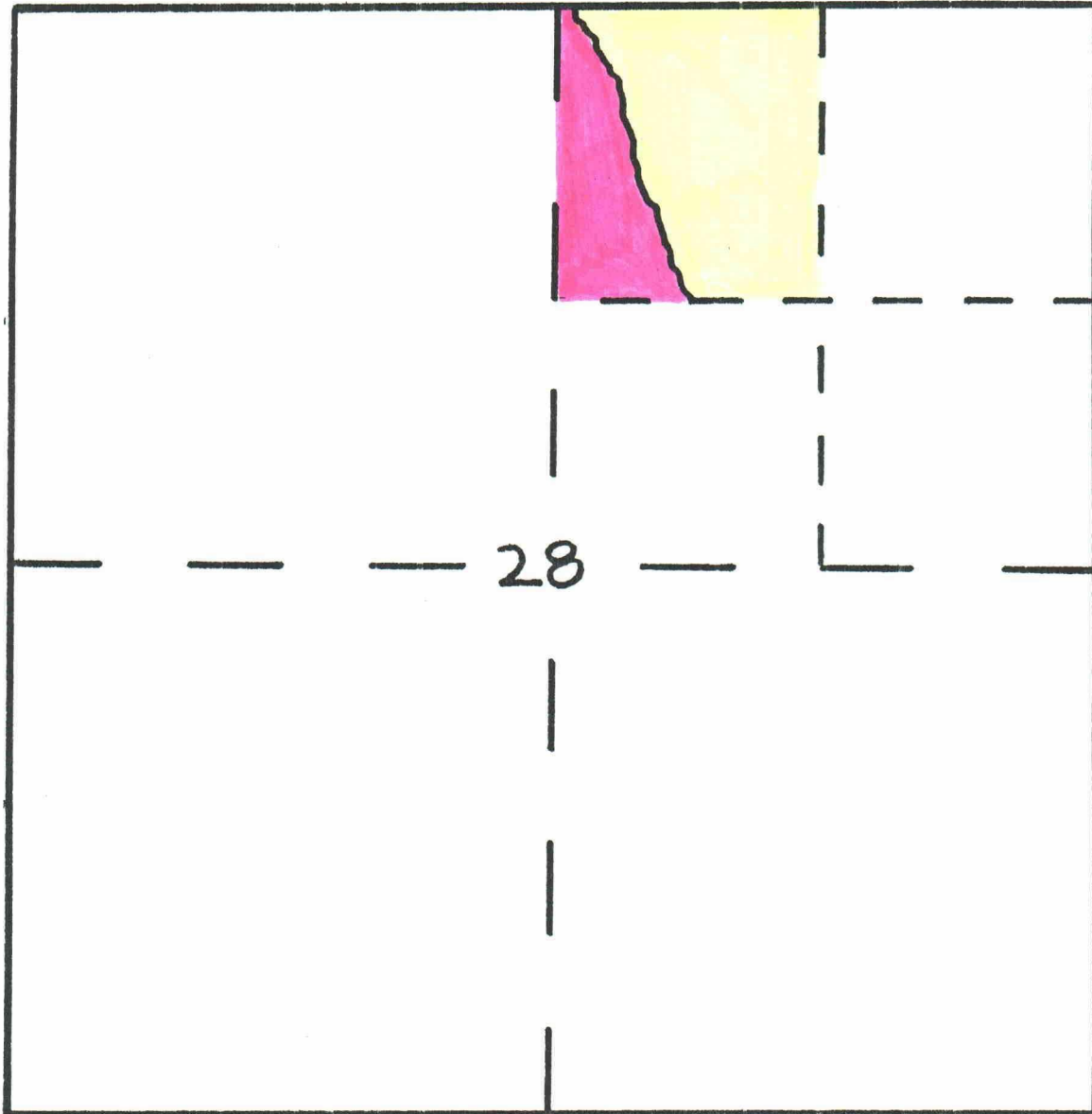


AMOCO-RED BLUFF FEDERAL #3 WELL

LOCATED IN THE NW/4 NE/4 OF SECTION 28

TOWNSHIP 26 SOUTH, RANGE 29 EAST, NMPM

EDDY COUNTY, NEW MEXICO



Federal Lease NM NM-71599

Record Title - Red Bluff Water Power Control District

Operating Rights - G.P. II Energy, Inc.

11.384 acres within the 40 acre spacing unit

28.46% of the Amoco-Red Bluff Federal #3 well



Federal Lease NM-38636

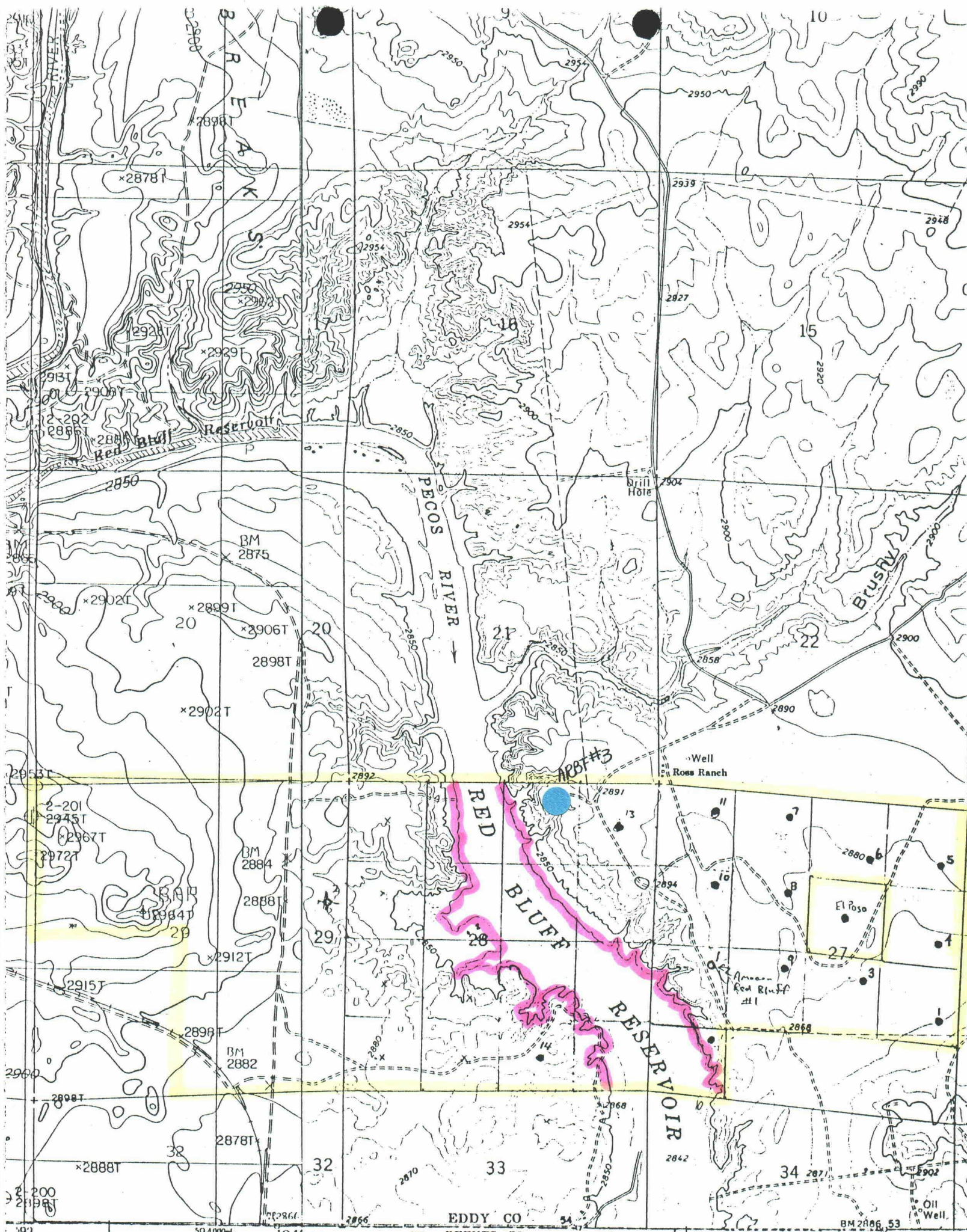
Record Title - Amoco Production Company

Operating Rights - Mallon Oil Company, et al.

28.616 acres within the 40 acre spacing unit

71.54% of the Amoco-Red Bluff Federal #3 well





Phone and Conversation Log

Joe Cox - Re: Amoco-Red Bluff-Federal #3

7-21-89 Terry Lewis - called to discuss Amoco-Federal #2 dry hole in SENE Sec 29, T265,R29E.

8-03-89 George Reubleman - Archeologist for BLM Carlsbad - called - He had not received archeological survey for ARBF #3 APD.

8-07-89 Jim Hart - Pecos Archeological - Has been busy, will complete report and send to BLM.

8-11-89 George Reubleman (BLM) - Going to well site (original stake) today to assess archeological find. He will call with recommendation on what can be done.

8-17-89 Attempted calling Terry Lewis (George Mitchell II) returning his call. Left message on answering machine at George Mitchell's phone number.

8-21-89 George Reubleman (BLM) - Will need to move stake 100-200' North and East to avoid archeological problems.

9-07-89 Barry Hunt - (BLM) Will meet with George Reubleman and John West Engineering today at well site to re-survey.

11-27-89 Mike Stogner (NMOCD) - Called with authorization number for non-standard location - NSL 2716.

12-09-89 Discussion with Karen McClintock - George Mitchell will not be participating in ARBF#3. Karen leaving town for two weeks.

12-14-89 George Mitchell - Called him to find out where his discussions with Karen McClintock had left off. He said he had offered 75% NRI Farmout. He is waiting for her to send an agreement if accepted.

12-15-89 Robert Mclosky - JSM O&G - Decided not to send royalty reduction proposed back approved. They would be interested in discussing another form of royalty reduction proposal allowing them to come back in for their full royalty after some multiple of pay out.

12-19-89 Began calling partners to try to distribute Mitchell interest to allow well to be drilled.

12-21-89 Called CapStar Drilling on rig availability

12-21-89 Calling partners on working interest allocations.

12-22-89 Calling partners on working interest allocations.

12-22-89 Called Jim Burleson to start dirt work on well-site.
He will start Tuesday (12-26-89). Work should take
2-3 days.

12-22-89 Called Frank's Rat Hole Service to have conductor set
around 12-29-89.

12-22-89 Notified BLM (Adam Salam) that dirt work would begin
12-26-89.

12-27-89 Finished calls to partners regarding allocation of
Mitchell interest.

12-28-89 Rob Hobson - CapStar Drilling - Called to say rig
should be available around January 6.

- Other calls were made and not recorded during this
period including a conversation with Terry Lewis
around 9-08-89 in which a phone meeting was set up for
10:00 a.m. on 9-12-89 to discuss our concerns about
their AFE. George Mitchell and Terry Lewis were to
call and did not. Several other calls were made
regarding the actual drilling of the well.

Force Pooling Amoco-Red Bluff #3 well
Karen E. McClintock's notes

2/2/89

Contacted Mr. Fuller with Red Bluff and offered a 5% ORRI on the Amoco-Red Bluff #2 (the 30 day time period had lapsed for AFE response). Mr. Fuller said that the committee is meeting on the 13th and he would contact me after the meeting.

2/20/89

Mr. Fuller called to tell me that the 5% was unacceptable. Red Bluff looking to put together a block in 27 & 28 and would we be interested? I told him that MOC would be interested but not with a heavy burden. Mr. Fuller said that a 10% would probably be acceptable to the committee. I explained that MOC was not exactly thrilled with the production in Pecos River and a 10% ORRI would not allow for a high enough NRI for us to justify drilling. I also explained that if we can't reach a compromise, we would have to force-pool, which we would prefer to avoid.

3/29/89

Called and talked with Jim Ed Miller (new General Manager) told him we would still like to offer a 5% on one drillsite, but if they would farm-out the entire Red Bluff acreage position in Sections 27 & 28 we would give them a 7.5% ORRI with a 180 day continuous drilling commitment, tied to Amoco Farmout.

The committee meets every second Monday of the month (April 10th) Mr. Miller indicated that a 10% ORRI would be the best they could do.

4/17/89

Mr. Fuller called. Still want a 10% ORRI. Possibly two packages put together, one for 27 & 28 and another for the remainder.

5/4/89

Mr. Fuller called. Will sit for now with our offer. Will try to sell but will not be forced-pooled. I explained that we will have to initiate a force-pooling by later part of June, due to our deadline with Amoco. He requested the expenses for the Amoco-Red Bluff #1 well.

6/12/89

Mr. Fuller and Mr. Miller called to let me know that they would not execute the C/A for the Amoco-Red Bluff #1 well, pursuant to their attorney's request. I reached their attorney, Bill Kerr (915)683-3291 and explained what needed to be done. C/A executed. Offered 5% on one well and 7.5% on all locations.

6/28/89

Jim Ed Miller requested costs for #1 well.

6/30/89

Mr. Fuller called. Farmed-out to:
G.P. II Energy, Inc.
Box 50682
Midland, TX 79710
(915)684-4748 - George P. Mitchell II

A six month continuous drilling clause indicated.
Attorney firming up deal.

7/10/89

Called Mr. Mitchell. Explained the situation, as to our deadline. He indicated willingness to participate in the well, but needed an AFE and Operating Agreement. We discussed operations, but I told Mr. Mitchell that we wanted to maintain operations. Mailed an AFE and Operating Agreement for the well on the 12th of July.

I had another phone call with Mr. Mitchell concerning the Non-consent penalty for Operating Agreement. Explained that 400% the same as the other Agreements with our Working Interest Partners. He expressed a desire to meet with Joe Cox and myself to discuss the AFE cost (too high) Would we be willing to give up operations? Would be happy to meet and listen to their ideas and suggestions.

11/28/89

Mailed out new AFE to Mitchell for #3 well, with new location.

12/5/89

Mitchell called to let me know that he would not participate, wanted to Farm-out the interest. I expressed my surprise at the decision, as the meeting with him and Terry Lewis, he said that he would participate regardless of the Operator issue. I told him to put it in writing, with a proposal.

12/26/89

Called Mitchell to let him know that the 75% NRI too low. I wanted to know if he could go back to Red Bluff and see if they would ease up on their ORRI, in order to deliver an 83% NRI. Mr. Mitchell told me he had tried to talk with Red Bluff, but it was no use. I clarified his reasons for not participating were because the AFE was too high and they wanted to drill the #2 location rather than the #3. I explained that I would talk with my people as to a solution to the problem.

12/29/89

Called Mitchell to let him know that we are force-pooling the Red Bluff Interest.

	A	B	C	E	F	G
1	PROSPECT:	PECOS RIVER			DATE PREPARED: 12/27/89	
2	WELL NAME:	ANTOCO-RED BLUFF #3 FEDERAL				
3	LOCATION:	NW/4 NE/4 SEC. 28-126S R29E				
4	COUNTY/STATE:	EDDY COUNTY, NEW MEXICO				
5	FORMATION:	BRUSHY CANYON				
6						
7						
8						
9		NON-CONSENT CALCULATIONS				
10		WORKING INTEREST OWNERS				
11						
12		BEFORE PAYOUT				
13						
14						
15						
16						
17	WORKING INTERESTS:	ORIGINAL WI	FINAL WI			
18	MALLON OIL COMPANY	0.2638753	0.5399841			
19	CHARLES SIMMONS	0.0447125	0.0800000			
20	WELDON ASTON	0.0447125	0.0800000			
21	WES-TEX DRILLING COMPANY	0.0447125	0.0447125			
22	STAR PRODUCTION INC.	0.0197468	0.0404091			
23	KERCO INC.	0.1362998	0.1362998			
24	AN OIL COMPANY	0.0500780	0.0000000			
25	PILOT ENERGY 1985 LTD.	0.0447125	0.0447125			
26	JAY EASLEY	0.0111781	0.0178570			
27	ESTATE OF ROBERT A. MITCHEM	0.0160250	0.0160250			
28	ENERGY INVESTORS 1986 LTD. PARTNERSHIPS	0.0178850	0.0000000			
29	DENNIS JOHNSTON	0.0214620	0.0000000			
30	GEORGE MITCHELL, JR.	0.2846000	0.0000000			
31						
32	TOTAL WORKING INTEREST:	1.0000000	1.0000000			

RECEIVED FEB 01 1990

RECEIVED FEB 01 1990

PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 212

P.O. BOX 2523

SANTA FE, NEW MEXICO 87504-2523

ERNEST L. PADILLA
MARY JO SNYDER

FAX 988-7592
AREA CODE 505

(505) 988-7577

January 30, 1990

HAND-DELIVERED

William F. Carr, Esq.
Campbell & Black
P. O. Box 2208
Santa Fe, New Mexico 87501

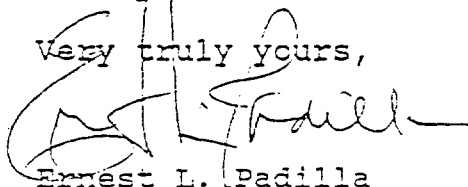
Re: Mallon OCD Application
Case No. 9867

Dear Mr. Carr:

Enclosed are portions of Compensated Neutron Formation Density and Dual Laterolog logs for the east offset to Mallon's proposed well.

Should you have any questions please let me know.

Very truly yours,



Ernest L. Padilla

ELP/mg
Enclosures as stated
cc: Mallon Oil Company

CAMPBELL & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
WILLIAM R. SLATTERY
PATRICIA A. MATTHEWS

JEFFERSON PLACE
SUITE 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4442
TELECOPIER: (505) 983-6043

January 11, 1990

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

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

Attn: Joe Cox

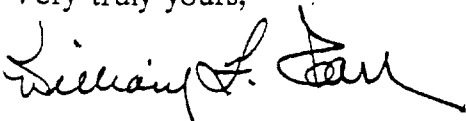
Re: Application of George Mitchell d/b/a G.P. II Energy, Inc. for Compulsory
Pooling, Eddy County, New Mexico

Gentlemen:

This letter is to advise you that George Mitchell d/b/a G.P. II Energy, Inc. has filed an application with the New Mexico Oil Conservation Division seeking an order force pooling of all mineral interests from the surface to the base of the Cherry Canyon formation for any and all formations and/or pools developed on 40-acre spacing, in and under the NW/4 NE/4 of Section 28, Township 26 South, Range 29 East, N.M.P.M., Eddy County, New Mexico. George Mitchell d/b/a G.P. II Energy, Inc. proposes to dedicate the referenced pooled unit to a well to be located at a standard location in the NW/4 NE/4 of said Section 28.

This application has been set for hearing before a Division Examiner on February 7, 1990. You are not required to attend this hearing, but as an owner of an interest that may be subject to pooling, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Very truly yours,



WILLIAM F. CARR
ATTORNEY FOR GEORGE MITCHELL d/b/a G.P. ENERGY, INC.
WFC:mlh

RECEIVED JAN 16 1990

PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 212

P.O. BOX 2523

SANTA FE, NEW MEXICO 87504-2523

ERNEST L. PADILLA
MARY JO SNYDER

FAX 988-7592
AREA CODE 505

(505) 988-7577

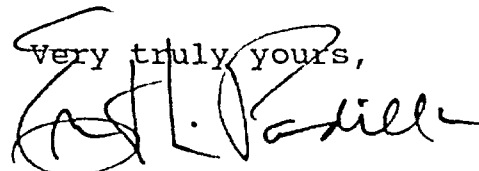
January 9, 1990

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TO: ALL NON-CONSENTING WORKING INTEREST OWNERS (See
attached list)

RE: Notice of Application for Compulsory Pooling, Red
Bluff Federal #3, Eddy County, New Mexico

Pursuant to the Rules and Regulations of the General Rules of the Oil Conservation Division of New Mexico, notice is hereby given of the above-referenced application. You may protest the enclosed application by appearing at the hearing of this application which will be heard on February 7, 1990, beginning at the hour of 8:15 a.m., at the offices of the Oil Conservation Division, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico.

Very truly yours,

Ernest L. Padilla

ELP:pmc
Enclosure: Copy of Application

173.18

NON-CONSENTING WORKING INTEREST OWNERS:
Red Bluff Water & Power Control District
111 W. 2nd Street
Pecos, Texas 79772

George P. Mitchell II
P. O. Box 50682
Midland, Texas 79710

SENDER: Complete Items 1 and 2 when additional services are desired, and complete Items 3 and 4.
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge) 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to: Red Bluff Water & Power Control District 111 W. 2nd Street Pecos, TX 79772	4. Article Number Type of Service: <input checked="" type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise Always obtain signature of addressee or agent and DATE DELIVERED.
5. Signature — Address X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X <i>Robin J. [Signature]</i>	
7. Date of Delivery 1-12-89	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

SENDER: Complete Items 1 and 2 when additional services are desired, and complete Items 3 and 4.
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge) 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to: George P. Mitchell II P. O. Box 50682 Midland, TX 79710	4. Article Number Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise Always obtain signature of addressee or agent and DATE DELIVERED.
5. Signature — Address X <i>George P. Mitchell II</i>	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X	
7. Date of Delivery 1-27-90	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 212

P.O. BOX 2523

SANTA FE, NEW MEXICO 87504-2523

ERNEST L. PADILLA
MARY JO SNYDER

FAX 988-7592
AREA CODE 505

(505) 988-7577

January 3, 1990

HAND DELIVERED

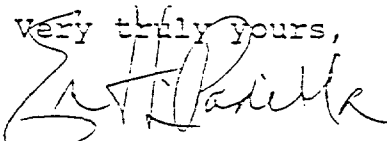
Mr. William J. LeMay, Director
New Mexico Oil Conservation Division
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Re: Force Pooling Application
Amoco Red Bluff Federal #3
Section 28-26S-29E
Eddy County, New Mexico

Dear Mr. LeMay:

Enclosed please find, in triplicate, Mallon Oil Company's Application for Compulsory Pooling for its Amoco Red Bluff Federal #3.

Very truly yours,



Ernest L. Padilla

ELP:pmc
Enclosure as stated
cc w/encl: Mallon Oil Company ✓

173.

BEFORE THE OIL CONSERVATION DIVISION

OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION)
OF MALLON OIL COMPANY COMPULSORY)
POOLING, EDDY COUNTY, NEW MEXICO)
_____)

CASE NO. _____

APPLICATION

COMES NOW, MALLON OIL COMPANY, by and through its attorneys, Padilla & Snyder, Attorneys At Law, and in support hereof, respectfully states:

1. Applicant has the right to drill its Amoco Red Bluff Federal #3 Well to test all formations and zones constituting the Delaware Mountain Group as an oil well, which is to be located at a standard location in the NW/4NE/4, Section 28, Township 26 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.

2. The applicant has dedicated the NW/4NE/4 of said section to this well, and there are interest owners in the proration unit who have not agreed to pool their interests.

3. Applicant should be designated the operator of the well and the proration unit.

CCPY

4. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in said unit, the opportunity to recover or receive without unnecessary expense, his just and fair share of the oil in said unit, all mineral interests, whatever they may be, in all formations and zones constituting the Delaware Mountain Group underlying the NW/4NE/4 of said Section 28 should be pooled.

5. That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, applicant prays that:


A. This application be set for hearing before an examiner and that notice of said hearing be given as required by law.

B. Upon hearing, the Division enter its order pooling all mineral interest, whatever they may be, from all

formations and zones constituting the Delaware Mountain Group underlying the NW/4NE/4 of said Section 28, Township 26 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, to form a 40-acre spacing unit dedicated to applicant's well.

C. And for such other relief as may be just in the premises.

MALLON OIL COMPANY

By: 
Ernest L. Padilla

PADILLA & SNYDER
P. O. Box 2523
Santa Fe, New Mexico 87504-2523

Attorneys for Applicant

173.18

Amoco-Red Bluff-Federal #3
NW/4 NE/4, Sec 28, T265, R29E
Eddy Co., New Mexico

February 6, 1990

Anticipated Drilling and Completion Costs:

Drilling to casing point	\$ 87,070
Completion costs	<u>157,725</u>
Total completed well costs	244,795

Administrative and Overhead costs:

During drilling	3,056.60/month
During completion	3,056.60/month
During production operations	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:

Operating expenses through July 1989 averaged \$2,441 per month, per well, excluding severance and advalorem taxes.

RECEIVED NOV 27 1980

SPECIAL DRILLING STIPULATIONS

THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

OPERATORS NAME NALLON OIL COMPANY 1805th Ave WELL NO. & NAME Amoco-Red Bluff Federal No. 3
 LOCATION 130 F N L & 1885 F E L SEC. 28, T. 26 S, R. 29 E.
 LEASE NO. NN-38636 COUNTY Eddy

The special stipulations check marked below are applicable to the above described well and approval of this application to drill is conditioned upon compliance with such stipulations in addition to the General Requirements. The permittee should be familiar with the General Requirements, a copy of which is available from a Bureau of Land Management office. EACH PERMITTEE HAS THE RIGHT OF ADMINISTRATIVE APPEAL TO THESE STIPULATIONS PURSUANT TO TITLE 43 CFR 3165.3 and 3165.4.

I. SPECIAL ENVIRONMENT REQUIREMENTS

- () Lesser Prairie Chicken (Stip attached) () Floodplain (Stip attached)
 () San Simon Swale (Stip attached) () Other _____

II. ON LEASE - SURFACE REQUIREMENTS PRIOR TO DRILLING

(x) The BLM will monitor construction of this drill site. Notify the Carlsbad Resource Area Office, BLM at least 2 working days prior to commencing construction at (505) 887-6544.

(x) Roads and the drill pad for this well must be surfaced with 4 inches of compacted Caliche.

() All topsoil and vegetation encountered during the construction of the drill site area will be stockpiled and made available for reurfacing of the disturbed area after completion of the drilling operation. Topsoil on the subject location is approximately _____ inches in depth. Approximately _____ cubic yards of topsoil material will be stockpiled for reclamation.

(x) Other Construct earthen berm around on pad area (see attached map).
V-door south. Reserve pits to the east!

III. DRILLING OPERATIONS REQUIREMENTS: Carlsbad Controlled Water Basin

The Bureau of Land Management office is to be notified at (505) 887-6544, in sufficient time for a representative to witness:

- (x) 1. Spudding (x) 2. Cement casing 8^{5/8} inch 5^{1/2} inch _____ inch
 () 3. BOP tests () Other _____

IV. CASING

(x) 8^{5/8}" surface casing should be set @ 2400' or below potable surface water and cement circulated to the surface. If cement does not circulate to the surface, this BLM office will be notified and a temperature survey or cement bond log will be run to verify the top of the cement. Remedial cementing will be done prior to drilling out of that string.

() ~~Minimum required fill of cement behind the~~ _____ ~~intermediate casing~~

(x) Minimum required fill of cement behind the 5^{1/2}" production casing is to lie back 250' into base of salt @ 2750'

RESERVE PIT CONSTRUCTION STANDARDS

The reserve pit will be constructed almost entirely in cut material and lined with 6 mil plastic.

The excavated material may be used for construction of the pad and access road as needed.

Reclamation: Reclamation of this type of deep pit will consist of pushing the pit walls into the pit when sufficiently dry to support track equipment. The pit liner is NOT TO BE RUPTURED to facilitate drying; a ten month period after completion of the well is allowed for drying of pit contents.

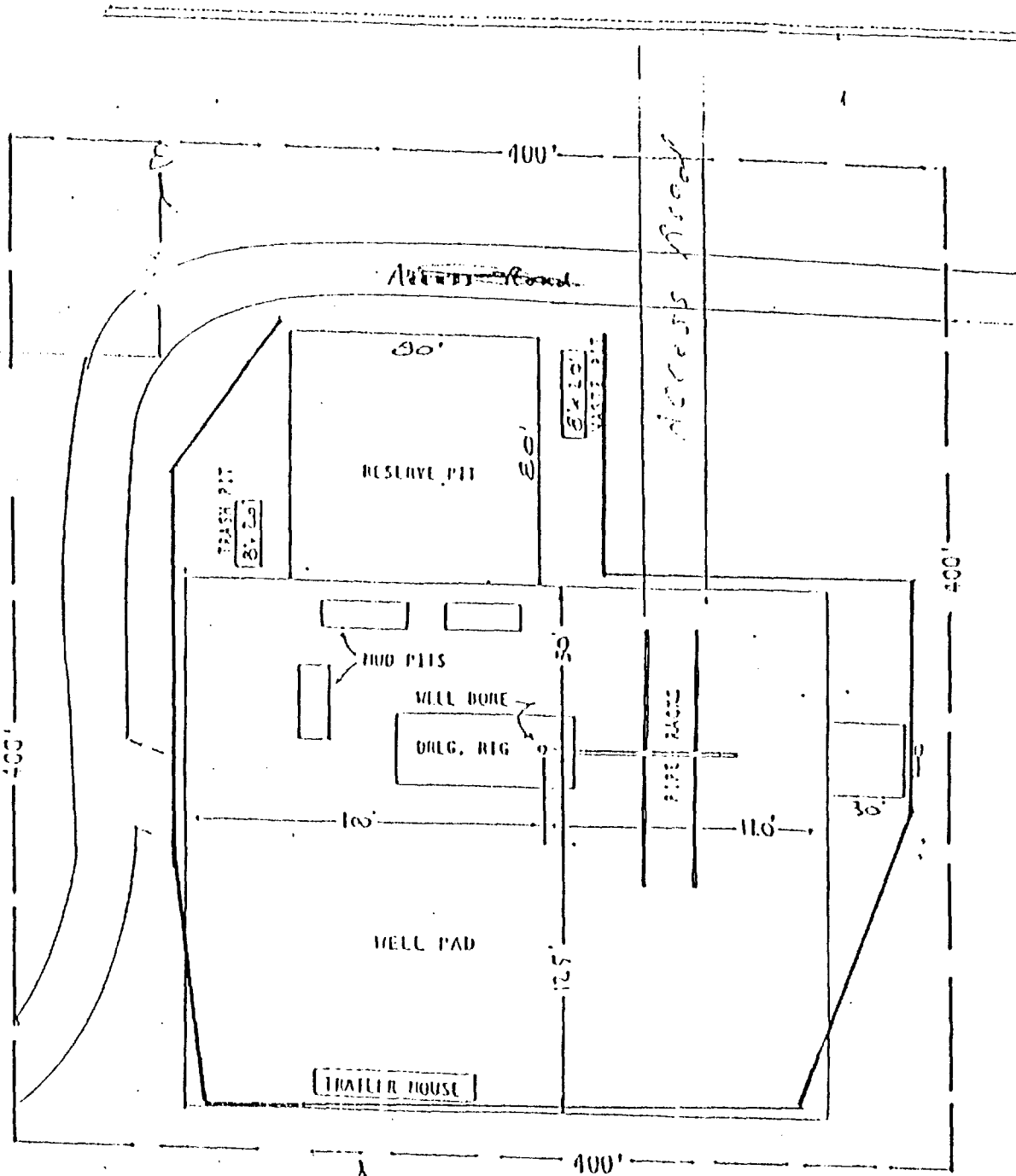
The pit area must be contoured to the natural terrain with all contaminated drilling mud buried with at least 3 feet of clean soil. The reclaimed area will then be seeded as specified in this permit.

Optional Pit Construction Standards

The reserve pit may be constructed in predominantly fill material if:

- 1) Lined as specified above and,
- 2) A borrow/caliche/gravel pit for road and pad surfacing is constructed immediately adjacent to the reserve pit and it is capable of containing all reserve pit contents.

Reclamation of the reserve pit will consist of bulldozing all reserve pit contents and contaminants into the borrow pit and covering with a minimum of 3 feet of clean soil material. The entire area must be recontoured, all trash removed, and reseeded as specified in this permit.



AREA ARCHAEOLOGICALLY CLEARED

= Berm to be constructed on and around pad + pit area

EXHIBIT "C"

Mallon Oil Company

Well No. 3 Amoco-Red Bluff-Federal

330' FNL & 1085' FEL, Sec. 28, T26S-R29E

Edwards County, West Virginia

OPERATOR'S COPY

Form 3160-3
(November 1983)
(formerly 9-331C)

SUBMIT IN TRIPPLICATE*
(Other instructions on
reverse side)

Form approved.
Budget Bureau No. 1004-0136
Expires August 31, 1985

UNITED STATES DEPARTMENT OF THE INTERIOR BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1A. TYPE OF WORK

DRILL ☒

DEEPEN ☐

PLUG BACK ☐

B. TYPE OF WELL

OIL
WELL ☒

GAS
WELL ☐

OTHER

SINGLE
ZONE ☐

MULTIPLE
ZONE ☐

2. NAME OF OPERATOR

Mallon Oil Company

3. ADDRESS OF OPERATOR

1099 18th Street, Suite 2150, Denver, CO 80202

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)

At surface

330' ENL, 1885' FEL (NW 1/4 NE 1/4)

At proposed prod. zone

same

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*

16 Air Miles South-Southeast of Malaga, NM

16. DISTANCE FROM PROPOSED*

LOCATION TO NEAREST
PROPERTY OR LEASE LINE, FT. 330'

(Also to nearest dirg. unit line, if any)

18. DISTANCE FROM PROPOSED LOCATION*

TO NEAREST WELL, DRILLING, COMPLETED, 1290'

OR APPLIED FOR, ON THIS LEASE, FT.

21. EXPLANATIONS (Show whether DE, RE, GR, etc.)

2886.7' GL

23. PROPOSED CASING AND CEMENTING PROGRAM

Controlled Water Basin

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
12 1/4"	8 5/8"	24#/ft	400'	Sufficient to Circulate
7 7/8"	5 1/2"	15.5#/ft	5200'	500 sx

After setting production casing, pay zone will be perforated and stimulated,
as necessary.

See attached for: Supplemental Drilling Data
BOP Sketch
Surface Use and Operations Plan

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIMULATIONS
ATTACHED

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout prevention program, if any.

24.

SIGNED

Joe H. Cox Jr.

TITLE

Production Manager

DATE 7/06/89

(This space for Federal or State office use)

PERMIT NO.

APPROVAL DATE

APPROVED BY

Alan E. Kraus

FOR

AREA MANAGER
CARLSBAD RESOURCE AREA

DATE

11-22-89

CONDITIONS OF APPROVAL, IF ANY:

RECEIVED

Form 3160-5
November 1983
(formerly 9-331)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

SUBMIT IN TRIPLICATE*
(Other instructions on reverse side)

Form approved.
Budget Bureau No. 1004-0135
Expires August 31, 1985

6. LEASE DESIGNATION AND SERIAL NO.

NN- 38636

8. IF INDIAN, ALLOTTEE OR TRIBE NAME

1. UNIT ACRONYM NAME

8. FARM OR LEASE NAME

Amoco-Red Bluff-Federal

9. WELL NO.

3

10. SIMIL AND POOL, OR WILDCAT

Brushy Draw-Delaware

11. R.P.C., T., B., M., OR P.L.K. AND SURVEY OR AREA

Sec. 28, T26S, R29E

12. COUNTY OR PARISH

Eddy

13. STATE

New Mexico

SUNDRY NOTICES AND REPORTS ON WELLS
(Do not use this form for proposals to drill or to deepen or plug back to a different reservoir.
Use "APPLICATION FOR PERMIT" for such proposals.)

1. OIL WELL ☒ GAS WELL ☐ OTHER ☐
2. NAME OF OPERATOR
Mallon Oil Company
3. ADDRESS OF OPERATOR
1099 18th St. Suite 2750 Denver, CO 80202
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.
See also space 11 below.)
At surface
130' FNL, 1805' FEL

14. PERMIT NO.
15. DIVISION (Show whether DT, RT, OR, etc.)
2887' GL

16. Check Appropriate Box To Indicate Nature of Notice, Report, or Other Data

BOXES OF INTENTION TO:

TEST WATER SHUT-OFF

FRACURE TREAT

SHOOT OR ACIDIZE

REPAIR WELL

(Other)

FULL OR ALIAS CANNING

MULTIPLE COMPLETION

ABANDON*

CHANGE PLANN

X

SUBSEQUENT HISTORY OF:

WATER SHUT-OFF

FRACURE TREATMENT

SHOOTING OR ACIDIZING

(Other)

REPAIRING WELL

ALTERING CANNING

ABANDONMENT*

(Note: Report results of multiple completion on Well Completion or Recompletion Report and Log form.)

17. WORKING PROPOSED OR COMPLETED OPERATIONS (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.)

In order to avoid an archeological find on the previously proposed site for the above well Mallon has applied for and received state approval for the above unorthodox location. The attached plat and location will replace the location previously proposed in the APD, 1/4 1/4 section location of the well remains the same.

RECEIVED

NOV 20 11 00 AM '89

18. I hereby certify that the foregoing is true and correct

SIGNED

TITLE Production Manager

DATE 11-16-89

(This space for Federal or State office use)

APPROVED BY

TITLE

DATE 11/22/89

CONDITIONS OF APPROVAL, IF ANY:

Submit to Appropriate
District Office
State Lease - 4 copies
Fee Lease - 3 copies

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised 1-1-89

OIL CONSERVATION DIVISION

P.O. Box 2088
Santa Fe, New Mexico 87504-2088

DISTRICT I
P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
P.O. Drawer DD, Artesia, NM 88210

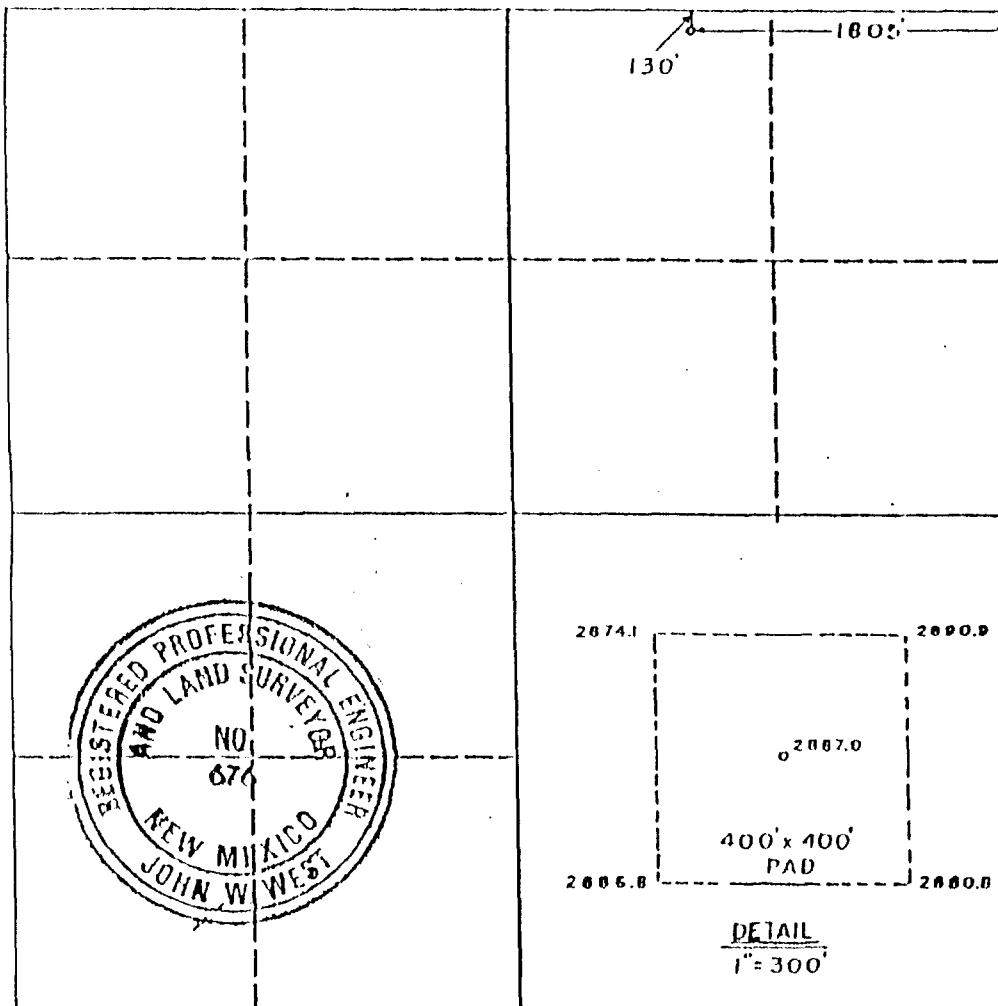
DISTRICT III
1000 Rio Hondo Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

Operator MALLON OIL COMPANY			Lease Amoco-Red Bluff Federal		Well No. 3
Unit Letter B	Section 28	Township 26 South	Range 29 East	County Eddy	
Actual Footage Location of Well: 130 feet from the North line and 1805 feet from the East line					
Ground level Elev. 2887.0	Producing Formation Delaware		Pool Brushy Draw	Dedicated Acreage: 40	Acres

- Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force pooling, etc?
☐ Yes ☐ No If answer is "yes" type of consolidation _____
If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary).
No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.



OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.
Signature: *Joe H. Cox, Jr.*

Printed Name: Joe H. Cox, Jr.
Position: Production Manager
Company: Mallon Oil Co.
Date: 11-16-89

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed: 9-12-89
Signature & Seal of Professional Surveyor: *John W. West*

Certificate No. JOHN W. WEST, 676
RONALD J. EIDSON, 3239

SUPPLEMENTAL DRILLING DATA

MALLON OIL COMPANY
WELL NO. 3 AMOCO-RED BLUFF-FEDERAL

1. SURFACE FORMATION: Quaternary.

2. ESTIMATED TOPS OF GEOLOGIC MARKERS:

Rustler Anhydrite	300'
Delaware	2870'
Bell Canyon	2900'
Cherry Canyon	3700'
Brushy Canyon	5150'

3. ANTICIPATED POSSIBLE HYDROCARBON BEARING ZONES:

Cherry Canyon Oil

4. PROPOSED CASING AND CEMENTING PROGRAM:

CASING SIZE	SETTING DEPTH		WEIGHT	GRADE	JOINT
	FROM	TO			
8-5/8"	0	400'	24#	K-55	SIC
5-1/2"	0	5200'	15.50#	J-55	SIC

8-5/8" casing will be cemented with approximately 250 sacks of Class "C" cement. Cement to circulate.

5-1/2" casing will be cemented with approximately 300 ^{500 ~~SAS~~} sacks of cement.

Equivalent or adequate grades and weights of casing may be substituted at time casing is run, depending on availability.

5. PRESSURE CONTROL EQUIPMENT:

A 3000 psi working pressure, double ram type preventer will be in use while drilling below the surface casing.

A BOP sketch is attached.

6. CIRCULATING MEDIUM:

Surface to 400 feet: Fresh water with gel or lime as needed for viscosity control.

400 feet to Total Depth: Cut brine conditioned as necessary for control of viscosity, pH, and water-loss. Weighted as necessary for well control.

7. AUXILIARY EQUIPMENT:

Drill string safety valves will be maintained on the rig floor while drilling operations are in progress.

8. TESTING, LOGGING, AND CORING PROGRAMS:

Drill stem tests will be made when samples, drilling time, and other data indicate a test is warranted.

It is planned that electric logs will include DLL-GR, GR-CNL-FDC logs.

No coring is planned.

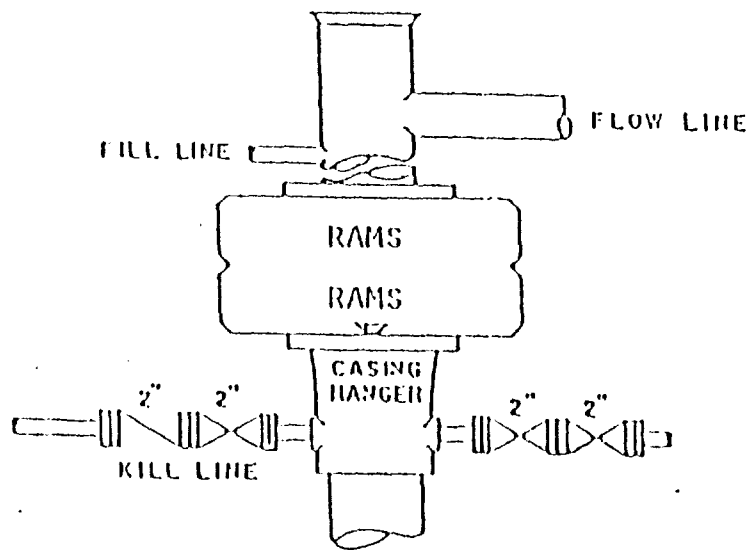
9. ABNORMAL PRESSURES , TEMPERATURES, OR HYDROGEN SULFIDE GAS:

No abnormal pressures or temperatures are anticipated.

No hydrogen sulfide is anticipated.

10. ANTICIPATED STARTING DATE:

It is planned that work will commence upon approval of this application, with drilling and completion operations lasting about 30 days.



BOP STACK

3000 PSI WORKING PRESSURE

BOP ARRANGEMENT

SURFACE USE AND OPERATIONS PLAN

FOR

MALLON OIL COMPANY
130' WELL NO. 3 AMOCO-RED BLUFF-FEDERAL
330' FNL & 1885' FEI. SEC. 20, T.26S., R.29E.
1805' EDDY COUNTY, NEW MEXICO

LOCATED: 16 air miles south-southeast of Malaga, New Mexico.

FEDERAL LEASE NUMBER: NM-38636.

LEASE ISSUED: February 1, 1980, for 10 years.

RECORD LESSEE: Amoco.

ACRES IN LEASE: 1318.02.

SURFACE OWNERSHIP: Federal.

POOL: Brushy Draw Delaware Undesignated.

POOL RULES: Statewide. 40 acre spacing for oil.

EXHIBITS:

- A. Road Map
- B. Plat Showing Existing Wells and Existing Roads
- C. Drilling Rig Layout
- D. Topo Plat

1. EXISTING ROADS:

A. Exhibit "A" is a portion of a road map showing the location of the proposed well as staked. The well site can be reached from the west or from the east. Point "A" on the plat is on US 285 between mileposts 3 and 4, approximately 13 miles south of Malaga, New Mexico, where a paved road goes east. To go to the proposed well site from this point, exit US 285 to the east onto the paved road and go 4.2 miles, crossing the Pecos River at 3.7 miles, to where a good caliche road goes south. Turn south (on Eddy County 725) and go 3.1 miles to where a caliche road goes westerly. Turn west and go westerly and southeasterly (also see Exhibits "B" and "D") 1.1 miles. Turn west through gate and proceed approximately 200' to well site.

Point "B" is on the El Paso pipeline road approximately 14 road miles north and west of the proposed wellsite. Point "B" can be reached by turning south off of New Mexico Highway 128 at milepost 22.5 which is approximately 32 miles west of Jal, New Mexico, and proceeding southward along a paved road toward Orla, Texas. At a point 10.3 miles from Highway 128, turn west on the El Paso pipeline road and proceed about 6.8 miles to Point "B". From that point continue westward approximately 9.75 miles to county road 725A (a total of 16.5 miles along the pipeline road). Turn south on Highway 725A and proceed south and southwesterly about 4.4 miles as shown on Exhibits "A", "B" and "D".

B. Exhibit "B" is a plat showing existing pertinent roads in the vicinity of the proposed well site. Existing roads are color coded.

2. PLANNED ACCESS ROAD:

A. The existing road, as shown on Exhibit "B", will be used for access.

3. LOCATION OF EXISTING WELLS:

A. Existing wells in the immediate area of the proposed well site are shown on Exhibit "B".

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

A. This well will produce into the existing tank battery at the Amoco-Red Bluff-Federal well #1 as shown in Exhibit "B". It is proposed that flow line will parallel the existing roads to that site.

5. LOCATION AND TYPE OF WATER SUPPLY:

A. It is not contemplated that a water well will be drilled. Water necessary for drilling operations will be purchased and trucked to the well site, or will be moved to the well site by temporary pipeline laid on the ground alongside existing roads.

6. SOURCE OF CONSTRUCTION MATERIAL:

A. There should be sufficient material on site to construct the well pad. However, if additional material is needed for construction work, it will be taken from the existing pit on Federal land in the NW/4 NW/4 of Section 24, T.26S., R.29E., Eddy County, New Mexico.

7. METHODS OF HANDLING WASTE DISPOSAL:

A. Drill cuttings will be disposed of in the drilling pits.

B. Drilling fluids will be allowed to evaporate in the drilling pits until they are dry.

C. Water produced during tests will be disposed of in the drilling pits.

D. Oil produced during tests will be stored in test tanks until sold.

E. Trash, waste paper, garbage and junk will be buried in a separate trash pit and covered with a minimum of 24 inches of dirt. All waste materials will be contained to prevent scattering by wind. Location of the trash pit is shown on Exhibit "C".

F. All trash and debris will be buried or removed from the well site within 30 days after completion of drilling and/or completion operations.

8. ANCILLARY FACILITIES:

A. None required.

9. WELL SITE LAYOUT:

A. Exhibit "C" shows the relative location and dimensions of the well pad, mud pits, reserve pit, and trash pit, and the location of the major drilling rig components.

B. The area around the well pad slopes to the west, southwest and southeast. The reserve pit will be built on the north side of the pad. Approximately 6 feet of fill will be required on the southwest side of the pad. A berm will be constructed downslope from the pit of sufficient height to contain reserve pit volume.

C. The pad and pit area is staked and flagged.

10. PLAN: FOR RESTORATION OF THE SURFACE:

A. After completion of drilling and/or completion operations, all equipment and other material not needed for operations will be removed from the well site. Pits will be filled and the location will be cleaned of all trash and junk to leave the well site in an as aesthetically pleasing condition as possible.

B. Any unguarded pits containing fluids will be fenced.

C. After abandonment, all equipment, trash, and junk will be removed and the well site will be cleaned. Any special rehabilitation requirements of the surface management agency will be complied with and accomplished as rapidly as possible.

11. OTHER INFORMATION:

A. Topography: The land surface in the area is gently undulating. In the immediate area of the well site, the land surface slopes to the west, southwest and southeast. Regionally, surface drainage in the area is to the west and southwest to the Pecos River.

B. Soil: Top soil in the area is a gravelly loam.

C. Flora and Fauna: The vegetative cover is moderate and includes mesquite, yucca, creosote bush, catclaw, weeds, and range grasses. Wildlife in the area is that typical of semi-arid desert land and includes coyotes, rabbits, rodents, reptiles, dove and quail.

D. Ponds and Streams: The Pecos River is approximately 1000' southwest of the proposed well site. There are no other ponds or streams.

E. Residences and Other Structures: There are no occupied dwellings within a mile of the proposed well site.

F. Archaeological, Historical, and Cultural Sites: None observed in the area. However, an archaeological reconnaissance will be made.

