

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. <u>12773</u> 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,

Steve Sandlin

Vice President-Land

Enclosures

KUKUI OPERATING COMPANY

COST ESTIMATE

DRILLING

AFE No. Supplement No. 10111

INTANGIBLE COST

PROSPECT: Mississipian Test COUNTY: 09/17/2001

LEA

WELL NAME Degas '6' State Com. #1

STATE: FIELD:

New Mexico SE Eidson

SUMMARY OF ESTIMATED 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	ψ. <u>,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,</u>	40,000
Frac Tank Rental 1 ea 500 bbl. 50 days (water storage)	40	\$2,000	\$3,000
Cement & Cement Services	11	\$20,000	\$36,000
	12	\$5,000	\$8,000
Pump / Vaccum Truck Services			
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	<u> </u>
Intangible Subtotal	1	\$924,100	\$1,078,750
Unclassified and 10 % Contingencies	1	\$92,400	\$107,900
TOTAL INTANGIBLE COST	1	\$1,016,500	\$1,186,650
TANGIBLE COST	J	\$1,010,500	\$1,100,030
WELL TUBULAR GOODS	·····		
	85	· · ·	· · · · · · · · · · · · · · · · · · ·
Feet Drive Pipe / Foot			
Feet Conductor Casing / Foot	86	# 0.000	<u>*************************************</u>
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: Approved By: Approved By:	Larry K. Strider John W. Wessels	Name of Joint Owner : Approved By: Date:	
		Accept OEEL Insurance Decline OEEL Insurance	

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:

Formation	Est. Depth
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'

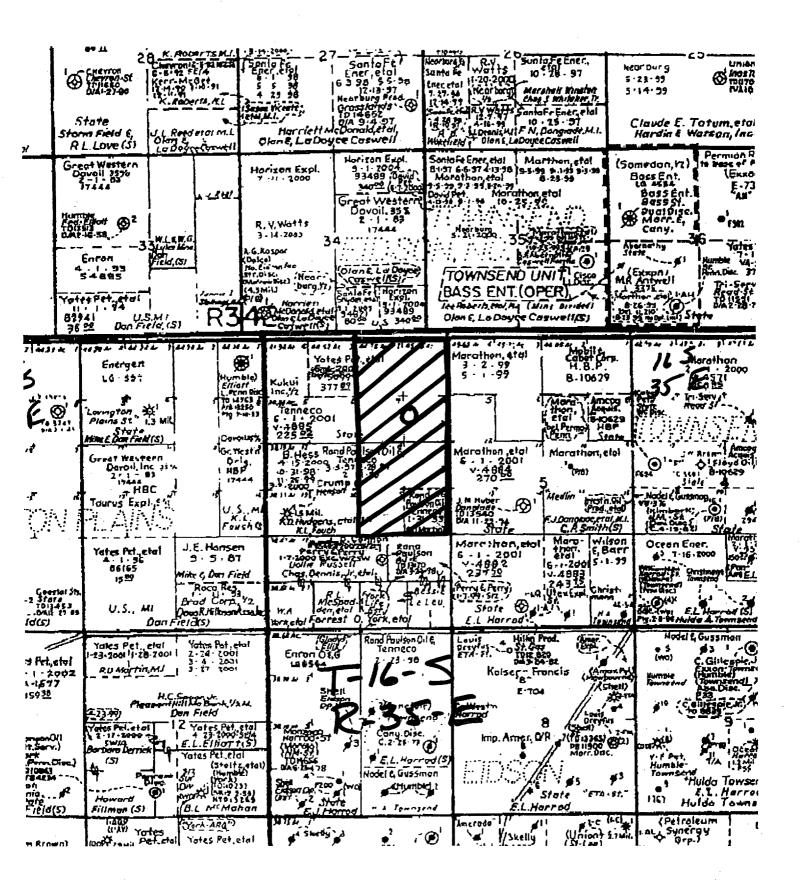
Intermediate: 9.625" or 8.625" @ 4550' (Just into the top of the San Andres)

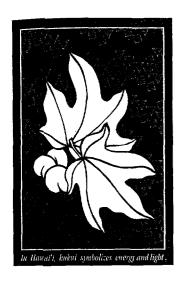
Potential Zones for DST: Wolfcamp, Cisco, Atoka & Morrow

Logging Program:

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

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





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.

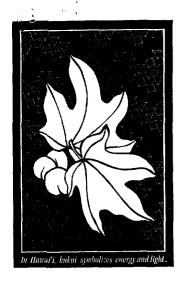
Thank you very much for your consideration. Your early response to this proposal is appreciated.

