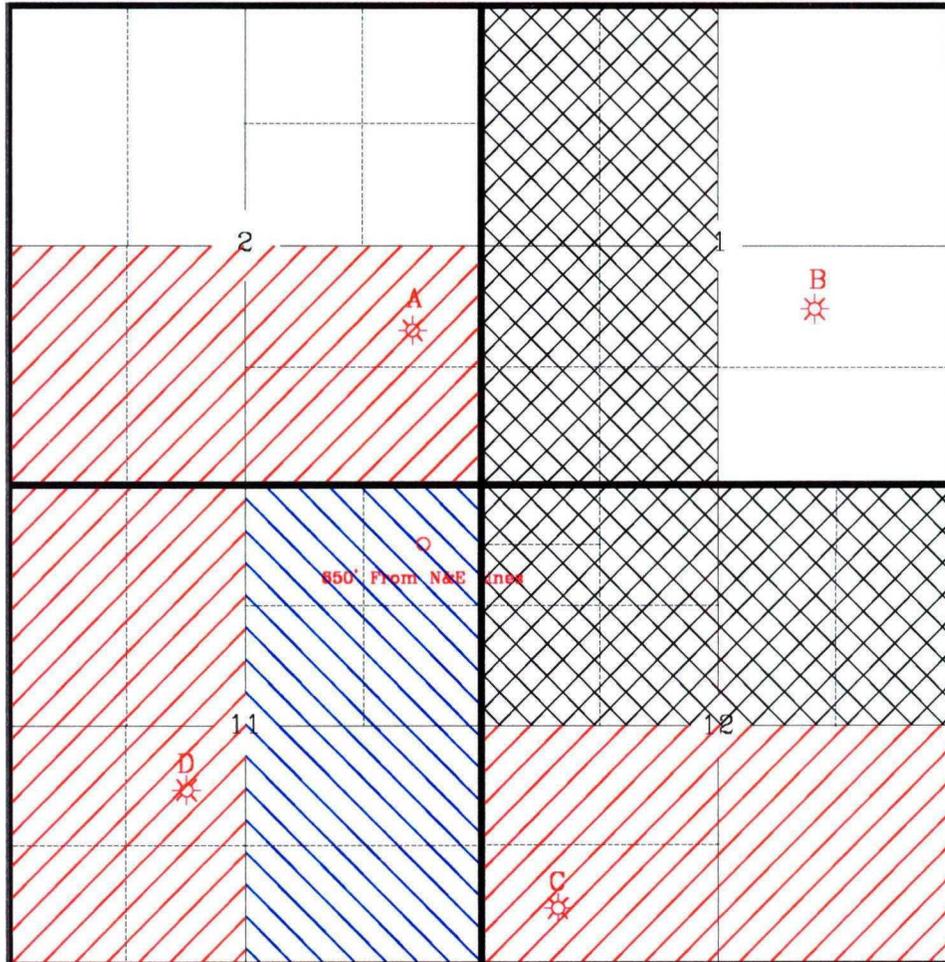
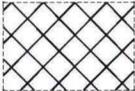


New Mexico Oil Conservation Division Rule # 104 Amended NSL Notification Proposal

