

did not send Certified

KUKUI Operating Company

September 25, 2001

SECOND REQUEST

11/15/01

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Brian Scarborough
P. O. Box 2472 *2474*
Midland, TX 79702

RE: DeGas 6 State Com #1
Section 6-16S-35E
Lea County, NM

Dear Mr. Scarborough:

KUKUI Operating Company, on behalf of KUKUI, INC., hereby proposes the drilling of an approximate 13,600' Mississippian test well at a location 1980' FNL and 1200' FEL, Section 6, T16S, R35E, Lea County, New Mexico. Enclosed are two (2) copies of our AFE dated September 17, 2001 along with a drilling prognosis. We propose that the spacing unit for the test well be comprised of lots 1,2,7,8,9, 10,15 and 16 covering approximately 320 acres as outlined on the attached plat. We intend to commence drilling operations before February 1, 2002.

As the owner of an unleased mineral interest in lots 9, 10 and 15, you are entitled to participate in the drilling of the proposed well. If you wish to participate, please so indicate by signing and returning one copy of the enclosed AFE as soon as possible. We will prepare and forward for your review a proposed joint operating agreement.

If you prefer not to participate in the proposed well, further to previous conversations and/or correspondence from Mr. Steve Horn on our behalf, we again request a lease of your interest in lots 9,10,11,12,13,14 and 15, Section 6-16S-35E, Lea County, New Mexico, on the following terms:

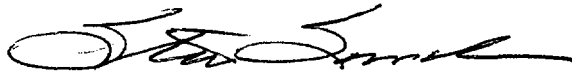
16. A bonus consideration of \$200.00 per net mineral acre.
17. A 1/5 royalty.
18. Three (3) year primary term (paid-up)

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12773 Exhibit No. 3
Submitted by:
KUKUI Operating Company
Hearing Date: January 10, 2002

Brian Scarborough
September 25, 2001
Page 2

If the above lease terms are acceptable, please so advise as soon as possible and we will forward an oil and gas lease for your signature. Your early response to this proposal is appreciated. Please call me at 713/658-1888 if you have any questions.

Yours very truly,

A handwritten signature in black ink, appearing to read "Steve Sandlin", with a stylized, flowing script.

Steve Sandlin
Vice President-Land

Enclosures

KUKUI OPERATING COMPANY

COST ESTIMATE
DRILLING

AFE No. 10111
Supplement No.
STATE: New Mexico
FIELD: SE Eidson

PROSPECT: Mississipian Test COUNTY: LEA
DATE: 09/17/2001 WELL NAME Degas '6' State Com. #1

SUMMARY OF ESTIMATED COST

INTANGIBLE COST				
DESCRIPTION			SUB.	COMPLETED
Company Labor	45 Days @	\$650 / Day	05	\$27,300
Outside Labor	roustabout, welding, casing crews, wellhead installation		10	\$15,000
Professional Services	surveys, permitting, consulting, title		12	\$6,000
Transportation - Land			70	\$5,000
Fuel, Power, & Water			61	\$60,000
Supplies - Miscellaneous			59	\$3,000
Supplies - Bits			60	\$58,000
Supplies - Casing Equipment	float shoes, centralizers		59	\$4,500
Supplies - Liner Equipment			59	
Frac Tank Rental	1 ea. - 500 bbl.	50 days (water storage)	40	\$2,000
Cement & Cement Services			11	\$20,000
Pump / Vaccum Truck Services			12	\$5,000
Rentals Drilling Tools & Services	chokes, separators, PVT, BHA		40	\$10,000
Rentals Miscellaneous	doghouse, forklift, trash bin, toilets, etc		40	\$10,000
Insurance	well control		91	\$12,000
Wireline Services	perforating, logging, coring		25	\$26,000
Drilling Fluids			15	\$75,000
Location Expense	construction / reclamation		20	\$30,000
Contract Drilling	Feet	/ Foot	16	
Daywork	40 drlg./4 comp. Days	\$11,000 / Day	16	\$440,000
Workover Rig	6 Days	\$3,000 / Day	16	\$18,000
Directional Drilling - Tools & Equipment			43	
Mud Logging Services			44	\$25,000
Rig Mobilization & Demobilization			21	\$50,000
Stimulation	clean-up acid treatment		75	\$20,000
Special Services	DST tools / reports		09	\$12,000
Tubular Goods - Inspection & Testing				\$4,000
Telephone & Radio Expenses			73	\$300
COPAS Drilling Overhead				\$12,000
Plug & Abandon				\$12,000
Intangible Subtotal				\$924,100
Unclassified and	10 %	Contingencies		\$92,400
TOTAL INTANGIBLE COST				\$1,016,500

TANGIBLE COST

WELL TUBULAR GOODS								
	Feet	Drive Pipe			/ Foot	85		
	Feet	Conductor Casing			/ Foot	86		
450	Feet	13 3/8"	Surface Casing	\$20.00	/ Foot	90	\$9,000	\$9,000
	Feet	Protection Casing			/ Foot	87		
4,550	Feet	9 5/8"	Intermediate	\$18.00	/ Foot	88	\$81,900	\$81,900
	Feet	Production Liner			/ Foot	89		
13,600	Feet	5 1/2"	Production Casing	\$7.00	/ Foot	92		\$95,200
12,500	Feet	2 7/8"	Tubing	\$3.50	/ Foot			\$43,750
	Feet	Sucker Rods			/ Foot	53		
FLOWLINE								
~5,000	Feet	3"	Line Pipe - buried	\$6.00	/ Foot			\$30,000
WELL EQUIPMENT								
Well Head & Christmas Tree			casing head, tubing head,5M tree			105	\$5,000	\$16,000
Packers and Downhole Equipment						78		\$8,000
Other Well Equipment			battery, separators, heater treater, meter,etc			95		\$30,000
TOTAL TANGIBLE COST							\$95,900	\$313,850
TOTAL ESTIMATED COST OF WELL							\$1,112,400	\$1,500,500

Justification for this request : Funds are requested to drill and complete a 13,600' Mississipian test well located in Sec. 6 - T16S - R35E, Lea County NM.

KUKUI Operating Company

JOINT INTEREST APPROVAL

Prepared By: Larry K. Strider
Approved By: John W. Wessels
Approved By:

Name of Joint Owner :
Approved By:
Date:
Accept OEEL Insurance
Decline OEEL Insurance

GEOLOGIC PROGNOSIS

Prospect: Degas **Well Name:** Degas '6' State Com #1
County: Lea **State:** New Mexico

Location: 1980' FNL, 1200' FEL, Section 6, T16S, R35E

Proposed TD: 13,600'

Objectives: Estimated Formation Tops:

<u>Formation</u>	<u>Est. Depth</u>
Rustler	1780'
Yates	2970'
San Andres	4500'
Glorietta	6500'
Tubb	7320'
Abo	7480'
Wolfcamp	9850'
Double 'X' Marker	10120'
Cisco	11600'
Strawn	11950'
Atoka	12400'
Atoka Sand	12650'
Morrow Lime	12740'
Morrow Clastics	12960'
Barnett Shale	13250'
Mississippian Lime	13350'

Install MUD Logger: @ 2800' (above Yates)

Anticipated MUD Weights: - Cut Brine/Salt Water (9-10 lbs/gal) from surface down to the top of the San Andres Fm.
- Fresh Mud/Cut Brine (9-10 lb/gal) mud with fluid loss in the 6-10 range across the Atoka & Morrow section.

Protection Pipe Required: Surface Casing: 13.375" @ 450'
Intermediate: 9.625" or 8.625" @ 4550' (Just into the top of the San Andres)

Potential Zones for DST: Wolfcamp, Cisco, Atoka & Morrow

Logging Program:

LOG SUITE
Run #1 DLL-GR
 CNL-LDT-GR
 BHC-Sonic-GR

INTERVALS
TD - Base Intermediate Casing
TD - Base Intermediate Casing
 (GR - Neutron to Surface)
TD - Base Intermediate Casing

[illegible]



KUKUI Operating Company

November 8, 2001

Mr. Brian Scarborough
P. O. Box 2474
Midland, TX 79702

Re: DeGas 6 State Com #1
Section 6-16S-35E
Lea County, NM

Dear Mr. Scarborough:

Please refer to our letter of September 25, 2001, concerning the subject well. Within the next few days we will make application with the New Mexico Oil Conservation Division for a hearing to force pool the interest included within the proposed 320 acre spacing unit for the subject well. We expect a December 2001 hearing date.

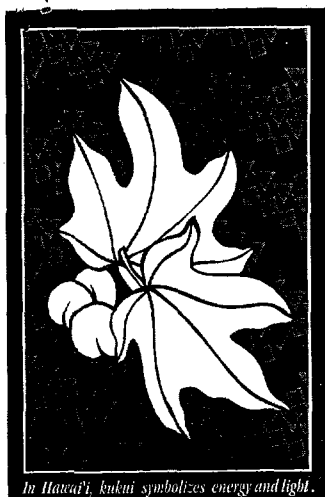
As mentioned in our previous letter, you may participate in the drilling of the proposed well by signing and returning the AFE included therewith.. An operating agreement will be provided for your execution. Alternatively, we again hereby offer to lease your interest in lots 9, 10, 11, 12, 13, 14 and 15 on the same terms set forth in our September 25th letter.

Thank you very much for your consideration. Your early response to this proposal is appreciated.

Yours very truly,

Steve Sandlin
Vice President – Land

SS:le



KUKUI Operating Company

September 25, 2001

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Brian Scarborough
P. O. Box 2472 *2474*
Midland, TX 79702

RE: DeGas 6 State Com #1
Section 6-16S-35E
Lea County, NM

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As the owner of an unleased mineral interest in lots 9, 10 and 15, you are entitled to participate in the drilling of the proposed well. If you wish to participate, please so indicate by signing and returning one copy of the enclosed AFE as soon as possible. We will prepare and forward for your review a proposed joint operating agreement.

If you prefer not to participate in the proposed well, further to previous conversations and/or correspondence from Mr. Steve Horn on our behalf, we again request a lease of your interest in lots 9,10,11,12,13,14 and 15, Section 6-16S-35E, Lea County, New Mexico, on the following terms:

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17. A 1/5 royalty.
18. Three (3) year primary term (paid-up)

Brian Scarborough
September 25, 2001
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Yours very truly,

A handwritten signature in black ink, appearing to read "Steve Sandlin", with a stylized flourish at the end.

Steve Sandlin
Vice President-Land

Enclosures

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Brian Scarborough

P. O. Box 2472

Midland, TX 79702

4a. Article Number

Z 191 787 019

4b. Service Type

- ☐ Registered ☒ Certified
☐ Express Mail ☐ Insured
☐ Return Receipt for Merchandise ☐ COD

7. Date of Delivery

10-1-01

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

x Brian Scarborough

8. Addressee's Address (Only if requested and fee is paid)

PS Form 3811, December 1994

102595-98-B-0229

Domestic Return Receipt

Thank you for using Return Receipt Service.

