

**MESA GRANDE RESOURCES, INC.** CASE #8897  
1200 PHILTOWER BUILDING EXHIBIT 3-1  
TULSA, OKLAHOMA 74103  
(918) 587-8494

March 14, 1986

Mr. Randy Hagood  
Chevron U.S.A. Inc.  
Post Office Box 599  
Denver, Colorado 80201

Re: Prowler #1  
E/2, Section 5-25N-2W  
Rio Arriba County, New Mexico  
NM-6414

Dear Mr. Hagood:

Mesa Grande Resources, Inc. recently proposed the drilling of the captioned Gallup-Dakota test well. For various reasons, it has been decided to delay the drilling of this well. In order to save an expiring lease, however, drilling operations must commence on or before April 1, 1986.

Therefore, Mesa Grande is proposing to drill a Pictured Cliffs well in the SE/4 of Section 5 at this time. In this regard, we respectfully request that you either:

- 1) Participate in the drilling of the Pictured Cliffs well. Two copies of our AFE are attached for your review. If you elect to participate in the drilling of this well, please execute and return one copy;
- 2) Farmout your interest from the surface to the base of the Pictured Cliffs formation for a 6.25% non convertible overriding royalty with no backin working interest after payout; or
- 3) Elect to go non-consent on the initial well at a 200% penalty for drilling costs and a 150% penalty for equipment beyond the wellhead and operating costs. The following language will be added to the Operating Agreement as Article XV.A.:

Any party hereto, except Operator, may elect not to pay its share of costs of drilling the Initial Well. Any party so electing shall have its share of costs borne by the Operator and shall be deemed to have relinquished to Operator, and Operator shall own and be entitled to receive all of each Non-Consenting Party's interest in the well and share of production therefrom until the proceeds

Mr. Randy Hagood  
March 14, 1986  
Page Two

of the sale of such share, calculated at the well, or market value thereof if such share if 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) 150% of each Non-Consenting Party's share of costs as specified in Article VI.B.2.(a); and
- (b) 200% of each Non-Consenting Party's portion of the costs and expenses as specified in Article VI.B.2.(b).

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."

We will appreciate your immediate consideration of our proposal and election of an option as time is very short in which to commence operations. We look forward to hearing from you soon.

Very truly yours,

Gregory R. Phillips

GRP:dw



**Chevron U.S.A. Inc.**

700 South Colorado Blvd., P. O. Box 599, Denver, CO 80201

BEFORE THE NEW MEXICO  
OIL CONSERVATION  
COMMISSION

CASE #8897  
EXHIBIT 3-2

March 28, 1986

Proposed Drilling of the  
Prowler #1,  
E½ of Section 5, T-25-N, R-2-W,  
Rio Arriba County,  
New Mexico (CLN #016387)

---

Mr. Gregory R. Phillips  
Mesa Grande Resources, Inc.  
1200 Philtower Building  
Tulsa, Oklahoma 74103

Dear Mr. Phillips:

This is in response to your letter dated March 14, 1986,  
concerning the proposed drilling of the captioned well.

Please be advised that Chevron U.S.A. Inc. does not elect to  
choose any of your options contained in the above-mentioned  
letter. Thank you for your proposal letter and should you have  
any questions, please call me at 303-691-7286.

Yours very truly,

A handwritten signature in cursive script that reads "Randy S. Hagood".

Randy S. Hagood  
Land Representative

RSH:dst

cc: Kathy Michael

BEFORE THE NEW MEXICO  
OIL CONSERVATION  
COMMISSION

**MESA GRANDE RESOURCES, INC.**  
1200 PHILTOWER BUILDING  
TULSA, OKLAHOMA 74103  
(918) 587-8494

CASE # 8897  
EXHIBIT 3-3

May 5, 1986

Chevron U.S.A., Inc.  
700 S. Colorado Blvd.  
P.O. Box 599  
Denver, Colorado 80201  
Attn: Randy Hagood

Re: Guardian #1  
SE $\frac{1}{2}$  Sec. 5-T25N-R2W  
Rio Arriba County, New Mexico

Gentlemen:

This letter is to confirm my telephone conversation of May 2, 1986 with Randy Hagood concerning the options still open to Chevron with regard to the Guardian #1 Pictured Cliffs well which has already been drilled.

Mesa Grande has decided that it no longer is interested in a farmout of Chevron's acreage in the spacing unit. Consequently, Chevron may now elect to:

- 1.) Participate for its proportionate 25% share of the cost of drilling by executing and returning to Mesa Grande one copy of our AFE which was sent to you under cover of March 14, 1986; or,
- 2.) Go non-consent in the drilling of the initial well in accordance with the provisions of Article XV of the Operating Agreement dated March 20, 1986 which was sent to you on April 10, 1986.

Mesa Grande has requested an Examiner Hearing before the New Mexico Oil Conservation Commission which is scheduled for May 14, 1986. If Chevron has not notified us in writing of its election by Monday, May 12, 1986, we will present our case for compulsory pooling to the examiners on May 14, 1986.

As we have discussed, neither party wishes to take this matter to hearing, so we look forward to an early response from you.

