



EDWIN L. COX & BERRY R. COX
OIL AND GAS PRODUCERS
DOMINION PLAZA
600 17TH STREET, SUITE 1220 SOUTH
DENVER, COLORADO 80202
(303) 892-0954

May 21, 1986

Larry Lyster
P. O. Box 772176
Steamboat Springs, CO 80477

RE: Exploration Agreement
Tow Creek Unit
Routt County, Colorado

Gentlemen:

It is the purpose of this letter to set forth formal terms and conditions of an Exploration Agreement between Edwin L. Cox & Berry R. Cox, "Cox" and Larry Lyster, "Lyster". Cox represents without warranty of title, either express or implied, that it owns or controls a certain Letter Agreement dated May 31, 1985, as amended by letter dated May 20, 1986 between Benson-Montin-Greer Drilling Corp. and Edwin L. Cox & Berry R. Cox attached hereto as Exhibit "A" and, hereinafter referred to as "Contract Rights". Lyster desires to earn an interest in the Contract Rights from Cox, upon the terms and conditions hereinafter set forth. In consideration of the premises, terms, conditions and covenants herein contained, it is agreed by and between the parties hereto as follows:

1. On or before July 1, 1986, Lyster shall commence actual operations to re-enter the Kingwood Oil #1 State-A Well, NW/4NW/4 Section 31, T6N,R86W, Routt County, Colorado and sidetrack at approximately 4959', drill to a new depth of 6200' or depth sufficient to test the top of Carlile formation whichever is the lesser depth (hereinafter referred to as Contract Depth) and attempt a completion in the Niobrara formation in the sidetrack well bore. Completion attempt shall be defined for the purpose of this Agreement as establishing oil and/or gas production from an open hole in the sidetrack well bore, running and hanging a slotted liner as may be required and setting appropriate production facilities as necessary to produce the sidetrack well. Completion shall not be deemed as requiring the cementing of production casing and attempting an artificial fracture stimulation of the sidetrack well. In the event a commercial flow of oil and/or gas is encountered while drilling prior to reaching 6200', Lyster shall be deemed to have achieved Contract Depth in the well. Said sidetrack well shall be drilled, tested and completed at Lyster's sole cost, risk and expense all within 90 days after commencement of actual drilling operations.

2. If in the drilling of the sidetrack well provided for under the terms of this Agreement, mechanical difficulties arise, or practically impenetrable substances are encountered, which render further drilling impossible or impracticable prior to reaching Contract Depth or at any time thereafter subject, however, to the provisions of Article 4 described below, Lyster may abandon the sidetrack well bore and attempt a substitute sidetrack well, in place of the abandoned well. Any substitute sidetrack well bore so commenced shall be drilled to the same depth and in the same manner as the well, the drilling of which was abandoned. The drilling and completion of any substitute sidetrack well bore shall have the same effect hereunder as would drilling and completing of the well which was previously abandoned.
3. During the drilling of any sidetrack well provided for herein, Lyster agrees to comply with all the terms and conditions of the Exhibit "B" Drilling Requirements, attached hereto, to assume all obligations contained therein and to furnish complete information as indicated to Cox.
4. Upon reaching Contract Depth in the sidetrack well, after compliance with the Exhibit "B" Drilling Requirements and after attempting a completion from the sidetrack well, if Lyster then determines that it does not desire to continue with further operations on the sidetrack well, Lyster shall within 48 hours so notify Cox of its election to discontinue further operations. Cox shall have 48 hours following receipt of such notice to elect to take over operations on the sidetrack well. Should Cox elect not to takeover operations, Lyster shall be obligated for the eventual plugging and abandoning of the sidetrack well bore provided, however, Lyster shall not conduct any plugging operation without the prior written consent of Cox. Should Cox elect to takeover the sidetrack well, they may do so by assuming the cost, risk and expense of all further operations attributed thereto, including eventual plugging and abandonment and compensating Lyster for the reasonable salvage value of the material and equipment in the sidetrack well, less the cost of removing and recovering same. If Cox elects to takeover said well, Lyster shall bear all expenses, including rig stand-by time, up to the time of receipt of Cox's notice of such election within the 48 hour period. Upon takeover by Cox, Lyster shall have no further rights or interest in or to the sidetrack well, its equipment or material and production therefrom, and shall reconvey any interest previously acquired pursuant hereto.