Z 191 787 019

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent Brian Scarborough

Street & Number

P. O. Box 2472

Midland, TX 79702

Post Office, State, & ZIP Code

Postage \$

Certified Fee

Special Delivery Fee

Restricted Delivery Fee

Return Receipt Showing to Whom & Date Delivered

Return Receipt Showing to Whom, Date, & Addressee's Address

TOTAL Postage & Fees \$

Postmark or Date

PS Form 3800 April 1995

KUKUI OPERATING COMPANY

COST ESTIMATE
DRILLING

AFE No. 10111
Supplement No.
STATE: New Mexico
FIELD: SE Eidson

PROSPECT: Mississipian Test COUNTY: LEA
DATE: 09/17/2001 WELL NAME Degas '6' State Com. #1

SUMMARY OF ESTIMATED COST

INTANGIBLE COST							
DESCRIPTION					SUB.	DRY HOLE	COMPLETED
Company Labor 45 Days @ \$650 / Day					05	\$27,300	\$29,250
Outside Labor roustabout, welding, casing crews, wellhead installation					10	\$15,000	\$20,000
Professional Services surveys, permitting, consulting, title					12	\$6,000	\$8,000
Transportation - Land					70	\$5,000	\$8,000
Fuel, Power, & Water					61	\$60,000	\$70,000
Supplies - Miscellaneous					59	\$3,000	\$4,000
Supplies - Bits					60	\$58,000	\$60,000
Supplies - Casing Equipment float shoes, centralizers					59	\$4,500	\$6,000
Supplies - Liner Equipment					59		
Trac Tank Rental 1 ea. - 500 bbl. 50 days (water storage)					40	\$2,000	\$3,000
Cement & Cement Services					11	\$20,000	\$36,000
Pump / Vaccum Truck Services					12	\$5,000	\$8,000
Rentals Drilling Tools & Services chokes, separators, PVT, BHA					40	\$10,000	\$15,000
Rentals Miscellaneous doghouse, forklift, trash bin, toilets, etc					40	\$10,000	\$12,000
Insurance well control					91	\$12,000	\$12,000
Wireline Services perforating, logging, coring					25	\$26,000	\$36,000
Drilling Fluids					15	\$75,000	\$85,000
Location Expense construction / reclamation					20	\$30,000	\$35,000
Contract Drilling Feet / Foot					16		
Daywork 40 drlg./4 comp. Days \$11,000 / Day					16	\$440,000	\$484,000
Workover Rig 6 Days \$3,000 / Day					16		\$18,000
Directional Drilling - Tools & Equipment					43		
Mud Logging Services					44	\$25,000	\$25,000
Rig Mobilization & Demobilization					21	\$50,000	\$50,000
Stimulation clean-up acid treatment					75		\$20,000
Special Services DST tools / reports					09	\$12,000	\$12,000
Tubular Goods - Inspection & Testing						\$4,000	\$8,000
Telephone & Radio Expenses					73	\$300	\$500
ROPAS Drilling Overhead						\$12,000	\$14,000
Plug & Abandon						\$12,000	
Intangible Subtotal						\$924,100	\$1,078,750
Unclassified and 10 % Contingencies						\$92,400	\$107,900
TOTAL INTANGIBLE COST						\$1,016,500	\$1,186,650

TANGIBLE COST								
WELL TUBULAR GOODS								
	Feet	Drive Pipe			/ Foot	85		
	Feet	Conductor Casing			/ Foot	86		
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12,500	Feet	2 7/8"	Tubing	\$3.50	/ Foot			\$43,750
	Feet	Sucker Rods			/ Foot	53		
LOWLINE								
~5,000	Feet	3"	Line Pipe - buried	\$6.00	/ Foot			\$30,000
WELL EQUIPMENT								
Well Head & Christmas Tree		casing head, tubing head, 5M tree				105	\$5,000	\$16,000
Packers and Downhole Equipment						78		\$8,000
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TOTAL TANGIBLE COST							\$95,900	\$313,850
TOTAL ESTIMATED COST OF WELL							\$1,112,400	\$1,500,500

Justification for this request : Funds are requested to drill and complete a 13,600' Mississipian test well located in Sec. 6 - T16S - R35E, Lea County NM.

KUKUI Operating Company				JOINT INTEREST APPROVAL						
Prepared By:	Larry K. Strider			Name of Joint Owner :						
Approved By:	John W. Wessels			Approved By:						
Approved By:				Date:						
				Accept OEEL Insurance	<input type="checkbox"/>					
				Decline OEEL Insurance	<input type="checkbox"/>					

GEOLOGIC PROGNOSIS

Prospect:Degas **Well Name:** Degas '6' State Com #1
County: Lea **State:** New Mexico

Location: 1980' FNL, 1200' FEL, Section 6, T16S, R35E

Proposed TD:13,600'

Objectives: Estimated Formation Tops:

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Atoka Sand	12650'
Morrow Lime	12740'
Morrow Clastics	12960'
Barnett Shale	13250'
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Install MUD Logger: @ 2800' (above Yates)

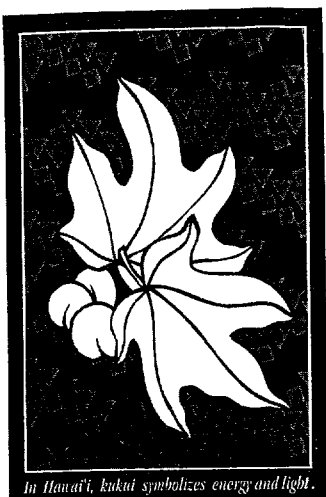
Anticipated MUD Weights: - Cut Brine/Salt Water (9-10 lbs/gal) from surface down to the top of the San Andres Fm.
- Fresh Mud/Cut Brine (9-10 lb/gal) mud with fluid loss in the 6-10 range across the Atoka & Morrow section.

Protection Pipe Required: Surface Casing: 13.375" @ 450'
Intermediate: 9.625" or 8.625" @ 4550' (Just into the top of the San Andres)

Potential Zones for DST: Wolfcamp, Cisco, Atoka & Morrow

Logging Program:

	<u>LOG SUITE</u>	<u>INTERVALS</u>
Run #1	DLL-GR	TD - Base Intermediate Casing
	CNL-LDT-GR	TD - Base Intermediate Casing (GR - Neutron to Surface)
	BHC-Sonic-GR	TD - Base Intermediate Casing



KUKUI Operating Company

November 8, 2001

Mr. Wilbur A. Yeager, Jr.
The W. A. Yeager Group
214 W. Texas Ave., Suite 200
Midland, TX 79701

Re: DeGas 6 State Com #1
Section 6-16S-35E
Lea County, NM

Dear Mr. Yeager:

Thank you for your letter of November 2, 2001, offering to lease the interest of the Yeager Group in the proposed 320 spacing unit for the subject well. Please be advised that KUKUI, INC. is not interested in leasing the above interest on the terms outlined in your letter.

Within the next few days we will make application with the NMOCD for a hearing to force pool the interests in lots 1, 2, 7, 8, 9, 10, 15 and 16 of Section 6-16S-35E. We expect a December hearing date. Further to our letter of September 25, 2001, you may participate in the drilling of the proposed well by signing and returning the AFE included with our previous letter. An operating agreement will be provided for your execution. Alternatively, we again hereby offer to lease your interest in lots 9, 10, 11, 12, 13, 14 and 15 on the same terms set forth in our September 25th letter.

Thank you very much for your consideration. Your early response to this proposal is appreciated.

Yours very truly,

Steve Sandlin
Vice President – Land

SS:le

THE W. A. YEAGER GROUP

214 WEST TEXAS AVENUE, SUITE 200
MIDLAND, TEXAS 79701-4621

PARTNERS

G. GOSS YEAGER
WILBUR A. YEAGER, JR.
PATSY YEAGER HINCHEY

POST OFFICE BOX 990
MIDLAND, TEXAS 79702-0990
TELEPHONE (915) 682-1972
FAX (915) 682-1984

November 2, 2001

RECEIVED

NOV 5 - 2001

KUKUI - Houston

Mr. Steve Sandlin
KUKUI Operating Company
1415 Louisiana, Suite 3650
Houston, Texas 77002

Re: DeGas 6 State Com #1, Section 6-16S-35-E
Lea County, New Mexico
WAG 24

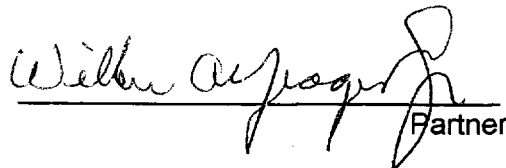
Dear Mr. Sandlin:

In response to your letter of September 25, 2001, this is to advise we are not interested in participating in your proposed well.

We use our own lease form and a copy is attached herewith. Subject to prior sale, we will execute and deliver same to your company for a bonus consideration of \$200/net mineral acre, plus \$1/acre rental, a 1/4 royalty and a three (3) year term. We compute the consideration for our interest in your proposed 320 acre spacing unit will be \$865.71.

After your review of our lease, upon our receipt of your check in the above amount, we will send an executed lease. If closure of this transaction is not accomplished on or before November 30, 2001, our offer to lease is withdrawn and will be null and void.

Yours very truly,


Partner

Enclosure (1)

PAID-UP
OIL AND GAS LEASE

COPY

THIS AGREEMENT consisting of paragraphs one through twenty-one inclusively, is made this 2nd day of November, 2001, by and between The W. A. Yeager Group, a partnership authorized to act by any one of its partners, P.O. Box 990, Midland, Texas 79702-0990

hereinafter called "Lessor" (whether one or more) and KUKUI Operating Company, 1415 Louisiana, Suite 3650, Houston, Texas 77002

hereinafter called "Lessee".

WITNESSETH:

(1) Lessor for and in consideration of the sum of Ten & No/100 Dollars (\$10.00) and other good and valuable consideration, of the royalties herein provided, and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting and drilling for and producing oil and gas only, laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport and own said products, in and on the following described land in Lea County, State of New Mexico, to-wit:

T-16-S, R-35-E, N.M.P.M.

Section 6: Lots 9, 10 & 15

and containing 118.51 acres, more or less.

(2) Subject to the other provisions herein contained, this lease shall be for a term of 3 years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land hereunder in paying quantities. As used in this lease, the term "produced in paying quantities" means that receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six (6) months last passed.

(3) In the performance of its duty to Lessor to exercise utmost good faith and fair dealing in marketing oil, gas and other hydrocarbons produced under this lease, Lessee agrees to pay, or cause to be paid (within no more than ninety (90) days after the end of the month of first sales and monthly thereafter no later than the end of the month following the month of sale), or to deliver, or cause to be delivered to or for the account of owners of royalty on oil, gas and other hydrocarbons produced under the terms of this lease:

- (a) As a royalty on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well, save and except casinghead gas, and also all condensate, distillate and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided one-fourth (1/4) part of the value of the gross production. Said value shall be based on the highest posted price, plus premium, if any, offered or paid for crude oil, condensate, distillate or other liquid hydrocarbons, respectively, of similar gravity and type in the general area, or the then current fair market value thereof in the general area, or the proceeds of the sale thereof, whichever is the greater. In no event will Lessor be paid on a lesser basis than Lessee, the Operator, or any Working Interest Owner.

Lessee agrees that before any gas produced from the land hereby leased, containing liquid hydrocarbons recoverable in commercial quantities by separator on the lease is sold, used or processed in a plant, it will be run through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of Lessor, the requirement that such gas be run through a separator or other equipment may be waived upon such terms and conditions as prescribed by Lessor.

Page 2 of that certain Oil and Gas Lease dated
November 2, 2001 between
The W. A. Yeager Group, Lessor
and KUKUI Operating Company, Lessee

- (b) As royalty on any and all gas, including casinghead gas, which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (a) above, produced from any well by Lessee, one-fourth (1/4) part of the value of the gross production. Such value shall be the then current fair market value for such gas and products produced therefrom, provided, that if such gas and its products are currently being sold in an arms length transaction by Lessee to a purchaser who is not related to or affiliated with Lessee in any manner, and all terms of all agreements in anyway pertaining to such gas and the sale thereof shall have been furnished to Lessor, such value shall be the proceeds of such sale. In no event will Lessor be paid on a lesser basis than Lessee, the Operator, or any Working Interest Owner.

If Lessee is related, affiliated, or in anyway obligated to the purchaser, other than as an arms length Seller, then such value is to be determined on a basis no less than the highest price paid for gas of a similar quality in the general area or the amount accruing to the Lessee, the Operator, or any Working Interest Owner from all hydrocarbons or other products produced from said gas, whichever is greater. Where gas is run through such separator or other equipment as provided in subparagraph (a) above, its value, after having been run through such separator or other equipment, shall be determined as specified herein.