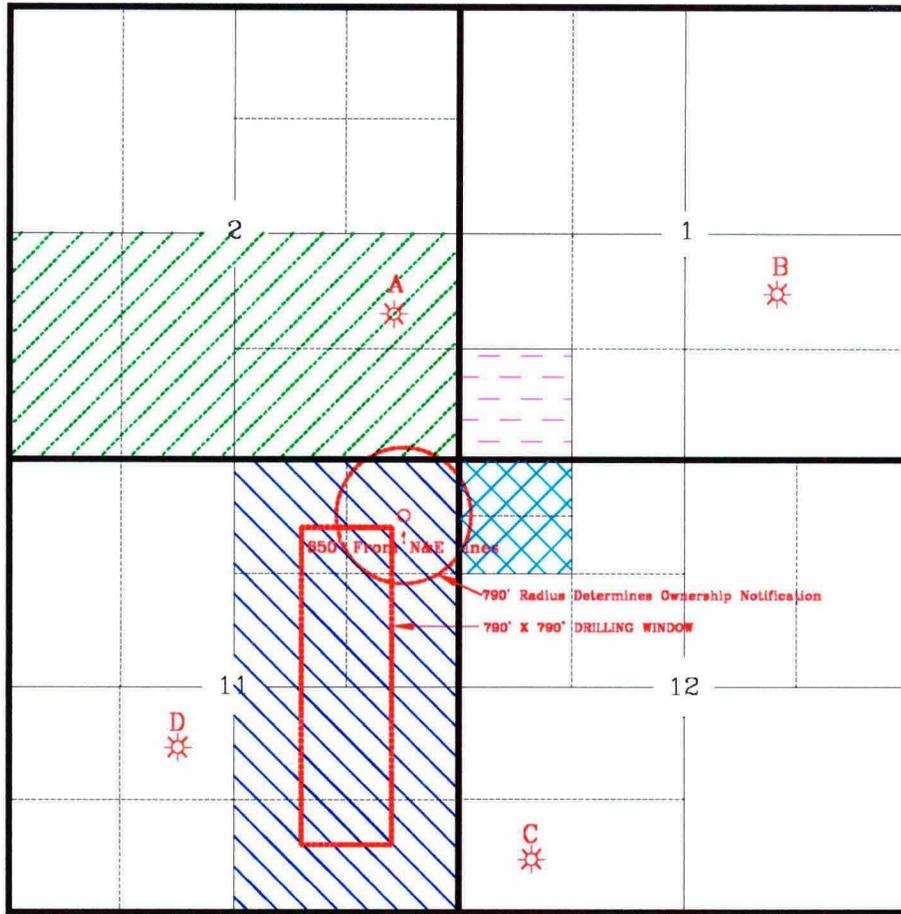
NMOCD rule # 104 currently requires us to notify all offset operators or mineral / lessee when we apply for non-standard locations such as depicted in the following illustration:



-  Existing Spacing Units
-  Proposed Spacing Unit
-  Undeveloped Lessee or Mineral Owners

Note: We would also notify the owners offset to the South of the proposed unit which is not shown on this illustration.

