

MEMORANDUM

August 20, 1987

TO: Red Bluff

FROM: JTJ

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. <u>7458</u>	Exhibit No. <u>1</u>
Submitted by _____	
Hearing Date _____	

On August 19, 1987 I read a list of well locations in the paper which reflected that the Mallon Oil Co. Amoco No. 10 is located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$  Section 27. I called Mr. Hayes and discussed the matter with him and told him that I contemplated calling Mallon to see what their position is and to see if they are aware of the Red Bluff Right-of-Way. He said this is fine as he had not heard anything from Mallon.

I then called Mallon whose number is 303-293-2333, and talked to Karen McClintock, who is in the land department. She said she was well aware of Red Bluff's acreage and the right of way, but she did not know what to do so she called Armando Lopez of the BLM in Roswell and he told her that a decision had not been made on the lease and to just go ahead and drill the well and it could be communitized at a later date. They are proceeding to do this as they had a continuous drilling obligation and it was necessary to start the well.

I asked Karen if she is familiar with the terms and conditions of the Right-of-Way Leasing Act of May 21, 1930 and she was a little vague about this, but she said that it was her understanding from Armando Lopez that the BLM still owned the land and they could authorize the drilling. I was careful to point out to her that I was not trying to give her legal advice and I was not telling her not to drill the well, but I just wanted to make sure, on behalf of Red Bluff, that she was aware that there was not an existing lease on the tract and of the provisions of the Right-of-Way Leasing Act.

She told me that she was concerned and that she would call Armando and get his reaction and get back with me. She did not call back yesterday and I have not heard from her today. I was careful to tell her that we certainly did not want to be in a position of telling her not to drill the well, but I just wanted to make sure that she was aware of the problem. She did point out that she did not want to drill the well and then have Red Bluff tell her thank you, but she did seem to be satisfied with the position taken temporarily by the Bureau of Land Management which might be proper, but I was not aware of the BLM attitude.

ILLEGIBLE

Red Bluff Memorandum  
August 20, 1987  
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In checking the file, it appears that one of the descriptions showed that there was 38.5 acres in Section 27 and this is all in the W $\frac{1}{2}$ SW $\frac{1}{2}$  of the Section.

In my conversation with Karen, she said that Mallon would certainly be interested in making some kind of a deal with Red Bluff. I told her that Red Bluff is not in the oil business, but it would certainly be willing to farmout the acreage to them on the same basis as she has the acreage farmed out to Amoco. This seemed to get her attention.

JTJ:el

8-24-87 Done M<sup>o</sup> Chertock -

Information she got originally from Armando not correct as per Tele conf. 8-21.

Mallon will not drill as Planned - Well as hold RM to conference regarding location by letter

Will keep in contact + Will contact management about a deal with Red Bluff.

MEMORANDUM

September 21, 1987

TO: Red Bluff File

FROM: JTJ

Marlene Real called this morning in reference to the Red Bluff Application. When I called her she said she needed a little information. She asked me for the up-to-date information on the Gay's mineral interests. She said she had received other material from Danny and it was all right but she needed to see who had the lease on this property so she could advise them. I told her I had reviewed my file, which included a letter of August 26, and found that on October 3, 1986 I had sent her a copy of the letter from Currier, including the two Gay leases which were recorded in July of 1983 and which were for a term of five years (They were actually renewal leases). I told her to check her files. Ms. Real checked her files and she found the letter of October 3. She looked and saw that the leases were still in force. She said that this was all she needed and she felt that the Notices would be out about the first of October. I advised her that I would be in Santa Fe on Friday the 25th and I would come by her office to check on the leases and hoped to pick up the Notice.

I talked to Karen McClintock with Mallon and she said that she had put the #10 well on hold and that as a coincidence she said she had just talked to Marlene and she told her she had been talking to me (Marlene was talking about this same well). During the course of our conversation, I let her know that the property is really loaded and that she only had a 70% working interest. Karen said that she realized that, but it was really an old deal and it really got loaded up by the time it got to her. Mallon was in the process of talking to Amoco about reducing the royalty and she wanted to know if Red Bluff was going to bid on it. I told her that I was sure that they would because that was the reason I put it up. I asked Karen what they were doing as this point. She advised me that they were drilling on the NE/NE of 28 where they own the entire interest. If Mallon does get a well there then we have two more 40's that will each have possible locations which are located in the NW at 28. She also advised me that Mallon certainly wanted to make a deal with us since they were developing the acreage and were definitely interested and nobody else is actually working down in that area. I told Karen that we would certainly try to make some kind of arrangement. We then discussed the excess ~~raw deposits~~ and she told me that they had looked into it and she had an opinion from her attorneys. I asked her to send it on to me and she promised to do so. Karen wants me to keep in touch with her and she promised to do the same so that we can see how the thing goes and there might be some possibility of making a farm-out or some other agreement with Mallon.

JTJ:sh

Roy

RBAUPCD  
Exp# 1

HARRY BETTIS JR.  
118218 Western United Life Building  
Midland, Texas 79701  
915-685-4128  
February 23, 1983

CILCO  
9458 BB Z  
Red Bluff

Re: Section 7: Lots 3, 4, E/2 SW/4, SE/4  
18: Lots 1, 2, E/2 NW/4  
19: SE/4  
27: N/2 NE/4, SE/4 NE/4, NW/4,  
N/2 S/2, SW/4 SW/4 (excluding  
38.08 acs. lying within the  
Red Bluff Reservoir)  
28: All (excluding 203.9 acs.  
lying within the Red Bluff  
Reservoir)  
29: N/2, N/2 SE/4, SE/4 SE/4  
All in T-26-S, R-29-E  
Eddy County, New Mexico

Worth Petroleum Company  
P. O. Box 17406  
Fort Worth, Texas 76102

Attention: Mr. Mike Gleason

Gentlemen:

For twenty-five thousand (\$25,000.00) dollars and other valuable consideration, Harry M. Bettis, Jr. and L. E. Oppermann, hereinafter called "Bettis et al", do hereby assign to Worth Petroleum Company, hereinafter called "Worth", all rights acquired by Bettis et al in Farmout Agreement dated 2-1-83 from Amoco Production Company and covering the captioned acreage. This assignment shall be made by Bettis et al to Worth subject to the following provisions:

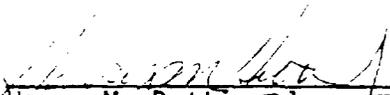
1. Worth shall drill a minimum of **two wells** on the captioned acreage to adequately test all formations for oil and/or gas production from the surface to the base of the Bone Springs formation. After Worth has drilled the initial test well specified in the Amoco farmout, **Worth shall have ninety (90) days to drill a second well to a like depth on the captioned acreage.** Worth shall have the option to drill said second well immediately after the drilling of the initial well or simultaneously with the drilling of the initial well. If Worth should not drill the second well to the specified depth, **Worth shall pay to Bettis et al fifty thousand (\$50,000.00) dollars ninety (90) days after the completion of the initial well as a dry hole or a commercial well.**
2. If the initial well is completed as a commercial well, Worth will receive an assignment of **forty (40) acres around the well** if completed as an oil well and an assignment of **one hundred and sixty (160) acres around the well** if completed as a gas well from Amoco. After Worth has received said assignment from Amoco, Worth shall assign a **5% of 8/8 override to Bettis et al.** Said override shall

be effective as to date of first production and shall be 2-1/2 of 8/8 to Harry M. Bettis, Jr. and 2-1/2 of 8/8 to L. E. Oppermann. If the second well and other subsequent wells located on the captioned acreage result in commercial oil and/or gas wells, Worth shall assign to Bettis et al a 5% of 8/8 override under the same procedure as set out above.

3. The twenty-five thousand (\$25,000.00) dollars paid by Worth to Bettis et al shall represent the payment for the location of the first eight (8) wells drilled on the captioned acreage. If a ninth and additional wells are drilled on the captioned acreage, Worth shall pay to Bettis et al an additional three thousand (\$3,000.00) dollars for each such location.
4. Worth and Bettis et al hereby agree to form an Area of Mutual Interest, hereinafter called the AMI, to cover all of T-26-S, R-29-E, Eddy County, New Mexico. Bettis et al shall attempt to acquire additional farmouts and purchase leases in the AMI at Worth's request. If Bettis et al is successful in acquiring farmouts and/or leases in the AMI, Bettis et al shall retain a 2% of 8/8 override in any acreage having a 75% net revenue interest or less and a 5% of 8/8 override in any acreage having a 77% net revenue interest or greater. Worth shall pay 100% of all costs in securing said additional acreage. Said override shall apply to all rights acquired and shall not be limited to depth. Worth shall pay L. E. Oppermann two hundred (\$200.00) dollars per diem plus expenses to handle all landwork in the AMI. Said landwork shall include acquiring farmouts, purchasing leases, curing titles, ordering abstracts, and any other related work which Worth may require. Worth shall pay to Harry M. Bettis, Jr. two hundred (\$200.00) dollars per diem plus expenses to handle all geologic work which Worth may require in the AMI. If Bettis et al should acquire additional acreage in the AMI, Worth shall have the right to acquire said acreage on the terms set out above. If Worth does not wish to acquire the acreage, Worth shall have ten (10) days after the acreage is presented to advise Bettis et al in writing that it does not wish to acquire the acreage. Bettis et al shall then have the right to retain the acreage for its own account or assign the acreage to a third party.

If you agree to the terms of the above trade, please execute below.

Yours truly,

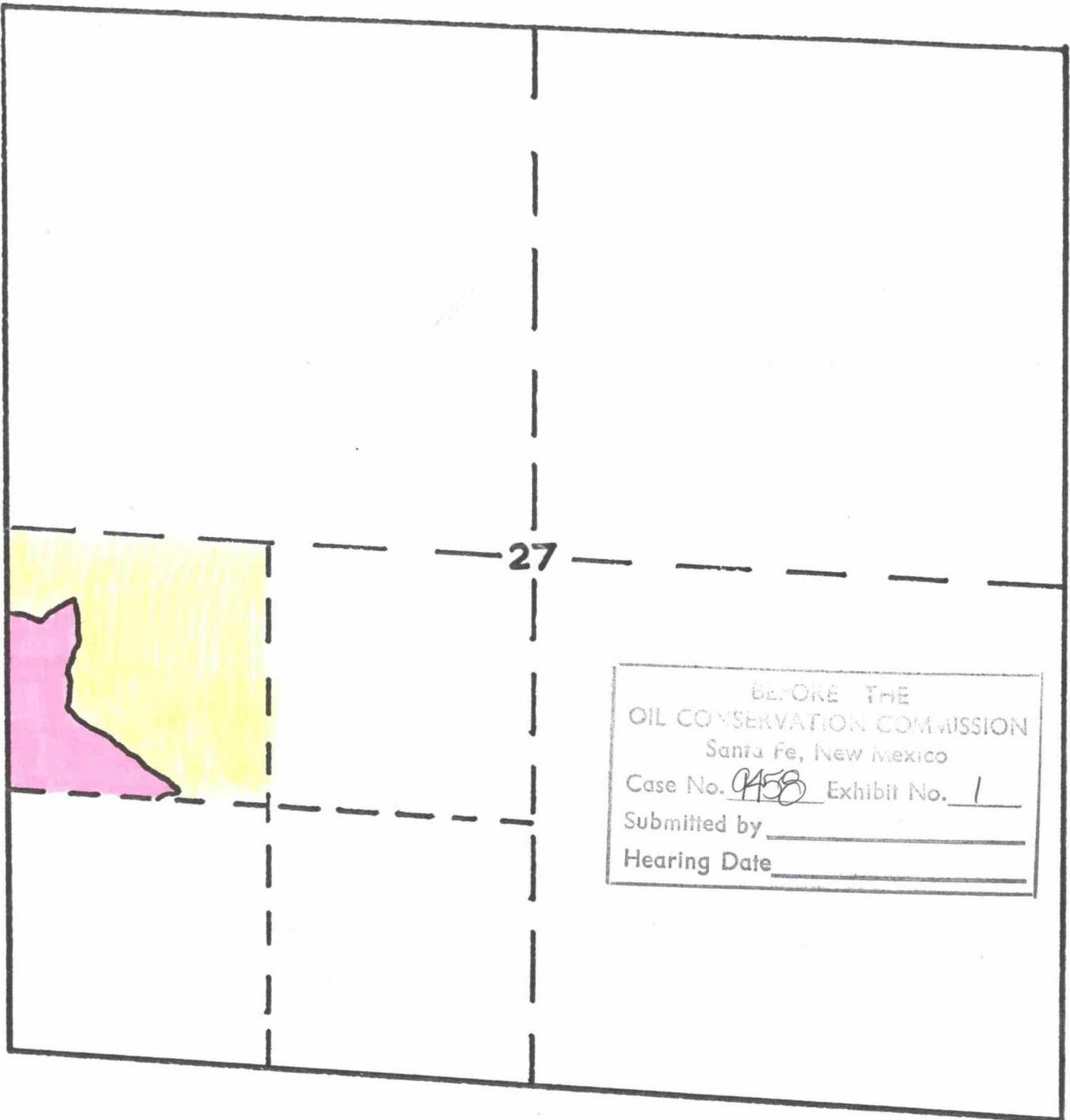
  
\_\_\_\_\_  
Harry M. Bettis, Jr.  
  
\_\_\_\_\_  
L. E. Oppermann

HMB/sv

AGREED TO AND ACCEPTED this 18 day of March, 1983.

BY:   
\_\_\_\_\_  
Worth Petroleum Company

Amoco-Red Bluff #1 Federal Well  
NW/4 SW/4 of Section 27-T26S, R29E, NMPM  
Eddy County, New Mexico



Subdivision of Acreage based on 40  
acres in the NW/4 SW/4 of Section 27



Federal Lease<sup>®</sup> NMNM-71599  
Red Bluff Water Power Control District - 9.727 acres  
24.3175% of 40 acre spacing unit



Federal Lease NM-38636  
Amoco Production Company - 30.273 acres  
75.68250% of 40 acre spacing unit

Mallon Exhibits 1 through  
16  
Complete Set

RAYMOND J. CONNELL  
JOHN D. PHILLIPS, JR.  
JOHN R. FRIGG  
EUGENE O. DANIELS  
EDWARD H. WIDMANN  
ROBERT S. TREECE  
RICHARD A. HANNEMAN  
DAVID R. BROUGHAN  
SAMUEL DAVID CHERIS  
THOMAS H. ALFREY  
PETER F. JONES  
ROBERT W. HARRIS  
JOHN P. MITZNER  
MICHAEL W. JONES  
JAMES A. RUF, JR.  
DUNCAN W. CAMERON  
BRUCE A. MENK  
JEFFERY S. STALDER  
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KAREN A. SMITH  
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CATHY S. HARRIS

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M. KIRK LUDWICK  
BARBARA A. DUFF  
WILLIAM A. PALMER\*  
NANCY LOPEZ PEARL  
MICHAEL R. MCGURDY  
KIM DAVID POLETTO  
LINDA S. COMER  
LINDA S. COMER  
MALCOLM S. MEAD  
TODD S. LARSON  
PAUL R. FRANKE, III  
JOYCE H. NAKAMURA  
SAMUEL G. LIVINGSTON  
THOMAS R. DOLVEN  
LINDA ZINSER  
MARLENE TRIGGS GRESH  
DEANNA BERMAN  
CHARLES GREENHOUSE  
AMY H. SHAPIRO  
ROBERT J. MCCORMICK  
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MATTHEW Y. BISCAN  
PATRICK SEAMUS MBRIDE  
JOHN LEE BREWERTON, III  
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J. PATRICK MADIGAN, III  
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ROBIN LEE BEATTIE  
KRIS EDWIN JUROLA  
JUAN R. GARCIA, III  
ROSS P. GOLDSMITH  
ALAN G. MOKK  
DIANE L. VAKSDAL  
KIM DALE STARR  
VINCENT M. BALKENBUSH  
STEPHEN G. PUCHTA  
RONALD S. TAYLOR  
TIMOTHY P. MELCHER

OF COUNSEL  
RICHARD D. HALL  
CLINTON R. SWIFT, P.C.  
BROOKE WUNNICKE  
ANDREW N. BERNSTEIN, P.C.  
G. WALTER BOWMAN

RONALD V. YEGGE (1905-1970)  
DON R. EVANS (1925-1976)

\*COLORADO SPRINGS OFFICE  
SUITE 200, 101 NORTH CASCADE AVENUE  
COLORADO SPRINGS, COLORADO 80903-1495  
TELEPHONE 719/578-5600  
DENVER TOLL FREE TELEPHONE 303/628-3400  
TELECOPIER 719/633-7458

WRITER'S DIRECT DIAL NUMBER:

January 18, 1989

Mallon Oil Company  
1099 18th Street  
Suite 2750  
Denver, Colorado 80202

Attn: Ms. Karen McClintock

DRILLING TITLE OPINION  
Amoco-Red Bluff #1 Well  
Oil and Gas Leases:  
Federal NM-38636  
Federal NM NM 71599

Drilling Spacing Unit:

Township 26 South, Range 29 East, N.M.P.M.  
Section 27: NW/4 SW/4  
Eddy County, New Mexico  
Containing 40 acres more or less

Dear Ms. McClintock:

At your request, we have examined the following documents  
regarding title to the captioned lands:

BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
Case No. 9458 Exhibit No. 2  
Submitted by \_\_\_\_\_  
Hearing Date \_\_\_\_\_

1. Instruments Examined

1.1 Title Opinion dated April 29, 1983, prepared by James H. Isbell, under which the following were examined ("the Original Drilling Title Opinion"):

1.1-1 Schutz Abstract Co., Inc. Abstract No. 3109 covering N/2S/2 of Section 27, except 38.08 acres within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M, and other property, as to Oil and Gas Lease NM-38636, covering all entries appearing in the Bureau of Land Management in Santa Fe, New Mexico for NM-38636, from inception to April 11, 1983 at 10:00 a.m.

1.1-2 Currier Abstract Co. Abstract No. 83109, covering N/2S/2 of Section 27, except 38.08 acres within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from inception of records to April 8, 1983 at 8:00 a.m. as to oil, gas and other mineral interests only.

1.2 Supplemental Abstract of Title No. 83229 prepared by Currier Abstract Company covering N/2S/2 of Section 27, except 38.08 acres within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from April 8, 1983 at 8:00 a.m. to August 24, 1983 at 8:00 a.m.

1.3 Supplemental Abstract of Title No. 84139, prepared by the Currier Abstract Company, covering N/2S/2 of Section 27, except 38.08 acres within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from August 24, 1983 at 8:00 a.m. to March 27, 1984 at 8:00 a.m.

1.4 Supplemental Abstract of Title No. 85148, prepared by Currier Abstract Company covering N/2S/2 of Section 27 except 38.08 acres within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property from March 27, 1984 at 8:00 a.m. to April 9, 1985 at 8:00 a.m.

1.5 Supplemental Abstract of Title No. 86268, prepared by the Currier Abstract Company, covering N/2S/2 of Section 27, except 38.08 acres within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from April 9, 1985 at 8:00 a.m. to June 25, 1986 at 8:00 a.m.

1.6 Supplemental Abstract of Title No. 87013, prepared by the Currier Abstract Company, covering N/2S/2 of Section 27, except 38 acres within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from June 25, 1986 at 8:00 a.m. to January 16, 1987 at 8:00 a.m.

1.7 Abstract of Title Number 3237, prepared by Schutz Abstract Company, Inc., covering the records in the United States Land Office at Santa Fe, New Mexico pertaining to Lease NM-38636, as to N/2S/2 of Section 27, except 38.08 acres within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from April 11, 1983 at 10:00 a.m. to August 23, 1983 at 10:00 a.m.

1.8 Abstract of Title No. 3785, prepared by Schutz Abstract Company, Inc., covering the records of the United States Land Office at Santa Fe, New Mexico pertaining to NM-38636 as to N/2S/2 of Section 27, except 38.08 acres lying within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from August 23, 1983 at 10:00 a.m. to March 22, 1984 at 10:00 a.m.

1.9 Abstract of Title No. 39515 (first page of Abstract numbered 39514), prepared by Federal Abstract Company, covering the records in the United States Department of Interior, Bureau of Land Management, Santa Fe, New Mexico, pertaining to Lease NM-38636 as to N/2S/2 of Section 27, except 38.08 acres lying within the Red Bluff Reservoir, Township 26 South, Range 29

East, N.M.P.M., and other property, from March 22, 1984 at 10:00 a.m. to March 26, 1985 at 9:00 a.m.

1.10 Supplemental Abstract of Title No. 40745, prepared by the Federal Abstract Company, covering the records of the United States Department of the Interior, Bureau of Land Management, Santa Fe, New Mexico pertaining to Lease NM-38636 as to N/2S/2 of Section 27, except 38.08 acres lying within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from March 26, 1985 at 9:00 a.m. to June 24, 1986 at 9:00 a.m.

1.11 Supplemental Abstract of Title No. 41090, prepared by the Federal Abstract Company, covering the records in the United States Department of Interior, Bureau of Land Management, Santa Fe, New Mexico pertaining to Lease NM-38636 as to All of Section 27, except 38.08 acres lying within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from June 24, 1986 at 9:00 a.m. to January 15, 1987 at 9:00 a.m.

1.12 Supplemental Abstract of Title No. 41379, prepared by the Federal Abstract Company, covering the records of the United States Department of Interior, Bureau of Land Management pertaining to Lease NM 38636 as to N/2S/2 of Section 27, except

38.08 acres lying within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from January 15, 1987 at 9:00 a.m. to May 20, 1987 at 9:00 a.m.

1.13 Supplemental Abstract of Title No. 87,174, prepared by Courier Abstract Company, covering N/2S/2 of Section 27, except 203.9 acres lying within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M. and other property, from January 16, 1987 at 8:00 a.m. to June 1, 1987 at 8:00 a.m.

1.14 Supplemental Abstract of Title No. 41799, prepared by the Federal Abstract Company covering the records of the United States Department of Interior, Bureau of Land Management pertaining to Lease NM 38636 as to N/2S/2 of Section 27, except 38.08 acres lying within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from May 20, 1987, at 9:00 A.M. to November 30, 1987, at 9:00 a.m.

1.15 Supplemental Abstract of Title No. 87,404, prepared by Courier Abstract Co. covering N/2S/2 of Section 27, except 38 acres lying within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from June 1, 1987 at 8:00 a.m. to November 30, 1987 at 8:00 a.m.

1.16 Supplemental Abstract of Title No. 42572, prepared by the Federal Abstract Company, covering the records of the United States Department of Interior, Bureau of Land Management, pertaining to Lease NM 38636 as to N/2S/2 of Section 27, excluding 38.08 acres lying within the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from November 30, 1987 at 9:00 a.m. to October 19, 1988 at 9:00 a.m.

1.17 Supplemental Abstract of Title No. 88,374, prepared by the Currier Abstract Company covering N/2S/2 of Section 27, except 38 acres in Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M. and other property, from November 30, 1987 at 8:00 a.m. to October 27, 1988 at 8:00 a.m.

1.18 Supplemental Abstract of Title No. 42837, prepared by the Federal Abstract Company, covering the records of the United States Department of the Interior, Bureau of Land Management, pertaining to Lease NM-38636 as to the N/2S/2 of Section 27, except the Red Bluff Reservoir, of Township 26 South, Range 29 East, N.M.P.M., and other property, from October 19, 1988 at 9:00 AM to January 4, 1989 at 9:00 AM.

1.19 Supplemental Abstract of Title No. 89002, prepared by Currier Abstract Co. covering the N/2S/2 of Section 27, except 38 acres in the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property, from October 27, 1988 at 8:00 AM to January 3, 1989 at 8:00 AM.

1.20 Abstract of Title No. 42864, prepared by the Federal Abstract Co., covering the records of the United States Department of the Interior, Bureau of Land Management, pertaining to Lease NM 71599, as to Parcel 2 containing 38.5 acres (see metes and bounds description in the abstract) in Section 27, Township 26 South, Range 29 East, N.M.P.M. from inception of records to January 11, 1989 at 9:00 AM.

1.21 Supplemental Abstract of Title No. 89,003, prepared by Currier Abstract 10, covering the N/2S/2 of Section 27, Township 27 South, Range 29 East, N.M.P.M. from April 1, 1988 at 8:00 AM to January 3, 1989 at 8:00 AM.

