

Mike -

These are the signed AFE's  
you requested in Case  
No. 9173 (application of  
Presidio Oil Co.)

Jim Bruce

THE PETROLEUM CORPORATION  
OF DELAWARE

3131 Turtle Creek Boulevard  
Dallas, Texas 75219-5415

ESTIMATE OF COSTS

AUTHORIZATION FOR EXPENDITURE

Page 1 of 2

Date: May 21, 1987

AFE No.: NM-574

Authority is requested to

Drill and Complete: **Brushy 12-A Federal No. 1**  
Prospect Name: Brushy Draw  
Location: 2,021 feet FNL and 630 feet FWL, Section 12, T-26-S, R-29-E  
County and State: Eddy County, New Mexico  
Estimated Total Depth: 3,500 feet

SUMMARY OF ESTIMATED COST:

	Total Cost (100%)
<u>Completed Well Costs</u>	
Intangible Drilling Cost	\$ 77,500
Tangible Drilling Cost	19,000
Intangible Completion Cost	17,700
Lease Equipment and Installation	40,800
Total Completed Cost	<u>\$155,000</u>
<u>Dry Hole Costs</u>	
Intangible Drilling Cost	\$ 71,400
Tangible Drilling Cost	1,500
Intangible Completion Cost	1,100
Total Dry Hole Cost	<u>\$ 74,000</u>
Geological-Land-Legal	<u>-</u>

INTERNAL APPROVAL:

Prepared By: Date: Approved By: Date:

Ralph P. Watkins

5/21/87

*Larry C. Shannon*  
Larry C. Shannon

May 21, 1987

NONOPERATOR APPROVAL:

By execution hereof, the undersigned recognizes and acknowledges that the above cost figures are estimates only, and that the undersigned is responsible for its or his share of the actual costs incurred even if such actual costs exceed said estimates.

Interest Owner	Working Interest (%)	Net (DHC) Amount (\$)	Compl. & Equip. (\$)	Approved	Date
The Petroleum Corp.	41.25%	30,525.00	63,937.50		
Mokeen Limited Part.	35.00	25,900.00	54,250.00		
Challenger Minerals	18.75	13,875.00	29,062.50	<i>Ull Co. Gary</i>	6/1/87
Paloma Petroleum	2.50	1,850.00	3,875.00		
Nu Energy	2.50	1,850.00	3,875.00		
<b>TOTAL</b>	<b>100.000%</b>	<b>\$74,000.00</b>	<b>\$155,000.00</b>		

**THE PETROLEUM CORPORATION  
OF DELAWARE**

3131 Turtle Creek Boulevard  
Dallas, Texas 75219-5415

Page 2 of 2

**Detail Estimate of Costs  
AUTHORIZATION FOR EXPENDITURE**

Well Name: **Brushy 12-A Federal No. 1**  
Prospect Name: **Brushy Draw**  
Estimated Total Depth: **3,500 feet**

Date: **May 21, 1987**  
AFE No.: **NM-574**

<u>Item and Description</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Completed Well Cost</u>	<u>Dry Hole Cost</u>
<b>INTANGIBLE DRILLING COSTS:</b>				
Drilling Cost - Rotary Turnkey			\$ 58,000	\$ 58,000
Day Work - Rotary	1 day	4,000	4,000	-
Labor - Company and Contract			-	-
Transportation and Inspection			-	-
Bridges, Roads, Locations, Etc.			2,500	4,500
Rental Equipment			1,500	-
Testing (Drill Stem)			-	-
Well Control Insurance			1,500	1,500
Core Analysis			-	-
Geological and Engineering			1,750	1,750
District and Overhead Expense			4,500	2,300
Miscellaneous and Unforeseen			3,750	3,350
<b>Total Intangible Drilling Costs</b>			<b>\$ 77,500</b>	<b>\$ 71,400</b>
<b>TANGIBLE DRILLING COSTS:</b>				
Casing - 5½" 14# J-55 Used	3,500 feet	3.25	11,375	-
Tubing - 2-7/8" EUE 6.5# J-55 Used	3,500 feet	1.25	4,375	-
Subsurface Equipment			750	450
Well Head Equipment			1,000	550
Miscellaneous			1,500	500
<b>Total Tangible Drilling Costs</b>			<b>\$ 19,000</b>	<b>\$ 1,500</b>
<b>INTANGIBLE COMPLETION COSTS:</b>				
Day Work	5 days	\$ 1,050	\$ 5,250	\$ -
Contract Labor			1,500	-
Engineering Services			-	-
Perforating and Bond Log			2,550	-
Stimulation Treatment			5,600	-
Cement and Cementing			2,200	1,100
Contract Services			-	-
Transportation			600	-
<b>Total Intangible Completion Costs</b>			<b>\$ 17,700</b>	<b>1,100</b>
<b>TANGIBLE INSTALLATION AND LEASE EQUIPMENT COSTS:</b>				
Tanks, Separators, Etc.			\$ 7,500	-
Heater Treater, Flow Line Heater, LTX, Etc.			5,000	-
Lease Lines			750	-
Other Major Expense Pumping Equip. & Rods			23,000	-
Miscellaneous Connections & Contingency			3,000	-
Installation			1,550	-
<b>Total Tangible Installation Cost</b>			<b>\$ 40,800</b>	<b>\$ -</b>
<b>TOTAL AFE COST</b>			<b>\$ 155,000</b>	<b>\$ 74,000</b>