5. In the event the sidetrack well is timely commenced and thereafter drilled to the Contract Depth in the manner provided herein, and Lyster otherwise complies with the stipulations hereof, and the sidetrack well is completed as producing or capable of producing oil and/or gas in paying quantities as defined pursuant to terms of the Tow Creek Unit Agreement described under Article 7 to this Agreement, then Cox shall assign to Lyster, upon receipt of Assignment from Benson-Montin-Greer Drilling Corp. pursuant to terms of the Exhibit "A" Letter Agreement, 100% of the interest in and to all production and/or all revenues attributable to said production, and all casing and other personal property, fixtures and equipment associated with or located in or on the Kingwood Oil #1 State-A sidetrack well, subject to prior royalty and overriding royalty reservations totaling 25.75% of 8/8ths. It is Cox's intent under this paragraph to assign Lyster a 74.25% net revenue interest in and to the production, revenues and equipment attributable to the sidetrack well bore only. Cox expressly reserves from the assignment any and all production, revenues and equipment which may be currently in existence or associated with the original Kingwood Oil #1 State-A well bore. In addition, Cox shall be obligated for assignments of interest to Lyster only insofar as Cox has been deemed to earn under terms of the May 31, 1985 Letter Agreement, as amended May 20, 1986 from Benson-Montin-Greer Drilling Corp.
6. Upon recovery of 200% of Lyster's cost of drilling, testing, completing, equipping and operating the sidetrack well, Lyster shall re-convey to Cox a 25% operating rights interest and a 18.5625% revenue interest in and to the production, revenues and equipment associated with or allocated to the sidetrack well.
7. It is expressly understood and agreed that all terms and conditions of this Agreement are subject to the following described prior Agreements
 - a. Unit Agreement dated April 1, 1979 for the development and operation of the Tow Creek Unit Area, Routt County, Colorado.
 - b. Unit Operating Agreement dated April 1, 1979, Tow Creek Unit Area, Routt County, Colorado.

7. Continued.....

- c. Letter Agreement dated May 31, 1985 between Benson-Montin-Greer Drilling Corp. and Edwin L. Cox & Berry R. Cox, as amended by Letter dated May 20, 1986.
 - d. Assignment of Overriding Royalty Interest to be assigned to James E. Anderson, equal to .75% of 8/8ths.
8. No assignment of the Agreement, in whole or in part, nor any rights hereunder, shall be made by Lyster unless Cox's consent thereto is first obtained in writing.
9. Lyster shall and does hereby indemnify and hold harmless Cox and its working interest participants and their respective directors, officers, employees and agents from and against any and all claims, demands, damages, losses, liabilities, suits and expenses (including attorney fees, court costs and other expenses of litigation) whether groundless or not, judgments and awards for bodily injury, sickness, disease or death and/or for damage to or destruction of property suffered or sustained by Lyster or Cox or their respective employees, or any and all third parties in any way arising out of, resulting from or relating to the willful or negligent acts or omissions of Lyster or Lyster's employees, agents, representatives or subcontractors in the performance of work or services under the agreement; and if requested by Cox, Lyster shall at its sole cost and expense defend Cox and its working interest participants from and against any and all such claims, demands, damages, losses and liabilities.
10. In the event Lyster shall fail to drill the sidetrack well to the depth in the manner and within the time specified herein, this Agreement in its entirety shall terminate and any interest which Lyster otherwise might have or be entitled to earn in or on the Contract Rights shall terminate and revert to Cox. Such automatic termination shall not operate to relieve Lyster from the obligations and liabilities incurred hereunder by Lyster and its successors or assigns prior to termination. The foregoing shall not be construed to preclude or limit any rights Cox may have, in law or in equity, by virtue of Lyster's negligence or willful misconduct, or for any breach by Lyster of any obligation under this Agreement.

