb. received

HNG OIL COMPANY APPROVAL									
By	Date	By	Date	By	Date	By	Date	By	Date
[Signature]	2/12/85	[Signature]	2/25/85	[Signature]	5/20/85	[Signature]	3/25/85		
[Signature]	2/18/85	[Signature]	3/20/85	[Signature]	5/27/85	[Signature]	3/27/85		

JOINT OPERATOR APPROVAL

Firm _____ By _____ Title _____ Date _____

AFE No. 4055

attached

TANGIBLE WELL COST (Continued)

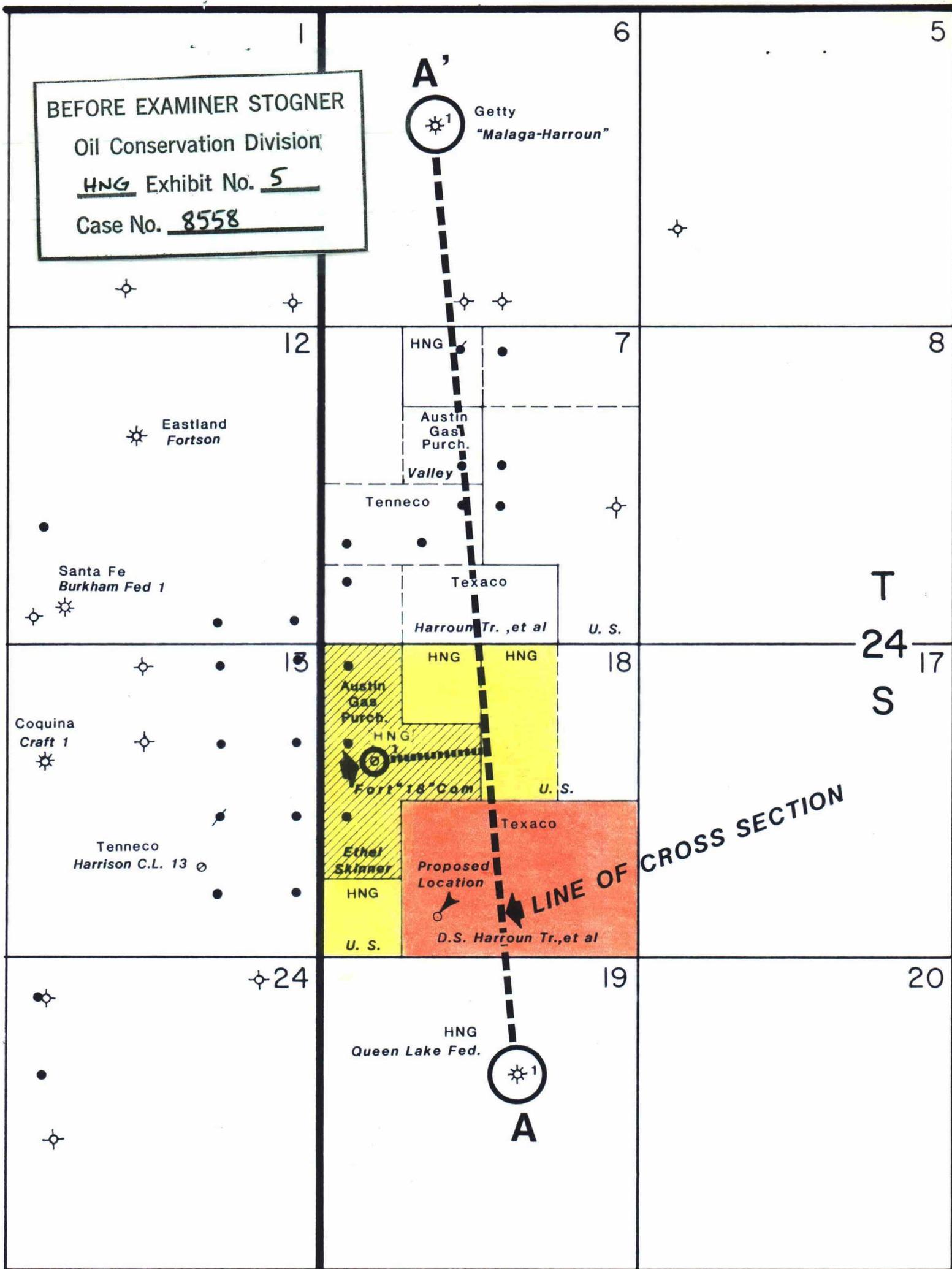
		DRILLING	COMPLETION	TOTAL
5114	Heater-Treater & Separators		25,000	25,000
5115	Other Equipment			
5116	Buildings			
5117	Metering Equipment		2,000	2,000
5118	Non-Controllable Equipment		2,000	2,000
5120	Supervision			
5121	Construction Cost		20,000	20,000
	Contingencies (10% of Tangible)	33,000	23,525	56,525
	Total Tangibles	363,000	258,775	621,775
	Total Well Cost	1,116,500	372,625	1,489,125

Dry Hole

Comp.

BEFORE EXAMINER STOGNER
 Oil Conservation Division
HNS Exhibit No. 3
 Case No. 8558

BEFORE EXAMINER STOGNER
 Oil Conservation Division
 HNG Exhibit No. 5
 Case No. 8558



T
 24
 17
 S

LINE OF CROSS SECTION

R-28-E R-29-E
HNG OIL COMPANY
EAST MALAGA AREA
EDDY COUNTY, NEW MEXICO

DATE : 4-24-85
CASE NO. 8558

SCALE : 1"=2000'

BEFORE EXAMINER STOGNER

Oil Conservation Division

HNG Exhibit No. 5

Case No. 8558