- (c) In the event any such gas is processed for the extraction of liquifiable hydrocarbons or other marketable substances, the value of the extracted products and the remaining residue gas attributable thereto shall for royalty payment purposes never be less than if such gas had not been processed.
- (d) Subject to the consent in writing of Lessor, Lessee may inject gas into any oil or gas producing formation underlying the leased premises and no royalties shall be payable on the gas so injected until such time as the same may thereafter be produced and sold or used by Lessee in such manner as to entitle Lessor to a royalty thereon under the royalty provisions of this lease.
- (e) Lessee agrees to use reasonable diligence to prevent the underground or above ground waste of oil or gas and to avoid the physical waste and flaring or venting of gas produced from the leased premises.
- (f) Royalties payable under this lease shall be made without deduction for the cost of exploration, drilling and completion, marketing, producing, gathering, storing, separating, treating, dehydrating, compressing, transporting, and otherwise making the oil, gas and other products hereunder ready for use or sale. Lessor shall not bear, directly or indirectly, any pre-or post-production costs, all of which shall be borne by Lessee. Royalties payable under this lease shall bear their proportionate part of production, severance, and other excise taxes attributable to Lessor's interest in the production or sales of substances from this lease.
- (g) Lessor shall have the option to require the payment of any royalty as stipulated in this lease to be made in kind, the exercises of which shall be at the discretion of Lessor from time to time giving Lessee no less than ninety (90) days written notice.
- (h) At the election of Lessors all advances or prepayments made directly or indirectly to or for Lessee, with respect to future production attributable to this lease or rights to acquire future production, may be deemed for all purposes of this lease to be proceeds of sale of production for which royalties shall be due to be paid for the month in which such payment is made. Lessee, at the time advances or prepayments are made, shall fully advise Lessor in writing of all of the terms on which such are being made. Thereupon, Lessor shall have thirty (30) days in which to make its election. Lessor's failure to act within such period shall be deemed an election not to treat such advances or prepayments as proceeds of sale for which royalty payment is presently due and Lessor's royalty gas therefor shall be marketed in accordance with the terms of this lease.

For each year, computed on the basis of the end of the month of the anniversary date of this lease, starting with the year following the year in which commercial production is first obtained from the lands the subject of this lease, it is agreed that the royalties inuring to the royalty owners whose interests are a subject of this lease shall have an aggregate value of not less than Ten Dollars (\$10.00) per net mineral acre of interest per year. Deficiencies in such amount shall be paid by Lessee to the royalty owners proportionately according to their respective royalty interests within sixty (60) days after the end of each such year.

(4) Insofar as Lessor's ownership allows, Lessee shall have the right to use free of cost, gas, oil and water produced on said land for Lessee's operations thereon, except water from wells or tanks of Lessor.

~~(5)(a) If operations for drilling are not commenced on said land on or before one year from this date, this lease shall then be terminated as to both parties; unless on or before such anniversary date Lessee shall pay or tender to Lessor or to the credit of Lessor in the _____ (which bank and its successors are Lessor's agent and shall continue as the depository for all rentals payable hereunder regardless of~~

Page 3 of that certain Oil and Gas Lease dated
November 2, 2001 between
The W. A. Yeager Group, Lessor
and KUKUI Operating Company, Lessee

~~change in ownership of said land or the rentals) the sum of _____ Dollars (\$ _____), (herein called rental), which shall cover the privilege of deferring commencement of drilling operations for a period of twelve (12) months. In like manner and upon like payments or tenders annually, the commencement of drilling operations may be further deferred for successive periods of twelve (12) months each during the primary term. The payment or tender of rental may be made by check or draft of Lessee mailed or delivered to Lessor or to said bank, on or before such date of payment. If such bank (or any successor bank) should fail, liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payment or tender of rental until thirty (30) days after Lessor shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payment or tender of rentals. Payments made at the time of delivery of this lease to Lessee is the consideration for the execution and delivery of this lease, and no part of such payment shall be deemed a payment or tender of delay rentals under the provisions of this paragraph.~~

(5)(b) This lease may not be partially released without the prior written consent of Lessor.

(6) If prior to discovery of oil or gas on said land Lessee should drill a dry hole or dry holes thereon, or if after discovery of oil or gas the production thereof should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days thereafter or (if it be within the primary term) commences or resumes the payment or tender of rentals, on or before the rental paying date next ensuing after the expiration of three months from date of completion of dry hole or cessation of production.

(7) As express conditions of this lease, and notwithstanding any other provisions hereof indicating to the contrary, Lessee agrees to drill offset wells to all oil or gas producing wells which, in accordance with the existing rules and regulations of the regulatory body having jurisdiction, shall have been drilled subsequent to the date of this lease on proration units on adjacent, cornering, or contiguous lands to the above-described leased premises. Lessee expressly agrees that within 120 days after completion of any such producing well on said lands (the date of completion of such a well being fixed by (a) the date of the official potential test, or (b) if there is no such test, by the date the well is first put on production) the actual drilling of an offset well thereto will be commenced and thereafter such offset well shall be drilled with due diligence to the portion of the formation from which production is being obtained from the well(s) on adjacent, cornering, or contiguous lands. Lessee further agrees to thereafter develop the leasehold premises within the limits prescribed by the then existing spacing regulations to a density and to an extent no less than that upon which adjacent, cornering, or contiguous lands are drilled and developed. In the event Lessee fails to comply with these express obligations, or either of them, this lease, as to all lands containing undrilled or non-producing proration units, shall terminate on the date of default, unless Lessee within said 120 day period above mentioned commences monthly payment of compensatory royalty equal to 1/4 of the value of gross production, proportionately reduced, accruing from the producing well or wells on the adjacent, cornering or contiguous lands, such compensatory royalty payment to continue until such time as a well or wells have been completed on the leased premises to meet the offset well(s) on adjacent, cornering or contiguous lands, or until the well or wells on adjacent, cornering or contiguous lands shall cease to produce oil and/or gas. Production from formations other than the one(s) producing on the adjacent, cornering, or contiguous lands will not maintain this lease in force except as to the formations from which well(s) on the lands the subject of this lease are producing. Lessee agrees that it will do and perform such other things and drill such wells as may be required to prevent offset, density or pool drainage.

(8) Lessee shall have the right at any time up to or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without Lessor's consent.

(9) The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, successors and assigns, but no change or division in ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No sale or assignment by Lessor shall be binding on Lessee until Lessee shall be furnished by registered U.S. Mail with a certified copy of the recorded instrument evidencing same. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportionable as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignee or successor to Lessee assumes all duties and obligations of this lease; however, Lessee remains liable to Lessor for the proper performance of all duties and obligations required by this lease.

(10) Notwithstanding any of the other provisions of this lease, nothing herein gives Lessee the right to, in any way, pool or unitize any of Lessor's interest with the interest of or lands owned by any other party without the prior written consent of Lessor. If all or any part of the lands, the subject of this lease, subsequently are pooled or unitized by any lawful means, then this lease shall be deemed to create two or more separate and distinct leases, one covering and pertaining to each separate pooled or unitized tract as to the formation so pooled or unitized in such tract, and one covering or pertaining to all other lands and formations that are not so pooled or unitized. The lease terms and all rights and obligations of Lessee under this lease shall apply separately to the pooled or unitized acreage and to the non-pooled or non-unitized acreage, and as to the pooled or unitized acreage only to the specific formation(s) being pooled or unitized.

Page 4 of that certain Oil and Gas Lease dated
November 2, 2001 between _____
_____ The W. A. Yeager Group _____, Lessor
and _____ KUKUI Operating Company _____
_____, Lessee

(11) All express or implied covenants of this lease shall be subject to all applicable Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the results of, any such Law, Order, Rule or Regulation.

(12) This lease is granted without warranty of title, either express or implied, and covers only Lessor's present interest in said land. It is agreed that if Lessor owns an interest in said land less than the entire fee simple estate, the royalties, compensatory royalties, and rentals to be paid Lessor shall be reduced proportionately.

(13) If at any time a well or wells capable of producing oil or gas, condensate, distillate or other gaseous substances are shut-in for any reason, such well or wells shall not be considered as producing wells under the terms of this lease, and

- (a) during the primary term this lease will remain in effect only if there is other production on this lease or Lessee has made proper rental payments in accordance with paragraph (5);
- (b) at the expiration of the primary term, anything else herein contained to the contrary notwithstanding, Lessee may extend this lease as to the proration, spacing or allowable unit acreage assigned to said shut-in well or wells for a one (1) year period beginning at the expiration of the primary term by the payment to Lessor, before the expiration of said primary term, of an advance annual royalty equal to ten & no/100 dollars per acre within the unit acreage or one-hundred dollars (\$100.00), whichever is greater. Lessee may further extend the lease on this acreage for a second year by payment of another advance annual royalty as described above; however, in no event may this lease or any part thereof be extended under this shut-in clause (b) for a period beyond two consecutive years after the end of the original primary term;
- (c) in the case of a well shut-in after the expiration of the primary term, this lease may be extended from time to time up to a total of two years by the payment of the prorata part of the advance annual royalty amount specified in (b) within 30 days after the well had been shut-in;
- (d) provided further, that the payment of shut-in royalties provided for in this paragraph (13) shall not relieve Lessee of any provision or obligation arising out of the requirements specified in paragraph (7) hereof.

(14) If at the expiration of the primary term oil or gas is not being produced on said land, but Lessee is then engaged in drilling, completing, or reworking operations thereon, this lease shall remain in force so long as such operations are prosecuted continuously and with due diligence and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land in paying quantities and the other terms of this lease are complied with.

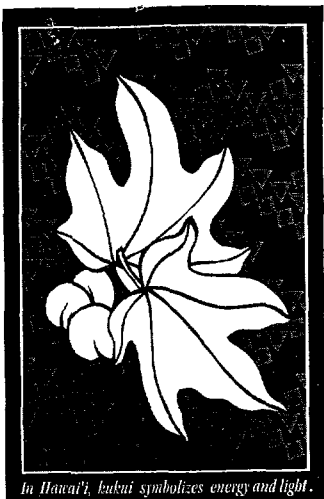
If at the expiration of the primary term, oil or gas is being produced on said land, Lessee agrees to continuously develop the lands covered by this lease with no more than 120 days between the completion date of one well and the commencement of the next succeeding well, until such time as the lands covered hereby have been developed to the density permitted by the regulatory body having jurisdiction for spacing and/or proration and allowable purposes. The first 120 day period shall commence with the expiration of the primary term or the completion of the last well drilled on the lands which are the subject of this lease, whichever is the later date.

At the time when said land has been developed to the density permitted by the regulatory body having jurisdiction for spacing and/or proration and allowable purposes, or Lessee fails to continuously develop the land covered hereby in accordance with the provisions of this paragraph (14), this lease shall terminate and be of no further force and effect as to all lands which are not contained in a spacing or proration unit for which there is a producing oil or gas well, or a shut-in well for which advance royalty payments are being paid as provided herein. Additionally as to each such spacing or proration unit on which there is situated such a well, this lease shall terminate as to all depths, zones, and horizons below the base of the deepest formation in which a well situated on such spacing or proration unit is producing. Thereafter, this lease shall terminate as to all lands contained in a spacing or proration unit if the only well thereon ceases to produce in paying quantities and Lessee fails to restore production by drilling or reworking operations thereon within the times and in the manner prescribed in Paragraph (6) hereof.