Larry Lyster
May 21, 1986
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11. This Agreement shall be subject to a more formal contract, incorporating the terms herein and subject to Cox's final management approval.
12. Should Lyster encounter delays in the drilling and completion of the sidetrack well provided for herein, due to mechanical or operating difficulties, Cox agrees to grant Lyster reasonable extensions of time to conform to the commitments described in this Agreement insofar as Cox has flexibility to do so under terms of the Exhibit "A" Letter Agreement.

If this Agreement shall not be duly executed by Lyster and returned to Cox on or before June 1, 1986, then and thereupon, at Cox's option, this Agreement shall be null and void. Provided the foregoing is acceptable, please execute and return one copy of the Agreement to the undersigned.

Sincerely,

EDWIN L. COX & BERRY R. COX

By: 

Craig Ambler
Division Land Manager

CA/jd

Enclosure

AGREED TO AND ACCEPTED THIS 29th day of May, 1986.

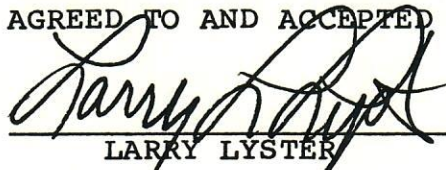

LARRY LYSTER

EXHIBIT "A"

Attached to and made a part of that certain
Exploration Agreement dated May 21, 1986
between Edwin L. Cox & Berry R. Cox and
Larry Lyster.

BENSON-MONTIN-GREER DRILLING CORP.

221 PETROLEUM CENTER BUILDING, FARMINGTON, NM. 87401 505-325-8874

May 31, 1985

Edwin L. Cox & Berry R. Cox
2800 Great-West Life Tower
1675 Broadway
Denver, CO 80202

Gentlemen:

This letter will evidence the agreement between Benson-Montin-Greer Drilling Corp. (B-M-G) and Edwin L. Cox & Berry R. Cox (Cox) whereby Cox is granted an option to drill wells and earn interests in oil and gas leases held by B-M-G under the lands described in Exhibits A and B attached hereto, subject to the following terms and conditions:

1. B-M-G represents that owners of 87-1/2% of the operating rights of the subject leases are covered by the terms of this agreement. Marathon Oil Company owns a 12-1/2% interest and no representation is made as to Marathon's position.

2. Option lands: As used in this agreement "option lands" means lands in Exhibits A and B to which Cox has an option to drill wells as described herein. If any lands are once excluded from these option lands, they will not be considered part of this agreement.

3. On or before July 1, 1985, Cox will advise B-M-G if it exercises its option to drill a test well on the option lands. Should Cox fail to advise B-M-G by July 1, 1985 that Cox will firmly agree to drill a well on the option lands, then this agreement will be of no force or effect.

4. Having agreed to drill a test well as described in item 3 above, Cox will commence the well on or before September 15, 1985; or having failed to commence the well by September 15, this agreement will be of no further force nor effect; and Cox will have no interest in any of the option lands and will pay B-M-G \$100,000.00 as liquidated damages.

5. Should Cox timely drill the test well to the Niobrara formation, then upon completion of the well as a producer, Cox will have earned interests in and be entitled to an assignment of operating rights in oil and gas leases down to the depth of 100 feet above the top of the Dakota formation to the larger of the following described areas:

BENSON-MONTIN-GREER DRILLING CORP.

Edwin L. Cox & Berry R. Cox

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May 31, 1985

- a. the approximately 640 acre section on which the well is located, or
- b. the amount of acreage included in, or added to, the participating area in accordance with the terms of the Tow Creek Unit Agreement.

6. Having timely drilled the first option well, Cox is granted the further option to drill a second well on the option lands by advising B-M-G on or before November 1, 1985 that Cox will firmly agree to drill this second well on the option lands. This second option well shall be located on Exhibit B lands if the first well is on Exhibit A lands, or vice versa.

7. Failing to advise B-M-G by November 1, 1985, to drill as described in 6 above, the undrilled lands (Exhibit B if the first well was on Exhibit A lands, or vice versa) will be dropped from the option lands.