Very truly yours,

*Kathy Michael*

Kathy Michael

KM/lri

<b>FROM:</b> Kathy Michael Mesa Grande Resources, Inc. 1200 Philtower Bldg. Tulsa, Oklahoma 74103	<b>EXPRESS MAIL</b> NEXT DAY SERVICE	<b>POST OFFICE TO ADDRESSEE</b>	
Customer Number, if any:	<b>B 78627416</b>	<b>SERVICE GUARANTEE:</b> Domestic mailings under this service made at designated USPS facilities on or before a specified deposit time, will be accepted for express shipment to a designated USPS delivery area having Express Mail Service for next day delivery to an addressee or agent on or before the time specified by the USPS at mailing. USPS will refund upon application to originating office, the postage for any shipments mailed under this service and not meeting the service standard except for those delayed by strike or work stoppage. See USPS Notice 43 for details.	
<b>TO:</b> Chevron U.S.A., Inc. 700 S. Colorado Blvd. P.O. Box 599 Denver, Colorado 80201	<b>ORIGIN:</b> Initials of Receiving Clerk: <i>RM</i> P.O. ZIP Code: <i>74103</i> Date in Time in: <i>5-5/86 1800</i>	<b>INSURANCE COVERAGE</b> See USPS Notice 7 or Notice 63 for exclusions of coverage (1) <i>Document Reconstruction Insurance.</i> Non-negotiable documents are insured against loss, damage, or rifting up to \$50,000 per piece, subject to a limit of \$500,000 per occurrence. (2) <i>Merchandise Insurance.</i> Parcels are insured against loss, damage, or rifting up to a maximum of \$500. • Signature is required upon delivery.	

*File - Guardian Well file*

AUTHORITY FOR EXPENDITURE

Date: 03/14/86 Well Name GUARDIAN #1 T.D. 3950' (Pictured Cliffs)  
 Location: SE/4 SE/4 Sec. 5-25N-2W, Rio Arriba County, New Mexico

Operator: MESA GRANDE RESOURCES, INC. Prepared by: Gregory Phillips

<u>INTANGIBLE COSTS</u>	<u>Drill/Test</u>	<u>Complete/Equip.</u>	<u>Note:</u>
<b>LOCATION:</b>			
Survey Location	\$ 1,400	\$ -	
Build Roads & Pad	5,500	-	
Surface Damages	8,000	-	
Restoration	2,500	-	
<b>DRILLING:</b> \$ 42,225			
Footage 3950 ft @ \$ 9.50 /ft	37,525		
Daywork 1 days WDP @ \$ 4700 /day	4,700		
Daywork - days WODP @ \$ 4700 /day	-		
<b>WIRELINE SERVICES:</b>			
Electric Logs	5,000		
Cement Bond Logs		1,750	
Perforating		2,000	
<b>PROFESSIONAL SERVICES:</b>			
Title Opinion	3,500	5,000	
Mud Logger	-		
Geological	1,000	600	
Engineering	1,750	1,250	
Other	500	500	
<b>SUPPORT SERVICES:</b>			
Water Purchase	4,000	800	
Mud & Chemicals	11,000	900	
Trucking & Hauling	2,500	2,500	
Cement Casing - SURFACE	3,000		(1)
Cement Casing - PRODUCTION		12,500	(2)
Equipment - Rental/Serv.	1,400	2,000	
Welding	200	500	
Completion Workover Rig		9,000	(3)
Acid Treatment		2,500	
Frac Treatment		18,000	
Labor - Casing Crews		-	
Labor - Miscellaneous	1,000	500	
Initial Well Testing		1,250	
Administrative, General Expenses	1,675	2,250	
<b>SUBTOTAL:</b>			
	95,650	63,800	
Contingencies - 5%	4,783	3,190	
Plug and Abandonment	2,500		
<b>TOTAL INTANGIBLE:</b>	<b>\$ 102,933</b>	<b>\$ 66,990</b>	
<b><u>TANGIBLE COSTS</u></b>			
<b>TUBULAR EQUIPMENT</b>			
Surface Casing	\$ 1,695		(4)
Production Casing		\$ 10,000	(5)
Tubing		4,750	(6)
Casing Equipment		6,000	
<b>SURFACE EQUIPMENT</b>			
Storage Tanks		-	
Tank Connections		-	
Line Pipe/Labor		2,500	
Gas Processing Unit		-	
Separator/Heat-Treat.		-	
Water Tank		-	
Pumping Unit and Engine		-	
Sucker Rod String		-	
P.U. Connections		-	
<b>MISC. EQUIPMENT</b>			
Christmas Tree	1,000	1,000	
Packer		1,250	
Valves and Fittings	300	550	
Gates/Culverts/Cattle Guards		3,500	
<b>TOTAL TANGIBLE:</b>	<b>\$ 2,995</b>	<b>\$ 29,550</b>	
<b>DRY HOLE TOTAL:</b>	<b>\$ 105,928</b>		
<b>COMPLETED TOTAL:</b>		<b>\$ 96,540</b>	
<b>TOTAL ESTIMATED WELL COST:</b>	<b>\$ 202,468</b>		

Approvals

Company: Mesa Grande, Ltd By: \_\_\_\_\_ W.I. 23.750000 % Date: \_\_\_\_\_  
 Company: Chevron U.S.A. Inc. By: \_\_\_\_\_ W.I. 25.000000 % Date: \_\_\_\_\_  
 Company: Reading & Bates By: \_\_\_\_\_ W.I. 16.666666 % Date: \_\_\_\_\_  
 Company: Hooper, Kimball and Williams, Inc. By: \_\_\_\_\_ W.I. 16.666666 % Date: \_\_\_\_\_  
 Company: \_\_\_\_\_ By: \_\_\_\_\_ W.I. \_\_\_\_\_ % Date: \_\_\_\_\_  
 Company: Clark & Oatman et al By: \_\_\_\_\_ W.I. 1.057940 % Date: \_\_\_\_\_