#### Definitions

There are two tracts within the captioned spacing unit which will be described throughout the opinion as follows:

TRACT A: NW/4SW/4 of Section 27, Township 26 South, Range 29 East, N.M.P.M., except for Tract B described

below which is that portion of the Red Bluff Reservoir contained in the NW/4SW/4 of Section 27.

TRACT B: That portion of the NW/4SW/4 of Section 27, Township 26 South, Range 29 East, N.M.P.M. contained within the Red Bluff Reservoir. (See the Oil & Gas Lease described in paragraph 4.2, below, for the metes and bounds description.)

See Requirement 9.2 below.

## 2. Title

2.1 Surface: The materials examined do not cover surface title to the subject property. No opinion here is given as to surface ownership. See Comment 9.13 below.

2.2 Mineral: United States of America

2.3 Royalty: United States of America

2.4 Encumbrances: See Requirement 9.13 below.

2.4-1 Mortgage, dated November 1, 1983, effective as of April 3, 1983, recorded at Book 341, Page 127, Mortgages, Eddy County, New Mexico from Don Wright, et ux., to InterFirst Bank, Abilene, N.A., covering N/2S/2 of Section 27, except 38.08 acres in the Red Bluff Reservoir, Township 26 South, Range 29

East, N.M.P.M., and other property, as to the 5% overriding royalty interest held by the assignor.

2.4-2 Deed of Trust, dated March (no day shown), 1984, recorded at Book 345, Page 119, Mortgages, Eddy County, New Mexico, from Don Wright and wife, Micki Wright, to Kenneth T. Murphy, Trustee for the benefit of First National Bank of Abilene, including an assignment of the proceeds to which mortgagors are entitled as to the 5% overriding royalty interest that mortgagors hold in N/2S/2 of Section 27, except 38.08 acres in the Red Bluff Reservoir, Township 26 South, Range 29 East, N.M.P.M., and other property.

2.4-3 By Special Master Deed, dated March 8, 1988, recorded at Book 29, Page 982, the Special Master conveyed the 5% overriding royalty interest of Don Wright to First Republic Bank of Abilene, N.A. f/d/b/a InterFirst Bank of Abilene N.A.

2.5 Easements: Be advised that because the abstracts examined do not cover surface title, that there may be easements of record which are not described here.

2.5-1        It is our understanding that you have not had a status report prepared on the federal records related to the captioned property. Therefore, we have set forth below certain information from the historical index which would normally be included in the status report. These references set forth below are not necessarily easements as such but they are withdrawals or right-of-ways which affect Mallon's right to use the property affected thereby. The following designations affecting the captioned property were contained in the historical index:

(a) SO WDL. Red Bluff Reservoir site, dated June 17, 1914, revised September 3, 1937, affecting all of Section 27, Township 26 South, Range 29 East, N.M.P.M. and other property.

(b) Right-of-Way reservoir site, serial No. LC 053802, dated August 4, 1937, proof of construction filed August 14, 1944, affecting all of Section 27, Township 26 South, Range 29 East, N.M.P.M. and other property.

(c) GLO O. WDL PWR PROJ. dated August 20, 1934, affecting the NW/4SW/4 of Section 27, Township 26 South, Range 29 East, N.M.P.M. and other property.

(d) SO REV. WDL. 6171914, dated September 3, 1937, affecting all of Section 27, Township 26 South, Range 29 East, N.M.P.M. and other property.

(e) Right-of-Way water salvage project, serial No. NM 7220, dated July 25, 1958, affecting the NW/4SW/4 of Section 27, Township 26 South, Range 29 East, N.M.P.M. and other property.

2.5-2 See "Rights-of-Way and Surface Stipulation" section in the Title Opinion identified in Paragraph 1.1, above.

2.5-3 See paragraph 9.13, below.

### 3. Leasehold Title

3.1 Lessor: United States of America.

Tract A: United States of America.

Tract B: United States of America.

3.2 Original Lessee:

Tract A: Don Wright 100%

Tract B: Red Bluff Water Power  
Control District 100%

3.3 Current Record Title Owner - (Percentage Interest):

Tract A: Amoco Production Company 100%

Tract B: Red Bluff Water Power  
Control District 100%

3.4 Current Operating Rights - (Percentage Interest):

Tract A:	Amoco Production Company	100%
Tract B:	Red Bluff Water Power Control District	100%

4. Analysis of Lease

4.1 Oil and Gas Lease Covering Tract A:

The Oil and Gas Lease covering Tract A, NM-38636, is described in the Original Drilling Title Opinion described in Paragraph 1.1, above. The description of the Oil and Gas Lease covering Tract A contained in the Original Drilling Title Opinion is incorporated into this Paragraph 4.1, as though fully set forth.

4.2 Oil and Gas Lease Covering Tract B:

Assignor:	United States of America
Assignee:	Red Bluff Water Power Control District
Form:	Form 3100-W (August 1987)
Effective Date:	April 1, 1988
Term:	For a period not to exceed 20 years
Land Covered:	Tract B and other property. See requirement 9.2, below.
Landowner's Royalty:	14%

Special  
Terms:                    See Lease for terms

5.    Assignments of Record Title

5.1   There are no assignments of Record Title affecting either Tract A or Tract B.

6.    Assignments of Operating Rights

6.1   There are no assignments of operating rights affecting either Tract A or Tract B.

7.    Assignments of Overriding Royalty Interests.

7.1   The assignments of Overriding Royalty Interest as of April 11, 1983 are described in the Original Drilling Title Opinion.    The Assignments of Overriding Royalty Interest described in the Original Drilling Title Opinion are incorporated into this Paragraph 7.1, as though fully set forth.

7.2   There have been no further assignments of overriding royalty interest affecting the leases covering either Tract A or Tract B.

## 8. Contracts for Assignment

8.1 There are no Contracts for Assignments of Record affecting the NW/4SW/4 of Section 27, Township 26 South, Range 29 East, N.M.P.M. However, see requirement 9.8, below.

## 9. Requirements and Comments

9.1 Requirement. As set forth in paragraph 1, above, the only abstract covering the county records underlying Tract B is the abstract described in paragraph 1.21, above. Accordingly, we have not reviewed any county records affecting Tract B from inception of record to April 1, 1988. Obviously, there is no way to comment on instruments which might be of record affecting Tract B that could affect the mineral or surface title set forth above. This opinion is limited accordingly.

You should obtain an abstract covering the county records from inception of record through April 1, 1988 at 8:00 AM and verify that there are no instruments of record which may affect the title set forth above. We would, of course, be happy to review this abstract if obtained and supplement this opinion as necessary.

9.2 Requirement. The legal description for the oil and gas lease described in paragraph 4.2, above, as it pertains to Section 27, Township 26 South, Range 29 East, N.M.P.M. is in

Ms. Karen McClintock  
January 18, 1989  
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error in that the description does not "close". There are numerous letters and memoranda contained in the BLM records covered by the abstract described in paragraph 1.20, above, which discuss this discrepancy. It is our understanding that you are aware of this problem and have made efforts to negotiate with Red Bluff Water Power Control District to address the problems raised by the erroneous legal description. It is also evident from the BLM records that BLM has considered this problem and believes that the only long term solution would be to have the property resurveyed. However, the BLM does not appear to be interested in incurring the expense of a resurvey at this time. For purposes of drilling the subject well, the main problem that this erroneous description creates is that it is not clear what the percentage participation would be between the current lessees of NM-38636 and NM-71599. It is our understanding that you are negotiating with Red Bluff Water Power Control District to address this issue and that you believe that you can resolve this problem through an agreement with Red Bluff Water Power Control District.

You should be sure to enter into an agreement with Red Bluff Water Power Control District in which the current lessee of the two leases agree as to the number of acres within the forty acre spacing unit which are

attributable to each lease. Further, you should be sure that such agreement is a recordable document and that it is placed of record. We will be happy to assist you in the preparation and filing of such an agreement.

9.3 Requirement. We are not aware of any operating agreement or unit agreement which sets forth the relative right of the lessees of the two leases in the spacing unit. It is our understanding that you have obtained a Forced Pooling Spacing Order from the New Mexico Oil and Gas Conservation Commission. We have not yet seen the Forced Pooling Order. However, we understand that a trial de novo has been requested by Red Bluff Water Power Control District concerning the Spacing Order issued by New Mexico Oil and Gas Conservation Commission.

You should be sure that a Forced Pooling Order or a Pooling Agreement is put into place which sets forth the relative rights and obligations of the current lessee for the drilling of the subject well. We will be happy to assist in the preparation of any such agreement.

9.4 Requirement. As set forth in paragraph 4.2, above, the term of the lease covering Tract B is for a period of twenty years. There is no provision which extends the lease term in the event of production at the end of the primary term. The related statutes authorizing the issuance of this lease appear

to limit the term of such leases to a time not to exceed twenty years. We do not believe that there is any absolute way to obtain an extension or an agreement to have a new lease issued after the twenty year lease term has expired. There is an informal opinion contained in the Bureau of Land Management's records which indicates the lease term might be extended in the event that the subject lease was included in a federal unit. However, we are not certain whether that informal opinion is accurate given the limitations set forth in the authorizing statute.

You should be aware of the twenty year limitation for the lease term for the lease covering Tract B. Obviously, it would be prudent for the Red Bluff Water Power Control District to take steps to have the lease extended or to have a new lease reissued if the well is still producing at a time near the expiration of the primary term of the subject lease.

9.5 Requirement. Be sure that your operations do not interfere with the easements described in paragraph 2.5 above. In particular, be aware that the property covered under Tract B is a right-of-way and that the Red Bluff Water Power Control District has the exclusive right to that property.

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You should be sure that your operations are not located on Tract B unless you have written authority from the Red Bluff Water Power Control District to utilize the property for that purpose.

9.6 Requirement. As further set forth below, we make no comment concerning the various federal regulations with which you may need to comply in drilling your well. However, in the material contained in the Bureau of Land Management case file, there are various memos which concern the special concerns related to the property being located near a water reservoir and the Pecos River. In particular, there was some consideration for including a surface stipulation on the lease described in paragraph 4.2, above, which would require that no surface use be made within one-quarter mile of the Pecos River. Apparently that surface stipulation was not included on the subject lease because the Bureau of Land Management decided that this concern could be handled as part of the environmental assessment process.

Be sure that you are aware of the special concerns, if any, related to drilling the subject well near a reservoir site and that you comply with such laws and regulations.

9.7 Requirement. There are a number of somewhat unusual terms in the Oil and Gas Lease described in paragraph 4.2, above.

Be sure that you are familiar with the terms of the Oil and Gas lease described in paragraph 4.2, above.

9.8 Requirement. It is our understanding that Mallon Oil Company has a farmout agreement from the current lessee of lease NM-38636 under which Mallon Oil Company has the authority to drill the subject well. There is currently no assignment of record to Mallon Oil Company of the subject lease. We have not seen the farmout agreement from Amoco Production Company to Mallon Oil Company.

Be sure that you are familiar with the terms of the farmout between Amoco Production Company and Mallon Oil Company and that you comply with its terms.

9.9 Requirement. There are a number of requirements contained in the Original Drilling Title Opinion described in Paragraph 1.1, above. These requirements are incorporated into this opinion as though fully set forth.

You must be sure to comply with all the requirements set forth in the Original Drilling Title Opinion described in Paragraph 1.1, above.

9.10 Requirement. As indicated in Paragraph 2.4-3, above, the Overriding Royalty Interest of Don Wright has been conveyed to First RepublicBank of Abilene by Special Masters Deed. This Special Masters Deed has also been filed with the Bureau of Land Management, but it is unknown whether this Deed has been approved by the Bureau of Land Management. The Bureau of Land Management may require the Special Master to execute a proper BLM Form Assignment of Overriding Royalty Interest.

You should be sure to contact the Bureau of Land Management in Santa Fe, New Mexico and determine whether the Assignment of Overriding Royalty to the First RepublicBank of Abilene is acceptable.

9.11 Comment. Certain Abstracts described above, are copies of original abstracts. We do not have the original of these abstracts in our possession. These copies of the abstracts appear to be complete. Our opinion is limited accordingly.

9.12 Comment. The Abstracts described in Paragraphs 1.1-1, 1.7, 1.8, 1.9, 1.10, 1.11, 1.12, 1.14, 1.16, 1.18 and 1.20, above, do not include reference to or copies of the Survey Plat, Title Plat, or Index to Unpatented Mining Claims for the N/2S/2

of Section 27, Township 26 South, Range 29 East, N.M.P.M. Our Opinion is limited accordingly.

9.13 Comment. The Abstracts described above covering the county records are limited to "Oil, Gas and Other Mineral Interests." These abstracts do not include the documents affecting surface title. Further, these abstracts do not cover instruments filed in the County Clerk under the provisions of the New Mexico Uniform Commercial Code. Our opinion is limited accordingly.

9.14 Comment. The Lease covering Tract A, NM-38636, and the Lease covering Tract B, NM-71599, cover the captioned property and other property which is not the subject of this Opinion.

9.15 Comment. Abstract No. 42837, described in Paragraph 1.18, above, contains an Abstracter's Note which reads: "We have examined the Mineral Service Royalty Management Program Delinquent Lease Accounts Memorandum dated September 26, 1988, and find that as of August 31, 1988, Oil and Gas Lease NM-38036, does not appear on their report."

9.16 Comment. Abstract No. 89,002, covering Tract A, described in Paragraph 1.19, and Abstract No. 89003, covering

Tract B, described in paragraph 1.21, above, provide that there are no transcripts of judgments, liens, federal tax liens or suits pending that in any way affect the title to the mineral interests of the subject property affecting certain names which the abstracter checked. The abstracter checked the names of all individuals and companies described in Paragraph 3.4, above, and certain other names.

9.17 Comment. You should make an examination of the surface ground to ascertain whether any right exists by settlement, location or entry under the particular laws of the United States and to ascertain if easements not of record may be shown on the ground. If such examination reveals evidence of another's possession or easement, these evidentiary facts should be submitted to this office for examination and further Opinion.

9.18 Comment. You are advised that your operations may require compliance with various regulations of the company or other local political subdivisions. We offer no opinion as to what permits may be required, what fees and taxes may be imposed or what compliance may be sought. We will undertake such compliance upon separate request by you.

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January 18, 1989  
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9.19 Comment. We make no comment on the federal regulations upon which compliance must be sought before you commence operations on this property. We will be happy to answer any specific questions you may have.

This Opinion is based upon the instruments examined only. The date of this opinion is set forth in the references and goes only to that date. No opinions are given as to matters not contained in the document identified in Paragraph 1, above.

If you have further questions, please call and we will be happy to answer them.

Very truly yours,



Charles Greenhouse  
of HALL & EVANS

CG:dln

FORM 610 - 1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

January 19, 19<sup>89</sup>,

OPERATOR MALLON OIL COMPANY

CONTRACT AREA Township 26 South, Range 29 East, NPM  
Section 27: NW/4 SW/4

COUNTY OR PARISH OF Eddy STATE OF New Mexico

BEFORE THE  
OIL & GAS REGULATORY COMMISSION  
Santa Fe, New Mexico  
Case No. 9458 Exhibit No. 3  
Submitted by \_\_\_\_\_  
Hearing Date \_\_\_\_\_

**GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:**

1. Title Page: Fill in blanks as applicable.
2. Preamble, Page 1: Enter name of Operator.
3. Article II - Exhibits:
  - (a) Indicate Exhibits to be attached.
  - (b) If it is desired that no reference be made to non-discrimination, the reference to Exhibit "F" should be deleted.
4. Article III.B. - Interests of Parties in Cost and Production: Enter royalty fraction as agreed to by parties.
5. Article IV.A. - Title Examination: Select option as agreed to by the parties.
6. Article IV.B. - Loss of Title: If "Joint Loss" of Title is desired, the following changes should be made:
  - (a) Delete Articles IV.B.1 and IV.B.2.
  - (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1. and IV.B.2 above."
  - (c) Article VII.E. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."
  - (d) Article X. - Add as the concluding sentence - "All claims or suits involving title to any interest subject to this agreement shall be treated as claim or a suit against all parties hereto."
7. Article V - Operator: Enter name of Operator.
8. Article VI.A - Initial Well:
  - (a) Date of commencement of drilling.
  - (b) Location of well.
  - (c) Obligation depth.
9. Article VI.B.2.(b) - Subsequent Operations: Enter penalty percentage as agreed to by parties.
10. Article VI.C. - Taking Production in Kind: If a Gas Balancing Agreement is not in existence nor attached hereto as Exhibit "E", then use Alternate Page 8.
11. Article VII.D.1. - Limitation of Expenditures: Select option as agreed to by parties.
12. Article VII.D.3. - Limitation of Expenditures: Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.
13. Article IX. - Internal Revenue Code Election: Delete this article in the event the agreement is a Tax Partnership and Exhibit "G" is attached.
14. Article X. - Claims and Lawsuits: Enter claim limit as agreed to by parties.
15. Article XIII. - Term of Agreement:
  - (a) Select Option as agreed to by parties.
  - (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.
16. Article XIV.B. - Governing Law: Enter state as agreed to by parties.
17. Signature Page: Enter effective date.

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Mallon Oil Company

, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

- XX A. Exhibit "A", shall include the following information:
(1) Identification of lands subject to this agreement,
(2) Restrictions, if any, as to depths, formations, or substances,
(3) Percentages or fractional interests of parties to this agreement,
(4) Oil and gas leases and/or oil and gas interests subject to this agreement,
(5) Addresses of parties for notice purposes.

~~B. Exhibit "B", Form of Lease.~~

XX C. Exhibit "C", Accounting Procedure.

XX D. Exhibit "D", Insurance.

XX E. Exhibit "E", Gas Balancing Agreement. (If applicable)

~~F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.~~

~~G. Exhibit "G", Joint Partnerships~~

If any provision of any exhibit, except Exhibits "E" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

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ARTICLE III.  
INTERESTS OF PARTIES

~~A. Oil and Gas Interests:~~

~~Every party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both royalty interest in such lease and the interest of the lessee thereunder.~~

**B. Interests of Parties in Costs and Production:**

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties ~~to the extent of \_\_\_\_\_ which shall be borne as hereinafter set forth.~~

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount ~~stipulated hereinabove~~ and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

**C. Excess Royalties, Overriding Royalties and Other Payments:**

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production ~~in excess of the amount stipulated in~~ Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

**D. Subsequently Created Interests:**

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,
2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.  
TITLES

**A. Title Examination:**

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

~~Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary \_\_\_\_\_ shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be \_\_\_\_\_ whether performed by Operator's staff attorneys or by outside attorneys.~~

ARTICLE IV  
continued

1  Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination  
2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties  
3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-  
4 hibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above  
5 functions.

6  
7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection  
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling  
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.  
10 This shall not prevent any party from appearing on its own behalf at any such hearing.

11  
12 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above  
13 provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to par-  
14 ticipate in the drilling of the well. The parties will have a period of seven (7) days after receipt of Title  
15 Opinion to notify Operator of their approval or rejection of title.

16 **B. Loss of Title:** Failure to notify Operator will be deemed as acceptance of title.

17  
18 1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss  
19 results in a reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have  
20 ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title  
21 failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue  
22 in force as to all remaining oil and gas leases and interests: and,

23 (a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be  
24 entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,  
25 but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

26 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest  
27 which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that  
28 title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be  
29 reduced in the Contract Area by the amount of the interest lost;

30 (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is  
31 increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such in-  
32 terest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such  
33 well;

34 (d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has  
35 failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties  
36 who bore the cost which are so refunded;

37 (e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be  
38 borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

39 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest  
40 claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in  
41 connection therewith.

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43 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well  
44 payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,  
45 there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required  
46 payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,  
47 which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the  
48 date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in  
49 the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the  
50 required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to  
51 the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it  
52 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled  
53 or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

54 (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis,  
55 up to the amount of unrecovered costs;

56 (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of  
57 oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease  
58 termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said  
59 portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and,

60 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner  
61 of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

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63 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses  
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
65 the Contract Area.

ARTICLE V.  
OPERATOR

A. Designation and Responsibilities of Operator:

Mallon Oil Company shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" ~~remaining after excluding the voting interest of Operator~~. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of February, 1989 Operator shall commence the drilling of a well for oil and gas at the following location:

Township 26 South, Range 29 East NMPM  
Section 27: NW/4 SW/4  
Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of approximately 6200' to adequately test the Brushy Canyon formation.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

**ARTICLE VI**  
continued

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the  
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

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6 **B. Subsequent Operations:**

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8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided  
9 for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all  
10 the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-  
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice  
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-  
14 ing rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period  
15 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice  
16 to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.  
17 Any notice or response given by telephone shall be promptly confirmed in writing.

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21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice  
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-  
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-  
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,  
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain  
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete  
27 title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Arti-  
28 cle XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically  
29 permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted  
30 to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

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34 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option  
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties  
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of  
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling  
38 rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall  
39 perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location,  
40 and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required  
41 by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator  
42 to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall  
43 comply with all terms and conditions of this agreement.

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47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable  
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as  
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours  
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a)  
51 limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties'  
52 interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location,  
53 the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal  
54 holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly  
55 notify all parties of such decision.

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58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have  
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such  
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.  
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their  
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-  
63 ducer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,  
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ARTICLE VI  
continued

1 and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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12 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

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21 (b) 400% of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 400% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other , and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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46 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

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53 Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

ARTICLE VI  
continued

1           If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above,  
2 the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-  
3 Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production  
4 therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging  
5 back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further  
6 costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

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10           Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall  
11 be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such  
12 well conforms to the then-existing well spacing pattern for such source of supply.

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16           The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.  
17 except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well  
18 after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for pro-  
19 duction, ceases to produce in paying quantities.

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23           3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been  
24 completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a  
25 reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening  
26 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever  
27 first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second gram-  
28 matical paragraph of Article VI.B.2, shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently  
29 withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion  
30 each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Par-  
31 ties.

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35           4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall  
36 also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole  
37 location (herein called "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other  
38 mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the  
39 affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal  
40 to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

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44           (a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in  
45 the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

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49           (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's  
50 salvage materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the  
51 provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

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55           In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period  
56 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request  
57 and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by  
58 time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice,  
59 standby costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing  
60 party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other in-  
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

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65 **C. TAKING PRODUCTION IN KIND:**

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67           Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area,  
68 exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for  
69 marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any  
70 party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be

**ARTICLE VI**  
**continued**

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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3 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from  
4 the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for  
5 its share of all production.

6  
7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share  
8 of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not  
9 the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the  
10 best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the  
11 owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously  
12 delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of  
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess  
14 of one (1) year.

15  
16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines  
17 and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas  
18 sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any  
19 gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

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21 **D. Access to Contract Area and Information:**

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23 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,  
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books  
25 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with  
26 governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the  
27 first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The  
28 cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator  
29 that requests the information.

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31 **E. Abandonment of Wells:**

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33 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been  
34 drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned  
35 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply  
36 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon  
37 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned  
38 in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening  
39 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further  
40 operations in search of oil and/or gas subject to the provisions of Article VI.B.

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42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted  
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed  
44 as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well  
45 shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If,  
46 within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such  
47 well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the  
48 other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provi-  
49 sions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning  
50 party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use  
51 of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to,  
52 but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party  
53 is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease,  
54 limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter  
55 as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, ~~such lease to be on the form~~  
56 ~~attached as Exhibit~~

**ARTICLE VI**  
**continued**

1 ~~and~~. The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The  
2 payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage  
3 of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There  
4 shall be no readjustment of interests in the remaining portion of the Contract Area.  
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6       Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from  
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-  
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-  
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned  
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to  
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-  
12 visions hereof.  
13

14       3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as  
15 between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no  
16 well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have  
17 been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions  
18 of this Article VI.E.  
19

**ARTICLE VII.**  
**EXPENDITURES AND LIABILITY OF PARTIES**

20  
21  
22  
23 **A. Liability of Parties:**

24  
25       The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and  
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted  
27 among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor  
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.  
29

30 **B. Liens and Payment Defaults:**

31  
32       Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share  
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon  
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the  
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-  
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien  
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share  
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from  
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each  
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien  
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.  
42

43       If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by  
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that  
45 the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain  
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.  
47

48 **C. Payments and Accounting:**

49  
50       Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the develop-  
51 ment and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective pro-  
52 portionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,  
53 showing expenses incurred and charges and credits made and received.  
54

55       Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance  
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding  
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together  
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted  
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within  
60 fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount  
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-  
62 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.  
63

64 **D. Limitation of Expenditures:**

65  
66       1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened  
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:  
68  
69  
70

ARTICLE VII  
continued

1  **Option No. 1:** All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including  
2 necessary tankage and/or surface facilities.