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Page 1 of 2

Date: May 21, 1987

AFE No.: NM-574

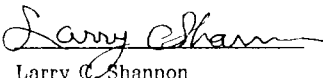
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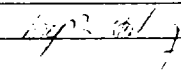
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Ralph P. Watkins	5/21/87	 Larry C. Shannon	May 21, 1987

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<b>TOTAL</b>	<b><u>100.000%</u></b>	<b><u>\$74,000.00</u></b>	<b><u>\$155,000.00</u></b>		

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OF DELAWARE**

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**AUTHORIZATION FOR EXPENDITURE**

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Date: May 21, 1987

AFF No.: NM-574

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<b>Total Tangible Installation Cost</b>			<b>\$ 40,800</b>	<b>\$ -</b>
<b>TOTAL AFF COST</b>			<b>\$ 155,000</b>	<b>\$ 74,000</b>

# *Presidio Oil Company*

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## SUBSIDIARIES:

Peake Operating Company  
Presidio Exploration, Inc.  
The Desana Corporation  
The Petroleum Corp. of Delaware

3131 Turtle Creek Blvd. • Suite 400 • Dallas, Texas 75219-5415 • (214) 528-5898 • Facsimile (214) 528-2160

June 9, 1987

Paloma Petroleums, Inc.  
1150 - Guinness House  
Calgary, Alberta  
Canada T2P 0Z7

Re: Farmout Agreement  
Brushy Draw Prospect  
Eddy County, New Mexico

Gentlemen:

Please refer to the following lands in Eddy County, New Mexico:

Township 26 South - Range 29 Est - N.M.P.M.

Section 12: Southwest Quarter of the Northwest Quarter, (SW/4 NW/4)  
containing 40 acres, more or less.

Such lands are hereinafter referred to as the "Subject Lands".

The Subject Lands are subject to that certain United States of America Oil and Gas Lease No. NM-11039 dated August 1, 1952, in favor of George H. Runkel as the original lessee. Such lease, insofar as it covers the Subject Lands, is hereinafter referred to as the "Subject Lease".

Paloma Petroleums, Inc., hereinafter referred to as "Farmor", is the owner of a 2.500% record title interest in the Subject Lease.

The Petroleum Corporation of Delaware is hereinafter referred to as the "Farmee".

Your interest in the Subject Lease is burdened only by the lessor's royalty and an overriding royalty interest equal to 7.5% (the "Existing Burdens").

The following shall constitute the agreement between Farmor and Farmee concerning the Subject Lease:

1. On or before July 1, 1987, Farmee shall commence, or cause to be commenced, the actual drilling of a well (the "Earning Well") for oil and/or gas at a legal location on the Subject Lands; after such commencement, Farmee shall continue the drilling of the Earning Well with due diligence and in a good and workmanlike manner to a depth which shall be at Farmee's sole discretion. Farmee shall test (as a reasonably prudent operator would test) all formations encountered during drilling of the Earning Well which a reasonably prudent operator would test under the same or similar circumstances.