(15) Any payment of compensatory royalties and/or shut-in gas royalties provided for herein may be made direct to the undersigned Lessors, or to their credit in the First National Bank of Midland, 123 N. Colorado,
Midland, TX 79701

THIS SPACE INTENTIONALLY LEFT BLANK

	The W. A. Yeager Group
	Partner
	TIN 75-2109390



KUKUI Operating Company

September 25, 2001

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

W. A. Yeager Group
214 W. Texas Ave., Suite 200
Midland, TX 79701

RE: DeGas 6 State Com #1
Section 6-16S-35E
Lea County, NM

Dear Sirs:

KUKUI Operating Company, on behalf of KUKUI, INC., hereby proposes the drilling of an approximate 13,600' Mississippian test well at a location 1980' FNL and 1200' FEL, Section 6, T16S, R35E, Lea County, New Mexico. Enclosed are two (2) copies of our AFE dated September 17, 2001 along with a drilling prognosis. We propose that the spacing unit for the test well be comprised of lots 1,2,7,8,9, 10,15 and 16 covering approximately 320 acres as outlined on the attached plat. We intend to commence drilling operations before February 1, 2002.

As the owner of an unleased mineral interest in lots 9, 10 and 15, you are entitled to participate in the drilling of the proposed well. If you wish to participate, please so indicate by signing and returning one copy of the enclosed AFE as soon as possible. We will prepare and forward for your review a proposed joint operating agreement.


If you prefer not to participate in the proposed well, further to previous conversations and/or correspondence from Mr. Steve Horn on our behalf, we again request a lease of your interest in lots 9,10,11,12,13,14 and 15, Section 6-16S-35E, Lea County, New Mexico, on the following terms:

- 40. A bonus consideration of \$200.00 per net mineral acre.
- 41. A 1/5 royalty.
- 42. Three (3) year primary term (paid-up)

W. A. Yeager Group
September 25, 2001
Page 2

If the above lease terms are acceptable, please so advise as soon as possible and we will forward an oil and gas lease for your signature. Your early response to this proposal is appreciated. Please call me at 713/658-1888 if you have any questions.

Yours very truly,

A handwritten signature in black ink, appearing to read "Steve Sandlin", with a large, stylized initial "S" and a long, sweeping horizontal stroke at the end.

Steve Sandlin
Vice President-Land

Enclosures

Is your **RETURN ADDRESS** completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
 2. ☐ Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

W. A. Yeager Group
214 W. Texas Ave., Suite 200
Midland, TX 79701

4a. Article Number
2 191 787 026

4b. Service Type

- ☐ Registered ☒ Certified
- ☐ Express Mail ☐ Insured
- ☐ Return Receipt for Merchandise ☐ COD

7. Date of Delivery

9-28-01

5. Received By: (Print Name)

8. Addressee's Address (Only if requested and fee is paid)

6. Signature: (Addressee or Agent)

W. A. Yeager

PS Form 3811, December 1994

102595-98-B-0229

Domestic Return Rec

Z 191 787 026

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
W. A. Yeager Group	
214 W. Texas Ave., Suite 200	
Midland, TX 79701	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	

Thank you for using Return Receipt Service.

KUKUI OPERATING COMPANY

COST ESTIMATE DRILLING

AFE No.
Supplement No.

10111

PROSPECT: Mississipian Test COUNTY: LEA
DATE: 09/17/2001 WELL NAME Degas '6' State Com. #1

STATE: New Mexico
FIELD: SE Eidson

SUMMARY OF ESTIMATED COST

INTANGIBLE COST				
DESCRIPTION			SUB.	COMPLETED
Company Labor	45 Days @	\$650 / Day	05	\$27,300
Outside Labor	roustabout, welding, casing crews, wellhead installation		10	\$15,000
Professional Services	surveys, permitting, consulting, title		12	\$6,000
Transportation - Land			70	\$5,000
Fuel, Power, & Water			61	\$60,000
Supplies - Miscellaneous			59	\$3,000
Supplies - Bits			60	\$58,000
Supplies - Casing Equipment	float shoes, centralizers		59	\$4,500
Supplies - Liner Equipment			59	
Frac Tank Rental	1 ea. - 500 bbl.	50 days (water storage)	40	\$2,000
Cement & Cement Services			11	\$20,000
Pump / Vacuum Truck Services			12	\$5,000
Rentals Drilling Tools & Services	chokes, separators, PVT, BHA		40	\$10,000
Rentals Miscellaneous	doghouse, forklift, trash bin, toilets, etc		40	\$10,000
Insurance	well control		91	\$12,000
Wireline Services	perforating, logging, coring		25	\$26,000
Drilling Fluids			15	\$75,000
Location Expense	construction / reclamation		20	\$30,000
Contract Drilling	Feet	/ Foot	16	
Daywork	40 drlg./4 comp. Days	\$11,000 / Day	16	\$440,000
Workover Rig	6 Days	\$3,000 / Day	16	\$18,000
Directional Drilling - Tools & Equipment			43	
Mud Logging Services			44	\$25,000
Rig Mobilization & Demobilization			21	\$50,000
Stimulation	clean-up acid treatment		75	\$20,000
Special Services	DST tools / reports		09	\$12,000
Tubular Goods - Inspection & Testing				\$4,000
Telephone & Radio Expenses			73	\$300
COPAS Drilling Overhead				\$12,000
Plug & Abandon				\$12,000
Intangible Subtotal				\$924,100
Unclassified and	10 %	Contingencies		\$92,400
TOTAL INTANGIBLE COST				\$1,016,500

TANGIBLE COST

WELL TUBULAR GOODS							
	Feet	Drive Pipe		/ Foot	85		
	Feet	Conductor Casing		/ Foot	86		
450	Feet	13 3/8"	Surface Casing	\$20.00 / Foot	90	\$9,000	\$9,000
	Feet	Protection Casing		/ Foot	87		
4,550	Feet	9 5/8"	Intermediate	\$18.00 / Foot	88	\$81,900	\$81,900
	Feet	Production Liner		/ Foot	89		
13,600	Feet	5 1/2"	Production Casing	\$7.00 / Foot	92		\$95,200
12,500	Feet	2 7/8"	Tubing	\$3.50 / Foot			\$43,750
	Feet	Sucker Rods		/ Foot	53		
FLOWLINE							
~5,000	Feet	3"	Line Pipe - buried	\$6.00 / Foot			\$30,000
WELL EQUIPMENT							
Well Head & Christmas Tree		casing head, tubing head,5M tree			105	\$5,000	\$16,000
Packers and Downhole Equipment					78		\$8,000
Other Well Equipment		battery, separators, heater treater, meter,etc			95		\$30,000
TOTAL TANGIBLE COST						\$95,900	\$313,850
TOTAL ESTIMATED COST OF WELL						\$1,112,400	\$1,500,500

Justification for this request : Funds are requested to drill and complete a 13,600' Mississipian test well located in Sec. 6 - T16S - R35E, Lea County NM.

KUKUI Operating Company

JOINT INTEREST APPROVAL

Prepared By: Larry K. Strider
Approved By: John W. Wessels
Approved By: _____

Name of Joint Owner : _____
Approved By: _____
Date: _____
Accept OEEL Insurance ☐
Decline OEEL Insurance ☐

GEOLOGIC PROGNOSIS

Prospect:Degas **Well Name:** Degas '6' State Com #1
County: Lea **State:** New Mexico

Location: 1980' FNL, 1200' FEL, Section 6, T16S, R35E

Proposed TD: 13,600'

Objectives: Estimated Formation Tops:

<u>Formation</u>	<u>Est. Depth</u>
Rustler	1780'
Yates	2970'
San Andres	4500'
Glorietta	6500'
Tubb	7320'
Abo	7480'
Wolfcamp	9850'
Double 'X' Marker	10120'
Cisco	11600'
Strawn	11950'
Atoka	12400'
Atoka Sand	12650'
Morrow Lime	12740'
Morrow Clastics	12960'
Barnett Shale	13250'
Mississippian Lime	13350'

Install MUD Logger: @ 2800' (above Yates)

Anticipated MUD Weights: - Cut Brine/Salt Water (9-10 lbs/gal) from surface down to the top of the San Andres Fm.
- Fresh Mud/Cut Brine (9-10 lb/gal) mud with fluid loss in the 6-10 range across the Atoka & Morrow section.

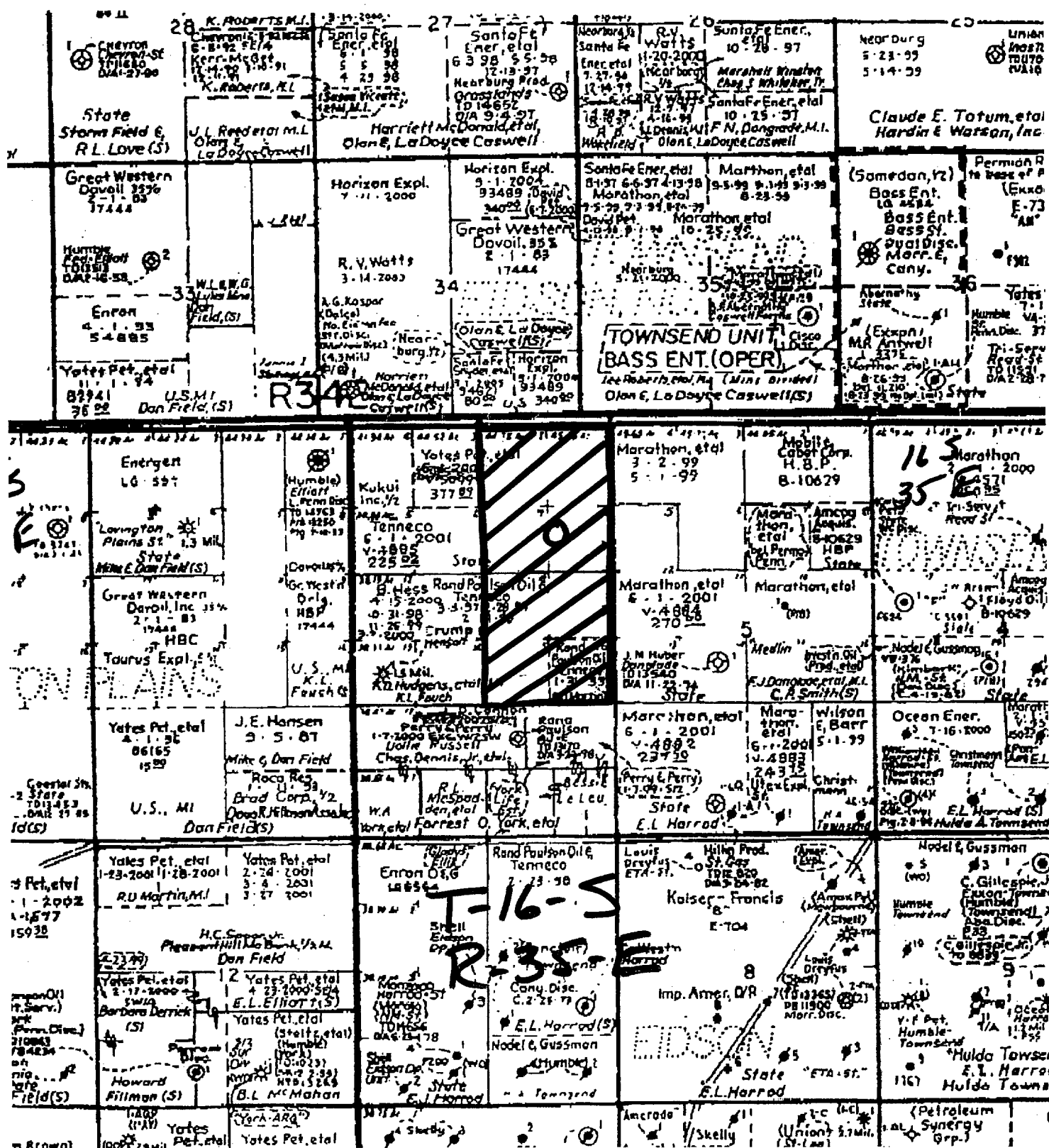
Protection Pipe Required: Surface Casing: 13.375" @ 450'
Intermediate: 9.625" or 8.625" @ 4550' (Just into the top of the San Andres)

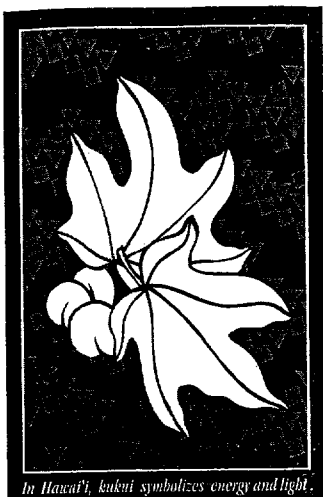
Potential Zones for DST: Wolfcamp, Cisco, Atoka & Morrow

Logging Program:

LOG SUITE
Run #1 DLL-GR
 CNL-LDT-GR
 BHC-Sonic-GR

INTERVALS
TD - Base Intermediate Casing
TD - Base Intermediate Casing
 (GR – Neutron to Surface)
TD - Base Intermediate Casing





KUKUI Operating Company

November 8, 2001

Wells Fargo Bank Texas, NA
Account #99-149600 – Armstrong Trust
P. O. Box 1959
Midland, TX 79701

Re: DeGas 6 State Com #1
Section 6-16S-35E
Lea County, NM

Gentlemen:

Please refer to our letter of September 25, 2001, concerning the subject well. Within the next few days we will make application with the New Mexico Oil Conservation Division for a hearing to force pool the interest included within the proposed 320 acre spacing unit for the subject well. We expect a December 2001 hearing date.