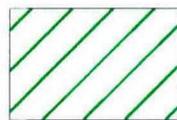
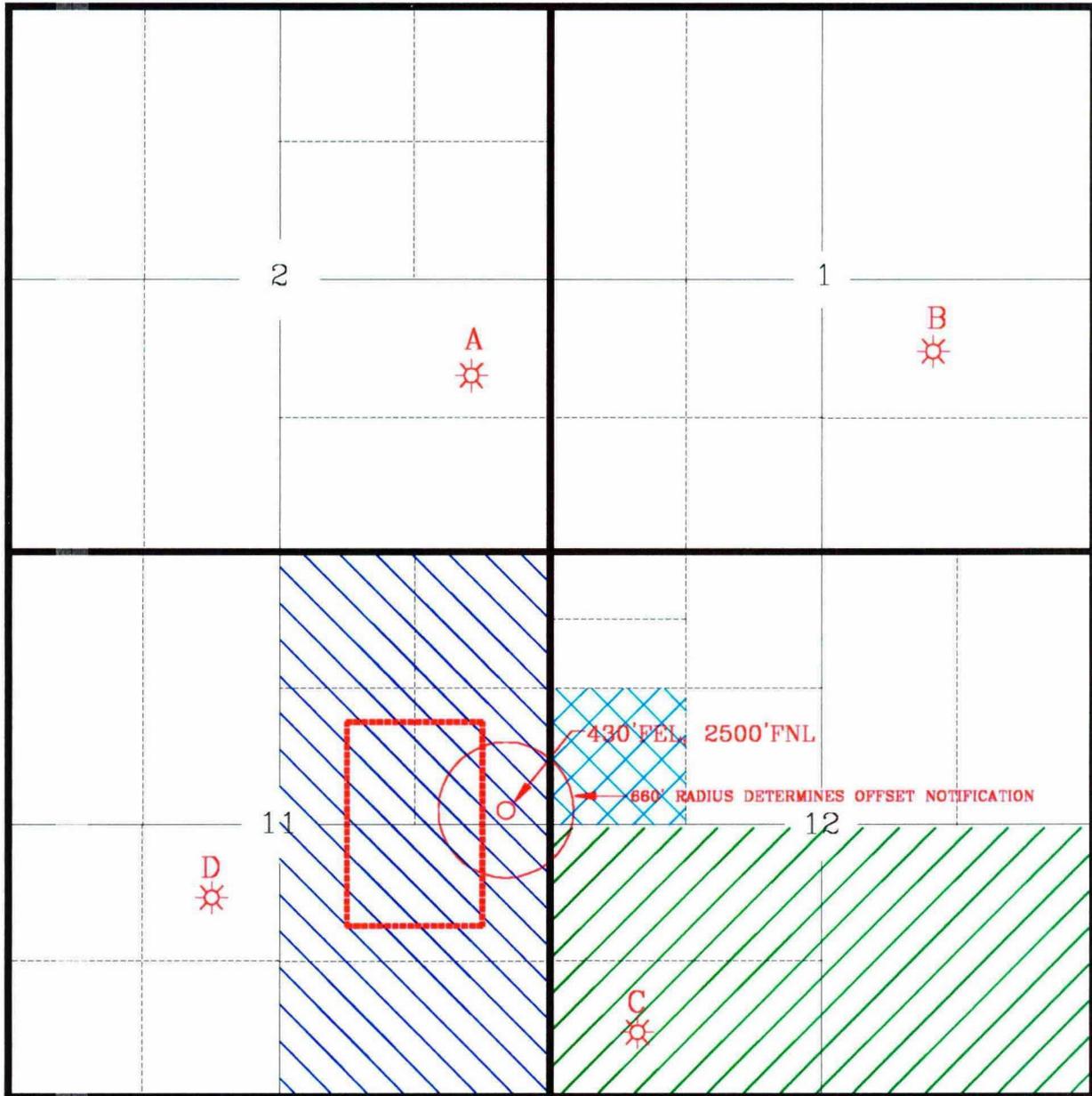
We are proposing to amend the notification rule to notify only those operators or mineral / lessee (if undeveloped) that are actually encroached upon as depicted in the following illustrations:



-  Notification to Operator A Only
-  Notification to Undeveloped Contiguous Lessee or Mineral Owner
-  Proposed Spacing Unit
-  Notification to Undeveloped Diagonal Lessee or Mineral Owner

In this example we would notify (a.) operator “A” in the S/2 of Section 2 since that property is contiguous (by a common side) to the proposed spacing unit and (b.) mineral / lessee owners in the NW/4 NW/4 Section 12 who are also contiguous (by a common side) to the proposed spacing unit, since both parties are actually being encroached upon as determined by using the proposed radius circle methodology. The radius circle methodology is determined by using the setback (radius) for the applicable pool (in this case we are assuming a Blanco Mesaverde Pool - 790’ setback) and any property that is contacted by the circle is included in the notification. We also suggest notifying any diagonally (non-contiguous by a common side) encroached operator or mineral / lessee offset owner (in this case the mineral / lessee in SW/4 SW/4 of Section 1). This procedure would reduce the time and expense of notifications, while protecting correlative rights of offset owners.

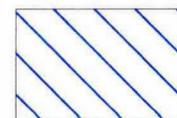
In the following illustration the encroachment is only toward the 660' setback, which results in the following notification requirements:



Notification
to Operator C Only



Notification
to Undeveloped Contiguous
Lessee or Mineral Owner



Proposed
Spacing Unit