G. Land Use: Oil and gas production, grazing, and wildlife habitat.

H. Surface Ownership: Federal.

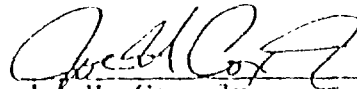
12. OPERATOR'S REPRESENTATIVE:

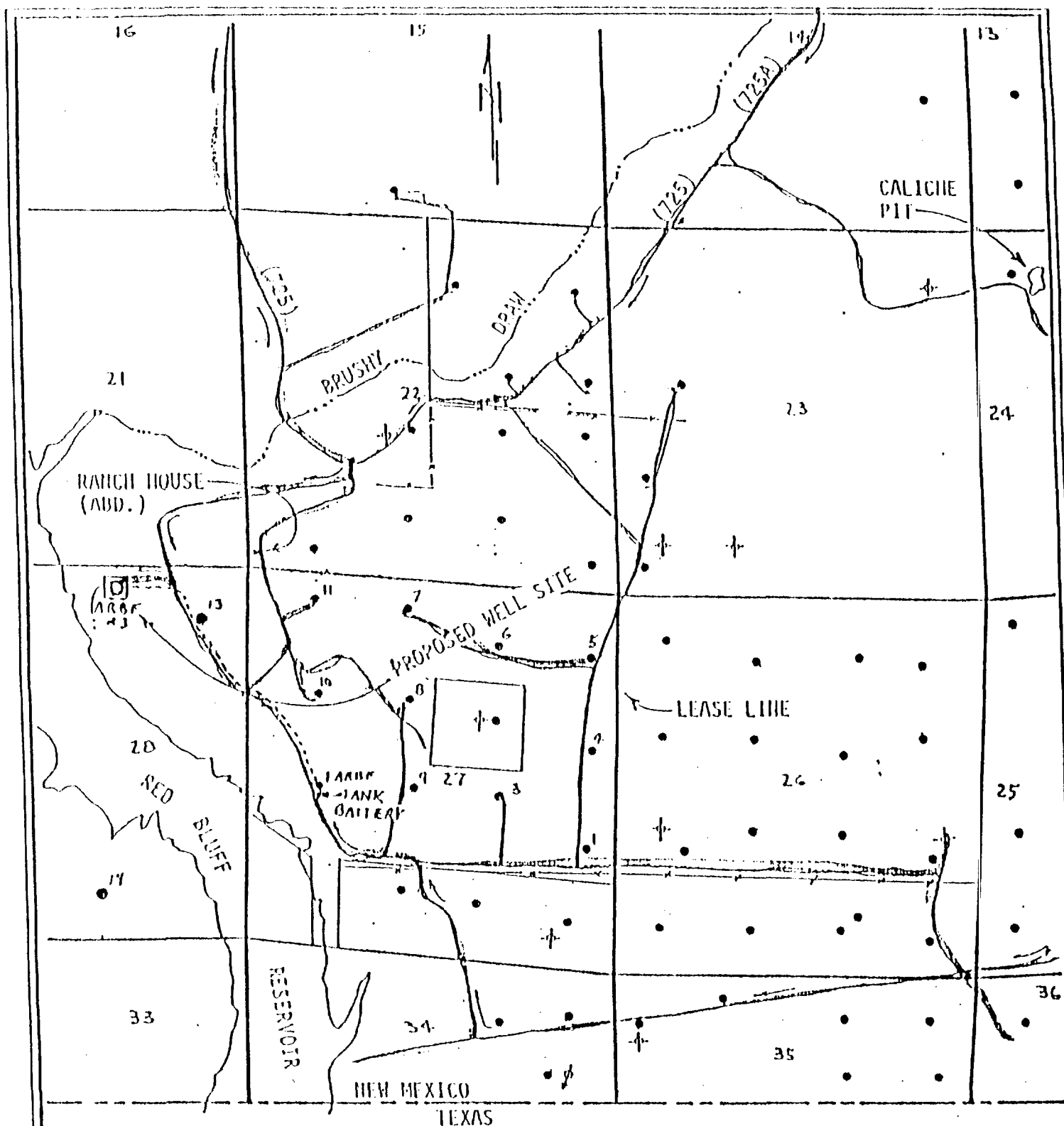
Joe Cox
Mallon Oil Company
1099 18th Street, Suite 2750
Denver, Colorado 80202
Office Phone: 303-293-2333

13. CERTIFICATION:

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access route; that I am familiar with the conditions which currently exist; that the statements made in this plan are, to the best of my knowledge, true and correct; and, that the work associated with the operations proposed herein will be performed by Mallon Oil Company and its contractors and sub-contractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

July 6, 1989
Date: _____


Joe H. Cox, Jr.
Production Manager
MALLON OIL COMPANY



LEGEND:

- Oil Well
- ✕ Gas Well
- ⊕ Plugged Well
- ⊕ Proposed Well
- Existing Road
- - - - - Proposed Flow Line

EXHIBIT "B"

Mallon Oil Company
 Well No. 3 Amoco-Red Bluff-Federal
 330' FNL & 1805' FEL, Sec. 28, T26S-R29E
 130' 1805' Eddy County, New Mexico
 Scale 1" = 2000'

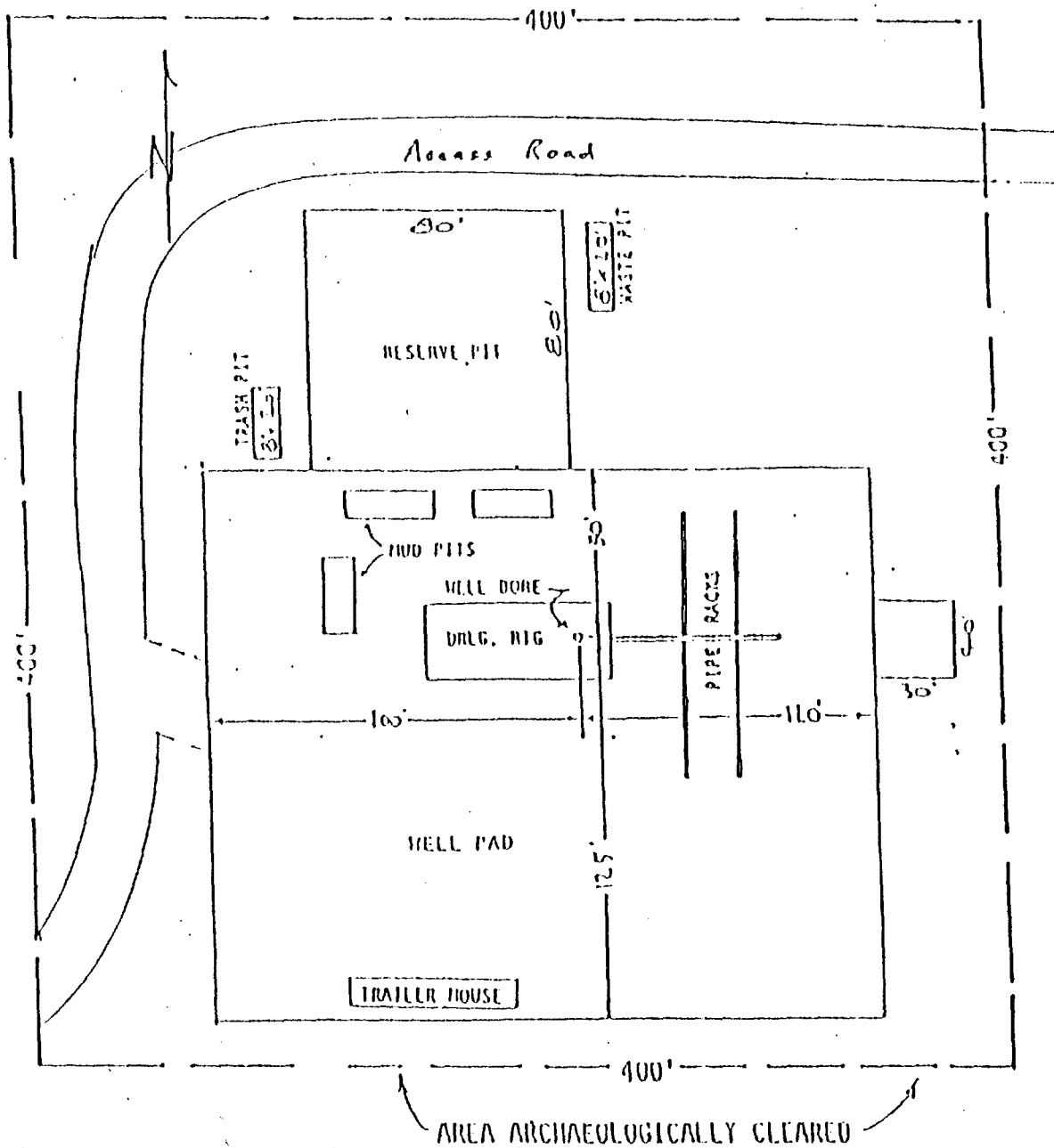


EXHIBIT "C"

Matton Oil Company

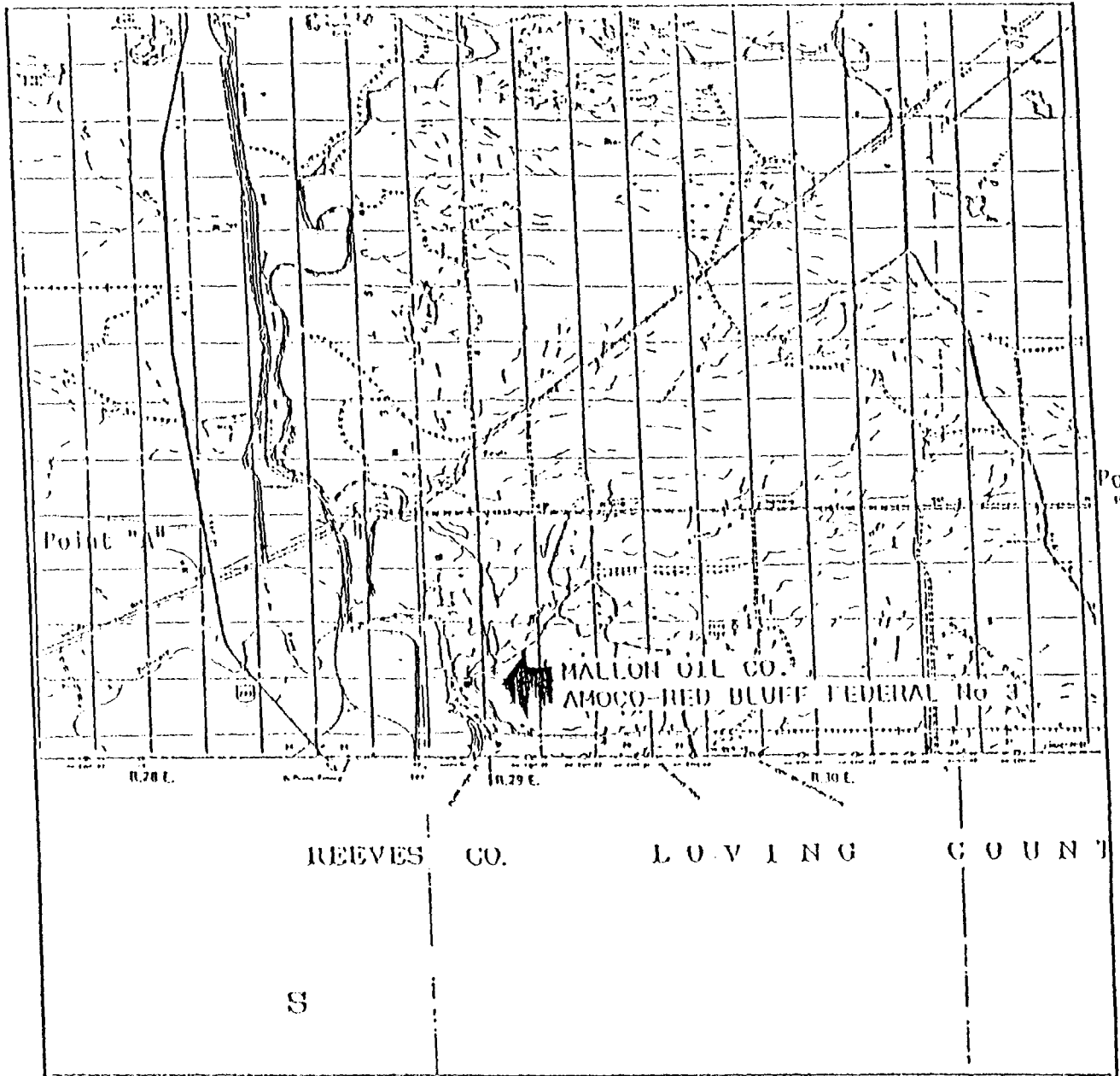
Well No. 3 Amoco-Red Bluff-Federal

330' FNL & 1885' FEL, Sec. 28, T26S-R29E

Eddy County, North Dakota

VICINITY MAP

Exhibit "A"



SCALE: 1" = 3 MILES

SEC. 28 TWP. 26S R. 29E

SURVEY N.H.P.N.

COUNTY Eddy STATE NM

DESCRIPTION 130' FNL & 1805' FEL

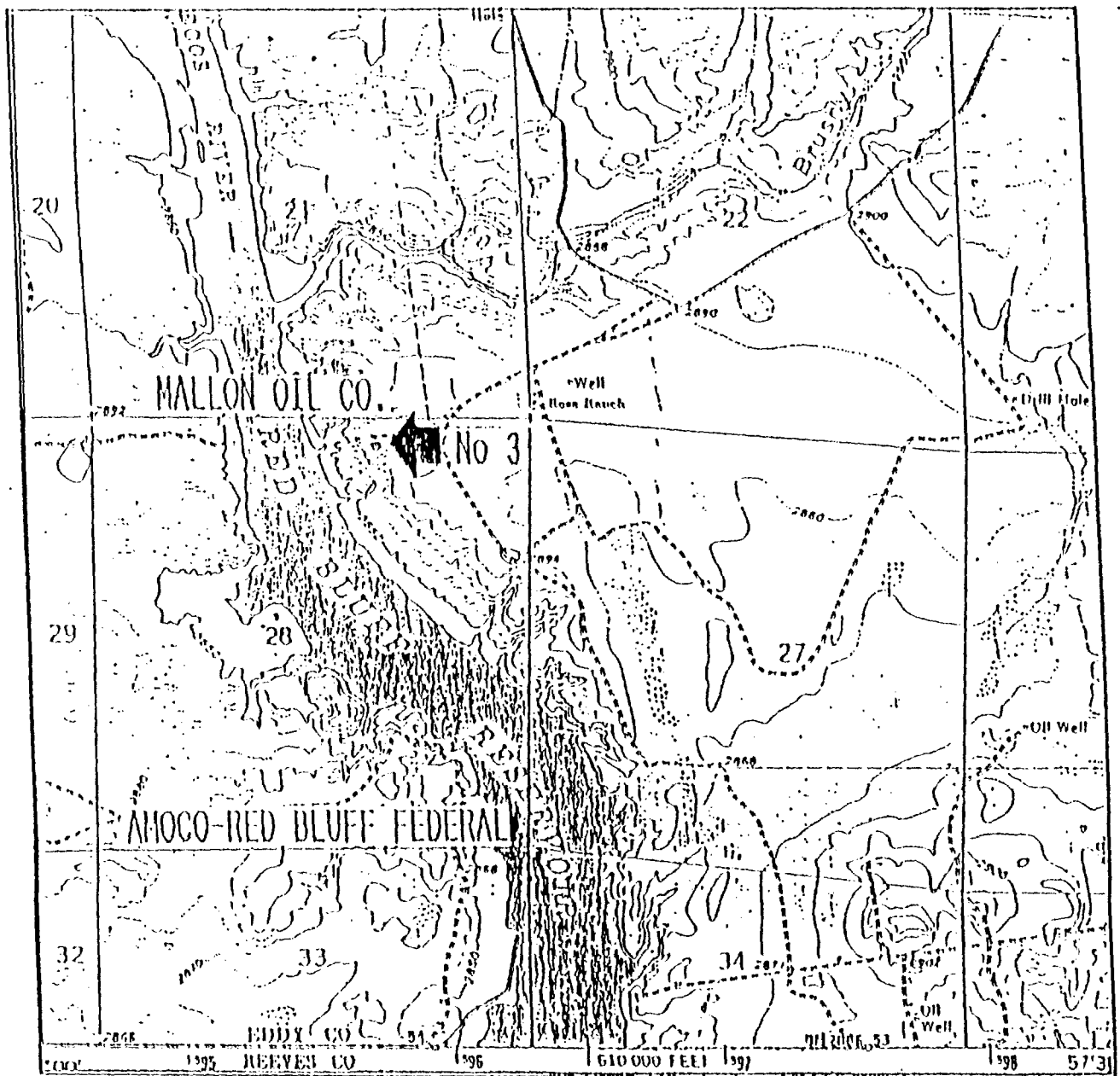
ELEVATION 2886.7

OPERATION Mallon Oil Co.

LEASE Amoco Red Bluff Fed. No. 3

JOHN WEST ENGINEERING
HOBBS, NEW MEXICO
(505) 393-3117

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL 10'

SEC. 28 TWP. 26S RGE. 29E

SURVEY N.H.P.M.

COUNTY Eddy STATE NM

DESCRIPTION 130' 130' FHL & 1805' 1805' FHL

ELEVATION 2886.7

OPERATOR Mallon Oil Co.

LEASE Amoco Red Bluff Fed No. 3

U.S.G.S. TOPOGRAPHIC MAP

Ross Ranch, NM

JOHN WEST ENGINEERING
HOBBS, NEW MEXICO
(505) 393-3117



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

RECEIVED DEC - 8 1989

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2036
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5300

November 27, 1989

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

Attention: Karen E. McClintock

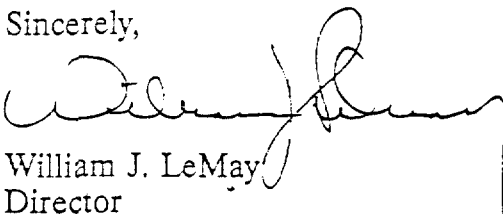
Administrative Order NSL-2716

Dear Ms. McClintock:

Reference is made to your application of September 26, 1989 for a non-standard oil well location for your Amoco Red Bluff Federal Well No. 3 to be located 130 feet from the North line and 1805 feet from the East line (Unit B) of Section 28, Township 26 South, Range 29 East, NMPM, Brushy Draw Delaware Pool, Eddy County, New Mexico. The NW/4 NE/4 of said Section 28 shall be dedicated to the well forming a standard 40-acre oil spacing and proration unit for said pool.

By the authority granted me under the provisions of General Rule 104 F(I), the above-described unorthodox oil well location is hereby approved.

Sincerely,



William J. LeMay
Director

WJL/MES/ag

cc: Oil Conservation Division - Artesia
NM Oil and Gas Engineering Committee - Hobbs
US Bureau of Land Management - Carlsbad
US Bureau of Land Management - Roswell

MALLON OIL COMPANY

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

September 26, 1989

Mr. Mike Stogner
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

**PLEASE RETURN THIS COPY
TO MALLON OIL COMPANY**

RE: Application for Administrative Approval of
Unorthodox Location for Mallon Oil Company
Amoco-Red Bluff Federal #3 Well 130' FNL &
1805' FEL, Sec. 28, T26S, R29E, NMPM,
Eddy County, New Mexico

Dear Mr. Stogner:

We hereby request approval of an unorthodox location for the above captioned well under the provisions of NMOC Rule 104-F. Copies of the C-102, the Archeological Report, the Location Verification Map showing the topography, and a plat showing lessees of record are attached for your reference.

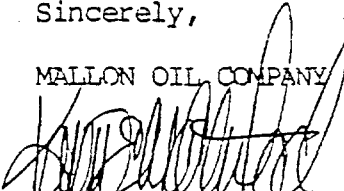
Mallon Oil Company's original #3 location, which was 330' FNL and 1885' FEL, cannot be drilled due to the lack of an archeological clearance. The Archeological Report explaining the significant nature of the cultural remains is attached for your review. As evidenced by the attached Location Verification Map, the topography allows only an unorthodox location of 130' FNL & 1805' FEL to be drilled within this spacing unit.

A copy of this application is being submitted to all operators of offsetting proration or spacing units by certified mail, with a request that they furnish your office with a waiver of objection.

Your attention to this matter is greatly appreciated.

Sincerely,

MALLON OIL COMPANY


Karen E. McClintock
Landman

Enclosures

WAIVER

Doug P. Mitchell, II hereby waives objection to the above application for unorthodox location.

Doug P. Mitchell, II
By:

10-3-89
Date

Mr. Mike Stogner
September 26, 1989
Page Two

Operators of the offsetting proration or spacing units to the
Amoco-Red Bluff Federal #3 well:

Exxon Company, USA
P.O. Box 1600
Midland, TX 79702-1600

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

George Mitchell, Jr.
P.O. Box 50682
Midland, TX 79710

United States of America
Bureau of Land Management
P.O. Box 1397
Roswell, NM 88202-1397

RECEIVED OCT 23 1989

MALLON OIL COMPANY

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

September 26, 1989

Mr. Mike Stogner
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

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TO MALLON OIL COMPANY**

RE: Application for Administrative Approval of
Unorthodox Location for Mallon Oil Company
Amoco-Red Bluff Federal #3 Well 130' FNL &
1805' FEL, Sec. 28, T26S, R29E, NMPM,
Eddy County, New Mexico

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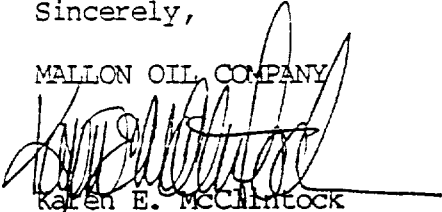
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A copy of this application is being submitted to all operators of offsetting proration or spacing units by certified mail, with a request that they furnish your office with a waiver of objection.

Your attention to this matter is greatly appreciated.

Sincerely,


MALLON OIL COMPANY


Karen E. McClintock
Landman

Enclosures

WAIVER

Red Bluff Water Power Control Dist. hereby waives objection to the above application for unorthodox location.


By: Jim Ed Miller, General Manager

October 19, 1989
Date

Mr. Mike Stogner
September 26, 1989
Page Two

Operators of the offsetting proration or spacing units to the
Amoco-Red Bluff Federal #3 well:

Exxon Company, USA
P.O. Box 1600
Midland, TX 79702-1600

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

George Mitchell, Jr.
P.O. Box 50682
Midland, TX 79710

United States of America
Bureau of Land Management
P.O. Box 1397
Roswell, NM 88202-1397

MALLON OIL COMPANY

1099 18th Street, Suite 2750, Denver, Colorado 80202

(303) 293-2333

September 26, 1989

Mr. Mike Stogner
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

RE: Application for Administrative Approval of
Unorthodox Location for Mallon Oil Company
Amoco-Red Bluff Federal #3 Well 130' FNL &
1805' FEL, Sec. 28, T26S, R29E, NM1M,
Eddy County, New Mexico

Dear Mr. Stogner:

We hereby request approval of an unorthodox location for the above captioned well under the provisions of MOCOD Rule 104-F. Copies of the C-102, the Archeological Report, the Location Verification Map showing the topography, and a plat showing lessees of record are attached for your reference.

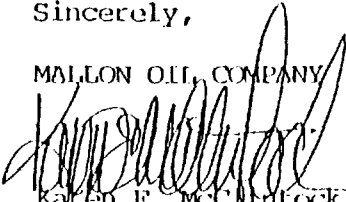
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A copy of this application is being submitted to all operators of offsetting proration or spacing units by certified mail, with a request that they furnish your office with a waiver of objection.

Your attention to this matter is greatly appreciated.

Sincerely,

MALLON OIL COMPANY


Karen E. McClintock
Landman

Enclosures

WAIVER

_____ hereby waives objection to the above
application for unorthodox location.

By: _____

_____ Date

Mr. Mike Stogner
September 26, 1989
Page Two

Operators of the offsetting proration or spacing units to the
Amoco-Red Bluff Federal #3 well:

Exxon Company, USA
P.O. Box 1600
Midland, TX 79702-1600

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

George Mitchell, Jr.
P.O. Box 50682
Midland, TX 79710

United States of America
Bureau of Land Management
P.O. Box 1397
Roswell, NM 88202-1397

MALLON OIL COMPANY

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

September 26, 1989

TO: ALL OPERATORS OFFSEITING
AMOCO-RED BLUFF FEDERAL #3 WELL

RE: Application for Administrative Approval of
Unorthodox Location for Mallon Oil Company
Amoco-Red Bluff Federal #3 Well 130' ENL &
1805' FEL, Sec. 28, T26S, R29E, NMPM,
Eddy County, New Mexico

Ladies/Gentlemen:

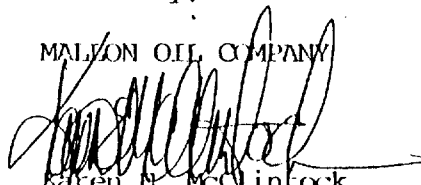
Enclosed are copies of the instruments filed with the New Mexico Oil Conservation Division regarding the Application for Administrative Approval of the Unorthodox Location for the above captioned well, as well as a waiver which we request you execute.

If you agree to waive any objection to the unorthodox location, please execute all three copies of the waiver, returning the indicated copy to Mallon Oil Company, mailing the second copy to New Mexico Oil Conservation Division, and retaining the third copy for your files. I have enclosed addressed stamped envelopes for your convenience.

Should you have any questions, please advise.

Sincerely,

MALLON OIL COMPANY



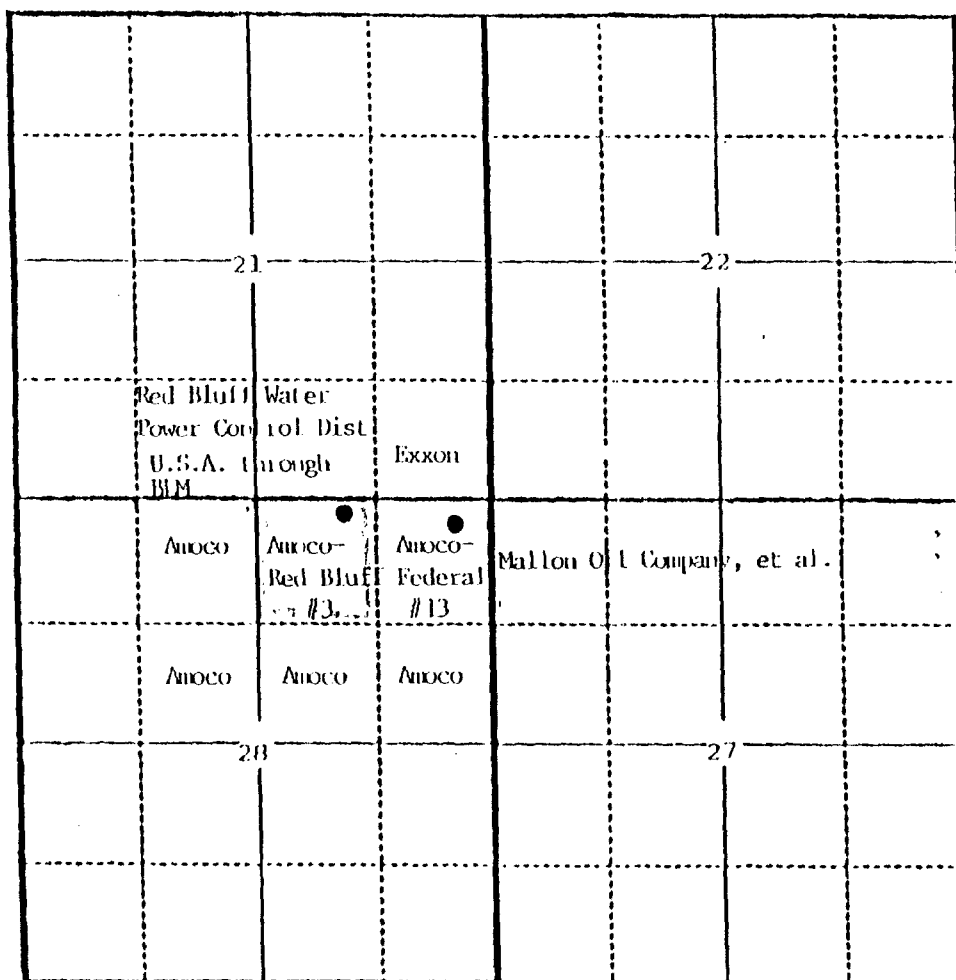
Karen M. McClintock
Landman

KEM:da
Enclosure

Map of Offsetting Lessees

Request for Administrative Approval of an Unorthodox Location

Operator: Mallon Oil Company
 Well name: Amoco-Red Bluff Federal #3 well
 Well Location: 130' FNL & 1805' FEL, Section 28, T26S, R29E,
 Eddy County, New Mexico



Submit to Appropriate
District Office
State Lease - 4 copies
Fee Lease - 3 copies

State of New Mexico
Minerals and Natural Resources Department

Form C-102
Revised 1-1-89

OIL CONSERVATION DIVISION

P.O. Box 2088
Santa Fe, New Mexico 87504-2088

RECEIVED

DISTRICT I
P.O. Box 1940, Hobbs, NM 88240

DISTRICT II
P.O. Drawer 100, Artesia, NM 88210

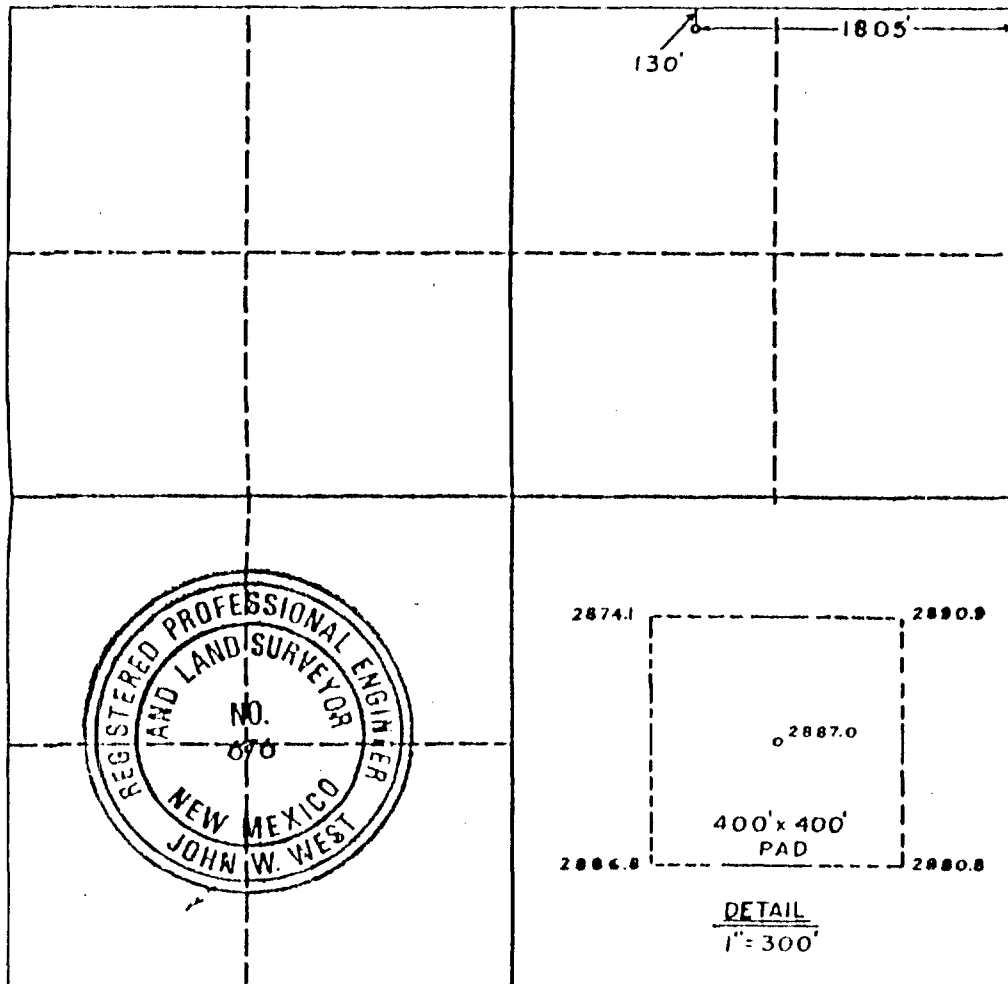
DISTRICT III
1000 Rio Hondo Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

Operator MALLON OIL COMPANY			Lease Amoco-Red Bluff Federal		Well No. 3
Unit Letter B	Section 28	Township 26 South	Range 29 East	County NMNM	Eddy
Actual Forage Location of Well: 130 feet from the North line and 1805 feet from the East line					
Ground level Elev. 2887.0	Producing Formation		Pool	Dedicated Acreage: Acres	

- Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?
☐ Yes ☐ No If answer is "yes" type of consolidation _____
If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)
No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.



OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature

Printed Name

Position

Company

Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed

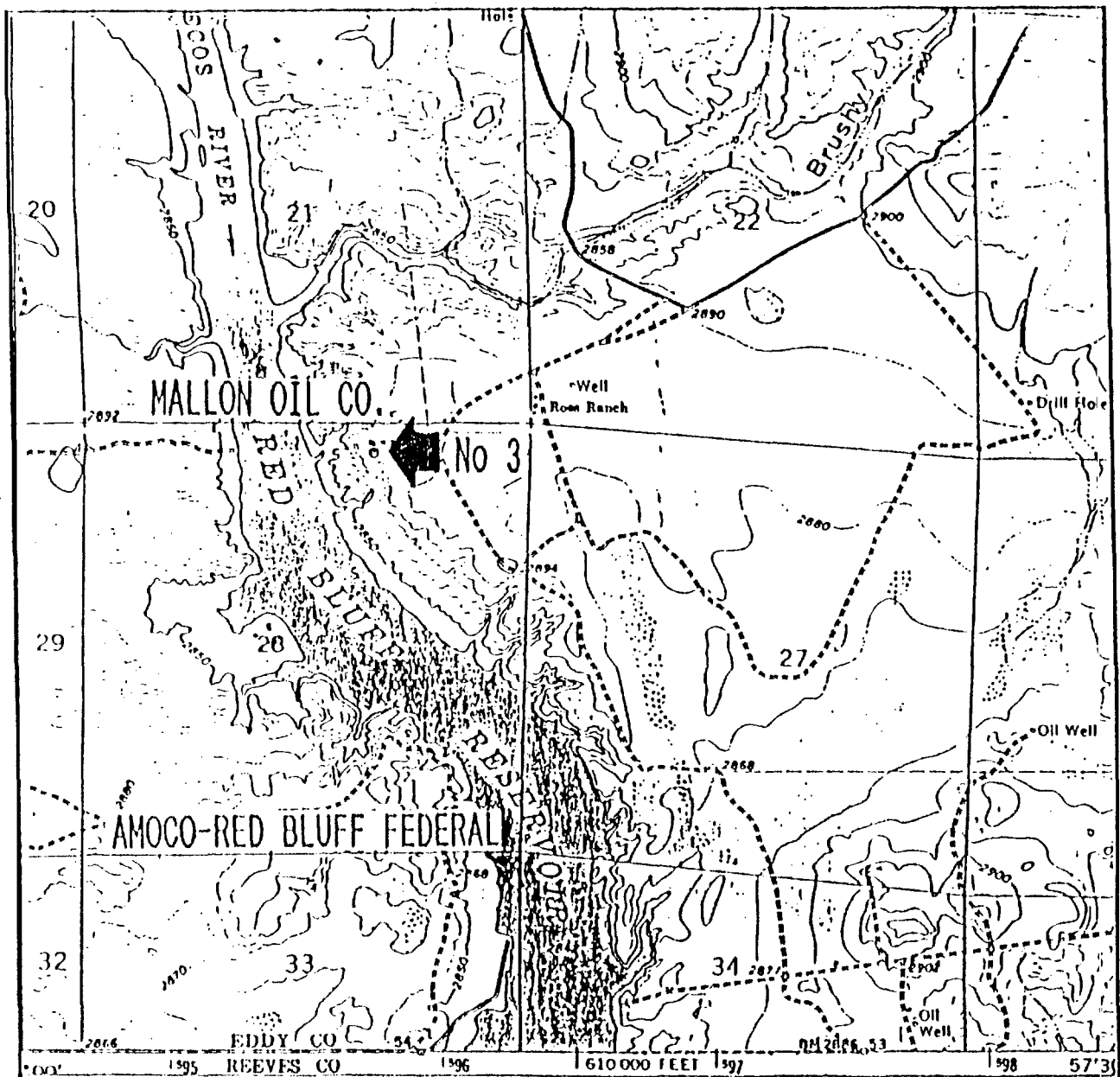
9-12-89

Signature & Seal of
Professional Surveyor

Certificate No. JOHN W. WEST, 676

RONALD J. EIDSON, 3239

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL 10'

SEC. 28 TWP. 26S RGE. 29E

SURVEY N.M.P.M.

COUNTY Eddy STATE NM

DESCRIPTION 330' FNL & 1885' FEL

ELEVATION 2886.7

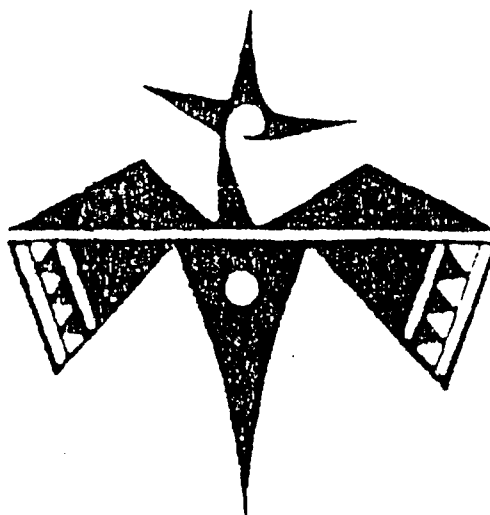
OPERATOR Mallon Oil Co.

LEASE Amoco Red Bluff Fed No. 3

U.S.G.S. TOPOGRAPHIC MAP

Ross Ranch, NM

PECOS
ARCHEOLOGICAL
CONSULTANTS
P.O. BOX 1771
CARLSBAD, NM 88221



Archeological Clearance Report for
Mallon Oil Company's
Amoco Red Bluff Federal No. 3
Situated on Public Lands in Eddy County, N.M.
Report No. 29076

Archeological Clearance Report for
Mallon Oil Company's
Amoco Red Bluff Federal No. 3
Situated on Public Lands in Eddy County, N.M.
Report No. 89076

prepared by
James E. Hunt

submitted by
Pecos Archeological Consultants
P.O. Box 1771, Carlsbad, N.M., 88221
August 7, 1989
BLM Cultural Use Permit No. 6-2920-89-I
State Blanket Survey Permit No. 89-024

ABSTRACT

On July 12, 1989, Pecos Archeological Consultants (BLM Cultural Use Permit No. 6-2920-89-I, State Blanket Survey Permit No. 89-024) undertook an archeological inventory for a proposed drill location scheduled to be impacted by Mallon Oil Company. This project will be situated on public lands in Eddy County, New Mexico. These lands occur in section 28, T26S, R29E, NMPM, Eddy County, N.M. A total of 3.6 acres of federal surface ownership were investigated during this project, which was conducted in 5 man-hours by James E. Hunt and Robert J. Martin. One archeological site (PAC Field Site No. PAC/Ed-277) was recorded as occurring within the impact zone that will result from the planned activity. Due to the significant nature of the cultural remains within the impact zone, Pecos Archeological Consultants NOT recommending clearance for this project without further mitigative activities.

INTRODUCTION

On July 6, 1989, Pecos Archeological Consultants was requested by Mr. Joe Cox, representing Mallon Oil Company, to perform the archeological survey for a drill location scheduled to be constructed on public land in Eddy County, New Mexico. This land is administered by the Bureau of Land Management and federal law stipulates that an intensive archeological inventory be performed to identify what cultural resources might be affected by such activity prior to granting clearance to the project. Therefore, Pecos Archeological Consultants undertook this survey on July 12, 1989. Fieldwork for this project was performed by James E. Hunt and Robert J. Martin. The following is a report of the field activities and findings resulting from the survey.

SURVEY METHODOLOGY

Pecos Archeological Consultants conducted this survey by physically examining the entire 400 X 400 ft impact zone which will result from the planned construction. Pedestrian inspection along parallel transects was accomplished across the staked drill location. These transects were spaced 15 meters apart; however, established transects were departed from to examine nearby areas of high site probability. All prominent deflations and denuded areas were given special attention. Additionally, all attendant easements (if any) were surveyed in two parallel transects spaced 15 meters

apart. This project was conducted on one sunny day.

Surface visibility in the region, which, due to floral cover, ranged between 25-40% of the ground under dry soil conditions, made this the most practical methodology for effectively sampling the impact zone which will result from this project as planned.

ENVIRONMENT

This project will be situated on the terrace of the Pecos River just north of the Texas/New Mexico border. To the west is the Pecos Floodplain on the edge of Red Bluff Reservoir. Local soils in the region consist of sandy loams which belong to the Reagan-Upton association. These soils are drained by sheetwash to the west, and they possess numerous inclusions of chert and quartzite gravels, some of which are suitable for chipped stone tool manufacture. In addition, outcroppings of caliche and caliche cobbles are exposed in these soils. Elevation in the project area is between 2850 ft and 2880 ft above sea level.

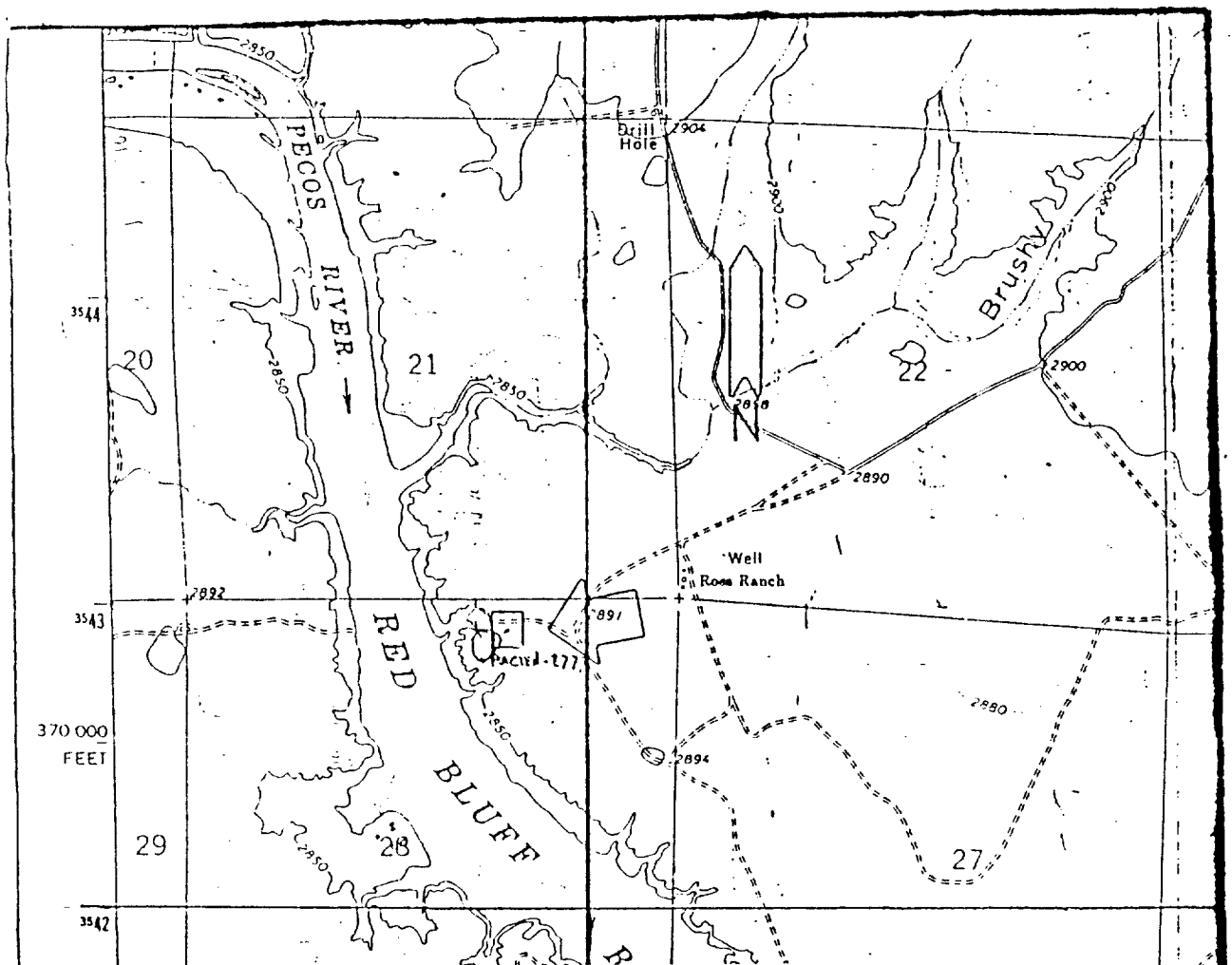
The plant community in the project area is quite sparse, due to a recent grassfire. The plant inventory includes creosote bush (*Larrea tridentata*), mesquite (*Prosopis juliflora*), acacia (*Acacia constricta*), broom snakeweed (*Gutierrezia sarothrae*), and various grasses. Some of the common faunal types in area are mule deer (*Odocoileus hemionus*), pronghorn antelope (*Antilocapra americana*), jackrabbit (*Lepus* sp.), cottontail rabbit (*Sylvilagus* sp.), coyote (*Canis latrans*), as well as other small mammals, birds and reptiles.

LOCATIONAL DATA

Mallon Oil Company's drill location, designated the Amoco Red Bluff Federal No. 3, will measure 400 ft X 400 ft, or 3.6 acres. It will be situated 330 ft from the north line and 1885 ft from the east line, in the:

NW1/4 NE1/4, section 28, T26S, R29E, NMPM, Eddy County, N.M.

Map Reference: USGS Ross Ranch Quadrangle, 7.5 Minute Series, 1968.



3541

Mallon Oil Company's
 Amoco Red Bluff Federal No. 3
 Township 26 South, Range 29 East
 USGS Ross Ranch Quadrangle, 7.5 Minute Series, 1968.
 1:24,000 ft

32°00'
 104

Topography by photogrammetric methods from aerial
 photographs taken 1967. Field checked 1968

Polyconic projection. 1927 North American datum
 10,000-foot grid based on New Mexico coordinate system,
 east zone
 1000-meter Universal Transverse Mercator grid ticks,
 zone 13, shown in blue

Fine red dashed lines indicate selected fence lines

GN
 0°34' 11W
 10 MILS 204 MILS

UTM GRID AND 1968 MAGNETIC NORTH
 DECLINATION AT CENTER OF SHEET

OIL CONSERVATION DIVISION

P.O. Box 2088
Santa Fe, New Mexico 87504-2088

INSTRUCTIONS
O. Box 1980, Hobbs, NM 89210

INSTRUCTIONS
O. Drawer DD, Artesia, NM 88210

INSTRUCTIONS
600 Rio Brazos Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

Operator Mallon Oil Company			Lease Amoco Red Bluff Fed.		Well No. 3
Unit Letter B	Section 28	Township 26 South	Range 29 East	County Eddy	
Actual Footage Location of Well: 330 feet from the North line and 1885 feet from the East line					
Ground level Elev. 2886.7			Producing Formation	Pool	Dedicated Acreage: Acres

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.

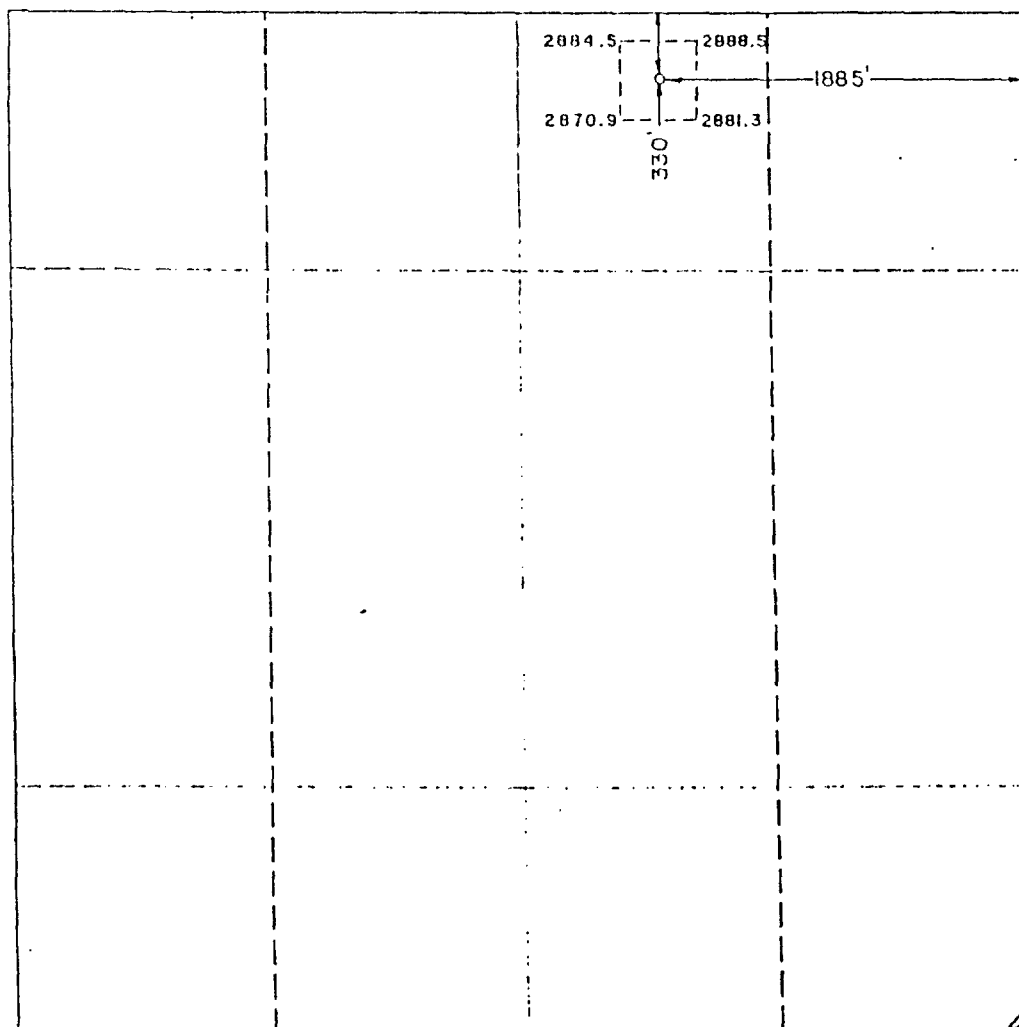
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).

3. If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force pooling, etc.?

☐ Yes ☐ No If answer is "yes" type of consolidation

If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.



OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature

Printed Name

Position

Company

Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed

May 24, 1989

Signature & Seal of Professional Surveyor



0 330 660 990 1320 1650 1980 2310 2640 2970 3300 3630 3960 4290 4620 4950 5280 5610 5940 6270 6600

ARCHEOLOGICAL RESOURCES

On July 12, 1989, Pecos Archeological Consultants performed a literature search to determine if any archeological sites had already been recorded in the vicinity of the project area. Current BLM files and the National Register of Historic Places were consulted in this endeavor. No previously-recorded sites were found to occur in the project area.

Observed Archeological Resources:

One archeological site (PAC/ED-277) was found to occur in the impact zone.

FIELD SITE NO. FAC/Ed-277

Location: NW1/4 NW1/4 NE1/4, NE1/4 NW1/4 NE1/4, section 28, T26S, R27E, NMPM, Eddy County, N.M.

UTM Coordinates: Zone 13, N 3,542,860 ; E 595,660

Dimensions: 100 X 100 m

Temporality: Unknown

Elevation: 2880 ft above sea level

BLM Category: 2

Map Reference: USGS Ross Ranch Quadrangle, 7.5 Minute Series, 1968.

Observations:

FAC/Ed-277 is located on the edge of the terrace on the east bank of the Pecos River as it enters the north end of Red Bluff Reservoir. This is a highly eroded landform cut by shallow arroyos which drain the terrace to the west. Soils at the site consist of sandy loams that are host to numerous inclusions of fragmented caliche and gravels. These gravels are associated with the Ogallala formation, and much of it is suitable for chipped stone manufacture. Indeed, the cultural deposition is coextensive with an exposure of such material. Vegetation on the site consists of creosote bush (Larrea tridentata), acacia (Acacia constricta), broom snakeweed (Gutierrezia sarothrae) prickly-pear cactus (Opuntia macrocentra), and various grasses. In aspect, the site appears to be oriented towards 360 degrees and the nearest named drainage is the Pecos River.

Cultural remains at FAC/Ed-277 consist of a chipped stone scatter which includes locally available chert and

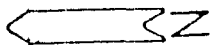
Cultural remains at PAC/Ed-277 consist of a chipped stone scatter which includes locally available chert and quartzite primary, secondary, tertiary decortication flakes, thinning flakes, angular debris and cores. The density of cultural material is between 1-3 pieces per 10-25 square meters. No diagnostic tools or surface features were encountered during this site examination. Given the highly-eroded nature of the terrace, it is unlikely that subsurface remains are present.

PAC/Ed-277's chipped stone assemblage seems to be indicative of relatively casual flake tool manufacture and use. Lithic material available on the site was utilized exclusively. It is probable that tools manufactured on site were then used to exploit locally-available floral and/or faunal resources. It is also possible that the artifact assemblage represents several different cultural events which occurred at different times.

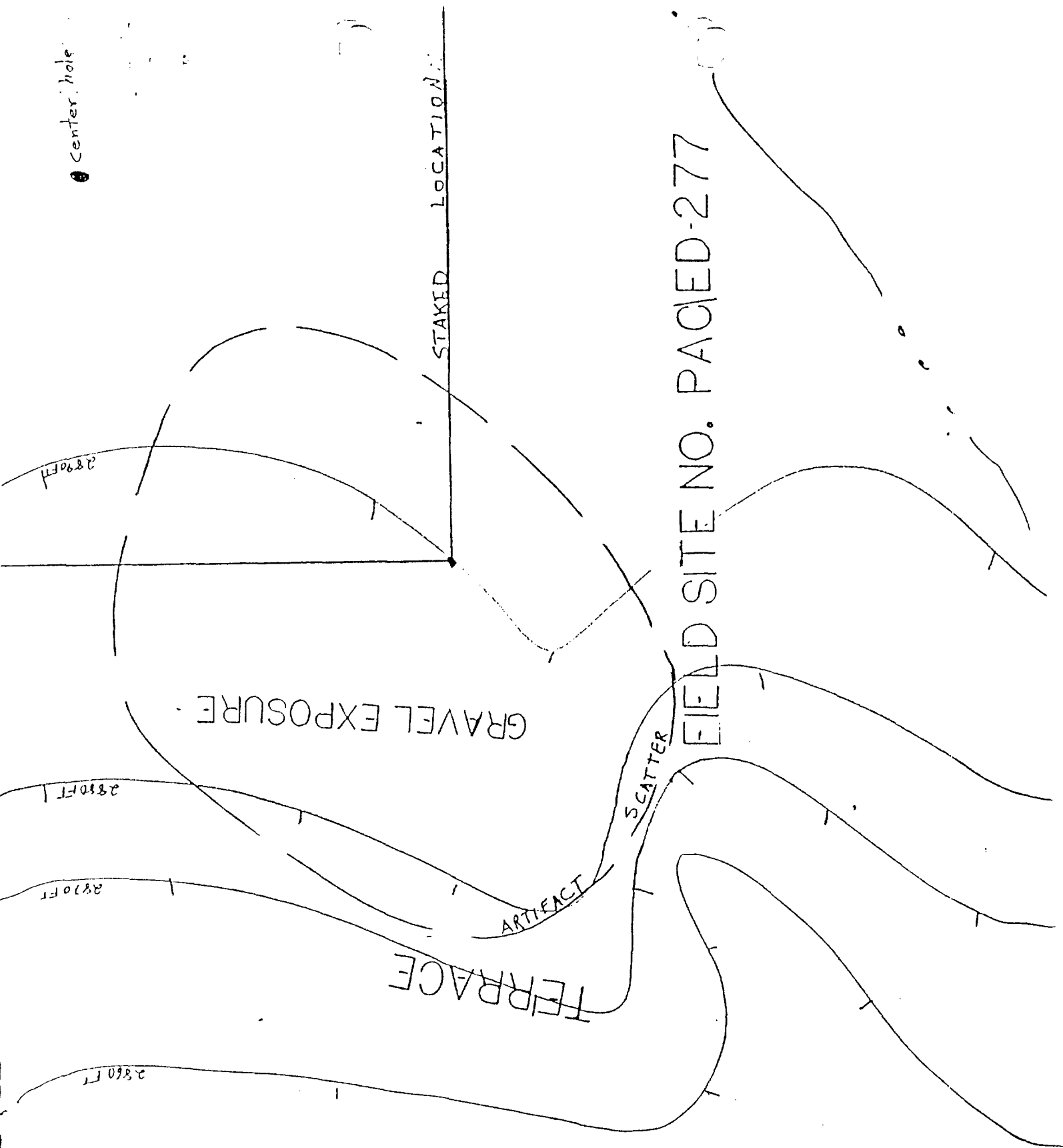
According to the Roswell BLM District's prehistoric typology, PAC/Ed-277 would be classified as a "Lithic Procurement and Workshop Locale," or a Type 3-B site. Additional studies of the artifact assemblage and its distribution could also shed light on how the chipped

stone tools were made and used at FAC/Ed-277. Because the site possesses potential for additional data recovery which could contribute important information concerning the area's prehistory, FAC/Ed-277 should be considered eligible for nomination to the National Register of Historic Places.

PECOS FLOODPLAIN



100'



RECOMMENDATIONS

Due to the significant nature of the cultural resources in the project area, Pecos Archeological Consultants is NOT recommending clearance for Mallon Oil Company's project, as planned. A course of action which will mitigate the effects of construction on the archeological site, PAC/Ed-277, will have to be decided upon by the BLM and Mallon Oil Company before the project can proceed. What form this activity will take will be determined by factors not yet finalized by Mallon Oil Company's drilling requirements.



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
NEW MEXICO STATE OFFICE
Post Office and Federal Building
P.O. Box 1449
Santa Fe, New Mexico 87504-1449

IN REPLY REFER TO:

NM NM 38635
NM NM 62575
3100 (943B)

RECEIVED MAY 15 1989

MAY 11 1989

Mallon Oil Company
Attention: Karen E. McClintock
1099 - 18th St.
Denver, CO 80202

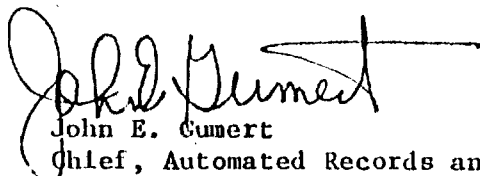
Dear Ms. McClintock:

We have checked the two plats which were prepared by the John W. West Engineering Company dated August 10, 1988, and November 17, 1988. The plat of August 10, 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 28. Our calculation agrees with this plat. The plat dated November 17, 1988, is a surveyor's adjustment of the description in the 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. This lease contains wording that the area of the lease is "Section 28, All, except Red Bluff 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 require. If we can provide any other information, please contact us at any time.

Sincerely,

A handwritten signature in dark ink, appearing to read "John E. Gurnert", with a long horizontal stroke extending to the right.

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

cc:

NM (943C)

MALLON OIL COMPANY

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

April 24, 1989

U.S. Department of the Interior
Bureau of Land Management
P.O. Box 1449
Santa Fe, New Mexico

Attention: Mr. John Gumert

Re: Amoco-Red Bluff #2 Well
Township 26 South, Range 29 East, NMPM
Eddy County, New Mexico

Dear Mr. Gumert:

Pursuant to our phone conversation on this date, enclosed please find the original Red Bluff - Bureau of Land Management survey notes and a plat prepared by John West Engineering as it pertains to Section 28-T26S-R29E, NMPM.

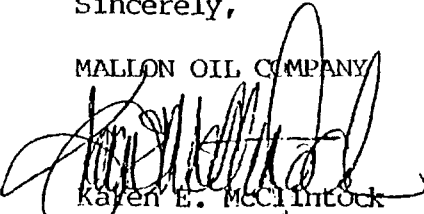
As you indicated in your October 4, 1988 letter to our attorney, Mr. Ernie Padilla, you are in agreement that the error in the metes and bounds survey creates a gap in the tract boundary, in regards to Section 27-T26S-R29E, NMPM. Mallon Oil Company is planning on drilling a second well that is also affected by this survey error in Section 28.

