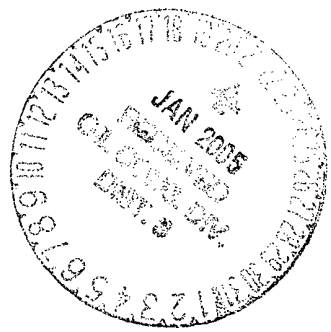
M & G DRILLING COMPANY
c/o Mike Pippin LLC
3104 N. Sullivan
Farmington, NM 87401
mpippin@ddbroadband.net
(505) 327-4573
1/20/05



Mr. Charlie Perrin
Acting District Supervisor
New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, New Mexico 87410

Re: **Request for an Exemption to NMOCD Rule #107**
For Kutz Farmington Gas Pool (79600)

API 30-045-32487

Dear Mr. Perrin,

M & G Drilling Company requests an exemption to NMOCD Rule #107 for the Kutz Farmington Gas Pool (79600) to allow for an "External Casing Packer (ECP) Completion". This will eliminate any cement contact to the Farmington Gas Interval and the necessity to pinpoint the exact location of gas entry. Exhibit #1 indicates how we would bring cement up to a point just below the Kutz Farmington gas zone, and by placing an ECP and DV Tool just above the Kutz Farmington gas zone, circulate cement to surface. This will be in the best interest of conservation and the most efficient recovery of the natural resource.

Production history from the Kutz Farmington Pool indicates that it is a very high risk reservoir. I believe that the natural resource from the Kutz Farmington has been wasted in the past due to cement damage and the inability to accurately find the Farmington interval.

Exhibit #2 shows the Kutz Farmington gas wells in the vicinity of the M & G Drilling Program. The Kutz Farmington zone in all of these wells was identified by gas to surface while drilling to a deeper prospective interval. After the gas was observed, plans were changed to include the Kutz Farmington along with the main prospective interval. In every case, the Kutz Farmington was cased, cemented (as per Rule #107), perfed, and completed either natural or with a frac stimulation. The cumulatives listed on Exhibit #2 indicate that six of the eight Farmington wells were very poor wells, while 2 wells were marginal.

On 12/10/04, a strong gas flow was experienced by M & G Drilling Company while drilling the Schlosser 34 #102 FRTC (F 34 28 11). The gas unloaded all the drilling fluid to the pit and had a strong gas flow. The gas interval was not indicated on the logs, so (after securing the necessary "change of plans" sundry and commingle application from the governments) the Kutz Farmington was perfed from an indicated drilling break from the drilling rig's geolograph. A choke gauge of only 184 MCF/D was recorded, but later died. In two subsequent wells in the area, Farmington gas was encountered, but logs (including open hole, cased hole, and the geolograph) were inconclusive as to the exact location of the gas entry.

I believe these resulting poor wells are due to irreversible damage to the Kutz Farmington by cement. Another problem is the inability of logs to accurately locate the Kutz Farmington intervals. Well histories indicate that frac stimulations have also been unsuccessful in restoring Farmington gas flows. This proposal will eliminate cement contact with the Farmington interval and the necessity to pinpoint the exact location of the gas entry.

Exception for 8 wells only

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Exhibit #3 indicates that M & G Drilling Company will be drilling eight more wells in the vicinity of the Kutz Farmington Pool in our current drilling program. Exhibit #4 is a map showing the existing Kutz Farmington wells, the three M & G Drilling Company wells that had good Farmington gas blows but are already cased and cemented, and the eight additional wells we will be drilling during this program. I believe our recommended "External Casing Packer (ECP) Completion" gives us the best chance to eliminate waste of the natural resource.

An alternative to this proposal would be to drill two wells. The Farmington well would be completed open hole with and ECP just above the Farmington producing interval. The second well would be conventionally cased and cemented, then perfed, and fraced in the PC or FRTC. The approval of this request will eliminate the need for two wells, two pipelines, two well pads and redundant surface equipment.

Open hole logs will be run in order to more accurately calculate the volume of the first cement stage. To insure isolation between the Ojo Alamo, Kirtland, and the Fruitland, the cement top in the first cement stage will be at least 50 feet above the top of the Fruitland. The DV Tool for the second cement stage will be at least 50 feet below the top of the Kirtland. See Exhibit #1. Subsequently, a CBL will be run to verify the cement above and below the prospective Kutz Farmington producing interval.

