

# WEST LARGO CORP.

## AUTHORIZATION FOR EXPENDITURE State Com 32 #2 - NWNW 32-29N-9W

West Largo Corp. 8801 S. Yale, Suite 240  
Tulsa, OK 74137 918-492-3239

Project  
Starting Date: Jan 1, 2010  
Prospect  
Name: West Largo Canyon  
Depth and  
Formation: 2300' - Fruitland Coal

### Final Accounting

		Budgeted	Actual as of
Expenditure Type	Category - Description	Total Cost	1/1/2012
Intangible Drilling			
Costs	6100 Stake Location, Permits & Damages	\$5,000.00	5,031.81
	6110 Road & Location Preparation	\$7,000.00	11,024.52
	6120 Drilling Contractor	\$60,000.00	80,056.74
	6150 Water & Water Hauling	\$10,000.00	7,863.32
	6170 Trucking	\$3,500.00	5,362.48
	6210 Engineering Supervision [5 days @ \$350]	\$1,750.00	
	6220 Mud & Chemicals	\$3,500.00	1,107.88
	6230 Electric Logging & Wire Line	\$7,500.00	4,901.25
	6240 Cement & Cementing	\$5,000.00	5,207.12
	6250 Administrative Overhead	\$3,500.00	
	6260 Equipment Rental	\$11,000.00	17,040.76
	6270 Contract Labor & Welding	\$2,000.00	3,777.61
	6300 Reclamation Expense	\$8,000.00	76,979.85
	6310 Surface Casing [250' @ \$18, 40' @ \$36]	\$6,000.00	6,381.84
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	SUB-TOTAL		
	.....	\$133,750.00	224,735.18

# WEST LARGO CORP.

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My name is Mike Sauck and I am the Vice President of West Largo Corp., a small independent oil & gas company which drills and operates natural gas wells in the San Juan Basin.

West Largo has operated wells in San Juan County since we drilled our first well in November of 1990. We have since that time drilled and completed twenty three gas wells, which is certainly not a very large number compared to many other independent operators in the basin. Nevertheless, we have enjoyed great success for a small company with only three direct employees. West Largo had the distinction of ranking 58<sup>th</sup> in natural gas production in the State of New Mexico in 2011.

Since 2004 when we began our infill drilling program we have drilled ten new Fruitland Coal wells with a total cost of 3.7 million dollars. With a limited number of working interest partners (including notable majors such as ConocoPhillips, BP America and Burlington) we finance our drilling programs out of our own cashflow – not on borrowed money – and thus we have every incentive to drill and complete our wells as economically as possible.

In response to a request for information regarding drilling cost comparisons before the Pit Rule regulations and after the Pit Rule regulations were enacted, I have provided two AFE's (Authorization For Expenditure) for wells drilled by West Largo Corp. in the San Juan Basin. Both wells were drilled and completed in the Fruitland Coal formation at comparable depths.

West Largo had drilled and completed 22 Fruitland Coal wells in the Basin between 1990 and 2008 but chose to halt our drilling program after implementation of the Pit Rule until we could gain information as to how the new rules would affect drilling costs. We chose to drill our 23<sup>rd</sup> well in 2010 and even with the "best advice" that we could glean from other operators and drilling contractors our drilling costs were woefully underestimated. Please note the comparisons of the actual costs shown for the two wells:

	<u>Federal 15 #1</u>	<u>State Com 32 #2</u>
Drilling Contractor	\$63,018.65	\$80,056.74
Equipment Rental	\$4,665.53	\$17,040.76
Reclamation (Disposal/Hauling)	\$0.00	\$76,979.85
Days to Drill	7	14
Total Depth (feet)	2,445	2,265
Total Intangible Drilling Costs	\$128,623.80	\$224,735.18
Total Drilling Cost per Foot	\$52.61	\$99.22

We were grossly misled by the drilling contractor and drilling cuttings hauler/disposal company as to the estimated costs involved. Note that we budgeted \$8,000 for disposal and it ended up costing almost \$77,000. We believe that we were intentionally misled to prevent us from deciding to cancel the well due to unreasonable costs. The drilling contractor costs increased by 27% and the time to drill was doubled due to the inability to resume drilling until the "supersucker" truck had removed the cuttings from the previous day's drilling.

We hope this actual data will be helpful in establishing the negative economic impact of the implementation of the Pit Rule. West Largo, being such a small independent company has relied on the excellent assistance of the oil and gas service companies located in the Farmington/Aztec/Bloomfield area. Unfortunately, we have witnessed many of our fellow business partners and loyal service companies go out of business or leave the basin and the state due to the implementation of the Pit Rule.

I would like to thank the New Mexico Conservation Commission for the opportunity to present this material for their consideration.

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## AUTHORIZATION FOR EXPENDITURE

Federal 15 #1 -  
SENW 15-28N-9W

West Largo Corp. 8801 S. Yale, Suite 240  
Tulsa, OK 74137 918-492-3239

Project Starting  
Date: **October 15, 2007**  
Prospect Name: **West Largo Canyon**  
Depth and  
Formation: **2400' - Fruitland Coal**

		Budgeted	Actual as of
Expenditure Type	Category - Description	Total Cost	1/1/2012
Intangible Drilling Costs			
6100	Stake Location, Permits & Damages	\$7,637.00	8,554.70
6110	Road & Location Preparation	\$15,000.00	13,783.30
6120	Drilling Contractor	\$60,000.00	63,018.65
6150	Water & Water Hauling	\$6,000.00	8,031.93
6170	Trucking	\$3,500.00	2,542.18
6210	Engineering Supervision [5 days @ \$350]	\$1,750.00	1,750.00
6220	Mud & Chemicals	\$3,500.00	3,218.68
6230	Electric Logging & Wire Line	\$7,000.00	6,766.77
6240	Cement & Cementing	\$8,000.00	6,345.95
6250	Administrative Overhead	\$3,500.00	3,500.00
6260	Equipment Rental	\$7,500.00	4,665.53
6270	Contract Labor & Welding	\$2,000.00	2,109.58
6310	Surface Casing [240' @ \$15.50]	\$4,000.00	4,336.53
SUB-TOTAL			
		\$129,387.00	128,623.80