8. If, however, Cox advises B-M-G by November 1, 1985 that it will firmly agree to drill a second test well on the option lands; then should Cox fail to commence actual drilling of this second well thereon by January 1, 1986, then Cox will have no further interest in lands of the exhibit on which the initial well was to be located and will pay B-M-G liquidated damages in the amount of \$100,000.00.

9. Should Cox timely drill this second test well, Cox will have earned interests and be entitled to assignment of rights as in 5 above.

10. Having timely drilled the first option well, Cox is then granted additional options to commence the actual drilling of a subsequent well by June 1 and a further subsequent well by October 1 of any succeeding year and earn acreage by the drilling of each well as described above until all of the lands are included in a participating area or until Cox elects not to continue drilling. In any one year, upon failing to commence a new well on or before June 1 or commence the drilling of a second well by October 1 of the same year, then Cox shall have no further rights nor interests in any of the lands not previously earned.

11. On all assignments made from B-M-G to Cox, B-M-G will reserve an overriding royalty in the amount of 12-1/2% of 8/8ths (proportionately reduced), absorbing existing overriding royalties. The assignments will be without warranty of title except by, through and under B-M-G.

12. Cox is granted an additional option to purchase from

BENSON-MONTIN-GREER DRILLING CORP.

Edwin L. Cox & Berry R. Cox

Page No. 3
May 31, 1985

B-M-G the 13-11 well located in Section 11, Township 5 North, Range 87 West at any time prior to December, 1988 at a purchase price determined by a mutually agreed to appraiser. This sale shall include the well, equipment and a 75% net revenue interest in the production and in the leases under the following described lands:

Township 5 North, Range 87 West

Section 10: E/2 SE/4

Section 11: SW/4

Section 14: N/2 NE/4

Section 15: NE/4 NE/4

If this well should become non-commercial before Cox has exercised its option to purchase, this acreage will be added to and considered part of the Exhibit B leases.

13. All of the leases are subject to the Tow Creek Unit Agreement and Unit Operating Agreement and this agreement, and any assignments of lease interest rights to Cox will be subject to these agreements.

14. Should Cox encounter delays due to permitting, access or weather conditions relative to the drilling of any well provided for herein, B-M-G agrees to grant Cox reasonable extensions of time to conform to the drilling obligations or commitments described in this agreement.

15. B-M-G will pay rentals until such time as assignments are made to Cox. Cox will reimburse B-M-G for all rentals coming due for option lands during the term of this agreement. The date of "rentals coming due" shall mean sixty (60) days prior to lease anniversary date.

Yours truly,

BENSON-MONTIN-GREER DRILLING CORP.

BY:


Albert R. Greer, President

ARG/tlp

AGREED TO AND ACCEPTED:

EDWIN L. COX & BERRY R. COX

BY: 

AMENDED EXHIBIT B (AMENDED JULY 17, 1985)

TO

LETTER AGREEMENT DATED MAY 31, 1985

BETWEEN

EDWIN L. COX & BERRY R. COX

AND

BENSON-MONTIN-GREER DRILLING CORP.

Township 5 North, Range 87 West

Section 3: All

Section 10: W/2, W/2 E/2, E/2 NE/4

Section 11: SE/4

Section 12: S/2

Section 13: All

Section 14: S/2 NW/4, SW/4, E/2

Section 15: W/2, SE/4, W/2 NE/4, SE/4 NE/4

Township 5 North, Range 86 West

Section 7: S/2

Section 18: All

EXHIBIT B
TO
LETTER AGREEMENT DATED MAY 31, 1985
BETWEEN
EDWIN L. COX & BERRY R. COX
AND
BENSON-MONTIN-GREER DRILLING CORP.

Township 5 North, Range 87 West

Section 3: All

Section 10: W/2, W/2 E/2, E/2 NE/4

Section 11: SE/4

Section 12: S/2

Section 13: All

Section 14: W/2, S/2 NE/4, SE/4

Section 15: W/2, SE/4, W/2 NE/4, SE/4 NE/4

Township 5 North, Range 86 West

Section 7: S/2

Section 18: All

BENSON-MONTIN-GREER DRILLING CORP.