Granting this request will result in the most efficient production of hydrocarbons from the Kutz Farmington reservoir and will be in the best interest of conservation and the prevention of waste.

Sincerely,

Mike Pippin
Agent - Petroleum Engineer

Attachment: 4

This Approval for Attached eight (8) wells only, not a Rule Exemption from Kutz Farmington Gas Pool

3-14-2005

30-045-32487
30-045-32481
30-045-32581
30-045-32489
30-045-32496
30-045-32485
30-045-32494

KRAUSE 22B FRTC APD not Received from BLM/tkb

KRAUSE #11s FARM/PC

1/20/05

Kutz Farmington & Kutz PC West

(I) Section 28, T-28-N, R-11-W, San Juan County, NM

M. Pippin

Today's Date: 1/4/05
Spud: 12/29/04
Completed: N/A
Elevation: 5890' GL
5' KB

12-1/4" hole

8-5/8" 23# LS x-42 @ 207'
Cmt w/218 cf (Circ.8 bbls Cmt)

Ojo Alamo @ 642'

Kirtland @ 752'

Cement

DV Tool @ ~945'
2nd Stg cmt with 1190cf
Circ. 40 bbls cmt to surface.

External Casing Packer (ECP) set
@ ~950'

Farmington Gas Flow
@ 1600 MCF/D

Therefore, **No Cmt from 945'-1150'**

TOC @ 1150'
Verified by DBL

Cement

Fruitland @ 1480'

Pictured Cliffs @ 1768'

Pictured Cliffs Perfs @ 1772'-1817'
fraced w/120,000# sand in 70Q foam

PBTD ~1910'

7-7/8" hole

TD ~1950'

4-1/2" 10.5# K-55 Csg @ ~1950'
1st Stg cmt with 235 cf calc. for
TOC @ 1150'

* Cement volumes will be calculated using open hole logs.

Exhibit #1

M & G DRILLING COMPANY
CURRENT KUTZ FARMINGTON WELLS
KUTZ DRILLING PROGRAM – T28N R11W

1/20/05

WELL	LOCATION	COMPLETION DATE	ISICP	CUMULATIVE (MMCF)	COMPLETION	OPERATOR	CURRENT STATUS
Phillips #27	N 22 28 11	7/59	360	199	Perf - Natural	R & G	P&A '79
Schlosser #66	D 27 28 11	10/78	210	366	Perf - Natural	M & G	20 mcf/d
Phillips #67	N 22 28 11	3/83	350	4	Perf & Frac w/37k# foam	M & G	P&A '97
Krause #11	K 28 28 11	10/55	490	37	Perf - Natural	M & G	Plugged '97
Krause #11A	K 28 28 11	6/79	325	24	Perf & Frac w/36k# foam	M & G	8 mcf/d
Krause #64	P 29 28 11	9/78	400	8	Perf & Frac w/20k# water	M & G	P&A '97
Schlosser #17	H 27 28 11	12/55	500	35	Perf - Natural	R & G	P&A '83
Ohio C Gov't #4	J 26 28 11	1977	n/a	8	Perf w/25k# Sand	XTO	30 mcf/d

Total 681 MMCF

Average 85 MMCF

Exhibit #2

M & G DRILLING COMPANY
POSSIBLE KUTZ FARMINGTON WELLS
KUTZ DRILLING PROGRAM – T28N R11W

1/20/05

LOCATION	WELL NAME	DRILLING COMPLETE?	FARM. GAS SHOW?	MUST PERF TO COMMINGLE	ECP COMPLETION PROSPECTIVE**
I 28 28 11	KRAUSE #11S PC	YES	YES	YES	NO
P 27 28 11	SCHLOSSER 27 #104 PC	YES	YES	YES	NO
H 34 28 11	SCHLOSSER 34 #100S PC	NO			YES
E 10 27 11	SCHLOSSER #20S FTC	NO			YES
E 3 27 11	SCHLOSSER 3 #101 FTC	NO			YES
J 34 28 11	SCHLOSSER 34 #100 PC	NO			YES
F 34 28 11	SCHLOSSER 34 #102 FTC	YES	YES	YES	NO
G 3 27 11	SCHLOSSER 3 #101S FTC	NO			YES
L 34 28 11	SCHLOSSER 34 #102S FTC	NO			YES
H 33 28 11	KRAUSE 33 #103 FTC	NO			YES
A 32 28 11	KRAUSE #22S FRTC	NO			YES