3  
4  ~~**Option No. 2:** All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its  
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice  
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight  
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-  
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-  
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall  
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties,  
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging  
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less  
13 than all parties.~~

14  
15 **2. Rework or Plug Back:** Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or  
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall  
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage  
18 and/or surface facilities.

19  
20 **3. Other Operations:** Without the consent of all parties, Operator shall not undertake any single project reasonably estimated  
21 to require an expenditure in excess of twenty-five thousand Dollars (\$ 25,000)  
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been  
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden  
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required  
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other  
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting  
27 an information copy thereof for any single project costing in excess of twenty-five thousand  
28 Dollars (\$ 25,000) but less than the amount first set forth above in this paragraph.

29  
30 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

31  
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the  
33 party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have con-  
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on  
35 behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of  
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-  
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-  
38 visions of Article IV.B.2.

39  
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production  
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holiday), or at the earliest opportunity permitted by  
42 circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify  
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment  
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45  
46 **F. Taxes:**

47  
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property  
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they  
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not  
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-  
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-  
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or  
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-  
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding  
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax  
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments  
58 in the manner provided in Exhibit "C".

59  
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner  
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-  
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any  
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-  
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by  
65 them, as provided in Exhibit "C".

66  
67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with  
68 respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.  
69  
70

## ARTICLE VII

continued

1 **G. Insurance:**  
2

3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of  
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-  
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall  
6 also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part  
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation  
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.  
9

10 In the event automobile liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the  
11 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.  
12

13 **ARTICLE VIII.**14 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**15 **A. Surrender of Leases:**  
16

17 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole  
18 or in part unless all parties consent thereto.  
19

20 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not  
21 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in  
22 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production  
23 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-  
24 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering  
25 such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, ~~which~~  
26 ~~lease to be on the form attached hereto as Exhibit "D"~~. Upon such assignment or lease, the assigning party shall be relieved from all  
27 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well  
28 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-  
29 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the  
30 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-  
31 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of  
32 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest  
33 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.  
34  
35

36 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering  
37 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage  
38 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this  
39 agreement.  
40

41 **B. Renewal or Extension of Leases:**  
42

43 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and  
44 shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the  
45 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-  
46 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the  
47 interests held at that time by the parties in the Contract Area.  
48

49 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties  
50 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area  
51 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.  
52 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.  
53

54 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein  
55 by the acquiring party.  
56

57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease  
58 or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or  
59 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-  
60 tracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to  
61 the provision of this agreement.  
62

63 The provisions in this Article shall also be applicable to extensions of oil and gas leases.  
64

65 **C. Acreage or Cash Contributions:**  
66

67 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other  
68 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be  
69 applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the con-  
70 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

**ARTICLE VIII**  
continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be  
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions  
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-  
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

5  
6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such  
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

8  
9 **D. Maintenance of Uniform Interest:**

10  
11 ~~For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no~~  
12 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,  
13 equipment and production unless such disposition covers either:

14  
15 1. the entire interest of the party in all leases and equipment and production; or

16  
17 ~~2. an equal undivided interest in all leases and equipment and production in the Contract Area.~~

18  
19 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement  
20 and shall be made without prejudice to the right of the other parties.

21  
22 If, at any time the interest of any party is divided among and owned by ~~four~~<sup>two</sup> or more co-owners, Operator, at its discretion, may  
23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for  
24 and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such  
25 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter  
26 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract  
27 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

28  
29 **E. Waiver of Rights to Partition:**

30  
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
32 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided  
33 interest therein.

34  
35 ~~**F. Preferential Right to Purchase:**~~

36  
37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~  
38 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the  
39 name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms  
40 of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase  
41 on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-  
42 ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-  
43 ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to  
44 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-  
45 pany, or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

46  
47 **ARTICLE IX.**  
48 **INTERNAL REVENUE CODE ELECTION**

49  
50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association  
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several  
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax  
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded  
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-  
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-  
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the  
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,  
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further  
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the  
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other  
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract  
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,  
63 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-  
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-  
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the  
66 computation of partnership taxable income.

ARTICLE X.  
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten thousand Dollars (\$ 10,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.  
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.  
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

ARTICLE XIII.  
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

~~Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.~~

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. ~~If the Contract Area is in two or more states, the law of the state of~~  
~~shall govern.~~

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.  
OTHER PROVISIONS

SEE ATTACHMENT SHEETS INCLUDED HERewith AND NUMBERED  
14A, 14B, ETC.

## Article XV

### Other Provisions

#### Assignment

- A. Notwithstanding the provisions of this Agreement and the accounting procedure attached at Exhibit "C", the parties to this Agreement specifically agree that in no event during the term of this contract shall Operator be required to make more than one billing or receive more than one vote or election for the entire interest credited to each party on Exhibit "A". It is further agreed that if any Party to this Agreement (hereafter referred to as "Selling Party") disposes of part of the interest credited to it on Exhibit "A", the Selling Party will be solely responsible for billing its assignee or assignees, and shall be designated as agent for its assignee or assignees for the purpose of casting votes or making elections under this Agreement, and shall remain primarily liable to the other parties for the interest or interests assigned and shall make prompt payment to Operator for the entire amount of statements and billings rendered to it. It is further understood and agreed that if Selling Party disposes of all its interest as set out on Exhibit "A", whether to one or several assignees, Operator shall continue to issue statements and billings to Selling Party for the interest conveyed until such time as Selling Party has designated and qualified one assignee to receive the billing for the entire interest. In order to qualify one assignee to receive the billing for the entire interest credited to Selling Party on Exhibit "A", Selling Party shall furnish to Operator the following:
1. Written notice of the conveyance and photostatic or certified copies of the assignments by which the transfer was made.
  2. The name of the assignee to be billed and a written statement signed by the assignee to be billed in which it consents to receive statements and billings for the entire interest credited to Selling Party on Exhibit "A" hereof; and, further, consents to handle any necessary sub-billings in the event it does not own the entire interest credited to Selling Party on Exhibit "A".

#### Payment Defaults

- B. If any Party fails to pay, within fifteen (15) days after billing, its share of any cost, including any advance which it may be obligated to make under Article I.3 of Exhibit "C" to the Operating Agreement, and if such default continues for a period of five (5) days following delivery by Operator of notice of such default to the Party, the following may be invoked at the election of the Operator:
- (1) If the billing is for the drilling of a new well or the plugging back, reworking or deepening (including sidetracking) of a well, or for the completion or recompletion of any well, the non-paying Party will be conclusively deemed to have elected not to participate in the proposed operation and will become a Non-Consenting Party with respect thereto under Article VI.B., regardless of any election to participate theretofore made.

Article XV  
Other Provisions (cont.)

Payment Defaults (cont.)

- (2) If the billing is for the conduct of any aspect of an earning operation under a third Party farmout or option agreement, the non-paying Party will be conclusively deemed to have elected not to participate in the operation and to have relinquished and disclaimed to the other Parties all its rights under the third Party agreement and in and to any interest to be acquired by compliance therewith, notwithstanding any election to participate theretofore made.
- (3) If the non-paying Party has duly elected to participate in the proposed operation and does not default in the payment of any cost or in the making of any advance related to such operation until after the operation has been commenced, then the provisions of subparagraphs (1) and (2) above can be invoked, notwithstanding any election to participate theretofore made.
- (4) Rentals, shut-in well payments, and minimum royalties which may be required under the terms of any lease, shall be paid by the Operator after this agreement becomes effective. Non-Operator shall be given notice of all rentals due, and upon being billed by Operator, shall reimburse Operator within fifteen days, for its pro-rata share of rentals and other such payments made. In the event Non-Operator fails to pay said payments due, then it agrees to relinquish all rights through proper and legal assignment to Operator at no cost.

If Operator elects to invoke subparagraphs (1), (2), (3), or (4), the election shall be signified by written notice to the defaulting party delivered by Operator within 60 days of the completion of the affected operation or payment of rentals. Regardless of Operator's election as to subparagraphs (1), (2), (3), or (4), all non-paying Parties shall be held fully liable for its invoiced costs, plus accrued interest, until such time as Operator has fully recovered the unpaid amount. Should subparagraphs (1), (2), (3), or (4) not provide sufficient funds to cover non-paying Party's obligation, Operator reserves the right to collect the remaining unrecovered amount, plus attorney's fees, court costs, and other costs in connection with the collection of the outstanding unpaid amounts.

Call of Oil

- C. Mallon retains the right to call on all oil production and agrees to pay equal to the posted price in the area.

ARTICLE XVI.  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_.

OPERATOR

MALLON OIL COMPANY



Karen E. McIntock  
Assistant Secretary

By: Kevin M. Fitzgerald  
President

NON-OPERATORS

WITNESS/ATTEST:

RED BLUFF WATER POWER CONTROL DISTRICT

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

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

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EXHIBIT "A"

ATTACHED to and made a part of that certain Operating Agreement dated January 19, 1989 by and between Mallon Oil Company, as Operator, and Red Bluff Water Power Control District, as Non-Operator for the NW/4 SW/4 of Section 27-T26S, R29E, NMPM, Eddy County, New Mexico.

Item 1: Contract Area:

Township 26 South, Range 29 East, NMPM  
Section 27: NW/4 SW/4

Eddy County, New Mexico

Item 2: Restrictions as to Depth:  
None

Item 3: Percentages of Working Interest:

Mallon Oil Company, et al.	75.6825%
Red Bluff Water Power Control District	24.3175%

Item 4: Oil and Gas Leases Subject to the Agreement:

Limited to that portion of the following leases within the Contract Area:

Federal Lease NM-38636 - 30.273 acres in 40 acre spacing unit  
Federal Lease NM NM-71599 - 9.727 acres in 40 acre spacing unit

Item 5: Address of Working Interest Partners for Notice Purposes:

Mallon Oil Company  
1099 18th Street, Suite 2750  
Denver, CO 80202

Red Bluff Water Power Control District  
111 W. 2nd Street  
Pecos, TX 70772

ATTACHED TO AND MADE A PART OF THIS AGREEMENT  
THE 19TH DAY OF JANUARY, 1989, BY AND BETWEEN MALLON OIL COMPANY, AS  
OPERATOR AND RED BLUFF WATER POWER CONTROL DISTRICT, AS NON-OPERATOR  
FOR LANDS LOCATED IN THE NW/4 SW/4 OF SECTION 27-T26S, R29E, NMPM EDDY  
COUNTY, NEW MEXICO.

THERE IS NO EXHIBIT "B" TO THIS AGREEMENT

EXHIBIT " C "

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 19TH DAY OF JANUARY, 1989, BY AND BETWEEN MALLON OIL COMPANY, AS OPERATOR AND RED BLUFF WATER POWER CONTROL DISTRICT, AS NON-OPERATOR FOR LANDS LOCATED IN THE NW/4 SW/4 OF SECTION 27-T26S, R29E, NMPM EDDY COUNTY, NEW MEXICO.

ACCOUNTING PROCEDURE  
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

Operator shall bill Non-Operators ~~on or before the last day of each month~~ for their proportionate share of the Joint Account ~~for the preceding month~~. Such bills will be accompanied by statements which identify the authority for expenditure, or facility, and all charges and credits summarized by appropriate classifications of investment and expense except items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Denver National Bank on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

**5. Audits**

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall ~~make every reasonable effort to~~ conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

**6. Approval By Non-Operators**

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

**II. DIRECT CHARGES**

Operator shall charge the Joint Account with the following items:

**1. Ecological and Environmental**

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

**2. Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations.

**3. Labor**

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

**4. Employee Benefits**

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

**5. Material**

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

**6. Transportation**

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

#### 7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

#### 8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed     fifteen     percent (    15    %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

#### 9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

#### 10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. ~~All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 8.~~

#### 11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

#### 12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

#### 13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

#### 14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

#### 15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- (X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

- ( ) shall be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

- ( ) shall be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 3,056.00
(Prorated for less than a full month)
Producing Well Rate \$ 334.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
(2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
(2) Each active completion in a multi-completed well in which production is not commingled shall be considered as a one-well charge providing each completion is considered a separate well by the regulatory authority.
(3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a production outlet.
(4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced during the month.
(5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rates currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum Production Workers for the last calendar year compared to the calendar year preceding as shown in the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by the Department of Labor, Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the percentage adjustment.

~~B. Overhead - Percentage Basis~~

~~(1) Operator shall charge the Joint Account at the following rates:~~

ILLEGIBLE

~~(a) Development~~~~\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.~~~~(b) Operating~~~~\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.~~~~(2) Application of Overhead - Percentage Basis shall be as follows:~~~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, re-drilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval of the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.~~**2. Overhead - Major Construction**

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ 25,000 :

- A. 5 % of first \$100,000 or total cost if less, plus  
 B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus  
 C. 2 % of costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

**3. Catastrophe Overhead**

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. 5 % of total costs through \$100,000; plus  
 B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus  
 C. 2 % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

**4. Amendment of Rates**

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

**IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS**

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

**1. Purchases**

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

**2. Transfers and Dispositions**

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

**A. New Material (Condition A)**

**(1) Tubular Goods Other than Line Pipe**

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

**(2) Line Pipe**

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¼ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (b) Line pipe movements (except size 24 inch OD and larger with walls ¼ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (c) Line pipe 24 inch OD and over and ¼ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
  - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

**B. Good Used Material (Condition B)**

Material in sound and serviceable condition and suitable for reuse without reconditioning:

**(1) Material moved to the Joint Property**

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

**(2) Material used on and moved from the Joint Property**

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

**(3) Material not used on and moved from the Joint Property**

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

**C. Other Used Material**

**(1) Condition C**

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

**(2) Condition D**

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

**(3) Condition E**

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

**D. Obsolete Material**

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

**E. Pricing Conditions**

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

**3. Premium Prices**

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

**4. Warranty of Material Furnished By Operator**

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

**1. Periodic Inventories, Notice and Representation**

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

**2. Reconciliation and Adjustment of Inventories**

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

**4. Expense of Conducting Inventories**

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

INSURANCE COVERAGE

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 19TH DAY OF JANUARY, 1989, BY AND BETWEEN MALLON OIL COMPANY, AS OPERATOR AND RED BLUFF WATER POWER CONTROL DISTRICT, AS NON-OPERATOR FOR LANDS LOCATED IN THE NW/4 SW/4 OF SECTION 27-T26S, R29E, NMPM EDDY COUNTY, NEW MEXICO.

During the period of the joint operations hereunder and continuing thereafter during the entire term of this contract, Operator shall, with its best efforts, carry for the Joint Account the following types and amounts of coverage:

- a) Insurance which shall comply with the Workman's Compensation and Employer's Liability laws of the state in which the Unit area is located.
- b) Comprehensive General Liability Insurance with bodily injury or property damage limits of not less than \$500,000 in any one occurrence.
- c) Comprehensive Automobile Liability Insurance with bodily injury or property damage limits of not less than \$500,000 in any one accident

No other types of insurance shall be carried for the Joint Account without the separate approval of all parties subject to this contract. All losses arising out of uninsured risks shall be charged to parties according to their interest under this contract. Certificates of insurance evidencing ten (10) days advance notice of cancellation shall be furnished Non-Operator(s) upon request. Operator shall require all subcontractors of coverage with limits adjudged by Operator as being sufficient and in compliance with doing practice for this type operation.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 19TH DAY OF JANUARY, 1989, BY AND BETWEEN MALLON OIL COMPANY, AS OPERATOR AND RED BLUFF WATER POWER CONTROL DISTRICT, AS NON-OPERATOR FOR LANDS LOCATED IN THE NW/4 SW/4 OF SECTION 27-T26S, R29E, NMPM EDDY COUNTY, NEW MEXICO

EXHIBIT "E"

GAS BALANCING AGREEMENT

Subject to the provisions of the Operating Agreement to which this Exhibit is attached, each party shall have the right to take in kind and separately dispose of its proportionate share of the gas produced from the Contract Area and shall be entitled to an opportunity to produce its proportionate share of the allowable gas production from a well (or proration unit, including lawful tolerances) established by appropriate regulatory authority.

It is the intent that each party be entitled to gas produced attributable to its participation percentage as set forth in Exhibit "A" attached to this Operating Agreement. Subject to the terms and provisions of the Operating Agreement to which this Exhibit is attached, the Operator (a) has the duty to control gas production and the responsibility of administering the provisions of this Agreement, and (b) shall cause deliveries to be made to the gas purchasers at such rates as may be required to give effect to the intent that the gas production accounts of all parties are to be brought into balance under the provisions contained herein. All parties hereto shall share proportionately in and own condensate recovered with the gas produced from the Contract Area and shall pay their proportionate share of current operating expense, in accordance with the Operating Agreement to which this Exhibit is attached, regardless of the allocation of gas production or the status of gas production accounts.

After notice to Operator, any party may begin taking or delivering all or a portion of its share of the gas produced. Each party taking gas shall furnish the Operator a monthly statement of gas volumes taken by such party. If during any period of time a party is unable to market or deliver all or a portion of its share of the gas produced, such party shall be deemed underproduced and shall be credited with a volume of gas in storage equal to its share (or portion thereof) of the gas produced but not marketed or delivered, less its share of gas used in lease operations, vented or lost, and the other party or parties shall be entitled to market or deliver the volume of gas not marketed or delivered by the underproduced party. Any party marketing or delivering greater than its share on a cumulative basis shall be deemed overproduced. Operator shall furnish all parties hereto monthly statements showing the total quantities of gas produced and used in lease operations, vented or lost, and the total quantity of condensate recovered. In addition to its current share, each underproduced party, until it has recovered its credited gas and balanced its gas account, shall be entitled to take or deliver a volume of gas up to a maximum of twenty-five percent (25%) of each overproduced party's share of gas produced. If more than one (1) party is entitled to the additional gas produced, they shall divide such additional gas in proportion to their respective Unit participations. When an underproduced party takes gas in excess of its current share of production, only the volume in excess of its current share shall be treated as make-up, and this make-up volume shall be applied to reduce prior deficits in the order of accrual of such deficit. Each party shall at all times use its best efforts to regulate its takes and deliveries from the Contract Area so that no well will be shut-in for overproducing the allowable, if any, assigned thereto by the regulatory body having jurisdiction.

Each party producing and/or delivering gas to its purchaser shall pay or cause to be paid any and all production taxes due on such gas. At all times while gas is produced from the Contract Area, each party shall make appropriate settlement of all royalties, overriding royalties and other payments out of or in lieu of production, as if each party were taking or delivering to a purchaser its share, and its share only, of such gas production. Each party hereto agrees to hold each other party harmless from any and all claims for royalty, overriding royalty and other payments asserted by such burdening owners to whom each party is accountable.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to the purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

Should production of gas from a well or proration unit be permanently discontinued, the well be included in a unitized area or any party assign its interest to another party at a time when the gas account is out of balance, settlement will be made between the underproduced and overproduced parties for overproduced volumes. Each overproduced party shall pay to each underproduced party (in the proportion that the underproduction of each underproduced party bears to the underproduction of all underproduced parties) the lesser of (a) an amount of money equal to the amount received by the overproduced party for its overproduction or (b) an amount of money equal to the amount the underproduced party would have received under its contract to sell its gas, if any, less applicable production taxes theretofore paid. In the event an accounting is necessary between overproduced and underproduced parties when all or a portion of the monies collected by the overproduced parties was collected subject to possible refund as provided by the Federal Energy Regulatory Commission or other governmental authority, then the overproduced parties will pay and the underproduced parties will accept their proportionate shares of such monies with the understanding and agreement that should a refund be required of all or a portion of the monies so collected, then the underproduced parties agree to refund to the overproduced parties that portion of monies paid by the overproduced parties to the underproduced parties that is required to be refunded, plus any interest required to be paid thereon.

Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred as its share thereof is set forth in the Operating Agreement.

The provisions of this Exhibit shall be separately applicable and shall constitute a separate agreement as to each well (or proration unit), reservoir, Natural Gas Policy Act category or other separate source of production, to the end that production from one source of production may not be utilized for the purpose of balancing underproduction from any other source of production.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED  
THE 19TH DAY OF JANUARY, 1989, BY AND BETWEEN MALLON OIL COMPANY, AS  
OPERATOR AND RED BLUFF WATER POWER CONTROL DISTRICT, AS NON-OPERATOR  
FOR LANDS LOCATED IN THE NW/4 SW/4 OF SECTION 27-T26S, R29E, NMPM EDDY  
COUNTY, NEW MEXICO

THERE IS NO EXHIBIT "F" TO THIS AGREEMENT

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 19TH DAY OF JANUARY, 1989, BY AND BETWEEN MALLON OIL COMPANY AS OPERATOR AND RED BLUFF WATER POWER CONTROL DISTRICT, AS NON-OPERATOR FOR LANDS LOCATED IN THE NW/4 SW/4 OF SECTION 27-T26S, R29E, NMPM, EDDY COUNTY, NEW MEXICO.

THERE IS NO EXHIBIT "G" TO THIS AGREEMENT

RECEIVED NOV 28 1988

LAW OFFICES  
JAMES T. JENNINGS

SUNWEST CENTRE  
P. O. BOX 1180

ROSWELL, NEW MEXICO 88202-1180

JAMES T. JENNINGS  
A. D. "DIRK" JONES

TELEPHONE  
(505) 622-8432

November 23, 1988

Mallon Oil Company  
1099 18th Street, Suite 2750  
Denver, Colorado 80202

BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
Case No. 9458 Exhibit No. 4  
Submitted by \_\_\_\_\_  
Hearing Date \_\_\_\_\_

Attn: Ms. Karen McClintock, Land Department

Re: Mallon Oil Company-Red Bluff - NW $\frac{1}{4}$ SW $\frac{1}{4}$  Section 27,  
Township 26 South, Range 29 East

Dear Ms. McClintock:

As I explained to you in our conversation of last week, I would certainly appreciate it if you could furnish me with a copy of the Title Opinion covering the Mallon interest in Federal Lease No. NM38636 pertaining to the contract area described in the Operating Agreement. Likewise, as soon as it is available, I would appreciate it if you could furnish me with a copy of the Title Opinion which I understand you are obtaining covering the Red Bluff interest under the same tract under lease NM71599.

I have reviewed the Operating Agreement and would call your attention to the fact that there are several deletions on the prior drafts submitted to me by you or Mr. Padilla which do not appear on the Operating Agreement dated November 15, 1988, which your office forwarded to me on November 14. Possibly the failure to make these deletions was an oversight, but these appear on pages 3 and 9 of the Operating Agreement. In connection with Article 6b on page 6 of the Operating Agreement, it would appear that the figures which have been inserted in this paragraph are in excess of those provided under the Oil Conservation Division Order.

Article XV c found on page 14 (B) would be objectionable to Red Bluff if it should participate and I am sure it would be objectionable to any other operator who was to succeed to Red Bluff's interest.

In our conversation, I pointed out that the figures reflected on page 4 of Exhibit "C" of the accounting procedure were not in accordance with the testimony given at the hearing in Santa Fe and it is my understanding that this was a typographical error and will be corrected.

Mallon Oil Company  
November 23, 1988  
Page 2

If my client can be supplied with a copy of the Title Opinions as soon as possible, I think it would assist in the settlement of our disagreement. Accordingly, I would appreciate it if you would let me know when we can expect to receive copies of these Opinions.

Yours very truly,

  
James R. Jennings

JTJ/st

cc: Ernest Padilla

# MALLON OIL COMPANY

1099 18th Street, Suite 2750, Denver, Colorado 80202  
(303) 293-2333

November 29, 1988

Mr. James T. Jennings  
Sunwest Centre  
P.O. Box 180  
Roswell, NM 88202-1180

SENT CERTIFIED MAIL #P-570 412 957

RE: Amoco-Red Bluff #1 Well  
Eddy County, New Mexico

Dear Mr. Jennings:

I am in receipt of your letter dated November 23, 1988, concerning the Operating Agreement dated November 15, 1988 for the above captioned well and I would like to respond to your letter as follows.