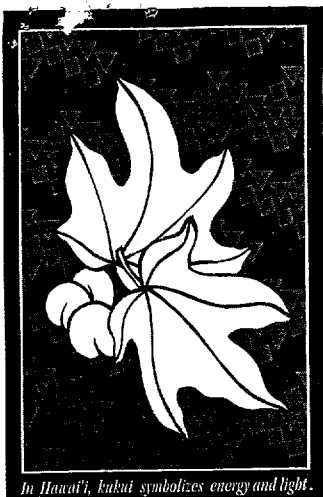
As mentioned in our previous letter, you may participate in the drilling of the proposed well by signing and returning the AFE included therewith. An operating agreement will be provided for your execution. Alternatively, we again hereby offer to lease your interest in lots 9, 10, 11, 12, 13, 14 and 15 on the same terms set forth in our September 25th letter.

Thank you very much for your consideration. Your early response to this proposal is appreciated.

Yours very truly,

Steve Sandlin
Vice President – Land

SS:le



KUKUI Operating Company

September 25, 2001

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Wells Fargo Bank Texas, NA
Account #99-149600 - Armstrong Trust
P. O. Box 1959
Midland, TX 79701

RE: DeGas 6 State Com #1
Section 6-16S-35E
Lea County, NM

Dear Sirs:

KUKUI Operating Company, on behalf of KUKUI, INC., hereby proposes the drilling of an approximate 13,600' Mississippian test well at a location 1980' FNL and 1200' FEL, Section 6, T16S, R35E, Lea County, New Mexico. Enclosed are two (2) copies of our AFE dated September 17, 2001 along with a drilling prognosis. We propose that the spacing unit for the test well be comprised of lots 1,2,7,8,9, 10,15 and 16 covering approximately 320 acres as outlined on the attached plat. We intend to commence drilling operations before February 1, 2002.

As the owner of an unleased mineral interest in lots 9, 10 and 15, you are entitled to participate in the drilling of the proposed well. If you wish to participate, please so indicate by signing and returning one copy of the enclosed AFE as soon as possible. We will prepare and forward for your review a proposed joint operating agreement.

If you prefer not to participate in the proposed well, further to previous conversations and/or correspondence from Mr. Steve Horn on our behalf, we again request a lease of your interest in lots 9,10,11,12,13,14 and 15, Section 6-16S-35E, Lea County, New Mexico, on the following terms:

- 49. A bonus consideration of \$200.00 per net mineral acre.
- 50. A 1/5 royalty.
- 51. Three (3) year primary term (paid-up)

Wells Fargo Bank Texas, N.A.
September 25, 2001
Page 2

If the above lease terms are acceptable, please so advise as soon as possible and we will forward an oil and gas lease for your signature. Your early response to this proposal is appreciated. Please call me at 713/658-1888 if you have any questions.

Yours very truly,

A handwritten signature in black ink, appearing to read "Steve Sandlin", with a stylized, flowing script.

Steve Sandlin
Vice President-Land

Enclosures

Is your **RETURN ADDRESS** completed on the reverse side?

SENDER:

- ☐ Complete items 1 and/or 2 for additional services.
- ☐ Complete items 3, 4a, and 4b.
- ☐ Print your name and address on the reverse of this form so that we can return this card to you.
- ☐ Attach this form to the front of the mailpiece, or on the back if space does not permit.
- ☐ Write "Return Receipt Requested" on the mailpiece below the article number.
- ☐ The Return Receipt will show to whom the article was delivered and the date delivered.

- I also wish to receive the following services (for an extra fee):
- 1. ☐ Addressee's Address
 - 2. ☐ Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

Wells Fargo Bank
Acct. #99-149600
P. O. Box 1959
Midland, TX 79701



4a. Article Number

Z 191 787 014

4b. Service Type

- ☐ Registered
- ☐ Express Mail
- ☐ Return Receipt for Merchandise
- ☐ COD

7. Date of Delivery

5. Received By: (Print Name)

8. Addressee's Address (Only if requested and fee is paid)

6. Signature: (Addressee or Agent)

X *Bernadette Kasper*

PS Form 3811, December 1994

102595-98-B-0229

Domestic Return Receipt

Z 191 787 014

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Wells Fargo Bank TX NA	
Street & Number	
Acct. #99-149600	
Post Office, State, & ZIP Code	
P. O. Box 1959	
Midland, TX	79701
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	
09/25/01	

Thank you for using Return Receipt Service.

KUKUI OPERATING COMPANY

COST ESTIMATE
DRILLING

AFE No. 10111
Supplement No.
STATE: New Mexico
FIELD: SE Eidson

PROSPECT: Mississipian Test COUNTY : LEA
DATE: 09/17/2001 WELL NAME Degas '6' State Com. #1

SUMMARY OF ESTIMATED COST

INTANGIBLE COST						
DESCRIPTION				SUB.	DRY HOLE	COMPLETED
Company Labor	45 Days @	\$650	/ Day	05	\$27,300	\$29,250
Outside Labor	roustabout, welding, casing crews, wellhead installation			10	\$15,000	\$20,000
Professional Services	surveys, permitting, consulting, title			12	\$6,000	\$8,000
Transportation - Land				70	\$5,000	\$8,000
Fuel, Power, & Water				61	\$60,000	\$70,000
Supplies - Miscellaneous				59	\$3,000	\$4,000
Supplies - Bits				60	\$58,000	\$60,000
Supplies - Casing Equipment	float shoes, centralizers			59	\$4,500	\$6,000
Supplies - Liner Equipment				59		
Water Tank Rental	1 ea.	500 bbl.	50 days (water storage)	40	\$2,000	\$3,000
Cement & Cement Services				11	\$20,000	\$36,000
Pump / Vacuum Truck Services				12	\$5,000	\$8,000
Drill Bits Drilling Tools & Services	chokes, separators, PVT, BHA			40	\$10,000	\$15,000
Drill Bits Miscellaneous	doghouse, forklift, trash bin, toilets, etc			40	\$10,000	\$12,000
Insurance	well control			91	\$12,000	\$12,000
Wireline Services	perforating, logging, coring			25	\$26,000	\$36,000
Drilling Fluids				15	\$75,000	\$85,000
Reclamation Expense	construction / reclamation			20	\$30,000	\$35,000
Contract Drilling	Feet		/ Foot	16		
Daywork	40 drlg/4 comp.	Days	\$11,000 / Day	16	\$440,000	\$484,000
Workover Rig	6 Days		\$3,000 / Day	16		\$18,000
Directional Drilling - Tools & Equipment				43		
Mud Logging Services				44	\$25,000	\$25,000
Log Mobilization & Demobilization				21	\$50,000	\$50,000
Acid Stimulation	clean-up acid treatment			75		\$20,000
Special Services	DST tools / reports			09	\$12,000	\$12,000
Tubular Goods - Inspection & Testing					\$4,000	\$8,000
Telephone & Radio Expenses				73	\$300	\$500
DPAS Drilling Overhead					\$12,000	\$14,000
Plug & Abandon					\$12,000	
Intangible Subtotal					\$924,100	\$1,078,750
Unclassified and	10	%	Contingencies		\$92,400	\$107,900
TOTAL INTANGIBLE COST					\$1,016,500	\$1,186,650

TANGIBLE COST								
WELL TUBULAR GOODS								
	Feet		Drive Pipe		/ Foot	85		
	Feet		Conductor Casing		/ Foot	86		
450	Feet	13 3/8"	Surface Casing	\$20.00	/ Foot	90	\$9,000	\$9,000
	Feet		Protection Casing		/ Foot	87		
4,550	Feet	9 5/8"	Intermediate	\$18.00	/ Foot	88	\$81,900	\$81,900
	Feet		Production Liner		/ Foot	89		
13,600	Feet	5 1/2"	Production Casing	\$7.00	/ Foot	92		\$95,200
12,500	Feet	2 7/8"	Tubing	\$3.50	/ Foot			\$43,750
	Feet		Sucker Rods		/ Foot	53		
LOWLINE								
~5,000	Feet	3"	Line Pipe - buried	\$6.00	/ Foot			\$30,000
WELL EQUIPMENT								
Well Head & Christmas Tree		casing head, tubing head,5M tree				105	\$5,000	\$16,000
Checkers and Downhole Equipment						78		\$8,000
Other Well Equipment		battery, separators, heater treater, meter,etc				95		\$30,000
TOTAL TANGIBLE COST							\$95,900	\$313,850
TOTAL ESTIMATED COST OF WELL							\$1,112,400	\$1,500,500

Justification for this request : Funds are requested to drill and complete a 13,600' Mississipian test well located in Sec. 6 - T16S - R35E , Lea County NM.

KUKUI Operating Company

JOINT INTEREST APPROVAL

Prepared By: Larry K. Strider
Approved By: John W. Wessels
Approved By:

Name of Joint Owner :
Approved By:
Date:
Accept OEEL Insurance ☐
Decline OEEL Insurance ☐

GEOLOGIC PROGNOSIS

Prospect: Degas **Well Name:** Degas '6' State Com #1
County: Lea **State:** New Mexico

Location: 1980' FNL, 1200' FEL, Section 6, T16S, R35E

Proposed TD: 13,600'

Objectives: Estimated Formation Tops:

<u>Formation</u>	<u>Est. Depth</u>
Rustler	1780'
Yates	2970'
San Andres	4500'
Glorietta	6500'
Tubb	7320'
Abo	7480'
Wolfcamp	9850'
Double 'X' Marker	10120'
Cisco	11600'
Strawn	11950'
Atoka	12400'
Atoka Sand	12650'
Morrow Lime	12740'
Morrow Clastics	12960'
Barnett Shale	13250'
Mississippian Lime	13350'

Install MUD Logger: @ 2800' (above Yates)

Anticipated MUD Weights: - Cut Brine/Salt Water (9-10 lbs/gal) from surface down to the top of the San Andres Fm.
- Fresh Mud/Cut Brine (9-10 lb/gal) mud with fluid loss in the 6-10 range across the Atoka & Morrow section.