At this time, Mallon Oil Company respectfully requests that the Bureau of Land Management review the enclosed plats and confirm, by letter, that the correction plat prepared by John West Engineering for Section 28 is reasonably accurate and was prepared to portray boundaries of the tract as it should have been if the metes and bounds description had not been in error.

Your response to this letter is greatly appreciated.

Sincerely,

MALLON OIL COMPANY



Karen E. McClintock
Landman

KEM:er
Enclosure

The following description was prepared by M. R. Estes, surveyor for the Red Bluff Water Power Control District, and certified as to being true and correct as to boundaries, corners and lines of the Red Bluff Water Power Control District Reservoir in the State of New Mexico on May 20, 1936, and further approved by the Bureau of Land Management on August 4, 1937.

FIELD NOTES

Red Bluff Reservoir

Parcel II

Sec. 27; Tsp. 26 South, Range 29 East, Eddy County, New Mexico.

Beginning at a point in the South line of sec. 27, Tsp. 26 South, Range 29 East, Eddy County, New Mexico, which point is East along said South line of sec. 27, a distance of 1228.1' from the Southwest corner of said Sec. 27;

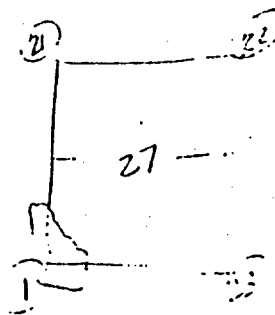
Thence North $26^{\circ} 24\frac{1}{2}'$ East 70.9' to a point; (2)
 Thence North $68^{\circ} 54'$ West 186.2' to a point; (3)
 Thence North $8^{\circ} 46'$ West 279.0' to a point; (4)
 Thence North $31^{\circ} 17'$ West 223.9' to a point; (5)
 Thence North $48^{\circ} 30'$ West 330.0' to a point; (6)
 Thence North $23^{\circ} 36'$ West 263.1' to a point; (7)
 Thence North $28^{\circ} 13'$ West 251.4' to a point; (8)
 Thence North $72^{\circ} 45'$ East 249.2' to a point; (9)
 Thence North $60^{\circ} 17'$ West 422.0' to a point; (10)
 Thence North $57^{\circ} 49\frac{1}{2}'$ West 259.4' to a point; (11)
 Thence North $2^{\circ} 35\frac{1}{2}'$ West 304.6' to a point; (12)
 Thence North $19^{\circ} 16\frac{1}{2}'$ East 126.6' to a point; (13)
 Thence North $2^{\circ} 45\frac{1}{2}'$ East 75.5' to a point; (14)
 Thence South $54^{\circ} 15\frac{1}{2}'$ West 189.1' to a point; (15)
 Thence North $78^{\circ} 27\frac{1}{2}'$ West 176.1' to a point; (16)
 Thence North $45^{\circ} 47\frac{1}{2}'$ West 47 $\frac{1}{2}'$ to a point in the West line of said sec. 27; (17)

Thence South along the West line of sec. 27 a distance of 2149.8' to the Southwest corner of said sec. 27; (18)

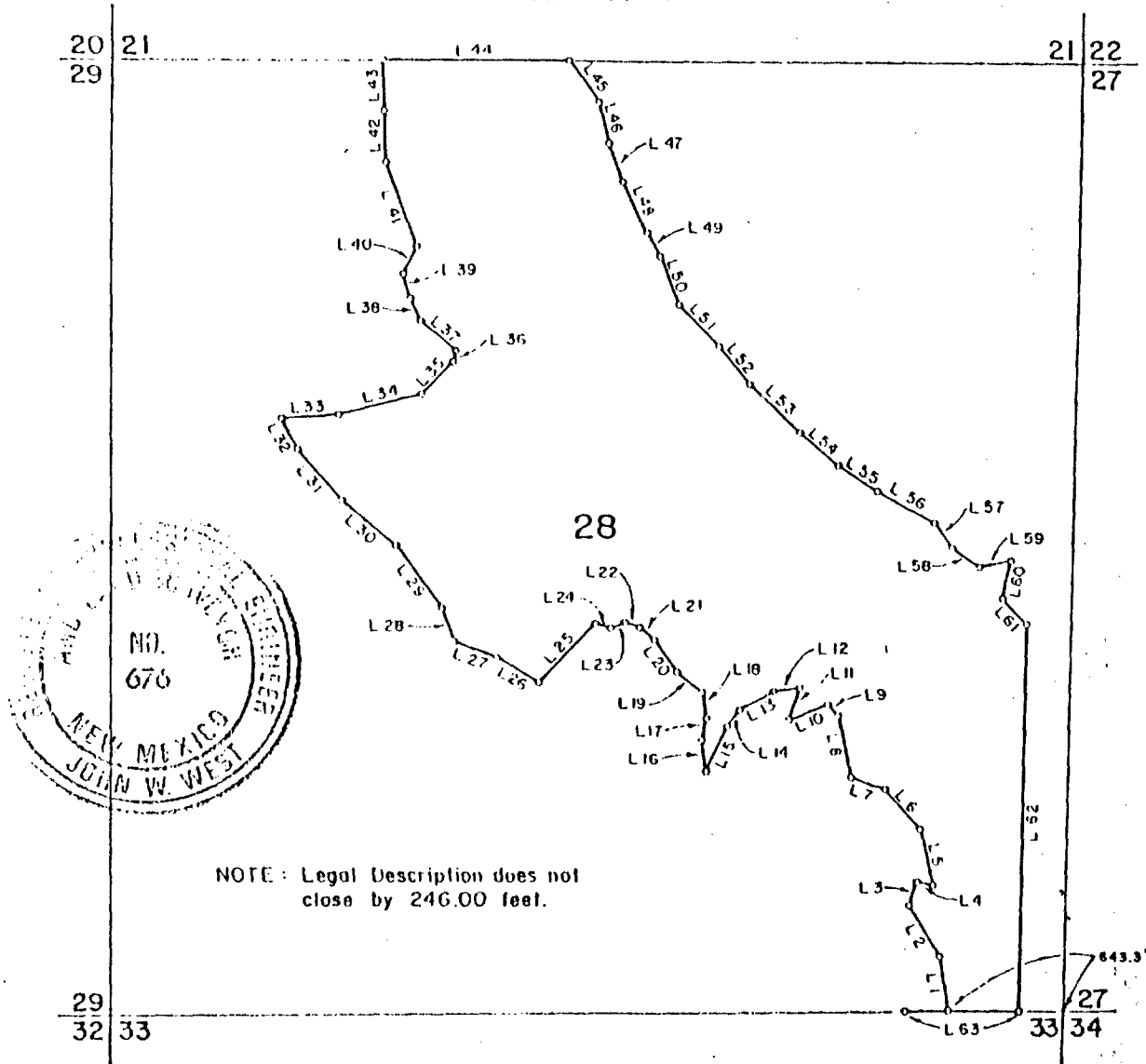
Thence East along the south line of sec. 27 a distance of 1228.1' to the point of beginning. (20)

The above described tract containing 38.5 acres, more or less.

Does NOT close by
300.24'



SECTION 28, TOWNSHIP 26 SOUTH, RANGE 29 EAST, N.M.P.M.,
EDDY COUNTY, "EXHIBIT A" NEW MEXICO



LINE NO.	BEARING	DISTANCE	LINE NO.	BEARING	DISTANCE
1	N 07°47'30" W	318.90'	33	N 86°28'00" E	319.20'
2	N 31°50'30" W	323.00'	34	N 76°44'00" E	478.50'
3	N 19°23'30" E	142.10'	35	N 45°15'00" E	250.70'
4	S 76°31'30" E	95.50'	36	N 15°13'00" E	60.80'
5	N 11°53'30" W	322.70'	37	N 48°47'00" W	265.50'
6	N 41°00'30" W	290.30'	38	N 24°16'00" W	143.00'
7	N 72°34'30" W	205.80'	39	N 15°03'30" W	134.40'
8	N 09°43'00" W	366.40'	40	N 29°27'30" E	172.00'
9	N 45°08'00" W	83.30'	41	N 20°03'00" W	499.40'
10	S 67°01'00" W	236.70'	42	N 00°56'00" W	274.00'
11	N 21°04'00" E	195.70'	43	N 01°44'00" W	272.50'
12	S 82°19'00" W	148.30'	44	S 89°43'00" E	1036.80'
13	S 62°14'00" W	225.50'	45	S 35°37'30" E	279.70'
14	S 38°46'00" W	114.70'	46	S 14°26'30" E	226.20'
15	S 23°23'00" W	294.50'	47	S 19°12'00" E	217.50'
16	N 06°39'00" W	192.90'	48	S 24°43'00" E	307.50'
17	N 15°04'00" E	128.40'	49	S 28°55'00" E	155.70'
18	N 06°42'00" W	142.00'	50	S 20°28'00" E	289.20'
19	N 52°08'00" W	187.70'	51	S 43°08'00" E	314.50'
20	N 34°20'00" W	213.30'	52	S 39°22'00" E	270.50'
21	N 51°37'00" W	103.00'	53	S 46°13'30" E	387.10'
22	N 72°43'00" W	85.30'	54	S 48°20'30" E	291.20'
23	S 65°56'00" W	86.60'	55	S 57°44'30" E	247.70'
24	N 69°58'00" W	91.30'	56	S 62°05'30" E	355.90'
25	S 44°00'00" W	453.70'	57	S 33°23'30" E	170.90'
26	N 58°13'00" W	270.10'	58	S 55°49'30" E	180.20'
27	N 70°55'00" W	254.60'	59	N 78°38'30" E	182.20'
28	N 19°23'00" W	186.40'	60	S 14°55'30" W	220.60'
29	N 35°08'00" W	432.80'	61	S 45°47'30" E	195.60'
30	N 50°24'00" W	392.20'	62	S 01°58'00" W	2149.80'
31	N 41°16'00" W	369.70'	63	S 89°47'00" W	643.30'
32	N 26°42'00" W	191.40'			

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
Tanner, B. D. Co. No. 1112

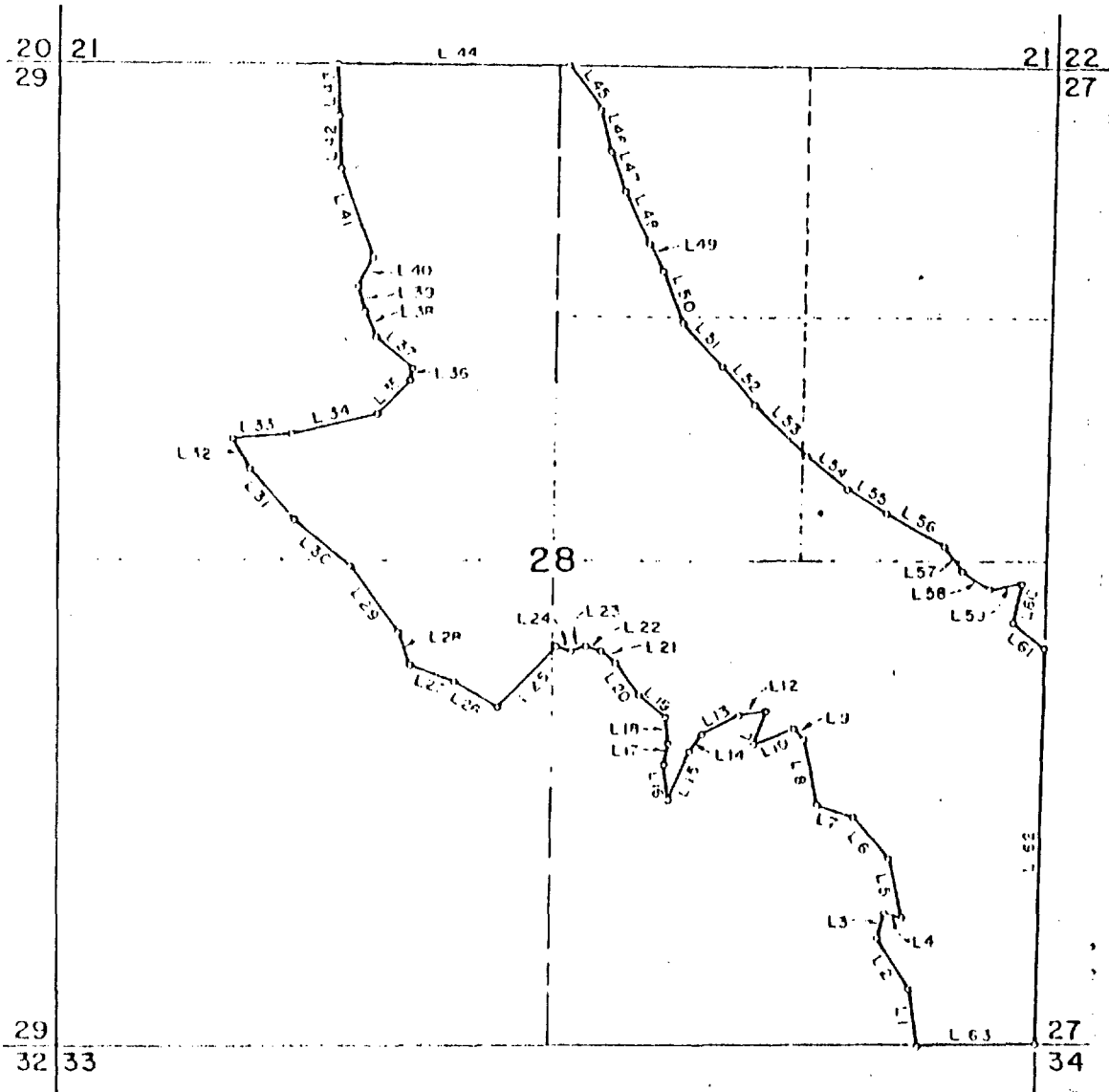
RED BLUFF POWER WATER CONTROL DISTRICT

Plot of B.L.M. legal description within Section 28, 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

SECTION 28, TOWNSHIP 26 SOUTH, RANGE 29 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO



SUBDIVISION ACREAGE

NW 1/4, 11.384 Ac.
SW 1/4, 34.497 Ac.
SE 1/4, 5.656 Ac.



LINE NO.	BEARING	DISTANCE	LINE NO.	BEARING	DISTANCE
1	N 02°42'46" W	318.21'	31	N 41°12'20" W	369.53'
2	N 41°51'14" W	322.85'	32	N 26°42'54" W	191.00'
3	N 19°26'12" E	162.02'	33	N 86°30'02" E	319.10'
4	S 76°29'11" E	95.51'	34	N 76°46'00" E	478.44'
5	N 11°53'54" W	122.51'	35	N 45°16'28" E	250.60'
6	N 51°01'50" W	290.17'	36	N 15°13'13" E	60.71'
7	N 72°16'27" W	205.76'	37	N 48°48'32" W	265.40'
8	N 09°43'20" W	366.17'	38	N 24°16'50" W	162.92'
9	N 65°09'26" W	81.26'	39	N 15°04'01" W	116.32'
10	S 66°59'02" W	236.35'	40	N 29°28'31" E	171.91'
11	N 21°05'45" E	195.59'	41	N 20°03'41" E	499.12'
12	S 82°16'58" W	148.31'	42	N 00°56'01" W	271.84'
13	S 62°12'11" W	225.56'	43	N 01°44'03" E	272.34'
14	S 38°43'44" W	116.35'	44	S 89°43'00" E	1252.33'
15	S 21°22'11" W	296.66'	45	S 35°32'30" E	285.66'
16	N 06°19'13" W	192.79'	46	S 14°26'08" E	225.92'
17	N 15°06'13" E	128.33'	47	S 19°11'55" E	217.21'
18	N 06°42'13" W	141.92'	48	S 24°43'20" E	307.12'
19	N 52°09'16" W	107.63'	49	S 28°55'30" E	135.51'
20	N 35°21'08" W	213.19'	50	S 20°28'01" E	208.84'
21	N 51°18'16" E	102.96'	51	S 41°09'39" E	316.14'
22	N 72°44'57" W	85.28'	52	S 19°23'23" E	270.19'
23	S 65°56'08" W	86.62'	53	S 46°15'21" E	384.67'
24	N 69°59'55" W	91.28'	54	S 48°22'30" E	290.88'
25	S 43°58'16" W	453.89'	55	S 57°47'05" E	242.46'
26	N 58°14'45" W	270.01'	56	S 62°08'19" E	355.57'
27	N 70°56'56" W	234.55'	57	S 33°24'28" E	170.70'
28	N 19°21'40" W	186.30'	58	S 55°51'58" E	180.02'
29	N 35°09'10" W	412.59'	59	N 78°36'19" E	182.17'
30	N 50°25'35" W	392.05'	60	S 14°52'56" W	220.38'
			61	S 52°47'11" E	211.96'
				S 01°58'00" W	2149.80'
				S 89°47'00" W	643.30'

NOTE: A drawing was prepared for a tract in Section 28, Township 26 South, Range 29 East, N.M.P.M., by platting the field notes furnished by Red Bluff Water Power Control District on a U.S. General Land Office section plat. The notes were prepared by B.L. Eaton and were approved by the U.S. Bureau of Land Management on August 4, 1917. Due to an error or errors in the survey or the typed description of the survey, the tract with 61 sides did not close by 246.00 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 held the section line calls on the south and east section lines and adjusted the survey to force a closure that will contain the 270.5 acres as called for in the field notes. Obviously, we can not certify that the drawing is correct.

John W. West
John W. West, R.O. L.E. & L.S., No. 676
Eddy Co., N.M.

MALLON OIL CO.

Plat showing land leased by B.L.M. to Red Bluff Power Water Control District in Section 28, 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: 11/17/33

RECEIVED JAN 10 1990



Amoco Production Company

501 WestLake Park Boulevard
Post Office Box 3092
Houston, Texas 77253

January 5, 1990

RE: EA 52,689; Contract No. 109,066
West Pecos Area
Eddy County, New Mexico

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

ATTENTION: Karen McClintock

Amoco agrees to an extension from December 31, 1989 to January 15, 1990 for the commencement of the fifteenth additional well drilled under the Farmout Contract dated February 1, 1983 between Amoco and Harry M. Bettis, Jr.

Please acknowledge your acceptance of this extension by signing, dating and returning one copy of this letter to Emily F. Goodfellow by January 31, 1990.

Very truly yours,

A handwritten signature in cursive script, reading "Lois L. Williams".

Lois L. Williams
Division Land Manager

EFG/sdc
EFG

AGREED TO AND ACCEPTED this 10th day of January, 1990.

MALLON OIL COMPANY

A large, stylized handwritten signature in cursive script, reading "Karen E. McClintock".
By Karen E. McClintock
Landman



Amoco Production Company

501 WestLake Park Boulevard
Post Office Box 3092
Houston, Texas 77253

August 2, 1989

RE: EA 52,689; Contract No. 109,066
West Pecos Area
Eddy County, New Mexico

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

ATTENTION: Karen McClintock

Gentlemen:

Amoco agrees to an extension from August 31, 1989 to December 31, 1989 for the commencement of the fifteenth additional well drilled under the Farmout contract dated February 1, 1983 between Amoco and Harry M. Bettis, Jr.

Amoco also agrees to waive the reassignment clause until February 25, 1990 in the Assignment given to Harry M. Bettis dated August 16, 1983 covering the Amoco Federal #1 well located in the NE/4 SE/4 of Section 27, T-26-S, R-29-E, Eddy County, New Mexico.

Please acknowledge your acceptance of this extension and limited waiver by signing, dating and returning one copy of this letter to Emily F. Goodfellow by August 21, 1989.

Very truly yours,

Lois L. Williams
Division Land Manager

HJK/EFG/sdc

HJK EFG

ACCEPTED and AGREED to this 10th day of August, 1989.

MALLON OIL COMPANY

By: Karen E. McClintock
Landman

cc: Contract File No. 109066

FARMOUT CONTRACT

THIS AGREEMENT, made and entered into as of the 1st day of February, 1983, by and between:

AMOCO PRODUCTION COMPANY, a corporation, with an office at 501 WestLake Park Boulevard, Houston, Texas 77079, whose mailing address is P. O. Box 3092, Houston, Texas 77253, hereinafter called "Amoco",

and

HARRY M. BETTIS, JR., an individual, with an office at 118 Western United Life Building, Midland, Texas 79701, hereinafter called "Operator";

W I T N E S S E T H:

THAT, WHEREAS, Amoco has agreed to assign portions of its interest in certain oil, gas and mineral leases to Operator to the extent indicated hereinbelow, subject to all the terms, covenants and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter contained, to be kept and performed by the parties hereto, it is hereby agreed by and between the parties as follows:

ARTICLE 1: DEFINITIONS

In this agreement, unless the content otherwise clearly indicates, words used in the singular include the plural, the plural include the singular, the neuter gender includes the masculine and feminine, and all words and terms shall have their usual and customary meaning unless specifically defined hereinbelow or elsewhere in this agreement.

(1) "Party" and "parties": The words "party" and "parties" shall always mean a party or parties to this agreement, and such parties shall be referred to as "it" or "they", whether such parties be corporate bodies, partnerships, associations, or persons real.

(2) "Subject Area": This term shall mean the following described land in ~~Lea~~ County, New Mexico:

Eddy

See Exhibit "A-1" attached hereto and made a part hereof.

(3) "Contract Acreage": This term shall mean the following described oil, gas and mineral lease or leases:

See Exhibit "A-1" attached hereto and made a part hereof,

and the rights therein and the land covered thereby, insofar (and only insofar) as said lease or leases cover the Subject Area:

(4) "Contract Depth": This term used in connection with any well drilled by Operator under the provisions of this agreement, shall mean the depth to which said well is required to be drilled according to the provisions of this agreement.

(5) "Productive Well": This term shall mean an oil and/or gas well capable of producing oil and/or gas in commercial quantities, which is either productive, or has been completed as a shut-in gas well.

(6) "Working Interest": This term shall mean the right to explore for and produce oil, gas and other minerals. When used in connection with a mineral lease it means the leasehold or operating interest under such lease; i.e., it is the entire mineral interest covered by said lease (all the mineral rights the lessor had before the lease was executed) subject to the terms of the lease. Under a lease covering all (8/8) of the minerals in a tract of land and providing for a 1/8 Lessor's royalty, the owner of the working interest bears all (8/8) of the cost of operations and is entitled to 7/8 of 8/8 of all production from said land (the other 1/8 of 8/8 being Lessor's share of the production).

ARTICLE 2: TITLES - PARTIES TO EXCHANGE TITLE INFORMATION

Amoco does not warrant the title to the aforesaid leases or Contract Acreage, but shall upon request furnish to Operator without any liability whatsoever as to the accuracy thereof such abstracts and other title papers as it has in its files, together with photostatic copies of the basic leases and all intermediate assignments thereof. There shall be no obligation on the part of Amoco to purchase new or supplemental abstracts, obtain any title opinions, nor to do any curative work in connection with the title to said leases or Contract Acreage. It is agreed that, upon request, Operator shall furnish to Amoco, free of all costs, but without any liability as to the accuracy thereof, copies of all abstracts of title, title opinions and memorandums, curative material, and all other information and data relating to, or connected with, the title to the Contract Acreage which Operator may obtain or has in its possession. It is understood that since Amoco may own less than the entire leasehold estate in the leases comprising the Contract Acreage and said leases may not cover all of the minerals in the land described

therein, this agreement covers only the interest of Amoco in the Contract Acreage.

ARTICLE 3: TEST WELLS

3(1) Initial Well:

Operator, prior to 5-15-83, shall commence the actual drilling of a test well (hereinafter sometimes referred to as the "Initial Well") to be located in the NW/4 of Section 28, T-26-S, R-29-E, ~~Lea~~ ^{SFM} County, New Mexico on the Contract Acreage and thereafter shall prosecute the drilling of said well diligently, without unnecessary delay and in a good workmanlike manner to the least (shallowest) of the following described depths (which said least or shallowest depth shall hereinafter be called "Contract Depth" for said well):

- (a) 7,000 feet below the surface of the earth, or
- (b) A depth sufficient in the opinion of Amoco to test the Delaware formation.

The said well must be drilled to Contract Depth and completed as a Productive Well or plugged and abandoned within ninety (90) days after actual drilling is commenced thereon.

3(2) Additional Wells May Be Drilled Until All Of The Contract Acreage Is Included In Well Tracts Around Earning Wells:

If Operator drills the Initial Well within the time and in the manner required, then Operator may (but shall not be required to) drill one or more additional test wells (hereinafter referred to as "Additional Wells") on the Contract Acreage until Operator has completed a sufficient number of Additional Wells as Productive Wells which qualify as Earning Wells (as defined hereinafter), so that all of the Contract Acreage is included in the Well Tracts (as defined hereinafter) around such Earning Wells; provided, however, that each such Additional Well must be drilled in strict compliance with the following terms and provisions:

- (a) Each Additional Well must be located at a location satisfactory to both Amoco and Operator on the Contract Acreage;

for all purposes under the provisions of this agreement (unless the contrary is specifically indicated), as the test well for which it is a substitute; it being understood, however, that no portion of the costs and expenses incurred in connection with such original well shall ever be considered as part of the cost of drilling the substitute well, and each substitute well shall be considered as a separate and individual well (unless the contrary is specifically provided).

3(5) Notification to Amoco:

Operator shall notify Amoco immediately when the location for each test well drilled under the provisions hereof is staked, when the material for the drilling thereof is moved to the location and when actual drilling is commenced. After actual drilling has been commenced and until said well has been completed as a producer or plugged and abandoned as a dry hole, Operator shall furnish to Amoco daily reports as to the progress of drilling and any and all other information requested by Amoco relative to the drilling of said well.

3(6) Operator to Complete or Plug:

If any test well drilled under the provisions hereof proves to be capable of producing oil or gas in commercial quantities, it shall be equipped for production by Operator. An oil well shall be completed through lease storage; a gas well shall be completed to the pipeline connection unless no market is available, in which case it shall be completed as a shut-in gas well. If said well proves to be incapable of producing oil or gas in commercial quantities, Operator shall plug same in accordance with the laws of the State where the said well is located.

ARTICLE 4: COST OF TEST WELLS

Unless hereinafter otherwise provided, the entire cost, expense and risk of the drilling, completing, equipping, producing, plugging and abandoning of each and every well, and any other operations provided for under the provisions hereof, shall be borne by Operator, it being understood and agreed that the liability and risk to be borne by

Operator (and Operator shall indemnify and hold Amoco harmless from such liability and risk) shall include, but shall not be limited to, any claim, demand, action, cause of action, judgment, attorney's fee or expense of investigation or litigation for injury to or loss or destruction of property or resources contained within, or for injury to or death of any person arising out of or in connection with the drilling, testing, completing, equipping, producing, plugging or abandoning of any well hereunder, or any other operations conducted under the terms hereof, whether through an act or omission of a party hereto or otherwise. It is agreed that the said liability and risk to be borne by Operator (and from which Amoco is to be held harmless), includes, without limitation, any fine, claim or penalty, on behalf of private individuals, entities, or governmental authority, relating to or connected with, any extractible resource or environmental loss, damage or injury of any sort. Upon completion and, as a condition precedent to Amoco's obligation to perform in accordance with the provisions hereof, Operator shall furnish evidence satisfactory to Amoco that all bills have been paid in connection with each and every well drilled by Operator under the provisions hereof.

ARTICLE 5: GEOLOGICAL INFORMATION CONCERNING TEST WELL

It is understood and agreed that the requirements for geological information hereinafter set out are of the utmost importance to Amoco and go to the essence of this agreement. Failure to timely comply with the provisions of this Article shall be considered a material breach of this Agreement.

5(1) Formation Samples:

Operator shall give the representatives of Amoco access to all test wells drilled under the provisions hereof, including the derrick floor, at all reasonable hours; and Amoco shall be furnished samples of all cores and cuttings, consecutively taken, from each such well unless Amoco elects to take such samples itself.

5(2) Formation Tests:

Operator shall properly test, to the reasonable satisfaction of Amoco, each prospective oil or gas horizon and, upon encountering such horizon in the drilling of each test well drilled

under the provisions hereof, shall notify Amoco when such horizon is to be tested and shall allow Amoco sufficient time to have a representative present when such horizon is tested. If electrical surveys are made, either before or after such well has been drilled to the total depth provided for herein, and if the information from such surveys, considered by itself or in conjunction with other indications or evidence from cuttings, cores or showings, indicates a formation which shows promise of being a prospective oil or gas horizon, Operator shall properly test such horizon if it was not adequately tested (in the opinion of Amoco) at the time it was penetrated.

5(3) Well Formation Survey:

When each well drilled under the provisions hereof has been drilled to the total depth provided for herein, Operator shall cause to be made an electrical well formation survey or surveys, which shall include all of the open hole below the surface pipe, and such additional surveys as, in the opinion of Amoco, may be necessary to enable the determination of formation porosity and formation water saturation. Said surveys shall be made by well surveying concerns which are satisfactory to Amoco. Operator shall furnish to Amoco, four (4) copies of the logs obtained from such surveys. Digitally recorded and composited merged library tapes for each test well shall be furnished to Amoco. If any other surveys are made, Operator shall furnish to Amoco copies of the logs of such surveys.

5(4) Special Tests May Be Made By Amoco:

If Amoco elects so to do, Operator shall permit Amoco, at its sole cost, expense and risk, to make such special tests as it may desire in any well drilled under the provisions hereof, including (but not limited to) lowering any or all of the following: (a) a geophone; (b) a velocity logging sonde; and (c) a Schlumberger Diamond Core Slicer; in any test well drilled under the provisions hereof, for the purpose of making any test desired; provided, that Amoco shall pay for the time any of such instruments is in use at the usual rate charged for such time in the area. The exercise by Amoco, of its rights under the provisions of this paragraph, shall never be construed as relieving Operator of its obligations with regard to completing (if the said well is capable of

commercial production), or (if such well is not capable of commercial production) plugging and abandoning each test well drilled under the provisions hereof, and in no event shall Amoco ever pay any part of the normal cost of plugging and abandoning (which includes filling mud pits, removal of derrick, board roads, etc., and the restoration of the premises as nearly as possible to the original condition to the satisfaction of the landowner) said wells. If, however, there are abnormal plugging and abandoning costs in connection with any said well in which Amoco has carried out any of the tests provided for in this paragraph, which said abnormal costs were caused by said tests, such excess of the normal cost (of plugging and abandoning) shall be borne solely by Amoco.

Amoco May Require Additional Testing:

Notwithstanding any other provisions elsewhere contained herein, it is agreed and understood between the parties hereto that Amoco shall have the continuing option during the drilling of each well drilled under the provisions hereof to require such tests of prospective oil and gas producing formations encountered during the drilling thereof which Amoco, in its sole opinion, judges should be made. Each such test prescribed by Amoco shall be commenced within forty-eight (48) hours after receipt of notice by Operator requiring such test and shall be completed promptly and diligently; failing which, all rights under this contract inuring to the benefit of Operator shall ipso facto terminate without any liability thereunder by Amoco to Operator, and (if the said well is located on the Contract Acreage) Amoco shall acquire title to the well and all equipment appurtenant thereto, payment for which shall be made by Amoco to Operator, based only upon the salvage value of the salvageable equipment and material in the well. By "salvage value" is meant the fair market value at the wellsite surface of such equipment and material as can be removed from the hole to the surface, after deduction therefrom of an amount equivalent to such necessary costs and expenses as would be incurred if the equipment and material actually were removed from the hole.

ARTICLE 6: DELAY RENTALS AND SHUT-IN GAS WELL ROYALTY

In the event that, prior to the delivery of an assignment by Amoco to Operator hereunder, any delay rentals should become due and payable on the Contract Acreage covered hereby, Amoco shall make a bona fide effort to pay such delay rentals, and Operator shall subsequently reimburse Amoco for one hundred percent (100%) of such rentals. Such reimbursement shall be made not later than fifteen (15) days after Operator has received Amoco's billing thereof. Operator shall give Amoco written notice prior to the time that any gas well drilled under the provisions hereof is shut-in. In the event that any well drilled under the terms hereof is completed as a shut-in gas well, and shut-in gas well royalty becomes due and payable under the provisions of any lease or leases comprising a portion of the Contract Acreage prior to the delivery of an assignment by Amoco to Operator hereunder covering such portion of the Contract Acreage, Operator shall make a bona fide effort to pay such shut-in gas well royalty and shall receive no reimbursement therefor from Amoco.

ARTICLE 7: INSURANCE

Operator shall secure and maintain during the term of this agreement, with insurance companies satisfactory to Amoco, insurance to cover Operator's operations on the Contract Acreage covered by this agreement, as follows:

- (a) Workmen's Compensation Insurance to fully comply with the laws of the jurisdiction where operations are to be performed, and with employers liability insurance including, if any operations hereunder are to be conducted in inland waters, bays or marshes, endorsements covering:
 - (1) United States Longshoremen's and Harbor Worker's Compensation Act.
 - (2) Employer's Liability covering maritime operations with limits of liability of \$500,000 for death or injury to one person and \$500,000 for deaths or injuries arising out of one accident.
- (b) Comprehensive General Liability Insurance, excluding products, but including watercraft liability if any operations hereunder are to be conducted in inland waters, bays or marshes: A single combined limit of \$500,000 each accident for bodily injuries or death and property damage.

- (c) Comprehensive Automobile Public Liability and Property Damage Insurance with a single combined limit of \$500,000 each accident for bodily injuries or death and property damage.

Operator shall also require Operator's contractors and subcontractors working or performing services on the Contract Acreage to comply with the Workmen's Compensation laws of the jurisdiction where the Contract Acreage is located, and to carry such other insurance in amounts as Operator deems necessary.

ARTICLE 8: DEFAULT

If Operator fails to comply (time being of the essence) with any of the provisions of this agreement, Amoco at its option may terminate this agreement; provided, that in so doing Amoco shall not be deemed to be precluded from exercising any other rights or remedies at law or in equity, which it may have for the breach of this agreement by Operator or for Operator's failure to perform this agreement, in whole or in part. It is agreed that in the event of termination of this agreement for any reason after Operator has commenced the drilling of one or more wells located on the Contract Acreage under the terms hereof, then Amoco shall have the right and option (but no obligation) to acquire title to any or all of said wells and all equipment appurtenant thereto by notifying Operator that it desires to take over said well or wells, and paying Operator the salvage value of the salvageable equipment and material in each such well (as to which Amoco exercises said option). By "salvage value" is meant the fair market value at the wellsite surface of such equipment and material as can be removed from the hole to the surface, after deduction therefrom of an amount equivalent to such necessary costs and expenses as would be incurred if the equipment and material actually were removed from the hole.

ARTICLE 9: NOTICE

Except as herein otherwise expressly provided, any notices, samples, reports, copies of logs and surveys, and all other information and data required or permitted hereunder shall be deemed to have been properly given or delivered to a party hereto when delivered personally or when sent by certified or registered mail (return receipt requested),

or by telex or telegraph, with all postage and charges fully prepaid, to such party at the address heretofore given for such party. The date of service by mail (unless specifically provided hereinbelow to the contrary) shall be the date on which such written notice or other communication is deposited in the United States Post Office, addressed as above provided. The date of service by telegraph or telex shall be the date when it is sent. Each party hereto shall have the right to change its address for all purposes of this contract by notifying the other party hereto thereof in writing.

ARTICLE 10: ASSIGNABILITY

Operator shall not assign this agreement, in whole or in part, without the written consent thereto of Amoco.

ARTICLE 11: RESTORATION OF PREMISES

Unless hereinafter otherwise specifically provided, if any well drilled under the provisions hereof is not completed as a producer of oil or gas, Operator shall, at Operator's sole cost and expense, restore the premises to their former state (which shall include the filling of all pits, removal of derrick, board roads, and all other equipment and material, and the doing of all things necessary to the restoration of the premises as nearly as possible to their original condition to the satisfaction of the landowner), and shall furnish evidence satisfactory to Amoco that these things have been done.

Failure to perform any restoration or clean-up operation within a reasonable time after completion or abandonment or failure to settle any claims in connection with damage to growing crops therewith within sixty (60) days after written demand from Amoco, shall give Amoco the option to perform such restoration or clean-up operations, and Operator agrees to reimburse Amoco for all expenses so incurred.

ARTICLE 12: PERFORMANCE

12(1) Each Productive Well Is An "Earning Well" -
Definition of "Earned Depth":

Each test well provided for under the provisions of Article 3 ("TEST WELLS") hereinabove which Operator has drilled to

Contract Depth and completed as a Productive Well all in strict compliance with all of the terms and provisions hereinabove set out, shall hereinafter be called an "Earning Well", and the term "Earned Depth", used in connection with an Earning Well or a Well Tract (as defined hereinbelow) on which an Earning Well is located, shall mean 100 feet below the depth to which such well was drilled and logged, but in no event below the base of the Delaware formation.

12(2) Proration Unit Is The "Well Tract":

When and if a test well provided for under the provisions of Article 3 ("TEST WELLS") hereinabove has been drilled by Operator to Contract Depth and is completed as a Productive Well which qualifies as an "Earning Well", the land allocated to said well for proration purposes as a proration unit under the rules and regulations of the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico shall hereinafter be called the "Well Tract" for said well; provided, however, that the location and shape of each proposed proration unit must be satisfactory to Amoco, and it is a condition precedent to the performance of Amoco hereunder that the location and shape of each proration unit which includes any portion of the Contract Acreage must be approved in writing by Amoco.

12(3) Assignment After Completion of Each Earning Well:

Whenever Operator has drilled a test well provided for hereinabove under the provisions of Article 3 ("TEST WELLS") to Contract Depth (for said well) and has completed said well as a Productive Well which qualifies as an "Earning Well" (and the provisions of this paragraph are applicable to each such Earning Well), and provided that Operator has fully complied with and performed all the terms, provisions and conditions herein contained, the performance of which is at that time required, time being of the essence of this agreement, Amoco shall execute and deliver to Operator the following described assignment:

An assignment of all right, title and interest of Amoco in and to the oil and gas rights down to Earned Depth (for said well) in the Contract Acreage insofar as it covers the Well Tract (around said well), but excepting

from said assignment and reserving to Amoco, the following described overriding royalty (hereinafter called "Assignor's Overriding Royalty"):

25% of 8/8 of all production from the said assigned rights in the Contract Acreage, less Landowners' Royalty and presently existing burdens (as used herein, "Landowners' Royalty" means the royalty reserved to the owners of the minerals covered by an oil and gas lease under the terms of said lease, and "presently existing burdens" means all other royalties, overriding royalties, production payments, and other burdens and encumbrances to which the Contract Acreage is subject on the date of said assignment), using therefor the form of assignment attached hereto as Exhibit "A-2".

12(4) Approval of Assignment Forms:

With respect to the form of assignment attached hereto as Exhibit "A-2", the parties hereto hereby approve and confirm all the terms, covenants and conditions therein set forth, and agree that any assignment provided for hereinabove shall be subject to and in accordance with, and shall contain the terms, covenants and conditions contained in said form of assignment.

ARTICLE 13: RESTRICTION ON THE RIGHT OF OPERATOR TO DEDICATE GAS

Operator hereby warrants that there is no existing gas sales contract which would dedicate gas owned by Operator which is produced from the Contract Acreage. Furthermore, it is agreed that any gas sales contract subsequently executed by Operator will make reference to this agreement, and will specifically state that Operator has no authority, right, or intent to dedicate, and purchaser does not intend to purchase, any gas production from the Contract Acreage which Amoco owns. Operator hereby agrees that it will not execute a gas sales contract covering any portion of the Contract Acreage without first having obtained the written approval of Amoco as to that portion of such contract which describes the interest to be dedicated. Any certification by the Federal Energy Regulatory Commission or any successor agency authorizing the sale of gas from the Contract Acreage which is received by Operator shall be promptly furnished to Amoco, and Operator hereby agrees that it will neither accept such certification or commence deliveries thereunder, without first having received the written approval of Amoco

who
selling
gas
to

EFFECT OF AGREEMENT:

The terms, covenants and conditions of this agreement (including the Exhibits attached thereto) shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; and the said terms, covenants and conditions shall be covenants running with the land and leasehold estate covered hereby, and with each transfer or assignment of said land or leasehold estate.

EXECUTED as of the day and year first above written.

AMOCO PRODUCTION COMPANY

By

William T. Hale
Its Attorney-in-Fact

Harry M. Bettis, Jr.
Harry M. Bettis, Jr.

THE STATE OF Texas |

COUNTY OF Harris |

BEFORE ME, the undersigned authority, on this day personally appeared William T. Hale, known to me to be the person who executed the foregoing instrument, and known to me to be the Attorney-in-Fact of AMOCO PRODUCTION COMPANY, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, as the act and deed of said corporation, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 11th day of March, 1983.

My Commission Expires:
CHERYL A. VEAL
Notary Public, State of Texas
My Commission Expires July 18, 1984

Cheryl A. Veal
Notary Public in and for
Harris County, Texas

THE STATE OF _____ |

COUNTY OF _____ |

BEFORE ME, a Notary Public, on this day personally appeared HARRY M. BETTIS, JR., known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND OFFICIAL SEAL this ____ day of _____, 19____.

My Commission Expires:

Notary Public in and for

County, _____

EXHIBIT "A -1"
(To Farmout Contract dated
February 1, 1983, between
Assignor and Assignee

NM - 23286

LESSOR - U.S.A.
LESSEE - John B. Purdy
DATE OF LEASE - January 1, 1975
EXPIRATION DATE - JANUARY 1, 1985
DESCRIPTION: T26S-R29E N.M.P.M.

SECTION 7: LOTS 3,4, E/2 SW/4, SE/4
SECTION 18: LOTS 1,2, E/2 NW/4
SECTION 19: SE/4

NM - 38636

LESSOR - U.S.A.
LESSEE - Don Wright
DATE OF LEASE - February 1, 1980
EXPIRATION DATE - February 1, 1991
DESCRIPTION: T26S-R29E N.M.P.M.

SECTION 17: N/2 NE/4, SE/4 NE/4, NW/4, 441.92
N/2 S/4, SW/4 SW/4 (Excluding
36.08 acres lying within the
Red Bluff Reservoir) 436.10

SECTION 28: All (Excluding 203.9 acres lying
within the Red Bluff Reservoir)

SECTION 29: N/2, N/2 SE/4,
SE/4 SE/4. 440

WMB

EXHIBIT "A-2"

(To Farmout Contract
dated February 1, 1983,
between Assignor and Assignee)

ASSIGNMENT OF OPERATING RIGHTS

THIS AGREEMENT, made and entered into by and between:

AMOCO PRODUCTION COMPANY, a Delaware corporation,
with an office at 501 Westlake Park Boulevard,
Houston, Texas 77079, hereinafter called "Assignor",

and

HARRY M. BETTIS, JR., an individual, with an office
at 118 Western United Life Building, Midland, Texas
79701, hereinafter called "Assignee"

WITNESSETH:

THAT, WHEREAS, pursuant to the provisions of certain Farmout
Contract between Assignor and Assignee, Assignor desires to convey to
Assignee a portion of its interest in the Operating Rights (as defined
hereinafter) in and under the oil and gas leases described in Exhibit 1* from
the United States of America, MISOPE (AND ONLY MISOPE) as said leases cover
the interval in the tract of land described hereinafter:

(Here shall be inserted a description of)
(the surface area for the tract of Land)
(which is referred to as the "Well Tract")
(in the Farmout Contract and Joint Operating)
(Agreement between Assignor and Assignee, to)
(which a copy of this form of Assignment is)
(attached as an Exhibit thereto.)

from the surface of the earth down to and including, but not below, that
subsurface depth which is _____** feet below the surface of the
earth, but in no event below the base of the Delaware formation (The
said interval in the above described land is sometimes hereinafter
referred to as the "Assigned Premises."); and

* This Exhibit will contain a description of whichever of the leases referred
to in said Farmout Contract as the "Contract Acreage" cover the above tract
of land.

**The number to be filled in here shall be "Earned Depth" in feet as that
term is defined in the Farmout Contract to which a copy of this form of
assignment is attached as an Exhibit thereto.

WHEREAS, the above described oil and gas leases, the rights therein, and the land covered thereby, insofar (and only insofar) as said leases cover the Assigned Premises, are hereinafter sometimes referred to as the "Lease Acreage"; and the term "Operating Rights" in said Lease Acreage means the exclusive right to drill and operate for the discovery and production of oil and gas in and on the above described Lease Acreage, with the exclusive right to take and appropriate the oil and gas so produced from the said Lease Acreage, subject to the terms and provisions of said leases;

NOW, THEREFORE, in consideration of the premises and of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, Assignor hereby does assign, transfer and convey, subject to all of the provisions hereinafter set out, without warranty of title, either express or implied, unto Assignee, all of Assignor's right, title and interest in and to the said Operating Rights in the above described Lease Acreage.

TO HAVE AND TO HOLD said interest in the Operating Rights in the Lease Acreage unto Assignee and Assignee's successors in interest, subject to the following terms, covenants and conditions:

ARTICLE 1: SUBJECT TO ALL EXISTING BURDENS

The term "Existing Burdens" as used herein shall mean all royalties (including, but not limited to that royalty, sometimes called "Landowners' Royalty," which is reserved to the owners of the minerals covered by an oil and gas lease under the terms of such lease.), overriding royalties, production payments, net profits obligations, carried working interests and all other payments out of or with respect to production with which the Lease Acreage is burdened as of the date hereof. The interest in the Lease Acreage covered hereby is conveyed by Assignor and accepted by Assignee subject to the Existing Burdens with which said Lease Acreage is encumbered (including royalties and overriding royalties owned by Assignor, if any); and Assignee hereby assumes and agrees to pay, perform or carry, as the case may be, its proportionate part of each of said Existing Burdens to the extent that such Existing Burdens are or remain a burden on the interest in the Lease Acreage herein assigned.

ARTICLE 11: OVERRIDING ROYALTY RESERVATION

1. In addition to any and all Existing Burdens to which said Lease Acreage may be subject, Assignor hereby excepts and reserves unto itself, its successors and assigns, an overriding royalty (hereinafter sometimes called "Assignor's Overriding Royalty") on all oil and gas and other minerals produced from, or allocated to, the Assigned Premises, equal to 25% of 8/8, less Existing Burdens (including the royalty reserved to the owners of the minerals covered by an oil and gas lease under the terms of such lease), of:

- (a) All oil, distillate, condensate and other liquid hydrocarbons produced and saved, which shall be delivered free of all cost and expense, except taxes on production, at the well or wells or, at Assignor's option, to the credit of Assignor into the pipeline to which said well or wells may be connected;
- (b) The market value at the well of all gas and casinghead gas produced and saved, which shall be paid to Assignor free of all cost and expense, except taxes on production; provided however, that on gas or casinghead gas sold under a contract entered into after bona-fide arms-length negotiations with a party not an affiliate of Assignor, Assignor's Overriding Royalty shall be calculated on the basis of the net proceeds realized by Assignor from the sale of such gas and casinghead gas (instead of market value at the well); and
- (c) All other minerals produced and saved, free of all cost and expense, except taxes on production.

2. With respect to the overriding royalty herein excepted and reserved by Assignor, Assignor and Assignee agree as follows:

- (a) That oil and gas used in drilling and operations on the Lease Acreage and in the handling of production therefrom shall be deducted before said overriding royalty is computed;
- (b) That Assignee shall furnish to Assignor itemized monthly reports of all production from the Lease Acreage, such reports to be mailed not later than the last day of the month following that for which the report is made;
- (c) That in the event lease hereby assigned covers less than all of the oil and gas and mineral rights in the entire oil and gas and mineral estate in the land described therein (whether or not such lease purports to cover a whole or fractional interest), or, in the event the leasehold interest hereby assigned in a lease is less than the whole leasehold interest in such lease, then the overriding royalty herein retained with respect to that lease shall be proportionately reduced in accordance with the extent of the oil and gas and mineral rights covered by such lease, or the portion of the

part thereof, to Assignor. When (and if) production from the Lease Acreage has been established, it shall be conclusively presumed that Assignee has abandoned all rights hereunder unless Operations, as hereinafter defined, are thereafter conducted upon said Lease Acreage with no cessation for more than sixty (60) consecutive days. The term "Operations" as used herein, shall mean production of oil and/or gas in commercial quantities (A gas well which is capable of commercial production of gas but which is shut-in pursuant to the terms of the lease or leases covering the land on which said well is located shall be deemed to be commercially productive of gas for the purposes of this article.), or operations for, and any of, the following: drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil and/or gas, and when such abandonment occurs, at the request of Assignor, Assignee shall reassign the Lease Acreage to Assignor. It is further covenanted and agreed that Assignor shall have the right to acquire such reassignment of the Lease Acreage, or part thereof, prior to the abandonment of the last producing well located on such Lease Acreage or part thereof, with the exclusive right and option of acquiring all equipment and material appurtenant to said well located thereon, payment for which shall be made by Assignor to Assignee based on the salvage value of such equipment and material in said well (by "salvage value" is meant the fair market value at the surface of the wellsite of such equipment and material as can be removed from the hole to the surface, after deduction of an amount equivalent to such costs and expenses as would be necessary to actually remove such equipment and material from the hole). In the event Assignee fails or refuses to deliver a reassignment to Assignor as provided herein, Assignor may execute and record a document relating the facts and describing the title involved, and upon the filing of such document in the County (or Parish) Records where the Lease Acreage is located, all rights granted hereunder to Assignee shall terminate absolutely and shall revert to and revest in Assignor. All provisions herein with regard to reassignment to Assignor are in addition to and not in lieu of other rights of Assignor hereunder. In the event any rights in the Lease Acreage revert or are assigned to Assignor under the provisions of

this paragraph, the same shall be free and clear of any and all overriding royalties, production or other payments, and other interests or rights acquired from and under Assignee, all of which shall be acquired subject to this limitation, and shall be extinguished and terminated upon such reversion or assignment. In no event shall Assignee be relieved of any obligation which accrued prior to the date of such reversion or retransfer, and Assignee shall indemnify Assignor for and hold Assignor harmless from all claims and causes of action whatsoever arising as the result of or in connection with Assignee's operations on the Lease Acreage.

ARTICLE VI: COMPLIANCE WITH LEASES

This assignment is made subject to all of the terms, covenants and conditions of the leases covering the Lease Acreage, which terms, covenants and conditions Assignee hereby agrees and agrees to perform; and the terms, covenants and conditions of such leases shall be binding on Assignee not only in favor of the lessors therein and Lessor's heirs and assigns, but also in favor of Assignor herein, its successors and assigns.

ARTICLE VII: NOTICES

All notices, reports and other communications required or permitted hereunder or desired to be given with respect to the rights or interests herein assigned or reserved shall be deemed to have been properly given or delivered when delivered personally or sent by registered mail or telegraph, with all postage or charges fully prepaid, and addressed to Assignor at P. O. Box 3092, Houston, Texas 77253, or to its office at 501 Westlake Park Boulevard, Houston, Texas 77079; and to Assignee at the address hereinabove set out.

ARTICLE VIII: RENTALS AND SHUT-IN GAS WELL ROYALTY

Assignor shall make a bona fide effort to pay any delay rental on the Lease Acreage assigned hereunder that may become due on said Lease Acreage; and Assignee shall, within fifteen (15) days after receipt of invoice from Assignor, reimburse Assignor to the extent of one hundred percent (100%) of any rental so paid by Assignor. Assignee

shall give Assignor written notice prior to the time that any gas well located on the Lease Acreage is shut in. Assignee shall make a bona fide effort to pay all shut in gas well royalty that may become due and payable under the provisions of the lease or leases comprising the Lease Acreage covered hereby, and shall receive no reimbursement therefor from Assignor. Either Assignor or Assignee may be relieved of its obligations with regard to payment of its share of any delay rentals and shut-in gas well royalty by notifying the other party thirty (30) days in advance of the date on which such delay rentals or shut-in gas well royalty is due and payable, of its election not to bear its share of said rentals or shut-in gas well royalty, and immediately thereafter assigning, without covenants of warranty, all of said party's interest in the Lease Acreage, to the party desiring to pay said delay rentals or shut-in gas well

ARTICLE IX: OPTION TO PURCHASE LEASE ACREAGE

In the event that Assignee receives a bona fide offer which it is willing to accept for the purchase of said Lease Acreage, or any part thereof or interest therein, from a person, firm or corporation ready, able and willing to purchase such Lease Acreage, part thereof or interest therein, Assignee immediately shall give written notice thereof to Assignor, including in said notice the name and address of such offeror, the price offered, and all other pertinent items and conditions of the offer. Assignor, for a period of fifteen (15) days after receipt of said notice, shall have the prior and preferred right and option to purchase from Assignee the Lease Acreage, or the part thereof or interest therein covered by said offer, at the price and according to the terms and conditions specified in said offer; provided, that if Assignor fails to exercise its said right and option by giving written notice of its acceptance within fifteen (15) days after receipt of the above mentioned notice, Assignee shall accept said offer and complete said sale in accordance with said offer within sixty (60) days after the expiration of said period of fifteen (15) days; and provided further, that if Assignee fails to accept said offer or to complete said sale within said period of sixty (60) days, the preferred right and option of Assignor

under this paragraph shall be considered as revived, and Assignee shall not complete said sale to said prospective purchaser unless and until said offer again has been presented to Assignor, as hereinabove provided, and Assignor again has failed to elect to purchase on the terms and conditions of said offer. In the event any offer to purchase which Assignee is willing to accept, includes other leases or properties in addition to the Lease Acreage, or part thereof covered hereby, then during the period of time above provided, Assignor shall have the prior and preferred right to purchase such Lease Acreage, or part thereof, segregated from the other leases or properties included in said offer and at the fair cash market value thereof as of the date of such offer. All offers at any time made to Assignee, its successors or assigns, for the purchase of said Lease Acreage, or any part thereof or interest therein, shall be subject to all the terms and conditions of this paragraph.

ARTICLE X: OPTION AND PREFERENTIAL RIGHT TO PURCHASE PRODUCTION

Assignor at any time, at all times and from time to time, shall have the option and the exclusive right to purchase all oil produced and saved from Assignee's interest in said Lease Acreage, at the market price for production of similar kind and quality prevailing in the field where produced on date of delivery.

Assignor shall also have the option and the exclusive right to purchase all gas, casinghead gas, and all other products produced and saved therewith from Assignee's interest in said Lease Acreage, and payment therefor to Assignee shall be made at the wellhead price under contracts for the sale of production of similar kind and quality prevailing in the field at the time such option and right is initially exercised; provided that, if Assignor shall contract for the resale of such gas, casinghead gas, and other products at the wellhead, such payment shall be based upon the net proceeds accruing to Assignor at the wellhead under such contract. Assignor shall have said option and exclusive right (to purchase all gas, casinghead gas, and all other products produced and saved therewith from Assignee's interest in said Lease Acreage) for a period of thirty (30) days after being notified by certified or registered mail of the completion on the Lease Acreage of a

well capable of producing such gas, casinghead gas, and other products produced and saved therewith, except that, if an expenditure of more than \$50,000 is required for construction of an extraction plant or any other extraction facility of any kind or for a pipeline or gathering system, then said exclusive option shall extend for a period of three (3) months after said notification. If at the expiration of said thirty (30) days or three (3) months, as the case may be, Assignor has not exercised such exclusive option, then the exclusive option of Assignor shall expire, but in the event that Assignee thereafter receives a bona fide offer which it is willing to accept for the purchase of said gas and products or any part thereof or interest therein, from a prospective purchaser ready, able and willing to purchase such gas and products or any part thereof or interest therein, Assignee shall immediately give written notice thereof to Assignor (by certified or registered mail), including in said notice the name and address of such offeror, the price offered, and all other pertinent items and conditions of the offer. Assignor, for a period of thirty (30) days after receipt of said notice, shall have the prior and preferred right and option to purchase from Assignee the gas and products or part thereof or interest therein covered by said offer, at the price and according to the applicable terms and conditions specified in said offer; provided that, if Assignor fails to exercise its right and option by mailing written notice of its acceptance within thirty (30) days after the receipt of the above mentioned notice, Assignee may accept said offer and complete said sale in accordance with said offer within thirty (30) days; and provided further, that if Assignee fails to accept said offer or to complete said sale (at the price and under the terms and conditions specified in this offer) within said period of thirty (30) days, the preferred right and option of Assignor under this Article shall be considered as revived, and Assignee shall not complete such sale to said prospective purchaser or to any other prospective purchaser unless or until said offer again has been presented to Assignor, as hereinabove provided, and Assignor has again failed to elect to purchase on the terms and conditions of said offer. In the event that Assignee completes any sale, the preferred right and option of Assignor under this Article shall also revive upon the termination of such contract of sale.