First, I am sorry if past examples of any Operating Agreements have confused you as to content, but the Operating Agreement dated November 15, 1988 will be the Agreement in effect for the Amoco-Red Bluff #1 well if Red Bluff Water Power Control District elects to participate, regardless of what was mailed to you previously as examples of Operating Agreements for the area. Red Bluff Water Power Control District has until December 10, 1988 to execute the AFE dated November 7, 1988 or both the AFE and Operating Agreement dated November 15, 1988 will be considered null and void for the Amoco-Red Bluff #1 well. After the December 10, 1988 deadline, the outcome of the De Novo hearing will determine the documentation that is necessary, and such will be prepared accordingly.

Second, the Operating Agreement dated November 15, 1988, between Mallon and Red Bluff is not affected or controlled by the Oil Conservation Division Order R-8773. With this regard, Mallon has prepared an Operating Agreement acceptable in the current oil and gas industry climate, including but not limited to the 400% penalty, and the additional language found in Article XV Other Provisions. You should have already received an updated page four of Exhibit "C" reflecting the change in overhead. The Oil Conservation Division Order R-8773 was not instrumental in making the change as it would behoove our Accounting Department to administer one overhead rate.

As for title opinions, I will be happy supply to Red Bluff Water Power Control District any title opinions upon acknowledgment of their participation in the Amoco-Red Bluff #1 well. To be quite honest Mr. Jennings, I do not understand how supplying copies of the Title Opinions

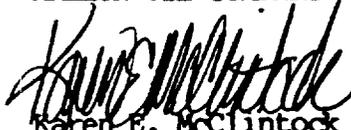
Mr. James T. Jennings  
Amoco-Red Bluff #1 Well  
November 29, 1988  
Page 2 of 2

will assist in the settlement of our disagreement as indicated in your November 23, 1988 letter, as the issue is simply whether Red Bluff Water Power Control District will participate or be forced pooled in the Amoco-Red Bluff Federal #1 well, not the status of the title. If you are concerned about title to Red Bluff lease NM NM 71599, may I suggest you obtain a title opinion and in the event Red Bluff participates in the Amoco-Red Bluff Federal #1 well, Mallon will supply approved title to lease NM 38636 to complete title to the drillsite for the well.

If you should have any questions, please advise.

Sincerely,

MALLON OIL COMPANY



Karen E. McClintock  
Landman

KEM:sss

cc: Red Bluff Water Power Control District  
SENT CERTIFIED MAIL #P-570 412 959

Padilla & Snyder  
Attn: Ernest Padilla

# MALLON OIL COMPANY

1099 18th Street, Suite 2750, Denver, Colorado 80202  
(303) 293-2333

BEFORE THE  
OIL CONSERVATION COMMISSION  
Sarasota, New Mexico  
Case No. 9458 Exhibit No. 5  
Submitted by \_\_\_\_\_  
Hearing Date \_\_\_\_\_

## MEMO

TO: Karen E. McClintock  
FROM: Elizabeth Redmond *ER*  
DATE: October 6, 1988  
RE: Pecos River Prospect

Please be advised that the AMI identified in the Bettis/Worth Petroleum Agreement dated March 30, 1983, covers all of Township 26 South, Range 29 East, Eddy County, New Mexico.

Also, the burdens on Amoco Federal lease NM-38636 are as follows:

Amoco Production Company	.0500000
Harry M. Bettis, Jr.	.0250000
JSM Oil and Gas, Inc.	.0250000
L.E. Oppermann	.0250000
Don and Micki Carol Wright	
A/W Interfirst Bank Abilene NA	.0500000
Minerals Management Service	<u>.1250000</u>
	<u>.3000000</u>

Amoco-Red Bluff Federal #1  
NW/4 SW/4, Sec. 27, T26S, R29E  
Eddy County, New Mexico

Anticipated Drilling and Completion Costs:

Drilling to casing point	\$108,400
Completion costs	<u>205,200</u>
Total completed well costs	\$313,600

Administrative and Overhead Costs:

During drilling	\$3056.60/month
During completion	3056.60/month
During production of well	334.88/month

All overhead costs are to be adjusted according to the Amoco-Federal Lease Operating Agreement Exhibit "C" Accounting Joint Operations (Copas 1984 Format).

Anticipated Operating Expenses:

The average operating expense for ten wells on the Amoco-Federal lease during the six months ending June 30, 1988, was \$1664.82 per well per month. This average excludes well #14 which produced for only part of the period, and well #1 which had significant recompletion costs during the period, and does not include the Operating Overhead costs listed above.

The above costs should be a good approximation of the operating expense for the Amoco-Red Bluff Federal #1.

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. <u>958</u>	Exhibit No. <u>6</u>
Submitted by _____	
Hearing Date _____	

Is the information in memo  
part of last hearing?

Transcript of  
last hearing is  
fact, not this  
news!

RECEIVED SEP 08 1988

L. E. OPPERMANN  
500 W. Wall, Suite 312  
Midland, Texas 79701  
(915) 685-0593

September 6, 1988

Ms. Karen McClintock  
Mallon Oil Company  
1099 18th Street, Suite 2750  
Denver, Colorado 80202

Re: Parts of Sections 27 and  
28, T-26-S, R-29-E; Eddy  
County, New Mexico

Dear Karen:

In accordance with your recent telephone request, please find enclosed copies of the two written offers made to lease the Red Bluff acreage.

1. Letter dated April 22, 1987 which was made on our own behalf whereby we offered Red Bluff a 6.5% override.
2. Letter dated June 7, 1988 which made on Mallon's behalf whereby we offered Red Bluff a 5% override.

On May 24, 1988, we had a personal visit with Red Bluff and met with Dub Fuller (President) and John Hayes (Manager) for several hours and discussed making a trade on the acreage. We have probably contacted John Hayes at least ten times and proposed a trade via telephone but none of these offers were followed in writing.

Please advise if you have any further questions.

Yours truly,

*L. E. Oppermann*  
L. E. Oppermann

LEO/db  
Enclosures

THE  
OFFICE OF THE  
SANTA FE COUNTY CLERK  
Santa Fe, New Mexico

Case No. 0458 Exhibit No. 7

Submitted by \_\_\_\_\_

Hearing Date \_\_\_\_\_

L. E. OPPERMANN  
500 W. Wall, Suite 312  
Midland, Texas 79701  
(915) 685-0593

June 7, 1988

Mr. John Hayes  
Red Bluff Water Power Control District  
111 W. 2nd Street  
Pecos, Texas 79772

Re: NW/4 SW/4 of Section 27  
and SE/4 SE/4 of Section  
28, T-26-S, R-29-E, Eddy  
County, New Mexico

Dear John:

In accordance with our recent visit and telephone conversations, we wish to enclose copies of production plat and copies of the gauge reports on the Mallon Amoco Federal No. 14 Well, located in the SW/4 SE/4 of Section 28, and being the last well drilled in this area. As you can see from the production reports, the production is falling off rapidly and will soon be a typical Delaware well producing 10 to 15 barrels of oil with a large amount of water.

As I pointed out at the recent meeting with you and Dub, Mallon will have additional costs in drilling wells west of the lake. The additional costs are \$50,000.00 per well for additional pad, different rig and no earthen pits; trucking of water; additional liability with the BLM; additional building of roads; and possible directional drilling of some wells.

Therefore, we wish the board would consider our offer whereby Mallon would drill the long proposed well in the NW/4 SW/4 of Section 27 (location has already been built) and an additional well in the SE/4 SE/4 of Section 28 in which Red Bluff would own a 50% or more interest. After Mallon completes each well, Red Bluff will assign to Mallon the Operating Rights in that quarter-quarter section reserving a 5% override on the acreage contributed to the proration unit. We would then deal with Red Bluff on any additional wells to be drilled on an individual basis taking into consideration current production, oil prices and other unseen factors that may rise in the meantime.

We again wish to point out that Amoco reserved a 5% override in the trade with us in 1983 when oil was \$27.00 to \$28.00 per barrel and that Mallon would only have a 76% net revenue interest in the Red Bluff acreage after honoring their commitments and the 5% Red Bluff override.

John Hayes - Red Bluff  
June 7, 1988  
Page Two

Please advise if you have any questions. Thank you again for your cooperation in this matter and hopefully working together we can make this venture profitable for all parties.

Yours truly,

L. E. Oppermann

LEO/db  
Enclosures

CC: Ms. Karen McClintock  
Mallon Oil Company  
1099 18th street, Suite 2750  
Denver, Colorado 80202

L. E. OPPERMANN  
500 W. Wall, Suite 312  
Midland, Texas 79701  
(915) 685-0593

April 22, 1987

Mr. John Hayes  
Red Bluff Water Power Control District  
111 W. 2nd Street  
Pecos, Texas 79772

Re: W/2 SW/4 of Section 27,  
and W/2 NE/4, SE/4 NE/4,  
E/2 NW/4, SW/4 NW/4,  
N/2 SE/4, SE/4 SE/4 and  
NE/4 SW/4 of Section 28,  
all in T-26-S, R-29-E,  
Eddy County, New Mexico

Dear John:

In accordance with our most recent telephone conversation, we wish to put in writing our agreement on the captioned acreage.

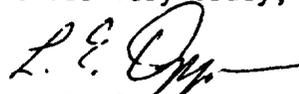
By Application to Lease for Oil and Gas on Non-Competitive Right - of - Way Lands dated April 15, 1985, Red Bluff filed said application to lease on some 1,729.25 acres in Eddy County. Amoco Oil Company acquired a Federal Lease dated February 1, 1980 which covered Sections 27 and 28 except for the 38.08 acres in Section 27 and the 203.09 acres in Section 28 which are lying within the Red Bluff Reservoir. We acquired a Farmout from Amoco on February 1, 1983 and have caused to be drilled 9 wells on Section 27. Our next proposed location is the NW/4 of SW/4 of Section 27 and contains Red Bluff Reservoir acreage. Since the wells do not produce the allowable, we propose to form a restricted proration unit excluding the Red Bluff acreage until you are issued the above applied for lease.

Therefore, we request that Red Bluff agree to farmout only the captioned acreage on a well by well basis when and if Red Bluff acquires the proposed lease. Red Bluff would assign to us a 80% net revenue interest in said lease on its acreage included in future proration units.

John Hayes - d Bluff  
April 22, 1987  
Page Two

If Red Bluff agrees to the terms of this proposed trade, please execute one copy of this letter and return same to the undersigned. Thank you for your cooperation in this matter.

Yours very truly,

  
L. E. Oppermann

LEO/db

AGREED TO AND ACCEPTED  
this \_\_\_\_\_ day of  
\_\_\_\_\_, 1987.

By: \_\_\_\_\_  
RED BLUFF WATER POWER CONTROL DISTRICT

# MALLON OIL COMPANY

1099 18th Street, Suite 2750, Denver, Colorado 80202  
(303) 293-2333

September 27, 1988

Mr. John Hayes  
Red Bluff Water Power Control District  
111 W. 2nd Street  
Pecos, TX 79772

Dear Mr. Hayes:

I just wanted to confirm in writing to you the notification given to your attorney, Mr. Jim Jennings, by Mallon Oil Company's attorney, Mr. Ernie Padilla, regarding the rescheduling of the hearing concerning the pooling of the NW/4 of the SW/4 of Sec. 27, T26S, R29E, Eddy County, New Mexico.

The new date is October 12, 1988 and the hearing will be held in the New Mexico Oil Conservation Division conference room, Santa Fe, New Mexico beginning at 8:15 a.m.

The objectives of Mallon's portion of the hearing will be the same as outlined in previous letters.

If you have any questions, please feel free to call.

Sincerely,

MALLON OIL COMPANY



Joe H. Cox, Jr.  
Engineer

JHC:sss

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. <u>9458</u>	Exhibit No. <u>8</u>
Submitted by _____	
Hearing Date _____	

# MALLON OIL COMPANY

1099 18th Street, Suite 2750, Denver, Colorado 80202  
(303) 293-2333

September 6, 1988

Mr. John Hayes  
Red Bluff Water Power Control Dist.  
111 W. 2nd Street  
Pecos, TX 79772

Dear Mr. Hayes:

In response to the request by your attorney, Mr. Jim Jennings, we have postponed the hearing date for the pooling of the acreage in the NW/4 of the SW/4 of Section 27, Township 26 South, Range 29 East, Eddy County, New Mexico. The new date is September 14, 1988 at the same time and location described in the previous letters. I am enclosing a copy of our August 16, 1988 letter for your reference regarding the purpose and location of the hearing.

From our August 31, 1988 phone conversation I was left with the impression that with further information to you, regarding the economics of drilling the locations that would involve the Red Bluff acreage we might be able to go back to negotiating a Farmout Agreement. I hope the following will help.

Since becoming operator of the Amoco-Federal lease in October 1988 Mallon has drilled four wells, all on the extreme western edge of the Brushy Draw field development.

The wells in their order of drilling are as follows:

Amoco-Federal #11, NWNW, Section 27, T26S, R29E;  
Amoco-Federal #10, SWNW, Section 27, T26S, R29E;  
Amoco-Federal #13, NENE, Section 28, T26S, R29E;  
Amoco-Federal #14, SWSE, Section 28, T26S, R29E;

These wells have all substantiated the trend of westwardly thinning within the Williamson sand interval (the field pay), which had been previously observed across the Amoco lease. The thinning of the sand, typically indicates that the boundary of the channel is being approached. Outside of the Delaware channels in the basin, rocks have been non-productive or mostly water productive and non-commercial.

Mr. John Hayes  
Red Bluff Water Power Control Dist.  
September 6, 1988  
Page two.

In addition to the thinning, net porosities, the percentage of void spaces within the Williamson sand reservoir rock have diminished as drilling has progressed to the west. Correlatable to a decrease in porosity in the Delaware sands is a decrease in the permeability or the degree to which fluids can flow through the rock. As the overall permeability of a rock decreases the relative permeability to the flow of oil decreases at a much greater rate than the relative permeability to water. The result of this change in rock properties is a lower percentage of oil production (and a proportional increase in the percentage of water produced) and an overall decrease in the total volumes producible from the lower permeability and porosity or "tighter" wells.

The Amoco #13 well did include a thin (five foot) layer of higher porosity rock which has helped improve the production rates from that well, and the Amoco #14 well benefited from its distance from previous production by encountering less pressure depletion and thus having higher initial rates. Production rates from the #14 well have since declined dramatically however and are now more in line with the lower than average porosities logged in that well at about 28 BOPD and 75 BWPD.

In addition to the higher risks Mallon feels they are facing on future wells as a result of the decreasing reservoir quality, future well locations will be burdened with additional costs stemming from the building of locations along the rough terrain bordering the lake and the necessity of directionally drilling from a number of the sites. The BLM has already let us know that they have concerns about locations any closer to the lake than those presently developed and will have to order additional protection against such hazards as spills, wildlife habitat endangerment, erosion etc. All of these measures can add greatly to the cost and possibly even exclude some sites from being drilled. On top of that, as I mentioned to you, the Bureau of Reclamation also claims jurisdiction to the surface. A Mr. Tom Chapman with Bureau of Reclamation in Carlsbad has asked that plans be submitted to him as well as the BLM for lake bounding sites.

It is estimated that \$80,000 could be added to the cost of an individual well for location building and directional drilling this does not include any additional environmental protection measures or legal and administrative costs that could be encountered.

Of the four wells drilled by Mallon during the past two years it is doubtful that one will pay out, and two others are marginal. The upshot of all of the above discussion is that the economics for drilling the prospective locations around the lake at present oil

Mr. John Hayes  
Red Bluff Water Power Control Dist.  
September 6, 1988  
Page three.

prices are quite marginal. This is due in part to the high royalty burden that Mallon inherited with the lease. Steps are being taken to get relief from part of that burden but there is no certainty of getting any portion of the royalties removed and the process will almost certainly be time consuming since it involves making an appeal through the Secretary of the Interior.

The farmout terms from Amoco require the drilling of a development well within 90 days after reaching TD on the previous well. Mallon has been successful in receiving two time extensions on the next well but Amoco showed some reluctance when granting the latest 60 day extension and may balk at future requests.

As we have discussed the Amoco-Red Bluff-Federal #1 NW SW 27, 26S, 29E is by far the lowest risk site, sitting on what may be a channel trend and being adjacent to two producing wells. All other sites would be further removed from proven producing acreage and/or facing the additional lake bounding well costs mentioned above.

From my discussion with Mr. Jennings on September 2, 1988 it sounds as if we may not be close enough to settle upon a general lease farmout or an agreeable pooling of drill site acreage before the October 24 drilling deadline. To buy more time I would like to suggest that we go back to the earlier proposed farmout of the Red Bluff acreage under one or two sites with a 5% ORRI going proportionately to Red Bluff. This would allow time for further negotiations between Mallon and Red Bluff without compromising the present development program. It would possibly also allow time for a response from the Secretary of the Interior on the appeal for relief from the excess royalty burden on the Amoco lease.

As I have mentioned before, time is of the essence in this matter as our alternative would be the drilling of a higher risk well, probably the Amoco-Federal #15 in the SW SE 28, which, if it turned out to be a poor well or dry hole, could serve to condemn much of the prospective Amoco and Red Bluff acreage.

Mallon's efforts at being a prudent operator are largely responsible for the continuation of drilling on the prospect during the last two years. Costs have been reduced by careful control of drilling, completion and operating expenses and by the overall economy of operating several wells. These efforts will continue and should insure the best chance of successfully developing the acreage fully. This of course benefits Mallon and Red Bluff.

Mr. John Hayes  
Red Bluff Water Power Control Dist.  
September 6, 1988  
Page four.

Your earliest response of this matter will be appreciated. Please call if you have any questions.

Sincerely,

MALLON OIL COMPANY

A handwritten signature in cursive script that reads "Joe H. Cox, Jr." with a stylized flourish at the end.

Joe H. Cox, Jr.  
Engineer

JHC:er

Enclosures

cc: Jim Jennings  
Ernest Padilla

# MALLON OIL COMPANY

1099 18th Street, Suite 2750, Denver, Colorado 80202  
(303) 293-2333

August 16, 1988

Red Bluff Water Power Control District  
111 W. 2nd Street  
Pecos, TX 79772

Attention: Mr. John Hayes

RE: Change of Pooling  
Hearing Date

Dear Mr. Hayes:

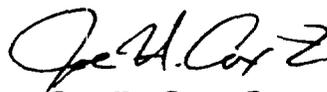
In a July 26, 1988 letter, Mallon Oil Company notified you of a hearing before the New Mexico Oil Conservation Division scheduled for August 17, 1988. The item discussed in that letter, the pooling of acreage in a 40 acre proration unit for the proposed Amoco-Red Bluff-Federal #1, has now been scheduled for presentation to the Division at their August 31, 1988 hearing. The re-scheduling is due to the Divisions office receiving the application too late to allow the matter to be included on the August 17 docket.

As explained in the July 26 letter, Mallon will be seeking the pooling of all mineral interests (to the base of the Brushy Canyon Formation) underlying the NW/4 of the SW/4 of Section 27, T26S, R29E in Eddy County, New Mexico. In addition, Mallon will seek to be named operator of the proposed well to be drilled at a standard location within the above described 40 acre spacing and proration unit; will ask the commission to establish reasonable costs for the drilling and operation of said well; and ask to be allowed to collect the maximum authorized penalty of 200% plus proportionate costs from the drilling and operation of the well from revenue from said well against any interest owner which does not participate in the drilling of the well.

The hearing is now scheduled for 8:15 a.m. in the New Mexico Oil Conservation Division conference room, Santa Fe, New Mexico.

Sincerely,

MALLON OIL COMPANY



Joe H. Cox, Jr.  
Engineer

JHC:sss

# MALLON OIL COMPANY

1099 18th Street, Suite 2750, Denver, Colorado 80202  
(303) 293-2333

July 26, 1988

Mr. John Hayes  
Red Bluff Water Power Control District  
111 W. 2nd Street  
Pecos, TX 79772

Dear Mr. Hayes:

During the past three months Mallon Oil Company through its agent, Mr. Les Oppermann, has negotiated with Red Bluff Water Power Control District attempting to secure a Farmout Agreement for the portion of Red Bluffs' Federal mineral lease #NM NM-71599 in sections 27 and 28, Township 26 South, Range 29 East, Eddy County, New Mexico. Because it has not been possible for both parties to agree upon the amount of royalty to be reserved by Red Bluff, Mallon has decided to offer Red Bluff the opportunity to voluntarily participate for their proportionate share in the drilling of a well. The well is to be located in the northwest quarter of the southwest quarter of section 27, Township 26 South, Range 29 East, Eddy County, New Mexico.

Attached please find the Authority for Expenditure for the proposed well to be named the Amoco-Red Bluff-Federal #1 (formerly permitted as the Amoco-Federal #12). Please review the AFE and if Red Bluff elects to participate, return the approved copy within 14 days of your receipt of the document.

As you are aware the exact proportion of acreage within the two Federal leases involved with this spacing unit will be determined by the 1936, BLM, Metes and Bounds Survey which you have sent to John West Engineering. I encourage you to have Mr. West begin work on the plats from that data as soon as possible so it will be available for your information as well as ours for the purpose of this proposed well.

If any questions come up please feel free to call me.

Sincerely,

MALLON OIL COMPANY



Joe H. Cox, Jr.  
Engineer

JHC:sss  
Enclosure(s)

FIELD/PROSPECT Brushy Draw/Pecos River Prospect  
 WELL NAME Amoco-Red Bluff-Federal #1 (Formerly Amoco Federal #12)  
 LOCATION 2281' FSL, 990' FWL (NE, NW, SW) Sec. 27, T26S-R29E  
 COUNTY, STATE Eddy County, New Mexico  
 CONTRACTOR (TENTATIVE) Capstar Drilling

LEASE NUMBER  
 1269 & Red Bluff #1638  
 PROPERTY NO.  
 NM- 01-12  
 PREPARED BY: DATE:  
 Joe H. Cox, Jr. 7-18-88  
 APPROVED BY: DATE:  
 Kevin M. Fitzgerald  
 ANTICIPATED START/STOP DATES

COST ESTIMATE	TANGIBLE EXPENSE	INTANGIBLE EXPENSE	TOTAL
DRILLING-CASING POINT -----	\$ 4,000	\$ 104,400	\$ 108,400
DRILLING-COMPLETION -----	\$ 120,400	\$ 84,800	\$ 205,200
WORKOVER -----	\$ _____	\$ _____	\$ _____
OTHER (SPECIFY) -----	\$ _____	\$ _____	\$ _____
<b>TOTAL COSTS</b>	<b>\$ 124,400</b>	<b>\$ 189,200</b>	<b>\$ 313,600</b>

PROJECT DESCRIPTION

Under the terms of the Operating Agreement, Mallon Oil Company, proposes drilling the above captioned well into the Brushy Canyon formation (Delaware Mtn. Group), to approximately 6,200'. Costs include the completion of two zones and the building of a tank battery to serve this well plus any further wells drilled on acreage shared by the Amoco and Red Bluff farmouts east of the lake.