Protection Pipe Required: Surface Casing: 13.375" @ 450'
Intermediate: 9.625" or 8.625" @ 4550' (Just into the top of the San Andres)

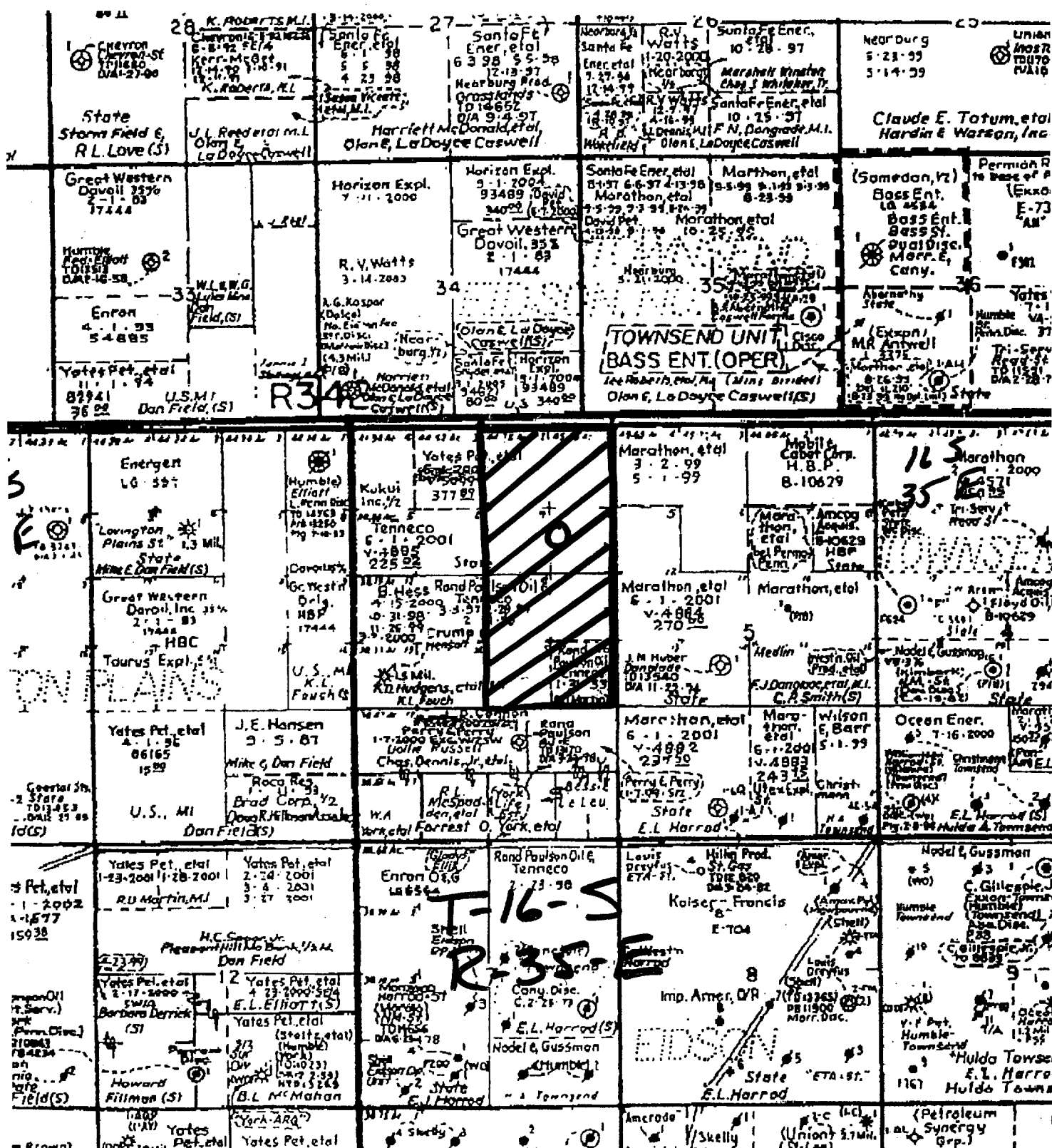
Potential Zones for DST: Wolfcamp, Cisco, Atoka & Morrow

Logging Program:

LOG SUITE
Run #1 DLL-GR
 CNL-LDT-GR

 BHC-Sonic-GR

INTERVALS
TD - Base Intermediate Casing
TD - Base Intermediate Casing
 (GR – Neutron to Surface)
' TD - Base Intermediate Casing





KUKUI Operating Company

September 25, 2001

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Wells Fargo Bank Texas, NA
Account #99-149600 - Armstrong Trust
P. O. Box 1959
Midland, TX 79701

RE: DeGas 6 State Com #1
Section 6-16S-35E
Lea County, NM

Dear Sirs:

KUKUI Operating Company, on behalf of KUKUI, INC., hereby proposes the drilling of an approximate 13,600' Mississippian test well at a location 1980' FNL and 1200' FEL, Section 6, T16S, R35E, Lea County, New Mexico. Enclosed are two (2) copies of our AFE dated September 17, 2001 along with a drilling prognosis. We propose that the spacing unit for the test well be comprised of lots 1,2,7,8,9, 10,15 and 16 covering approximately 320 acres as outlined on the attached plat. We intend to commence drilling operations before February 1, 2002.

As the owner of an unleased mineral interest in lots 9, 10 and 15, you are entitled to participate in the drilling of the proposed well. If you wish to participate, please so indicate by signing and returning one copy of the enclosed AFE as soon as possible. We will prepare and forward for your review a proposed joint operating agreement.

If you prefer not to participate in the proposed well, further to previous conversations and/or correspondence from Mr. Steve Horn on our behalf, we again request a lease of your interest in lots 9,10,11,12,13,14 and 15, Section 6-16S-35E, Lea County, New Mexico, on the following terms:

- 49. A bonus consideration of \$200.00 per net mineral acre.
- 50. A 1/5 royalty.
- 51. Three (3) year primary term (paid-up)

Wells Fargo Bank Texas, N.A.
September 25, 2001
Page 2

If the above lease terms are acceptable, please so advise as soon as possible and we will forward an oil and gas lease for your signature. Your early response to this proposal is appreciated. Please call me at 713/658-1888 if you have any questions.

Yours very truly,

A handwritten signature in black ink, appearing to read "Steve Sandlin", with a stylized, flowing script.

Steve Sandlin
Vice President-Land

Enclosures

Is your **RETURN ADDRESS** completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

- 1. ☐ Addressee's Address
 - 2. ☐ Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

Wells Fargo Bank
Acct. #99-149600
P. O. Box 1959
Midland, TX 79701



4a. Article Number

Z 191 787 014

4b. Service Type

- ☐ Registered
- ☐ Express Mail
- ☐ Return Receipt for Merchandise
- ☒ Certified
- ☐ Insured
- ☐ COD

7. Date of Delivery

5. Received By: (Print Name)

8. Addressee's Address (Only if requested and fee is paid)

6. Signature: (Addressee or Agent)

X *Brenda Kosar*

PS Form 3811, December 1994

102595-98-B-0229

Domestic Return Receipt

Z 191 787 014

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Wells Fargo Bank TX NA	
Street & Number	
Acct. #99-149600	
Post Office, State, & ZIP Code	
P. O. Box 1959	
Midland, TX	79701
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	
09/25/01	

Thank you for using Return Receipt Service.

KUKUI OPERATING COMPANY

COST ESTIMATE
DRILLING

AFE No. 10111
Supplement No.
STATE: New Mexico
FIELD: SE Eidson

PROJECT: Mississipian Test COUNTY: LEA
DATE: 09/17/2001 WELL NAME Degas '6' State Com. #1

SUMMARY OF ESTIMATED COST

TANGIBLE COST					
DESCRIPTION				SUB.	COMPLETED
Manpower Labor	45 Days @	\$650 / Day		05	\$27,300
Side Labor	roustabout, welding, casing crews, wellhead installation			10	\$15,000
Professional Services	surveys, permitting, consulting, title			12	\$6,000
Transportation - Land				70	\$5,000
Electricity, Power, & Water				61	\$60,000
Supplies - Miscellaneous				59	\$3,000
Supplies - Bits				60	\$58,000
Supplies - Casing Equipment	float shoes, centralizers			59	\$4,500
Supplies - Liner Equipment				59	
Tank Rental	1 ea. - 500 bbl.	50 days (water storage)		40	\$2,000
Cement & Cement Services				11	\$20,000
Compressor / Vacuum Truck Services				12	\$5,000
Specialty Drilling Tools & Services	chokes, separators, PVT, BHA			40	\$10,000
Specialty Miscellaneous	doghouse, forklift, trash bin, toilets, etc			40	\$10,000
Well Control	well control			91	\$12,000
Wellbore Services	perforating, logging, coring			25	\$26,000
Drilling Fluids				15	\$75,000
Construction Expense	construction / reclamation			20	\$30,000
Drill Tract Drilling	Feet	/ Foot		16	
Drill Work	40 drlg./4 comp.	Days	\$11,000 / Day	16	\$440,000
Drill Rigger	6 Days		\$3,000 / Day	16	\$18,000
Drill Tools & Equipment				43	
Drill Logging Services				44	\$25,000
Mobilization & Demobilization				21	\$50,000
Drill Acidulation	clean-up acid treatment			75	\$20,000
Drill Services	DST tools / reports			09	\$12,000
Drill Goods - Inspection & Testing					\$4,000
Drill Phone & Rental Expenses				73	\$300
Drill AS Drilling Overhead					\$12,000
Drill & Abandonment					\$12,000
Drill Subtotal					\$924,100
Drill Classified and	10 %	Contingencies			\$92,400
TOTAL INTANGIBLE COST					\$1,016,500

TANGIBLE COST							
TUBULAR GOODS							
	Feet	Drive Pipe		/ Foot	85		
	Feet	Conductor Casing		/ Foot	86		
450	Feet	13 3/8"	Surface Casing	\$20.00 / Foot	90	\$9,000	\$9,000
	Feet	Protection Casing		/ Foot	87		
4,550	Feet	9 5/8"	Intermediate	\$18.00 / Foot	88	\$81,900	\$81,900
	Feet	Production Liner		/ Foot	89		
13,600	Feet	5 1/2"	Production Casing	\$7.00 / Foot	92		\$95,200
12,500	Feet	2 7/8"	Tubing	\$3.50 / Foot			\$43,750
	Feet	Sucker Rods		/ Foot	53		
WELINE							
~5,000	Feet	3"	Line Pipe - buried	\$6.00 / Foot			\$30,000
WELL EQUIPMENT							
Head & Christmas Tree		casing head, tubing head, 5M tree			105	\$5,000	\$16,000
Tools and Downhole Equipment					78		\$8,000
Surface Well Equipment		battery, separators, heater treater, meter, etc			95		\$30,000
TOTAL TANGIBLE COST						\$95,900	\$313,850
TOTAL ESTIMATED COST OF WELL						\$1,112,400	\$1,500,500

Justification for this request : Funds are requested to drill and complete a 13,600' Mississipian test well located in Sec. 6 - T16S - R35E , Lea County NM.

KUKUI Operating Company	JOINT INTEREST APPROVAL
Prepared By: Larry K. Strider	Name of Joint Owner :
Reviewed By: John W. Wessels	Approved By:
Reviewed By:	Date:
	Accept OEEL Insurance <input type="checkbox"/>
	Decline OEEL Insurance <input type="checkbox"/>

Prepared By: John Thoma
Date: April 11, 2001

GEOLOGIC PROGNOSIS

Prospect:Degas **Well Name:** Degas '6' State Com #1
County: Lea **State:** New Mexico

Location: 1980' FNL, 1200' FEL, Section 6, T16S, R35E

Proposed TD:13,600'

Objectives: Estimated Formation Tops:

<u>Formation</u>	<u>Est. Depth</u>
Rustler	1780'
Yates	2970'
San Andres	4500'
Glorietta	6500'
Tubb	7320'
Abo	7480'
Wolfcamp	9850'
Double 'X' Marker	10120'
Cisco	11600'
Strawn	11950'
Atoka	12400'
Atoka Sand	12650'
Morrow Lime	12740'
Morrow Clastics	12960'
Barnett Shale	13250'
Mississippian Lime	13350'

Install MUD Logger: @ 2800' (above Yates)

Anticipated MUD Weights: - Cut Brine/Salt Water (9-10 lbs/gal) from surface down to the top of the San Andres Fm.
- Fresh Mud/Cut Brine (9-10 lb/gal) mud with fluid loss in the 6-10 range across the Atoka & Morrow section.