At any time prior to the time limits prescribed above Assignor may indicate its intention to waive all or any part of its preferential right, but such waiver, to be effective, must be in writing.

It is understood and agreed that the right to purchase hereby granted may be assigned by Assignor at any time, at all times and from time to time without limitation. The rights covered by this Article shall be a covenant running with the land, and shall bind the successors and assigns of the parties.

ARTICLE XI: ASSIGNOR'S RIGHTS TO APPLY TO EXTENSION AND RENEWALS OF LEASES

The rights herein reserved to Assignor, including Assignor's Overriding Royalty, shall apply to all extensions and renewals of the Lease comprising the Lease Acreage.

ARTICLE XII: SUBJECT TO FARMOUT CONTRACT

This assignment, and the Lease Acreage covered hereby, is subject to all the terms and provisions of that certain Farmout Contract between Assignor and Assignee to which a copy of this form of assignment is attached as an Exhibit and to which reference is made for all purposes.

ARTICLE XIII: EFFECT ON ASSIGNS

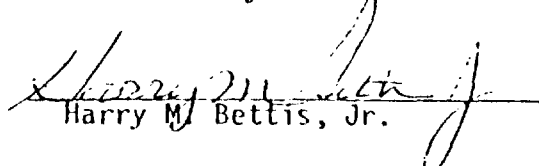
The terms, covenants and conditions hereof shall be binding upon and shall inure to the benefit of Assignor and Assignee and their respective successors and assigns; and such terms, covenants and conditions shall be covenants running with the land above described and the Lease Acreage herein assigned and with each transfer or assignment of said land or Lease Acreage.

EXECUTED this _____ day of _____, 19____.

AMOCO PRODUCTION COMPANY

By _____

Its Attorney-in-Fact


Harry M. Bettis, Jr.

MALLON OIL COMPANY

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

January 25, 1990

TO ALL WORKING INTEREST OWNERS
AMOCO-RED BLUFF #3 WELL

RE: Pecos River Prospect
Amoco-Red Bluff #3 well
Eddy County, New Mexico

Ladies/Gentlemen:

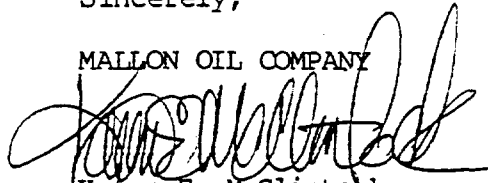
Enclosed please find a copy of Mallon Oil Company's application for Compulsory Pooling for the Amoco Red Bluff #3 well, scheduled for February 7, 1990. We elected to force pool the Red Bluff interest, which is currently under Farmout by George Mitchell, due to the fact that we were unable to negotiate acceptable Farmout terms with Mr. Mitchell. Mr. Mitchell initially indicated that he would participate for his proportionate share in the Amoco-Red Bluff #3 well, but called in December to let us know that he had decided against participation and offered us a 75% net revenue interest Farmout.

I have also enclosed a copy of the letter from Mr. Mitchell's attorney, whereby George Mitchell has filed for application to force pool our Amoco acreage in the same tract. After discussing this situation with our attorney, we feel that this application from Mr. Mitchell will have no impact on our case in the force pooling, as we were fully permitted for the well and Mr. Mitchell has no permit in place. A formal proposal from Mr. Mitchell to drill the #3 well was never received by this office, and diligent attempts to negotiate are necessary in a force pooling hearing.

If you have any additional questions or concerns with this matter, please do not hesitate to contact the undersigned.

Sincerely,

MALLON OIL COMPANY



Karen E. McClintock
Landman

/kem
enclosures

MALLON OIL COMPANY

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

December 28, 1989

TO ALL AMOCO RED BLUFF #3
WORKING INTEREST OWNERS

RE: Pecos River Prospect
Amoco-Red Bluff #3 Well
NW/4 NE/4 Section 28- T26S, R29E
Eddy County, New Mexico

Ladies/Gentlemen:

Pursuant to your phone conversation on December 21, 1989 with Mr. Joe Cox in our office, the following is the final working interest breakdown (BPO) for the Amoco-Red Bluff #3 well:

Mallon Oil Company	.5399841
Charles Simmons	.0800000
Weldon Aston	.0800000
Wes-Tex Drilling Co.	.0447125
Star Production Inc.	.0404091
Kerroo, Inc.	.1362998
Jay Easley	.0178570
Estate of Robert A. Mitchem	.0160250
Pilot Energy 1985 Ltd.	.0447125

As Mr. Cox explained, we will be spudding on December 30, 1989 with a rathole rig, with the understanding from CapStar Drilling that a drilling rig will be available mid January.

Please be advised that we have not yet been successful in obtaining a reduced royalty for this well. We will continue to diligently pursue this issue, in order to increase the net revenue interest in any additional wells drilled within the Pecos River Prospect.

Pecos River Prospect
Amoco-Red Bluff #3 Well
Working Interest Owners
Page 2

Please indicate your acceptance of your working interest as set forth above, by signing and returning one copy of this letter to the undersigned. It is understood that the Authority for Expenditure, previously executed on behalf of each working interest owner, shall be deemed to include any increased interest, if applicable, as outlined in this letter.

Sincerely,

MALLON OIL COMPANY

Karen E. McClintock
Landman

AGREED AND ACCEPTED to this _____ day of _____, 1989.

CHARLES SIMMONS

BY:

MALLON OIL COMPANY

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

November 28, 1989

PECOS RIVER PROSPECT WORKING
INTEREST OWNERS

Re: Amoco-Red Bluff Federal #3
Authority for Expenditure
Eddy County, New Mexico

Ladies/Gentlemen:

Enclosed please find two (2) copies of the Authority for Expenditure dated November 27, 1989, for the Amoco-Red Bluff Federal #3 well. This AFE is identical to the June AFE for the same well, with the exception of the location footage and the date.

I have also enclosed a copy of the letter from Amoco Production Company denying our extension request, and an updated Exhibit "A" for the Operating Agreement stating your individual working interest for each well drilled.

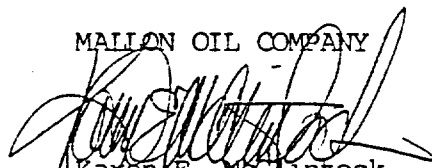
The ramifications of Amoco's denial of our extension request, will mean that a well must be drilled by December 31, 1989 in order to hold the Amoco Farmout. For this reason, we are requesting that the Working Interest Owners reply verbally and in writing by December 10, 1989, in order to give us time to offer out any non-consenting interest.

At this time, it appears as though the net revenue interest for this well will be 80.00% (as opposed to the 70% in the previous wells), which would improve the economics for this well.

Please return one copy of the enclosed AFE prior to December 10, 1989. Should you have any questions, please advise.

Sincerely,

MALLON OIL COMPANY



Karen E. McClintock
Landman

/kem
Enclosures

MALLON OIL COMPANY

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

November 16, 1989

TO ALL PECOS RIVER PROSPECT
WORKING INTEREST OWNERS

RE: Pecos River Prospect
Eddy County, New Mexico

Ladies/Gentlemen:

Enclosed please find the most recent extension request mailed to Amoco Production Company for the next well to be drilled within the Pecos River Prospect.

As you are aware, Mallon Oil Company has been attempting to reduce the existing overriding royalties on the NM 38636 Federal lease. As of this date, all overriding royalty owners, with the exception of Mr. Les Oppermann and Mr. Harry Bettis, have agreed to a reduction as last proposed by Mallon Oil Company. Unfortunately, without an agreement by all overriding royalty owners, a reduction is not possible. We had hoped that we could improve economics for the next well and have a reduction in place prior to drilling the next well within the prospect.

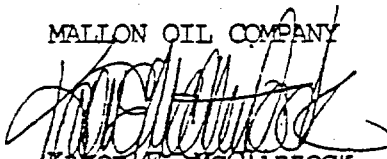
We would like to advise our working interest partners that in the event Amoco does not grant us an extension, and Mr. Oppermann and Mr. Bettis do not agree to reduce their overriding royalty under the terms already agreed upon by all other overriding royalty owners, there is a possibility that Mallon Oil Company would elect to go non-consent on the next well, due to the economics of the higher royalty.

We will keep the partners posted on the progress of the extension and reduced overriding royalty.

Should you have any questions, please advise.

Sincerely,

MALLON OIL COMPANY



Karen E. McClinton
Landman

KM/da
Enclosure

cc: Mr. Les Oppermann
Mr. Harry Bettis

MALLON OIL COMPANY

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

June 9, 1989

Pecos River Prospect
Interest Owners

Re: Amoco-Red Bluff-Federal #3
Authority for Expenditure
Eddy County, New Mexico

Ladies/Gentlemen:

Enclosed please find two (2) copies of the Authority for Expenditure for the Amoco-Red Bluff Federal #3. We are proposing the Amoco-Red Bluff-Federal #3 in lieu of the Amoco-Red Bluff-Federal #2 as a result of log data obtained from the recently completed Amoco-Red Bluff-Federal #1. The present farmout deadline for spudding is August 31, 1989.

Please return the indicated copy to Mallon Oil Company at your earliest convenience.

If you should have any questions, please advise.

Sincerely,

MALLON OIL COMPANY

Joe H. Cox, Jr.
Production Manager

JHC/ars
enclosure

MALLON OIL COMPANY

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

M E M O

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	.1250000
	<u>.3000000</u>

AGREEMENT TO REDUCE OVERRIDING ROYALTY INTEREST

THIS AGREEMENT, made and entered into as of the 4th day of August, 1989, shall evidence the agreement between MALLON OIL COMPANY, as Operator of the Pecos River Prospect, (hereinafter referred to as "Operator"), and NCNB TEXAS, JSM OIL & GAS, INC., AMOCO PRODUCTION COMPANY, HARRY M. BETTIS, JR., and L.E. OPPERMAN, (hereinafter referred to individually and collectively as the "Royalty Owners"), as hereinafter set forth.

The undersigned Royalty Owners agree to reduce their overriding royalty on the next proposed well drilled by the Operator within the Pecos River Prospect after the effective date of this Agreement ("the Well"). The Pecos River Prospect is the acreage within the Federal Lease NM-38636, Eddy County, Mexico, further identified on the Exhibit "A" attached hereto and made a part hereof by this reference.

It is agreed and understood by the Operator and the Royalty Owners that this royalty reduction is limited only to the Well, and that the Amoco Federal #1, #3, #4, #5, #6, #7, #8, #9, #10, #11, #13, #14 wells; and the Amoco-Red Bluff Federal #1 well, which are the wells capable of production within the Pecos River Prospect as of the date of this Agreement ("the Existing Wells"), will not be affected by this royalty reduction. All Existing Wells will maintain their current overriding royalty burdens, unless agreed upon by all Royalty Owners.

The Operator and the Royalty Owners agree that the reduction of the royalty will be limited to only those formations that are earned by drilling the Well, as stipulated in the Farmout Contract dated February 1, 1983, by and between Amoco Production Company and Harry M. Bettis, Jr..

The following schedule indicates the Royalty Owners, their present overriding royalty, and the reduced royalty in the event that the proration unit for the Well is comprised of one hundred percent (100%) of the Federal Lease NM-38636:

<u>Royalty Owner</u>	<u>Present Royalty</u>	<u>Reduced Royalty</u>
NCNB Texas	5.00%	3.00%
JSM Oil & Gas, Inc.	2.50%	1.50%
Amoco Production Company	5.00%	3.00%
Harry M. Bettis, Jr.	2.50%	0.00%
L.E. Oppermann	<u>2.50%</u>	<u>0.00%</u>
Total ORRI	17.50%	7.50%

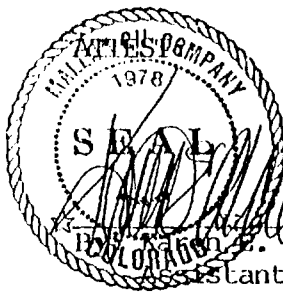
The execution of this Agreement by the Royalty Owners, indicates the consent to reduce each present overriding royalty to the above stated reduced royalty. It is understood by the Royalty Owners that the reduced royalty that is indicated would be proportionate to the percentage of the proration unit that is included in Federal Lease NM-38636.

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.

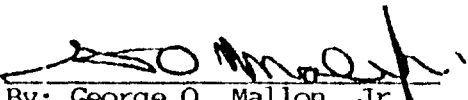
This Agreement may be executed in any number of counterparts, each of which shall be considered an original for all purposes. Failure to obtain signatures from all Royalty Owners, shall deem this Agreement null and void.

IN WITNESS WHEREOF, this Agreement shall be effective as of the 4th day of August, 1989.

OPERATOR


By: Robert E. McClintock
Assistant Secretary

MALLON OIL COMPANY, as
Operator of the Pecos
River Prospect


By: George O. Mallon, Jr.
Chairman of the Board

ROYALTY OWNERS

ATTEST:

NCNB TEXAS

By: _____

By: _____

ATTEST:

JSM OIL & GAS, INC.

By: _____

By: _____

ATTEST:


AMOCO PRODUCTION COMPANY

By: _____

By: _____

WITNESS:

By: _____


By: Harry M. Bettis, Jr.

WITNESS:

By: _____


By: L.E. Oppermann

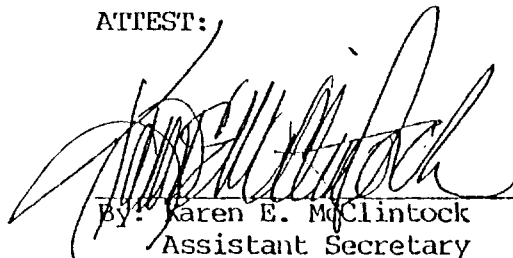
PLEASE RETURN THIS COPY
TO MALLON OIL COMPANY

This Agreement may be executed in any number of counterparts, each of which shall be considered an original for all purposes. Failure to obtain signatures from all Royalty Owners, shall deem this Agreement null and void.

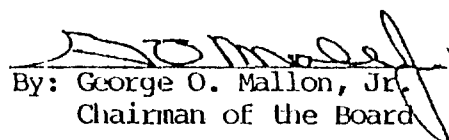
IN WITNESS WHEREOF, this Agreement shall be effective as of the 4th day of August, 1989.

OPERATOR

ATTEST:

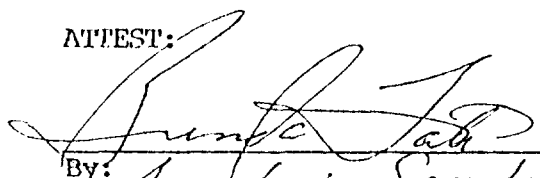

By: Karen E. McClintock
Assistant Secretary

MALLON OIL COMPANY, as
Operator of the Pecos
River Prospect



By: George O. Mallon, Jr.
Chairman of the Board

ROYALTY OWNERS

ATTEST:


By: Assistant Secretary

NCNB TEXAS


By: THOMAS E. McCARTY
VICE PRESIDENT
NCNB Texas National Bank

ATTEST:

By: _____

JSM OIL & GAS, INC.

By: _____

ATTEST:

By: _____

AMOCO PRODUCTION COMPANY

By: _____

WITNESS:

By: _____

By: Harry M. Bettis, Jr.

WITNESS:

By: _____

By: L.E. Oppermann

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN AGREEMENT TO REDUCE
OVERRIDING ROYALTY INTEREST DATED AUGUST 4, 1989, BY AND BETWEEN MALLON
OIL COMPANY, AS OPERATOR OF THE PECOS RIVER PROSPECT AND NCNB TEXAS, JSM
OIL & GAS, INC., AMOCO PRODUCTION COMPANY, HARRY M. BETTIS, JR., AND
L.E. OPPERMAN, AS THE ROYALTY OWNERS.

Lessor: United States of America
Lessee: Don Wright
Lease Date: February 1, 1980
Federal Lease Number: NM-38636
Description:

Township 26 South, Range 29 East, NMPM

Section 27: N/2 NE/4, SE/4 NE/4, NW/4,
N/2 S/2, SW/4 SW/4 (excluding
38.08 acres lying within the
Red Bluff Reservoir)

Section 28: All (excluding 203.9 acres
lying within the Red Bluff
Reservoir)

Section 29: N/2, N/2 SE/4, SE/4 SE/4

Eddy County, New Mexico



Amoco Production Company

501 WestLake Park Boulevard
Post Office Box 3092
Houston, Texas 77253

September 1, 1989

RECEIVED SEP 4 1989

RE: EA 52,689
West Pecos Area
Eddy County, New Mexico

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

ATTENTION: Joe H. Cox, Jr.

Gentlemen:

In reference to your August 3, 1989 memorandum, Amoco will favorably consider reducing our overriding royalty from 5% to 3% under the February 1, 1983 Farmout Contract between Amoco Production Company and Harry M. Bettis, Jr. subject to the following conditions:

1. Mallon would agree that no other interests or payments out of or with respect to production would be created after the royalty reduction has been agreed to. These other interests would include, but are not limited to production payments, overriding royalties, net profits interests, etc.
2. Amoco would consider the 40% reduction of overriding royalty on the next proposed well and also on subsequent wells drilled under the above-mentioned Farmout Contract if all overriding royalty owners have agreed to the same reductions as cited in your Agreement to reduce overriding royalty interest for the subsequent wells.
3. Amoco would prepare its own document.

Please advise of the decision of the other owners.

Very truly yours,

Emily F. Goodfellow
Landman

MALLON OIL COMPANY

1099 18th Street, Suite 2750, Denver, Colorado 80202
(303) 293-2133

M E M O R A N D U M

TO: All Overriding Royalty Owners

FROM: Joe H. Cox, Jr.

DATE: August 3, 1989

RE: Royalty Reduction Proposal
Amoco-Federal Lease
Eddy County, New Mexico

Since the last correspondence in June regarding the reduction of royalty interests, much discussion has gone on between various parties involved trying to arrive at a satisfactory plan. We are now sending a final proposal which is designed to meet the concerns of all of those who have responded to previous letters and telephone conversations.

As we originally pointed out, the projected negative economics of the past five wells have left the working interest owners very concerned about their continued investment in developing the lease even though that drilling has indicated that a considerable amount of undeveloped acreage should be productive. With the required review time up on the latest drilling AFE submitted to the working interest partners only about 17% have elected to participate which would not be enough to allow the well to be drilled. If the attached proposal is approved by the royalty owners the AFE will be resubmitted noting the revised royalty interest.

During the past three years, lease operating expenses have been reduced by 25% and drilling and completion expenses have been brought down about 37% on the Amoco-Federal lease. We are now diligently trying to further reduce the lease operating expense by initiating on-lease saltwater disposal versus the present commercial disposal. We feel that more progress can be made in reducing drilling and completion costs on future wells. These efforts have allowed the lease development to continue to its present point and we feel have put Mallon, et al. in the most favorable position to develop the remaining Delaware potential within the lease.

All Overriding Royalty Owners
August 3, 1989
Page two.

The primary points of the attached agreement and any subsequent agreements are as follows:

- Royalty reduction will be on a well by well basis. After an evaluation period for the previous well, if a reduction in royalty appears necessary to allow the drilling of the next proposed well, an agreement will be sent for your approval.
- Unanimous approval of the agreement by overriding royalty owners will be required for it to become effective.
- The Farmout Agreement under which Mallon, et al. are developing the lease, limits the rights earned to the depth drilled and no deeper than the top of the Bone Springs Formation. Any agreement made will not affect any royalty rights which you may own below the farmout depths.
- The attached agreement and any subsequent agreements will pertain only to the next well drilled. Your royalty interests in wells presently producing will not be affected by the agreement.
- The attached agreement would reduce the overriding royalty interests of Harry M. Bettis, Jr. and Les E. Opperman to 0% for the next well drilled. All others would be reduced by 40% for that well. The resulting overriding royalty burden on that well would be 7.5% which, with the 12.5% federal royalty added would result in a total royalty burden of 20% on that well.

The extended deadline for spudding the next proposed well is December 31, 1989. Please respond no later than October 1, 1989 to allow time for partners approval and planning for drilling etc..

AGREEMENT TO REDUCE OVERRIDING ROYALTY INTEREST

THIS AGREEMENT, made and entered into as of the 4th day of August, 1989, shall evidence the agreement between MALLON OIL COMPANY, as Operator of the Pecos River Prospect, (hereinafter referred to as "Operator"), and NCNB TEXAS, JSM OIL & GAS, INC., AMOCO PRODUCTION COMPANY, HARRY M. BETTIS, JR., and L.E. OPPERMANN, (hereinafter referred to individually and collectively as the "Royalty Owners"), as hereinafter set forth.

The undersigned Royalty Owners agree to reduce their overriding royalty on the next proposed well drilled by the Operator within the Pecos River Prospect after the effective date of this Agreement ("the Well"). The Pecos River Prospect is the acreage within the Federal Lease NM-38636, Eddy County, Mexico, further identified on the Exhibit "A" attached hereto and made a part hereof by this reference.

It is agreed and understood by the Operator and the Royalty Owners that this royalty reduction is limited only to the Well, and that the Amoco Federal #1, #3, #4, #5, #6, #7, #8, #9, #10, #11, #13, #14 wells; and the Amoco-Red Bluff Federal #1 well, which are the wells capable of production within the Pecos River Prospect as of the date of this Agreement ("the Existing Wells"), will not be affected by this royalty reduction. All Existing Wells will maintain their current overriding royalty burdens, unless agreed upon by all Royalty Owners.

The Operator and the Royalty Owners agree that the reduction of the royalty will be limited to only those formations that are earned by drilling the Well, as stipulated in the Farmout Contract dated February 1, 1983, by and between Amoco Production Company and Harry M. Bettis, Jr..

The following schedule indicates the Royalty Owners, their present overriding royalty, and the reduced royalty in the event that the proration unit for the Well is comprised of one hundred percent (100%) of the Federal Lease NM-38636:

<u>Royalty Owner</u>	<u>Present Royalty</u>	<u>Reduced Royalty</u>
NCNB Texas	5.00%	3.00%
JSM Oil & Gas, Inc.	2.50%	1.50%
Amoco Production Company	5.00%	3.00%
Harry M. Bettis, Jr.	2.50%	0.00%
L.E. Oppermann	<u>2.50%</u>	<u>0.00%</u>
Total ORRI	17.50%	7.50%

The execution of this Agreement by the Royalty Owners, indicates the consent to reduce each present overriding royalty to the above stated reduced royalty. It is understood by the Royalty Owners that the reduced royalty that is indicated would be proportionate to the percentage of the proration unit that is included in Federal Lease NM-38636.

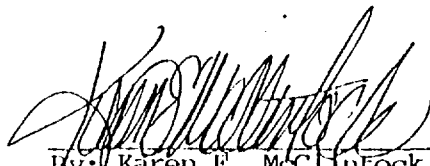
This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This Agreement may be executed in any number of counterparts, each of which shall be considered an original for all purposes. Failure to obtain signatures from all Royalty Owners, shall deem this Agreement null and void.

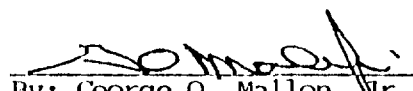
IN WITNESS WHEREOF, this Agreement shall be effective as of the 4th day of August, 1989.

OPERATOR

ATTEST:


By: Karen E. McClintock
Assistant Secretary

MALLON OIL COMPANY, as
Operator of the Pecos
River Prospect


By: George O. Mallon, Jr.
Chairman of the Board

ROYALTY OWNERS

ATTEST:

By: _____

NCNB TEXAS

By: _____

ATTEST:

By: _____

JSM OIL & GAS, INC.

By: _____

ATTEST:

By: _____

AMOCO PRODUCTION COMPANY

By: _____

WITNESS:

By: _____

By: Harry M. Bettis, Jr.

WITNESS:

By: _____

By: L.E. Oppermann

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN AGREEMENT TO REDUCE OVERRIDING ROYALTY INTEREST DATED AUGUST 4, 1989, BY AND BETWEEN MALLON OIL COMPANY, AS OPERATOR OF THE PECOS RIVER PROSPECT AND NCNB TEXAS, JSM OIL & GAS, INC., AMOCO PRODUCTION COMPANY, HARRY M. BETTIS, JR., AND L.E. OPPERMANN, AS THE ROYALTY OWNERS.

Lessor: United States of America
Lessee: Don Wright
Lease Date: February 1, 1980
Federal Lease Number: NM-38636
Description:

Township 26 South, Range 29 East, NMPM

Section 27: N/2 NE/4, SE/4 NE/4, NW/4,
N/2 S/2, SW/4 SW/4 (excluding
38.08 acres lying within the
Red Bluff Reservoir)

Section 28: All (excluding 203.9 acres
lying within the Red Bluff
Reservoir)

Section 29: N/2, N/2 SE/4, SE/4 SE/4

Eddy County, New Mexico

MALLON OIL COMPANY

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

June 20, 1989

NCNB - Texas
P.O. Box 830302
Dallas, TX 75283-0302

Attention: Mr. Tom McCarty

CERTIFIED MAIL: P-570 412 777

RE: Royalty Reduction Proposal
Don & Micki Wright Overriding Royalty
Federal Lease NM-38636
Eddy County, New Mexico

Dear Mr. McCarty:

Mr. David Rhodes of your bank's, Special Assets Bank in Fort Worth has informed us that he will no longer be handling the above captioned royalty for the Bank and has referred us to you.

Attached are copies of letters sent to Mr. Rhodes regarding a proposed reduction of royalty on wells drilled on the lease in the future. As you can see the later of the two letters (the Amoco letter) leaves things somewhat up in the air. Amoco has contacted us and is supposed to come back with a counter-proposal which, if it appears acceptable, will be put in the form of an agreement and sent for your review. I hope that we will be able to send that this week.

Please feel free to call with any questions you may have regarding this matter.

Sincerely,

MALLON OIL COMPANY



Joe H. Cox, Jr.
Production Manager

JHC:er
Enclosure(s)

MALLON OIL COMPANY

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

June 9, 1989

Amoco Production Company
Houston Region
501 Westlake Park Blvd.
P.O. Box 3092
Houston, TX 77253

ATTN: Mr. Dennis James

Re: Voluntary Royalty Reduction
Pecos River Prospect
Amoco Farmout EA-52689
Eddy County, New Mexico

Dear Mr. James:

Mallon Oil Company has recently sent a letter to all of the royalty interest owners in our Pecos River Prospect in Eddy County, New Mexico EA-52689 excluding Amoco and the Minerals Management Service. The letter is in regard to a voluntary reduction of royalty on future wells drilled on the lease. A copy of that correspondence is attached which gives the basic background leading to the conclusion that the reduction would be necessary to allow further development.

Response from the royalty owners thus far has included one common question, that being why has Amoco not been approached on this matter? There seems to be a general understanding of the problem and, although they would like to see different terms than those proposed, a desire to cooperate and encourage further drilling, provided Amoco is included.

With Amoco involved, modifications to the proposed reduction that should still allow enough relief to continue drilling will probably be along the line of: a) A continuous 50% reduction of all royalties (except Federal) on any wells drilled in the future, or, b) A 75% reduction in those royalties until 150% of payout is reached at which time the royalties will return to their present level until the economic limit of each individual well is reached when they would again be reduced by 75% until the ultimate economic limit is reached and the well would presumably be abandoned.

Amoco Production Company
Voluntary Royalty Reduction
June 9, 1989
Page 2 of 2

Our present continuous drilling deadline under the Farmout Agreement is August 31, 1989 and, judging from discussions and the disappointing results of the latest well, I feel quite certain that the working interest partners will not be committing to another well unless some relief from the present royalty burden can be obtained. I would therefore appreciate any feed back you can give me regarding Amoco's position on this matter as soon as possible so that a final proposal can be sent to royalty owners.

Please feel free to call with any questions you may have regarding this matter.

Sincerely,

MALLON OIL COMPANY



Joe H. Cox, Jr.
Operations Manager

JHC:er
Enclosure(s)

cc: (enclosures omitted)

NCNB/SAB
JSM Oil & Gas
Les Oppermann
Harry M. Bettis, Jr.

MALLON OIL COMPANY

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

To: Amoco-Federal Lease
Royalty Interest Owners

From: Joe H. Cox, Jr.
Mallon Oil Company

Date: May 30, 1989

Re: Voluntary Reduction of Royalty
Amoco-Federal Lease

SUMMARY

Diminishing reserves on the most recent development wells combined with lower oil prices and the 30% lease royalty burden have made development of what appears to be a sizeable volume of oil in place on the Amoco-Federal lease uncommercial to develop. In order to allow the continued development of the lease we are proposing the voluntary reduction of royalties on future wells. This should allow the continued development of the lease, keeping the farmout in effect and giving the royalty owners a share of the otherwise unproducibile, undeveloped reserves.

Since May of 1983, when development of the Amoco-Federal lease began, thirteen producing wells and one dry hole have been drilled. The lease cumulative oil production through 1988 was 417,938 barrels and during 1988 the lease produced 86,208 barrels of oil, more than any other lease in the now sizeable Brushy Draw field. The primary reason that the Amoco-Federal lease moved ahead of the other leases in 1988 production is that development drilling has been cautiously continued during the past three years while it has virtually stopped elsewhere in the field. The continued drilling has not occurred without a considerable amount of reservation among the working interest partners however, as evidenced by the high incidence of non-consenting interests during the past year and a half.

The last five wells drilled have given a good deal of insight toward what might be expected in any future development of the lease. The Amoco Federal #14, drilled in April 1988, was a significant stepout from production, over 4200 feet from the closest producing well. That well continued the trend of thinner, tighter reservoir rock as the development has moved west but, as you probably know, was completed as a producer. With production from the #14 well a large area of undeveloped acreage within the lease now appears to be potentially productive.

Unfortunately, along with the trend toward thinner and less porous and permeable reservoir rocks in the direction of development, reserves have declined as well. Projected cumulative reserves for the first eight producing wells on the lease average over 91,000 barrels of oil per well. This is boosted by wells in the "sweet spot" of thick high porosity reservoir in the northeast quarter of Section 27. In the latest four wells for which sufficient history exists for a projection, reserves average 42,200 Bbl per well.

At the same time that reserves per additional well have trended downward, oil prices have done the same. During the first two years of lease development, oil averaged around \$30/Bbl. Through the following four years, to date, it has averaged about \$15.75/Bbl.

The impact of these two trends has obviously been an accelerated decline in the ultimate amount and rate of revenue flow from each well. The effects of the declining revenue can be seen in Exhibits 2-6, attached, which show the historical and projected economics for the Amoco-Federal wells #10, 11, 13 and 14 and a summary of those wells. These evaluations include actual oil prices through April 1989 with a 5% annual escalation of price and lease operating expenses beginning May 1989 and continuing to the economic limit. The lease operating expense (LOE) is taken from a three year average (1986-1988) excluding saltwater disposal costs. Saltwater disposal (SWD) costs are calculated separately by well based upon the actual price of disposal per barrel during the past year since the varying water production rates among the wells impact each well differently. The net total investment input for each well reflects the actual drilling and completion expenses for that well.

As can be seen from these projections, the cumulative net cashflow does not ever cover the initial expense of two of the four wells and the summary of the four wells shows an ultimate \$71,000 loss for the four wells. Discounted at 10% that loss becomes \$261,000.

In retrospect it is obvious from the economics that the working interest partners have drilled at least two wells and probably four (five including the Amoco-Red Bluff-Federal #1) that may have best been left undrilled. The threat of losing the remaining farmout acreage has been a strong motivator toward continuing the search for commercially productive wells but with the information now available it is doubtful that under the present economic circumstances that will be found.

Voluntary Reduction of Royalty
Amoco-Federal Lease
May 30, 1989
Page 3

We are proposing to the royalty owners receiving this letter that their portion of the lease royalty burden be reduced by 75% on any future wells drilled on the Amoco-Federal lease. The royalty you are receiving from wells now producing would not be affected by this reduction. The only royalty owners not being asked to reduce their proportionate share are the Minerals Management Service (12.5%) and Amoco Production Company (5%).

As mentioned, with production from the Amoco-Federal #14 it now appears that a fairly large area of undeveloped lease is potentially productive. An estimated fourteen locations are prospective based on the present data. With an average reserve value based on the Amoco-Federal #14 of around 45,000 barrels per well that could amount to 630,000 barrels of oil that cannot be commercially recovered under the present royalty burden but should be recoverable with the higher net revenue interest resulting from the proposed reduction in royalty.

Exhibits 7-11 illustrate the effect of reducing the royalty. As you can see from these parameters economics, although improved, are still far from ideal. It is our intent to further reduce drilling and completion costs and lease operating expenses to try to bring these into a more reasonable range.

The impact of the royalty burden is obviously not something that has come up recently. Over the past year we have been reviewing the options available under federal regulations regarding the suspension of "excess" royalty burden. In 43 CFR 3102.3-3 and 43 CFR 3103.3-6 the laws affecting the various Amoco-Federal royalty assignments, the parameters for suspending royalties are laid out. Among others, a royalty burden that inhibits "the timely development of the lease" is listed as a parameter. After much study we decided that the royalty reduction on future wells only would be a more equitable solution to the development economics problem than the suspension of all applicable royalties.

We have carefully considered taking any steps toward altering the original agreements made in connection with the lease. At this time however, we feel that it is in the best interest of working and royalty interest owners alike to recommend the royalty reduction measures outlined herein.

The economic projections used in this correspondence are of course subject to some degree of interpretation. The data used in these

Voluntary Reduction of Royalty
Amoco-Federal Lease
May 30, 1989
Page 4

calculations however were very carefully collected and I feel that they are quite accurate. If you would like to independently evaluate the economics of drilling for and producing the undeveloped reserves I would be glad to supply you with whatever data you request regarding production, costs (unaudited), etcetera.

It is imperative in the interest of fairness and economics that all interests elect to reduce their royalty if this plan is to work.

Please signify your authorization for the royalty reduction by signing the attached agreement and returning the indicated copy to this office. A deadline of June 26, 1989 has been placed on the return of the agreement to allow sufficient time to prepare for drilling a development well by the August 31, 1989 farmout agreement deadline.

ATTACHED TO AND MADE A PART OF THAT CERTAIN VOLUNTARY REDUCTION
OF ROYALTY MEMO DATED MAY 30, 1989 BY AND BETWEEN MALLON OIL
COMPANY AND HARRY M. BETTIS, JR.

Harry M. Bettis, Jr. hereby agrees to and accepts the 75% reduction
of his 2.5% overriding royalty interest in the Amoco-Federal Lease
(Federal Lease #NM-38636) located in Sections 27, 28 and 29, T26S, R29E,
Eddy County, New Mexico on any wells drilled subsequent to May 30, 1989.
The resulting overriding royalty interest on those wells is 0.625%.

ACCEPTED AND AGREED TO this _____ day of _____, 1989.

By: Harry M. Bettis, Jr.

ATTACHED TO AND MADE A PART OF THAT CERTAIN VOLUNTARY REDUCTION
OF ROYALTY MEMO DATED MAY 30, 1989 BY AND BETWEEN MALLON OIL
COMPANY AND NCNB/SAB.

NCNB/SAB hereby agrees to and accepts the 75% reduction of their
5.00% overriding royalty interest in the Amoco-Federal Lease (Federal
Lease #NM-38636) located in Sections 27, 28 and 29, T26S, R29E, Eddy
County, New Mexico on any wells drilled subsequent to May 30, 1989. The
resulting overriding royalty interest on those wells is 1.25%.

ACCEPTED AND AGREED TO this _____ day of _____, 1989.

NCNB/SAB

By:

ATTACHED TO AND MADE A PART OF THAT CERTAIN VOLUNTARY REDUCTION
OF ROYALTY MEMO DATED MAY 30, 1989 BY AND BETWEEN MALLON OIL
COMPANY AND JSM OIL AND GAS, INC.

JSM OIL AND GAS, INC. hereby agrees to and accepts the 75% reduction of their 2.5% overriding royalty interest in the Amoco-Federal Lease (Federal Lease #NM-38636) located in Sections 27, 28 and 29, T26S, R29E, Eddy County, New Mexico on any wells drilled subsequent to May 30, 1989. The resulting overriding royalty interest on those wells is 0.625%.

ACCEPTED AND AGREED TO this _____ day of _____, 1989.

JSM OIL AND GAS, INC.

By:

ATTACHED TO AND MADE A PART OF THAT CERTAIN VOLUNTARY REDUCTION
OF ROYALTY MEMO DATED MAY 30, 1989 BY AND BETWEEN MALLON OIL
COMPANY AND L.E. OPPERMAN.

L.E. Oppermann hereby agrees to and accepts the 75% reduction of
his 2.5% overriding royalty interest in the Amoco-Federal Lease (Federal
Lease #NM-38636) located in Sections 27, 28 and 29, T26S, R29E, Eddy
County, New Mexico on any wells drilled subsequent to May 30, 1989. The
resulting overriding royalty interest on those wells is 0.625%.

ACCEPTED AND AGREED TO this _____ day of _____, 1989.

By: L.E. Oppermann

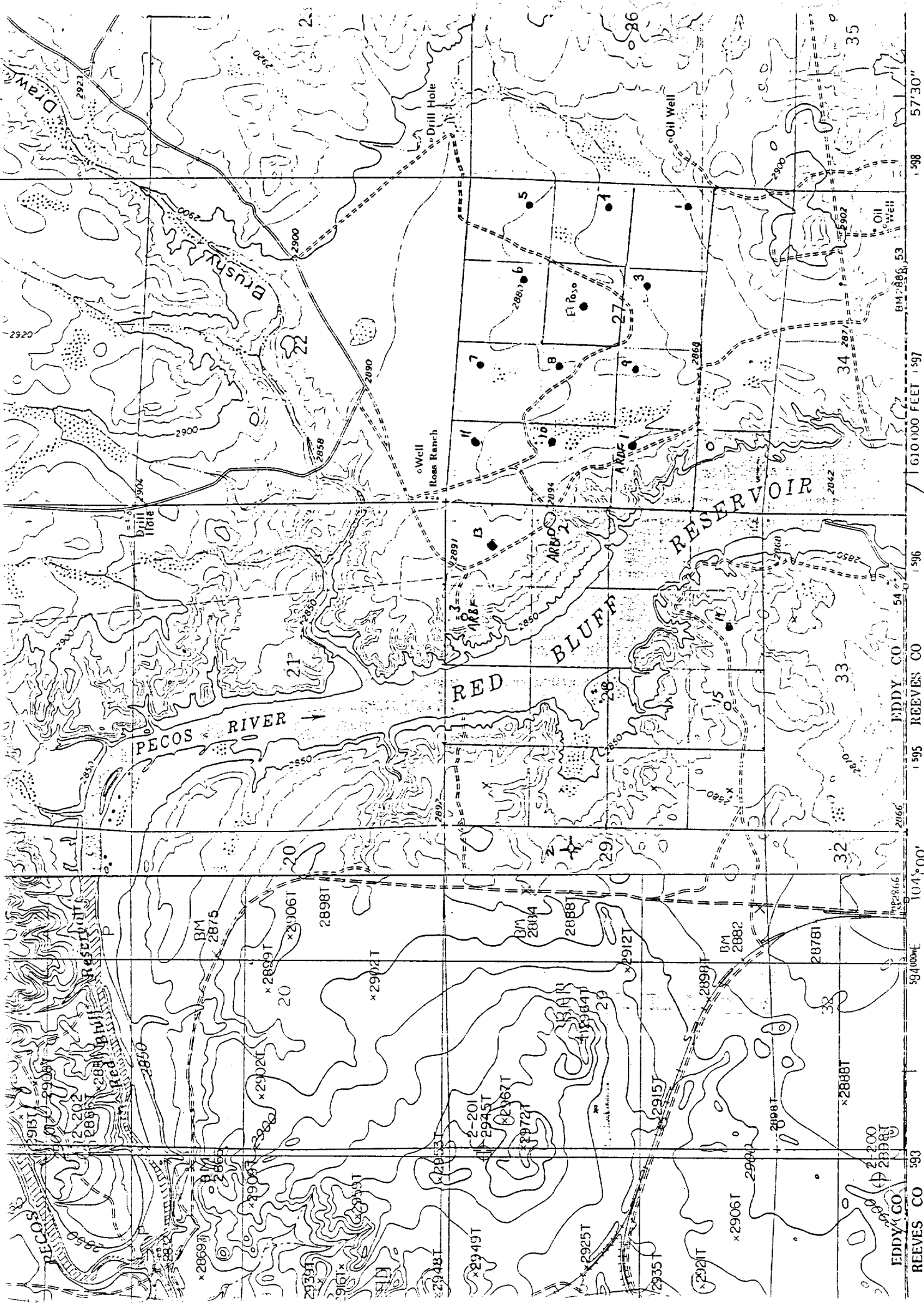


EXHIBIT 1

Mapped, edited, and published by the Geological Survey

Control by USGS and USC&GS

Topography by photogrammetric methods from aerial

ROAD LEGEND

INTERIOR-GEOLOGICAL SURVEY, RESTON, VIRGINIA-1185



EXHIBIT 2

PF:COXPF
EVAL #: 21

MALLON OIL COMPANY

DATE: 05/18/89
TIME: 17:00:54

AS OF NOV 30, 1986

ID CODE : PRUND-NM-01-10-EST

NAME : AMOCO FEDERAL #10
FIELD : PECOS RIVER PROSPECT
CNTY, STATE: EDDY COUNTY, NEW MEXICO
FORMATION : CHERRY CANYON
OPERATOR : MALLON OIL COMPANY

PRESENT ROYALTY BURDEN

ACTUAL OIL PRICES TO 5-89
PRICE & LOE ESCALATED @ 5%

PROFITABILITY INDICATORS

PAYOUT : 5.1 YRS BTAX
DCFROR : 9.5% BTAX
RI-BTAX: 1.3 TO 1 UNDISC 1.0 TO 1 DISC
NPV 5.0% 25.185 BTAX
NPV 15.0% -23.472 BTAX
NPV 20.0% -39.579 BTAX
NPV 25.0% -52.259 BTAX
NPV 30.0% -62.421 BTAX

WI	ORI	GRI	DATE	WELL COUNT	BEG-PRICES	END-PRICES	AVG-PRICES	GROSS RESERVES
100.00000	70.00000	70.00000	FEB 1987	GROSS NET	OIL 16.43	27.92	19.73	CUMULATIVE REMAINING
				O 1 0.00	GAS 0.89	1.37	1.02 OIL (MBBLS)	0.000 43.567
				G 0 0.00			GAS (MMCF)	0.000 56.934

	GROSS WATER PRODUCTION	GROSS PROD OIL + COND	GROSS GAS PRODUCTION	WORKING INTEREST	REVENUE INTEREST	NET OIL PRODUCTION	NET GAS PRODUCTION	EFFECTIVE OIL PRICE	EFFECTIVE GAS PRICE	NET TOTAL REVENUE
	---MMBLS---	---MMBLS---	---MMCF---	-----%-----	-----%-----	---MMBLS---	---MMCF---	---\$/BBL---	---\$/MCF---	-----MS-----
1986										
11MO)1987	10.705	10.002	5.001	100.00000	70.00000	7.001	3.501	18.031	0.890	129.356
1988	7.230	6.333	5.800	100.00000	70.00000	4.433	4.060	15.332	0.890	71.583
1989	5.178	4.594	7.650	100.00000	70.00000	3.216	5.355	17.947	0.882	62.444
1990	4.036	3.900	6.631	100.00000	70.00000	2.730	4.641	18.582	0.912	54.968
1991	3.309	3.314	5.634	100.00000	70.00000	2.320	3.944	19.514	0.958	49.047
1992	2.804	2.881	4.898	100.00000	70.00000	2.017	3.429	20.492	1.006	44.777
1993	2.432	2.548	4.332	100.00000	70.00000	1.784	3.033	21.518	1.056	41.590
1994	2.148	2.285	3.884	100.00000	70.00000	1.599	2.719	22.596	1.109	39.152
1995	1.924	2.070	3.520	100.00000	70.00000	1.449	2.464	23.727	1.165	37.256
1996	1.741	1.893	3.218	100.00000	70.00000	1.325	2.253	24.914	1.223	35.767
1997	1.591	1.743	2.964	100.00000	70.00000	1.220	2.075	26.161	1.284	34.591
1998	1.464	1.616	2.747	100.00000	70.00000	1.131	1.923	27.470	1.348	33.664
3MO)1999	0.349	0.386	0.656	100.00000	70.00000	0.270	0.460	27.924	1.365	8.175
2000										
SUB TOTAL	44.911	43.567	56.934	100.00000	70.00000	30.497	39.854	19.731	1.020	642.369
REMAINDER	0.000	0.000	0.000	0.00000	0.00000	0.000	0.000	0.000	0.000	0.000
DT 12.2 YR	44.911	43.567	56.934	100.00000	70.00000	30.497	39.854	19.731	1.020	642.369

	NET LEASE OPER EXP	NET SEV TAXES	NET ADVAL TAXES	NET TOTAL EXP + TAXES	NET OPER REVENUE	NET TOTAL INVESTMENT	BTAX CASHFLOW	CUM BTAX CASHFLOW	BTAX CF DISC 10.00%	CUM BTAX CF DISC 10.00%
	-----MS-----	-----MS-----	-----MS-----	-----MS-----	-----MS-----	-----MS-----	-----MS-----	-----MS-----	-----MS-----	-----MS-----
1986										
11MO)1987	21.260	9.171	1.294	31.725	97.631	236.911	-139.280	-139.280	-139.601	-139.601
1988	21.325	5.075	0.716	27.116	44.467	0.000	44.467	-94.812	38.224	-101.378
1989	20.463	4.427	0.624	25.514	36.930	0.000	36.930	-57.883	28.773	-72.604
1990	20.695	3.897	0.550	25.142	29.825	0.000	29.825	-28.057	21.156	-51.449
1991	21.404	3.477	0.490	25.372	23.674	0.000	23.674	-4.383	15.265	-36.184
1992	22.237	3.175	0.448	25.860	18.917	0.000	18.917	14.534	11.088	-25.096
1993	23.166	2.949	0.416	26.531	15.059	0.000	15.059	29.594	8.025	-17.071
1994	24.177	2.776	0.392	27.344	11.807	0.000	11.807	41.401	5.721	-11.350
1995	25.264	2.641	0.373	28.278	8.978	0.000	8.978	50.379	3.956	-7.395
1996	26.423	2.536	0.358	29.316	6.450	0.000	6.450	56.830	2.585	-4.810
1997	27.653	2.453	0.346	30.452	4.139	0.000	4.139	60.969	1.510	-3.301
1998	28.956	2.387	0.337	31.680	1.984	0.000	1.984	62.953	0.660	-2.640
3MO)1999	7.320	0.580	0.082	7.981	0.194	0.000	0.194	63.147	0.060	-2.580
2000										
SUB TOTAL	290.343	45.544	6.424	342.311	300.058	236.911	63.147	63.147	-2.580	-2.580
REMAINDER	0.000	0.000	0.000	0.000	0.000	0.000	0.000	63.147	0.000	-2.580
DT 12.2 YR	290.343	45.544	6.424	342.311	300.058	236.911	63.147	63.147	-2.580	-2.580

EXHIBIT 3

PF:COXPF
EVAL #: 22

MALLON OIL COMPANY

DATE: 05/18/89
TIME: 17:01:28

AS OF NOV 30, 1986

ID CODE : PRUND-NM-01-11-EST

NAME : AMOCO FEDERAL #11
FIELD : PECOS RIVER PROSPECT
CNTY, STATE: EDDY COUNTY, NEW MEXICO
FORMATION : CHERRY CANYON
OPERATOR : MALLON OIL COMPANY

PRESENT ROYALTY BURDEN

ACTUAL OIL PRICES TO 5-89
PRICE & LOE ESCALATED @ 5%

PROFITABILITY INDICATORS

PAYOUT : * YRS BTAX
DCFRROR : ---% BTAX
RI-BTAX: 0.5 TO 1 UNDISC 0.4 TO 1 DISC
NPV 5.0% -148.483 BTAX
NPV 15.0% -160.265 BTAX
NPV 20.0% -164.723 BTAX
NPV 25.0% -168.487 BTAX
NPV 30.0% -171.695 BTAX

WI	ORI	GRI	DATE	WELL COUNT	BEG-PRICES	END-PRICES	AVG-PRICES	GROSS RESERVES
100.00000	70.00000	70.00000	DEC 1986	GROSS NET	OIL 13.85	21.88	17.66	CUMULATIVE REMAINING
				O 1 1.00	GAS 0.89	1.07	0.92	OIL (MBBLS) 0.000 24.284
				G 0 0.00				GAS (MMCF) 0.000 41.085

	GROSS WATER PRODUCTION	GROSS PROD OIL + COND	GROSS GAS PRODUCTION	WORKING INTEREST	REVENUE INTEREST	NET OIL PRODUCTION	NET GAS PRODUCTION	EFFECTIVE OIL PRICE	EFFECTIVE GAS PRICE	NET TOTAL REVENUE
	---MBBLS---	---MBBLS---	---MMCF---	-----%-----	-----%-----	---MBBLS---	---MMCF---	---\$/BBL---	---\$/MCF---	-----M\$-----
(1MO)1986	1.271	2.012	2.012	100.00000	70.00000	1.408	1.408	13.850	0.890	20.760
1987	13.363	7.459	10.125	100.00000	70.00000	5.221	7.087	17.513	0.890	97.748
1988	10.798	3.786	6.893	100.00000	70.00000	2.650	4.825	15.338	0.890	44.943
1989	9.061	3.145	6.289	100.00000	70.00000	2.201	4.402	17.832	0.883	43.141
1990	7.806	2.462	4.925	100.00000	70.00000	1.724	3.447	18.584	0.912	35.179
1991	6.857	2.131	4.262	100.00000	70.00000	1.492	2.983	19.516	0.958	31.969
1992	6.114	1.878	3.756	100.00000	70.00000	1.315	2.629	20.493	1.006	29.589
(10MO)1993	4.633	1.411	2.823	100.00000	70.00000	0.988	1.976	21.451	1.054	23.274
1994										
1995										
1996										
1997										
1998										
1999										
2000										
SUB TOTAL	59.903	24.284	41.085	100.00000	70.00000	16.999	28.759	17.655	0.921	326.603
REMAINDER	0.000	0.000	0.000	0.00000	0.00000	0.000	0.000	0.000	0.000	0.000
TOT 6.9 YR	59.903	24.284	41.085	100.00000	70.00000	16.999	28.759	17.655	0.921	326.603

	NET LEASE OPER EXP	NET SEV TAXES	NET ADVAL TAXES	NET TOTAL EXP + TAXES	NET OPER REVENUE	NET TOTAL INVESTMENT	BTAX CASHFLOW	CUM BTAX CASHFLOW	BTAX CF DISC 10.00%	CUM BTAX CF DISC 10.00%
	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----
(1MO)1986	2.058	1.472	0.208	3.737	17.023	280.253	-263.230	-263.230	-261.148	-261.148
1987	23.901	6.930	0.977	31.808	65.940	0.000	65.940	-197.290	62.766	-198.382
1988	22.823	3.186	0.449	26.459	18.484	0.000	18.484	-178.807	15.937	-182.445
1989	22.094	3.059	0.431	25.584	17.557	0.000	17.557	-161.250	13.796	-168.649
1990	22.305	2.494	0.352	25.151	10.029	0.000	10.029	-151.221	7.122	-161.527
1991	22.995	2.267	0.320	25.581	6.388	0.000	6.388	-144.833	4.127	-157.400
1992	23.795	2.098	0.296	26.189	3.400	0.000	3.400	-141.433	2.001	-155.398
(10MO)1993	20.534	1.650	0.233	22.417	0.857	0.000	0.857	-140.576	0.465	-154.934
1994										
1995										
1996										
1997										
1998										
1999										
2000										
SUB TOTAL	160.504	23.156	3.266	186.926	139.677	280.253	-140.576	-140.576	-154.934	-154.934
REMAINDER	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-140.576	0.000	-154.934
TOT 6.9 YR	160.504	23.156	3.266	186.926	139.677	280.253	-140.576	-140.576	-154.934	-154.934

EXHIBIT 4

F:COXPF

VAL #: 9

MALLON OIL COMPANY

DATE: 05/18/89

TIME: 17:02:36

AS OF NOV 30, 1986

D CODE : PRUND-NM-01-14-EST

NAME : AMOCO FEDERAL #13
FIELD : PECOS RIVER PROSPECT
COUNTY, STATE: EDDY COUNTY, NEW MEXICO
FORMATION : CHERRY CANYON
OPERATOR : MALLON OIL COMPANY

PRESENT ROYALTY BURDEN

ACTUAL OIL PRICES TO 5-89
PRICE & LOE ESCALATED @ 5%

PROFITABILITY INDICATORS

PAYOUT : 4.8 YRS BTAX
DCFROR : 9.0% BTAX
RI-BTAX: 1.2 TO 1 UNDISC 1.0 TO 1 DISC
NPV 5.0% 23.070 BTAX
NPV 15.0% -24.291 BTAX
NPV 20.0% -38.430 BTAX
NPV 25.0% -48.699 BTAX
NPV 30.0% -56.196 BTAX

WI	ORI	GRI	DATE	WELL COUNT		BEG-PRICES		END-PRICES	AVG-PRICES	GROSS RESERVES			
00.00000	70.00000	70.00000	DEC 1987	GROSS	NET	OIL	17.00	27.92	19.51	CUMULATIVE	REMAINING		
				O	1	0.00	GAS	0.89	1.37	0.98	OIL (MMBLS)	0.000	55.715
				G	0	0.00					GAS (MMCF)	0.000	32.191

	GROSS WATER PRODUCTION	GROSS PROD OIL + COND	GROSS GAS PRODUCTION	WORKING INTEREST	REVENUE INTEREST	NET OIL PRODUCTION	NET GAS PRODUCTION	EFFECTIVE OIL PRICE	EFFECTIVE GAS PRICE	NET TOTAL REVENUE
	---MMBLS---	---MMBLS---	---MMCF---	-----X-----	-----X-----	---MMBLS---	---MMCF---	---\$/BBL---	---\$/MCF---	---MS---
1986										
1MO)1987	2.481	2.136	1.448	100.00000	70.00000	1.495	1.014	17.000	0.890	26.321
1988	46.862	14.416	11.592	100.00000	70.00000	10.091	8.114	15.557	0.890	164.212
1989	31.951	7.838	3.833	100.00000	70.00000	5.487	2.683	17.905	0.883	100.607
1990	24.492	5.956	2.913	100.00000	70.00000	4.169	2.039	18.576	0.912	79.309
1991	21.328	4.814	2.354	100.00000	70.00000	3.370	1.648	19.510	0.958	67.321
1992	18.888	4.040	1.976	100.00000	70.00000	2.828	1.383	20.489	1.006	59.334
1993	16.950	3.481	1.702	100.00000	70.00000	2.437	1.192	21.516	1.056	53.685
1994	15.373	3.058	1.495	100.00000	70.00000	2.141	1.047	22.593	1.109	49.523
1995	14.064	2.727	1.333	100.00000	70.00000	1.909	0.933	23.725	1.165	46.369
1996	12.961	2.460	1.203	100.00000	70.00000	1.722	0.842	24.913	1.223	43.932
1997	12.019	2.241	1.096	100.00000	70.00000	1.569	0.767	26.159	1.284	42.025
1998	11.204	2.058	1.006	100.00000	70.00000	1.441	0.704	27.468	1.348	40.521
3MO)1999	2.686	0.489	0.239	100.00000	70.00000	0.342	0.167	27.924	1.365	9.792
2000										
TOTAL	231.259	55.715	32.191	100.00000	70.00000	39.000	22.533	19.511	0.977	782.953
REMAINDER	0.000	0.000	0.000	0.00000	0.00000	0.000	0.000	0.000	0.000	0.000
11.3 YR	231.259	55.715	32.191	100.00000	70.00000	39.000	22.533	19.511	0.977	782.953

