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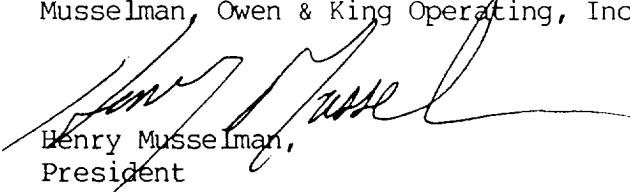
(G) After the over-production is worked-off, MO&K agrees to stay within allowable limits set by the State, as evidenced by our performance since October, 1990, when the correct allowable was first listed.

Based on an estimated penalized allowable averaged over 12 months (summer and winter) of 82,500 Mcf per month, this would allow MO&K to produce the Smith Federal #2L at a rate that would protect the rights of the royalty and working interest owners in the pool and balance our company's minimum financial requirements with reasonable caution taken to preserve the integrity of the surrounding reservoir. A minimum reserve of 1,304,185 Mcf would be needed to work-off this volume in 24 months, which our reservoir engineering reports indicate we can meet.

If this plan is acceptable to you, please notify us at your earliest convenience. We greatly appreciate the time and assistance that you have given us, not only to solve this problem, but to inform us of the operation of the proration process.

Yours truly,

Musselman, Owen & King Operating, Inc.



Henry Musselman,
President

cc: Amoco Production Company
Oryx Energy Company
Kerr-McGee Corporation
Hondo Oil & Gas
Bill Fenn, Inc.
Mike Williams - New Mexico OCD