Protection Pipe Required: Surface Casing: 13.375" @ 450'
Intermediate: 9.625" or 8.625" @ 4550' (Just into the top of the San Andres)

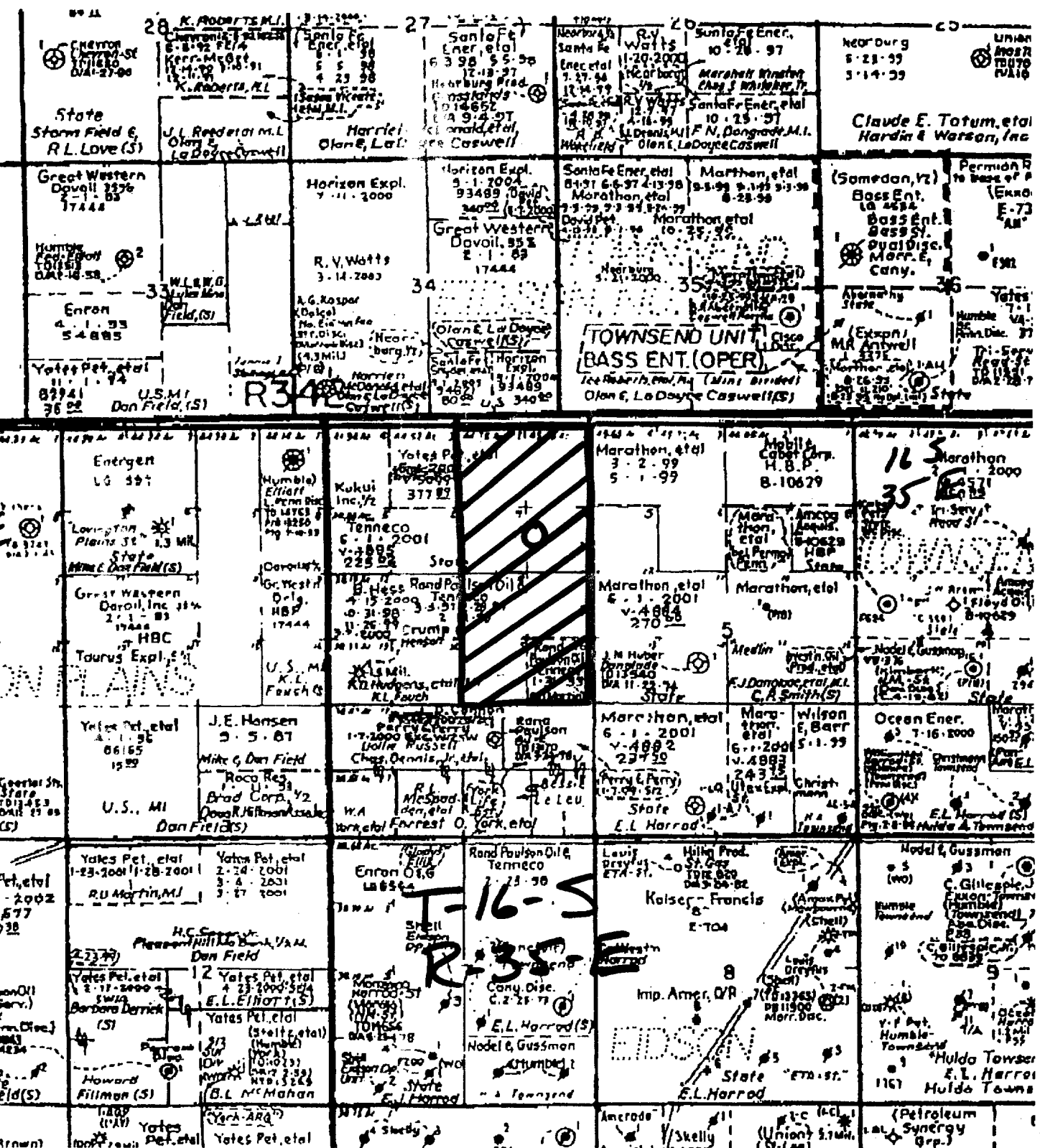
Potential Zones for DST: Wolfcamp, Cisco, Atoka & Morrow

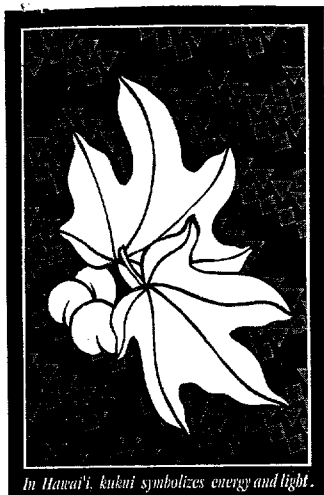
Logging Program:

LOG SUITE
Run #1 DLL-GR
 CNL-LDT-GR

 BHC-Sonic-GR

INTERVALS
TD - Base Intermediate Casing
TD - Base Intermediate Casing
 (GR - Neutron to Surface)
TD - Base Intermediate Casing





KUKUI Operating Company

September 25, 2001

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

David A. Lynch
P. O. Box 1904
Lovington, NM 88260

RE: DeGas 6 State Com #1
Section 6-16S-35E
Lea County, NM

Dear Mr. Lynch:

KUKUI Operating Company, on behalf of KUKUI, INC., hereby proposes the drilling of an approximate 13,600' Mississippian test well at a location 1980' FNL and 1200' FEL, Section 6, T16S, R35E, Lea County, New Mexico. Enclosed are two (2) copies of our AFE dated September 17, 2001 along with a drilling prognosis. We propose that the spacing unit for the test well be comprised of lots 1,2,7,8,9, 10,15 and 16 covering approximately 320 acres as outlined on the attached plat. We intend to commence drilling operations before February 1, 2002.

As the owner of an unleased mineral interest in lots 9, 10 and 15, you are entitled to participate in the drilling of the proposed well. If you wish to participate, please so indicate by signing and returning one copy of the enclosed AFE as soon as possible. We will prepare and forward for your review a proposed joint operating agreement.

If you prefer not to participate in the proposed well, further to previous conversations and/or correspondence from Mr. Steve Horn on our behalf, we again request a lease of your interest in lots 9,10,11,12,13,14 and 15, Section 6-16S-35E, Lea County, New Mexico, on the following terms:

19. A bonus consideration of \$200.00 per net mineral acre.
20. A 1/5 royalty.
21. Three (3) year primary term (paid-up)

David A. Lynch
September 25, 2001
Page 2

If the above lease terms are acceptable, please so advise as soon as possible and we will forward an oil and gas lease for your signature. Your early response to this proposal is appreciated. Please call me at 713/658-1888 if you have any questions.

Yours very truly,



Steve Sandlin
Vice President-Land

Enclosures

- Leased to Dalco (D. Lynch) along with Viola Barton.
- Does not want to participate - will grant 6 months free term assign.
- Not acceptable to Kula.

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

David A. Lynch
P. O. Box 1904
Lovington, NM 88260

4a. Article Number

2 191 787 020

4b. Service Type

- | | |
|---|---|
| <input type="checkbox"/> Registered | <input checked="" type="checkbox"/> Certified |
| <input type="checkbox"/> Express Mail | <input type="checkbox"/> Insured |
| <input type="checkbox"/> Return Receipt for Merchandise | <input type="checkbox"/> COD |

7. Date of Delivery

10-1-07

5. Received By: (Print Name)

David A. Lynch

6. Signature: (Addressee or Agent)

X

David A. Lynch

8. Addressee's Address (Only if requested and fee is paid)

Thank you for using Return Receipt Service.

PS Form 3811, December 1994

102595-98-B-0229

Domestic Return Receipt

Z 191 787 020

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Send to:

David A. Lynch

P.O. Box 1904

Lovington, NM 88260

Post Office, State, & ZIP Code

Postage \$

Certified Fee

Special Delivery Fee

Restricted Delivery Fee

Return Receipt Showing to Whom & Date Delivered

Return Receipt Showing to Whom, Date, & Addressee's Address

TOTAL Postage & Fees \$

Postmark or Date

PS Form 3800, April 1995

KUKUI OPERATING COMPANY

COST ESTIMATE
DRILLING

AFE No .
Supplement No.
STATE:
FIELD:

10111
New Mexico
SE Eidson

PROSPECT: Mississippian Test COUNTY : LEA
DATE: 09/17/2001 WELL NAME Degas '6' State Com. #1

SUMMARY OF ESTIMATED COST

INTANGIBLE COST						
DESCRIPTION				SUB.	DRY HOLE	COMPLETED
Company Labor	45 Days @	\$650	/ Day	05	\$27,300	\$29,250
Outside Labor	roustabout, welding, casing crews, wellhead installation			10	\$15,000	\$20,000
Professional Services	surveys, permitting, consulting, title			12	\$6,000	\$8,000
Transportation - Land				70	\$5,000	\$8,000
Fuel , Power , & Water				61	\$60,000	\$70,000
Supplies - Miscellaneous				59	\$3,000	\$4,000
Supplies - Bits				60	\$58,000	\$60,000
Supplies - Casing Equipment	float shoes, centralizers			59	\$4,500	\$6,000
Supplies - Liner Equipment				59		
Frac Tank Rental	1 ea. -	500 bbl.	50 days (water storage)	40	\$2,000	\$3,000
Cement & Cement Services				11	\$20,000	\$36,000
Pump / Vaccum Truck Services				12	\$5,000	\$8,000
Rentals Drilling Tools & Services	chokes, separators, PVT, BHA			40	\$10,000	\$15,000
Rentals Miscellaneous	doghouse, forklift, trash bin, toilets, etc			40	\$10,000	\$12,000
Insurance	well control			91	\$12,000	\$12,000
Wireline Services	perforating, logging, coring			25	\$26,000	\$36,000
Drilling Fluids				15	\$75,000	\$85,000
Location Expense	construction / reclamation			20	\$30,000	\$35,000
Contract Drilling	Feet		/ Foot	16		
Daywork	40 drlg./4 comp.	Days	\$11,000 / Day	16	\$440,000	\$484,000
Workover Rig	6 Days		\$3,000 / Day	16		\$18,000
Directional Drilling - Tools & Equipment				43		
Mud Logging Services				44	\$25,000	\$25,000
Rig Mobilization & Demobilization				21	\$50,000	\$50,000
Stimulation	clean-up acid treatment			75		\$20,000
Special Services	DST tools / reports			09	\$12,000	\$12,000
Tubular Goods - Inspection & Testing					\$4,000	\$8,000
Telephone & Radio Expenses				73	\$300	\$500
COPAS Drilling Overhead					\$12,000	\$14,000
Plug & Abandon					\$12,000	
Intangible Subtotal					\$924,100	\$1,078,750
Unclassified and	10 %	Contingencies			\$92,400	\$107,900
TOTAL INTANGIBLE COST					\$1,016,500	\$1,186,650

TANGIBLE COST

WELL TUBULAR GOODS								
	Feet	Drive Pipe			/ Foot	85		
	Feet	Conductor Casing			/ Foot	86		
450	Feet	13 3/8"	Surface Casing	\$20.00	/ Foot	90	\$9,000	\$9,000
	Feet	Protection Casing			/ Foot	87		
4,550	Feet	9 5/8"	Intermediate	\$18.00	/ Foot	88	\$81,900	\$81,900
	Feet	Production Liner			/ Foot	89		
13,600	Feet	5 1/2"	Production Casing	\$7.00	/ Foot	92		\$95,200
12,500	Feet	2 7/8"	Tubing	\$3.50	/ Foot			\$43,750
	Feet	Sucker Rods			/ Foot	53		
FLOWLINE								
~5,000	Feet	3"	Line Pipe - buried	\$6.00	/ Foot			\$30,000
WELL EQUIPMENT								
Well Head & Christmas Tree		casing head, tubing head,5M tree				105	\$5,000	\$16,000
Packers and Downhole Equipment						78		\$8,000
Other Well Equipment		battery, separators, heater treater, meter,etc				95		\$30,000
TOTAL TANGIBLE COST							\$95,900	\$313,850
TOTAL ESTIMATED COST OF WELL							\$1,112,400	\$1,500,500

Justification for this request : Funds are requested to drill and complete a 13,600' Mississippian test well located in Sec. 6 - T16S - R35E , Lea County NM.