	NET LEASE OPER EXP	NET SEV TAXES	NET ADVAL TAXES	NET TOTAL EXP + TAXES	NET OPER REVENUE	NET TOTAL INVESTMENT	BTAX CASHFLOW	CUM BTAX CASHFLOW	BTAX CF DISC 10.00%	CUM BTAX CF DISC 10.00%
	---MS---	---MS---	---MS---	---MS---	---MS---	---MS---	---MS---	---MS---	---MS---	---MS---
1986										
1MO)1987	2.566	1.866	0.263	4.695	21.625	291.845	-270.220	-270.220	-243.711	-243.711
1988	37.970	11.643	1.642	51.255	112.957	0.000	112.957	-157.262	98.010	-145.701
1989	31.708	7.133	1.006	39.847	60.760	0.000	60.760	-96.502	47.435	-98.266
1990	29.424	5.623	0.793	35.840	43.469	0.000	43.469	-53.033	30.852	-67.414
1991	29.478	4.773	0.673	34.924	32.397	0.000	32.397	-20.636	20.897	-46.517
1992	29.805	4.207	0.593	34.605	24.729	0.000	24.729	4.094	14.499	-32.017
1993	30.338	3.806	0.537	34.681	19.003	0.000	19.003	23.097	10.129	-21.888
1994	31.038	3.511	0.495	35.044	14.479	0.000	14.479	37.576	7.017	-14.872
1995	31.877	3.288	0.464	35.628	10.741	0.000	10.741	48.317	4.733	-10.138
1996	32.840	3.115	0.439	36.394	7.538	0.000	7.538	55.855	3.021	-7.117
1997	33.916	2.980	0.420	37.316	4.709	0.000	4.709	60.564	1.718	-5.399
1998	35.098	2.873	0.405	38.377	2.145	0.000	2.145	62.709	0.714	-4.685
3MO)1999	8.843	0.694	0.098	9.635	0.157	0.000	0.157	62.866	0.049	-4.636
2000										
TOTAL	364.901	55.511	7.830	428.242	354.711	291.845	62.866	62.866	-4.636	-4.636
REMAINDER	0.000	0.000	0.000	0.000	0.000	0.000	0.000	62.866	0.000	-4.636
11.3 YR	364.901	55.511	7.830	428.242	354.711	291.845	62.866	62.866	-4.636	-4.636

EXHIBIT 5

PF:COXPF
EVAL #: 23

MALLON OIL COMPANY

DATE: 05/18/89
TIME: 17:02:02

AS OF NOV 30, 1986

ID CODE : PRUND-NM-01-14-EST

NAME : AMOCO FEDERAL #14
FIELD : PECOS RIVER PROSPECT
CNTY, STATE: EDDY COUNTY, NEW MEXICO
FORMATION : CHERRY CANYON
OPERATOR : MALLON OIL COMPANY

PRESENT ROYALTY BURDEN

ACTUAL OIL PRICES TO 5-89
PRICE & LOE ESCALATED @ 5%

PROFITABILITY INDICATORS

PAYOUT : * YRS BTAX
DCFROR : ---% BTAX
RI-BTAX: 0.8 TO 1 UNDISC 0.7 TO 1 DISC
NPV 5.0% -82.483 BTAX
NPV 15.0% -108.567 BTAX
NPV 20.0% -114.328 BTAX
NPV 25.0% -117.310 BTAX
NPV 30.0% -118.408 BTAX

WI	ORI	GRI	DATE	WELL COUNT		BEG-PRICES		END-PRICES	AVG-PRICES	GROSS RESERVES			
100.00000	70.00000	70.00000	APR 1988	GROSS	NET	OIL	16.32	27.92	19.67	CUMULATIVE	REMAINING		
				O	1	0.00	GAS	0.89	1.37	0.98	OIL (MBBLS)	0.000	45.241
				G	0	0.00					GAS (MMCF)	0.000	52.939

GROSS WATER	GROSS PROD	GROSS GAS	WORKING	REVENUE	NET OIL	NET GAS	EFFECTIVE	EFFECTIVE	NET TOTAL
PRODUCTION	OIL + COND	PRODUCTION	INTEREST	INTEREST	PRODUCTION	PRODUCTION	OIL PRICE	GAS PRICE	REVENUE
---MBBLS---	---MBBLS---	---MMCF---	-----%	-----%	---MBBLS---	---MMCF---	---\$/BBL---	---\$/MCF---	-----M\$---

1986										
1987										
(9MO)1988	25.178	10.437	16.743	100.00000	70.00000	7.306	11.720	15.457	0.890	123.355
1989	18.751	7.657	7.964	100.00000	70.00000	5.360	5.575	17.911	0.883	100.926
1990	14.412	5.460	5.679	100.00000	70.00000	3.822	3.975	18.555	0.911	74.540
1991	11.850	4.220	4.389	100.00000	70.00000	2.954	3.072	19.509	0.958	60.576
1992	10.063	3.519	3.659	100.00000	70.00000	2.463	2.562	20.488	1.006	53.039
1993	8.745	3.017	3.138	100.00000	70.00000	2.112	2.197	21.515	1.056	47.763
1994	7.733	2.641	2.747	100.00000	70.00000	1.849	1.923	22.593	1.109	43.904
1995	6.931	2.349	2.443	100.00000	70.00000	1.644	1.710	23.725	1.165	40.995
1996	6.280	2.114	2.199	100.00000	70.00000	1.480	1.539	24.912	1.223	38.754
1997	5.740	1.923	2.000	100.00000	70.00000	1.346	1.400	26.159	1.284	37.004
1998	5.287	1.763	1.833	100.00000	70.00000	1.234	1.283	27.468	1.348	35.626
(1MO)1999	0.422	0.141	0.146	100.00000	70.00000	0.098	0.102	27.924	1.365	2.886
2000										
SUB TOTAL	121.393	45.241	52.939	100.00000	70.00000	31.669	37.057	19.669	0.985	659.369
REMAINDER	0.000	0.000	0.000	0.00000	0.00000	0.000	0.000	0.000	0.000	0.000
TOT 10.8 YR	121.393	45.241	52.939	100.00000	70.00000	31.669	37.057	19.669	0.985	659.369

NET LEASE	NET SEV	NET ADVAL	NET TOTAL	NET OPER	NET TOTAL	BTAX	CUM BTAX	BTAX CF	CUM BTAX CF
OPER EXP	TAXES	TAXES	EXP + TAXES	REVENUE	INVESTMENT	CASHFLOW	CASHFLOW	DISC 10.00%	DISC 10.00%
-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----

1986									
1987									
(9MO)1988	30.082	8.746	1.234	40.061	83.293	352.836	-269.543	-269.543	-236.836
1989	29.191	7.156	1.009	37.356	63.570	0.000	63.570	-205.973	49.529
1990	25.121	5.285	0.745	31.151	43.390	0.000	43.390	-162.583	30.846
1991	25.231	4.295	0.606	30.131	30.445	0.000	30.445	-132.138	19.639
1992	25.652	3.760	0.530	29.943	23.096	0.000	23.096	-109.042	13.543
1993	26.284	3.386	0.478	30.149	17.615	0.000	17.615	-91.427	9.390
1994	27.074	3.113	0.439	30.626	13.279	0.000	13.279	-78.148	6.435
1995	27.991	2.907	0.410	31.307	9.687	0.000	9.687	-68.461	4.269
1996	29.018	2.748	0.388	32.154	6.601	0.000	6.601	-61.860	2.646
1997	30.145	2.624	0.370	33.139	3.865	0.000	3.865	-57.996	1.411
1998	31.367	2.526	0.356	34.249	1.377	0.000	1.377	-56.618	0.460
(1MO)1999	2.639	0.205	0.029	2.873	0.013	0.000	0.013	-56.605	0.004
2000									
SUB TOTAL	309.795	46.749	6.594	363.138	296.231	352.836	-56.605	-56.605	-98.662
REMAINDER	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-98.662
TOT 10.8 YR	309.795	46.749	6.594	363.138	296.231	352.836	-56.605	-56.605	-98.662

EXHIBIT 6

MALLON OIL COMPANY

AS OF NOV 30, 1986

DATE: 05/18/89

TIME: 17:20:23

*** SUMMARY ***

ACTUAL OIL PRICES TO MAY 89
PRICES & LOE ESCALATED @ 5%
BEGINING MAY 89

PRESENT ROYALTY BURDEN

PROFITABILITY INDICATORS

PAYOUT :	* YRS BTAX
DCFROR :	---% BTAX
RI-BTAX:	0.9 TO 1 UNDISC 0.8 TO 1 DISC
NPV 5.0%	-182.710 BTAX
NPV 15.0%	-316.595 BTAX
NPV 20.0%	-357.060 BTAX
NPV 25.0%	-386.756 BTAX
NPV 30.0%	-408.721 BTAX

WELL COUNT		BEG-PRICES	END-PRICES	AVG-PRICES	GROSS RESERVES	
GROSS	NET	OIL 13.85	27.92	19.34	CUMULATIVE	REMAINING
O 4	1.00	GAS 0.89	1.37	0.98	OIL (MBBLS) 0.000	168.807
G 0	0.00				GAS (MMCF) 0.000	183.148

	NUMBER GROSS WELLS	GROSS PROD OIL + COND ---MBBLS---	GROSS GAS PRODUCTION ---MMCF---	WORKING INTEREST -----%-----	REVENUE INTEREST -----%-----	NET OIL PRODUCTION ---MBBLS---	NET GAS PRODUCTION ---MMCF---	EFFECTIVE OIL PRICE ---\$/BBL---	EFFECTIVE GAS PRICE ---\$/MCF---	NET TOTAL REVENUE -----MS-----
(1MO)1986	1.000	2.012	2.012	100.00000	70.00000	1.408	1.408	13.850	0.890	20.760
1987	2.000	19.597	16.574	100.00000	70.00000	13.718	11.602	17.721	0.890	253.425
1988	3.750	34.972	41.027	100.00000	70.00000	24.480	28.719	15.463	0.890	404.092
1989	4.000	23.234	25.736	100.00000	70.00000	16.264	18.015	17.906	0.883	307.118
1990	4.000	17.779	20.147	100.00000	70.00000	12.445	14.103	18.572	0.912	243.996
1991	4.000	14.479	16.639	100.00000	70.00000	10.136	11.647	19.511	0.958	208.914
1992	4.000	12.318	14.289	100.00000	70.00000	8.623	10.003	20.490	1.006	186.740
1993	3.833	10.458	11.995	100.00000	70.00000	7.321	8.397	21.507	1.056	166.312
1994	3.000	7.984	8.126	100.00000	70.00000	5.589	5.688	22.594	1.109	132.579
1995	3.000	7.146	7.295	100.00000	70.00000	5.002	5.107	23.725	1.165	124.620
1996	3.000	6.467	6.620	100.00000	70.00000	4.527	4.634	24.913	1.223	118.453
1997	3.000	5.907	6.059	100.00000	70.00000	4.135	4.242	26.160	1.284	113.620
1998	3.000	5.437	5.587	100.00000	70.00000	3.806	3.911	27.469	1.348	109.812
(3MO)1999	2.333	1.016	1.042	100.00001	70.00000	0.711	0.729	27.924	1.365	20.854
2000										
SUB TOTAL	3.345	168.807	183.148	100.00000	70.00000	118.165	128.204	19.343	0.980	2411.295
REMAINDER	0.000	0.000	0.000	0.00000	0.00000	0.000	0.000	0.000	0.000	0.000
TOT 12.3 YR	3.345	168.807	183.148	100.00000	70.00000	118.165	128.204	19.343	0.980	2411.295

	NET LEASE OPER EXP -----MS-----	NET SEV TAXES -----MS-----	NET ADVAL TAXES -----MS-----	NET TOTAL EXP + TAXES -----MS-----	NET OPER REVENUE -----MS-----	NET TOTAL INVESTMENT -----MS-----	BTAX CASHFLOW -----MS-----	CUM BTAX CASHFLOW -----MS-----	BTAX CF DISC 10.00% -----MS-----	CUM BTAX CF DISC 10.00% -----MS-----
(1MO)1986	2.058	1.472	0.208	3.737	17.023	280.253	-263.230	-263.230	-261.148	-261.148
1987	47.727	17.968	2.534	68.229	185.196	528.756	-343.560	-606.790	-320.546	-581.694
1988	112.200	28.650	4.041	144.891	259.202	352.836	-93.634	-700.424	-84.666	-666.360
1989	103.455	21.775	3.071	128.301	178.817	0.000	178.817	-521.607	139.533	-526.826
1990	97.544	17.299	2.440	117.283	126.713	0.000	126.713	-394.894	89.976	-436.850
1991	99.108	14.812	2.089	116.009	92.905	0.000	92.905	-301.989	59.929	-376.921
1992	101.490	13.240	1.867	116.597	70.143	0.000	70.143	-231.847	41.131	-335.790
1993	100.323	11.792	1.663	113.778	52.534	0.000	52.534	-179.312	28.008	-307.782
1994	82.289	9.400	1.326	93.014	39.565	0.000	39.565	-139.747	19.173	-288.610
1995	85.132	8.836	1.246	95.213	29.407	0.000	29.407	-110.340	12.958	-275.651
1996	88.281	8.398	1.185	97.864	20.589	0.000	20.589	-89.751	8.252	-267.399
1997	91.715	8.056	1.136	100.907	12.713	0.000	12.713	-77.038	4.638	-262.761
1998	95.421	7.786	1.098	104.305	5.506	0.000	5.506	-71.532	1.835	-260.926
(3MO)1999	18.802	1.479	0.209	20.489	0.365	0.000	0.365	-71.167	0.114	-260.813
2000										
SUB TOTAL	1125.544	170.961	24.113	1320.618	1090.678	1161.845	-71.167	-71.167	-260.812	-260.813
REMAINDER	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-71.167	0.000	-260.813
TOT 12.3 YR	1125.544	170.961	24.113	1320.618	1090.678	1161.845	-71.167	-71.167	-260.812	-260.813

EXHIBIT 7

COXPF

VAL #: 25

MALLON OIL COMPANY

DATE: 05/18/89

TIME: 17:29:06

AS OF NOV 30, 1986

CODE : PRUND-NM-01-10-EST

NAME : AMOCO FEDERAL #10
 FIELD : PECOS RIVER PROSPECT
 COUNTY, STATE: EDDY COUNTY, NEW MEXICO
 FORMATION : CHERRY CANYON
 OPERATOR : MALLON OIL COMPANY

75% REDUCTION IN NON-AMOCO
 AND NON-FED ROYALTY INTEREST

ACTUAL OIL PRICES TO 5-89
 PRICE & LOE ESCALATED @ 5%

PROFITABILITY INDICATORS

PAYOUT : 3.6 YRS BTAX
 DCFROR : 20.0% BTAX
 RI-BTAX: 1.6 TO 1 UNDISC 1.2 TO 1 DISC
 NPV 5.0% 91.053 BTAX
 NPV 15.0% 22.189 BTAX
 NPV 20.0% 0.140 BTAX
 NPV 25.0% -16.981 BTAX
 NPV 30.0% -30.569 BTAX

WI	ORI	GRI	DATE	WELL COUNT		BEG-PRICES		END-PRICES	AVG-PRICES	GROSS RESERVES			
00.00000	79.37500	79.37500	FEB 1987	GROSS	NET	OIL	16.43	30.79	20.36	CUMULATIVE	REMAINING		
				O	1	0.00	GAS	0.89	1.51	1.06	OIL (HMBLS)	0.000	46.434
				G	0	0.00					GAS (MMCF)	0.000	61.809

	GROSS WATER PRODUCTION ---MBSLS---	GROSS PROO OIL + COND ---MBSLS---	GROSS GAS PRODUCTION ---MMCF---	WORKING INTEREST -----%-----	REVENUE INTEREST -----%-----	NET OIL PRODUCTION ---MBSLS---	NET GAS PRODUCTION ---MMCF---	EFFECTIVE OIL PRICE ---\$/BBL---	EFFECTIVE GAS PRICE ---\$/MCF---	NET TOTAL REVENUE -----M\$-----
1986										
(MO)1987	10.705	10.002	5.001	100.00000	79.37500	7.939	3.970	18.031	0.890	146.681
1988	7.230	6.333	5.800	100.00000	79.37500	5.027	4.603	15.332	0.890	81.170
1989	5.178	4.594	7.650	100.00000	79.37500	3.647	6.072	17.947	0.882	70.807
1990	4.036	3.900	6.631	100.00000	79.37500	3.096	5.263	18.582	0.912	62.329
1991	3.309	3.314	5.634	100.00000	79.37500	2.631	4.472	19.514	0.958	55.616
1992	2.804	2.881	4.898	100.00000	79.37500	2.287	3.888	20.492	1.006	50.774
1993	2.432	2.548	4.332	100.00000	79.37500	2.023	3.439	21.518	1.056	47.160
1994	2.148	2.285	3.884	100.00000	79.37500	1.813	3.083	22.596	1.109	44.395
1995	1.924	2.070	3.520	100.00000	79.37500	1.643	2.794	23.727	1.165	42.246
1996	1.741	1.893	3.218	100.00000	79.37500	1.502	2.554	24.914	1.223	40.557
1997	1.591	1.743	2.964	100.00000	79.37500	1.384	2.353	26.161	1.284	39.224
1998	1.464	1.616	2.747	100.00000	79.37500	1.283	2.180	27.470	1.348	38.173
1999	1.356	1.506	2.560	100.00000	79.37500	1.195	2.032	28.844	1.416	37.350
2000	1.263	1.410	2.396	100.00000	79.37500	1.119	1.902	30.287	1.487	36.715
SUB TOTAL	47.182	46.096	61.233	100.00000	79.37500	36.588	48.604	20.283	1.051	793.196
REMAINDER	0.303	0.339	0.576	100.00000	79.37500	0.269	0.457	30.786	1.505	8.967
T 14.2 YR	47.484	46.434	61.809	100.00000	79.37500	36.857	49.061	20.359	1.055	802.162

	NET LEASE OPER EXP -----M\$-----	NET SEV TAXES -----M\$-----	NET ADVAL TAXES -----M\$-----	NET TOTAL EXP + TAXES -----M\$-----	NET OPER REVENUE -----M\$-----	NET TOTAL INVESTMENT -----M\$-----	BTAX CASHFLOW -----M\$-----	CUM BTAX CASHFLOW -----M\$-----	BTAX CF DISC 10.00% -----M\$-----	CUM BTAX CF DISC 10.00% -----M\$-----
1986										
(MO)1987	21.260	10.400	1.467	33.127	113.554	236.911	-123.357	-123.357	-124.640	-124.640
1988	21.325	5.755	0.812	27.891	53.279	0.000	53.279	-70.078	45.791	-78.849
1989	20.463	5.020	0.708	26.191	44.616	0.000	44.616	-25.462	34.762	-44.088
1990	20.695	4.419	0.623	25.738	36.591	0.000	36.591	11.130	25.951	-18.136
1991	21.404	3.943	0.556	25.904	29.712	0.000	29.712	40.841	19.154	1.018
1992	22.237	3.600	0.508	26.345	24.429	0.000	24.429	65.271	14.316	15.333
1993	23.166	3.344	0.472	26.981	20.179	0.000	20.179	85.449	10.749	26.083
1994	24.177	3.148	0.444	27.769	16.627	0.000	16.627	102.076	8.052	34.135
1995	25.264	2.995	0.422	28.681	13.564	0.000	13.564	115.640	5.972	40.107
1996	26.423	2.875	0.406	29.704	10.853	0.000	10.853	126.493	4.345	44.452
1997	27.653	2.781	0.392	30.827	8.397	0.000	8.397	134.890	3.057	47.509
1998	28.956	2.706	0.382	32.044	6.128	0.000	6.128	141.018	2.029	49.538
1999	30.333	2.648	0.373	33.354	3.995	0.000	3.995	145.014	1.204	50.742
2000	31.785	2.603	0.367	34.755	1.960	0.000	1.960	146.974	0.539	51.281
SUB TOTAL	345.141	56.238	7.932	409.310	383.885	236.911	146.974	146.974	51.281	51.281
REMAINDER	8.037	0.636	0.090	8.763	0.204	0.000	0.204	147.178	0.053	51.334
T 14.2 YR	353.178	56.873	8.022	418.073	384.089	236.911	147.178	147.178	51.334	51.334

EXHIBIT 8

PF:COXPF

EVAL #: 28

MALLON OIL COMPANY

DATE: 05/18/89

TIME: 17:29:41

AS OF NOV 30, 1986

ID CODE : PRUND-NM-01-11-EST

NAME : AMOCO FEDERAL #11
FIELD : PECOS RIVER PROSPECT
CNTY, STATE: EDDY COUNTY, NEW MEXICO
FORMATION : CHERRY CANYON
OPERATOR : MALLON OIL COMPANY

75% REDUCTION IN NON-AMOCO
AND NON-FED ROYALTY INTEREST

ACTUAL OIL PRICES TO 5-89
PRICE & LOE ESCALATED @ 5%

PROFITABILITY INDICATORS

PAYOUT : * YRS BTAX
DCFROR : ---% BTAX
RI-BTAX: 0.7 TO 1 UNDISC 0.6 TO 1 DISC
NPV 5.0% -111.086 BTAX
NPV 15.0% -130.090 BTAX
NPV 20.0% -137.085 BTAX
NPV 25.0% -142.915 BTAX
NPV 30.0% -147.828 BTAX

WI	ORI	GRI	DATE	WELL COUNT			BEG-PRICES			END-PRICES			AVG-PRICES			GROSS RESERVES	
				GROSS	NET		OIL								CUMULATIVE	REMAINING	
100.00000	79.37500	79.37500	DEC 1986				13.85		22.97		18.05						
				O	1	1.00	GAS	0.89	1.12	0.94	OIL (MBBLS)	0.000	26.428				
				G	0	0.00					GAS (MMCF)	0.000	45.373				

	GROSS WATER PRODUCTION ---MMBLS---	GROSS PROD OIL + COND ---MMBLS---	GROSS GAS PRODUCTION ---MMCF---	WORKING INTEREST -----X-----	REVENUE INTEREST -----X-----	NET OIL PRODUCTION ---MMBLS---	NET GAS PRODUCTION ---MMCF---	EFFECTIVE OIL PRICE ---\$/BBL---	EFFECTIVE GAS PRICE ---\$/MCF---	NET TOTAL REVENUE -----M\$-----
(1MO)1986	1.271	2.012	2.012	100.00000	79.37500	1.597	1.597	13.850	0.890	23.540
1987	13.363	7.459	10.125	100.00000	79.37500	5.921	8.036	17.513	0.890	110.840
1988	10.798	3.786	6.893	100.00000	79.37500	3.005	5.471	15.338	0.890	50.962
1989	9.061	3.145	6.289	100.00000	79.37500	2.496	4.992	17.832	0.883	48.919
1990	7.806	2.462	4.925	100.00000	79.37500	1.955	3.909	18.584	0.912	39.891
1991	6.857	2.131	4.262	100.00000	79.37500	1.691	3.383	19.516	0.958	36.251
1992	6.114	1.878	3.756	100.00000	79.37500	1.491	2.982	20.493	1.006	33.551
1993	5.516	1.679	3.358	100.00000	79.37500	1.333	2.666	21.519	1.056	31.497
1994	5.025	1.518	3.036	100.00000	79.37500	1.205	2.410	22.597	1.109	29.904
(3MO)1995	1.189	0.358	0.716	100.00000	79.37500	0.284	0.568	22.973	1.123	7.164
1996										
1997										
1998										
1999										
2000										
SUB TOTAL	67.000	26.428	45.373	100.00000	79.37500	20.978	36.014	18.054	0.938	412.518
REMAINDER	0.000	0.000	0.000	0.00000	0.00000	0.000	0.000	0.000	0.000	0.000
TOT 8.3 YR	67.000	26.428	45.373	100.00000	79.37500	20.978	36.014	18.054	0.938	412.518

	NET LEASE OPER EXP -----M\$-----	NET SEV TAXES -----M\$-----	NET ADVAL TAXES -----M\$-----	NET TOTAL EXP + TAXES -----M\$-----	NET OPER REVENUE -----M\$-----	NET TOTAL INVESTMENT -----M\$-----	BTAX CASHFLOW -----M\$-----	CUM BTAX CASHFLOW -----M\$-----	BTAX CF DISC 10.00% -----M\$-----	CUM BTAX CF DISC 10.00% -----M\$-----
(1MO)1986	2.058	1.669	0.235	3.962	19.578	280.253	-260.675	-260.675	-258.613	-258.613
1987	23.901	7.859	1.108	32.867	77.972	0.000	77.972	-182.703	74.190	-184.422
1988	22.823	3.613	0.510	26.946	24.016	0.000	24.016	-158.687	20.691	-163.731
1989	22.094	3.468	0.489	26.051	22.867	0.000	22.867	-135.820	17.949	-145.783
1990	22.305	2.828	0.399	25.532	14.359	0.000	14.359	-121.460	10.191	-135.591
1991	22.995	2.570	0.363	25.927	10.323	0.000	10.323	-111.137	6.662	-128.929
1992	23.795	2.379	0.336	26.509	7.042	0.000	7.042	-104.095	4.134	-124.796
1993	24.690	2.233	0.315	27.238	4.259	0.000	4.259	-99.836	2.276	-122.520
1994	25.669	2.120	0.299	28.089	1.815	0.000	1.815	-98.021	0.886	-121.635
(3MO)1995	6.473	0.508	0.072	7.052	0.112	0.000	0.112	-97.909	0.051	-121.584
1996										
1997										
1998										
1999										
2000										
SUB TOTAL	196.801	29.248	4.125	230.174	182.344	280.253	-97.909	-97.909	-121.584	-121.584
REMAINDER	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-97.909	0.000	-121.584
TOT 8.3 YR	196.801	29.248	4.125	230.174	182.344	280.253	-97.909	-97.909	-121.584	-121.584

EXHIBIT 9

PF:COXPF
EVAL #: 31

MALLON OIL COMPANY

DATE: 05/18/89
TIME: 17:30:53

AS OF NOV 30, 1986

PROFITABILITY INDICATORS

ID CODE : PRUND-NM-01-14-EST

PAYOUT : 3.3 YRS BTAX
DCFROR : 22.4% BTAX
RI-BTAX: 1.7 TO 1 UNDISC 1.3 TO 1 DISC
NPV 5.0% 116.092 BTAX
NPV 15.0% 33.102 BTAX
NPV 20.0% 9.128 BTAX
NPV 25.0% -8.250 BTAX
NPV 30.0% -21.073 BTAX

NAME : AMOCO FEDERAL #13
FIELD : PECOS RIVER PROSPECT
CNTY, STATE: EDDY COUNTY, NEW MEXICO
FORMATION : CHERRY CANYON
OPERATOR : MALLON OIL COMPANY

75% REDUCTION IN NON-AMOCO
AND NON-FED ROYALTIES

ACTUAL OIL PRICES TO 5-89
PRICE & LOE ESCALATED @ 5%

WI	ORI	GRI	DATE	WELL COUNT		BEG-PRICES		END-PRICES	AVG-PRICES	GROSS RESERVES	
100.00000	79.37500	79.37500	DEC 1987	GROSS	NET	OIL	17.00	33.94	20.89	CUMULATIVE	REMAINING
				O	1	0.00	GAS	0.89	1.66	1.03	OIL (MMBLS)
				G	0	0.00					GAS (MMCF)
											0.000
											63.550
											0.000
											36.022

GROSS WATER PRODUCTION	GROSS PROD OIL + COND	GROSS GAS PRODUCTION	WORKING INTEREST	REVENUE INTEREST	NET OIL PRODUCTION	NET GAS PRODUCTION	EFFECTIVE OIL PRICE	EFFECTIVE GAS PRICE	NET TOTAL REVENUE
---MMBLS---	---MMBLS---	---MMCF---	-----%	-----%	---MMBLS---	---MMCF---	---\$/BBL---	---\$/MCF---	-----M\$-----

1986											
(1MO)1987	2.481	2.136	1.448	100.00000	79.37500	1.695	1.150	17.000	0.890	29.846	
1988	46.862	14.416	11.592	100.00000	79.37500	11.443	9.201	15.557	0.890	186.205	
1989	31.951	7.815	3.821	100.00000	79.37500	6.203	3.033	17.904	0.883	113.739	
1990	24.492	5.814	2.843	100.00000	79.37500	4.615	2.257	18.576	0.912	87.789	
1991	21.328	4.806	2.350	100.00000	79.37500	3.815	1.865	19.512	0.958	76.216	
1992	18.888	4.113	2.011	100.00000	79.37500	3.265	1.597	20.490	1.006	68.508	
1993	16.950	3.596	1.758	100.00000	79.37500	2.854	1.396	21.517	1.056	62.886	
1994	15.373	3.194	1.562	100.00000	79.37500	2.535	1.240	22.595	1.109	58.656	
1995	14.064	2.873	1.405	100.00000	79.37500	2.280	1.115	23.726	1.165	55.402	
1996	12.961	2.611	1.277	100.00000	79.37500	2.072	1.013	24.913	1.223	52.863	
1997	12.019	2.392	1.170	100.00000	79.37500	1.899	0.929	26.160	1.284	50.865	
1998	11.204	2.208	1.079	100.00000	79.37500	1.752	0.857	27.469	1.348	49.287	
1999	10.492	2.049	1.002	100.00000	79.37500	1.627	0.795	28.844	1.416	48.045	
2000	9.866	1.912	0.935	100.00000	79.37500	1.518	0.742	30.286	1.487	47.075	
SUB TOTAL	248.931	59.935	34.254	100.00000	79.37500	47.573	27.189	20.181	1.004	987.381	
REMAINDER	19.838	3.615	1.768	100.00000	79.37500	2.870	1.403	32.624	1.601	95.870	
TOT 15.2 YR	267.769	63.550	36.022	100.00000	79.37500	50.443	28.593	20.889	1.034	1083.251	

NET LEASE OPER EXP	NET SEV TAXES	NET ADVAL TAXES	NET TOTAL EXP + TAXES	NET OPER REVENUE	NET TOTAL INVESTMENT	BTAX CASHFLOW	CUM BTAX CASHFLOW	BTAX CF DISC 10.00%	CUM BTAX CF DISC 10.00%
-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----

1986										
(1MO)1987	2.566	2.116	0.298	4.981	24.865	291.845	-266.980	-266.980	-240.789	-240.789
1988	37.970	13.202	1.862	53.034	133.171	0.000	133.171	-133.809	115.496	-125.293
1989	31.708	8.064	1.137	40.909	72.830	0.000	72.830	-60.979	56.871	-68.422
1990	29.424	6.224	0.878	36.526	51.263	0.000	51.263	-9.716	36.377	-32.045
1991	29.478	5.404	0.762	35.644	40.572	0.000	40.572	30.856	26.157	-5.888
1992	29.805	4.857	0.685	35.347	33.160	0.000	33.160	64.016	19.432	13.544
1993	30.338	4.459	0.629	35.426	27.460	0.000	27.460	91.477	14.628	28.172
1994	31.038	4.159	0.587	35.783	22.873	0.000	22.873	114.349	11.076	39.248
1995	31.877	3.928	0.554	36.359	19.043	0.000	19.043	133.393	8.383	47.632
1996	32.840	3.748	0.529	37.117	15.746	0.000	15.746	149.139	6.302	53.934
1997	33.916	3.606	0.509	38.031	12.834	0.000	12.834	161.973	4.670	58.604
1998	35.098	3.494	0.493	39.086	10.201	0.000	10.201	172.174	3.375	61.979
1999	36.383	3.406	0.480	40.269	7.775	0.000	7.775	179.949	2.340	64.319
2000	37.766	3.338	0.471	41.575	5.500	0.000	5.500	185.450	1.506	65.824
SUB TOTAL	430.207	70.005	9.874	510.086	477.295	291.845	185.450	185.450	65.824	65.824
REMAINDER	83.519	6.797	0.959	91.275	4.595	0.000	4.595	190.044	1.118	66.942
TOT 15.2 YR	513.727	76.802	10.833	601.362	481.889	291.845	190.044	190.044	66.942	66.942

EXHIBIT 10

F:COXPF

VAL #: 34

MALLON OIL COMPANY

DATE: 05/18/89

TIME: 17:30:16

AS OF NOV 30, 1986

D CODE : PRUND-NM-01-14-EST

AME : AMOCO FEDERAL #14
 IELD : PECOS RIVER PROSPECT
 NTY, STATE: EDDY COUNTY, NEW MEXICO
 ORMATION : CHERRY CANYON
 PERATOR : MALLON OIL COMPANY

75% REDUCTION IN NON-AMOCO
 AND NON-FED ROYALTIES

ACTUAL OIL PRICES TO 5-89
 PRICE & LOE ESCALATED @ 5%

PROFITABILITY INDICATORS

PAYOUT : 7.8 YRS BTAX
 DCFROR : 2.9% BTAX
 RI-BTAX: 1.1 TO 1 UNDISC 0.8 TO 1 DISC
 NPV 5.0% -17.111 BTAX
 NPV 15.0% -65.831 BTAX
 NPV 20.0% -78.407 BTAX
 NPV 25.0% -86.528 BTAX
 NPV 30.0% -91.609 BTAX

WI	ORI	GRI	DATE	WELL COUNT		BEG-PRICES	END-PRICES	AVG-PRICES	GROSS RESERVES		
00.00000	79.37500	79.37500	APR 1988	GROSS	NET	OIL 16.32	30.79	20.29	CUMULATIVE	REMAINING	
				O 1	0.00	GAS 0.89	1.51	1.01	OIL (MBBLS)	0.000	48.240
				G 0	0.00				GAS (MMCF)	0.000	56.057

	GROSS WATER PRODUCTION	GROSS PROD OIL + COND	GROSS GAS PRODUCTION	WORKING INTEREST	REVENUE INTEREST	NET OIL PRODUCTION	NET GAS PRODUCTION	EFFECTIVE OIL PRICE	EFFECTIVE GAS PRICE	NET TOTAL REVENUE
	---MBBLS---	---MBBLS---	---MMCF---	-----%-----	-----%-----	---MBBLS---	---MMCF---	---\$/BBL---	---\$/MCF---	-----M\$-----
1986										
1987										
9MO)1988	25.178	10.437	16.743	100.00000	79.37500	8.284	13.289	15.457	0.890	139.875
1989	18.751	7.657	7.964	100.00000	79.37500	6.078	6.321	17.911	0.883	114.443
1990	14.412	5.460	5.679	100.00000	79.37500	4.334	4.507	18.555	0.911	84.524
1991	11.850	4.220	4.389	100.00000	79.37500	3.350	3.484	19.509	0.958	68.689
1992	10.063	3.519	3.659	100.00000	79.37500	2.793	2.905	20.488	1.006	60.143
1993	8.745	3.017	3.138	100.00000	79.37500	2.395	2.491	21.515	1.056	54.160
1994	7.733	2.641	2.747	100.00000	79.37500	2.096	2.180	22.593	1.109	49.784
1995	6.931	2.349	2.443	100.00000	79.37499	1.864	1.939	23.725	1.165	46.485
1996	6.280	2.114	2.199	100.00000	79.37499	1.678	1.745	24.912	1.223	43.944
1997	5.740	1.923	2.000	100.00000	79.37500	1.526	1.587	26.159	1.284	41.960
1998	5.287	1.763	1.833	100.00000	79.37500	1.399	1.455	27.468	1.348	40.397
1999	4.899	1.628	1.693	100.00000	79.37500	1.292	1.344	28.843	1.416	39.164
2000	4.565	1.512	1.572	100.00000	79.37499	1.200	1.248	30.286	1.487	38.192
SUB TOTAL	130.435	48.240	56.057	100.00000	79.37500	38.290	44.496	20.287	1.011	821.761
REMAINDER	0.000	0.000	0.000	0.00000	0.00000	0.000	0.000	0.000	0.000	0.000
DT 12.8 YR	130.435	48.240	56.057	100.00000	79.37500	38.290	44.496	20.287	1.011	821.761

	NET LEASE OPER EXP	NET SEV TAXES	NET ADVAL TAXES	NET TOTAL EXP + TAXES	NET OPER REVENUE	NET TOTAL INVESTMENT	BTAX CASHFLOW	CUM BTAX CASHFLOW	BTAX CF DISC 10.00%	CUM BTAX CF DISC 10.00%
	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----	-----M\$-----
1986										
1987										
9MO)1988	30.082	9.917	1.399	41.398	98.478	352.836	-254.358	-254.358	-223.845	-223.845
1989	29.191	8.114	1.144	38.450	75.993	0.000	75.993	-178.365	59.216	-164.629
1990	25.121	5.993	0.845	31.958	52.565	0.000	52.565	-125.800	37.359	-127.269
1991	25.231	4.870	0.687	30.787	37.902	0.000	37.902	-87.898	24.445	-102.825
1992	25.652	4.264	0.601	30.518	29.625	0.000	29.625	-58.273	17.366	-85.458
1993	26.284	3.840	0.542	30.666	23.494	0.000	23.494	-34.779	12.519	-72.939
1994	27.074	3.530	0.498	31.101	18.683	0.000	18.683	-16.096	9.051	-63.888
1995	27.991	3.296	0.465	31.752	14.733	0.000	14.733	-1.363	6.489	-57.399
1996	29.018	3.116	0.439	32.573	11.371	0.000	11.371	10.008	4.554	-52.846
1997	30.145	2.975	0.420	33.540	8.420	0.000	8.420	18.428	3.066	-49.779
1998	31.367	2.864	0.404	34.635	5.762	0.000	5.762	24.191	1.909	-47.870
1999	32.679	2.777	0.392	35.847	3.317	0.000	3.317	27.507	1.001	-46.869
2000	34.080	2.708	0.382	37.170	1.023	0.000	1.023	28.530	0.283	-46.586
SUB TOTAL	373.915	58.263	8.218	440.395	381.366	352.836	28.530	28.530	-46.586	-46.586
REMAINDER	0.000	0.000	0.000	0.000	0.000	0.000	0.000	28.530	0.000	-46.586
DT 12.8 YR	373.915	58.263	8.218	440.395	381.366	352.836	28.530	28.530	-46.586	-46.586

EXHIBIT 11

MALLON OIL COMPANY

DATE: 05/18/89

TIME: 17:31:10

AS OF NOV 30, 1986

*** SUMMARY ***

ACTUAL OIL PRICES TO MAY 89
PRICES & LOE ESCALATED @ 5%
BEGINNING MAY 89

75% ROYALTY REDUCTION CASE

PROFITABILITY INDICATORS

PAYOUT : 6.5 YRS BTAX
DCFROR : 7.8% BTAX
RI-BTAX: 1.2 TO 1 UNDISC 1.0 TO 1 DISC
NPV 5.0% 78.948 BTAX
NPV 15.0% -140.629 BTAX
NPV 20.0% -206.226 BTAX
NPV 25.0% -254.673 BTAX
NPV 30.0% -291.080 BTAX

WELL COUNT		BEG-PRICES	END-PRICES	AVG-PRICES	GROSS RESERVES	
GROSS	NET	OIL 13.85	33.94	20.19	CUMULATIVE	REMAINING
O 4	1.00	GAS 0.89	1.66	1.01	OIL (MBBLS) 0.000	184.653
G 0	0.00				GAS (MMCF) 0.000	199.261

	NUMBER GROSS WELLS	GROSS PROD OIL + COND ---MBBLS---	GROSS GAS PRODUCTION ---MMCF---	WORKING INTEREST -----X-----	REVENUE INTEREST -----X-----	NET OIL PRODUCTION ---MBBLS---	NET GAS PRODUCTION ---MMCF---	EFFECTIVE OIL PRICE ---\$/BBL---	EFFECTIVE GAS PRICE ---\$/MMCF---	NET TOTAL REVENUE -----M\$-----
1MO)1986	1.000	2.012	2.012	100.00000	79.37500	1.597	1.597	13.850	0.890	23.540
1987	2.000	19.597	16.574	100.00000	79.37500	15.555	13.155	17.721	0.890	287.366
1988	3.750	34.972	41.027	100.00000	79.37500	27.759	32.565	15.463	0.890	458.212
1989	4.000	23.211	25.724	100.00000	79.37500	18.424	20.418	17.905	0.883	347.908
1990	4.000	17.637	20.077	100.00000	79.37500	14.000	15.936	18.572	0.912	274.532
1991	4.000	14.471	16.635	100.00000	79.37500	11.486	13.204	19.512	0.958	236.771
1992	4.000	12.391	14.325	100.00000	79.37500	9.836	11.371	20.490	1.006	212.976
1993	4.000	10.841	12.587	100.00000	79.37500	8.605	9.991	21.517	1.056	195.703
1994	4.000	9.638	11.229	100.00000	79.37500	7.650	8.913	22.595	1.109	182.739
1995	3.250	7.650	8.083	100.00000	79.37500	6.072	6.416	23.690	1.161	151.297
1996	3.000	6.618	6.693	100.00000	79.37500	5.253	5.313	24.913	1.223	137.364
1997	3.000	6.058	6.133	100.00000	79.37500	4.809	4.868	26.160	1.284	132.049
1998	3.000	5.586	5.660	100.00000	79.37500	4.434	4.492	27.469	1.348	127.857
1999	3.000	5.183	5.254	100.00000	79.37500	4.114	4.171	28.843	1.416	124.558
2000	3.000	4.833	4.903	100.00000	79.37500	3.837	3.892	30.286	1.487	121.983
SUB TOTAL	3.414	180.698	196.918	100.00000	79.37500	143.429	156.303	19.924	1.005	3014.856
REMAINDER	1.120	3.954	2.344	100.00000	79.37500	3.139	1.860	32.467	1.578	104.837
TOT 16.2 YR	3.119	184.653	199.261	100.00000	79.37500	146.568	158.164	20.193	1.012	3119.692

	NET LEASE OPER EXP -----M\$-----	NET SEV TAXES -----M\$-----	NET ADVAL TAXES -----M\$-----	NET TOTAL EXP + TAXES -----M\$-----	NET OPER REVENUE -----M\$-----	NET TOTAL INVESTMENT -----M\$-----	BTAX CASHFLOW -----M\$-----	CUM BTAX CASHFLOW -----M\$-----	BTAX CF DISC 10.00% -----M\$-----	CUM BTAX CF DISC 10.00% -----M\$-----
1MO)1986	2.058	1.669	0.235	3.962	19.578	280.253	-260.675	-260.675	-258.613	-258.613
1987	47.727	20.374	2.874	70.975	216.392	528.756	-312.364	-573.039	-291.239	-549.852
1988	112.200	32.487	4.582	149.269	308.943	352.836	-43.893	-616.932	-41.867	-591.719
1989	103.455	24.667	3.479	131.601	216.307	0.000	216.307	-400.625	168.797	-422.921
1990	97.544	19.464	2.745	119.754	154.779	0.000	154.779	-245.847	109.879	-313.042
1991	99.108	16.787	2.368	118.263	118.509	0.000	118.509	-127.338	76.417	-236.625
1992	101.490	15.100	2.130	118.720	94.257	0.000	94.257	-33.081	55.248	-181.377
1993	104.479	13.875	1.957	120.311	75.392	0.000	75.392	42.311	40.172	-141.205
1994	107.958	12.956	1.827	122.742	59.998	0.000	59.998	102.308	29.065	-112.140
1995	91.604	10.727	1.513	103.844	47.453	0.000	47.453	149.761	20.896	-91.244
1996	88.281	9.739	1.374	99.394	37.970	0.000	37.970	187.731	15.201	-76.043
1997	91.715	9.362	1.320	102.398	29.651	0.000	29.651	217.382	10.793	-65.250
1998	95.421	9.065	1.279	105.765	22.092	0.000	22.092	239.474	7.314	-57.936
1999	99.394	8.831	1.246	109.471	15.087	0.000	15.087	254.561	4.544	-53.392
2000	103.631	8.649	1.220	113.499	8.483	0.000	8.483	263.044	2.328	-51.064
SUB TOTAL	1346.064	213.753	30.149	1589.966	1424.889	1161.845	263.044	263.044	-51.064	-51.064
REMAINDER	91.556	7.433	1.048	100.038	4.799	0.000	4.799	267.843	1.171	-49.894
TOT 16.2 YR	1437.621	221.186	31.197	1690.004	1429.688	1161.845	267.843	267.843	-49.894	-49.894

Exhibit 12

ROYALTY OWNERS - AMOCO-FEDERAL LEASE
EDDY COUNTY, NEW MEXICO
Excluding Amoco and Federal Royalties

<u>Royalty Owners</u>	<u>Present ORRI</u>
Harry M. Bettis, Jr. One First City 500 W. Texas, Suite 830 Midland, TX 79701 (915) 685-4128	2.5%
JSM Oil & Gas, Inc. P.O. Box 3362 Midland, TX 79702	2.5%
L.E. Oppermann One First City 500 W. Texas, Suite 830 Midland, TX 79701 (915) 685-0593	2.5%
Interfirst Bank Abilene N.A. P.O. Box 1251 401 Cypress Street Abilene, TX 79604	5.0%



G.P. II ENERGY, INC.

P.O. Box 50682
Midland, Texas 79710
(915) 684-4748

Karen

RECEIVED DEC - 7 1989

December 5, 1989

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

Dear Karen:

As per our telephone conversation on December 5, 1989 concerning the letter I received from you on the proposal of the Amoco-Red Bluff Federal #3. I have decided not to join Mallon in this well, but would consider a farmout arrangement. The arrangement being a 75% net revenue unto Mallon retaining for myself 3.5% ORRI.

If I can help in any way, please do not hesitate to call.

Sincerely yours,

George P. Mitchell, II

George P. Mitchell, II

cb/GPM

MALLON OIL COMPANY

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

November 28, 1989

Mr. George Mitchell, Jr.
P.O. Box 50682
Midland, TX 79710

Re: Amoco-Red Bluff Federal #3
Authority for Expenditure
Eddy County, New Mexico

Dear George:

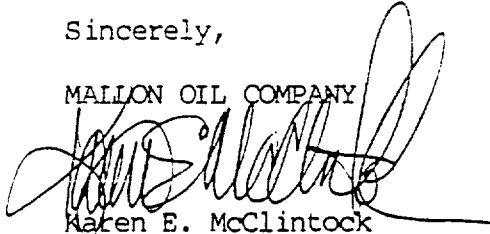
Enclosed please find two (2) copies of the Authority for Expenditure dated November 27, 1989, for the Amoco-Red Bluff Federal #3 well. This AFE is identical to the June AFE for the same well, with the exception of the location footage and the date.

Please be advised that the drilling deadline is December 31, 1989 for this next well under the Amoco Farmout Agreement. For this reason, we are requesting that the Working Interest Owners reply verbally and in writing by December 10, 1989, in order to give us time to offer out any non-consenting interest.

Please return one copy of the enclosed AFE prior to December 10, 1989. Should you have any questions, please advise.

Sincerely,

MALLON OIL COMPANY


Karen E. McClintock
Landman

/kem
Enclosures

FIELD/PROSPECT Brushy Draw-Delaware/Pecos River
 WELL NAME Amoco-Red Bluff-Federal #3
 LOCATION 130' FNL, 1805' FEL, (NW/4 NE/4), Section 28, T26S, R29E
 COUNTY, STATE Eddy County, New Mexico
 CONTRACTOR (TENTATIVE) CapStar Drilling

LEASE NUMBER

1269

PROPERTY NO.

NM-01-17

PREPARED BY: DATE:
 Joe H. Cox, Jr. 11-27-89

APPROVED BY: DATE:
 Kevin M. Fitzgerald 11-27-89

APPROVED BY: DATE:

ANTICIPATED START/STOP DATES

COST ESTIMATE

	TANGIBLE EXPENSE	INTANGIBLE EXPENSE	TOTAL
DRILLING-CASING POINT	\$ 4,650	\$ 82,420	\$ 87,070
DRILLING-COMPLETION	\$ 82,725	\$ 73,000	\$157,725
WORKOVER	\$	\$	\$
OTHER (SPECIFY)	\$	\$	\$
TOTAL COSTS	\$ 87,375	\$157,420	\$244,795

PROJECT DESCRIPTION

Under the terms of the Operating Agreement Mallon Oil Company proposes the drilling of the above captioned well. The well is to be drilled through the Williamson Sand Member of the Cherry Canyon Formation to a total depth of approximately 5,200'. The estimates of costs are based on actual bids and historical costs, however are estimates only and subject to overruns. Partners will be notified if the cost exceeds authorized amounts by 10% or more.

ATTACH PROGNOSIS AND COST BREAKDOWN

COST SHARING

BCP

ACP

George Mitchell, Jr.

28.46

%

\$ 24,780

28.46

%

\$ 44,889

PARTNER APPROVAL

COMPANY:

SIGNATURE:

DATE:

George Mitchell, Jr.

MALLON OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

Well Name and Number Amoco-Red Bluff-Federal #3 AFE NO. _____
 County Eddy State New Mexico Prospect Name Pecos River
 Section 28 TWP 26S RGE 29E Well Location NW/4 NE/4
 Field Brushy Draw Objective Formation Cherry Canyon Depth 5,200'

DETAILS OF COST ESTIMATE

<u>910 & 920 INTANGIBLE COSTS</u>		<u>DRY HOLE</u>	<u>PRODUCER</u>
101	Damages _____ Losses _____	\$ --	\$ --
102	Roads & Location _____	5,000	5,000
103.1	Mobilization/Demobilization Incl. _____	--	--
103.2	Drilling-Footage <u>5200</u> ft. @ <u>\$7.85</u> /ft	40,820	40,820
103.3	Daywork <u>1</u> days WDP. @ <u>3200</u> /day: _____	3,200	3,200
103.4	Turnkey Contract <u>N/A</u>	--	--
201	Completion Unit <u>6</u> days @ <u>\$1,300</u>	--	7,800
106	Mud _____ Chemicals _____	2,500	2,500
107	Power, Water & Fuel _____	3,000	6,500
108	Equipment Rental _____	3,000	6,000
109	Coring _____ Testing _____	--	--
140	Logging _____	7,000	7,000
111	Cementing Services _____	5,000	14,500
112	Consultants _____	2,000	4,400
115	Trucking & Hauling _____	500	1,500
117	Other Costs _____ Contingency 5%	3,900	7,200
118	Administrative Overhead _____	2,000	4,500
125	Bits _____ Incl. _____	--	--
130	Mud Logging _____	4,500	4,500
202	Well Stimulation <u>37,000</u> Perforation <u>4000</u>		41,000
165	Abandonment Costs _____	--	
TOTAL INTANGIBLE DRILLING COSTS		\$ 82,420	\$157,420

930 TANGIBLE EQUIPMENT COSTS

299	Surface Casing <u>450</u> ft <u>8 5/8"</u> size @ <u>\$9.00</u> /ft	\$ 4,050	\$ 4,050
300	Intermediate Csg. <u>--</u> ft <u>--</u> size @ <u>\$ --</u> /ft	--	--
301	Production Csg. <u>5,200'</u> ft <u>5 1/2"</u> size @ <u>\$6.00</u> /ft		31,200
302	Tubing & Attachments <u>5,200'</u> <u>2 7/8"</u> @ <u>1.50</u>		7,800
303	Rods & Pumps _____		8,000
304	Well Head Equipment _____	600	3,500
305	Flowlines <u>4,500'</u> x <u>.75</u>		3,375
306	Installation <u>4,500'</u> x <u>.50</u>		2,250
307	Pumping Unit & Engines _____		25,000
308	Tank Battery & Fittings _____		--
309	Non-Controllable Equipment _____		--
310	Treaters-separators _____		--
311	Buildings _____		--
312	Other Equipment _____ Contingency 5%		4,200
TOTAL TANGIBLE EQUIPMENT COSTS		\$ 4,650	\$ 87,375

TOTAL COST \$ 87,070 \$244,795

AFE Date: November 27, 1989



G.P. II ENERGY, INC.

P.O. Box 50682
Midland, Texas 79710
(915) 684-4748

October 26, 1989

RECEIVED OCT 30 1989

Mr. Joe Cox, Jr.
1099 18th Street, Suite 2750
Denver, Colorado 80202

RE: Amoco-Red Bluff #2 or
#3 Well
Section 28, T26S, R29E
Eddy County, New Mexico

Dear Joe:

Pursuant to our visit in Denver, enclosed please find the AFE which we discussed covering the captioned wells. If acceptable, please let me know at your earliest convenience.

Joe, as we discussed, I would like to operate the well coming up and would also like the opportunity to take over all of your operations in the New Mexico and West Texas areas. I would greatly appreciate a timely consideration on possibly working something out along these lines.

If you have any questions, please do not hesitate to call Terry or me at any time.

Sincerely yours,

George P. Mitchell, II

GPM:js
Enclosure

AUTHORITY FOR EXPENDITURES – COST ESTIMATE CAPITAL ADDITION AND MAINTENANCE GAS AND OIL PROPERTIES

AFE NO 0001
 PROSPECT NO 0001

Company Name G.P. II Energy, Inc. No _____ District Name _____ No _____
 Lease Name Amoco-Red Bluff Federal No _____ Well No 2 or 3 Field Name Brushy Draw-Delaware
 Geographic Location Section 28-T26S, R29E
 County Eddy State New Mexico Rec. No. _____ Zone No. _____
 AFE Project _____ AFE Classification: ☐ Capital Addition ☒ Maintenance
 AFE Detail Description Amoco-Red Bluff Federal #2 or #3 Well
 Project was included in Budget Plans for the Fiscal Year: 1 ☒ Yes; 2 ☐ No Budget Code _____

Portion of Company	Type of Project:	4 <input type="checkbox"/> Dev. Purchases	Est. Starting Date <u>12-15-89</u>
Cost Scheduled	1 <input type="checkbox"/> Exploratory	5 <input type="checkbox"/> Secondary Recovery	Est. Completion Date <u>12-31-89</u>
for Next Fiscal Year	2 <input checked="" type="checkbox"/> Extension	6 <input type="checkbox"/> Surface Facilities	Est. Days to Complete <u>15</u>
	3 <input checked="" type="checkbox"/> Dev. Primary	7 <input type="checkbox"/> Workover	Est. Total Depth <u>5,200'</u>

Working Interest Various Percentages in Wells % _____
 Operator (if other than) _____ Billable: Yes _____ No _____

DRILLING-INTANGIBLE COSTS	CODE	DRY HOLE	COMPLETED WELL
Seismic, Roads, Location, Damages, and Clean-up (See attached)	110	\$ 5,000.00	\$ 6,000.00
Contractors Footage Charges or Turnkey Drilling	120	42,900.00	42,900.00
Contractors Day Work to Contract Depth	121	3,200.00	3,200.00
Contractors Day Work after Contract Depth	122		
Completion, Workover and Swabbing Units	125		5,700.00
Mud and Chemicals	130	2,500.00	2,500.00
Cement and Cementing Services	135	5,000.00	14,500.00
Non-Salvageable Equipment	136		
Formation Evaluation (See attached specifications)			
Electric Logging (Open Hole)	140	4,500.00	4,500.00
Coring, DST, Wireline FMT	141		
Mud Logging and Core Analysis	142		
Directional Drilling and Surveys	144		
Fishing Tools and Services	145		
Water, Fuel, Bits on Day Work	146	2,000.00	6,500.00
Equipment Rentals	147	2,000.00	3,500.00
Trucking and Marine Transportation (See attached specs)	175		
Dry Hole and Bottom Hole Contribution	178	()	()
BHP, G.O.R. Potential Tests	181		
Perforating, Radioactive Logging (Case Hole)	183		2,000.00
Acidizing, Fracturing, Stimulants or Inhibitors	184		25,000.00
Tubescoping, Hydrostatic Testing, Misc. Labor, Mt. Etc.	187		
Supervision	190	1,750.00	3,000.00
Contingencies	195	3,500.00	5,000.00
TOTAL DRILLING -- INTANGIBLE COSTS		\$2,350.00	\$124,300.00

DRILLING -- WELL EQUIPMENT			
Casing (See attached specifications)			
Surface 8 5/8 500' 24#	205	\$ 3,700.00	\$ 3,700.00
Intermediate	206		
Production 5 1/2 15.50# 5200'	207		19,240.00
Tubing, Pups, Blast Joints 2 3/8 J-55 Tubing	210		4,500.00
Christmas Tree and Well Head Equipment	215	600.00	3,100.00
Other Sub-Surface Equipment (See attached specifications) Rods-Pump	220		6,100.00
TOTAL DRILLING -- WELL EQUIPMENT		\$ 4,300.00	\$ 36,640.00
TOTAL DRILLING COST			
COST PER FOOT		\$	\$
Other Owner Intangible Costs	501	()	()
Other Owner Tangible Costs Pumping Unit gas Eng. Tank Battery	602	()	(30,000.00)
Company Costs Before Overhead and Interest		\$ 2,000.00	\$ 4,500.00
Overhead	606		
Interest	605		
Total Company Costs		\$78,650.00	\$ 195,440.00
Stock Status: On Hand		\$	\$
Purchase Required		\$	\$

Prepared by George Mitchell Date 10-18-89 AFE Number _____
 Approved by Terry K. Lewis Date 10-24-89

MALLON OIL COMPANY

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

July 17, 1989

Mr. George Mitchell, Jr.
Mr. Terry Lewis
P.O. Box 50682
Midland, TX 79710

Dear George and Terry:

Enclosed is some of the geological information we discussed pertaining to the selection of our next Brushy Draw drillsite. As I mentioned the maps are pretty informal, I have just done pencil revisions on some old maps as new well data has become available.