Yours very truly,

Steve Sandlin

Vice President - Land

SS:le



September 25, 2001

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Enclosures

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US Postal Service

Receipt for Certified Mail
No Insurance Coverage Provided.
Do not use for International Mail (See reverse)
Sent Brian Scarborough
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Post Office, Sale, & ZIP Code
Certified Fee
Special Delivery Fee
Speci

KUKUI OPERATING COMPANY

COST ESTIMATE DRILLING

AFE No. Supplement No. 10111

DATE:

PROSPECT: Mississipian Test COUNTY:

09/17/2001

LEA

WELL NAME Degas '6' State Com. #1

STATE: FIELD:

New Mexico SE Eidson

SUMMARY OF ESTIMATED COST

INTANGIBLE CO	ST		D CATALOGUE					
		DESC	CRIPTION			SUB.	DRY HOLE	COMPLETED
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Outside Labor			g, casing crews, wellhe	ad installation		10	\$15,000	\$20,000
rofessional Services		<u></u>	surveys, permitting,			12	\$6,000	\$8,000
ransportation - Land	<u> </u>			¥:		70	\$5,000	\$8,000
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upplies - Liner Equ						59		40,000
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ocation Expense			construction / reclam	nation		20	\$30,000	\$35,000
		Feet	Construction / Tectan	/ Foot		16	\$30,000	\$33,000
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Aud Logging Service		.•			·	44	\$25,000	\$25,000
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elephone & Radio E						13	\$12,000	\$14,000
OPAS Drilling Over	nead					 -	\$12,000	\$14,000
lug & Abandon								¢1 070 750
ntangible Subtotal		10 0/	O				\$924,100	\$1,078,750
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	Feet		Drive Pipe		/ Foot	85		
	Feet	10.000	Conductor Casing	***	/ Foot	86	40.000	
450	Feet	13 3/8"		\$20.00	/ Foot	90	\$9,000	\$9,000
	Feet	0.5/05	Protection Casing	610.00	/ Foot	87		***
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	Feet	·	Sucker Rods	· · · · · · · · · · · · · · · · · · ·	/ Foot	53		
LOWLINE								
~5,000	Feet	3"	Line Pipe - buried	\$6.00	/ Foot	1		\$30,000
VELL EQUIPMENT			·					
Vell Head & Christm			casing head, tubing h	ead,5M tree		105	\$5,000	\$16,000
ackers and Downhol		nt				78		\$8,000
other Well Equipmen	it		battery, separators, he	eater treater, n	neter,etc	95		\$30,000
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TOTAL ESTIMATED COST OF WELL

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\$95,900

\$1,112,400

\$313,850

\$1,500,500

TOTAL TANGIBLE COST

JKUI Operating Company		JOINT INTEREST APPROVAL		*
epared By:	Larry K. Strider	Name of Joint Owner:		
pproved By:	John W. Wessels	Approved By:		
pproved By:		Date:		
		Accept OEEL Insurance		
		Decline OFFI Insurance	•	

Prepared By: John Thoma

Date: April 11, 2001

GEOLOGIC PROGNOSIS

Prospect:Degas

Well Name: Degas '6' State Com #1

County: Lea

State: New Mexico

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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:

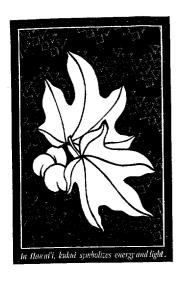
Run #1 DLL-GR TD - Base Intermediate Casing

CNL-LDT-GR TD - Base Intermediate Casing

(GR – Neutron to Surface)

BHC-Sonic-GR TD - Base Intermediate Casing

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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 ¼ 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,

Willen Or Jo

Enclosure (1)

produced under the terms of this lease:

PAID-UP OIL AND GAS LEASE



THIS AGREEMENT cor	esisting 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" (wh Houston, Texas 770	ether one or more) and <u>KUKUI Operating Company</u> , 1415 Louisiana, Suite 3650,
hereinafter called "Lessee".	
WITNESSETH:	
consideration, of the royalties lets exclusively unto Lessee for only, laying pipe lines, building	consideration of the sum of Ten & No/100 Dollars (\$10.00) and other good and valuable herein provided, and of the agreements of Lessee herein contained, hereby grants, leases and r the purpose of investigating, exploring, prospecting and drilling for and producing oil and gas g tanks, power stations, telephone lines and other structures thereon to produce, save, take care id products, in and on the following described land in County, State of ::
	T-16-S, R-35-E, N.M.P.M.
	Section 6: Lots 9, 10 & 15
	Section 0. Lots 9, 10 Q 19
and containing 118.51 (2) Subject to the other	acres, more or less. er provisions herein contained, this lease shall be for a term of3 years from this date
(called "primary term") and as in this lease, the term "produc	long thereafter as oil or gas is produced from said land hereunder in paying quantities. As used seed in paying quantities" means that receipts from the sale or other authorized commercial use seed out of pocket operational expenses for the six (6) months last passed.
(3) In the performance	e of its duty to Lessor to exercise utmost good faith and fair dealing in marketing oil, gas and

(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 <u>one-fourth</u>

(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.