ATTACH PROGNOSIS AND COST BREAKDOWN

COST SHARING

BCP

ACP

\$ \$

\$ \$

PARTNER APPROVAL

COMPANY:

SIGNATURE:

DATE:

AUTHORIZATION FOR EXPENDITURE

Well Name and Number Amoco-Red Bluff-Federal #1 AFE NO. \_\_\_\_\_  
 County Eddy State New Mexico Prospect Name Pecos River  
 Section 27 TWP 26S RGE 29E Well Location 2281' FSL, 990' FWL (NE, NW, SW)  
 Field Brushy Draw Objective Formation Brushy Canyon Depth 6,200'

DETAILS OF COST ESTIMATE

<u>910 &amp; 920 INTANGIBLE COSTS</u>		<u>DRY HOLE</u>	<u>PRODUCER</u>
101	Damages <u>1500</u> Losses _____	\$ 1,500	\$ 1,500
102	Roads & Location _____	1,800	1,800
103.1	Mobilization/Demobilization _____	---	---
103.2	Drilling-Footage <u>6,200</u> ft. @ <u>\$8.40</u> /ft	52,100	52,100
103.3	Daywork <u>1</u> days WDP. @ <u>\$3200</u> /day:	3,200	3,200
103.4	Turnkey Contract _____	---	---
201	Completion Unit <u>12</u> days @ <u>\$1100/Day</u>	---	13,200
106	Mud <u>2,500</u> Chemicals _____	2,500	2,500
107	Power, Water & Fuel _____	7,000	11,000
108	Equipment Rental <u>Pkr &amp; RBP \$1700, Reverse Unit \$1500,</u> <u>BOP \$800.</u>		4,000
109	Coring _____ Testing _____	10,000	10,000
140	Logging _____	7,500	7,500
111	Cementing Services <u>Surface \$5,000, Production \$12,000</u>	5,000	17,000
112	Consultants _____	1,300	4,300
115	Trucking & Hauling <u>and Forklift</u>	1,500	3,000
117	Other Costs <u>Contingency 2.5%</u>	2,500	4,600
118	Administrative Overhead _____	1,000	3,500
125	Bits _____	---	---
130	Mud Logging _____	4,500	4,500
202	Well Stimulation <u>Frac 35,000 Perforation 5,000</u> <u>Acid 5,500</u>		45,500
165	Abandonment Costs _____	3,000	
TOTAL INTANGIBLE DRILLING COSTS		<u>\$104,400</u>	<u>\$189,200</u>

930 TANGIBLE EQUIPMENT COSTS

299	Surface Casing <u>400</u> ft <u>8 5/8"</u> size @ <u>\$ 8.50</u> /ft	\$ 3,400	\$ 3,400
300	Intermediate Csg. _____ ft _____ size @ \$ _____ /ft	---	---
301	Production Csg. <u>6200</u> ft <u>5 1/2"</u> size @ <u>\$ 6.50</u> /ft		40,300
302	Tubing & Attachments <u>6200'</u> <u>2 7/8"</u> @ <u>\$1.45/ft.</u>		9,000
303	Rods & Pumps _____		8,500
304	Well Head Equipment _____	600	1,500
305	Flowlines <u>Included in battery cost</u>		---
306	Installation <u>Pumping unit \$2,200, flowlines \$1,300</u>		3,500
307	Pumping Unit & Engines _____		21,000
308	Tank Battery & Fittings <u>Including labor</u>		23,000
309	Non-Controllable Equipment _____		
310	Treaters-separators _____		11,200
311	Buildings _____		---
312	Other Equipment <u>2.5% Contingency</u>		3,000
TOTAL TANGIBLE EQUIPMENT COSTS		<u>\$ 4,000</u>	<u>\$124,400</u>

TOTAL COST \$108,400 \$313,600

AFE Date:

# MALLON OIL COMPANY

1099 18th Street, Suite 2750, Denver, Colorado 80202  
(303) 293-2333

July 26, 1988

Mr. John Hayes  
Red Bluff Water Power Control District  
111 W. 2nd Street  
Pecos, TX 79772

Dear Mr. Hayes:

Making the assumption that Red Bluff will not elect to participate as a working interest partner in the Amoco-Red Bluff-Federal #1, this letter will serve as notice that Mallon has scheduled a hearing for the forced pooling of the spacing unit acreage. Should Red Bluff choose to participate the motion for hearing will be withdrawn upon receipt of your signed AFE.

The hearing is scheduled for August 17, 1988 at 8:15 a.m., in the New Mexico Oil Conservation Division Conference Room, Santa Fe, New Mexico.

At the hearing Mallon Oil Company will seek the pooling of all mineral interests in the NW/4 of the SW/4 of section 27, T26S, R29E, Eddy County, New Mexico. Mallon will seek to be named operator of the spacing unit, to determine a reasonable cost for the drilling and completion of the Amoco-Red Bluff-Federal #1, the well proposed to occupy the unit, and to establish reasonable costs for administrative overhead and operating expenses for the well during the drilling, completion and production of the well.

Mallon will seek a risk penalty equal to costs incurred in the drilling, completion and operation of the well, plus 200% of that cost for the Red Bluff portion of the spacing unit.

If you have any questions regarding the forced pooling of the above described acreage, please feel free to call.

Sincerely,

MALLON OIL COMPANY



Joe H. Cox, Jr.  
Engineer

JHC:sss

SECTION 27, TOWNSHIP 26 SOUTH, RANGE 29 EAST, N.M.P.M.,  
EDDY COUNTY, NEW MEXICO

21 | 22

28

22 | 23

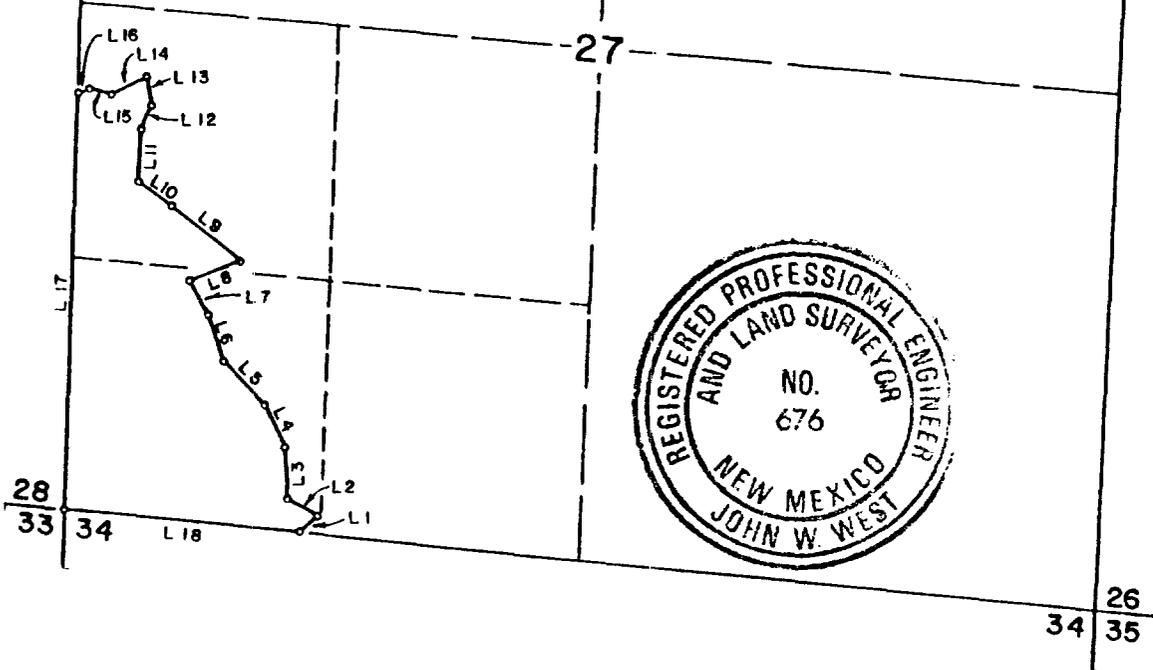
26

OFFICE OF THE  
SURVEYOR GENERAL  
EDDY COUNTY, NEW MEXICO

Case No. 9158 Exhibit No. 9

Submitted by \_\_\_\_\_

Hearing Date \_\_\_\_\_



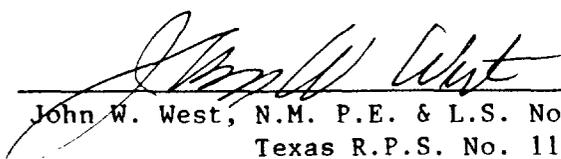
SUBDIVISION ACREAGE

SW $\frac{1}{4}$ SW $\frac{1}{4}$  28.767 Ac.  
NW $\frac{1}{4}$ SW $\frac{1}{4}$  9.727 Ac.

LINE NO.	BEARING	DISTANCE
1	N 49°28'08" E	131.84'
2	N 61°28'18" W	188.84'
3	N 01°56'40" W	264.60'
4	N 25°52'50" W	243.64'
5	N 43°46'00" W	312.36'
6	N 17°55'54" W	251.09'
7	N 28°54'27" W	204.51'
8	N 69°19'40" E	283.26'
9	N 51°18'46" W	457.09'
10	N 55°24'10" W	213.51'
11	N 03°41'25" E	271.93'
12	N 23°20'17" E	131.48'
13	N 07°34'18" W	153.25'
14	S 62°05'51" W	206.90'
15	N 73°35'41" W	114.31'
16	S 71°56'31" W	67.92'
17	S 01°58'00" W	2149.80'
18	S 84°24'00" E	1228.10'

NOTE: A drawing was prepared for a tract in Section 27, Township 26 South, Range 29 East, by platting the field notes furnished by Red Bluff Water Power Control District on a section plat made by U.S. General Land Office. The notes were prepared by Mr. M.R. Estes and were approved by the U.S. Bureau of Land Management. Due to an error or errors in the survey or the typed description of the survey, the tract with 18 sides did not close by an error of 320.26 feet. A copy of the plat labeled Exhibit "A" is attached.

The drawing shown on this page is an office attempt to graphically portray what was intended in those original field notes. We have made the last two calls in the description fall on the section lines and have attempted to force a closure that will contain the 38.5 acres. Obviously, we cannot certify that the drawing is correct.

  
John W. West, N.M. P.E. & L.S. No. 676  
Texas R.P.S. No. 1138

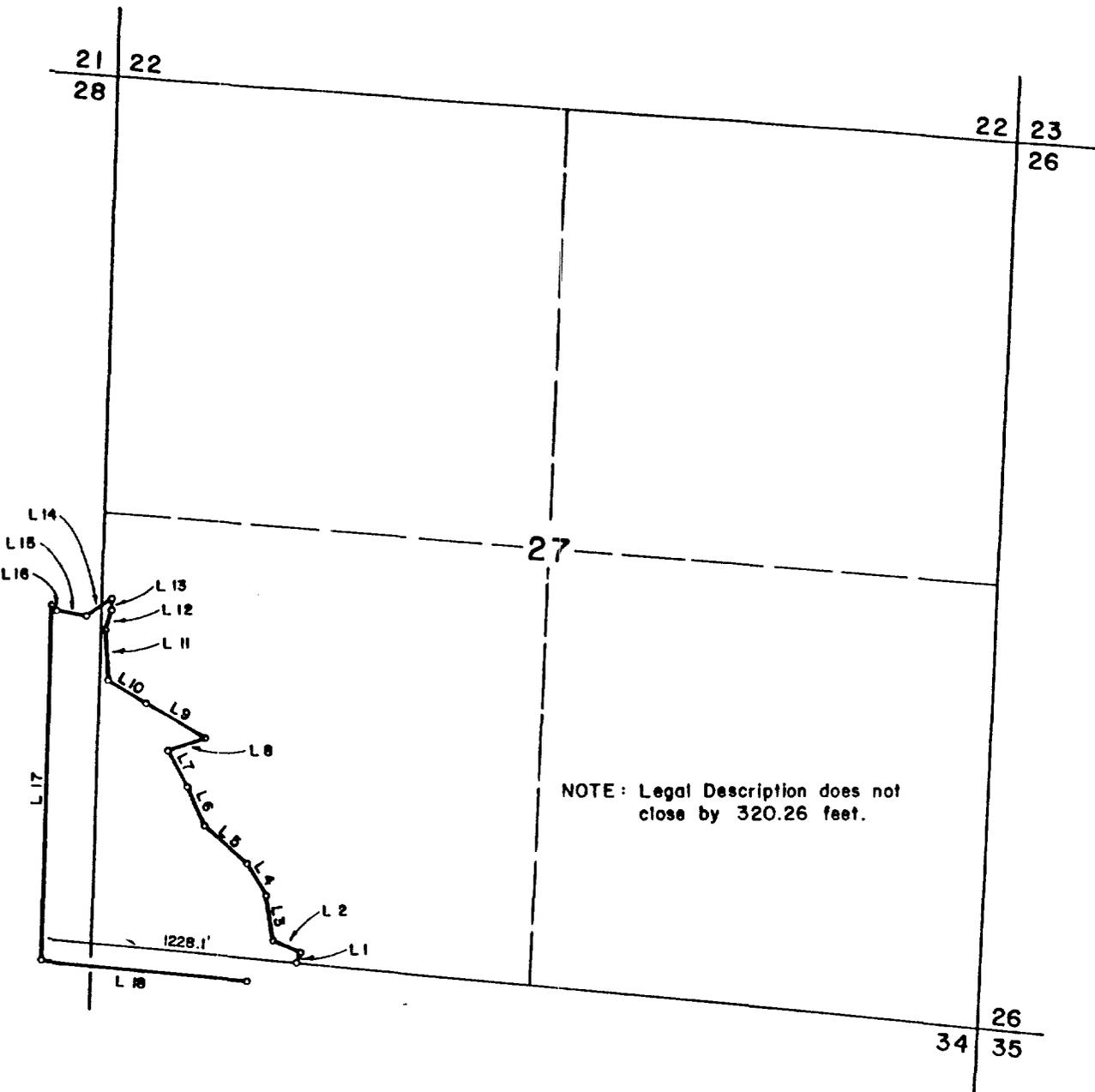
MALLON OIL CO.

Plat showing land leased by B.L.M. to Red Bluff Power Water Control District in Section 27, Township 26 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.

**JOHN W. WEST ENGINEERING COMPANY**  
CONSULTING ENGINEERS HOBBS, NEW MEXICO

Scale: 1" = 1000'	Drawn By: M. Mitchell
Date: 8/25/88	Ck. Sheet 1 of 1 Sheets

SECTION 27, TOWNSHIP 26 SOUTH, RANGE 29 EAST, N.M.P.M.,  
EDDY COUNTY, NEW MEXICO



NOTE: Legal Description does not close by 320.26 feet.

LINE NO.	BEARING	DISTANCE
1	N 26°24'30" E	70.90'
2	N 68°54'00" W	186.20'
3	N 08°46'00" W	279.00'
4	N 31°17'00" W	223.90'
5	N 48°30'00" W	330.00'
6	N 23°36'00" W	263.10'
7	N 28°13'00" W	251.40'
8	N 72°45'00" E	249.20'
9	N 60°17'00" W	422.00'
10	N 57°49'30" W	259.40'
11	N 02°35'30" W	304.60'
12	N 19°16'30" E	126.60'
13	N 02°45'30" E	75.50'
14	S 54°15'30" W	189.10'
15	N 78°27'30" W	176.10'
16	N 45°47'30" W	47.50'
17	S 01°58'00" W	2149.80'
18	S 84°24'00" E	1228.10'

*Exhibit A*



I, do hereby certify that this map represents a true and accurate plot of a legal description prepared by M. R. Estes, surveyor for the Red Bluff Water Power Control District. No field work was performed in the preparation of this plat.

*John W. West*  
John W. West, N.M. P.E. & L.S. No. 676  
Texas R.P.S. No. 1138

RED BLUFF WATER POWER CONTROL DISTRICT	
Plot of B.L.M. legal description within Section 27, Township 26 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.	
JOHN W. WEST ENGINEERING COMPANY CONSULTING ENGINEERS HOBBS, NEW MEXICO	
Scale: 1" = 1000'	Drawn By: M. Mitchell
Date: 8/01/88	Ck. Sheet 1 of 1 Sheets

RECEIVED SEP 29 1988

PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 212

P.O. BOX 2523

SANTA FE, NEW MEXICO 87504-2523

(505) 988-7577

ERNEST L. PADILLA  
MARY JO SNYDER

FAX 988-7592  
AREA CODE 505

September 27, 1988

HAND-DELIVERED

Mr. John Gumert  
Bureau of Land Management  
Joseph Montoya Building  
Santa Fe, New Mexico 87501

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. 9458	Exhibit No. _____
Submitted by _____	
Hearing Date _____	

Re: Federal Oil & Gas Leases NM-62575 and NM-71599;  
NW/4 SW/4, Section 27, Township 26 South,  
Range 29 East, Eddy County, New Mexico

Dear Mr. Gumert:

Enclosed please find a copy of my September 16, 1988, letter to Martha Rivera and a Plat of Survey prepared by John W. West of John W. West Engineering in Hobbs, New Mexico, relative to the NW/4 SW/4 and the SW/4 SW/4 of Section 27, Township 26 South, Range 29 East, Eddy County, New Mexico.

As I explained to you over the telephone, I represent Mallon Oil Company in a compulsory pooling application before the Oil Conservation Division. In this application, Mallon Oil Company seeks to force pool the interests of Red Bluff Water Power Control District which holds oil and gas lease NM-62575. Mallon Oil Company, by virtue of farm-out agreement, owns operating rights relative to NM-71599.

Our problem lies with the relative percentages of land in the NW/4 SW/4 attributable to the two federal oil and gas leases. The John West plat shows that in the NW/4 SW/4, NM-62575 contains 9.727 acres. The remaining acreage in the subdivision is held under NM-71599. The lease held by Red Bluff Water Power Control District contains a provision for payment of a royalty of 14 percent. The other lease contains a 12-1/2 percent royalty to the Federal Government.

My clients are very desirous of developing the NW/4 SW/4 as well as the SW/4 SW/4 but are stymied because of Red Bluff's failure to participate in drilling of the well,

Mr. John Gumert  
September 27, 1988  
Page 2

hence the force pooling application. I have no hope that the parties will voluntarily agree to pool their interests.

Yesterday during our telephone conversation you explained that the basic position of the Federal Government in this regard is one of "buyer beware". We are aware that the leases contain no warranty provisions. However, we also emphasize that the Federal Government should bear some responsibility in seeing that these lands are developed.

Accordingly, I request that you review the enclosed John West Plat and confirm for us, by letter, that the Plat is reasonably accurate and that for purposes for the compulsory pooling application, the Oil Conversation Division may rely on the Plat as being reasonably accurate even though the "official" 1948 plat is inaccurate. Because we have an October 12, 1988, hearing date and because we need to prepare our case, we would request an expeditious reply to this letter.

Your past efforts in trying to clarify and plot this acreage are greatly appreciated and I thank you in advance for your time and effort in responding to this letter.

Very truly yours,  
  
Ernest L. Padilla

ELP:crk  
Enclosures as stated  
cc: ' Mallon Oil Company

RECEIVED SEP 26 1988

PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 212

P.O. BOX 2523

SANTA FE, NEW MEXICO 87504-2523

(505) 988-7577

ERNEST L. PADILLA  
MARY JO SNYDER

FAX 988-7592  
AREA CODE 505

September 16, 1988

HAND-DELIVERED

Bureau of Land Management  
Joseph Montoya Building  
Santa Fe, New Mexico 87501

Atten: Ms. Martha Rivera

Re: Federal Oil & Gas Leases NM62575 and NM71599;  
NW/4 SW/4, Sec. 27, T26S, R29E, Eddy County,  
New Mexico

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. <u>9458</u>	EXHIBIT No. <u>10</u>
Submitted by _____	
Hearing Date _____	

Dear Ms. Rivera:

Pursuant to our meeting of yesterday, the purpose of this letter is to request clarification from the Bureau of Land Management regarding the acreage attributable to the above-referenced oil and gas leases, insofar as the above-referenced lands are concerned.

As I indicated to you yesterday, I represent Mallon Oil Company in a compulsory pooling proceeding before the Oil Conservation Division of the State of New Mexico. In that proceeding, the owners of Federal Lease NM 62575, being Red Bluff Water Power Control District, has not agreed to participate in the drilling of the well to develop the lands contained in the NW/4 SW/4, Section 27. Accordingly, Mallon has filed its application for forced pooling. However, we need to clarify the exact acreage position, as far as can be reasonably ascertained attributable to each of the leases due to a 1948 erroneous Bureau of Land Management survey.

As you know, I also talked to some of the Automated Records Unit staff and was told that they could run a computer simulation of the lands involved in order to ascertain with more clarity what the exact acreage position of the lands contained in the NW/4 SW/4 of Section 27. Nonetheless, I was referred to your office for a priority scheduling.

With regard to priority, we request that we be granted immediate priority in order that the acreage be ascertained by the Bureau of Land Management so that the federal acreage can be developed. Mallon Oil Company, at this time, is

COPY

Bureau of Land Management  
Ms. Martha Rivera  
September 16, 1988

under a second extension on a farmout agreement and is asking for a third extension in order to accommodate the forced pooling proceeding which will go to hearing on October 12, 1988. If Mallon Oil Company is not granted a third extension in order to accommodate a forced pooling application, the lands may not be drilled to further develop the Delaware Formation in the area. The compulsory pooling hearing has also been extended twice. As I have alluded to before, all of the minerals are owned by the Federal Government and, therefore, it would be prudent for the Bureau of Land Management to grant our request. Accordingly, we request, in light of the deadlines which we are facing, that you give our request immediate priority so that we can proceed with development of the lands in question.

In addition, because the same problem is involved in the SW/4 SW/4, Section 27, we would request that the computer simulation also include the SW/4 SW/4, in order to avoid a later application to your office for acreage clarification.

Should you need additional information or we can be of further help, please let me know.

Very truly yours,

  
Ernest L. Padilla

*How about  
all the Locs.*

ELP:njp

cc: Mallon Oil Company



# United States Department of the Interior

IN REPLY REFER TO:

NM NM 62575, et al.  
3100 (943B)

## BUREAU OF LAND MANAGEMENT NEW MEXICO STATE OFFICE

Post Office and Federal Building

P.O. Box 1449

Santa Fe, New Mexico 87504-1449

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. <u>9488</u>	Exhibit No. <u>11</u>
Submitted by _____	
Hearing Date _____	

Mr. Ernest L. Padilla  
Attorney at Law  
P. O. Box 2523  
Santa Fe, New Mexico 87504-2523

Dear Mr. Padilla:

We have checked the two plats which were prepared by the John W. West Engineering Company dated August 1, 1988 and August 25, 1988. The plat of August 1, 1988, was prepared from the written description to a tract described in the 1937 right-of-way application. This survey was made at the direction of the Bureau of Reclamation for the purpose of separating the right-of-way area from the surrounding public domain. This survey is faulty and does not close or align with the official survey of Section 27. Our calculation agrees with this plat. The plat dated August 25, 1988, is a surveyor's adjustment of the description in the same 1937 survey. This adjustment was made in order to try and force the description to conform to the boundaries of the official government survey. These calculations are mathematically correct but are not the measurements contained in the right-of-way survey. This plat is a "reasonable interpretation" and was made to portray boundaries of the tract as it should have been if done correctly. Neither of these plats nor the 1937 Reclamation survey are official surveys of the Federal Government.