KUKUI Operating Company

JOINT INTEREST APPROVAL

Prepared By: Larry K. Strider
Approved By: John W. Wessels
Approved By:

Name of Joint Owner :
Approved By:
Date:
Accept OEEL Insurance
Decline OEEL Insurance

GEOLOGIC PROGNOSIS

Prospect:Degas **Well Name:** Degas '6' State Com #1
County: Lea **State:** New Mexico

Location: 1980' FNL, 1200' FEL, Section 6, T16S, R35E

Proposed TD: 13,600'

Objectives: Estimated Formation Tops:

<u>Formation</u>	<u>Est. Depth</u>
Rustler	1780'
Yates	2970'
San Andres	4500'
Glorietta	6500'
Tubb	7320'
Abo	7480'
Wolfcamp	9850'
Double 'X' Marker	10120'
Cisco	11600'
Strawn	11950'
Atoka	12400'
Atoka Sand	12650'
Morrow Lime	12740'
Morrow Clastics	12960'
Barnett Shale	13250'
Mississippian Lime	13350'

Install MUD Logger: @ 2800' (above Yates)

Anticipated MUD Weights: - Cut Brine/Salt Water (9-10 lbs/gal) from surface down to the top of the San Andres Fm.
- Fresh Mud/Cut Brine (9-10 lb/gal) mud with fluid loss in the 6-10 range across the Atoka & Morrow section.

Protection Pipe Required: Surface Casing: 13.375" @ 450'
Intermediate: 9.625" or 8.625" @ 4550' (Just into the top of the San Andres)

Potential Zones for DST: Wolfcamp, Cisco, Atoka & Morrow

Logging Program:

	<u>LOG SUITE</u>	<u>INTERVALS</u>
Run #1	DLL-GR	TD - Base Intermediate Casing
	CNL-LDT-GR	TD - Base Intermediate Casing (GR – Neutron to Surface)
	BHC-Sonic-GR	TD - Base Intermediate Casing



KUKUI Operating Company

September 25, 2001

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

620 Viola Mae Barton, SSP
602 West Avenue B
Lovington, NM 88260

RE: DeGas 6 State Com #1
Section 6-16S-35E
Lea County, NM

Dear Ms. Barton:

KUKUI Operating Company, on behalf of KUKUI, INC., hereby proposes the drilling of an approximate 13,600' Mississippian test well at a location 1980' FNL and 1200' FEL, Section 6, T16S, R35E, Lea County, New Mexico. Enclosed are two (2) copies of our AFE dated September 17, 2001 along with a drilling prognosis. We propose that the spacing unit for the test well be comprised of lots 1,2,7,8,9, 10,15 and 16 covering approximately 320 acres as outlined on the attached plat. We intend to commence drilling operations before February 1, 2002.

As the owner of an unleased mineral interest in lots 9, 10 and 15, you are entitled to participate in the drilling of the proposed well. If you wish to participate, please so indicate by signing and returning one copy of the enclosed AFE as soon as possible. We will prepare and forward for your review a proposed joint operating agreement.

If you prefer not to participate in the proposed well, further to previous conversations and/or correspondence from Mr. Steve Horn on our behalf, we again request a lease of your interest in lots 9,10,11,12,13,14 and 15, Section 6-16S-35E, Lea County, New Mexico, on the following terms:

- 22. A bonus consideration of \$200.00 per net mineral acre.
- 23. A 1/5 royalty.
- 24. Three (3) year primary term (paid-up)

10/2/01
Per Mrs Barton
Leased to David Lynch
in Aug. 2001 for
3 years. SS

David Lynch
505-396-2912
Dalco Pet. LLC.

Viola Mae Barton, SSP
September 25, 2001
Page 2

If the above lease terms are acceptable, please so advise as soon as possible and we will forward an oil and gas lease for your signature. Your early response to this proposal is appreciated. Please call me at 713/658-1888 if you have any questions.

Yours very truly,

A handwritten signature in black ink, appearing to read "Steve Sandlin", with a stylized, flowing script.

Steve Sandlin
Vice President-Land

Enclosures

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

- 1. ☐ Addressee's Address
- 2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Viola Mae Barton, SSP
~~602~~ West Avenue B
Lovington, NM 88260
620

4a. Article Number

2 191 787 021

4b. Service Type

- ☐ Registered ☒ Certified
- ☐ Express Mail ☐ Insured
- ☐ Return Receipt for Merchandise ☐ COD

7. Date of Delivery

9-29-91

5. Received By: (Print Name)

Viola Barton

6. Signature: (Addressee or Agent)

X Viola Barton

8. Addressee's Address (Only if requested and fee is paid)

Thank you for using Return Receipt Service.

PS Form 3811, December 1994

102595-96-B-0229

Domestic Return Receipt

Z 191 787 021

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to		Viola Mae Barton, SSP	
		602 West Avenue B	
		Lovington, NM 88260	
Postage		\$	
Certified Fee			
Special Delivery Fee			
Restricted Delivery Fee			
Return Receipt Showing to Whom & Date Delivered			
Return Receipt Showing to Whom, Date, & Addressee's Address			
TOTAL Postage & Fees		\$	
Postmark or Date			

PS Form 3800, April 1995

KUKUI OPERATING COMPANY

COST ESTIMATE DRILLING

AFE No .
Supplement No.
STATE:
FIELD:

10111

PROSPECT: Mississippian Test COUNTY : LEA
DATE: 09/17/2001 WELL NAME Degas '6' State Com. #1

New Mexico
SE Eidson

SUMMARY OF ESTIMATED COST

INTANGIBLE COST							
DESCRIPTION					SUB.	DRY HOLE	COMPLETED
Company Labor	45 Days @	\$650	/ Day		05	\$27,300	\$29,250
Outside Labor	roustabout, welding, casing crews, wellhead installation				10	\$15,000	\$20,000
Professional Services	surveys, permitting, consulting, title				12	\$6,000	\$8,000
Transportation - Land					70	\$5,000	\$8,000
Fuel , Power , & Water					61	\$60,000	\$70,000
Supplies - Miscellaneous					59	\$3,000	\$4,000
Supplies - Bits					60	\$58,000	\$60,000
Supplies - Casing Equipment	float shoes, centralizers				59	\$4,500	\$6,000
Supplies - Liner Equipment					59		
Frac Tank Rental	1 ea. - 500 bbl.	50 days (water storage)			40	\$2,000	\$3,000
Cement & Cement Services					11	\$20,000	\$36,000
Pump / Vacuum Truck Services					12	\$5,000	\$8,000
Rentals Drilling Tools & Services	chokes, separators, PVT, BHA				40	\$10,000	\$15,000
Rentals Miscellaneous	doghouse, forklift, trash bin, toilets, etc				40	\$10,000	\$12,000
Insurance	well control				91	\$12,000	\$12,000
Wireline Services	perforating, logging, coring				25	\$26,000	\$36,000
Drilling Fluids					15	\$75,000	\$85,000
Location Expense	construction / reclamation				20	\$30,000	\$35,000
Contract Drilling	Feet		/ Foot		16		
Daywork	40 drlg./4 comp.	Days	\$11,000	/ Day	16	\$440,000	\$484,000
Workover Rig	6 Days		\$3,000	/ Day	16		\$18,000
Directional Drilling - Tools & Equipment					43		
Mud Logging Services					44	\$25,000	\$25,000
Rig Mobilization & Demobilization					21	\$50,000	\$50,000
Stimulation	clean-up acid treatment				75		\$20,000
Special Services	DST tools / reports				09	\$12,000	\$12,000
Tubular Goods - Inspection & Testing						\$4,000	\$8,000
Telephone & Radio Expenses					73	\$300	\$500
COPAS Drilling Overhead						\$12,000	\$14,000
Plug & Abandon						\$12,000	
Intangible Subtotal						\$924,100	\$1,078,750
Unclassified and	10 %	Contingencies				\$92,400	\$107,900
TOTAL INTANGIBLE COST						\$1,016,500	\$1,186,650

TANGIBLE COST

WELL TUBULAR GOODS								
	Feet	Drive Pipe			/ Foot	85		
	Feet	Conductor Casing			/ Foot	86		
450	Feet	13 3/8"	Surface Casing	\$20.00	/ Foot	90	\$9,000	\$9,000
	Feet	Protection Casing			/ Foot	87		
4,550	Feet	9 5/8"	Intermediate	\$18.00	/ Foot	88	\$81,900	\$81,900
	Feet	Production Liner			/ Foot	89		
13,600	Feet	5 1/2"	Production Casing	\$7.00	/ Foot	92		\$95,200
12,500	Feet	2 7/8"	Tubing	\$3.50	/ Foot			\$43,750
	Feet	Sucker Rods			/ Foot	53		
FLOWLINE								
~5,000	Feet	3"	Line Pipe - buried	\$6.00	/ Foot			\$30,000
WELL EQUIPMENT								
Well Head & Christmas Tree		casing head, tubing head,5M tree				105	\$5,000	\$16,000
Packers and Downhole Equipment						78		\$8,000
Other Well Equipment		battery, separators, heater treater, meter,etc				95		\$30,000
TOTAL TANGIBLE COST							\$95,900	\$313,850
TOTAL ESTIMATED COST OF WELL							\$1,112,400	\$1,500,500

Justification for this request : Funds are requested to drill and complete a 13,600' Mississippian test well located in Sec. 6 - T16S - R35E , Lea County NM.

KUKUI Operating Company

JOINT INTEREST APPROVAL

Prepared By: Larry K. Strider
Approved By: John W. Wessels
Approved By: _____

Name of Joint Owner : _____
Approved By: _____
Date: _____

Accept OEEL Insurance ☐
Decline OEEL Insurance ☐

GEOLOGIC PROGNOSIS

Prospect:Degas **Well Name:** Degas '6' State Com #1
County: Lea **State:** New Mexico

Location: 1980' FNL, 1200' FEL, Section 6, T16S, R35E

Proposed TD: 13,600'

Objectives: Estimated Formation Tops:

<u>Formation</u>	<u>Est. Depth</u>
Rustler	1780'
Yates	2970'
San Andres	4500'
Glorietta	6500'
Tubb	7320'
Abo	7480'
Wolfcamp	9850'
Double 'X' Marker	10120'
Cisco	11600'
Strawn	11950'
Atoka	12400'
Atoka Sand	12650'
Morrow Lime	12740'
Morrow Clastics	12960'
Barnett Shale	13250'
Mississippian Lime	13350'

Install MUD Logger: @ 2800' (above Yates)

Anticipated MUD Weights: - Cut Brine/Salt Water (9-10 lbs/gal) from surface down to the top of the San Andres Fm.
- Fresh Mud/Cut Brine (9-10 lb/gal) mud with fluid loss in the 6-10 range across the Atoka & Morrow section.

Protection Pipe Required: Surface Casing: 13.375" @ 450'
Intermediate: 9.625" or 8.625" @ 4550' (Just into the top of the San Andres)

Potential Zones for DST: Wolfcamp, Cisco, Atoka & Morrow

Logging Program:

	<u>LOG SUITE</u>	<u>INTERVALS</u>
Run #1	DLL-GR	TD - Base Intermediate Casing
	CNL-LDT-GR	TD - Base Intermediate Casing (GR – Neutron to Surface)
	BHC-Sonic-GR	TD - Base Intermediate Casing