221 PETROLEUM CENTER BUILDING, FARMINGTON, NM. 87401 505-325-8874

July 2, 1985

JUL 8 1985

Edwin L. Cox & Berry R. Cox
2800 Great-West Life Tower
1675 Broadway
Denver, CO 80202

Re: TOW CREEK UNIT ACREAGE:
LETTER OF MAY 31, 1985:
CONFIRMATION OF 100% WORKING INTEREST
COMMITTED IN LANDS OUTSIDE OF THE
PARTICIPATING AREA

Gentlemen:

We refer to our letter of May 31, 1985 covering lands in the Tow Creek Unit. In that letter, we stated that Marathon owned a 12-1/2% interest in these lands. This was a mistake: Marathon's interest is limited to the participating area.

When we made a trade with Rio Colorado last year, I recalled that Marathon had withdrawn from certain of the acreage; but I had forgotten that they had withdrawn from all of the acreage except that within the participating area.


Accordingly we now advise that your option and interest under the May 31, 1985 letter covers 100% of the working interest in all of the lands except that in the participating area; and it covers 87-1/2% of the lands within the participating area.

By copy of this letter to Marathon, we are advising them of our earlier mistake.

Yours truly,

BENSON-MONTIN-GREER DRILLING CORP.

BY:


Albert R. Greer, President

ARG/tlp

cc: Marathon Oil Company
P.O. Box 120
Casper, WY 82602
Attention: Jim Phillips

EDWIN L. COX & BERRY R. COX

OIL AND GAS PRODUCERS

DOMINION PLAZA

600 17TH STREET, SUITE 1220 SOUTH

DENVER, COLORADO 80202

May 20, 1986

(303) 892-0954

Benson-Montin-Greer Drilling Corp.
221 Petroleum Center Building
Farmington, New Mexico 87401

Attn: Mr. Albert R. Greer

RE: Tow Creek Farmout
Routt County, Colorado

Dear Mr. Greer,

Confirming our conversation of May 16, 1986, Edwin L. Cox & Berry R. Cox have been working to secure a partner to join in drilling the proposed SW/4SW/4 Section 12, T5N, R87W Niobrara test. Due to the severe industry downturn, it now appears that funds will not immediately be available to facilitate with Cox's July 1, 1986 obligation spud date. Cox therefore proposes to amend certain provisions of our May 31, 1985 Farmout Agreement which will give Cox flexibility on drilling and provide Benson-Montin-Greer with further evaluation of the Tow Creek Unit. Cox proposes the following:

1. In order to satisfy the State of Colorado under terms of the Tow Creek Unit Agreement for drilling a well in 1986 on the Tow Creek Unit, Cox or its assign will attempt to re-enter the Kingwood Oil #1 State-A well, NW/4NW/4 Section 31, T6N, R86W and sidetrack at approximately 4959', drill to a new TD of 6200' or depth sufficient to penetrate the top of the Carlile formation, whichever is the lesser depth, and attempt a completion in the Niobrara formation from the sidetrack well bore. Operations for re-entry shall commence on or before August 15, 1986.
2. In consideration for a re-entry attempt, Benson-Montin-Greer will waive the \$100,000 liquidated damages provided for under Article 8 of the B-M-G and Cox Letter Agreement dated May 31, 1985 in association with drilling a second option well on the Exhibit B option lands.
3. Should Cox or its assign timely commence the re-entry operations as provided in Paragraph 1 above, Cox will be deemed to be in full compliance with all terms and conditions of the May 31, 1985 Agreement and shall have earned interests as provided for under the terms thereof, provided, however Cox shall not incur the obligation to commence any subsequent drilling under the Agreement until January 5, 1987.