The basic problem with this area is that the Bureau of Reclamation surveys of the boundary of the Red Bluff right-of-way were inaccurate and failed to conform with the officially surveyed Section lines. When one plots the boundaries of the Bureau of Reclamation surveys they do not close or meet, thereby creating a hiatus or overlap. The Reclamation survey of the right-of-way segregated this land from the surrounding public domain. The public domain was leased for oil and gas under the terms of the 1920 Mineral Leasing Act. These leases contain wording that the area of the lease is "SW $\frac{1}{4}$  less Red Bluff right-of-way containing 100 acres, more or less." The acreage within the surveyed right-of-way was subsequently leased under the provisions of the Act of 1930 to "only the holder of the right-of-way." These leases

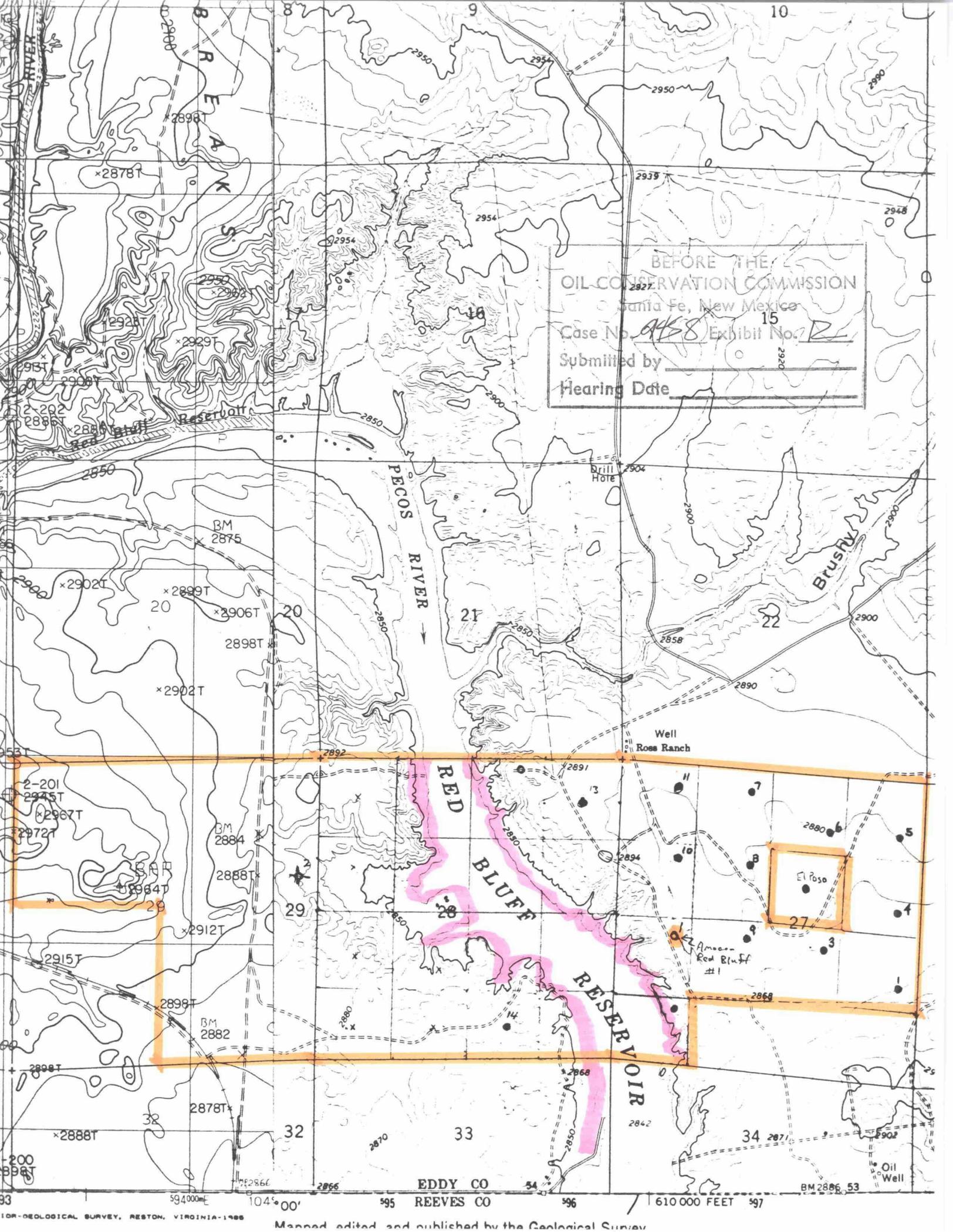
were issued based upon the acreage in the survey of the right-of-way, which in this particular case was a bad survey which does not close. I hope that this explanation provides the information you required for the hearing before the Oil Conservation Commission. If we can provide any other information please contact us at any time.

Sincerely



John E. Gumert  
Chief, Automated Records and  
Public Assistance Section

cc:  
NM (943C)



BEFORE THE  
 OIL CONSERVATION COMMISSION  
 Santa Fe, New Mexico  
 Case No. 458 Exhibit No. 15  
 Submitted by \_\_\_\_\_  
 Hearing Date \_\_\_\_\_

WELL NMO1-01 AMOCO FEDERAL #1  
 LEASE 1290 NM 38636  
 PROSPECT NMO1 PECOS RIVER  
 STATE NM NEW MEXICO

OPERATOR MALLON OIL COMPANY  
 THROUGH 06/30/88  
 REVENUE INT 3.48299  
 WORKING INT 4.76000

DESCRIPTION	* JAN	* FEB	* MAR	* APR	* MAY	* JUN	* YTD CUM-TO-DATE
GROSS OIL SALES (BBL)	185	182	350	355	361	361	1,795
GROSS OIL SALES (\$)	3,047	2,979	5,340	5,736	6,200	5,940	29,262
PRICE PER BBL	16.47	16.37	15.26	16.16	17.17	16.51	16.30
GROSS SALES (MCF)	678	532	532	291	293		1,794
GROSS GAS SALES (\$)	854	494	494	242	217		1,807
PRICE PER MCF	1.26	0.93	0.93	0.83	0.74		1.01
<b>GAS PLANT PROCESSING REVENUES</b>							
TOTAL GROSS REVENUE	3,047	3,833	5,834	5,978	6,417	5,940	31,069
<b>PRODUCTION &amp; PROPERTY TAXES</b>							
LABOR	2,588	250	195	68	593	187	3,882
UTILITIES & FUEL		481	72		51	28	604
CHEMICALS & LUBE OILS	1,290	119	2,157	1,515	1,369	949	7,399
SALT WATER DISPOSAL	2,261	388	163	88	1,548	435	4,883
REPAIRS & MAINTENANCE	897						897
WELL PULLING & SERVICING	41,764		1,579				43,343
CLEANOUTS & WORKOVERS	191	55					246
EQUIPMENT RENTALS	194	133	340	335	20	76	2,024
ADMINISTRATIVE OVERHEAD			3,807	3,796			434
OTHER EXPENSES	49,524	1,766	8,314	1,790	3,915	2,010	63,740
TOTAL OPERATING EXPENSES	46,478	2,066	2,479	7,768	2,502	3,950	32,671
NET PROFIT / (LOSS)	9,97	6,50	11,29	11,83	11,65	12,03	NC
<b>NET STATISTICS :</b>							
GROSS OIL SALES PER DAY (BBL)	98.29	105.39	172.26	191.20	200.00	198.67	NC
GROSS GAS SALES PER DAY (MCF)	30.50	30.50	15.94	8.07	7.00		NC
TOTAL SALES PER DAY (\$)	98.29	136.89	188.19	199.27	207.00	198.67	NC
TOTAL LOE PER DAY (\$)	197.55	63.07	268.19	59.67	126.29	67.00	NC
GROSS PROFIT / (LOSS) PER DAY	1499.29	73.79	79.97	258.93	80.71	131.67	NC

BEFORE THE  
**OIL CONSERVATION COMMISSION**  
 Santa Fe, New Mexico

Case No. 946 Exhibit No. 13

Submitted by \_\_\_\_\_

Hearing Date \_\_\_\_\_

WELL NM01-03 AMOCO FEDERAL #3 OPERATOR MALLON OIL COMPANY  
 LEASE 1290 NM 38636 THROUGH 06/30/88  
 PROSPECT NM01 PECOS RIVER REVENUE INT 3.5542  
 STATE NM NEW MEXICO WORKING INT 4.76000

DESCRIPTION	# JAN	# FEB	# MAR	# APR	# MAY	# JUN	* YTD CUM-TO-DATE
GROSS OIL SALES (BBLs)	204	204	206	108	156	196	14,757
GROSS OIL SALES (\$)	3,360	3,332	3,203	1,757	2,452	3,182	274,434
PRICE PER BBL	16.47	16.33	15.55	16.27	17.00	16.23	18.60
GROSS SALES (MCF)	266	250	349	405	470		31,268
GROSS GAS SALES (\$)	318	275	283	284	299		1,458
PRICE PER MCF	1.20	1.10	0.81	0.70	0.64		0.84
<b>GAS PLANT PROCESSING REVENUES</b>							
TOTAL GROSS REVENUE	3,478	3,407	3,485	2,041	2,951	3,182	18,944
<b>PRODUCTION &amp; PROPERTY TAXES</b>							
LABOR	515	250	195	68	593	187	1,809
UTILITIES & FUEL						28	28
CHEMICALS & LUBE OILS			72		51		123
SALT WATER DISPOSAL	351	32	311	288	199	921	15,358
REPAIRS & MAINTENANCE	331	541	303		922	1,234	19,488
WELL PULLING & SERVICING							4,229
CLEANOUTS & WORKOVERS							1,662
EQUIPMENT RENTALS							89
ADMINISTRATIVE OVERHEAD	340	340	340	335	335	335	2,024
OTHER EXPENSES	44	122	69	64	40	68	279
TOTAL OPERATING EXPENSES	1,579	1,285	1,292	627	2,140	2,373	9,296
NET PROFIT / (LOSS)	2,098	2,322	2,194	1,414	811	809	9,648

NET STATISTICS :	GROSS OIL SALES PER DAY (BBL)	GROSS GAS SALES PER DAY (MCF)	GROSS OIL SALES PER DAY (\$)	GROSS GAS SALES PER DAY (\$)	TOTAL SALES PER DAY (\$)	TOTAL LOE PER DAY (\$)	GROSS PROFIT / (LOSS) PER DAY
	6.58	7.29	6.65	3.60	5.03	6.53	NC
	8.58	8.93	11.26	13.50	15.16	NC	NC
	108.39	119.00	103.32	58.57	85.55	106.07	NC
	10.26	9.82	9.13	9.47	9.65		NC
	118.65	128.82	112.42	68.03	95.19	106.07	NC
	50.94	45.89	41.68	20.90	49.03	79.10	NC
	67.68	82.93	70.77	47.13	26.16	26.97	NC

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WELL NMO104 AMOCO FEDERAL #4  
 LEASE 1290 NM 38636  
 PROSPECT NMO1-PECOS RIVER  
 STATE NM NEW MEXICO

OPERATOR MALLON OIL COMPANY  
 THROUGH 06/30/88  
 REVENUE INT 3.54074  
 WORKING INT 4.76000

DESCRIPTION	* JAN	* FEB	* MAR	* APR	* MAY	* JUN	* YTD CUM-TO-DATE
GROSS OIL SALES (BBL)	562	561	568	297	460	365	17,694
GROSS OIL SALES (\$)	9,255	9,163	8,831	4,833	7,821	5,926	328,984
PRICE PER BBL	16.47	16.33	15.55	16.27	17.00	16.24	18.59
GROSS SALES (MCF)	304	286	399	463	574		30,275
GROSS GAS SALES (\$)	364	314	323	324	365		24,947
PRICE PER MCF	1.20	1.10	0.81	0.70	0.64		0.83
<b>GAS PLANT PROCESSING REVENUES</b>							
TOTAL GROSS REVENUE	9,619	9,477	9,154	5,157	8,186	5,926	47,518
<b>PRODUCTION &amp; PROPERTY TAXES</b>							
LABOR	436	250	195	68	593	187	1,730
UTILITIES & FUEL						28	28
CHEMICALS & LUBE OILS			72		51		123
SALT WATER DISPOSAL	774	72	686	633	468	56	2,689
REPAIRS & MAINTENANCE	331	29	801	98	401	173	1,832
WELL PULLING & SERVICING							1,706
CLEANOUTS & WORKOVERS							42-
EQUIPMENT RENTALS	340	340	340	335	335	335	2,024
ADMINISTRATIVE OVERHEAD	44	122	1,069	1,064	20	68	2,58
OTHER EXPENSES							6,085
TOTAL OPERATING EXPENSES	1,923	812	3,164	71	1,867	847	70,165
NET PROFIT / (LOSS)	7,696	8,665	5,990	5,084	6,319	5,078	283,767
<b>NET STATISTICS :</b>							
GROSS OIL SALES PER DAY (BBL)	18.13	20.04	18.32	9.90	14.84	12.17	NC
GROSS GAS SALES PER DAY (MCF)	9.81	10.21	12.87	15.43	18.52		NC
GROSS OIL SALES PER DAY (\$)	298.55	327.25	284.87	161.10	252.29	197.53	NC
GROSS GAS SALES PER DAY (\$)	11.74	11.21	10.42	10.80	11.77		NC
TOTAL SALES PER DAY (\$)	310.29	338.46	295.29	171.90	264.06	197.53	NC
TOTAL LOE PER DAY (\$)	62.03	29.00	102.06	2.37	60.23	28.23	NC
GROSS PROFIT / (LOSS) PER DAY	248.26	309.46	193.23	169.53	203.84	169.27	NC

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WELL NM0105 AMOCO FEDERAL #5  
 LEASE 1290 NM 38636  
 PROSPECT NM01-PECOS RIVER  
 STATE NM NEW MEXICO

OPERATOR MALLON OIL COMPANY  
 THROUGH 06/30/88  
 REVENUE INT 3.54074  
 WORKING INT 4.76000

DESCRIPTION	* JAN	* FEB	* MAR	* APR	* MAY	* JUN	* YTD CUM-TO-DATE
GROSS OIL SALES (BBLs)	985	909	1,021	1,033	1,230	1,092	6,270
GROSS OIL SALES (\$)	16,231	14,847	15,874	16,909	20,912	17,728	102,390
PRICE PER BBL	16.47	16.33	15.55	16.27	17.00	16.23	16.33
GROSS SALES (MCF)	1,719	1,617	1,460	1,956	2,309	9,061	99,882
GROSS GAS SALES (\$)	2,057	1,776	1,181	1,369	1,468	7,852	73,424
PRICE PER MCF	1.20	1.10	0.81	0.70	0.64	0.87	0.74

GAS PLANT PROCESSING REVENUES

TOTAL GROSS REVENUE	19,279	16,623	17,094	19,178	22,380	17,728	110,242
							796,073

PRODUCTION & PROPERTY TAXES

LABOR	436	250	195	68	593	187	1,730
UTILITIES & FUEL						28	28
CHEMICALS & LUBE OILS			72		51	123	1,824
SALT WATER DISPOSAL	949	83	585	668	817	829	3,931
REPAIRS & MAINTENANCE	1,284	1,032	221	1,243	335	732	4,848
WELL PULLING & SERVICING				193			193
CLEANOUTS & WORKOVERS							42-
EQUIPMENT RENTALS							89
ADMINISTRATIVE OVERHEAD	340	340	340	335	335	335	2,024
OTHER EXPENSES	25	153	1,069	1,064	10	68	261
TOTAL OPERATING EXPENSES	3,033	1,857	2,483	1,444	2,141	2,180	13,138
							76,616

NET PROFIT / (LOSS)

NET PROFIT / (LOSS)	15,245	14,766	14,571	16,734	20,239	15,548	97,104
							719,457

NET STATISTICS :

GROSS OIL SALES PER DAY (BBL)	31.77	32.46	32.94	34.43	39.68	36.40	NC
GROSS GAS SALES PER DAY (MCF)	55.43	57.75	47.10	65.20	74.48	74.48	NC
GROSS OIL SALES PER DAY (\$)	523.26	530.25	512.06	560.30	674.58	590.93	NC
GROSS GAS SALES PER DAY (\$)	66.35	63.43	38.10	45.63	47.35	47.35	NC
TOTAL SALES PER DAY (\$)	589.65	593.68	550.13	605.93	721.94	590.93	NC
TOTAL LOE PER DAY (\$)	97.84	66.32	80.10	48.13	69.06	72.67	NC
GROSS PROFIT / (LOSS) PER DAY	491.77	527.36	470.03	557.80	652.87	518.27	NC

WELL NM0106 AMOCO FEDERAL #6  
 LEASE 1290 NM 38636

OPERATOR MALLON OIL COMPANY  
 THROUGH 06/30/88

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WELL NMO106 AMOCO FEDERAL #6  
 LEASE 1290 NM 38636  
 PROSPECT NMOL PECOS RIVER  
 STATE NM NEW MEXICO

OPERATOR MALLON OIL COMPANY  
 THROUGH 06/30/88  
 REVENUE INT 3.16137  
 WORKING INT 4.76000

DESCRIPTION	* JAN	* FEB	* MAR	* APR	* MAY	* JUN	* YTD CUM-TO-DATE
GROSS OIL SALES (BBLs)	482	445	572	503	922	822	3,746
GROSS OIL SALES (\$)	7,938	7,268	8,893	8,185	15,475	13,345	674,950
PRICE PER BBL	16.47	16.33	15.55	16.27	17.00	16.23	18.24
GROSS SALES (MCF)	986	927	647	390	1,144		4,094
GROSS GAS SALES (\$)	1,180	1,019	523	273	727		3,722
PRICE PER MCF	1.20	1.10	0.81	0.70	0.64		0.91
<b>GAS PLANT PROCESSING REVENUES</b>							
TOTAL GROSS REVENUE	9,118	8,287	9,416	8,457	16,402	13,345	69,026
<b>PRODUCTION &amp; PROPERTY TAXES</b>							
LABOR	436	250	195	68	593	187	1,730
UTILITIES & FUEL						28	28
CHEMICALS & LUBE OILS			72		51		123
SALT WATER DISPOSAL	694	59	700	474	1,401	944	4,272
REPAIRS & MAINTENANCE	1,806	1,547	277	1,718	335	228	5,910
WELL PULLING & SERVICING	802			2,130			2,932
CLEANOUTS & WORKOVERS							3,599
EQUIPMENT RENTALS	191			665	281		1,137
ADMINISTRATIVE OVERHEAD	340	340	340	335	335	335	2,024
OTHER EXPENSES	25	153	1,069	1,064	10	68	261
TOTAL OPERATING EXPENSES	4,292	2,348	2,654	4,327	3,006	1,790	18,416
NET PROFIT / (LOSS)	4,826	5,939	6,763	4,131	13,397	11,555	46,610
<b>NET STATISTICS :</b>							
GROSS OIL SALES PER DAY (BBL)	15.55	15.89	18.45	16.77	29.74	27.40	NC
GROSS GAS SALES PER DAY (MCF)	31.81	33.11	20.87	13.00	36.90		NC
GROSS OIL SALES PER DAY (\$)	256.06	259.57	286.87	272.83	505.65	444.83	NC
GROSS GAS SALES PER DAY (\$)	38.06	36.39	16.87	9.10	23.45		NC
TOTAL SALES PER DAY (\$)	294.13	295.96	303.74	281.90	529.10	444.83	NC
TOTAL LOE PER DAY (\$)	138.43	83.86	89.61	144.23	96.97	59.67	NC
GROSS PROFIT / (LOSS) PER DAY	155.68	212.11	218.16	137.70	432.16	385.17	NC

WELL NO107 AMOCO FEDERAL #7 OPERATOR MALLON OIL COMPANY  
 LEASE 1290 NM 38636 THROUGH 06/30/88  
 PROSPECT NM01 PECOS RIVER REVENUE INT 3.54074  
 STATE NM NEW MEXICO WORKING INT 4.76000

DESCRIPTION	* JAN	* FEB	* MAR	* APR	* MAY	* JUN	* YTD CUM-TO-DATE
GROSS OIL SALES (BBL)	442	408	920	423	519	426	3,138
GROSS OIL SALES (\$)	7,279	6,664	14,303	6,883	8,824	6,916	594,729
PRICE PER BBL	16.47	16.33	15.55	16.27	17.00	16.23	18.41
GROSS SALES (MCF)	705	663	867	528	736		3,499
GROSS GAS SALES (\$)	843	728	702	370	468		3,111
PRICE PER MCF	1.20	1.10	0.81	0.70	0.64		0.89
<b>GAS PLANT PROCESSING REVENUES</b>							
TOTAL GROSS REVENUE	8,122	7,392	15,005	7,252	9,292	6,916	53,980
<b>PRODUCTION &amp; PROPERTY TAXES</b>							
LABOR	436	250	195	68	593	187	1,730
UTILITIES & FUEL						28	28
CHEMICALS & LUBE OILS		350	313		291	241	1,195
SALT WATER DISPOSAL	901	78	549	613	893	742	3,776
REPAIRS & MAINTENANCE	527	407	1,206	38	335		2,514
WELL PULLING & SERVICING			484				484
CLEANOUTS & WORKOVERS							42-
EQUIPMENT RENTALS	340	340	340	335	335	335	3,617
ADMINISTRATIVE OVERHEAD	25	153	1,492	1,487-	10	68	10,388
OTHER EXPENSES							6,051
TOTAL OPERATING EXPENSES	2,228	1,577	4,579	432-	2,457	1,601	88,202
NET PROFIT / (LOSS)	5,894	5,815	10,426	7,684	6,835	5,315	41,969

NET STATISTICS :							
GROSS OIL SALES PER DAY (BBL)	14.26	14.57	29.68	14.10	16.74	14.20	NC
GROSS GAS SALES PER DAY (MCF)	22.74	23.68	27.97	17.60	23.74		NC
GROSS OIL SALES PER DAY (\$)	234.81	238.00	461.39	229.43	284.65	230.53	NC
GROSS GAS SALES PER DAY (\$)	27.19	26.00	22.65	12.33	15.10		NC
TOTAL SALES PER DAY (\$)	262.00	264.00	484.03	241.73	299.74	230.53	NC
TOTAL LOE PER DAY (\$)	71.87	56.32	147.71	14.40-	79.26	53.37	NC
GROSS PROFIT / (LOSS) PER DAY	190.13	207.68	336.32	256.13	220.48	177.17	NC

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WELL NMO108 AMOCO FEDERAL #8 OPERATOR MALLON OIL COMPANY  
 LEASE 1290 NM 38636 THROUGH 06/30/88  
 PROSPECT NMO1 PECOS RIVER REVENUE INT 3.54074  
 STATE NM NEW MEXICO WORKING INT 4.76000

DESCRIPTION	* JAN	* FEB	* MAR	* APR	* MAY	* JUN	* YTD CUM-TO-DATE
GROSS OIL SALES (BBL)	638	638	645	337	438	521	3,217
GROSS OIL SALES (\$)	10,507	10,421	10,028	5,481	7,447	9,458	52,344
PRICE PER BBL	16.47	16.33	15.55	16.27	17.00	16.23	16.27
GROSS SALES (MCF)	317	298	416	483	502		2,016
GROSS GAS SALES (\$)	379	327	336	338	319		1,700
PRICE PER MCF	1.20	1.10	0.81	0.70	0.64		0.84
<b>GAS PLANT PROCESSING REVENUES</b>							
TOTAL GROSS REVENUE	10,886	10,748	10,364	5,823	7,766	9,458	54,044
<b>PRODUCTION &amp; PROPERTY TAXES</b>							
LABOR	515	250	195	68	593	187	1,809
UTILITIES & FUEL						28	28
CHEMICALS & LUBE OILS		262	313	481	51	241	1,348
SALT WATER DISPOSAL	465	43	412	380	235	388	20,321
REPAIRS & MAINTENANCE	215	29	212	110	1,003	1,329	14,137
WELL PULLING & SERVICING				967			2,113
CLEANOUTS & WORKOVERS							250-
EQUIPMENT RENTALS	340	340	340	335	335	335	10,388
ADMINISTRATIVE OVERHEAD	49	122	1,172	1,160-	20	68	7,413
OTHER EXPENSES							
TOTAL OPERATING EXPENSES	1,582	1,046	2,644	1,182	2,238	2,576	11,269
NET PROFIT / (LOSS)	9,303	9,702	7,720	4,639	5,528	5,882	42,775
<b>NET STATISTICS :</b>							
GROSS OIL SALES PER DAY (BBL)	20.58	22.79	20.81	11.23	14.13	17.37	NC
GROSS GAS SALES PER DAY (MCF)	10.23	10.64	13.42	16.10	16.19		NC
GROSS OIL SALES PER DAY (\$)	338.94	372.18	323.48	182.80	240.23	281.93	NC
GROSS GAS SALES PER DAY (\$)	12.23	11.68	10.84	11.27	10.29		NC
TOTAL SALES PER DAY (\$)	351.16	383.86	334.32	194.07	250.52	281.93	NC
TOTAL LOE PER DAY (\$)	51.03	37.36	85.29	39.40	72.19	85.87	NC
GROSS PROFIT / (LOSS) PER DAY	300.10	346.50	249.03	154.63	178.32	196.07	NC

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WELL NMO109 AMOCO FEDERAL #9  
 LEASE 1290 NM 38636  
 PROSPECT NMO1 PECOS RIVER  
 STATE NM NEW MEXICO