The net isopach of density porosity greater than 20% has been a good map for tracking the primary channels through the field. There have been wells completed outside the zero line of this map that have done reasonably well within the field but all of the best field producers have been on the better porosity trends. Our #11 well, which was drilled away from the channel thread and affected depletion-wise by existing producers is an example of what we are trying to avoid drilling at the present time. Under our present economics and with a 5% escalation scenario that well is only projected to produce a total of 24,000 BO. On an undiscounted basis we expect to lose over \$140,000 on that well.

The #13 well, which is the key well to either of the proposed locations we discussed, falls within the channel trend and is expected to produce around 56,000 BO. The economic projection on the #13 is nothing to get very excited about but a well of this type should allow development to proceed.

At least part of the improvement in projected reserves for the #13 over the #11 is probably due to a lesser degree of pressure depletion at that field step-out location as well as a somewhat higher structural position. An example of the importance of these factors can be seen in the #14 well which showed relatively poor log porosities in the lower portion of the Williamson Sand, which comprises the bulk of the field pay. The #14 should produce over 45,000 BO which, again using the actual current economics, will place the well somewhat short of payout.

Mallon is presently taking some measures to improve the producing economics such as on-lease saltwater disposal, but it will still be very important to optimize each additional location. The Amoco-Red Bluff-Federal #3 site was selected for it's position on the projected

Mr. George Mitchell, Jr.
Mr. Terry Lewis
July 17, 1989
Page 2

channel trend it's distance from areas of large volumes of withdrawals, and it's structurally higher location. The channel trend as defined by the >20% porosity map narrows and is forced on a more northeasterly track as a result of the most recently drilled Amoco-Red Bluff-Federal #1 well. The Amoco-Red Bluff-Federal #2 site could be included in an interpretation of the channel but I feel that the #3 site would be more likely to encounter a substantial portion of the full channel thickness. Since the basin slope at the time of deposition of the Williamson Sand (and other Delaware horizons) was pretty consistently to the southwest in the Brushy Draw Field vicinity I anticipate that if the channel continues it will turn that direction. This adds some risk to the Amoco-Red Bluff-Federal #3 site, but with the high porosities encountered in the #13 well indicating it to be well within the trend I doubt the channel would turn sharply enough to exclude the proposed site.

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

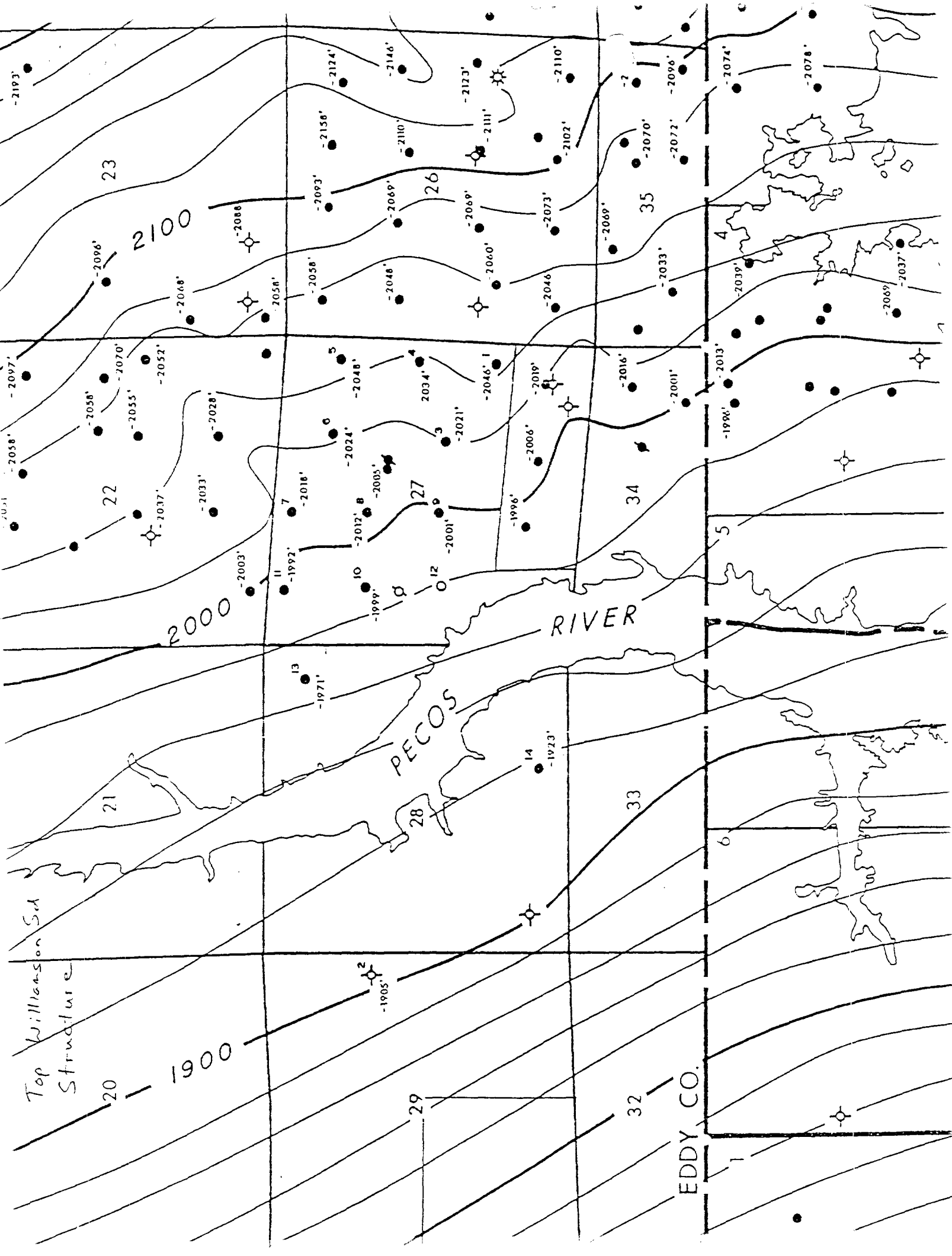
Sincerely,

MALLON OIL COMPANY

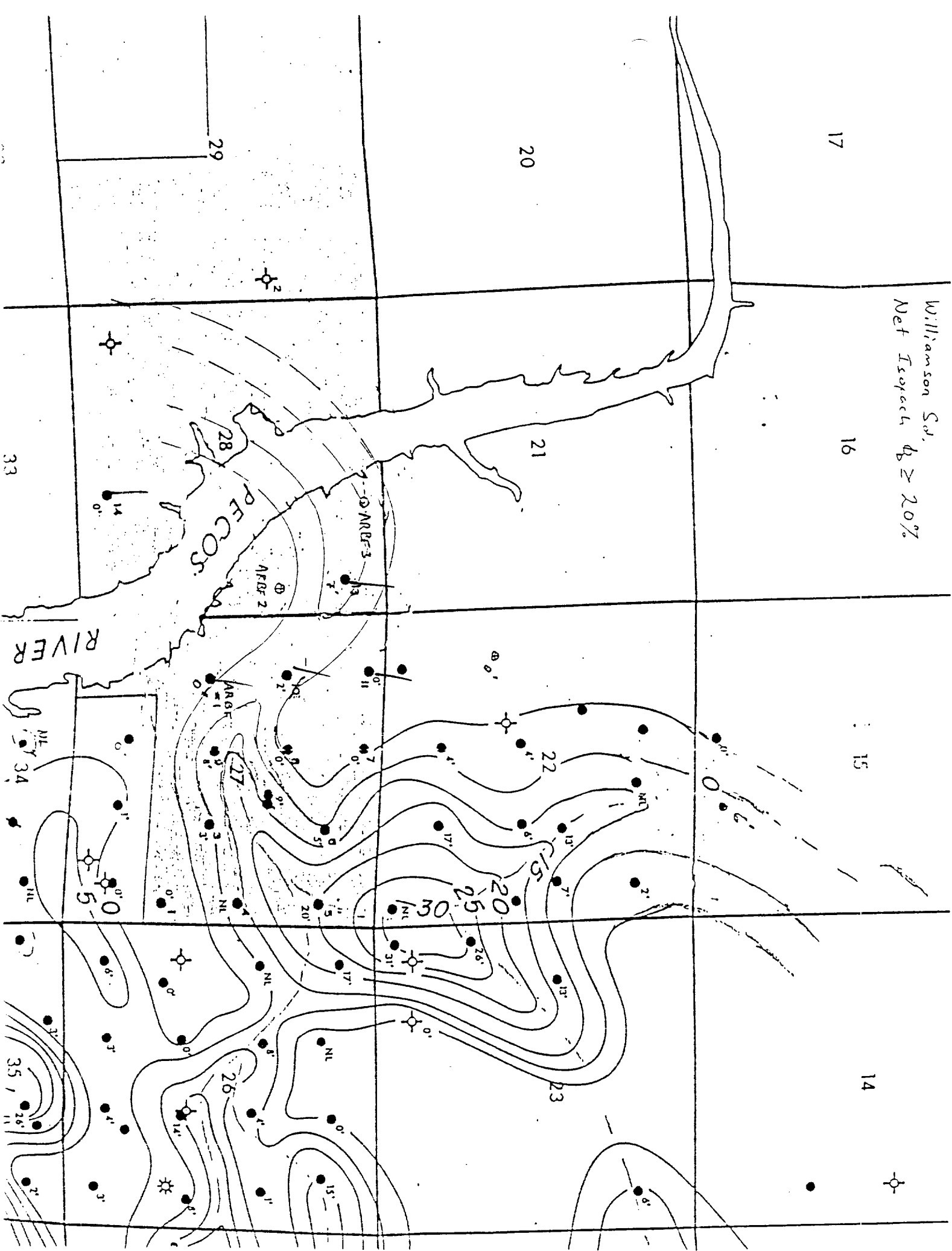


Joe H. Cox, Jr.
Production Manager

JHC:er
Enclosure(s)



Williamson Sub.
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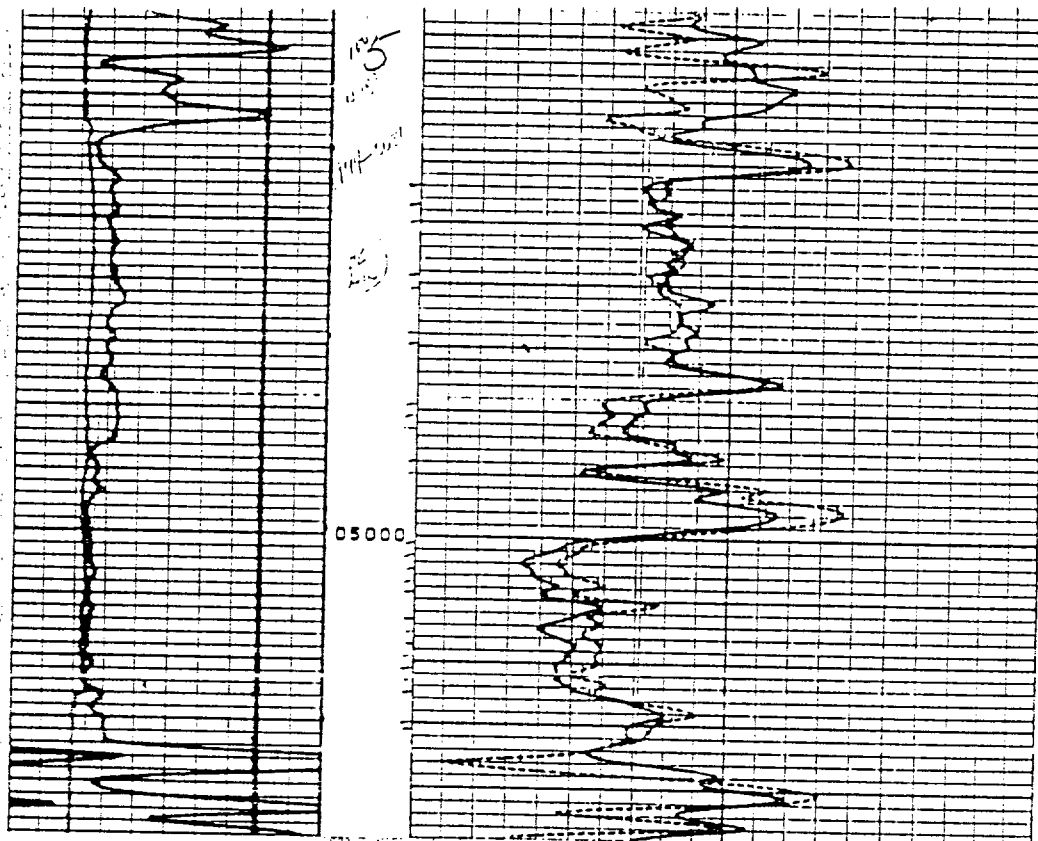
A sketch of a river bend, with the word "RIVER" written vertically along the curve.

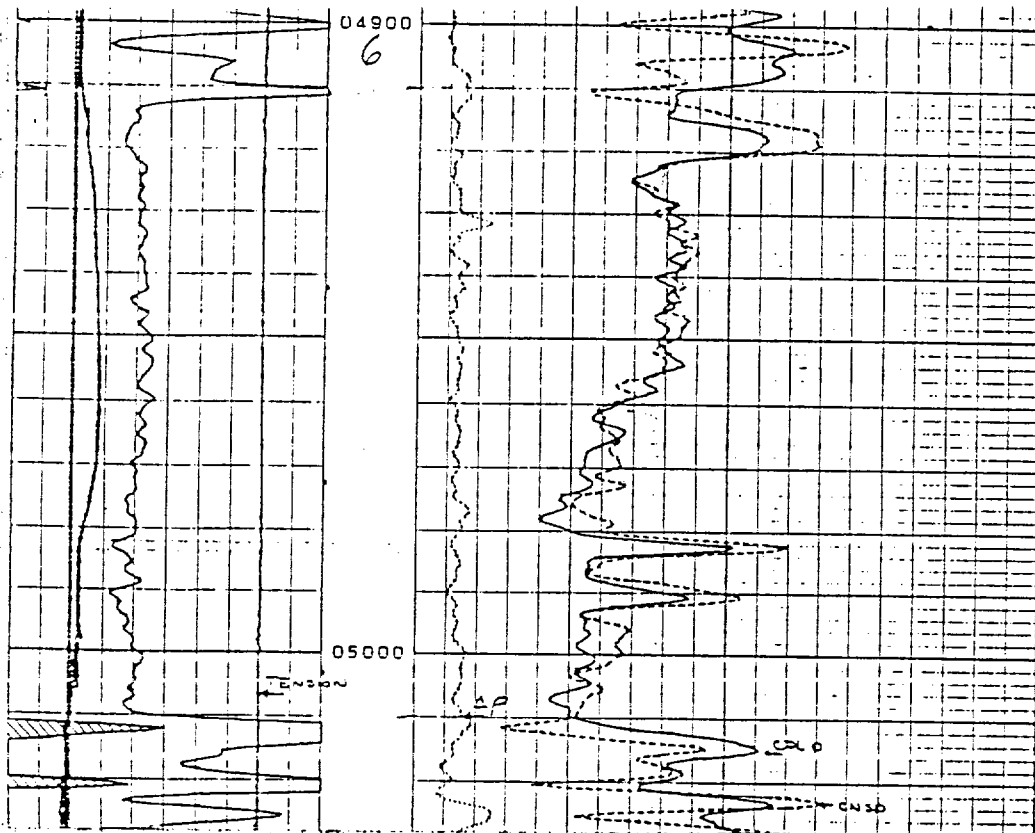
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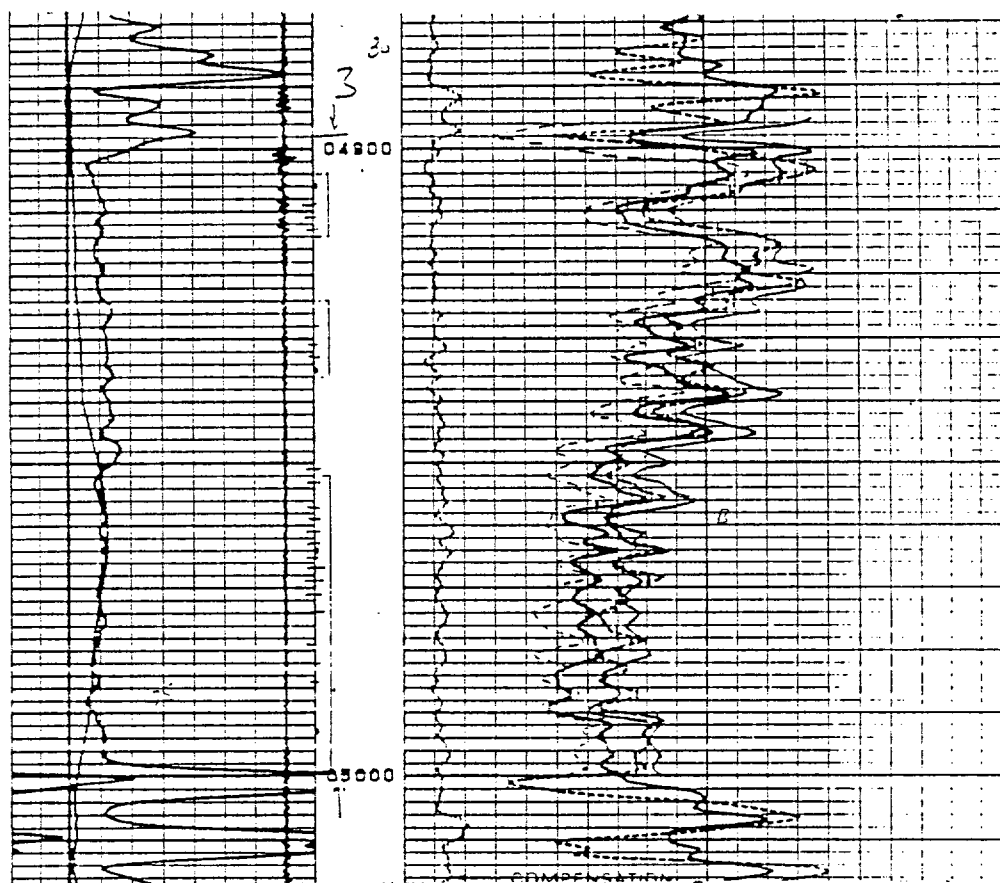
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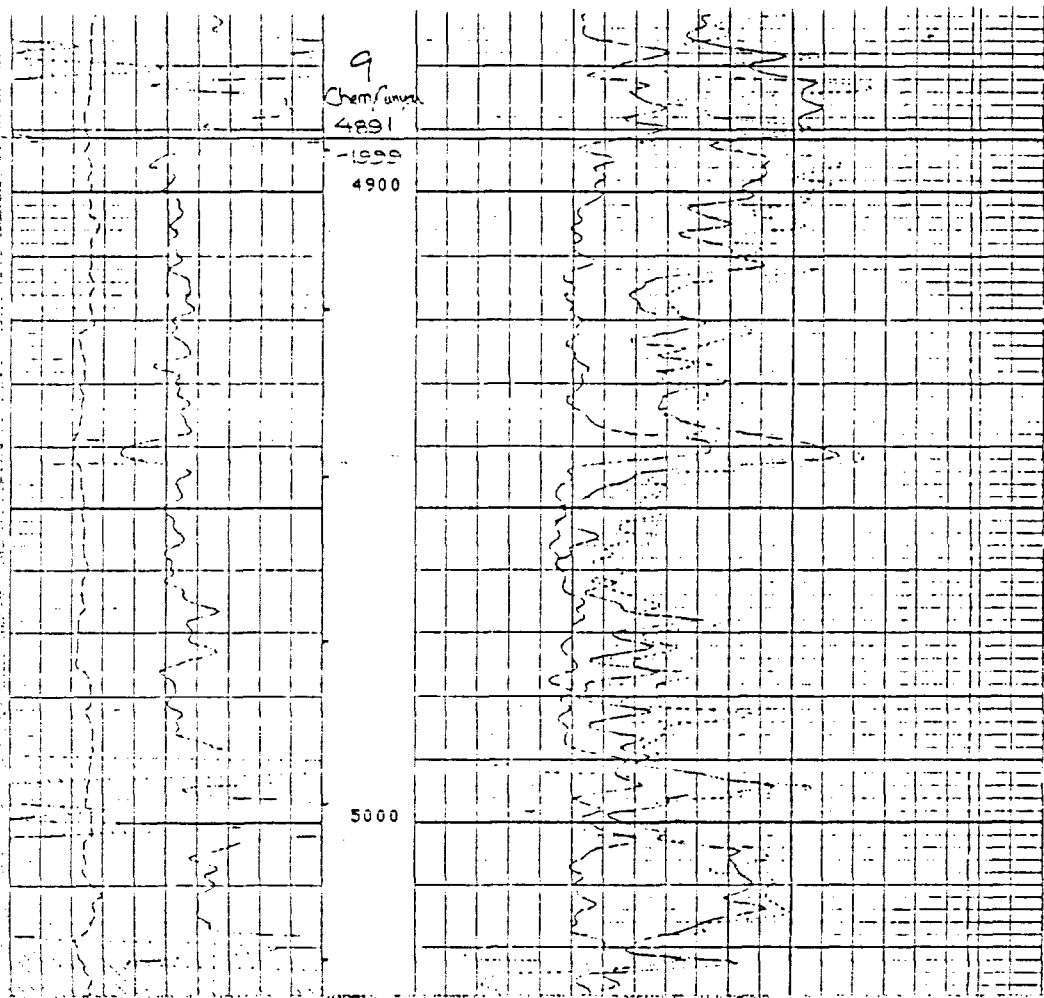
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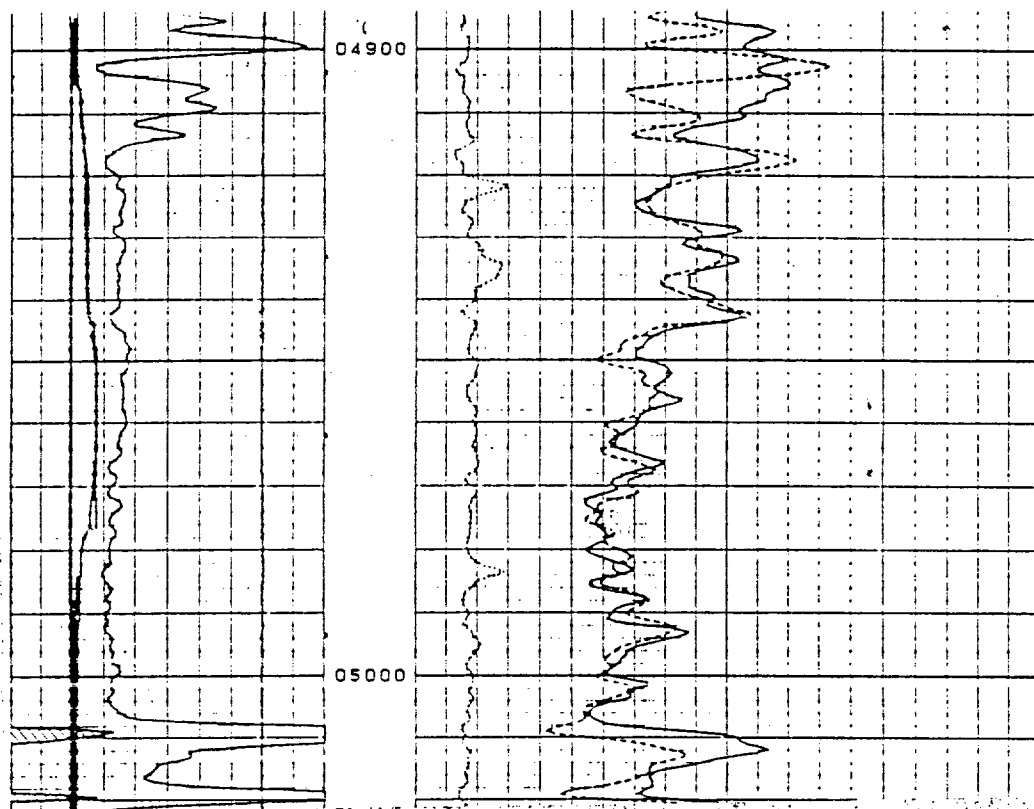
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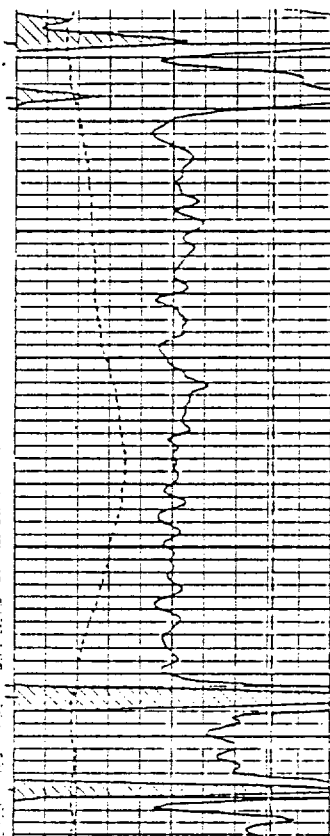




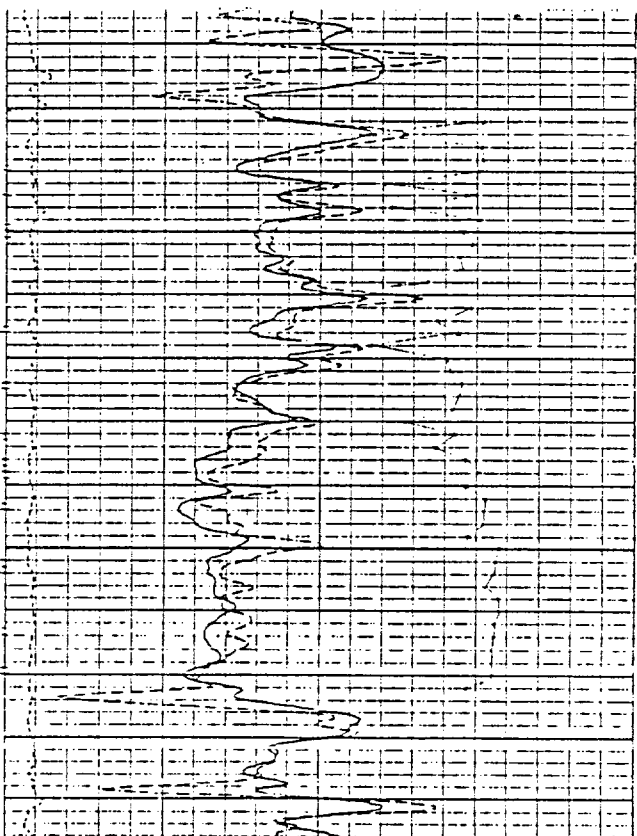


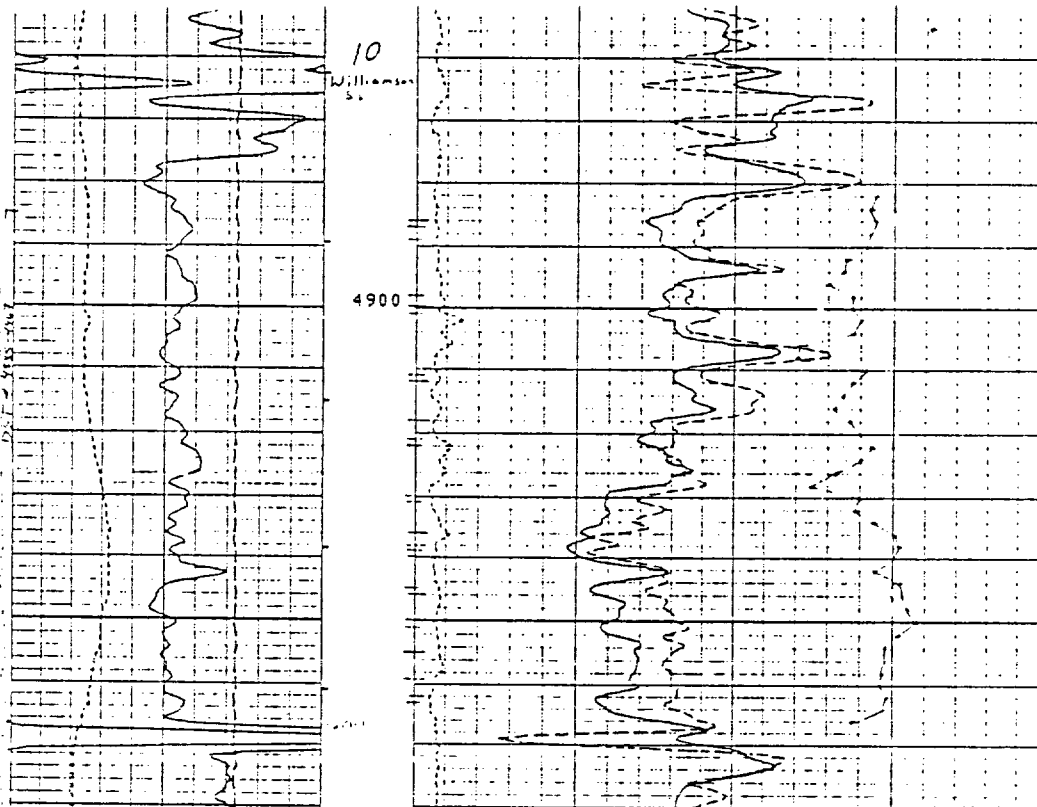


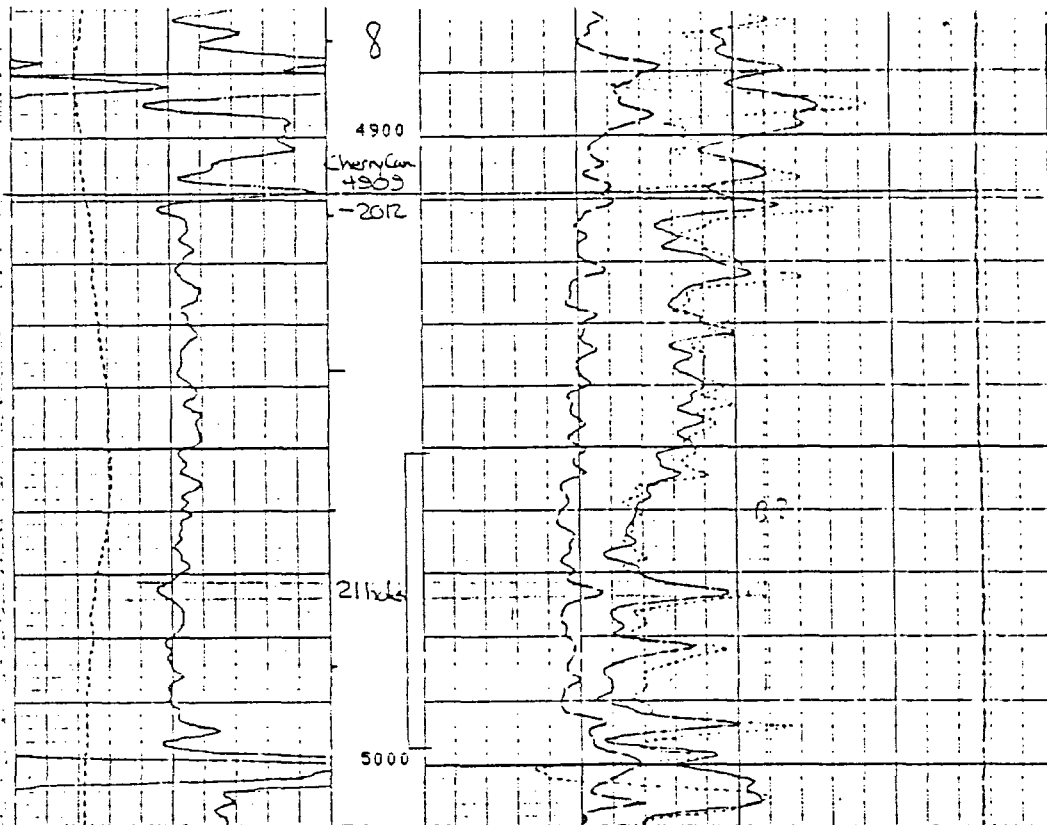


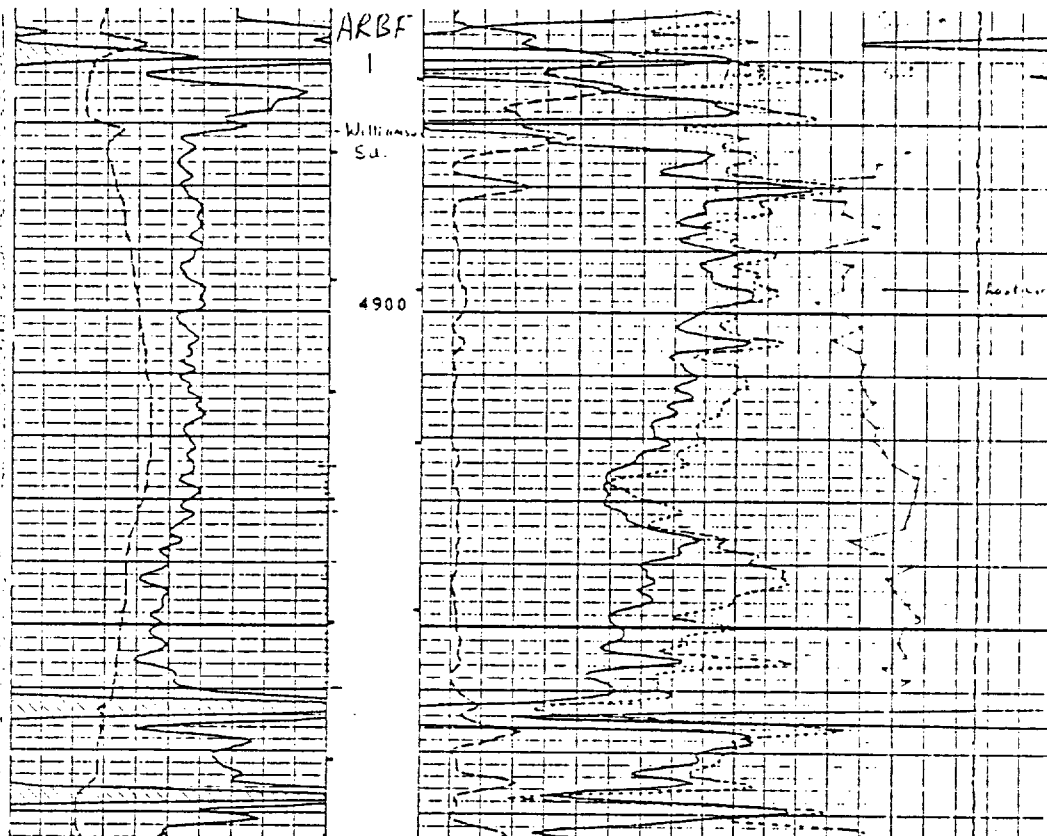


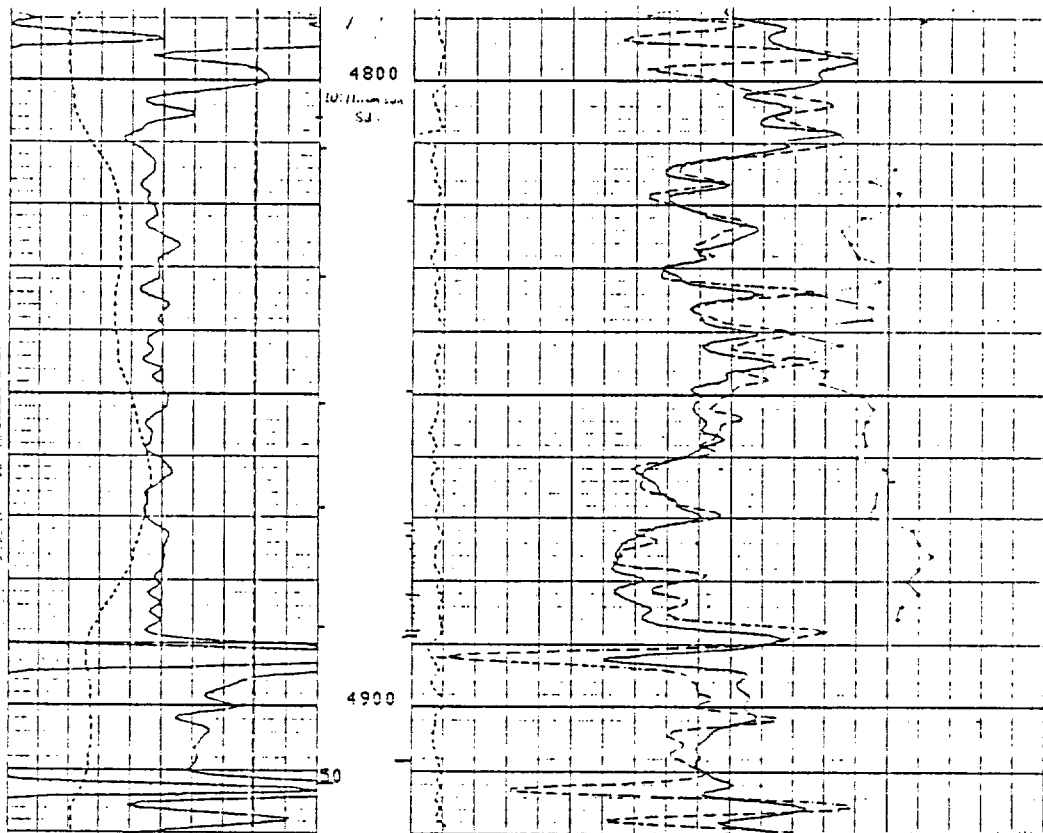
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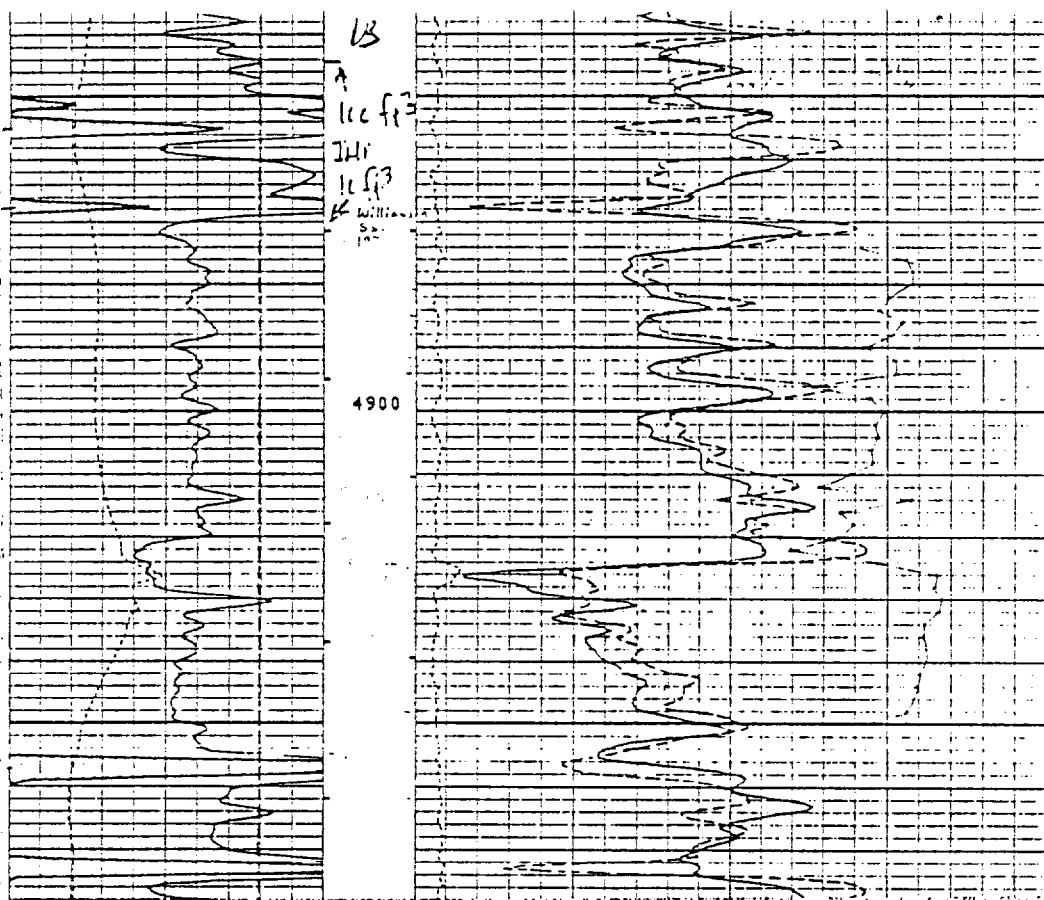












MALLON OIL COMPANY

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

July 12, 1989

Mr. George Mitchell, Jr.
P.O. Box 50682
Midland, TX 79710

Re: Amoco-Red Bluff #3 Well
NW/4 NE/4 of Section 28-T26S, R29E
Eddy County, New Mexico

Dear George:

Pursuant to our phone conversation, enclosed please find the Operating Agreement and AFE for the above captioned well. If acceptable, please return the indicated copies to the undersigned.

I have also included the corrected survey plats, the APD for the well and letters from the BLM accepting the corrected John West plats for Sections 27 and 28. The force pooling decisions and Title Opinion for the Amoco-Red Bluff #1 well is simply for your information.

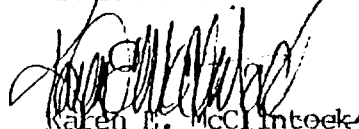
As we discussed, our drilling deadline with Amoco is August 31, 1989. I would greatly appreciate a timely review of the enclosed documents, in order to answer any questions you may have in regards to the Amoco-Red Bluff #3 well.

I would appreciate an executed copy of your agreement with Red Bluff or a Memorandum of Agreement, for my files.

If you should have any technical questions, please contact Joe Cox in our office, our Geologist/Engineer for this area.

Sincerely,

MALLON OIL COMPANY


Karen E. McClintock
Landman

KFM/ars
enclosure

EXHIBIT "A"

ATTACHED to and made a part of that certain Operating Agreement dated July 10, 1989, by and between Mallon Oil Company, as Operator and George Mitchell, Jr., as Non-Operator for the NW/4 NE/4 of Section 28-T26S, R29E, NMPM, Eddy County, New Mexico.

Item 1: Contract Area:

Township 26 South, Range 29 East, NMPM
Section 28: NW/4 NE/4

Eddy County, New Mexico

Item 2: Restrictions as to Depth: Bell Canyon, Cherry Canyon, Brushy Canyon formations (Delaware Mountain Group)

Item 3: Percentages of Working Interest:

Mallon Oil Company, et al.	71.5400%
George Mitchell, Jr.	28.4600%

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
Federal Lease NM NM 71599

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

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

George Mitchell, Jr.
P.O. Box 50682
Midland, TX 79710

FIELD/PROSPECT Brushy Draw-Delaware/Pecos River

WELL NAME Amoco-Red Bluff-Federal #3

LOCATION 330' FNL, 1085' FEL, (NW/4 NE/4), Section 28, T26S, R29E

COUNTY, STATE Eddy County, New Mexico

CONTRACTOR (TENTATIVE) CapStar Drilling

LEASE NUMBER

1269

PROPERTY NO.

NM-01-17

PREPARED BY: DATE:
Joe H. Cox, Jr. 06-05-89

APPROVED BY: DATE:
Kevin M. Fitzgerald 06-05-89

APPROVED BY: DATE:

ANTICIPATED START/STOP DATES

COST ESTIMATE

	TANGIBLE EXPENSE	INTANGIBLE EXPENSE	TOTAL
DRILLING-CASING POINT _____	\$ 4,650	\$ 82,420	\$ 87,070
DRILLING-COMPLETION _____	\$ 82,725	\$ 75,000	\$ 157,725
WORKOVER _____	\$ _____	\$ _____	\$ _____
OTHER (SPECIFY) _____	\$ _____	\$ _____	\$ _____
TOTAL COSTS	\$ 87,375	\$ 157,420	\$ 244,795

PROJECT DESCRIPTION

Under the terms of the Operating Agreement Mallon Oil Company proposes the drilling of the above captioned well. The well is to be drilled through the Williamson Sand Member of the Cherry Canyon Formation to a total depth of approximately 5,200'. The estimates of costs are based on actual bids and historical costs, however are estimates only and subject to overruns. Partners will be notified if the cost exceeds authorized amounts by 10% or more.

ATTACH PROGNOSIS AND COST BREAKDOWN

COST SHARING

	DCP	ACP
George Mitchell, Jr. _____	28.46 % \$ 24,780	28.46 % \$ 44,889

PARTNER APPROVAL

COMPANY:

SIGNATURE:

DATE:

George Mitchell, Jr.

MALLOH OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

Well Name and Number Amoco-Red Bluff-Federal #3 AFE NO. _____
 County Eddy State New Mexico Prospect Name Pecos River
 Section 28 TWP 26S RGE 29E Well Location NW/4 NE/4
 Field Brushy Draw Objective Formation Cherry Canyon Depth 5,200'

DETAILS OF COST ESTIMATE

910 & 920 INTANGIBLE COSTS

		<u>DRY HOLE</u>	<u>PRODUCER</u>
101	Damages _____ Losses _____	\$ --	\$ --
102	Roads & Location _____	5,000	6,000
103.1	Mobilization/Demobilization Incl. _____	--	--
103.2	Drilling-Foolage <u>5200</u> ft. @ <u>\$7.85</u> /ft	40,820	40,820
103.3	Daywork <u>1</u> days WDP. @ <u>3200</u> /day:	3,200	3,200
103.4	Turnkey Contract <u>N/A</u>	--	--
201	Completion Unit <u>6</u> days @ <u>\$1,300</u>	--	7,800
106	Mud _____ Chemicals _____	2,500	2,500
107	Power, Water & Fuel _____	3,000	6,500
108	Equipment Rental _____	3,000	6,000
109	Coring _____ Testing _____	--	--
140	Logging _____	7,000	7,000
111	Cementing Services _____	5,000	14,500
112	Consultants _____	2,000	4,400
115	Trucking & Hauling _____	500	1,500
117	Other Costs _____ Contingency 5%	3,900	7,200
118	Administrative Overhead _____	2,000	4,500
125	Bits _____ Incl. _____	--	--
130	Mud Logging _____	4,500	4,500
202	Well Stimulation <u>37,000</u> Perforation <u>4000</u>	,	41,000
165	Abandonment Costs _____	--	--
TOTAL INTANGIBLE DRILLING COSTS		\$ 82,420	\$157,420

930 TANGIBLE EQUIPMENT COSTS

299	Surface Casing <u>450</u> ft <u>8 5/8"</u> size @ <u>\$9.00</u> /ft	\$ 4,050	\$ 4,050
300	Intermediate Csg. <u>--</u> ft <u>--</u> size @ \$ -- /ft	--	--
301	Production Csg. <u>5,200'</u> ft <u>5 1/2"</u> size @ <u>\$6.00</u> /ft		31,200
302	Tubing & Attachments <u>5,200'</u> <u>2 7/8"</u> @ <u>1.50</u>		7,800
303	Rods & Pumps _____		8,000
304	Well Head Equipment _____	600	1,500
305	Flowlines <u>4,500'</u> x <u>.75</u>		3,375
306	Installation <u>4,500'</u> x <u>.50</u>		2,250
307	Pumping Unit & Engines _____		25,000
308	Tank Battery & Fittings _____		--
309	Non-Controllable Equipment _____		--
310	Treaters-separators _____		--
311	Buildings _____		--
312	Other Equipment _____ Contingency 5%		4,200
TOTAL TANGIBLE EQUIPMENT COSTS		\$ 4,650	\$ 87,375

AFE Date:

TOTAL COST \$ 87,070 \$244,795

AM 7:18 PM
JUL 24 1989
10:11:21
12:13:45
15:16

Mining Leasing Act of 1920 (30 U.S.C. 181 et seq.)
Act for Acquired Lands of 1947 (30 U.S.C. 351-359)
Geothermal Steam Act of 1970 (30 U.S.C. 1001-1025)
Department of the Interior Appropriations Act, Fiscal Year 1981 (42 U.S.C. 6508)

NI1 71599

Type or print plainly in ink and sign in ink.

1. Transferee (Sublessee)*
Street
City, State, ZIP Code

PART A: TRANSFER
George P. Mitchell, II
P. O. Box 50682
Midland, Texas 79710

*If more than one transferee, check here ☐ and list the name(s) and address(es) of all additional transferees on the reverse of this form or on a separate attached sheet of paper.

This transfer is for: (Check one) ☒ Oil and Gas Lease, or ☐ Geothermal Lease

Interest conveyed: (Check one or both, as appropriate) ☒ Operating Rights (sublease) ☐ Overriding Royalty, payment out of production or other similar interests or payments

2. This transfer (sublease) conveys the following interest:

Land Description Additional space on reverse, if needed. Do not submit documents or agreements other than this form; such documents or agreements shall only be referenced herein.	Percent of Interest			Percent of Overriding Royalty or Similar Interests	
	Owned	Conveyed	Retained	Reserved	Previously reserved or conveyed
a	b	c	d	e	f
See the attached Exhibit "A" for land description.	100%	100%	-0-	7.5%	-0-

FOR BLM USE ONLY—DO NOT WRITE BELOW THIS LINE

THE UNITED STATES OF AMERICA

This transfer is approved solely for administrative purposes. Approval does not warrant that either party to this transfer holds legal or equitable title to this lease.

☐ Transfer approved effective _____

By _____
(Authorized Officer)

(Title)

(Date)

2

Tear

PART C: GENERAL INSTRUCTIONS

Tear

1. Transferor/Transferee(s) must complete Parts A1 and A2 and Part B. All parties to transfer must sign as follows: The transferor(s) must manually sign 3 original copies, and the transferee(s) must manually sign at least 1 of the 3 original copies. File three (3) completed copies of this form in the proper BLM office for each transfer of operating rights (sublease). For a transfer of overriding royalty interest, payment out of production or other similar interest or payment, file one (1) manually signed copy of this form. The required filing fee (nonrefundable) must accompany the transfer, payment out of production or other similar interests or payments. File transfer within ninety (90) days after date of execution by transferor.
2. Separate form must be used for each lease being affected by this transfer and for each type of interest conveyed.
3. In Item No. 2 of Part A, describe lands affected (See 43 CFR 3106, 3135, or 3241). For columns b, c, d, and e, enter the interest expressed as a percentage of total interest in the lease; e.g., if transferor transfers one quarter of a 20% interest, enter 20% in column b, 5% in column c, and 15% in column d.

4. If any payments out of production or similar interests, arrangements or payments have previously been created out of the interest being transferred, or if any such payments or interests are reserved under this transfer include a statement giving full details as to amount, method of payment, and other pertinent terms as provided under 43 CFR 3106, 3135, or 3241.
5. The lease account must be in good standing before this transfer (sublease) can be approved (43 CFR 3106 and 3241.)
6. Transfer, if approved, takes effect on the first day of the month following date of filing in the proper BLM office. If a bond is necessary, it must be furnished prior to approval of the transfer.
7. Overriding royalty and payment out of production or other similar types of transfers must be filed with BLM, but will be accepted for record purposes only. No official approval will be given.
8. Upon approval of a transfer of operating rights (sublease), the sublessee is responsible for all lease obligations under the lease rights transferred to the sublessee.

NOTICE

The Privacy Act of 1974 and the regulation in 43 CFR 2.48(d) provide that you be furnished the following information in connection with information required by this oil and gas/geothermal lease transfer application.

AUTHORITY: 30 U.S.C. 181 et seq; 30 U.S.C. 1001-1025; 42 U.S.C. 6508

PRINCIPAL PURPOSE—The information is to be used to process transfers of operating rights (subleases) for oil and gas/geothermal resources leases.

(3) Transfer to appropriate Federal agencies when concurrence is required prior to granting a right in public lands or resources.

(4)(5) Information from the record and/or the record will be transferred to appropriate Federal, State, local or foreign agencies, when relevant to civil, criminal or regulatory investigations or prosecutions.

EFFECT OF NOT PROVIDING INFORMATION—If all requested information is not provided, the transfer may not be approved. See regulations at 43 CFR Groups 3100 and 3200.

Part A (Continued): ADDITIONAL SPACE for Names and addresses of additional transferees in Item No. 1, if needed, or for Land Description in Item No. 2 if needed.

PART B: CERTIFICATION AND REQUEST FOR APPROVAL

1. The transferor certifies as owner of an interest in the above designated lease that he/she hereby transfers to the above transferee(s) the rights specified above.
2. Transferee certifies as follows: (a) Transferee is a citizen of the United States; an association of such citizens; a municipality; or a corporation organized under the laws of the United States or of any State or territory thereof. For the transfer of NPR-A leases, transferee is a citizen, national, or resident alien of the United States or associations of such citizens, nationals, resident aliens or private, public or municipal corporations, (b) Transferee is not considered a minor under the laws of the State in which the lands covered by this transfer are located; (c) Transferee's chargeable interests, direct and indirect, in either public domain or acquired lands, do not exceed 200,000 acres in oil and gas options or 246,080 in oil and gas leases in the same State, or 300,000 acres in leases and 200,000 acres in options in each leasing District in Alaska, if this is an oil and gas lease issued in accordance with the Mineral Leasing Act of 1920 or 51,200 acres in any one state if this is a geothermal lease; and (d) All parties holding an interest in the transfer are otherwise in compliance with the regulations (43 CFR Group 3100 or 3200) and the authorizing Acts.
- (e) Transferee is in compliance with reclamation requirements for all Federal oil and gas lease holdings as required by sec. 17(g) of the Mineral Leasing Act; and (f) Transferee is not in violation of sec. 41 of the Mineral Leasing Act.
3. Transferee's signature to this assignment constitutes acceptance of all applicable terms, conditions, stipulations and restrictions pertaining to the lease described herein. Applicable terms and conditions include, but are not limited to, an obligation to conduct all operations on the leasehold in accordance with the terms and conditions of the lease, to condition all wells for proper abandonment, to restore the leased lands upon completion of any operations as described in the lease, and to furnish and maintain such bond as may be required by the lessor pursuant to regulations 43 CFR 3104, 3134, or 3206.