2. Should the Earning Well be abandoned for any cause prior to completion either as a producer or as a dry hole, Farmee may commence or cause to be

commenced on or before the expiration of ninety (90) days after last operations on the Earning Well, the actual drilling of a substitute well for oil and/or gas at a legal location on the Subject Lands.

The substitute well, if drilled, shall be drilled in the same manner as above provided for the Earning Well. During the drilling, completing, operating, and production of the substitute well, it shall be considered for all purposes hereunder as the Earning Well.

3. During the drilling and completing of the Earning Well, Farmor (or its authorized representatives) shall have free access to the well, including the derrick floor. Farmor shall have free access to any and all information about and records developed or obtained pertaining to such well and the production, if any, therefrom. Farmor, upon request, shall be given copies of any and all written information regarding the Earning Well that is in Farmee's possession, including daily drilling reports, electric logs, mud logs, sidewall core analyses, and any geological information.

4. The Earning Well shall be drilled, tested, completed, equipped, and operated at Farmee's sole cost, expense, risk, and liability incurred in connection with plugging and abandoning such well shall be borne by Farmee.

5. If Farmee shall drill and complete the Earning Well as a well capable of producing oil and/or gas, and furnish to Farmor satisfactory evidence thereof, Farmee shall have earned and shall be the owner of, and Farmor shall convey to Farmee by assignment in recordable form (and with general warranty), all of Farmor's record title interest in respect of the Subject Lease; subject, however, to the reservation by Farmor of an overriding royalty interest equal to 5% of 8/8, convertible, at the option of Farmor, at "Payout" of the Earning Well, to 25% of 100% of the record title interest in the Subject Lease; such overriding royalty interest, and the record title interest to which it may be converted, shall be subject to proportionate reduction in case Farmor does not own 100% of the record title in the Subject Lease; all severance, production, ad valorem, and windfall profit taxes imposed upon such overriding royalty interest shall be borne by Farmor. In the event Farmee drills and completes as a producer more than one well on the Subject Lands, then: (i) "Payout" shall be determined separately with respect to each such well and its proration unit, and (ii) in respect of undeveloped acreage, Farmor shall retain its overriding royalty interest therein.

"Payout" shall be deemed to have occurred at such time as the gross proceeds realized from the sale of all oil and/or gas produced, saved, and sold from the Earning Well, plus the then-current market value of oil and/or gas produced and saved from such well but not sold (i.e., taken in kind or used off the Subject Lands), less, (i) the Existing Burdens, and (ii) the overriding royalty interest reserved by Farmor, are equal to (a) the costs and expenses (both tangible and intangible) incurred in the drilling, testing, reworking, plugging back, completing for production, and equipping of such well (through the lease storage tanks or pipeline connection of the oil purchaser, if an oil well, or pipeline connection of the gas purchaser, if a gas well), (b) the ad valorem, production, severance, and windfall profit taxes imposed on the working interest, and (c) the operating expenses incurred during the payout period.

Farmee shall furnish Farmor, quarterly, a report showing the status of the Payout account. Written notification that Payout has occurred shall be made monthly to Farmor and to the purchasers of production.

If Farmor converts its overriding royalty interest to a record title interest, Farmor and Farmee shall enter into an Operating Agreement naming Farmee as Operator, which shall be in the form and have the contents as set forth in the Exhibit "A" hereto.

6. Upon request, Farmor shall furnish Farmee a copy of all title data in its possession.

7. Notwithstanding anything contained in this letter agreement to the contrary, Farmor agrees that Farmee shall not be liable in damages or otherwise for Farmee's failure, in accordance with this letter agreement, to commence or complete the Earning Well or any additional well or wells, or any substitute therefor.

8. Farmor recognizes that all overriding royalty interests and payments out of production created by this letter agreement are subject to the suspension provision in that certain federal regulation known as 43 C.F.R. Section 3103-3, or in any successor regulation, and which provision applies to excess overriding royalty interests.

9. Farmor consents to Farmee assigning an undivided one-half (1/2) interest in this letter agreement to Mokeen Limited Partnership, subject to the letter agreement. Farmor consents to the designation of The Petroleum Corporation of Delaware as the Operator of all wells drilled under this letter agreement.