OPERATOR MALLON OIL COMPANY  
 THROUGH 06/30/88  
 REVENUE INT 3.84074  
 WORKING INT 4.76000

DESCRIPTION	JAN	FEB	MAR	APR	MAY	JUN	YTD CUM-TO-DATE
GROSS OIL SALES (BBL)	523	888	733	717	702	727	4,290
GROSS OIL SALES (\$)	8,683	14,502	11,385	11,794	11,960	11,935	70,258
PRICE PER BBL	16.60	16.33	15.53	16.45	17.04	16.42	16.38
GROSS SALES (MCF)	700	755	725	930	740		3,869
GROSS GAS SALES (\$)	838	819	579	662	476		3,374
PRICE PER MCF	1.20	1.08	0.80	0.71	0.63		0.87
<b>GAS PLANT PROCESSING REVENUES</b>							
TOTAL GROSS REVENUE	9,521	19,321	11,964	12,456	12,436	11,935	73,632
<b>PRODUCTION &amp; PROPERTY TAXES</b>							
LABOR	436	250	195	68	593	187	1,730
UTILITIES & FUEL						28	28
CHEMICALS & LUBE OILS			554		51	241	845
SALT WATER DISPOSAL	297	24	348	353	413	262	1,657
REPAIRS & MAINTENANCE	641		212	170	444		1,467
WELL PULLING & SERVICING							
CLEANOUTS & WORKOVERS							
EQUIPMENT RENTALS							150-
ADMINISTRATIVE OVERHEAD	340		340	335	335	335	1,684
OTHER EXPENSES	25	122	1,115	1,110	10	68	230
TOTAL OPERATING EXPENSES	1,698	396	2,764	184	1,845	1,121	7,640
NET PROFIT / (LOSS)	7,823	14,925	9,200	12,640	10,591	10,814	65,992

NET STATISTICS :	NC	NC	NC	NC	NC	NC	NC
GROSS OIL SALES PER DAY (BBL)	16.87	31.71	23.65	23.90	22.65	24.23	NC
GROSS GAS SALES PER DAY (MCF)	22.58	26.96	23.39	31.00	24.52		NC
GROSS OIL SALES PER DAY (\$)	280.10	517.93	367.26	393.13	385.81	397.83	NC
GROSS GAS SALES PER DAY (\$)	27.03	29.25	18.68	22.07	15.35		NC
TOTAL SALES PER DAY (\$)	307.13	547.18	385.94	415.20	401.16	397.83	NC
TOTAL LOE PER DAY (\$)	94.77	14.14	89.14	6.13	59.52	37.37	NC
GROSS PROFIT / (LOSS) PER DAY	252.35	533.04	296.77	421.33	341.65	360.47	NC

WELL NMO110 AMOCO FEDERAL #10  
 LEASE 1290 NM 38636

OPERATOR MALLON OIL COMPANY  
 THROUGH 06/30/88

WELL NMO110 AMOCO FEDERAL #10 OPERATOR MALLON OIL COMPANY  
 LEASE 1290 NM 38636 THROUGH 06/30/88  
 PROSPECT NMO1 PECOS RIVER REVENUE INT  
 STATE NM NEW MEXICO WORKING INT 4.76000

DESCRIPTION	JAN	FEB	MAR	APR	MAY	JUN	YTD CUM-TO-DATE
GROSS OIL SALES (BBLs)	707	568	324	456	456	798	3,309
GROSS OIL SALES (\$)	11,881	9,278	9,035	7,624	7,904	13,083	34,804
PRICE PER BBL	16.80	16.33	15.54	16.72	17.33	16.39	16.56
GROSS SALES (MCF)	249	269	187	142	501	1,349	17,753
GROSS GAS SALES (\$)	298	292	150	74	366	1,181	13,639
PRICE PER MCF	1.20	1.09	0.80	0.52	0.73	0.88	0.77

GAS PLANT PROCESSING REVENUES

TOTAL GROSS REVENUE	12,179	9,570	5,184	7,698	8,270	13,083	55,984
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PRODUCTION & PROPERTY TAXES

LABOR	436	250	195	68	593	187	1,730
UTILITIES & FUEL						28	28
CHEMICALS & LUBE OILS			72		91		123
SALT WATER DISPOSAL	818	69	719	237	1,073	750	3,665
REPAIRS & MAINTENANCE	154	128	238	817	674	307	2,319
WELL PULLING & SERVICING				1,064			1,064
CLEANOUTS & WORKOVERS							
EQUIPMENT RENTALS	340	340	340	335	335	335	2,024
ADMINISTRATIVE OVERHEAD	25	122	63	64	10	68	223
OTHER EXPENSES							
TOTAL OPERATING EXPENSES	1,772	908	1,627	2,457	2,736	1,676	11,176

NET PROFIT / (LOSS)

NET PROFIT / (LOSS)	10,407	8,661	3,558	5,241	5,534	11,408	44,809
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NET STATISTICS :

GROSS OIL SALES PER DAY (BBL)	22.81	20.29	10.45	15.20	14.71	26.60	NC
GROSS GAS SALES PER DAY (MCF)	8.03	9.61	6.03	4.73	16.16		NC
GROSS OIL SALES PER DAY (\$)	383.26	331.36	162.42	254.13	254.97	436.10	NC
GROSS GAS SALES PER DAY (\$)	9.61	10.43	4.84	2.47	11.81		NC
TOTAL SALES PER DAY (\$)	392.87	341.79	167.23	256.60	266.77	436.10	NC
TOTAL LOE PER DAY (\$)	57.16	32.43	52.48	81.90	88.26	55.87	NC
GROSS PROFIT / (LOSS) PER DAY	335.71	309.32	114.77	174.70	178.52	380.27	NC

WELL NMO111 AMOCO FEDERAL #11  
 LEASE 1290 NM 38436  
 PROSPECT NMO1 PECOS RIVER  
 STATE NM NEW MEXICO

OPERATOR MALLON OIL COMPANY  
 THROUGH 06/30/88  
 REVENUE INT WORKING INT 4.76000

DESCRIPTION	JAN	FEB	MAR	APR	MAY	JUN	YTD CUM-TO-DATE
GROSS OIL SALES (BBLB)	401	309	389	429	264	293	2,085
GROSS OIL SALES (\$)	6,592	5,046	6,052	7,163	4,471	4,805	34,129
PRICE PER BBL	16.44	16.33	15.56	16.70	16.94	16.40	16.37
GROSS SALES (MCF)	1,467	1,183	1,154	428	425		4,657
GROSS GAS SALES (\$)	1,903	1,441	1,017	341	300		5,000
PRICE PER MCF	1.30	1.22	0.88	0.80	0.71		1.07
<b>GAS PLANT PROCESSING REVENUES</b>							
TOTAL GROSS REVENUE	8,495	6,487	7,049	7,503	4,771	4,805	39,129
<b>PRODUCTION &amp; PROPERTY TAXES</b>							
LABOR	436	250	195	68	593	187	1,730
UTILITIES & FUEL						28	28
CHEMICALS & LUBE OILS		131	554		291	241	1,217
SALT WATER DISPOSAL	835	70	495	525	680	827	3,432
REPAIRS & MAINTENANCE	270	128	238	11	238	55	939
WELL PULLING & SERVICING							
CLEANOUTS & WORKOVERS							
EQUIPMENT RENTALS	340	340	340	335	335	335	2,024
ADMINISTRATIVE OVERHEAD	25	122	1,438	1,437	10	76	232
OTHER EXPENSES							
TOTAL OPERATING EXPENSES	1,905	1,041	3,259	499	2,146	1,748	9,600
NET PROFIT / (LOSS)	6,590	5,446	3,810	8,003	2,625	3,056	29,529

NET STATISTICS :	NC	MC
GROSS OIL SALES PER DAY (BBL)	12.94	11.04
GROSS GAS SALES PER DAY (MCF)	47.32	42.25
GROSS OIL SALES PER DAY (\$)	212.65	180.21
GROSS GAS SALES PER DAY (\$)	61.39	51.46
TOTAL SALES PER DAY (\$)	274.03	231.68
TOTAL LOE PER DAY (\$)	61.45	37.18
GROSS PROFIT / (LOSS) PER DAY	212.58	194.50

WELL NMO113 AMOCO FEDERAL #13  
 LEASE 1290 NM 38436

OPERATOR MALLON OIL COMPANY  
 THROUGH 06/30/88

M0113 AMOCO FEDERAL #13  
 1290 NM 38636  
 PROSPECT NM01 PECOS RIVER  
 STATE NM NEW MEXICO

DESCRIPTION	* JAN	* FEB	* MAR	* APR	* MAY	* JUN	* YTD CUM-TO-DATE
GROSS OIL SALES (BBL)	4,076	3,471	3,217	2,488	1,232	1,079	15,568
GROSS OIL SALES (\$)	66,170	56,734	50,125	41,015	20,944	17,688	252,676
PRICE PER BBL	16.23	16.32	15.58	16.49	17.00	16.39	16.69
GROSS SALES (MCF)			1,094	552			1,646
GROSS GAS SALES (\$)			657	408			1,065
PRICE PER MCF			0.60	0.74			0.65

GAS PLANT PROCESSING REVENUES

TOTAL GROSS REVENUE	66,170	56,734	50,125	41,672	21,352	17,688	253,741
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PRODUCTION & PROPERTY TAXES

LABOR	1,053	400	196	68	593	187	2,497
UTILITIES & FUEL						28	28
CHEMICALS & LUBE OILS		481	73		51	1,498	2,103
SALT WATER DISPOSAL	1,560	138	1,594	1,755	1,555	15	6,618
REPAIRS & MAINTENANCE	987	1,178	238	337	631	55	3,025
WELL PULLING & SERVICING	1,161						1,161
CLEANOUTS & WORKOVERS							
EQUIPMENT RENTALS	340	340	340	335	335	335	2,024
ADMINISTRATIVE OVERHEAD	25	126	2,474	2,469	811	152	1,117
OTHER EXPENSES							2,475
TOTAL OPERATING EXPENSES	4,725	2,652	4,913	26	3,976	2,271	18,574

NET PROFIT / (LOSS)

	61,445	54,071	45,211	41,646	17,376	15,417	235,168
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NET STATISTICS :

GROSS OIL SALES PER DAY (BBL)	131.48	124.18	103.77	82.93	39.74	35.97	NC
GROSS GAS SALES PER DAY (MCF)				36.47	17.81		NC
GROSS OIL SALES PER DAY (\$)	2134.52	2026.21	1616.94	1367.17	675.61	589.60	NC
GROSS GAS SALES PER DAY (\$)				21.90	13.16		NC
TOTAL SALES PER DAY (\$)	2134.52	2026.21	1616.94	1389.07	688.77	589.60	NC
TOTAL LOE PER DAY (\$)	152.42	95.07	158.48	0.87	128.26	75.70	NC
GROSS PROFIT / (LOSS) PER DAY	1982.10	1931.11	1458.42	1388.20	560.52	513.90	NC

WELL NMO114 AMOCO FEDERAL #14 OPERATOR MALLON OIL COMPANY  
 LEASE 1290 NM 38636 THROUGH 06/30/88  
 PROSPECT NMO1 PECOS RIVER REVENUE INT  
 STATE NM NEW MEXICO WORKING INT

DESCRIPTION \* JAN \* FEB \* MAR \* APR \* MAY \* JUN \* YTD CUM-TO-DATE

GROSS OIL SALES (BBLs)  
 GROSS OIL SALES (\$)  
 PRICE PER BBL

GROSS SALES (MCF)  
 GROSS GAS SALES (\$)  
 PRICE PER MCF

GAS PLANT PROCESSING REVENUES

TOTAL GROSS REVENUE

PRODUCTION & PROPERTY TAXES

LABOR  
 UTILITIES & FUEL  
 CHEMICALS & LUBE OILS  
 SALT WATER DISPOSAL  
 REPAIRS & MAINTENANCE  
 WELL PULLING & SERVICING  
 CLEANOUTS & WORKOVERS  
 EQUIPMENT RENTALS  
 ADMINISTRATIVE OVERHEAD  
 OTHER EXPENSES

TOTAL OPERATING EXPENSES

NET PROFIT / (LOSS)

NET STATISTICS  
 GROSS OIL SALES PER DAY (SBL)  
 GROSS GAS SALES PER DAY (MCF)

GROSS OIL SALES PER DAY (\$)  
 GROSS GAS SALES PER DAY (\$)

TOTAL SALES PER DAY (\$)  
 TOTAL LOE PER DAY (\$)

GROSS PROFIT / (LOSS) PER DAY

PRINTED IN U.S.A.

PA211

MALLON OIL COMPANY

GROSS PROPERTY OPERATING STATEMENT

DATE 24 AUG 1988

PAGE 13

\*\*\* SUMMARY \*\*\*

THROUGH 06/30/88

DESCRIPTION	* JAN	* FEB	* MAR	* APR	* MAY	* JUN	* YTD CUM-TO-DATE
GROSS OIL SALES (BBLs)	9,205	8,590	8,944	7,145	6,740	6,680	47,304
GROSS OIL SALES (\$)	190,932	140,234	139,068	117,281	114,808	109,026	771,349
PRICE PER BBL	16.40	16.33	15.55	16.41	17.03	16.32	16.31
GROSS SALES (MCF)	6,711	6,926	6,737	7,111	8,267	35,752	513,470
GROSS GAS SALES (\$)	8,180	7,845	5,588	4,933	5,414	31,960	374,282
PRICE PER MCF	1.22	1.13	0.83	0.69	0.65	0.89	0.73

GAS PLANT PROCESSING REVENUES

TOTAL GROSS REVENUE	199,112	148,079	144,656	122,214	120,222	109,026	803,309
PRODUCTION & PROPERTY TAXES	7,720	2,899	2,149	1,815	7,120	2,250	23,954
LABOR					247	476	899
UTILITIES & FUEL		1,706	2,240	962	1,090	2,701	8,699
CHEMICALS & LUBE OILS	8,892	787	8,555	11,587	12,846	9,975	52,644
SALT WATER DISPOSAL	8,406	5,406	4,109	6,574	6,868	4,602	35,965
REPAIRS & MAINTENANCE	2,859		484	4,355			7,698
WELL PULLING & SERVICING	41,764		1,579				43,343
CLEANOUTS & WORKOVERS	382	55		1,331	281		48,078
EQUIPMENT RENTALS	3,736	3,396	3,736	4,019	4,019	3,684	22,049
ADMINISTRATIVE OVERHEAD	503	1,550	15,106	14,752	977	915	22,589
OTHER EXPENSES							4,299
TOTAL OPERATING EXPENSES	74,263	15,800	37,958	15,890	33,449	24,602	201,963

NET PROFIT / (LOSS)	84,850	132,278	106,697	106,324	86,774	84,423	601,346
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NET STATISTICS :

GROSS OIL SALES PER DAY (BBL)	296.94	305.79	288.52	238.17	217.42	222.67	NC
GROSS GAS SALES PER DAY (MCF)	216.48	247.36	217.32	237.03	266.68		NC
GROSS OIL SALES PER DAY (\$)	4868.77	5008.36	4486.06	3909.37	3703.48	3634.20	NC
GROSS GAS SALES PER DAY (\$)	263.87	280.18	180.26	164.43	174.65		NC
TOTAL SALES PER DAY (\$)	5132.65	5288.54	4666.32	4073.80	3878.13	3634.20	NC
TOTAL LOE PER DAY (\$)	2395.58	564.29	1224.45	529.67	1079.00	820.07	NC
GROSS PROFIT / (LOSS) PER DAY	2737.10	4724.21	3441.84	3544.13	2799.16	2814.10	NC

AFE # 257  
 DESC AMOCO FEDERAL #14

WELL NMO114 AMOCO FEDERAL #14  
 DIST COST CENTER

DATE: 12/01/87  
 STATUS: ACTIVE  
 APPROVAL DATE:

COST TYPE	ACCOUNT DESCRIPTION	CURRENT	ACTUALS TO DATE	TOTAL AFE	REMAINING AFE -- AMOUNT	%
ICC	INTANGIBLE COMPLETION COST					
	920.102 LOCATION & ROAD COSTS	595		3,000	595-	100
	920.107.3 WATER COSTS				3,000	
	920.108 EQUIPMENT RENTALS	12,983			12,983-	
	920.109 CORING, TESTING & LOGGING	4,735			4,735-	
	920.111 CEMENT & CEMENTING SERVICES	14,109		8,400	5,709-	68-
	920.112 ENG. & GEOL. SUPERVISION	11,270		1,500	9,770-	651-
	920.114 OTHER CONTRACT SERVICES	1,784		900	1,784-	949-
	920.115 TRANSPORTATION & TRUCKING	9,442		7,200	8,942-	170-
	920.201 COMPLETION UNIT COSTS	19,409		34,500	12,209-	31-
	920.202 STIMULATION & PERFORMANCE	45,231		2,500	10,731-	13-
	920.204 ADMINISTRATIVE OVERHEAD	2,814		2,795	314-	98
	920.205 MISCELLANEOUS COMPLETION COSTS	63			2,732	
	TOTAL INTANGIBLE COMPLETION COST	122,435		60,795	61,640-	101-
IDC	INTANGIBLE DRILLING COST					
	910.101 DAMAGES & LOSSES	3,000		1,500	1,500-	100-
	910.102 LOCATION & ROAD COSTS	6,059		4,700	1,359-	29-
	910.103.1 MOBILIZATION & DEMOBILIZATION	115			115-	
	910.103.2 FOOTAGE DRILLING CONTRACT	54,421		52,080	2,341-	4-
	910.103.3 DAYWORK DRILLING CONTRACT	9,508		3,200	6,308-	197-
	910.104 MUD & CHEMICALS	2,158		4,200	2,042	49
	910.107.3 WATER COSTS	6,092		7,000	908	13
	910.108 EQUIPMENT RENTAL			2,100	2,100	100
	910.109 CORING, TESTING & LOGGING	10,059			10,059-	
	910.111 CEMENT & CEMENTING SERVICES	4,267		5,000	733	15
	910.112 ENG. & GEOL. SUPERVISION	4,667		1,250	3,417-	273-
	910.114 OTHER CONTRACT SERVICES	235			235-	
	910.115 TRANSPORTATION & TRUCKING	168		600	432	72
	910.117 OTHER DRILLING COSTS			4,632	4,632	100
	910.118 ADMINISTRATIVE OVERHEAD			1,000	1,138-	114-
	910.130 MUD LOGGING			3,600	1,549-	43-
	910.140 ELECTRIC LOOS			6,400	6,400	100
	910.145 DRILL STEM & FORMATION TESTING	2,800			2,800-	
	910.155.1 INSURANCE - GEN LIAB INS	504			504-	
	910.175 MISCELLANEOUS DRILLING COSTS				2,800-	
	TOTAL INTANGIBLE DRILLING COST	111,340		97,262	14,078-	14-

9458  
 Submission  
 Hearing Date

COST TYPE	ACCOUNT DESCRIPTION	CURRENT	ACTUALS TO DATE	TOTAL AFE	REMAINING AFE AMOUNT	%
<b>TE TANGIBLE EQUIPMENT</b>						
930.102	LOCATION & ROAD COSTS	6,439	4,134	4,050	6,439	2-
930.299	SURFACE CASING		4,134	600	84	100
930.300	INTERMEDIATE CASING			40,300	16,844	42
930.301	PRODUCTION CASING		23,436	9,190	765	8
930.302	PRODUCTION TUBING		8,385	9,595	9,595	100
930.303	SUCKER RODS & DOWNHOLE PUMPS	118	4,110		6,110	
930.303.1	SUCKER RODS		1,646		1,646	
930.303.2	DOWNHOLE PUMPS		502	600	98	16
930.304	WELLHEAD EQUIPMENT		835	900	65	7
930.304.1	CASINGHEAD			300	300	100
930.305	LINE PIPE		8,111	4,900	3,211	66
930.306	INSTALLATION CHARGES		27,234	23,000	4,234	19
930.307	PUMPING EQUIPMENT & ENGINES		13,712	16,900	3,189	19
930.308	STORAGE TANKS & FITTINGS		13,899	4,000	9,899	247
930.309	NON-CONTROLLABLE EQUIPMENT	12,029	4,225		4,225	
930.310	HEATERS, TREATERS & SEPARATORS					
	<b>TOTAL TANGIBLE EQUIPMENT</b>	<b>12,147</b>	<b>118,907</b>	<b>114,295</b>	<b>4,614</b>	<b>4</b>
	<b>AFE TOTAL</b>	<b>12,147</b>	<b>352,682</b>	<b>272,352</b>	<b>80,332</b>	<b>29</b>

WELL: NMO114-AMOCO-FEDERAL-#14  
 DIST COST CENTER  
 DATE: 12/01/87  
 STATUS: ACTIVE  
 APPROVAL DATE:

AFE # 257  
 AMOCO FEDERAL #14

ACCOUNT DESCRIPTION

CURRENT ACTUALS TO DATE TOTAL AFE REMAINING AFE AMOUNT %

TE TANGIBLE EQUIPMENT

930.102 LOCATION & ROAD COSTS 6,439 4,134 4,050 6,439 2-

930.299 SURFACE CASING 4,134 4,134 600 84 100

930.300 INTERMEDIATE CASING 40,300 40,300 16,844 42

930.301 PRODUCTION CASING 23,436 23,436 9,190 765 8

930.302 PRODUCTION TUBING 8,385 8,385 9,595 9,595 100

930.303 SUCKER RODS & DOWNHOLE PUMPS 118 4,110 6,110 6,110

930.303.1 SUCKER RODS 1,646 1,646 1,646 1,646

930.303.2 DOWNHOLE PUMPS 502 502 600 98 16

930.304 WELLHEAD EQUIPMENT 835 835 900 65 7

930.304.1 CASINGHEAD 300 300 300 300 100

930.305 LINE PIPE 8,111 8,111 4,900 3,211 66

930.306 INSTALLATION CHARGES 27,234 27,234 23,000 4,234 19

930.307 PUMPING EQUIPMENT & ENGINES 13,712 13,712 16,900 3,189 19

930.308 STORAGE TANKS & FITTINGS 13,899 13,899 4,000 9,899 247

930.309 NON-CONTROLLABLE EQUIPMENT 12,029 4,225 4,225 4,225

930.310 HEATERS, TREATERS & SEPARATORS

TOTAL TANGIBLE EQUIPMENT 12,147 118,907 114,295 4,614 4

AFE TOTAL 12,147 352,682 272,352 80,332 29



DATE: 09/22/87  
STATUS: ACTIVE  
APPROVAL DATE:

WELL: NMO113-AMOCO FEDERAL #13  
DIST COST CENTER

AFE # 250  
DESC AMOCO FEDERAL #13

COST TYPE	ACCOUNT DESCRIPTION	CURRENT	ACTUALS TO DATE	TOTAL AFE	REMAINING AFE AMOUNT	%
<b>ICC INTANGIBLE COMPLETION COST</b>						
920.102	LOCATION & ROAD COSTS	1,195	4,713	3,000	1,713	57-
920.107.3	WATER COSTS	4,713	4,902		4,902	
920.108	EQUIPMENT RENTALS	4,031	4,031		4,031	
920.109	CORING, TESTING & LOGGING	8,361	8,361	5,300	2,861	52-
920.111	CEMENT & CEMENTING SERVICES	8,535	8,535	1,000	7,535	754-
920.112	ENG. & GEOL. SUPERVISION	1,174	1,174		1,174	
920.114	OTHER CONTRACT SERVICES	6,421	6,421	1,400	5,021	359-
920.115	TRANSPORTATION & TRUCKING	10,056	10,056	8,000	2,056	26-
920.201	COMPLETION UNIT COSTS	38,219	38,219	26,000	12,219	47-
920.202	STIMULATION & PERFORATION	2,480	2,480	2,500	20	1
920.204	ADMINISTRATIVE OVERHEAD	338	338	2,800	2,462	88
920.205	MISCELLANEOUS COMPLETION COSTS					
	<b>TOTAL INTANGIBLE COMPLETION COST</b>	90,426	90,426	50,200	40,226	80-
<b>IDC INTANGIBLE DRILLING COST</b>						
910.101	DAMAGES & LOSSES	6,689	6,689	1,500	1,500	100
910.102	LOCATION & ROAD COSTS	41,362	41,362	5,000	1,689	34-
910.103.2	FOOTAGE DRILLING CONTRACT	4,364	4,364	39,525	1,837	5-
910.103.3	DAYWORK DRILLING CONTRACT	5,667	5,667	1,600	2,764	173-
910.106	MUD & CHEMICALS	2,859	2,859	4,200	1,467	35-
910.107.3	WATER COSTS	6,334	6,334	7,000	7,000	100
910.108	EQUIPMENT RENTAL	4,962	4,962	2,859	2,859	
910.109	CORING, TESTING & LOGGING	7,188	7,188	6,334	6,334	
910.111	CEMENT & CEMENTING SERVICES	584	584	4,500	1,538	24
910.112	ENG. & GEOL. SUPERVISION	4,505	4,505	800	6,388	798-
910.114	OTHER CONTRACT SERVICES	3,313	3,313	600	584	
910.115	TRANSPORTATION & TRUCKING	6,023	6,023	600	3,905	651-
910.118	ADMINISTRATIVE OVERHEAD	3,209	3,209	1,000	2,313	231-
910.130	MUD LOGGING	769	769	3,600	2,423	67-
910.140	ELECTRIC LOGS	303	303	6,500	3,291	51
910.155.1	INSURANCE - GEN LIAB INS			3,900	3,769	92
910.175	MISCELLANEOUS DRILLING COSTS	98,133	98,133	81,725	3,597	20-
	<b>TOTAL INTANGIBLE DRILLING COST</b>				16,406	