For geothermal transfers, an overriding royalty may not be less than one fourth (1/4) of one percent of the value of output, nor greater than 50 percent of the rate of royalty due to the United States when this transfer is added to all previously created overriding royalties (43 CFR 3241).

I certify that the statements made herein by me are true, complete, and correct to the best of my knowledge and belief and are made in good faith.

Executed this 14 day of July, 19 89 Executed this 13 day of July, 19 89

Name of Transferor Red Bluff Water Power Control District
Please type or print

Transferor or Attorney-in-fact (Signature)

Transferee or George P. Mitchell, II (Signature) II

(Signature)

(Signature)

c/o James T. Jennings, P. O. Box 1180
(Transferor's Address)

Roswell New Mexico 88202-1180
(City) (State) (Zip Code)

Title 18 U.S.C. Sec. 1001 makes it a crime for any person knowingly and willfully to make to any Department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

EXHIBIT "A"

Attached and made a part of that certain Transfer of Operating Rights from Red Bluff Water Power Control District to George P. Mitchell, II.

The following description was prepared by M. R. Estes, surveyor for the Red Bluff Water Power Control District, and certified as to being true and correct as to boundaries, corners and lines of the Red Bluff Water Power Control District Reservoir in the State of New Mexico on May 20, 1936 and further approved by the Bureau of Land Management on August 4, 1937.

FIELD NOTES

Red Bluff Reservoir

Parcel II

Section 27, Township 26 South, Range 29 East, Eddy County, New Mexico:

Beginning at a point in the South line of Section 27, Township 26 South, Range 29 East, Eddy County, New Mexico, which point is East along said South line of Section 27, a distance of 1228.1' from the Southwest corner of said Section 27;

Thence North $26^{\circ} 24\frac{1}{2}'$ East 70.9' to a point;

Thence North $68^{\circ} 54'$ West 186.2' to a point;

Thence North $8^{\circ} 46'$ West 279.0' to a point;

Thence North $31^{\circ} 17'$ West 223.9' to a point;

Thence North $48^{\circ} 30'$ West 330.0' to a point;

Thence North $23^{\circ} 36'$ West 263.1' to a point;

Thence North $28^{\circ} 13'$ West 251.4' to a point;

Thence North $72^{\circ} 45'$ East 249.2' to a point;

Thence North $60^{\circ} 17'$ West 422.0' to a point;

Thence North $57^{\circ} 49\frac{1}{2}'$ West 259.4' to a point;

Thence North $2^{\circ} 35\frac{1}{2}'$ West 304.6' to a point;

Thence North $19^{\circ} 16\frac{1}{2}'$ East 126.6' to a point;

Thence North $2^{\circ} 45\frac{1}{2}'$ East 75.5' to a point;

Thence South $54^{\circ} 15\frac{1}{2}'$ West 189.1' to a point;

Thence North $78^{\circ} 27\frac{1}{2}'$ West 176.1' to a point;

Thence North $45^{\circ} 47\frac{1}{2}'$ West 47 $\frac{1}{2}'$ to a point in the West line of said Section 27;

Thence South along the West line of Section 27 a distance of 2149.8' to the Southwest corner of said Section 27;

Thence East along the South line of Section 27 a distance of 1228.1' to the point of beginning.

The above described tract containing 38.5 acres, more or less.

Parcel III

Section 28, Township 26 South, Range 29 East, Eddy County, New Mexico:

Beginning at a point in the South line of Section 28, Township 26 South, Range 29 East, Eddy County, New Mexico, which point is West along said South line a distance of 643.3' from the South-east corner of Section 28:

Thence North 7° 47½' West 318.9' to a point;
Thence North 31° 50½' West 323.0' to a point;
Thence North 19° 23½' East 142.1' to a point;
Thence South 76° 31½' East 95.5' to a point;
Thence North 11° 53½' West 322.7' to a point;
Thence North 41° 00½' West 290.3' to a point;
Thence North 72° 34½' West 205.8' to a point;
Thence North 9° 43' West 366.4' to a point;
Thence North 45° 08' West 83.3' to a point;
Thence South 67° 01' West 236.7' to a point;
Thence North 21° 04' East 195.7' to a point;
Thence South 82° 19' West 148.3' to a point;
Thence South 62° 14' West 225.5' to a point;
Thence South 38° 46' West 114.7' to a point;
Thence South 23° 23' West 294.5' to a point;
Thence North 6° 39' West 192.9' to a point;
Thence North 15° 04' East 128.4' to a point;
Thence North 6° 42' West 142.0' to a point;
Thence North 52° 08' West 187.7' to a point;
Thence North 34° 20' West 213.3' to a point;
Thence North 51° 37' West 103.0' to a point;
Thence North 72° 43' West 85.3' to a point;
Thence South 65° 56' West 86.6' to a point;
Thence North 69° 58' West 91.3' to a point;
Thence South 44° 00' West 453.7' to a point;
Thence North 58° 13' West 270.1' to a point;
Thence North 70° 55' West 254.6' to a point;
Thence North 19° 23' West 186.4' to a point;
Thence North 35° 08' West 432.8' to a point;
Thence North 50° 24' West 392.2' to a point;
Thence North 41° 16' West 369.7' to a point;
Thence North 26° 42' West 191.4' to a point;
Thence North 86° 28' East 319.2' to a point;
Thence North 76° 44' East 478.5' to a point;
Thence North 45° 15' East 250.7' to a point;
Thence North 15° 13' East 60.8' to a point;
Thence North 48° 47' West 265.5' to a point;
Thence North 24° 16' West 143.0' to a point;
Thence North 15° 03½' West 134.4' to a point;
Thence North 29° 27½' East 172.0' to a point;
Thence North 20° 03' West 499.4' to a point;
Thence North 0° 56' West 274.0' to a point;

Thence North $1^{\circ} 44'$ West 272.5' to a point in the North line of Section 28;
 Thence East along the said North line a distance of 1036.8' to a point in said North line;
 Thence South $35^{\circ} 37\frac{1}{2}'$ East 279.7' to a point;
 Thence South $14^{\circ} 26\frac{1}{2}'$ East 266.2' to a point;
 Thence South $19^{\circ} 12'$ East 217.5' to a point;
 Thence South $24^{\circ} 43'$ East 307.5' to a point;
 Thence South $28^{\circ} 55'$ East 155.7' to a point;
 Thence South $20^{\circ} 28'$ East 289.2' to a point;
 Thence South $43^{\circ} 08'$ East 314.5' to a point;
 Thence South $39^{\circ} 22'$ East 270.5' to a point;
 Thence South $46^{\circ} 13\frac{1}{2}'$ East 387.1' to a point;
 Thence South $48^{\circ} 20\frac{1}{2}'$ East 291.2' to a point;
 Thence South $57^{\circ} 44\frac{1}{2}'$ East 247.7' to a point;
 Thence South $62^{\circ} 05\frac{1}{2}'$ East 355.9' to a point;
 Thence South $33^{\circ} 23\frac{1}{2}'$ East 170.9' to a point;
 Thence South $55^{\circ} 49\frac{1}{2}'$ East 180.2' to a point;
 Thence North $78^{\circ} 38\frac{1}{2}'$ East 182.2' to a point;
 Thence South $14^{\circ} 55\frac{1}{2}'$ West 220.6' to a point;
 Thence South $45^{\circ} 47\frac{1}{2}'$ East 195.6' to a point in the East line of said Section 28;
 Thence South along the East line of Section 28 a distance of 2149.8' to the Southeast corner of Section 28;
 Thence West along the South line of Section 28 a distance of 643.3' to the point of beginning.

The above described tract containing 220.5 acres, more or less.

CONTRACT AND OPERATING AGREEMENT

This Agreement, made and entered into as of the 13 day of July, 1989, by and between Red Bluff Water Power Control District, hereinafter sometimes referred to as "Assignor", and George P. Mitchell, II, whose address is P. O. Box 50602, Midland, Texas 79710, hereinafter sometimes referred to as "Assignee";

W I T N E S S E T H:

WHEREAS, Assignor is the record owner of Federal Oil and Gas Lease NM 71599, dated April 1, 1988 (the "Lease") covering lands in Eddy County, New Mexico as described on the attached Exhibit "A" ("Subject Lands"); and

WHEREAS, Assignor has agreed to assign the operating rights and working interest under the lease to Assignee subject to certain terms and conditions described herein.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration and mutual covenants hereof, the parties assign and agree as follows:

I.

Subject to the terms and conditions set out herein, Assignor hereby grants, assigns and conveys to Assignee all of Assignor's operating rights and working interest in the Subject Lands existing by virtue of the Lease and the exclusive right and privilege of exploring, testing and development lands described in the attached Exhibit "A" for oil, gas and other hydrocarbons, minerals and, in connection therewith, Assignor shall be entitled to exercise all of the rights and privileges granted to the lessee under the terms of the Lease and all of the production from the Subject Lands shall be owned by Assignee subject to the following:

(a) Payment by Assignee of royalties reserved in said lease to the lessor, proportionate to the interest assigned herein;

(b) Assignor hereby accepts and reserves to itself, its successors and assigns, as an overriding royalty, 7-1/2% of all oil and gas produced from the subject lands which shall be in addition to all royalties, overriding royalties and similar burdens existing as of this date. Assignor's overriding royalty is to be free and clear of all costs of development and operation but subject to applicable taxes. If said oil and gas lease does not cover the full interest in the premises or Assignor does not own the full interest in the lease, the overriding royalty interest herein reserved by Assignor shall be proportionately reduced.

(c) Assignee shall have the right to pool the overriding royalty interest herein reserved without the consent of Assignor, by committing all or any part of the Subject Lands to a communitization agreement or unit agreement approved by the governmental agency having jurisdiction.

II.

Excepting for the payment of rentals and/or minimum royalties elsewhere provided for herein, Assignee assumes all obligations, duties and covenants hereafter accruing, imposed upon the lessee by the Lease and any intermediate assignment thereof insofar as they pertain to the subject lands and to the extent of the interest assigned herein and agrees to comply with the terms thereof and applicable rules and regulations.

RECEPTION
896644

*DB II Energy, Inc
PO Box 50602
Midland, TX 79710*

*Carbon
subsequent
rather
than
Carbon
overhead*

III.

Assignor shall not relinquish or surrender the Lease as to the Subject Lands, nor shall Assignor do or perform any act or thing which might cause the Lease to be forfeited as to the Subject lands without the consent in writing of Assignee. Assignor shall promptly furnish to Assignee copies of all notices or other communications received from the Department of the Interior, Bureau of Land Management or representative thereof, pertaining to the Lease and shall upon request of Assignee, make application for any extension or renewal of said oil and gas lease as to the lands covered by this agreement, where such renewal of extension is allowed or permitted by law or regulation, and upon request of Assignee, make application for any drilling, rental, royalty or other relief with respect to the land covered by the agreement which to Assignee may be deemed proper and Assignee shall pay or reimburse Assignor for all expenses in connection therewith insofar as the same cover and affect the lands covered by this agreement. Assignor does hereby give and grant to Assignee full power and authority to do and perform every act and thing not otherwise expressly provided for herein, necessary or required to be done or performed by Assignor in connection with said oil and gas lease.

IV.

Within 180 days from the date of this agreement, Assignee shall commence or cause to be commenced the drilling of a well at a location of Assignee's choice on the Subject Lands or lands pooled therewith. Such well shall be drilled with due diligence and in a good and workmanlike manner until Assignee has tested the objective formation and either completed the well as a commercial producer or plugged and abandoned the well.

Within 180 days from the completion of the first well as a well capable of producing oil and/or gas or as a dry hole, Assignee agrees to conduct a continuous drilling program with not more than 180 days elapsing between the completion of one well and the commencement of another well, until the Subject Lands are developed to a density of one well for each standard spacing or proration unit prescribed by orders of the New Mexico Oil Conservation Commission or if there are no applicable spacing or proration rules, then one well for each 40 acre tract in the event of oil production and one well for each 320 acre tract in the event of gas production as may be designated by Assignee. It is agreed and understood that wells drilled to satisfy this program may be drilled on the Subject Lands or on lands pooled therewith.

If the number of days which elapse between the completion of one well and the commencement of the next well is less than 180 days, Assignee may accumulate the days saved and extend the time for the commencement of a subsequent well. Time may be accumulated from any number of 180 day periods and added to a successive 180 period.

Within 180 days after the expiration of the continuous development program, Assignee shall reassign to Assignor all of the Subject Lands which are not then included in a spacing or proration unit, as defined above, of a well producing or capable of producing oil and/or gas in commercial quantities. In addition, Assignee shall reassign the spacing and proration unit for each well after such well is plugged and abandoned.

Notwithstanding the provisions of this Article IV, should all or part of the Subject Lands be included in an approved unit agreement, the development obligations contained in such unit agreement shall satisfy the continuous drilling requirements contained herein. Upon termination of the unit agreement or completion of the development obligations contained therein, whichever

is the earlier, Assignee shall have 180 days to commence the continuous drilling program on the portion of the Subject Lands which are not included in the unit area or which have been excluded from the unit area.

V.

Assignor shall pay all rentals and/or minimum royalties which may become due and payable under the terms of the Lease with respect to the land covered hereby and Assignee shall reimburse Assignor for 100% of all such rentals and/or minimum royalties paid and attributable to the leasehold acreage assigned herein and owned by Assignee at the time of any such payment; provided, however, that Assignor shall not be liable for inadvertent failure to pay such rentals and/or minimum royalties.

VI.

A counterpart to this assignment of even date on the required federal form is being filed with the Bureau of Land Management, State Office in Santa Fe, New Mexico for approval by the Bureau of Land Management.

IN WITNESS WHEREOF, this agreement is executed as of the day and year first above written.

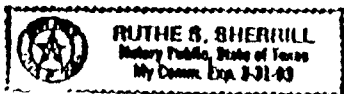
RED BLUFF WATER POWER CONTROL DISTRICT

By: W. L. Fuller
W. L. Fuller, President

George P. Mitchell, II
George P. Mitchell, II

THE STATE OF TEXAS)
COUNTY OF WARD)

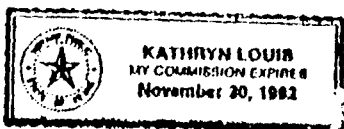
The foregoing instrument was acknowledged before me on the 14 day of July, 1989 by W. L. Fuller, President of Red Bluff Water Power Control District on behalf of said entity.



Ruthe S. Sherrill
Notary Public, State of TEXAS
Printed Name: Ruthe S. Sherrill
My commission expires: 8-31-93

THE STATE OF _____)
COUNTY OF Ward)

13th The foregoing instrument was acknowledged before me on the 13th day of July, 1989 by George P. Mitchell, II.



Kathryn Louis
Notary Public, State of _____
Printed Name: _____
My commission expires: _____

EXHIBIT "A"

Attached and made a part of that certain Transfer of Operating Rights from Red Bluff Water Power Control District to George P. Mitchell, II.

The following description was prepared by M. R. Estes, surveyor for the Red Bluff Water Power Control District, and certified as to being true and correct as to boundaries, corners and lines of the Red Bluff Water Power Control District Reservoir in the State of New Mexico on May 20, 1936 and further approved by the Bureau of Land Management on August 4, 1937.

FIELD NOTES

Red Bluff Reservoir

Parcel II

Section 27, Township 26 South, Range 29 East, Eddy County, New Mexico:

Beginning at a point in the South line of Section 27, Township 26 South, Range 29 East, Eddy County, New Mexico, which point is East along said South line of Section 27, a distance of 1228.1' from the Southwest corner of said Section 27;
 Thence North 26° 24' East 70.9' to a point;
 Thence North 68° 54' West 186.2' to a point;
 Thence North 8° 46' West 279.0' to a point;
 Thence North 31° 17' West 223.9' to a point;
 Thence North 48° 30' West 330.0' to a point;
 Thence North 23° 36' West 263.1' to a point;
 Thence North 28° 13' West 251.4' to a point;
 Thence North 72° 45' East 249.2' to a point;
 Thence North 60° 17' West 422.0' to a point;
 Thence North 57° 49' West 259.4' to a point;
 Thence North 2° 35' West 304.6' to a point;
 Thence North 19° 16' East 126.6' to a point;
 Thence North 2° 45' East 75.5' to a point;
 Thence South 54° 15' West 189.1' to a point;
 Thence North 78° 27' West 176.1' to a point;
 Thence North 45° 47' West 47' to a point in the West line of said Section 27;
 Thence South along the West line of Section 27 a distance of 2149.8' to the Southwest corner of said Section 27;
 Thence East along the South line of Section 27 a distance of 1228.1' to the point of beginning.

The above described tract containing 30.5 acres, more or less.

Parcel III

Section 28, Township 26 South, Range 29 East, Eddy County, New Mexico:

Beginning at a point in the South line of Section 28, Township 26 South, Range 29 East, Eddy County, New Mexico, which point is West along said South line a distance of 643.3' from the Southeast corner of Section 28:
 Thence North 7° 47' West 318.9' to a point;
 Thence North 31° 50' West 323.0' to a point;
 Thence North 19° 23' East 142.1' to a point;
 Thence South 76° 31' East 95.5' to a point;
 Thence North 11° 53' West 322.7' to a point;
 Thence North 41° 00' West 290.3' to a point;
 Thence North 72° 34' West 205.8' to a point;
 Thence North 9° 43' West 366.4' to a point;
 Thence North 45° 08' West 83.3' to a point;
 Thence South 67° 01' West 236.7' to a point;

CERTIFICATION

All photographs taken of this area of land are of accurate dimensions in the possession of this agency as set forth in the Statement of Surveyor Certification on file at this agency. These documents are regularly reviewed at a necessary inspection in the possession of the landowner.

Roll

399

Robert M. Smith

7-26-87

All measurements of distances on this title are of surveyed monuments in the possession of this office as noted in the statement of Deceased Certification on file at this office. These monuments are hereby acknowledged as a necessary reference in the preparation of a landowner's abstract title.

CERTIFICATION

Thence North 21° 04' East 195.7' to a point;
 Thence South 82° 19' West 148.3' to a point;
 Thence South 62° 14' West 225.5' to a point;
 Thence South 38° 46' West 114.7' to a point;
 Thence South 23° 23' West 294.5' to a point;
 Thence North 6° 39' West 192.9' to a point;
 Thence North 15° 04' East 128.4' to a point;
 Thence North 6° 42' West 142.0' to a point;
 Thence North 52° 08' West 187.7' to a point;
 Thence North 34° 20' West 213.3' to a point;
 Thence North 51° 37' West 103.0' to a point;
 Thence North 72° 43' West 85.3' to a point;
 Thence South 65° 56' West 86.6' to a point;
 Thence North 69° 58' West 91.3' to a point;
 Thence South 44° 00' West 453.7' to a point;
 Thence North 50° 13' West 270.1' to a point;
 Thence North 70° 55' West 254.6' to a point;
 Thence North 19° 23' West 186.4' to a point;
 Thence North 35° 08' West 432.8' to a point;
 Thence North 50° 24' West 392.2' to a point;
 Thence North 41° 16' West 369.7' to a point;
 Thence North 26° 42' West 191.4' to a point;
 Thence North 86° 28' East 319.2' to a point;
 Thence North 76° 44' East 478.5' to a point;
 Thence North 45° 15' East 250.7' to a point;
 Thence North 15° 13' East 60.8' to a point;
 Thence North 48° 47' West 265.5' to a point;
 Thence North 24° 16' West 143.0' to a point;
 Thence North 15° 03' West 134.4' to a point;
 Thence North 29° 27' East 172.0' to a point;
 Thence North 20° 03' West 499.4' to a point;
 Thence North 0° 56' West 274.0' to a point;
 Thence North 1° 44' West 272.5' to a point in the North line of Section 28;
 Thence East along the said North line a distance of 1036.8' to a point in said North line;
 Thence South 35° 37' East 279.7' to a point;
 Thence South 14° 26' East 266.2' to a point;
 Thence South 19° 12' East 217.5' to a point;
 Thence South 24° 43' East 307.5' to a point;
 Thence South 28° 55' East 155.7' to a point;
 Thence South 20° 28' East 289.2' to a point;
 Thence South 43° 08' East 314.5' to a point;
 Thence South 39° 22' East 270.5' to a point;
 Thence South 46° 13' East 387.1' to a point;
 Thence South 48° 20' East 291.2' to a point;
 Thence South 57° 44' East 247.7' to a point;
 Thence South 62° 05' East 355.9' to a point;
 Thence South 33° 23' East 170.9' to a point;
 Thence South 55° 49' East 180.2' to a point;
 Thence North 78° 38' East 182.2' to a point;
 Thence South 14° 55' West 220.6' to a point;
 Thence South 45° 47' East 195.6' to a point in the East line of said Section 28;
 Thence South along the East line of Section 28 a distance of 2149.8' to the Southeast corner of Section 28;
 Thence West along the South line of Section 28 a distance of 643.3' to the point of beginning.

The above described tract containing 220.5 acres, more or less.

STATE OF NEW MEXICO, County of Eddy, ss. I hereby certify that this instrument was filed for record on the
 25 day of July, A.D. 1989 at 12:50 o'clock P. M., and duly recorded
 in BOOK 49 PAGE 1042 of the Eddy County Records.
 KAREN DAVIS, County Clerk By Debra Norris Deputy

FIELD/PROSPECT	Brushy Draw-Dolawara/Pecos River	LEASE NUMBER	1269
WELL NAME	Amoco-Red Bluff-Federal #3	PROPERTY NO.	NM-01-17
LOCATION	330' FHL, 1805' REL, (NW/4 NE/4), Section 28, T26S, R29E	PREPARED BY:	DATE:
COUNTY, STATE	Eddy County, New Mexico	Joe H. Cox, Jr.	06-05-89
CONTRACTOR (TENTATIVE)	CapStar Drilling	APPROVED BY:	DATE:
		Kevin M. Fitzgerald	06-05-89
		APPROVED BY:	DATE:
		ANTICIPATED START/STOP DATES	

COST ESTIMATE	TANGIBLE EXPENSE	INTANGIBLE EXPENSE	TOTAL
DRILLING-CASING POINT	\$ 4,650	\$ 82,420	\$ 87,070
DRILLING-COMPLETION	\$ 82,725	\$ 75,000	\$ 157,725
WORKOVER	\$	\$	\$
OTHER (SPECIFY)	\$	\$	\$
TOTAL COSTS	\$ 87,375	\$ 157,420	\$ 244,795

PROJECT DESCRIPTION

Under the terms of the Operating Agreement Mallon Oil Company proposes the drilling of the above captioned well. Well is to be drilled through the Williamson Sand Member of the Cherry Canyon Formation to a total depth of approximately 5,200'. The estimates of costs are based on actual bids and historical costs, however are estimates only and subject to overruns. Partners will be notified if the cost exceeds authorized amounts by 10% or more.

ATTACH PROGNOSIS AND COST BREAKDOWN

COST SHARING	BCP	ACP
Red Bluff Water Power Control Dist.	28.46 % \$ 24,780	28.46 % \$ 44,889

PARTNER APPROVAL

COMPANY:

SIGNATURE:

DATE:

Red Bluff Water Power Control District

MALLON OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

Well Name and Number Amoco-Red Bluff-Federal #3 AFE NO. _____
 County Eddy State New Mexico Prospect Name Pecos River
 Section 28 TWP 26S RGE 29E Well Location NW/4 NE/4
 Field Brushy Draw Objective Formation Cherry Canyon Depth 5,200'

DETAILS OF COST ESTIMATE

910 & 920 INTANGIBLE COSTS

		DRY HOLE	PRODUCER
101	Damages _____ Losses _____	\$ --	\$ --
102	Roads & Location _____	5,000	6,000
103.1	Mobilization/Demobilization Incl. _____	--	--
103.2	Drilling-Foolage <u>5200</u> ft. @ <u>\$7.85</u> /ft	40,820	40,820
103.3	Daywork <u>1</u> days WDP. @ <u>3200</u> /day:	3,200	3,200
103.4	Turnkey Contract <u>N/A</u>	--	--
201	Completion Unit <u>6</u> days @ <u>\$1,300</u>	--	7,800
106	Mud _____ Chemicals _____	2,500	2,500
107	Power, Water & Fuel _____	3,000	6,500
108	Equipment Rental _____	3,000	6,000
109	Coring _____ Testing _____	--	--
140	Logging _____	7,000	7,000
111	Cementing Services _____	5,000	14,500
112	Consultants _____	2,000	4,400
115	Trucking & Hauling _____	500	1,500
117	Other Costs <u>Contingency 5%</u>	3,900	7,200
118	Administrative Overhead _____	2,000	4,500
125	Bits Incl. _____	--	--
130	Mud Logging _____	4,500	4,500
202	Well Stimulation <u>37,000</u> Perforation <u>4000</u>	--	41,000
165	Abandonment Costs _____	--	--
TOTAL INTANGIBLE DRILLING COSTS		\$ 82,420	\$157,420

930 TANGIBLE EQUIPMENT COSTS

299	Surface Casing <u>450</u> ft <u>8 5/8"</u> size @ <u>\$9.00</u> /ft	\$ 4,050	\$ 4,050
300	Intermediate Csg. <u>--</u> ft <u>--</u> size @ <u>\$ --</u> /ft	--	--
301	Production Csg. <u>5,200'</u> ft <u>5 1/2"</u> size @ <u>\$6.00</u> /ft		31,200
302	Tubing & Attachments <u>5,200'</u> <u>2 7/8"</u> @ <u>1.50</u>		7,800
303	Rods & Pumps _____		8,000
304	Well Head Equipment _____	600	1,500
305	Flowlines <u>4,500'</u> x <u>.75</u>		3,375
306	Installation <u>4,500'</u> x <u>.50</u>		2,250
307	Pumping Unit & Engines _____		25,000
308	Tank Battery & Fittings _____		--
309	Non-Controllable Equipment _____		--
310	Treaters-separators _____		--
311	Buildings _____		--
312	Other Equipment <u>Contingency 5%</u>		4,200
TOTAL TANGIBLE EQUIPMENT COSTS		\$ 4,650	\$ 87,375

AFE Date:

TOTAL COST \$ 87,070 \$244,795

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.

Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to:
*Red Bluff Wtr. Pur. Ctr.
 1111 W. 2nd St.
 Pecos, TX 79772*

4. Article Number
D518 874 938

Type of Service:
☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

Always obtain signature of addressee or agent and **DATE DELIVERED.**

5. Signature - Address
X [Signature]

6. Signature - Agent
X [Signature]

7. Date of Delivery

8. Addressee's Address (ONLY if requested and fee paid)

PS Form 3811, Mar. 1988

★ U.S.G.P.O. 1986-212-865

DOMESTIC RETURN RECEIPT

6-5-89

D-518 874 938

*Red Bluff Wtr. Pur. Ctr.
 1111 W. 2nd St.
 Pecos, TX 79772*

*Red Bluff Wtr. Pur. Ctr.
 1111 W. 2nd St.
 Pecos, TX 79772*

MALLON OIL COMPANY

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

April 4, 1989

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

Attention: Mr. Jim Ed Miller

CERTIFIED MAIL - P 570 412 767

Re: Amoco-Red Bluff #2 Well
Eddy County, New Mexico

Dear Mr. Miller:

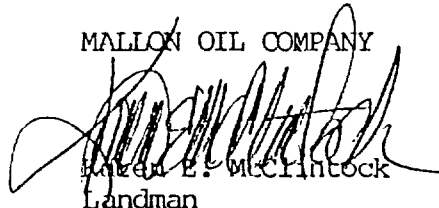
Pursuant to our phone conversation on March 29, 1989, this letter is to inform you that Mallon Oil Company's offer of a five percent (5%) overriding royalty on the Amoco-Red Bluff #2 well is still open for acceptance.

In the event Red Bluff agrees to Farmout all of Red Bluff's acreage in Sections 27 and 28 under one Farmout Contract, Mallon Oil Company is willing to offer a seven and one half percent (7.5%) overriding royalty and a one hundred eighty (180) day continuous drilling commitment.

Please advise the undersigned of your decision as to Mallon Oil Company's offer.

Sincerely,

MALLON OIL COMPANY



Robert E. McCrintock
Landman

KFM:er

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to: Red Bluff Water Power Control District 111 W. 2nd Street Pecos, TX 79772 Attn: Mr. Jim Ed Miller		4. Article Number P 570412 767	
5. Signature - Addressee X		Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> COD	
6. Signature - Agent X <i>Blair B. Gaylord</i>		Always obtain signature of addressee or agent and DATE DELIVERED .	
7. Date of Delivery 4/7/89 <i>SW</i>		8. Addressee's Address (ONLY if requested and fee paid)	

PS Form 3811, Feb. 1986

DOMESTIC RETURN RECEIPT

P-570 412 767

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

Sent to Red Bluff Water Power Control District	
Street and No. 111 W 2nd Street	
P State and ZIP Code Pecos TX 79772	
Postage	
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom Date and Address of Delivery	
TOTAL Postage and Fees	
Postmark or Date 4/14/89	

U.S.C.P.O. 153 506

PS Form 3800, June 1985

MALLON OIL COMPANY

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

April 10, 1989

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

Attn: Mr. Fuller

Re: Surveys
Pecos River Prospect
Eddy County, New Mexico

Dear Mr. Fuller:

Enclosed please find copies of the surveys for the above captioned prospect.

If you have any questions, please advise.

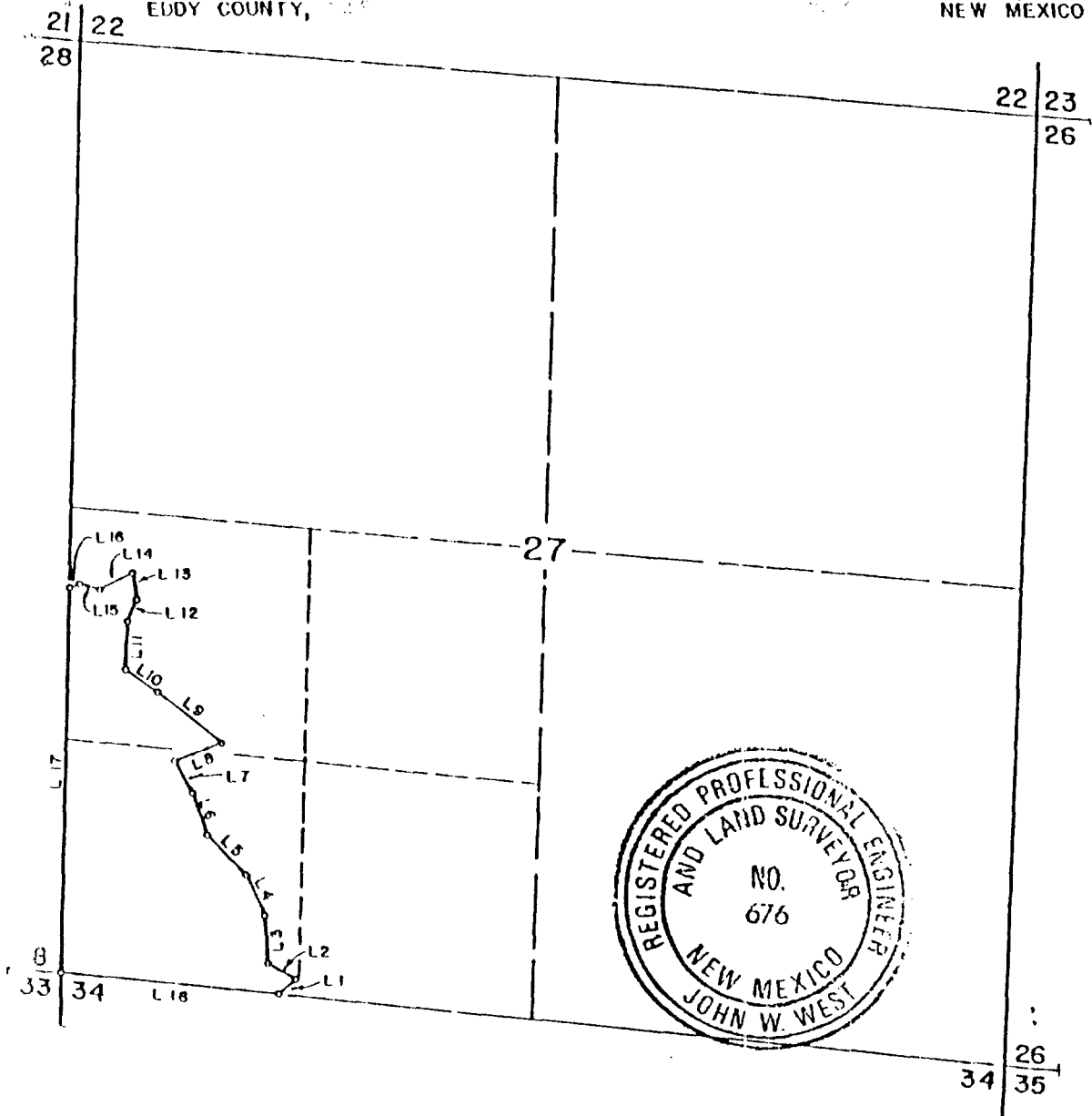
Sincerely,

MALLON OIL COMPANY


Elizabeth Redmond
Land Assistant

ER/as
enclosure

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



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
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'

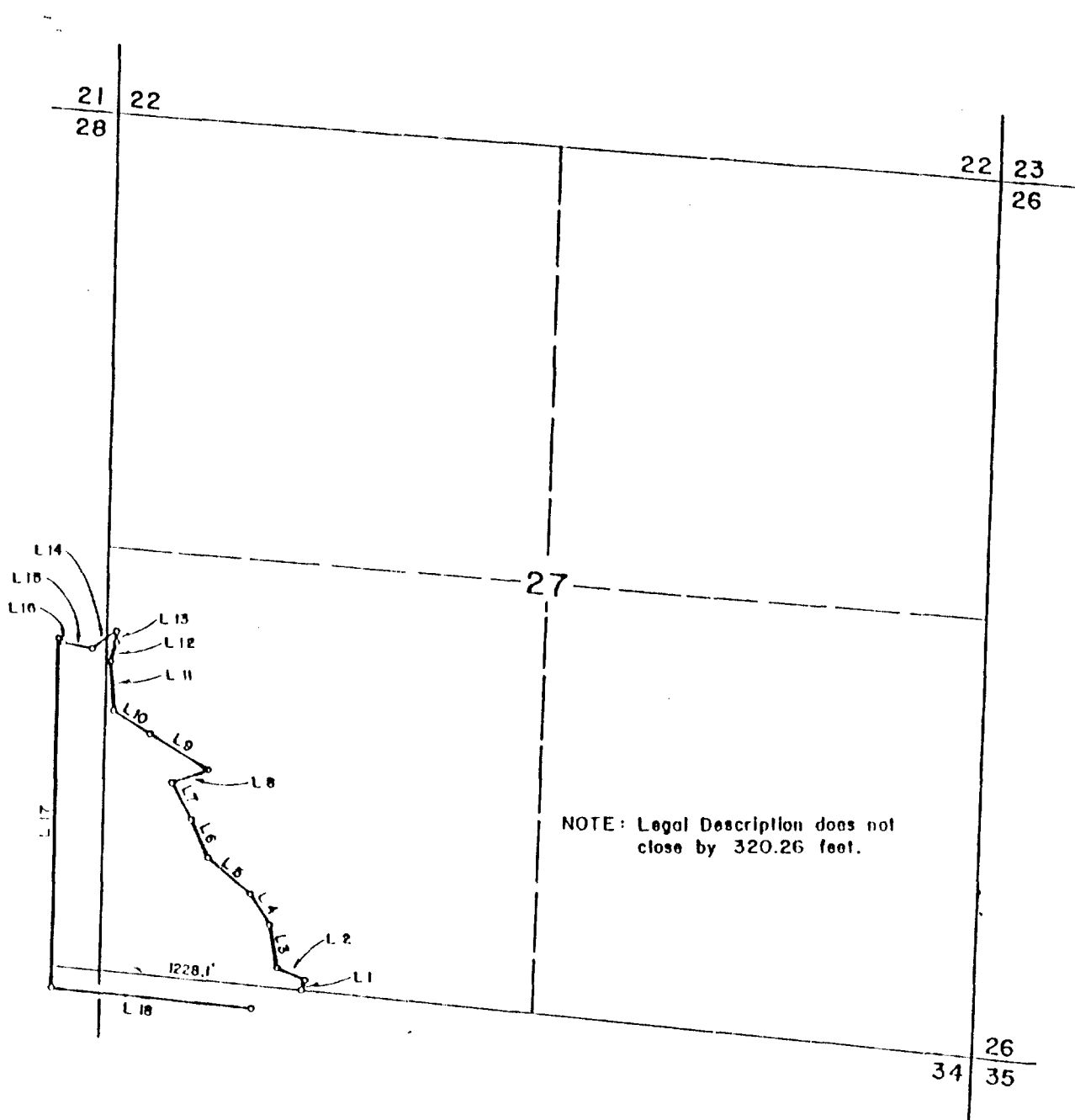
Drawn By: M. Mitchell

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



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	109.10'
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'

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

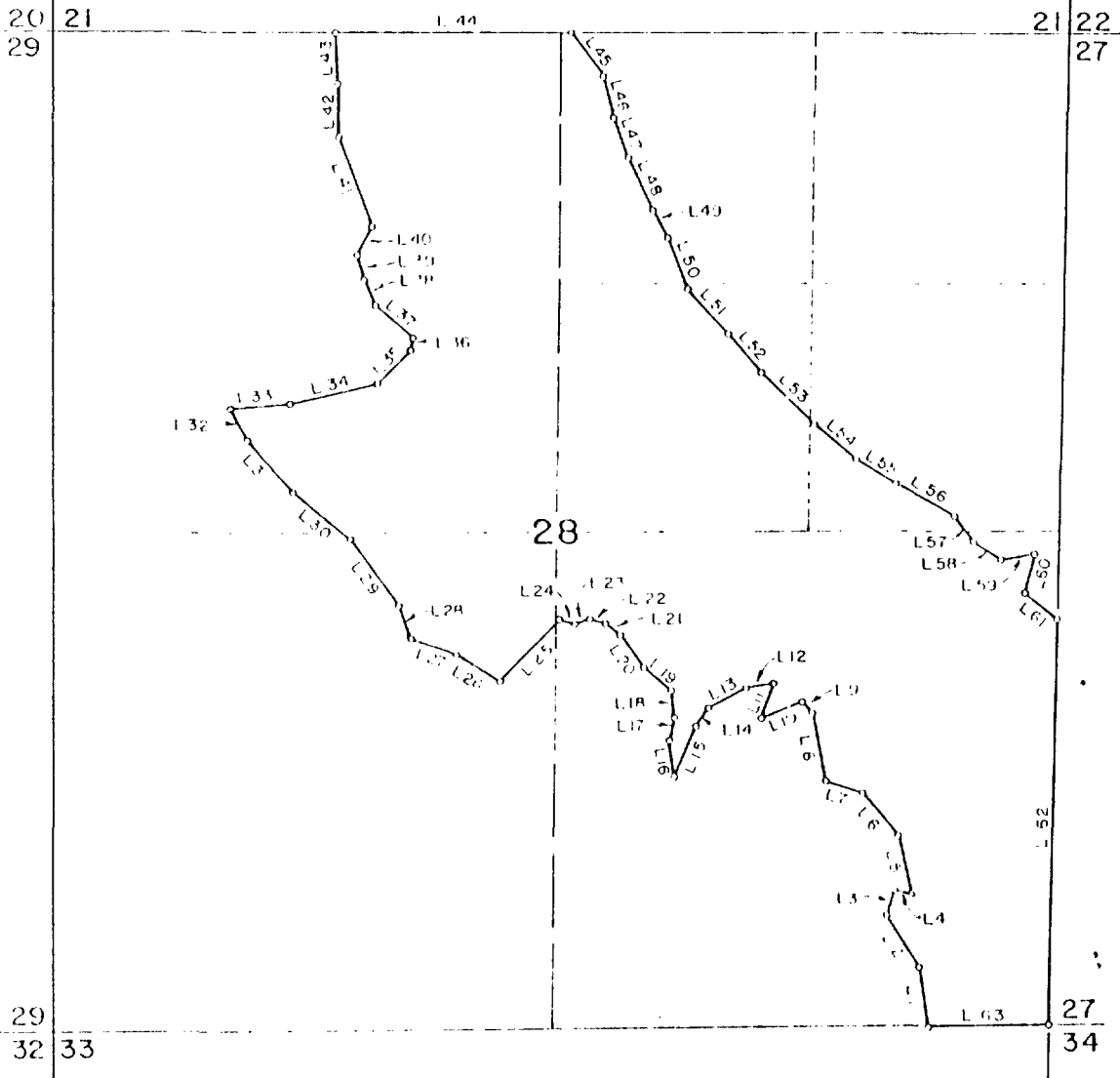
RED BLUFF WATER POWER CONTROL DISTRICT

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

SECTION 28, TOWNSHIP 26 SOUTH, RANGE 29 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO



SUBDIVISION ACREAGE

NW¹/4, 11.384 Ac.
SW¹/4, 34.497 Ac.
SE¹/4, 5.656 Ac.



LINE NO.	BEARING	DISTANCE	LINE NO.	BEARING	DISTANCE
1	N 07°42'46" W	118.71'	31	N 41°17'20" W	369.53'
2	N 31°51'34" W	122.84'	32	N 26°42'54" W	191.30'
3	N 19°24'17" E	142.02'	33	N 86°30'02" E	319.19'
4	S 76°29'31" E	95.51'	34	N 76°46'00" E	478.44'
5	N 11°51'54" W	122.51'	35	N 45°16'28" E	250.60'
6	N 51°01'50" W	290.12'	36	N 15°11'33" E	60.77'
7	N 72°36'27" W	205.76'	37	N 48°48'32" W	265.40'
8	N 09°43'20" W	166.19'	38	N 24°16'50" W	142.92'
9	N 45°09'26" W	81.26'	39	N 15°04'01" W	134.32'
10	S 66°59'07" W	236.75'	40	N 29°28'31" E	171.91'
11	N 21°04'45" E	195.59'	41	N 20°03'41" W	499.12'
12	S 82°16'58" W	148.31'	42	N 00°56'01" W	273.84'
13	S 62°12'11" W	225.56'	43	N 01°44'03" W	272.34'
14	S 38°44'44" W	114.75'	44	S 89°43'00" E	1252.33'
15	S 21°22'11" W	294.66'	45	S 35°37'30" E	285.64'
16	N 06°39'11" W	192.79'	46	S 14°26'04" E	275.92'
17	N 15°04'33" E	128.31'	47	S 19°11'55" E	217.73'
18	N 06°42'13" W	141.92'	48	S 24°43'20" E	307.12'
19	N 52°09'36" W	187.63'	49	S 28°55'38" E	155.51'
20	N 34°21'08" W	213.19'	50	S 20°28'01" E	288.84'
21	N 51°38'36" W	102.96'	51	S 43°09'39" E	314.14'
22	N 72°44'57" W	85.28'	52	S 39°23'23" E	270.19'
23	S 65°54'08" W	46.62'	53	S 46°15'21" E	386.67'
24	N 69°59'55" W	91.28'	54	S 48°22'30" E	290.88'
25	S 43°58'34" W	451.89'	55	S 52°47'05" E	247.46'
26	N 58°14'44" W	270.01'	56	S 62°08'19" E	355.57'
27	N 20°56'56" W	254.55'	57	S 33°24'28" E	170.70'
28	N 19°23'40" W	186.30'	58	S 55°51'58" E	180.02'
29	N 15°09'10" W	432.59'	59	N 28°34'19" E	182.17'
30	N 50°25'34" W	392.05'	60	S 14°57'56" W	220.38'
			61	S 52°47'11" E	211.96'
			62	S 01°58'00" W	2149.80'
			63	S 89°47'00" W	643.30'

NOTE: A drawing was prepared for a tract in Section 28, Township 26 South, Range 29 East, N.M.P.M., by platting the field notes furnished by Red Bluff Water Power Control District on a U.S. General Land Office section plat. The notes were prepared by H.R. Bates and were approved by the U.S. Bureau of Land Management on August 6, 1937. Due to an error or errors in the survey or the typed description of the survey, the tract with 63 sides did not close by 266.00 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 held the section line calls on the south and east section lines and adjusted the survey to force a closure that will contain the 220.5 acres as called for in the field notes. Obviously, we can not certify that the drawing is correct.

John W. West
John W. West, N.M. P.E. & L.S., No. 676
Texas R.P.S. 1108

MALLON OIL CO.

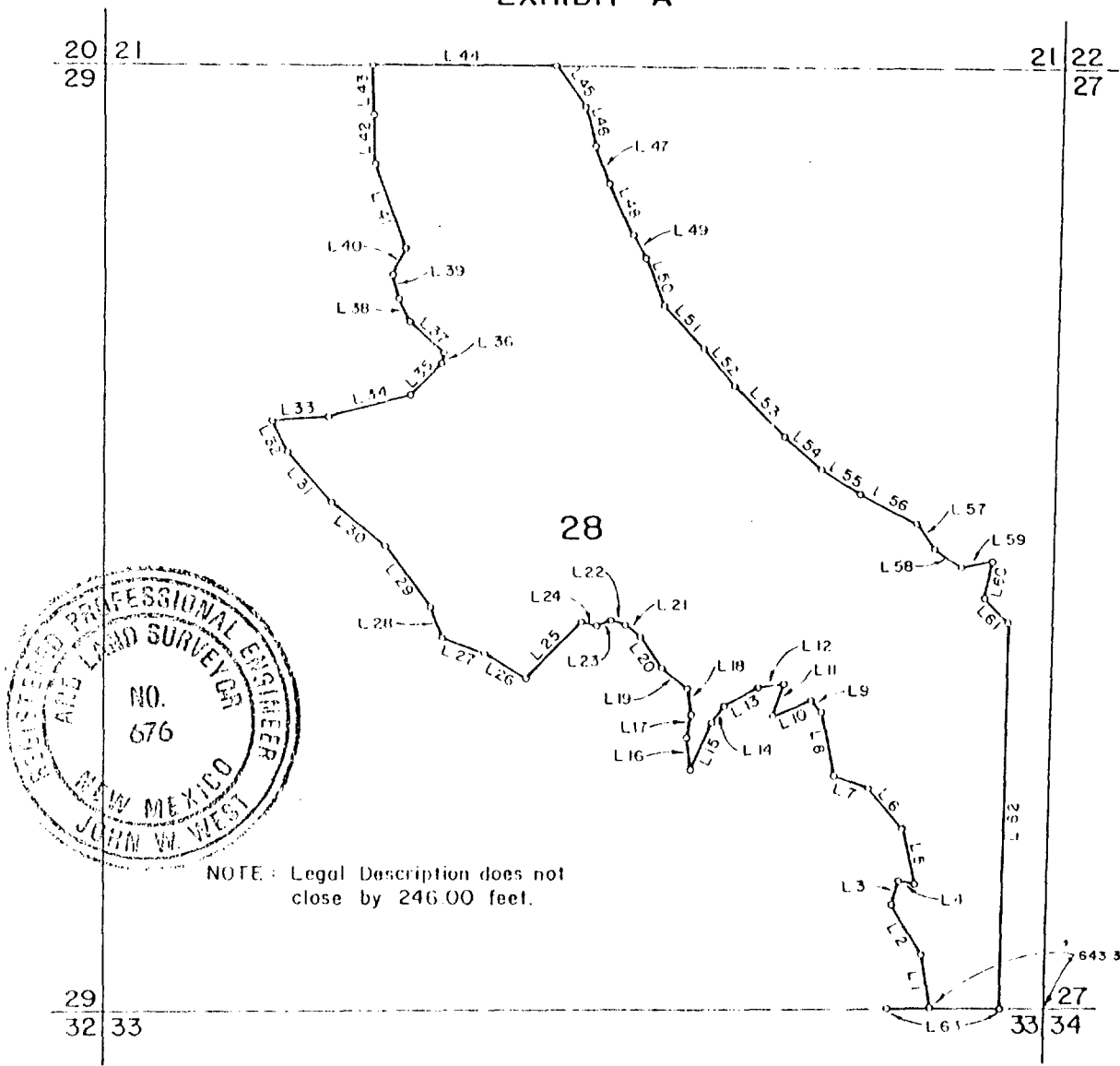
Plat showing land leased by B.L.M. to Red Bluff Power Water Control District in Section 28, Township 26 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.

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

Scale: 1" = 1000'
Date: 11/17/88
Drawn By: M. Mitchell
Sheet 1 of 1 Sheets

SECTION 28, TOWNSHIP 26 SOUTH, RANGE 29 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO

"EXHIBIT A"



LINE NO.	BEARING	DISTANCE	LINE NO.	BEARING	DISTANCE
1	N 07°47'30" W	318.90'	33	N 86°28'00" E	319.20'
2	N 31°50'30" W	323.00'	34	N 76°44'00" E	478.50'
3	N 19°23'30" E	142.10'	35	N 45°15'00" E	250.70'
4	S 76°31'30" E	95.50'	36	N 15°13'00" E	60.80'
5	N 11°53'30" W	322.70'	37	N 48°47'00" W	265.50'
6	N 41°00'30" W	290.30'	38	N 24°16'00" W	143.00'
7	N 72°34'30" W	205.80'	39	N 15°03'30" W	134.40'
8	N 09°43'00" W	366.40'	40	N 29°27'30" E	172.00'
9	N 45°08'00" W	83.30'	41	N 20°03'00" W	499.40'
10	S 67°01'00" W	236.70'	42	N 00°56'00" W	274.00'
11	N 21°04'00" E	195.70'	43	N 01°44'00" W	272.50'
12	S 82°19'00" W	148.30'	44	S 89°43'00" E	1036.80'
13	S 62°14'00" W	225.50'	45	S 35°37'30" E	279.70'
14	S 38°46'00" W	114.70'	46	S 14°26'30" E	226.20'
15	S 23°23'00" W	294.50'	47	S 19°12'00" E	217.50'
16	N 06°39'00" W	192.90'	48	S 24°43'00" E	307.50'
17	N 15°04'00" E	128.40'	49	S 28°55'00" E	155.70'
18	N 06°42'00" W	142.00'	50	S 20°28'00" E	289.20'
19	N 52°08'00" W	187.70'	51	S 43°08'00" E	314.50'
20	N 34°20'00" W	213.30'	52	S 39°22'00" E	270.50'
21	N 51°37'00" W	103.00'	53	S 46°13'30" E	387.10'
22	N 72°43'00" W	85.10'	54	S 48°20'30" E	291.20'
23	S 65°56'00" W	86.60'	55	S 57°44'30" E	247.70'
24	N 69°58'00" W	91.30'	56	S 62°05'30" E	355.90'
25	S 44°00'00" W	453.70'	57	S 33°23'30" E	170.90'
26	N 58°13'00" W	270.10'	58	S 55°49'30" E	180.20'
27	N 70°55'00" W	254.60'	59	N 78°38'30" E	182.20'
28	N 19°23'00" W	186.40'	60	S 14°55'30" W	220.60'
29	N 35°08'00" W	432.80'	61	S 45°47'30" E	195.60'
30	N 50°24'00" W	392.20'	62	S 01°58'00" W	2149.80'
31	N 41°16'00" W	369.70'	63	S 89°47'00" W	643.30'
32	N 26°42'00" W	191.40'			

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 POWER WATER CONTROL DISTRICT	
Plot of B.L.M. legal description within Section 28, 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: 8/10/99	Sheet 1 of 1

MALLON OIL COMPANY

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

February 24, 1989

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

Attention: Mr. Fuller

CERTIFIED - P-518 874 953

Re: Amoco-Red Bluff #2 Well
Eddy County, New Mexico

Dear Mr. Fuller:

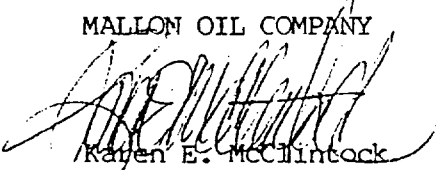
Pursuant to our phone conversation February 20, 1989, this letter is to inform you that Mallon Oil Company's offer of a five percent (5%) overriding royalty on the Amoco-Red Bluff #2 well is still open for acceptance. Mallon Oil Company feels that in light of the economics in this area, a five percent (5%) overriding royalty is fair to both parties.

I understand Red Bluff is entertaining the idea of dividing the reservoir leased by Red Bluff into separate tracts for farming-out to interested parties. Mallon Oil Company is very much interested in farming-in the reservoir acreage in Sections 27 and 28, but a high overriding royalty would be impossible for Mallon to accept.

The drilling deadline for the Amoco-Red Bluff #2 well is May 3, 1989, and we would prefer to settle this issue without force pooling the Red Bluff acreage. Please contact Mallon at your earliest convenience to resolve the overriding royalty situation.

Sincerely,

MALLON OIL COMPANY



Karen E. McClintock
Land Manager

KEM:er

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.

Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to: Red Bluff Water Tower Capital District 111 W. 2nd Street Peas, TX 79772 Attn: Mr. Sullivan		4. Article Number P 518 874 953	
		Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> COD	
5. Signature — Addressee X		Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .	
6. Signature — Agent X <i>[Signature]</i>		8. Addressee's Address (ONLY if requested and fee paid)	
7. Date of Delivery 2/27/89			

PS Form 3871, Feb. 1986

DOMESTIC RETURN RECEIPT

P-518 874 953	
RETURN TO: Red Bluff Water Tower Capital District 111 W. 2nd Street Peas, TX 79772	
Certified Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and date delivered	
Return Receipt showing to whom Date and Address of Delivery	
TOTAL Postage and Fees	
Postmark or Date 2/27/89	

U.S. POSTAL SERVICE

PS Form 3800, June 1985

FIELD/PROSPECT Brushy Draw/Pecos River Prospect

WELL NAME Amoco-Red Bluff-Federal #2

LOCATION SE NE, Sec. 28, T26S, R29E

COUNTY, STATE Eddy County, New Mexico

CONTRACTOR (TENTATIVE) Capatar Drilling

LEASE NUMBER

1269 & Red Bluff #1638

PROPERTY NO.

NM- 01-15

PREPARED BY:

Joe H. Cox, Jr.

DATE:

11-29-88

APPROVED BY:

Kevin M. Fitzgerald

DATE:

APPROVED BY:

DATE:

ANTICIPATED START/STOP DATES

COST ESTIMATE

	TANGIBLE EXPENSE	INTANGIBLE EXPENSE	TOTAL
DRILLING-CASING POINT	\$ 4,000	\$ 120,900	\$ 124,900
DRILLING-COMPLETION	\$ 88,700	\$ 86,800	\$ 175,500
WORKOVER	\$	\$	\$
OTHER (SPECIFY)	\$	\$	\$
TOTAL COSTS	\$ 92,700	\$ 202,700	\$ 300,400

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 testing of two zones.

ATTACH PROGNOSIS AND COST BREAKDOWN

COST SHARING

Red Bluff Water Power Control District 14.14 % \$42,477

PARTNER APPROVAL

COMPANY: Red Bluff Water Power Control
District

SIGNATURE:

DATE:

MALLON OIL COMPANY

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

December 2, 1988

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

SENT CERTIFIED MAIL #P-297 350 455

RE: Amoco-Red Bluff Federal #2 Well
Eddy County, New Mexico

To Whom It May Concern:


Enclosed please find a plat for the Red Bluff acreage subdivision for the Amoco-Red Bluff Federal #2 well located in the SE/4 NE/4 of Section 28, T26S, R29E, NMPM, Eddy County, New Mexico. Mallon Oil Company proposes to drill this well prior to May 1, 1989.

