EXHIBIT

Calculation of Penalty

Double Circle and Condemned Acreage Method

Conditions: Shipp Strawn Pool Rules require wells to be located within 150 feet of the center of the quarter-quarter section. (80-acre proration units) (Order No. R-8062, October 31, 1985)

Proposed Amerind location is 1,980' FWL and 330' FSL of Section 33, Township 16S, Range 37E, Lea County, New Mexico.

Allowable Factors:

Factor F1   (Increased Drainage Area Outside Standard Location)
8.3 acres (from Double Circle Exhibit)

$$F1 = \frac{(\text{Standared Unit Acres} - \text{Increased Drainage Acres})}{\text{Standard Unit Acres}}$$

$$F1 = \frac{80 - 8.3}{80} = 0.896$$

Factor F2   (North/South Footage Factor)

$$F2 = \frac{\text{Actual Location with respect to South Line of Unit}}{\text{Standard Location Distance from South Line of Unit}}$$

$$F2 = \frac{330'}{510'} = 0.647$$

Factor F3   (East/West Footage Factor)

$$F3 = \frac{\text{Actual Location with respect to East Line of Unit}}{\text{Standard Location Distance from East Line of Unit}}$$

$$F3 = \frac{660'}{660'} = 1.0$$

Double Circle
Allowable Factor $= \dfrac{0.896 + 0.647 + 1.0}{3} = \dfrac{2.543}{3} = 0.848$

Condemned
Acreage Factor $= \dfrac{\text{Maximum Productive Acreage}}{\text{Unit Acreage}} = \dfrac{16.1 \text{ Acres}}{80 \text{ Acres}} = 0.201$

Final
Allowable Factor $= 0.848 \times 0.201 = 0.170$

Proposed Penalty $= 1.000 - 0.170 = 0.830 = 83.0\%$