REPRESENTATIVE "FIRST PASS" DUE DILIGENCE OPINION LETTER

Re: First Pass Review and Recommendation -
Newco Energy Inc. Acquisition of Producing and Undeveloped Properties in the Unita and Piceance Basins, and Coalbed Methane Interests in the Raton Basin;

Dear John;

I have completed a preliminary review of the Newco Energy, Inc. submittal, and believe it merits further in-depth review by ABC Capital Management. My initial impressions are based on review of the private placement memorandum for the Series A Convertible preferred Stock ($64 MM issue); my personal knowledge of the oil and gas plays that Newco is pursuing; a quick literature review in my library here in New Canaan; and some initial due diligence calls among Denver contacts on the reputation of the XXXX Company, the predecessor of Newco.

Newco will use the proceeds of the $64 MM private placement to close on the $50MM purchase of the Oilco producing oil and gas interests and undeveloped leasehold in the Uinta Basin in Utah, and the $14 Million purchase of the XXXX Company equity. XXXX's properties are primarily tight gas in the Piceance Basin in Colorado and coalbed methane in the Raton Basin in Colorado and Ferron Play in Utah. Oilco will own a significant interest in the new company, will have board representation, and will enter into crude oil purchase agreements with Newco. A company in which Oilco has a significant equity interest will purchase gas produced by Newco.

The transaction involves the purchase of 7.3 MMBO and 32 BCF proven producing reserves; 11.9 MMBO and 90 BCF proved undeveloped reserves (PUD's); 11.5 MMBO and 74 BCF probable reserves; and 7.2 and 166 BCF possible reserves. In June, 1995, the properties produced 2,636 barrels oil and 8.9 million cubic feet of natural gas per day. I have not yet analyzed the acquisition price by reserve categories, but on the basis of a back of the envelope mental calculation, believe the PUD's and unproved reserves are being acquired at a steep discount. I also suspect, but have not confirmed, that Newco may have made the deal with Chevron when oil prices were much lower than they are presently.

The most attractive aspect of the transaction is the potential for some 618 development drilling locations within low risk regional stratigraphic oil and gas plays. Ryder Scott has done the engineering, and has determined that there are very significant probable and possible oil and gas reserves. Moving these reserves to the "proved" classification is essentially a "manufacturing" process. The Oilco oil properties in the Uinta Basin that produce from the Green River Formation have a very low primary oil recovery of about 5%. Water-flooding recovers an additional 15-33%. With tertiary recovery methods and increased density drilling at as little as 5 acres per well, ultimate recovery of as much as 60% of the original oil in place (OOIP) might be achieved. The Green River Play is similar to heavy oil, in that the reserve life is very long (20+ years) and with technology and experience, reserves keep growing over time as the recovery rate is increased.

My initial impression about the management of Newco based on the placement memorandum biographies was luke warm, as there appeared to be no real "stars" listed. However, the feedback we have gotten about the company from Denver based contacts is very positive. The XXXX Company and its current management have excellent professional reputations based on our initial due diligence. Ammonite's Denver based consultant, David Abbott, formerly the geologist for the Securities and Exchange Commission, knew the late XXXX personally. Roger BBBB, EVP of Newco, was described to us as "a top water flood guy" at Mobil Oil, his former employer. Another source advised us that the acquisition of the Oilco properties is "strategically a heck of a deal", and that CEO ***** had been "trying to put the deal together for years."

The crude oil produced from the Oilco properties is a dark waxy product with a low pour point. It is a high quality crude, but it must be transported via heated pipelines and trucks, and accordingly sells at a discount to WTI. The principal risk in the Newco transaction is the ability to sell the "black wax" crude to refineries in Salt Lake, and the commodity price. Some of this risk is mitigated by the Oilco commitment to purchase crude. Canadian heavy oil is the major competition now in the Salt Lake refinery market. There is also naturally a risk that the waterfloods might not be effective due to the complex stratigraphy of the Green River Formation.

The positive aspects of the transaction appear to be:

1) Large undeveloped, low risk oil and gas reserve base with high development success rate.
2) Long reserve life
3) Likelihood of significantly increasing reserves through technology and development
4) Good balance between oil and gas
5) Market risks mitigated by Oilco involvement and contracts
6) Ryder Scott reserve reports
7) Capable management
8) Company has strong balance sheet

Here are the due diligence issues:

1) What is the fair market value of the Oilco and XXXX assets coming into the transaction? The PPM does not break out the Oilco and XXXX interests. What production infrastructure is coming with the Oilco purchase? Does it include processing facilities, gathering system and pipelines?
2.) How "good" are the PUD's and unproved reserves? How realistic is drilling plan of Newco?
3) How good is the geological model for the waterfloods in the Uinta Basin, gas in the Piceance, and coalbed methane properties? These are stratigraphic plays - the geology has to be competent.
4) How likely is successful development of the probable, possible and potential Wasatch Formation gas reserves below the Oilco oil production?
5) The Oilco properties are old - has Oilco already "squeezed the sponge"? What did they do to enhance production already? I would like to interview Oilco staff, some of whom will continue working for Newco.
6) Need to take apart Newco's escalated case cash flow projections; understand assumptions, run

unescalated and downside commodity price case.
7) Need to understand crude and gas markets; historic price differential between WTI and Uinta black wax crudes; analyze Oilco purchase contracts; understand transportation agreements,
8) Need to review with Newco their operating cost assumptions, and how they intend to reduce Oilco lifting costs.
9) Need to field check properties to determine general condition of production infrastructure, and whether there are any obvious potential environmental liabilities at old field facilities.
10) Two other "new" companies have been active in the Uinta Basin Green River Formation oil play, with large water flood development projects. These are Petroglyph Energy (a private company backed by Natural Gas Partners), and Inland Resources, a public company. The business models and track record for these companies should be examined. Inland Resources stock has crashed, but I believe this was due to a large debt load in the face of declining commodity prices. Inland Resources acquired a refinery in Salt Lake City to make sure it had a market for its black wax crude - Newco could do the same down the road.
11) Permitting and Title work has been a bureaucratic nightmare in the Uinta Basin. Need to get a read on this and how it might impact Newco's ambitious development plans.
12) Need to complete due diligence on XXXX management and their track records in creating value.

John, I think this submittal has a lot of upside potential with limited downside risk - apart from commodity price. If you decide to pursue the Newco opportunity further, I would propose that Dr. Richard Moore, my Rocky Mountain expert, and I spend some time with Newco. Ammonite’s Chief Petroleum Engineer Bob Winkler should also be involved in the engineering due diligence. I look forward to your reply.

Yours very sincerely,

G. Warfield Hobbs