Pursuant to this plat, I have prepared an Authority for Expenditure dated November 29, 1988 and Operating Agreement dated December 2, 1988 both of which are enclosed for your execution.

Should you have any questions, please advise.

Sincerely,

MALLON OIL COMPANY


Karen E. McClintock
Landman

KEM:er
Enclosure

cc: Mr. James T. Jennings

FORM 610 - 1982
MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

December 2, 1981

OPERATOR MALLON OIL COMPANY

CONTRACT AREA Township 26 South, Range 29 East, NMM
Section 28: SE/4 NE/4

COUNTY OR PARISH OF Eddy STATE OF New Mexico

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.
- ~~Ex B. Exhibit "B", Division of Lease.~~
- ~~XX~~ C. Exhibit "C", Accounting Procedure.
- ~~XX~~ D. Exhibit "D", Insurance.
- ~~XX~~ E. Exhibit "E", Gas Balancing Agreement. (If applicable)
- ~~Ex F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.~~
- ~~Ex G. Exhibit "G", Fee Determination.~~

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.

ARTICLE III. INTERESTS OF PARTIES

~~A. Oil and Gas Interests:~~

~~If any 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 producing 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 an overhead cost, 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.

42
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.

62
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

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 May, 1989, Operator shall commence the drilling of a well for oil and gas at the following location:

Township 26 South, Range 29 East NMM
Section 28: SE/4 NE/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

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

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided 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 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 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice 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 drilling rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of 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 rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, 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 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

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 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 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of 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 rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

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

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. 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 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer 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.

ARTICLE VI
continued

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:

(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

(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.

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.

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 taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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.

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

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. 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 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 production, ceases to produce in paying quantities.

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

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

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

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

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request 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 time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, standby costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing 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 instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

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

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

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

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share 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 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 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 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 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 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines 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 sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been 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 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, 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 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 other parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use 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, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party 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, 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 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 attached as Exhibit

ARTICLE VI
continued

~~1~~ The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from 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 request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted 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 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

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 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 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the 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 obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from 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 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that 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 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within 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 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

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

ARTICLE VII
continued

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

~~[] Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall 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, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.~~

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or 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 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

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

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

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the 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 contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on 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 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holiday), or at the earliest opportunity permitted by 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 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. 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. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

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

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

ARTICLE VII

continued

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall 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 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

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

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering 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~~ ~~here to be on the form attached hereto as Exhibit "D"~~. Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

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

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and 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 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

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 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

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

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease 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 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted 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 the provision of this agreement.

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

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be 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 contribution 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. a fractional 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~~^{two} 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 interest 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 interest 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.

1 - Model Form Operating Agreement

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. ~~As 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.

1982 - Model Form Operating Agreement

ARTICLE XVI.
MISCELLANEOUS

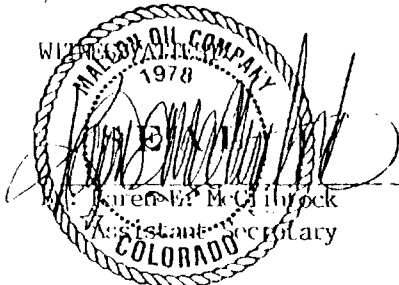
This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees,
legal representatives, successors and assigns.

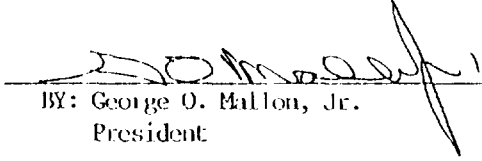
This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

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

OPERATOR

MALLON OIL COMPANY



BY: 
President

NON-OPERATORS

WITNESS/ATTEST:

RED BLUFF WATER POWER CONTROL DISTRICT

BY: _____

BY: _____

EXHIBIT "A"

ATTACHED to and made a part of that certain Operating Agreement dated December 2, 1988, by and between Mallon Oil Company, as Operator, and Red Bluff Water Power Control District, as Non-Operator for the SE/4 NE/4 of Section 28-T26S, R29E, NMPM, Eddy County, New Mexico.

Item 1: Contract Area:

Township 26 South, Range 29 East, NMPM
Section 28: SE/4 NE/4

Eddy County, New Mexico

Item 2: Restrictions as to Depth:
None

Item 3: Percentages of Working Interest:

Mallon Oil Company, et al.	85.8600%
Red Bluff Water Power Control District	14.1400%

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
Federal Lease NM NM 71599

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 is a part of that certain Operating Agreement dated December 2, 1988, and between Mallon Oil Company, as Operator, and Red Bluff Water Power Control District, as Non-Operator for the SE/4 NE/4 of Section 28-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 December 2, 1988, by and between Mallon Oil Company, as Operator, and Red Bluff Water Power Control District, as Non-Operator for the SE/4 NE/4 of Section 28-T26S, R29E, MPM, 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, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that 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 II unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 9.~~

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 down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing 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 permanent sales 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 except when drilling well rate applies.
 - (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease 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 of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~B. Overhead - Percentage Basis~~

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

~~(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, redrilling, 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 on 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 2 $\frac{1}{2}$ 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 2 $\frac{1}{2}$ 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 $\frac{3}{4}$ 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 $\frac{3}{4}$ 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 $\frac{3}{4}$ 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 December 2, 1988, by and between Mallon Oil Company, as Operator, and Red Bluff Water Power Control District, as Non-Operator for the SE/4 NE/4 of Section 28-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 is a part of that certain Operating Agreement dated December 2, 1988, by and between Mallon Oil Company, as Operator, and Red Bluff Water Power Control District, as Non-Operator for the SE/4 NE/4 of Section 28-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 December 2, 1988, by and between Mallon Oil Company, as Operator, and Red Bluff Water Power Control District, as Non-Operator for the SE/4 NE/4 of Section 28-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 December 2, 1988, by and between Mallon Oil Company, as Operator, and Red Bluff Water Power Control District, as Non-Operator for the SE/4 NE/4 of Section 28-T26S, R29E, NMPM, Eddy County, New Mexico.

THERE IS NO EXHIBIT "G" TO THIS AGREEMENT

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

October 1, 19 86,

OPERATOR Mallon Oil Company

CONTRACT AREA Federal Lease - NM-38636 covering lands included
in Eddy County New Mexico, Township 26 South, Range 29 East, NMFM,
Section 27-N/2 NE/4, SE/4 NE/4, NW/4, N/2 S/2, SW/4 SW/4 (excluding
38.08 acres lying within the Red Bluff Reservoir), Section-28 All
(excluding 203.9 acres lying with the Red Bluff Reservoir),
Section 29-N/2, N/2 SE/4, SE/4 SE/4

COUNTY ~~EXPRESSION~~ OF Eddy STATE OF New Mexico

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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 "drill site" 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:

☒ A. Exhibit "A", shall include the following information:

(1) Identification of lands subject to this agreement,

~~(2) Description of the proposed operations, as submitted,~~

(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.

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

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

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

~~G. Exhibit "G", Tax Partnership.~~

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.

ARTICLE III. INTERESTS OF PARTIES

A. ~~Oil and Gas Interests:~~

~~If any 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 oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved 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~~ due ~~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 hereinafter 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 derrick site 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 derrick site, 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:

~~1. Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, 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 a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

ARTICLE IV

continued

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

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

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 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 participate in the drilling of the well.

B. Loss of Title:

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

~~(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 entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

~~(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest 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 title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost;~~

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

~~(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 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 who bore the costs which are so refunded;~~

~~(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 borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,~~

~~(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest 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 connection therewith.~~

~~2. Loss by Non Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, 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 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 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 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 the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it 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 or wells previously abandoned) from so much of the following as is necessary to effect reimbursement.~~

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

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

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

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 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of 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. See Article XV.A.

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 _____ day of _____, 19____, Operator shall commence the drilling of a well for oil and gas at the following location:~~

The initial well has already been drilled.

~~and shall thereafter continue the drilling of the well with due diligence to~~

~~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

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

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided 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 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 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice 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 drilling rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of 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 rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, 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 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

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 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 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of 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 rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

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

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. 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 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer 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,

ARTICLE VI
continued

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:

(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

(b) 100% 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 100% 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.

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.

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 taxes, and all royalty, overriding royalty and other burdens applicable to Non Consenting Party's share of production not excepted by Article III D.

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.

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

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

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

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the 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 owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale, but not less than the price operator receives for its share of oil and/or gas produced from the Contract Area.

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VII.B. 2., any well which has been 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 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VII.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, 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 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 other parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use 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, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party 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, 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 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 attached as Exhibit~~

ARTICLE VI

continued

"B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from 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 request, Operator shall continue to operate the assigned well for the account of the non abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

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

ARTICLE VII.

EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted 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 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

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 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 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the 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 obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from 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 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non Operators to secure payment of Operator's proportionate share of expense.

~~If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that 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 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.~~

C. Payments and Accounting:

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

~~Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within 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 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.~~

D. Limitation of Expenditures:

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

ARTICLE VII
continued

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

1. Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall 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 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or 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 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Seventeen Thousand Five Hundred Dollars (\$ 17,500.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non Operator so requesting an information copy thereof for any single project costing in excess of Seventeen Thousand and Five Hundred Dollars (\$ 17,500.00) but less than the amount first set forth above in this paragraph.

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

Rentals, shut in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the ~~operator for the joint account of all parties~~ operator for the joint account of all parties. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on 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 failure to make proper payment of any rental, shut in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non payment shall be borne in accordance with the provisions of Article IV.B.3.

Operator shall notify Non Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by 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 Non Operator, the loss of any lease contributed hereto by Non Operator for failure to make timely payments of any shut in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. 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. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

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

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

ARTICLE VII
continued

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall 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 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

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

ARTICLE VIII
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering 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, ~~such lease to be on the term attached hereto as Exhibit "B"~~. Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

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

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and 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 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

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 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

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

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease 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 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision, but any lease taken or contracted 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 the provisions of this agreement.

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

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be 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 contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

ARTICLE VIII

continued

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

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

D. Maintenance of Uniform Interest:

~~For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, a~~
party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production, or

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

Operator shall not install any additional tank batteries for Wells Nos. 1 through 8 already drilled on the Contract Area without the consent of a majority in interest of Non-Operators.
Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co owners, Operator, at its discretion, may require such co owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for 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 party's interest within the scope of the operations embraced in this agreement; however, all such co owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an 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 interest therein.

~~F. Preferential Right to Purchase:~~

~~Should any party desire to sell all or any part of its interest under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms 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 on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a minority of the stock.~~

ARTICLE IX.

INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the 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 (\$10,000.00 -) 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. ~~At the Contract Area is in two or more states, the law of the state of~~ but is enforceable under the jurisdiction and venue of the State of Texas,
County of Harris.

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 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 Pages 14A and 14B

If any of the provisions of this Article XV. are inconsistent with any of the provisions set forth in Article I. through XIV. hereof, the provisions of this Article XV. shall prevail and control.

(A.1.) On or before October 1, 1988, Operator may be removed upon proof by Non-Operator to its choice of either a court of competent jurisdiction, or to an arbitration panel, that Operator is guilty of gross negligence, material breach of contract or willful and wanton misconduct in the performance of the duties of Operator. Should Non-Operator elect to submit the dispute to expedited arbitration, Non-Operator shall notify Operator in writing by certified mail of its request for arbitration and in said notice will designate one arbitrator. Operator shall within 10 days thereafter, by notice sent certified mail to the party requesting arbitration, name a second arbitrator. The two arbitrators so appointed shall name the third or failing to do so within 10 days, the third arbitrator may be appointed by the person who is at the time the senior judge of the 11th District Court of Harris County, Texas. The arbitrators selected to act hereunder shall be qualified by education, experience and training to pass upon the performance of Operator. The arbitrators so appointed shall promptly hear and determine Operator's performance and shall render their decision in writing within 30 days after appointment of the third arbitrator. The decision of the arbitrators or a majority thereof made in writing shall be final and binding upon the parties. Expenses of the arbitrator selected by Non-Operator together with one-half of the expense of the third arbitrator shall be borne by Non-Operator. The expenses of the arbitrator selected by Operator and one-half of the expense of the third arbitrator shall be borne by Operator. Failure of Operator to timely respond to notice of arbitration by Non-Operator shall be deemed willful or wanton misconduct in the performance of Operator's duties and Operator shall be deemed removed effective on the date Operator's notice to Non-Operator was due.

(A.2.) After October 1, 1988, Operator may be removed without cause by the affirmative vote of the parties owning a majority interest based on ownership as shown on Exhibit "A" hereto. 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 thirty (30) 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. The Operator may be removed under the provisions of this Article XV. A.2. no more than once every two (2) years.

(A.3.) Should any Non-Operator attempt to remove Operator under the provisions of Article XV. 1. or 2. and the uniformity of ownership in the oil and gas leasehold interests within the Contract Area has failed to be maintained, the voting interest of each party shall be determined by the "weighted average ownership" of each party in the Contract Area. The "weighted average ownership" of each party shall be the quotient of (i) the sum of each leasehold interest of each party in each producing well within the Contract Area, (ii) divided by number of producing wells in the Contract Area.

(B.) Without the express written consent of a majority in interest of Non-Operators, Operator (or any third party in which Operator holds an interest of any kind, whether directly or indirectly, beneficial or otherwise) shall not provide goods and/or services which according to industry custom is normally provided by a third party vendor. Additionally, without the express written consent of a majority in interest of Non-Operators, Operator (or any third party in which Operator holds an interest of any kind, whether directly or indirectly, beneficial or otherwise) shall not drill, establish, construct, maintain, operate or perform services for Non-Operator consisting of any of the following types, to-wit:

1. saltwater disposal well;
2. gas gathering or transportation system;
3. oil and/or gas purchasing;
4. drilling, completion or re-working contractor.

Violation by Operator of this Article XV.B. shall be deemed a material breach of contract.

(C.) Non-Operator is relieved of any obligation to pay to Operator the charges reflected in Operator's joint interest billing statements attributable to a third party vendor if Non-Operator receives notice, whether written or oral, from the third party vendor, that Operator has previously failed to pay such third party vendor. The provisions of the Article XV.C. shall be applicable on a vendor by vendor basis.

(D.) No party to this Agreement shall propose the drilling of more than one well at a time, nor shall any party to this Agreement propose the drilling of a well during the time that another well is being drilled except: (i) by the mutual consent of a majority interest* or (ii) if one or more of said proposed wells are obligations necessary for the maintenance of any leasehold interest or farmout rights in the Contract Area which would otherwise expire within six (6) months from the date of such proposal.

*based on ownership as shown on Exhibit "A" hereto. *YQM*

(E.) Any change of purchaser of oil and/or gas produced from the Contract Area which pays 100% of the proceeds of production to Operator shall require the unanimous approval of Non-Operators.

(F.) It is agreed that where a well which has been authorized under the terms of this Agreement by all parties, or by one or more but less than all parties, and said well shall have been drilled to the objective depth or the objective formation, whichever is the lesser depth, and the parties participating in the well cannot mutually agree upon the sequence and timing of further operations regarding said well, the following election shall control in the order enumerated hereafter: (1) An election to do additional logging, coring or testing; (2) An election to attempt to complete the well at either the objective depth or objective formation; (3) An election to plug back and attempt to complete said well; (4) An election to deepen said well; and (5) An election to sidetrack the well. It is provided, however, that if at the time the parties participating are considering any of the above elections, the hole is in such a condition that a reasonably prudent operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole in jeopardy or losing same prior to completing the well in the objective formation, such election shall not be given the priority hereinabove set forth.

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, and shall be deemed to be executed in Houston, Harris County, Texas.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 1985.

OPERATOR

MALLON OIL COMPANY

ATTEST:

Karen E. McClintock
BY: Karen E. McClintock
Assistant Secretary

David L. Mikes
By: David L. Mikes
Executive Vice President

NON OPERATORS

KERRCO LTD.

By: J. Robinson Kerr, General Partner
J. Robinson Kerr,
General Partner

ARTICLE XVI.
MISCELLANEOUS

PECOS RIVER PROSPECT

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, and shall be deemed to be executed in Houston, Harris County, Texas.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

ATTEST:

MALLON OIL COMPANY

BY: Carlyle A. Peterson
Secretary/Treasurer

BY: George O. Mallon, Jr.
President

NON-OPERATORS

ATTEST/WITNESS

BY:

BY: Charles Simmons

BY:

BY: Weldon Aston

WES-TEX DRILLING COMPANY

BY:

BY:

STAR PRODUCTION COMPANY

BY:

BY:

ANCO OIL COMPANY

BY:

BY:

BY:

BY: Daniel G. Easley

BY:

BY: W. Timothy Weaver, Trustee

EUROTEX RESOURCES, LTD.

BY:

BY:

BAILEY PRODUCTION AND DEVELOPMENT CO.

ATTEST/WITNESS

BY: _____

BY: Jay M. Easley _____

ARTICLE XVI.
MISCELLANEOUS

PECOS RIVER PROSPECT

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, and shall be deemed to be executed in Houston, Harris County, Texas.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

ATTEST:

MALLON OIL COMPANY

BY: Carlyle A. Peterson
Secretary/Treasurer

BY: George O. Mallon, Jr.
President

NON-OPERATORS

ATTEST/WITNESS

By: _____

BY: Charles Simmons

BY: Weldon Aston

BY: Weldon Aston

WES-TEX DRILLING COMPANY

BY: _____

BY: _____

STAR PRODUCTION COMPANY

BY: _____

BY: _____

ANCO OIL COMPANY

BY: _____

BY: _____

BY: _____

BY: Daniel G. Easley

BY: _____

BY: W. Timothy Weaver, Trustee

EUROTIX RESOURCES, LTD.

BY: _____

BY: _____

BAILEY PRODUCTION AND DEVELOPMENT CO.

BY: _____

BY: _____

ATTEST/WITNESS

BY: _____

BY: Jay M. Easley _____

1982 - Model Form Operating Agreement

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.

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IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

ATTEST:

MALLON OIL COMPANY

BY: Carlyle A. Peterson
Secretary/Treasurer

BY: George O. Mallon, Jr.
President

NON-OPERATORS

ATTEST/WITNESS

BY: _____

BY: Charles Simmons

BY: _____

BY: Weldon Aston

WES-TEX DRILLING COMPANY

BY: Helen E. Little, Secretary

BY: Charles Ezell, Exec. Vice-President
STAR PRODUCTION COMPANY

BY: _____

BY: _____
ANCO OIL COMPANY

BY: _____

BY: _____

BY: _____

BY: Daniel G. Easley

BY: _____

BY: W. Timothy Weaver, Trustee

EUROPEX RESOURCES, LTD.

BY: _____

BY: _____

BAILEY PRODUCTION AND DEVELOPMENT CO.

ATTEST/WITNESS

BY: _____

BY: Jay M. Easley _____

ARTICLE XVI.
MISCELLANEOUS

Pecos River Prospect

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, and shall be deemed to be executed in Houston, Harris County, Texas.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

ATTEST:

MALLON OIL COMPANY

BY: Carlyle A. Peterson
Secretary/Treasurer

BY: George O. Mallon, Jr.
President

NON-OPERATORS

ATTEST/WITNESS

BY: _____

BY: Charles Simmons

BY: _____

BY: Weldon Aston
WES-TEX DRILLING COMPANY

BY: _____

BY: _____
STAR PRODUCTION COMPANY INC.

BY: W. Timothy Weaver, Trustee

BY: Chris Cockrell, Vice Pres.
ANCO OIL COMPANY

BY: _____

BY: _____

BY: _____

BY: Daniel G. Easley

BY: _____

BY: W. Timothy Weaver, Trustee

EUROTEX RESOURCES, LTD.

BY: _____

BY: _____

BAILEY PRODUCTION AND DEVELOPMENT CO.

BY: _____

BY: _____

ATTEST/WITNESS

BY: _____

BY: Jay M. Easley _____

PECOS RIVER TRACT
1982 - Model Form Operating Agreement

ARTICLE XVI.
MISCELLANEOUS

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IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

MALLON OIL COMPANY



BY: Caryll A. Peterson
Secretary/Treasurer

BY: George O. Mallon, Jr.
President

NON-OPERATORS

ATTEST/WITNESS

BY: _____

BY: Charles Simmons

BY: _____

BY: Weldon Aston
WES-TEX DRILLING COMPANY

BY: _____

BY: _____
STAR PRODUCTION COMPANY

BY: _____

BY: _____
ENERGY INVESTORS 1986 LIMITED PARTNERSHIP

BY: Cynthia A. Sandell

BY: J. Hugh Liedtke, Jr., General Partner

BY: _____

BY: Daniel G. Easley

BY: _____

BY: W. Timothy Weaver, Trustee

EUROTEX RESOURCES, LTD.

BY: _____

BY: _____

BAILEY PRODUCTION AND DEVELOPMENT CO.

BY: _____

BY: _____

ARTICLE XVI.
MISCELLANEOUS

ITCO'S RIVER PROSPECT

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.

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IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

ATTEST:

MALLON OIL COMPANY

BY: Carlyle A. Peterson
Secretary/Treasurer

BY: George O. Mallon, Jr.
President

NON-OPERATORS

ATTEST/WITNESS

By: _____

BY: Charles Simmons

BY: _____

BY: Weldon Aston
WES-TEX DRILLING COMPANY

BY: _____

BY: _____
STAR PRODUCTION COMPANY

BY: _____

BY: _____
ANCO OIL COMPANY

BY: _____

BY: Daniel G. Easley
BY: Daniel G. Easley
10-27-86

BY: _____

BY: W. Timothy Weaver, Trustee

EUROTEX RESOURCES, LTD.

BY: _____

BY: _____

BAILEY PRODUCTION AND DEVELOPMENT CO.

ATTEST/WITNESS

BY:

BY: Jay M. Easley

ARTICLE XVI.
MISCELLANEOUS

PECOS RIVER PROSPECT

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.

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OPERATOR

ATTEST:

MALLON OIL COMPANY

BY: Carlyle A. Peterson
Secretary/Treasurer

BY: George O. Mallon, Jr.
President

NON-OPERATORS

ATTEST/WITNESS

BY:

BY: Charles Simmons

BY:

BY: Weldon Aston
WEST-TEX DRILLING COMPANY

BY:

BY: STAR PRODUCTION COMPANY

BY:

BY: ANCO OIL COMPANY

BY:

BY:

BY: Daniel G. Easley

BY: W. Timothy Weaver, Trustee

EUROTEX RESOURCES, LTD.

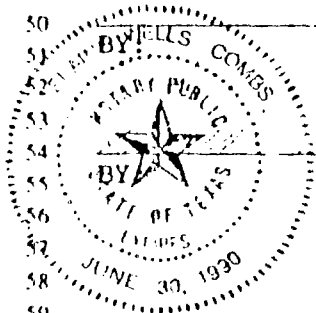
BY:

BY:

BAILEY PRODUCTION AND DEVELOPMENT CO.

BY:

BY:



ATTEST/WITNESS

BY: _____

BY: Jay M. Easley _____

ARTICLE XVI.
MISCELLANEOUS

PECOS RIVER PROSPECT

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, and shall be deemed to be executed in Houston, Harris County, Texas.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

ATTEST:

MALLON OIL COMPANY

BY: Carlyle A. Peterson
Secretary/Treasurer

BY: George O. Mallon, Jr.
President

NON-OPERATORS

ATTEST/WITNESS

BY: _____

BY: Charles Simmons

BY: _____

BY: Weldon Aston
WES-TEX DRILLING COMPANY

BY: _____

BY: _____
STAR PRODUCTION COMPANY

BY: _____

BY: _____
ANCO OIL COMPANY

BY: _____

BY: _____

BY: _____

BY: Daniel G. Easley

BY: _____

BY: W. Timothy Weaver, Trustee

EUROTEX RESOURCES, LTD.

BY: Cary Lewitz

BY: J. Robinson Kerr, General Partner
J. ROBINSON KERR, GENERAL PARTNER

BAILEY PRODUCTION AND DEVELOPMENT CO.

BY: _____

BY: _____

ATTEST/WITNESS

BY: _____

BY: Jay M. Easley _____

ARTICLE XVI.
MISCELLANEOUS

PIGOS RIVER PROSPECT

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, and shall be deemed to be executed in Houston, Harris County, Texas.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

ATTEST:

MALLON OIL COMPANY

BY: Carlyle E. Peterson
Secretary/Treasurer

BY: George O. Mallon, Jr.
President

NON-OPERATORS

ATTEST/WITNESS

BY: _____

BY: Charles Simmons

BY: _____

BY: Weldon Aston
WES-TEX DRILLING COMPANY

BY: _____

BY: _____
STAR PRODUCTION COMPANY

BY: _____

BY: _____
ANCO OIL COMPANY

BY: _____

BY: _____

BY: _____

BY: Daniel G. Easley

BY: _____

BY: W. Timothy Weaver, Trustee

EUROTEX RESOURCES, LTD.

BY: _____

BY: _____

BAILEY PRODUCTION AND DEVELOPMENT CO.

BY: Carlyle E. Peterson

BY: Tim A. Anderson, Treasurer

ATTEST/WITNESS

BY:

BY: Jay M. Easley

ARTICLE XVI.
MISCELLANEOUS

EL PASO RIVER PROPERTY

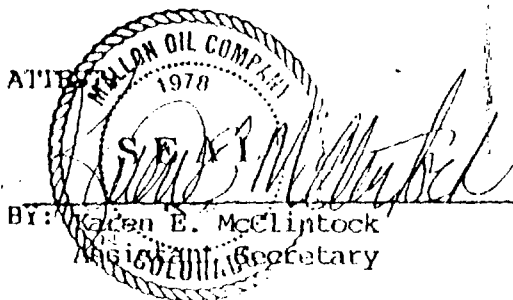
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IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

MALLON OIL COMPANY



BY: Karen E. McClintock
Secretary

BY: George O. Mallon, Jr.
President

NON-OPERATORS

ATTEST/WITNESS

BY: _____

BY: Charles Simmons

BY: _____

BY: Weldon Aston
WES-TEX DRILLING COMPANY

BY: _____

BY: _____
STAR PRODUCTION COMPANY

BY: _____

BY: _____
ANCO OIL COMPANY

BY: _____

BY: _____

BY: _____

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BY: _____

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EUROPEX RESOURCES, LTD.

BY: _____

BY: _____

BAILEY PRODUCTION AND DEVELOPMENT CO.

BY: _____

BY: _____

ATTEST/WITNESS

Attest:

BY: Assistant Cashier

BY:

BY: Jay M. Easley

ESTATE OF ROBERT A. MITCHEM
First Interstate Bank of Denver, NA,
Personal Representative of the Estate

BY: James F. Kimmitt
Vice President & Trust Officer

RIDER

First Interstate Bank of Denver, N.A., Personal Representative of the Estate of Robert A. Mitchem, executes the foregoing instrument solely in its capacity as Personal Representative and not in its individual corporate capacity, makes no warranties of title either express or implied, and any liability asserted against said Bank because of its execution of this instrument shall be satisfied solely from assets held by it as such Personal Representative.

ARTICLE XVI.
MISCELLANEOUS

PECOS RIVER PROSPECT

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, and shall be deemed to be executed in Houston, Harris County, Texas.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

ATTEST:

MALLON OIL COMPANY

BY: Carlyle A. Peterson
Secretary/Treasurer

BY: George O. Mallon, Jr.
President

NON-OPERATORS

ATTEST/WITNESS

BY:

BY: Charles Simmons

BY:

BY: Weldon Aston
WES-TEX DRILLING COMPANY

BY:

BY:
STAR PRODUCTION COMPANY

BY:

BY:
ANCO OIL COMPANY

BY:

BY:

BY:

BY: Daniel G. Easley

BY:

BY: W. Timothy Weaver, Trustee

EUROTEX RESOURCES, LTD.

BY:

BY:

BAILEY PRODUCTION AND DEVELOPMENT CO.

BY:

BY:

ATTEST/WITNESS

Paula Robinson
BY:

Jay M. Easley
BY: Jay M. Easley

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, and shall be deemed to be executed in Houston, Harris County, Texas.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

WITNESS BY ALL COMPANY
1979
Karen E. McClintock
Assistant Secretary
COLORADO

MALLON OIL COMPANY, A COLORADO CORPORATION

By: George O. Mallon, Jr.
President

NON-OPERATORS

WITNESS/ATTEST:

BTL LTD., 1985

By:

By:

By:

By: Dennis N. Johnston

PHOT ENERGY 1985 LTD.

By:

By:

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, and shall be deemed to be executed in Houston, Harris County, Texas.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

WITNESS
MALLON OIL COMPANY
1978
By: Karen E. McClintock
Assistant Secretary
COLORADO

MALLON OIL COMPANY, A COLORADO CORPORATION

By: George O. Mallon, Jr.
President

NON-OPERATORS

WITNESS/ATTEST:

BIL LTD., 1985

By:

By:

By:

By: Dennis N. Johnston

PILOT ENERGY 1985 LTD.

By:

By:

2 - Model Form Operating Agreement

PECOS RIVER PROSPECT

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, and shall be deemed to be executed in Houston, Harris County, Texas.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 19 86.

OPERATOR

WITNESS FOR THE SIGNATURE OF KATHEN F. MCCLINTOCK
By: Kathen F. McClintock
Assistant Secretary
COLORADO

MALLON OIL COMPANY, A COLORADO CORPORATION

By: George O. Mallon, Jr.
President

NON-OPERATORS

WITNESS/ATTEST:

BTL LTD., 1985

By: _____

By: _____

By: _____

By: Dennis N. Johnston

PILOT ENERGY 1985 LTD.

By: _____

By: North Star Oil & Gas, General Partner
By: Alexander D. Stuart
Managing General Partner

AMENDED
EXHIBIT "A.1"
January 31, 1990

Item 1: Identification of lands subject to this Agreement:

Township 26 South, Range 29 East, NMPM
Section 27: NE/4 SE/4 (Amoco Federal #1 Well)
Bddy County New Mexico

Item 2:	BPO <u>Non-Consent</u>	APO <u>Non-Consent</u>
Mallon Oil Company 1099 18th Street, Suite 2750 Denver, Colorado 80202	57.9865100%	25.7600000%
Charles Simmons 1120 Shady Oaks Lane Ft. Worth, Texas 76107	11.8741700%	6.2500000%
Weldon Aston 1465 Continental Plaza Ft. Worth, Texas 76102	11.8741700%	6.2500000%
Wes-Tex Drilling Company P.O. Box 3739 Abilene, Texas 79604	6.2500000%	6.2500000%
Star Production Inc. P.O. Box 10918 Dallas, Texas 75207	5.2441100%	2.7602500%
Kerrco, Inc. 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	1.5625000%	43.3022500%
Anco Oil Company 301 Commerce, Suite 1010 Fort Worth, Texas 76102	-0-	2.5000000%
W. Timothy Weaver, Trustee 910 Travis Suite 1203 Houston, Texas 77002	-0-	3.1250000%

AMENDED
EXHIBIT "A.1"
January 31, 1990

Item 2: (cont.)	BPO	APO
	<u>Non-Consent</u>	<u>Non-Consent</u>
Jay Basley P.O. Box 5036 Victoria, Texas 77903	2.9685400%	1.5625000%
Estate of Robert A. Mitchem c/o First Interstate Bank of Denver, as personal representative P.O. Box 5825 Denver, Colorado 80217	2.2400000%	2.2400000%
TOTAL WORKING INTEREST	100.0000000%	100.0000000%

Item 3: Oil and Gas Leases Subject to this Agreement:

Lessor: United States of America

Lessee: Don Wright

Lease Date: February 1, 1980

Federal Lease Number: NM-38636

Description:

Township 26 South, Range 29 East, NMPM
Section 27: N/2 NE/4, SE/4 NE/4, NW/4,
N/2 S/2, SW/4 SW/4 (excluding 38.08 acres
lying within the Red Bluff Reservoir)

Section 28: All (excluding 203.9 acres
lying within the Red Bluff Reservoir)

Section 29: N/2, N/2 SE/4, SE/4 SE/4

Eddy County, New Mexico

AMENDED
EXHIBIT "A.2"
January 31, 1990

Item 1: Identification of lands subject to this Agreement:

Township 26 South, Range 29 East, NMPM
Section 27: NW/4 SE/4 (Amoco Federal #3 Well)
 SE/4 NE/4 (Amoco Federal #4 Well)
 NE/4 NE/4 (Amoco Federal #5 Well)
 NW/4 NE/4 (Amoco Federal #6 Well)
 NE/4 NW/4 (Amoco Federal #7 Well)
 SE/4 NW/4 (Amoco Federal #8 Well)
 Eddy County New Mexico

	<u>Working Interest Percentage</u>
Item 2:	
Mallon Oil Company 1099 18th Street, Suite 2750 Denver, Colorado 80202	25.76000%
Charles Simmons 1120 Shady Oaks Lane Ft. Worth, Texas 76107	6.25000%
Weldon Aston 1465 Continental Plaza Ft. Worth, Texas 76102	6.25000%
Wes-Tex Drilling Company P.O. Box 3739 Abilene, Texas 79604	6.25000%
Star Production Inc. P.O. Box 10918 Dallas, Texas 75207	2.76025%
Kerrco, Inc. 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	43.30225%
Anco Oil Company 301 Commerce, Suite 1010 Fort Worth, Texas 76102	2.50000%

AMENDED
EXHIBIT "A.2"
January 31, 1990

Item 2: (cont.)	<u>Working Interest Percentage</u>
Jay Easley P.O. Box 5036 Victoria, Texas 77903	1.56250%
Estate of Robert A. Mitchem c/o First Interstate Bank of Denver, as personal representative P.O. Box 5825 Denver, Colorado 80217	2.24000%
W. Timothy Weaver, Trustee 910 Travis Suite 1203 Houston, Texas 77002	3.12500%
TOTAL WORKING INTEREST	100.00000%

Item 3: Oil and Gas Leases Subject to this Agreement:

Lessor: United States of America

Lessee: Don Wright

Lease Date: February 1, 1980

Federal Lease Number: NM-38636

Description:

Township 26 South, Range 29 East, NMPM
Section 27: N/2 NE/4, SE/4 NE/4, NW/4,
N/2 S/2, SW/4 SW/4 (excluding 38.08 acres
lying within the Red Bluff Reservoir)

Section 28: All (excluding 203.9 acres
lying within the Red Bluff Reservoir)

Section 29: N/2, N/2 SE/4, SE/4 SE/4

Eddy County, New Mexico

AMENDED
EXHIBIT "A.3"
January 31, 1990

Item 1: Identification of lands subject to this Agreement:

Township 26 South, Range 29 East, NMPM
Section 27: NE/4 SW/4 (Amoco Federal #9 Well)
Eddy County New Mexico

Item 2:

Working Interest Percentage

Mallon Oil Company 1099 18th Street, Suite 2750 Denver, Colorado 80202	25.76000%
Charles Simmons 1120 Shady Oaks Lane Ft. Worth, Texas 76107	6.25000%
Weldon Aston 1465 Continental Plaza Ft. Worth, Texas 76102	6.25000%
Wes-Tex Drilling Company P.O. Box 3739 Abilene, Texas 79604	6.25000%
Star Production Inc. P.O. Box 10918 Dallas, Texas 75207	2.76025%
Kerrco, Inc. 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	27.05225%
Anco Oil Company 301 Commerce, Suite 1010 Fort Worth, Texas 76102	2.50000%
W. Timothy Weaver, Trustee 910 Travis Suite 1203 Houston, Texas 77002	3.12500%

AMENDED
EXHIBIT "A.3"
January 31, 1990

Item 2: (cont.)	<u>Working Interest Percentage</u>
Anoil Company P.O. Box 2967 Houston, Texas 77252-2967	7.00000%
Dennis N. Johnston 711 Louisiana Suite 2000 Houston, Texas 77002	3.00000%
Pilot Energy 1985 Ltd 1021 Main Street, Suite 1700 Houston, Texas 77002	6.25000%
Jay Fasley P.O. Box 5036 Victoria, Texas 77903	1.56250%
Estate of Robert A. Mitchem c/o First Interstate Bank of Denver, as personal representative P.O. Box 5825 Denver, Colorado 80217	2.24000%
TOTAL WORKING INTEREST	100.00000%

Item 3: Oil and Gas Leases Subject to this Agreement:

Lessor: United States of America

Lessee: Don Wright

Lease Date: February 1, 1980

Federal Lease Number: NM-38636

Description:

Township 26 South, Range 29 East, NMPM
Section 27: N/2 NE/4, SE/4 NE/4, NW/4,
N/2 S/2, SW/4 SW/4 (excluding 38.08 acres
lying within the Red Bluff Reservoir)

Section 28: All (excluding 203.9 acres
lying within the Red Bluff Reservoir)

Section 29: N/2, N/2 SE/4, SE/4 SE/4

Eddy County, New Mexico

AMENDED
EXHIBIT "A.4"
January 31, 1990

Item 1: Identification of lands subject to this Agreement:

Township 26 South, Range 29 East, NMPM
Section 27: SW/4 NW/4 (Amoco Federal #10 Well)
Eddy County New Mexico

Item 2:

Working Interest Percentage

Mallon Oil Company 1099 18th Street, Suite 2750 Denver, Colorado 80202	36.88500%
Charles Simmons 1120 Shady Oaks Lane Ft. Worth, Texas 76107	6.25000%
Weldon Aston 1465 Continental Plaza Ft. Worth, Texas 76102	6.25000%
Wes-Tex Drilling Company P.O. Box 3739 Abilene, Texas 79604	6.25000%
Star Production Inc. P.O. Box 10918 Dallas, Texas 75207	2.76025%
Kerrco, Inc. 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	19.05225%

AMENDED
EXHIBIT "A.4"
January 31, 1990

Item 2: (cont.)	<u>Working Interest Percentage</u>
Anoil Company P. O. Box 2967 Houston, Texas 77252-2967	7.00000%
Dennis N. Johnston 711 Louisiana Suite 2000 Houston, Texas 77002	3.00000%
Pilot Energy 1985 Ltd 1021 Main Street, Suite 1700 Houston, Texas 77002	6.25000%
Jay Easley P.O. Box 5036 Victoria, Texas 77903	1.56250%
Energy Investors 1986 Limited Partnership 370 17th Street, Suite 5020 Denver, Colorado 80202	2.50000%
Estate of Robert A. Mitchem c/o First Interstate Bank of Denver, as personal representative P.O. Box 5825 Denver, Colorado 80217	2.24000%
TOTAL WORKING INTEREST	100.00000%

Item 3: Oil and Gas Leases Subject to this Agreement:

Lessor: United States of America

Lessee: Don Wright

Lease Date: February 1, 1980

Federal Lease Number: NM-38636

Description:

Township 26 South, Range 29 East, NMPM
Section 27: N/2 NE/4, SE/4 NE/4, NW/4,
N/2 S/2, SW/4 SW/4 (excluding 38.08 acres
lying within the Red Bluff Reservoir)

Section 28: All (excluding 203.9 acres
lying within the Red Bluff Reservoir)

Section 29: N/2, N/2 SE/4, SE/4 SE/4

Eddy County, New Mexico

AMENDED
EXHIBIT "A.5"
January 31, 1990

Item 1: Identification of lands subject to this Agreement:

Township 26 South, Range 29 East, NMPM
Section 27: NW/4 NW/4 (Amoco Federal #11 Well)
Eddy County New Mexico

Item 2:

Working Interest Percentage

Mallon Oil Company 1099 18th Street, Suite 2750 Denver, Colorado 80202	33.76000%
Charles Simmons 1120 Shady Oaks Lane Ft. Worth, Texas 76107	6.25000%
Weldon Aston 1465 Continental Plaza Ft. Worth, Texas 76102	6.25000%
Wes-Tex Drilling Company P.O. Box 3739 Abilene, Texas 79604	6.25000%
Star Production Inc. P.O. Box 10918 Dallas, Texas 75207	2.76025%
Kerrco, Inc. 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	19.05225%
Anoil Company P.O. Box 2967 Houston, Texas 77252-2967	7.00000%
Dennis N. Johnston 711 Louisiana Suite 2000 Houston, Texas 77002	3.00000%
Pilot Energy 1985 Ltd 1021 Main Street, Suite 1700 Houston, Texas 77002	6.25000%

AMENDED
EXHIBIT "A.5"
January 31, 1990

Item 2: (cont.)

Working Interest Percentage

Jay Easley P.O. Box 5036 Victoria, Texas 77903	1.56250%
Energy Investors 1986 Limited Partnership 370 17th Street, Suite 5020 Denver, Colorado 80202	2.50000%
Estate of Robert A. Mitchem c/o First Interstate Bank of Denver, as personal representative P.O. Box 5825 Denver, Colorado 80217	2.24000%
W. Timothy Weaver, Trustee 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	3.12500%
TOTAL WORKING INTEREST	100.00000%

Item 3: Oil and Gas Leases Subject to this Agreement:

Lessor: United States of America

Lessee: Don Wright

Lease Date: February 1, 1980

Federal Lease Number: NM-38636

Description:

Township 26 South, Range 29 East, NMPM
Section 27: N/2 NE/4, SE/4 NE/4, NW/4,
N/2 S/2, SW/4 SW/4 (excluding 38.08 acres
lying within the Red Bluff Reservoir)

Section 28: All (excluding 203.9 acres
lying within the Red Bluff Reservoir)

Section 29: N/2, N/2 SE/4, SE/4 SE/4

Eddy County, New Mexico

AMENDED
EXHIBIT "A.6"
January 31, 1990

Item 1: Identification of lands subject to this Agreement:

Township 26 South, Range 29 East, NMPM
Section 28: NE/4 NE/4 (Amoco Federal #13 Well)
Eddy County New Mexico

	<u>BPO</u> <u>Non-Consent</u>	<u>APO</u> <u>Non-Consent</u>
Item 2: Mallon Oil Company 1099 18th Street, Suite 2750 Denver, Colorado 80202	64.7802088%	36.8850000%
Charles Simmons 1120 Shady Oaks Lane Ft. Worth, Texas 76107	6.2500000%	6.2500000%
Weldon Aston 1465 Continental Plaza Ft. Worth, Texas 76102	10.3075356%	6.2500000%
Wes-Tex Drilling Company P.O. Box 3739 Abilene, Texas 79604	10.3075356%	6.2500000%
Star Production Inc. P.O. Box 10918 Dallas, Texas 75207	4.5522200%	2.7602500%
Kerrco, Inc. 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	-0-	19.0522500%
Anoil Company P.O. Box 2967 Houston, Texas 77252-2967	-0-	7.0000000%
Dennis N. Johnston 711 Louisiana Suite 2000 Houston, Texas 77002	-0-	3.0000000%
Pilot Energy 1985 Ltd 1021 Main Street, Suite 1700 Houston, Texas 77002	-0-	6.2500000%

AMENDED
EXHIBIT "A.6"
January 31, 1990

Item 2: (cont.)	BPO	APO
	<u>Non-Consent</u>	<u>Non-Consent</u>
Jay Easley P.O. Box 5036 Victoria, Texas 77903	1.5625000%	1.5625000%
Energy Investors 1986 Limited Partnership 370 17th Street, Suite 5020 Denver, Colorado 80202	-0-	2.5000000%
Estate of Robert A. Mitchem c/o First Interstate Bank of Denver, as personal representative P.O. Box 5825 Denver, Colorado 80217	2.2400000%	2.2400000%
TOTAL WORKING INTEREST	100.0000000%	100.0000000%

Item 3: Oil and Gas Leases Subject to this Agreement:

Lessor: United States of America

Lessee: Don Wright

Lease Date: February 1, 1980

Federal Lease Number: NM-38636

Description:

Township 26 South, Range 29 East, NMPM
Section 27: N/2 NE/4, SE/4 NE/4, NW/4,
N/2 S/2, SW/4 SW/4 (excluding 38.08 acres
lying within the Red Bluff Reservoir)

Section 28: All (excluding 203.9 acres
lying within the Red Bluff Reservoir)

Section 29: N/2, N/2 SE/4, SE/4 SE/4

Eddy County, New Mexico

AMENDED
EXHIBIT "A.7"
January 31, 1990

Item 1: Identification of lands subject to this Agreement:

Township 26 South, Range 29 East, NMPM
Section 28: SW/4 SE/4 (Amoco Federal #14 Well)
Bddy County New Mexico

Item 2:

	<u>BPO</u> <u>Non-Consent</u>	<u>APO</u> <u>Non-Consent</u>
Mallon Oil Company 1099 18th Street, Suite 2750 Denver, Colorado 80202	65.1319700%	36.8850000%
Charles Simmons 1120 Shady Lane Ft. Worth, Texas 76107	9.8023500%	6.2500000%
Weldon Aston 1465 Continental Plaza Ft. Worth, Texas 76102	9.8023500%	6.2500000%
Wes-Tex Drilling Company P.O. Box 3739 Abilene, Texas 79604	6.2500000%	6.2500000%
Star Production Inc. P.O. Box 10918 Dallas, Texas 75207	2.7602500%	2.7602500%
Kerrco, Inc. 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	1.5625000%	19.0522500%
Anoil Company P.O. Box 2967 Houston, Texas 77252-2967	-0-	7.000000%
Dennis N. Johnston 711 Louisiana Suite 2000 Houston, Texas 77002	-0-	3.000000%
Pilot Energy 1985 Ltd 1021 Main Street, Suite 1700 Houston, Texas 77002	-0-	6.250000%

AMENDED
EXHIBIT "A.7"
January 31, 1990

Item 2: (cont.)	BPO <u>Non-Consent</u>	APO <u>Non-Consent</u>
Jay Easley P.O. Box 5036 Victoria, Texas 77903	2.4505800%	1.5625000%
Energy Investors 1986 Limited Partnership 370 17th Street, Suite 5020 Denver, Colorado 80202	-0-	2.5000000%
Estate of Robert A. Mitchem c/o First Interstate Bank of Denver, as personal representative P.O. Box 5825 Denver, Colorado 80217	2.2400000%	2.2400000%
TOTAL WORKING INTEREST	100.0000000%	100.0000000%

Item 3: Oil and Gas Leases Subject to this Agreement:

Lessor: United States of America

Lessee: Don Wright

Lease Date: February 1, 1980

Federal Lease Number: NM-38636

Description:

Township 26 South, Range 29 East, NMPM
Section 27: N/2 NE/4, SE/4 NE/4, NW/4,
N/2 S/2, SW/4 SW/4 (excluding 38.08 acres
lying within the Red Bluff Reservoir)

Section 28: All (excluding 203.9 acres
lying within the Red Bluff Reservoir)

Section 29: N/2, N/2 SE/4, SE/4 SE/4

Eddy County, New Mexico

AMENDED
EXHIBIT "A.8"
January 31, 1990

Item 1: Identification of lands subject to this Agreement:

Township 26 South, Range 29 East, NMPM
Section 27: NW/4 SW/4 (Amoco-Red Bluff #1 Federal Well)
Hddy County, New Mexico

Item 2:	BPO <u>Non-Consent</u>	APO <u>Non-Consent</u>
Mallon Oil Company 1099 18th Street, Suite 2750 Denver, Colorado 80202	41.1284932%	27.9154900%
Charles Simmons 1120 Shady Lane Ft. Worth, Texas 76107	6.9690415%	4.7301563%
Weldon Aston 1465 Continental Plaza Ft. Worth, Texas 76102	6.9690415%	4.7301563%
Wes-Tex Drilling Company P.O. Box 3739 Abilene, Texas 79604	6.4432990%	4.7301563%
Star Production Inc. P.O. Box 10918 Dallas, Texas 75207	2.8456185%	2.0890262%
Kerrco, Inc. 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	16.1012802%	14.4192190%
Anoil Company P.O. Box 2967 Houston, Texas 77252-2967	7.2164948%	5.2977750%
Dennis N. Johnston 711 Louisiana Suite 2000 Houston, Texas 77002	-0-	2.2704750%
Pilot Energy 1985 Ltd 1021 Main Street, Suite 1700 Houston, Texas 77002	6.4432990%	4.7301563%

AMENDED
EXHIBIT "A.8"
January 31, 1990

Item 2: (cont.)	BPO <u>Non-Consent</u>	APO <u>Non-Consent</u>
Jay Easley P.O. Box 5036 Victoria, Texas 77903	1.6108247%	1.1825391%
Estate of Robert A. Mitchem c/o First Interstate Bank of Denver, as personal representative P.O. Box 5825 Denver, Colorado 80217	1.6952880%	1.6952880%
Energy Investors 1986 Limited Partnership 370 17th Street, Suite 5020 Denver, Colorado 80202	2.5773196%	1.8920625%
Red Bluff Water Power Control District 111 W. 2nd Street Pecos, Texas 79772	-0-	24.3175000%
TOTAL WORKING INTEREST	100.0000000%	100.0000000%

Item 3: Oil and Gas Leases Subject to this Agreement:

1) Lessor: United States of America
Lessee: Red Bluff Water Power Control District
Lease Date: March 29, 1988
Federal Lease Number: NM NM 71599
Description:

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

2) Lessor: United States of America
Lessee: Don Wright
Lease Date: February 1, 1980
Federal Lease Number: NM-38636
Description:

Township 26 South, Range 29 East, NMPM
Section 27: N/2 NE/4, SE/4 NE/4, NW/4,
N/2 S/2, SW/4 SW/4 (excluding 38.08 acres
lying within the Red Bluff Reservoir)

Section 28: All (excluding 203.90 acres
lying within the Red Bluff Reservoir)

Section 29: N/2, N/2 SE/4, SE/4 SE/4
Eddy County, New Mexico

AMENDED
EXHIBIT "A.9"
January 31, 1990

Item 1: Identification of lands subject to this Agreement:

Township 26 South, Range 29 East, NMPM

Section 27: SW/4 SW/4

Section 28: All excluding NE/4 NE/4, SW/4 SE/4
and 203.9 acres lying within the
Red Bluff Reservoir

Section 29: N/2, N/2 SE/4, SE/4 SE/4
Hddy County New Mexico
(Undeveloped Acreage)

Item 2:

Working Interest Percentage

Mallon Oil Company 1099 18th Street, Suite 2750 Denver, Colorado 80202	36.88500%
Charles Simmons 1120 Shady Lane Ft. Worth, Texas 76107	6.25000%
Weldon Aston 1465 Continental Plaza Ft. Worth, Texas 76102	6.25000%
Wes-Tex Drilling Company P.O. Box 3739 Abilene, Texas 79604	6.25000%
Star Production Inc. P.O. Box 10918 Dallas, Texas 75207	2.76025%
Kerrco Ltd 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	3.50000%
BeneTex Oil & Gas, Ltd. 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	1.56250%
EuroTex Resources, Ltd. 22nd Floor, Niels Esperson Bldg. Houston, Texas 77002	7.98975%
Anoil Company 1021 Main Street, Ste. 1700 Houston, Texas 77002	7.00000%
Dennis N. Johnston 711 Louisiana Suite 2000 Houston, Texas 77002	3.00000%
Pilot Energy 1985 Ltd 1021 Main Street, Suite 1700 Houston, Texas 77002	6.25000%

AMENDED
EXHIBIT "A.9"
January 31, 1990

Item 2: (cont)	<u>Working Interest Revenue</u>
Jay Easley P.O. Box 5036 Victoria, Texas 77903	1.56250%
Estate of Robert A. Mitchem c/o First Interstate Bank of Denver, as personal representative P.O. Box 5825 Denver, Colorado 80217	2.24000%
Energy Investors 1986 Limited Partnership 370 17th Street, Ste. 5020 Denver, Colorado 80202	2.50000%
TOTAL WORKING INTEREST	100.00000%

Item 3: Oil and Gas Leases Subject to this Agreement:

Lessor: United States of America

Lessee: Don Wright

Lease Date: February 1, 1980

Federal Lease Number: NM-38636

Description:

Township 26 South, Range 29 East, NMPM
Section 27: N/2 NE/4, SE/4 NE/4, NW/4,
N/2 S/2, SW/4 SW/4 (excluding 38.08 acres
lying within the Red Bluff Reservoir)

Section 28: All (excluding 203.9 acres
lying within the Red Bluff Reservoir)

Section 29: N/2, N/2 SE/4, SE/4 SE/4

Eddy County, New Mexico

EXHIBIT

" C "

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT
DATED OCTOBER 1, 1986, BY AND BETWEEN MALLON OIL COMPANY, AS
OPERATOR AND KERRCO LTD., ET AL., AS NON-OPERATORS.

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, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that 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 advance received from the Non-Operators.~~

B. Each Non-Operator shall pay its proportion of all bills within ~~fifteen (15)~~ ^{THIRTY (30)} 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 bill 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 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 \$ 3,100.00
 (Prorated for less than a full month)

Producing Well Rate \$ 325.00

- (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 down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing 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 permanent sales 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 except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (6) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceeding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~B. Overhead - Percentage Basis~~

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

(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, redrilling, 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 on 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 \$ 10,000 :

- 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. 1 % 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. 1 % 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 ¾ 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 ¾ 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 ¾ 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 OCTOBER 1, 1986, BY AND BETWEEN MALLON OIL COMPANY, AS OPERATOR AND KERRCO, LTD., ET AL., AS NON-OPERATORS.

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.

EXHIBIT "E"

GAS BALANCING AGREEMENT

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED OCTOBER 1, 1986, BY AND BETWEEN MALLON OIL COMPANY, AS OPERATOR AND KERRCO LTD., ET AL., AS NON-OPERATORS.

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 fair 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 as set forth in Exhibit "A" attached to this Operating Agreement. The Operator has the duty to control gas production and the responsibility of administering the provisions of this Agreement. The Operator 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 by lease equipment and shall pay their proportionate share of current operating expense in accordance with the Operating Agreement to which this Exhibit is attached.

After notice to Operator, any party may begin taking or delivering its share of the gas produced. Each party taking gas shall furnish the Operator a monthly statement of gas volumes taken. Each party unable to market its share of the gas produced shall be credited with gas equal to its share of the gas produced, less its share of gas used in lease operations, vented or lost. Operator shall furnish all parties hereto monthly statements showing the total quantity of gas produced, used in lease operations, vented or lost, and the total quantity of condensate recovered. In addition to its share, each party, until it has recovered its credited gas and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to ~~twenty-five percent (25%)~~^{fifty percent (50%)} 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 accordance with Unit participation. 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 Unit Area so the lease will not be shut-in for overproducing the allowable, if any, assigned thereto by the regulatory body having jurisdiction.

*fifty percent (50%)

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 Unit Area, each party shall make appropriate settlement of all royalties, overriding royalties and other payments out of or in lieu of production for only those leases in which a party has an obligation to pay its proportionate share of such burdens, 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 or the well be included in a unitized area or any party assign his 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 an amount of money equal to the amount either received by the overproduced party for its overproduction or the amount of money the underproduced party has contracted to sell its gas, 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 of 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 Agreement shall be separately applicable and shall constitute a separate Agreement as to each well (or proration unit) and each reservoir to the end that production from one reservoir may not be utilized for the purpose of balancing underproduction from any other reservoirs.

THERE IS NO EXHIBIT "F" TO THIS AGREEMENT

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED OCTOBER 1, 1986, BY AND BETWEEN MALLON OIL COMPANY, AS OPERATOR AND KERRCO LTD., ET AL., AS NON-OPERATORS.

THERE IS NO EXHIBIT "G" TO THIS AGREEMENT

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED
OCTOBER 1, 1986, BY AND BETWEEN MALLON OIL COMPANY, AS OPERATOR AND
KERRCO LTD., ET AL., AS NON-OPERATORS.