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COST TYPE	ACCOUNT DESCRIPTION	ACTUALS CURRENT	TO DATE	TOTAL AFE	REMAINING AFE AMOUNT	%
TE TANGIBLE EQUIPMENT						
930.102	LOCATION & ROAD COSTS	875		3,825	875	9-
930.299	SURFACE CASING	4,172		28,050	347	26-
930.301	PRODUCTION CASING	35,415		8,160	7,365	6-
930.302	PRODUCTION TUBING	8,678		7,185	1,688	23
930.303.1	SUCKER RODS	5,497		500	93	19-
930.304.1	CASINGHEAD	593		1,600	872	54
930.304.2	TUBINGHEAD	728				
930.304.4	WELLHEAD EQUIPMENT - OTHER	1,058		4,500	1,058	94-
930.305	LINE PIPE	8,730		4,800	127	3
930.306	INSTALLATION CHARGES	4,673		22,000	9,400	43-
930.307	PUMPING EQUIPMENT & ENGINES	31,400		5,058	3,981	
930.309	NON-CONTROLLABLE EQUIPMENT	5,058				
930.310	HEATERS, TREATERS & SEPARATORS	3,981				
930.312	OTHER EQUIPMENT	1,652				
TOTAL	TANGIBLE EQUIPMENT	112,510		80,620	31,890	39-
AFE TOTAL		301,069		212,545	88,521	42-

COST TYPE	ACCOUNT DESCRIPTION	CURRENT	ACTUALS TO DATE	TOTAL AFE	REMAINING AFE AMOUNT	%
<b>ICC INTANGIBLE COMPLETION COST</b>						
920.102	LOCATION & ROAD COSTS	1,049		2,000	951	48
920.107.2	FUEL COSTS			1,250	1,250	100
920.107.3	WATER COSTS	5,637		1,250	4,407	353
920.108	EQUIPMENT RENTALS	1,548			1,548	
920.111	CEMENT & CEMENTING SERVICES	8,349		4,200	4,149	99
920.112	ENG & GEOL SUPERVISION	3,620		4,750	1,130	24
920.114	OTHER CONTRACT SERVICES	191			191	
920.115	TRANSPORTATION & TRUCKING	439		2,000	1,561	78
920.201	COMPLETION UNIT COSTS	6,679		7,500	821	11
920.202	STIMULATION & PERFORATION	29,996		30,300	4,304	14
920.204	ADMINISTRATIVE OVERHEAD	1,439		2,400	961	40
920.205	MISCELLANEOUS COMPLETION COSTS			7,000	7,000	100
	<b>TOTAL INTANGIBLE COMPLETION COST</b>		54,968	62,650	7,683	12
<b>IDC INTANGIBLE DRILLING COST</b>						
910.101	DAMAGES & LOSSES	3,000		3,000	3,000	
910.102	LOCATION & ROAD COSTS	4,035			1,035	34
910.103.2	FOOTAGE DRILLING CONTRACT	41,143		41,200	57	
910.103.3	DAYWORK DRILLING CONTRACT	7,438		3,500	3,938	113
910.106	MUD & CHEMICALS	2,241		3,000	759	25
910.107.2	FUEL COSTS			2,000	2,000	100
910.107.3	WATER COSTS			2,000	2,000	100
910.108	EQUIPMENT RENTAL	2,064			2,064	
910.109	CORING, TESTING & LOGGING			900	900	100
910.111	CEMENT & CEMENTING SERVICES	898		1,800	942	52
910.112	ENG & GEOL SUPERVISION	4,262		1,500	2,762	184
910.114	OTHER CONTRACT SERVICES	1,074			1,074	
910.115	TRANSPORTATION & TRUCKING			2,000	2,000	100
910.118	ADMINISTRATIVE OVERHEAD	1,543		1,000	543	54
910.125	BITS, COREHEADS & REAMERS			400	400	100
910.130	MUD LOGGING			2,200	1,851	84
910.140	ELECTRIC LOGS	4,051		2,000	4,790	240
910.145	DRILL STEM & FORMATION TESTING	6,790			1,561	
910.195.1	INSURANCE - GEN LIAB INB	1,561			300	
910.175	MISCELLANEOUS DRILLING COSTS	300		6,000	6,000	100
	<b>TOTAL INTANGIBLE DRILLING COST</b>		80,380	72,500	7,880	11

WELL: NMO110-AMOCO FEDERAL #10  
 DATE: 09/16/86  
 DIST: COST CENTER  
 STATUS: ACTIVE  
 APPROVAL DATE:

AFE200  
DRILL & COMPLETE - DEV. WELLS  
THROUGH 06/30/88

AFE # 216  
DESC AMOCO FEDERAL #10  
WELL NMO110 AMOCO FEDERAL #10  
DIST  
COST CENTER  
DATE: 09/15/86  
STATUS: ACTIVE  
APPROVAL DATE:

COST TYPE	ACCOUNT DESCRIPTION	CURRENT	ACTUALS TO DATE	TOTAL AFE	REMAINING AFE -- AMOUNT	REMAINING AFE -- %
<b>TE TANGIBLE EQUIPMENT</b>						
930.110	SURFACE CASING	3,910		2,925	885	30-
930.301	PRODUCTION CASING	25,187		19,313	5,874	30-
930.302	PRODUCTION TUBING	6,377		7,938	1,561	20
930.303	SUCKER RODS & DOWNHOLE PUMPS			7,485	7,485	100
930.303.1	SUCKER RODS	5,825			5,825	
930.303.2	DOWNHOLE PUMPS	1,538			1,538	
930.304	WELLHEAD EQUIPMENT			2,600	2,600	100
930.304.1	CASINGHEAD	980			980	
930.304.4	WELLHEAD EQUIPMENT - OTHER	2,919			2,919	
930.305	LINE PIPE	1,788		3,000	1,212	40
930.306	INSTALLATION CHARGES	6,120		5,800	320	6-
930.307	PUMPING EQUIPMENT & ENGINES	15,059		30,700	15,641	51
930.308	STORAGE TANKS & FITTINGS			8,200	8,200	100
930.309	NON-CONTROLLABLE EQUIPMENT	464			464	
930.310	HEATERS, TREATERS & SEPARATORS			4,800	4,800	100
930.312	OTHER EQUIPMENT			9,000	9,000	100
	<b>TOTAL TANGIBLE EQUIPMENT</b>	70,067		101,761	31,694	31
	<b>AFE TOTAL</b>	205,415		236,911	31,497	13
	<b>COMPANY TOTALS</b>	12,147	1,223,344	1,034,058	189,283	

RESERVES AND ECONOMICS  
AS OF OCT 1, 1988

ID CODE : NM-01-UNDEV

NAME : AMOCO-RED BLUFF-FED DEV. WELL PRESENT ROYALTY RATE  
FIELD : BRUSHY DRAW (DELAWARE)  
CNTY, STATE: EDDY, NM  
FORMATION :  
OPERATOR : MALLOW OIL CO

PROFITABILITY INDICATORS  
PAYOUT : 3.6 YRS BTAX  
DCFROR : 11.2% BTAX  
RI-BTAX: 1.2 TO 1 UNDISC 1.0 TO 1 DISC  
NPV 5.0% 26.924 BTAX  
NPV 10.0% 4.835 BTAX  
NPV 15.0% -13.292 BTAX  
NPV 25.0% -41.177 BTAX  
NPV 30.0% -52.104 BTAX

WI	ORI	GRI	DATE	WELL COUNT		BEG-PRICES		END-PRICES	AVG-PRICES	GROSS RESERVES		
100.00000	70.00000	70.00000	OCT 1988	GROSS	NET	OIL	15.00	15.00	15.00	CUMULATIVE	REMAINING	
				0	1	1.00	GAS 0.90	0.90	0.90	OIL (MBBLS)	0.000	52.201
				G	0	0.00				GAS (MMCF)	0.000	234.903

	GROSS PROD OIL + COND	GROSS GAS PRODUCTION	NET PROD OIL + COND	NET GAS PRODUCTION	EFFECTIVE OIL PRICE	EFFECTIVE GAS PRICE	NET TOTAL REVENUE	NET LEASE OPER EXP	NET ADVAL TAXES	NET SEV TAXES
	---MBBLS---	---MMCF---	---MBBLS---	---MMCF---	---\$/BBL---	---\$/MCF---	---M\$---	---M\$---	---M\$---	---M\$---
( 3MO)1988	6.808	30.636	4.766	21.445	15.000	0.900	90.786	6.615	0.908	9.788
1989	13.416	60.370	9.391	42.259	15.000	0.900	178.897	26.460	1.789	19.287
1990	7.523	33.855	5.266	23.699	15.000	0.900	100.325	26.460	1.003	10.816
1991	5.468	24.607	3.828	17.225	15.000	0.900	72.920	26.460	0.729	7.861
1992	4.373	19.677	3.061	13.774	15.000	0.900	58.309	26.460	0.583	6.286
1993	3.679	16.557	2.575	11.590	15.000	0.900	49.063	26.460	0.491	5.289
1994	3.196	14.383	2.237	10.068	15.000	0.900	42.621	26.460	0.426	4.595
1995	2.838	12.771	1.987	8.940	15.000	0.900	37.845	26.460	0.378	4.080
1996	2.561	11.522	1.792	8.066	15.000	0.900	34.145	26.460	0.341	3.681
1997	2.338	10.523	1.637	7.366	15.000	0.900	31.184	26.460	0.312	3.362
1998										
1999										
2000										
2001										
2002										
SUB TOTAL	52.201	234.902	36.540	164.432	15.000	0.900	696.094	244.755	6.961	75.046
REMAINDER	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
TOT 9.3 YR	52.201	234.902	36.540	164.432	15.000	0.900	696.094	244.755	6.961	75.046

	WINDFALL PROFITS TAX	NET OPER REVENUE	NET TOTAL INVESTMENT	BTAX CASHFLOW	BTAX CF DISC 15.00%	TAX DEPLETION	TAX DEPREC	INCOME TAXES PAID	ATAX CASHFLOW	ATAX CF DISC 15.00%
	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---
( 3MO)1988	0.000	73.475	315.000	-241.525	-239.461	0.000	0.000	0.000	-241.525	-239.461
1989	0.000	131.361	0.000	131.361	119.043	0.000	0.000	0.000	131.361	119.043
1990	0.000	62.046	0.000	62.046	48.652	0.000	0.000	0.000	62.046	48.652
1991	0.000	37.869	0.000	37.869	25.786	0.000	0.000	0.000	37.869	25.786
1992	0.000	24.980	0.000	24.980	14.784	0.000	0.000	0.000	24.980	14.784
1993	0.000	16.823	0.000	16.823	8.658	0.000	0.000	0.000	16.823	8.658
1994	0.000	11.140	0.000	11.140	4.987	0.000	0.000	0.000	11.140	4.987
1995	0.000	6.926	0.000	6.926	2.699	0.000	0.000	0.000	6.926	2.699
1996	0.000	3.662	0.000	3.662	1.245	0.000	0.000	0.000	3.662	1.245
1997	0.000	1.050	0.000	1.050	0.316	0.000	0.000	0.000	1.050	0.316
1998										
1999										
2000										
2001										
2002										
SUB TOTAL	0.000	369.333	315.000	54.333	-13.292	0.000	0.000	0.000	54.333	-13.292
REMAINDER	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
TOT 9.3 YR	0.000	369.333	315.000	54.333	-13.292	0.000	0.000	0.000	54.333	-13.292

BEFORE THE  
OIL COMMISSION

Case No. 9458  
15

Examined by \_\_\_\_\_  
Hearing Date \_\_\_\_\_

EVALUATION #15 IN PROJECT FILE "COXPF " 09/23/88 14:24:04

10 IDENT "NM-01-UNDEV  
20 DATES OCT 1988 OCT 1988  
30 NAME "AMOCO-RED BLUFF-FED DEV. WELL "  
40 FIELD "BRUSHY DRAW (DELAWARE) "  
50 CNTYSTATE "EDDY, NM "  
60 OPERATOR "MALLON OIL CO "  
70 TITLE? "PRESENT ROYALTY RATE "

90 OWNERSHIP 1. 0.7

100 ECONOMICS ELIM

110 WELLCOUNT 1 0 0

120 OPROD OCT 1988 HYP:1.3 3000. \* \* 70.48

130 GOR \* CON 4.5

140 PROIL \* CON 15.

150 LSEVPS \* CON 7.9

160 GSEVPS \* CON 3.34

170 GSEVDM \* CON 0.163

180 AVALPS \* CON 1.

190 LOEDW \* CON 2205.

200 PRGAS \* CON 0.9

220 INTAN \* MON 315000.

RESERVES AND ECONOMICS  
AS OF OCT 1, 1988

PROFITABILITY INDICATORS

ID CODE : NM-01-UDEV

PAYOUT :	2.1 YRS	BTAX
DCFRROR :	33.8%	BTAX
RI-BTAX:	1.5 TO 1 UNDISC	1.2 TO 1 DISC
NPV 5.0%	125.802	BTAX
NPV 10.0%	92.285	BTAX
NPV 15.0%	65.506	BTAX
NPV 25.0%	25.517	BTAX
NPV 30.0%	10.216	BTAX

NAME : AMOCO-RED BLUFF-FEDERAL WELL WITHOUT EXCESS ROYALTY  
FIELD : BRUSHY DRAW (DELAWARE)  
CNTY, STATE: EDDY, NM  
FORMATION :  
OPERATOR : MALLON OIL CO

WI	ORI	GRI	DATE	WELL COUNT			BEG-PRICES	END-PRICES	AVG-PRICES	GROSS RESERVES		
100.00000	82.50000	82.50000	OCT 1988	GROSS	NET		OIL 15.00	15.00	15.00	CUMULATIVE	REMAINING	
				0	1	1.00	GAS 0.90	0.90	0.90	OIL (MMBLS)	0.000	56.840
				G	0	0.00				GAS (MMCF)	0.000	255.782

	GROSS PROD OIL + COND	GROSS GAS PRODUCTION	NET PROD OIL + COND	NET GAS PRODUCTION	EFFECTIVE OIL PRICE	EFFECTIVE GAS PRICE	NET TOTAL REVENUE	NET LEASE OPER EXP	NET ADVAL TAXES	NET SEV TAXES
	---MMBLS---	---MMCF---	---MMBLS---	---MMCF---	---\$/BBL---	---\$/MCF---	---M\$---	---M\$---	---M\$---	---M\$---
( 3MO)1988	6.808	30.636	5.617	25.275	15.000	0.900	106.998	6.615	1.070	11.535
1989	13.416	60.370	11.068	49.805	15.000	0.900	210.842	26.460	2.108	22.731
1990	7.523	33.855	6.207	27.931	15.000	0.900	118.240	26.460	1.182	12.747
1991	5.468	24.607	4.511	20.301	15.000	0.900	85.942	26.460	0.859	9.265
1992	4.373	19.677	3.607	16.233	15.000	0.900	68.721	26.460	0.687	7.409
1993	3.679	16.557	3.035	13.659	15.000	0.900	57.824	26.460	0.578	6.234
1994	3.196	14.383	2.637	11.866	15.000	0.900	50.232	26.460	0.502	5.416
1995	2.838	12.771	2.341	10.536	15.000	0.900	44.603	26.460	0.446	4.809
1996	2.561	11.522	2.112	9.506	15.000	0.900	40.242	26.460	0.402	4.338
1997	2.338	10.523	1.929	8.682	15.000	0.900	36.752	26.460	0.368	3.962
1998	2.156	9.703	1.779	8.005	15.000	0.900	33.889	26.460	0.339	3.654
1999	2.004	9.017	1.653	7.439	15.000	0.900	31.492	26.460	0.315	3.395
( 3MO)2000	0.480	2.160	0.396	1.782	15.000	0.900	7.542	6.615	0.075	0.813
2001										
2002										
SUB TOTAL	56.840	255.782	46.893	211.020	15.000	0.900	893.320	304.290	8.933	96.308
REMAINDER	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
TOT 11.5 YR	56.840	255.782	46.893	211.020	15.000	0.900	893.320	304.290	8.933	96.308

	WINDFALL PROFITS TAX	NET OPER REVENUE	NET TOTAL INVESTMENT	BTAX CASHFLOW	BTAX CF DISC 15.00%	TAX DEPLETION	TAX DEPREC	INCOME TAXES PAID	ATAX CASHFLOW	ATAX CF DISC 15.00%
	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---
( 3MO)1988	0.000	87.777	315.000	-227.223	-225.469	0.000	0.000	0.000	-227.223	-225.469
1989	0.000	159.543	0.000	159.543	144.534	0.000	0.000	0.000	159.543	144.534
1990	0.000	77.850	0.000	77.850	61.021	0.000	0.000	0.000	77.850	61.021
1991	0.000	49.357	0.000	49.357	33.592	0.000	0.000	0.000	49.357	33.592
1992	0.000	34.165	0.000	34.165	20.207	0.000	0.000	0.000	34.165	20.207
1993	0.000	24.552	0.000	24.552	12.624	0.000	0.000	0.000	24.552	12.624
1994	0.000	17.854	0.000	17.854	7.983	0.000	0.000	0.000	17.854	7.983
1995	0.000	12.888	0.000	12.888	5.012	0.000	0.000	0.000	12.888	5.012
1996	0.000	9.041	0.000	9.041	3.059	0.000	0.000	0.000	9.041	3.059
1997	0.000	5.963	0.000	5.963	1.756	0.000	0.000	0.000	5.963	1.756
1998	0.000	3.436	0.000	3.436	0.882	0.000	0.000	0.000	3.436	0.882
1999	0.000	1.322	0.000	1.322	0.298	0.000	0.000	0.000	1.322	0.298
( 3MO)2000	0.000	0.039	0.000	0.039	0.008	0.000	0.000	0.000	0.039	0.008
2001										
2002										
SUB TOTAL	0.000	483.788	315.000	168.788	65.506	0.000	0.000	0.000	168.788	65.506
REMAINDER	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
TOT 11.5 YR	0.000	483.788	315.000	168.788	65.506	0.000	0.000	0.000	168.788	65.506

EVALUATION #16 IN PROJECT FILE "COXPF " 09/23/88 14:24:15

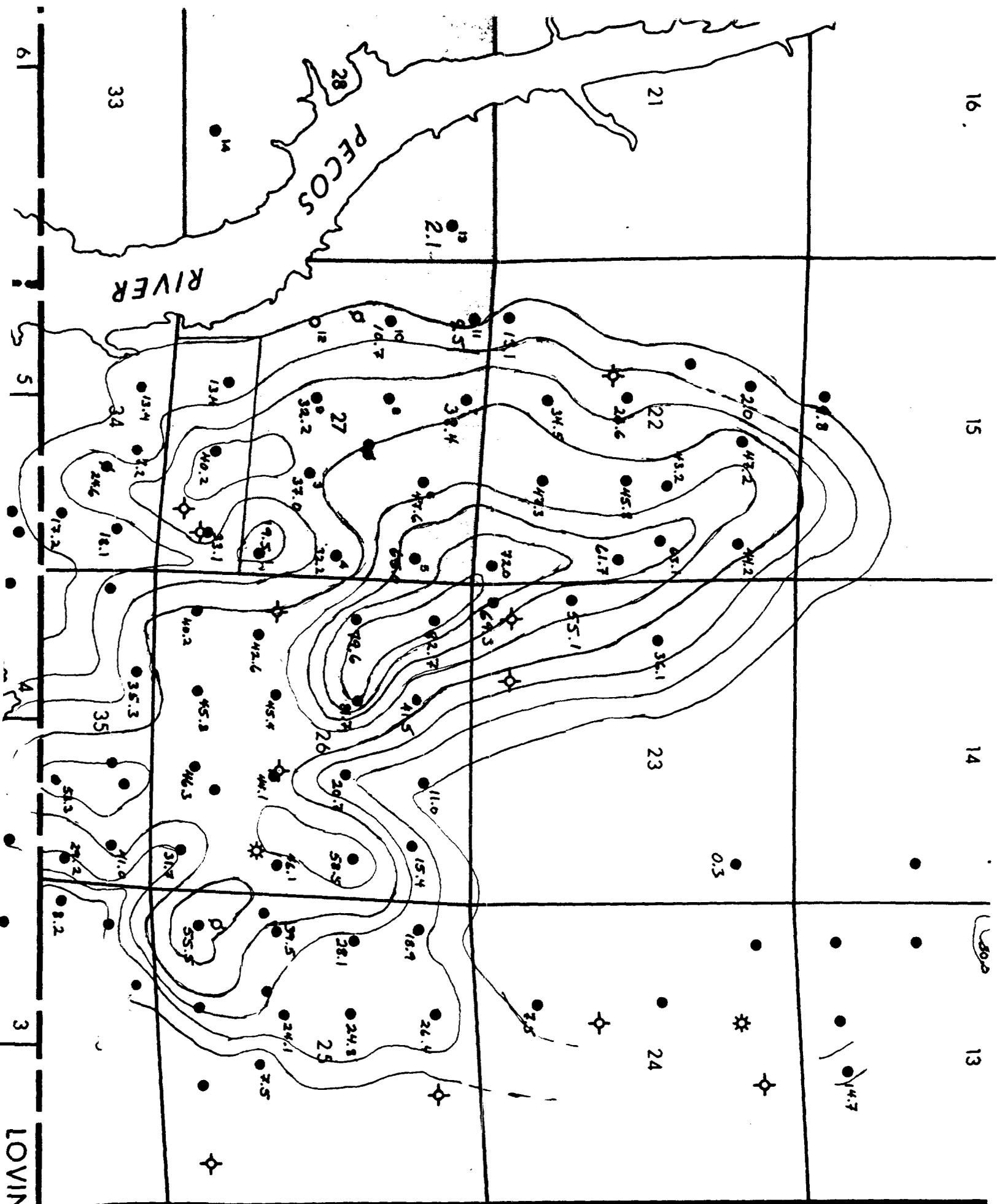
10 IDENT "NM-01-UDEV  
20 DATES OCT 1988 OCT 1988  
30 NAME "AMOCO-RED BLUFF-FEDERAL WELL "  
40 FIELD "BRUSHY DRAW (DELAWARE) "  
50 CNTYSTATE "EDDY, NM "  
60 OPERATOR "MALLON OIL CO "  
70 TITLE1 "WITHOUT EXCESS ROYALTY "

90 OWNERSHIP 1. 0.825

100 ECONOMICS ELIM

110 WELLCOUNT 1 0 0

120 OPROD OCT 1988 HYP:1.3 3000. \* \* 70.48  
130 GOR \* CON 4.5  
140 PROIL \* CON 15.  
150 LSEVPS \* CON 7.9  
160 GSEVPS \* CON 3.34  
170 GSEVDM \* CON 0.163  
180 AVALPS \* CON 1.  
190 LOEDW \* CON 2205.  
200 PRGAS \* CON 0.9  
220 INTAN \* MON 315000.



OIL FIELD REG  
 OIL FIELD REGISTRATION  
 9758  
 Submitted by \_\_\_\_\_  
 Hearing Date \_\_\_\_\_

Iso - Cumulative  
 Oil Production  
 Williamson Sd. Reservoir  
 Through Dec. 1987

C.I. = 10,000 Bbl  
 Data Points MBbl

EDDY CO.

LOVING CO. 2

31

30

16  
15  
14  
13  
18

21  
22  
23  
24  
19

2.1

33

RIVER

PECOS

6  
5  
4  
3  
2