4. On or before January 5, 1987, Cox shall notify B-M-G of its election to continue subsequent drilling operations under terms of Article 10 to the May 31, 1985 Agreement. Should Cox elect to discontinue with further drilling on January 5, 1987, then Cox shall have no further rights nor interests in any of the Option lands not previously earned. In the event Cox elects to conduct additional drilling, Cox shall be required to commence a new well on or before July 1, 1987 and commence the drilling of a second well by October 1, 1987 and continue drilling of a well by July 1 and October 1 of any succeeding year and earn acreage by the drilling of each well as described in the May 31, 1985 Agreement until all of the Exhibit A & B option lands of the Agreement are included in a Participating Area or until Cox elects not to continue drilling. In any one year, upon failing to commence a new well on or before July 1 or commence the drilling of a second well by October 1 of the same year, then Cox shall have no further rights or interests in any of the lands not previously earned.
5. B-M-G hereby ratifies and confirms that the May 31, 1985 Farmout Agreement is in full force and effect, as amended by the terms of this letter.

Provided B-M-G concurs with granting the above described amendments, please designate below and return one copy of this letter to the undersigned.

Sincerely,

EDWIN L. COX & BERRY R. COX

By: 

Craig Ambler
Division Land Manager

CA/jd

AGREED TO AND ACCEPTED this _____ day of _____, 1986.

BENSON-MONTIN-GREER DRILLING CORP.

By: _____

Albert R. Greer, President

EXHIBIT "B"

Attached to and made a part of that certain
Exploration Agreement dated May 21, 1986
between Edwin L. Cox & Berry R. Cox, (COX)
and Larry Lyster (LYSTER)

DRILLING REQUIREMENTS

1. Notify COX when drilling operations are commenced, furnish a well prognosis and furnish a copy of the location plat as prepared by a licensed surveyor.
2. Employ a competent geologist to be present during the drilling of the well and during such times as coring and testing of any formation is being conducted, who will maintain a written sample description, two copies of which will be furnished to COX at the completion of the well.
3. Maintain an accurate record of the drilling time and furnish FARMOR with two copies of ten (10) foot interval drilling time from 4,959' to total depth.
4. Furnish COX with daily reports by telephone and in writing of the previous day's operations as to the thickness, character and kind of formation or formations penetrated, core descriptions, DST data, sample or log formation tops and the depth at which the report is made; report predicted depths for specific formation tops to be encountered during the next 24 hours.
5. Take one set of ditch samples at ten (10) foot intervals from 4959' to total depth to be sent to American Stratigraphic Company, 6280 East 39th Avenue, Denver, Colorado 80207, and filed at LYSTER's expense. Samples are to be available to COX at the well site at all times.
6. Notify COX twenty-four (24) hours in advance when coring or testing is anticipated, so that COX may have a representative present to witness the coring or testing of any formation. In the event COX elects to not have a representative witness the coring or testing of a particular formation, provide a detailed description of the core or test by telephone as early as practical after the completion of the core or test.
7. Adequately test all formations encountered which, on the basis of geological data, would be tested by a prudent operator.

Exhibit "B"

8. Upon completion of the well, furnish COX two copies of each DST report. At COX's request, collect and have analyzed any fluid recovered on DST's by a competent laboratory. Two copies of the analysis report to be furnished to COX.
9. At COX's request, furnish a representative cut of one foot intervals of recovered cores (if any).
10. Have any core (having a show of oil and/or gas, or any specific core requested by COX) analyzed by a competent core analysis laboratory and have such laboratory send two copies of the core analysis report to COX.
11. Make a deflection survey at appropriate intervals and furnish COX with a report of such survey on the daily drilling report.
12. Logging Program:

TYPE OF LOG

INTERVAL TO BE LOGGED

Dual Induction w/Gamma Ray
Dipmeter w/directional

Top side track to T.D.
Top side track to T.D.

13. Upon completion of the well and within twenty-four (24) hours thereof, furnish COX with two (2) field prints of all logs and other surveys run; upon completion of the final prints, deliver to COX two (2) prints and one reproducible folded sepi.
14. Permit COX, at their sole cost, risk and expense (including full rig time), to make such additional survey as it may desire.
15. Furnish COX with two (2) copies of the final well completion report and history which shall include all geological and mechanical data pertaining to the well.
16. Make available to COX any additional geological or engineering information or data not required above, but which is obtained as a result of drilling the well.