** The ECP Completion Technique will only be attempted if the Farmington has a gas show during drilling operations.

Exhibit #3

M & G DRILLING COMPANY
Kutz Farmington Wells
Kutz Drilling Program – T28N R11W

Mike Pippin 1/20/05

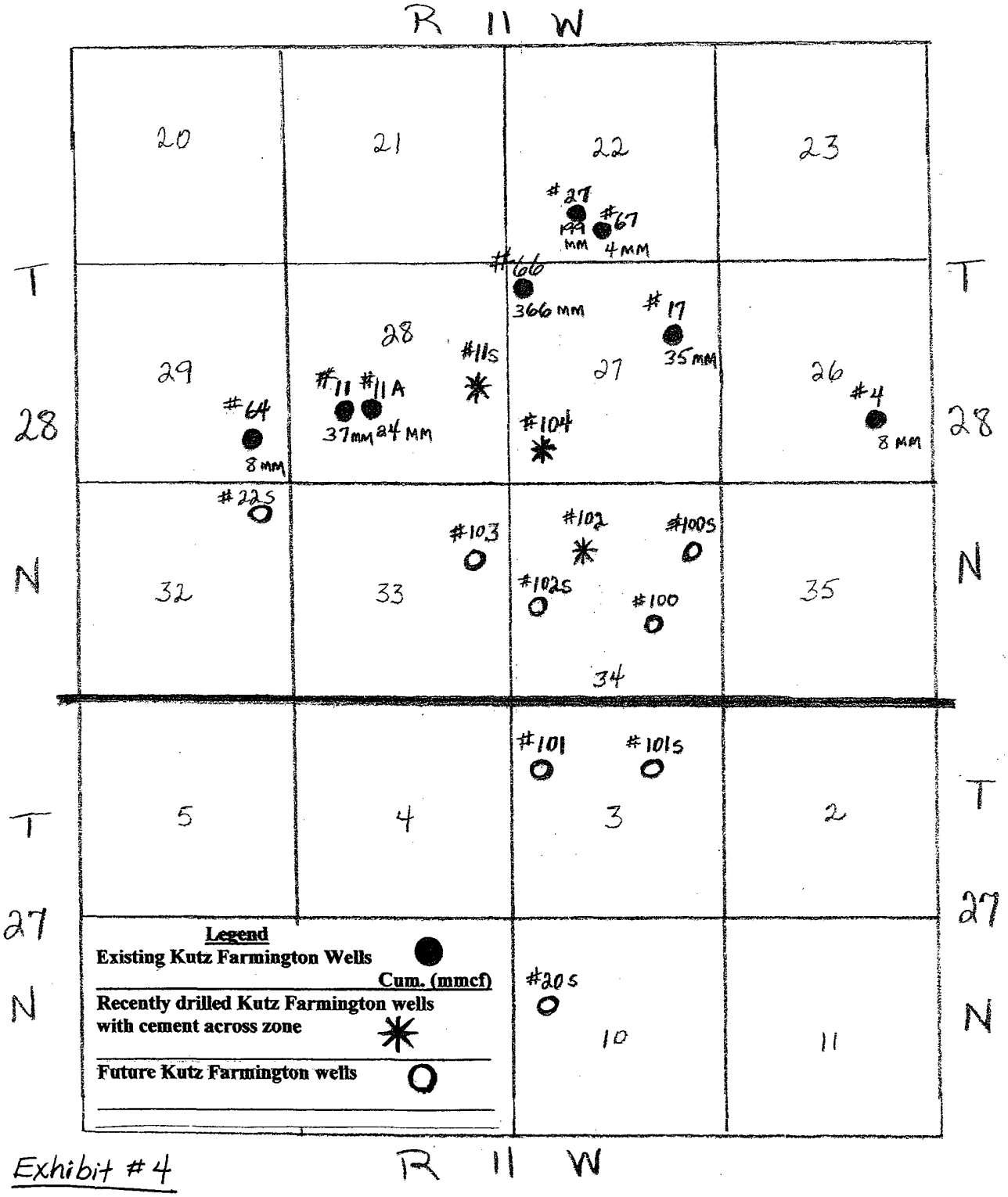

Exhibit #4