10. This letter agreement may be executed in multiple original counterparts, all of which shall be identical and constitute but one and the same instrument, and no one of which need be executed by all parties in order to bind the signatory party.

Please signify your agreement to the above by signing in the appropriate space below and returning to us a fully executed original of this letter agreement.

Yours very truly,

THE PETROLEUM CORPORATION  
OF DELAWARE

By: Larry C. Shannon  
Larry C. Shannon

ACCEPTED AND AGREED TO:

PALOMA PETROLEUMS, INC.

By: \_\_\_\_\_



# HINKLE, COX, EATON, COFFIELD & HENSLEY

ATTORNEYS AT LAW

218 MONTEZUMA

POST OFFICE BOX 2068

SANTA FE, NEW MEXICO 87504-2068

(505) 982-4554

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STUART D. SHANOR  
C. D. MARTIN  
PAUL J. KELLY, JR.  
OWEN M. LOPEZ  
DOUGLAS L. LUNSFORD  
T. CALDER EZZELL, JR.  
WILLIAM B. BURFORD\*  
RICHARD E. OLSON  
RICHARD A. SMITH  
RICHARD R. WILFONG\*  
STEVEN D. ARNOLD  
JAMES W. WECHSLER  
NANCY S. CUSACK  
JEFFREY L. FORNACIARI  
JEFFREY D. HEWETT\*  
JAMES BRUCE  
JERRY F. SHACKELFORD\*  
JEFFREY W. HELLBERG\*

ALBERT L. PITTS  
THOMAS M. HNASKO  
FRED W. SCHWENDIMANN  
THOMAS D. HAINES, JR.  
MICHAEL F. MILLERICK  
FRANKLIN H. MCCALLUM\*  
ALLEN G. HARVEY  
GREGORY J. NIBERT  
DAVID T. MARKETTE\*  
JAMES R. MCADAMS\*  
JAMES M. HUDSON  
MACDONNELL GORDON  
REBECCA J. NICHOLS  
PAUL R. NEWTON  
WILLIAM R. JOHNSON  
KAREN M. RICHARDSON\*  
TIANE L. SOMMER  
JOSEPH J. VASTROGIOVANNI, JR.  
ELLEN S. CASEY  
JAMES C. BROCKMANN  
SUSAN L. NIESER\*

OF COUNSEL  
ROY C. SNOODGRASS, JR.  
O. M. CALHOUN  
MACK EASLEY  
JOE W. WOOD  
STEPHEN L. ELLIOTT

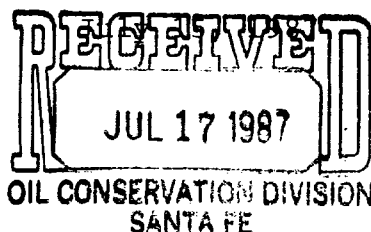
CLARENCE E. HINKLE (1901-1981)  
W. E. BONDURANT, JR. (1913-1973)  
ROBERT A. STONE (1925-1981)

\*NOT LICENSED IN NEW MEXICO

200 CENTURY PLAZA  
POST OFFICE BOX 3580  
MIDLAND, TEXAS 79702  
(915) 683-4691

1700 TEXAS AMERICAN BANK BUILDING  
POST OFFICE BOX 9238  
AMARILLO, TEXAS 79105  
(806) 372-5562

700 UNITED BANK PLAZA  
POST OFFICE BOX 10  
ROSWELL, NEW MEXICO 88201  
(505) 622-6510



*m.s.*

Mr. Michael E. Stogner  
Oil Conservation Division  
Post Office Box 2088  
Santa Fe, New Mexico 87504

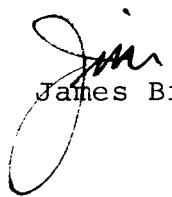
Re: Case No. 9173, Application of  
Presidio Oil Company for compulsory  
pooling, SW $\frac{1}{4}$ NW $\frac{1}{4}$  & S 12, 26S-29E,  
Eddy County.

Dear Mike:

The subject land was previously force pooled by The Petroleum Corporation of Delaware in Case No. 8828, Order No. R-8202. Well charges were \$4500/\$450.

Very truly yours,

HINKLE, COX, EATON,  
COFFIELD & HENSLEY

  
James Bruce

JGB:jrr