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

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 November 2, 2001 between	Lease dated
	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, <u>one-fourth</u> (<u>1/4</u>) 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.

45)(a) If operations for drilling are not commence			
be terminated as to both parties, unless on or befor credit of Lessor in the	such anniversary date Less	see shall pay or tender	to Lessor or to the
credit of Lessor in the	Manufacture of the same and the	The same of the sa	(which bank
and its successors are Lesser's erent and shall cont	inus os the demonitary for s	Il mandala manahla hansa	

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

Lange in ownership of said land or the rentals) the sum of Dellars
\$
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.
- 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 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

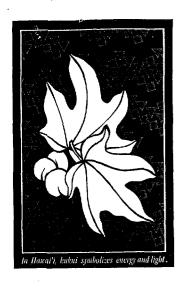
- (11) All express or implied covenants of this lease shall be subject to all applicable Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented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

	Page	6 Novemb	of that per 2. 20	certain Oil	and Gas I	Lease dated		
		The W.	A. Yeag Operation	ger Grou	p nv	Lease dated , Lessor		
	anu		орегиот	<u>6</u>		, Lessee		
	THIS	SPACE	INTENTI	ONALLY I	FFT BLN	IΔK		
	11110	DITIOL	TIATTAGET			74 11X		
IN WITNESS WHEREOF as of the date first above writter	, this ins	strument	is execute	d on the	day (of	b	ut is effective
					The W	7. A. Yeager (Group	
							Part	ner
					TIN 7	'5 - 2109390		
	*							



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,

Steve Sandlin

Vice President-Land

Enclosures

Z 191 787 026

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.
Do not use for International Mail (See reverse)

South A. Yeager C South Who Texas A Particular state, Tar con	ve., Suite 200
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	

SENDER: Complete items 1 and/or 2 for additional services. Complete lems 3 4a and 4b		I also wish to receive the following services (for an
Print your name and address on the reverse of this form so that we can return this	an return this	extra fee):
card to you. Attach this form to the front of the mailpiece, or on the back if space does not	does not	1. Addressee's Address
permit. Write "Return Receipt Requested" on the mailpiece below the article number	number.	2. ☐ Restricted Delivery
The Return Receipt will show to whom the article was delivered and the date delivered.	the date	Consult postmaster for fee.
3. Article Addressed to:	4a. Article N	101
17	2 /9/	1 781 026
W. A. Yeager Group	4b. Service Type	Туре
214 W. Texas Ave., Suite 200	☐ Registered	ed A Certifiec
Midland, TX 79701	☐ Express Mail	Mail Insured
	☐ Return Rev	Return Receipt for Merchandise
	7. Date of Delivery	elivery 9-28-01
5. Received By: (Print Name)	8. Addresse	8. Addressee's Address (Only if requested
	and fee is paid)	s paid)
6. Signature: (Apdressee or Agent)		
× 120h, are one		
0	95-98-B-0229	102595-98-B-0229 Domestic Return Reco
/		

Thank you for using Return Receipt Service.

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

KUKUI OPERATING COMPANY

COST ESTIMATE DRILLING

AFE No.

10111

DATE:

PROSPECT: Mississipian Test COUNTY: 09/17/2001

LEA

WELL NAME Degas '6' State Com. #1

Supplement No. STATE: FIELD:

New Mexico SE Eidson

SUMMARY OF ESTIMATED COST

INTANGIBLE COST DESCRIPTION	SUB.	DRY HOLE	COMPLETED
	05	\$27,300	\$29,250
Company Labor 45 Days @ \$650 / Day Outside Labor roustabout, welding, casing crews, wellhead installation	10	\$15,000	\$29,230 \$20,000
	12	\$6,000	\$8,000
	70	\$5,000	
Transportation - Land			\$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		<u> </u>
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

IANGIBLE COST								
WELL TUBULAR G	OODS							
	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						53		
FLOWLINE					· · · · · · · · · · · · · · · · · · ·			
~5,000	Feet	3"	Line Pipe - buried	\$6.00	/ Foot			\$30,000
WELL EQUIPMENT								
Well Head & Christm	as Tree		casing head, tubing he	ad,5M tree		105	\$5,000	\$16,000
Packers and Downhol	e Equipme	nt				78		\$8,000
Other Well Equipmen	t		battery, separators, he	ater treater, n	neter,etc	95	,	\$30,000
		TOTAL	TANGIBLE COST				\$95,900	\$313,850
	TOTAL	LESTIM	ATED 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: Approved By: Approved By:	Larry K. Strider John W. Wessels	Name of Joint Owner: Approved By: Date: Accept OEEL Insurance Decline OEEL Insurance	

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:

Formation	Est. Depth
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.

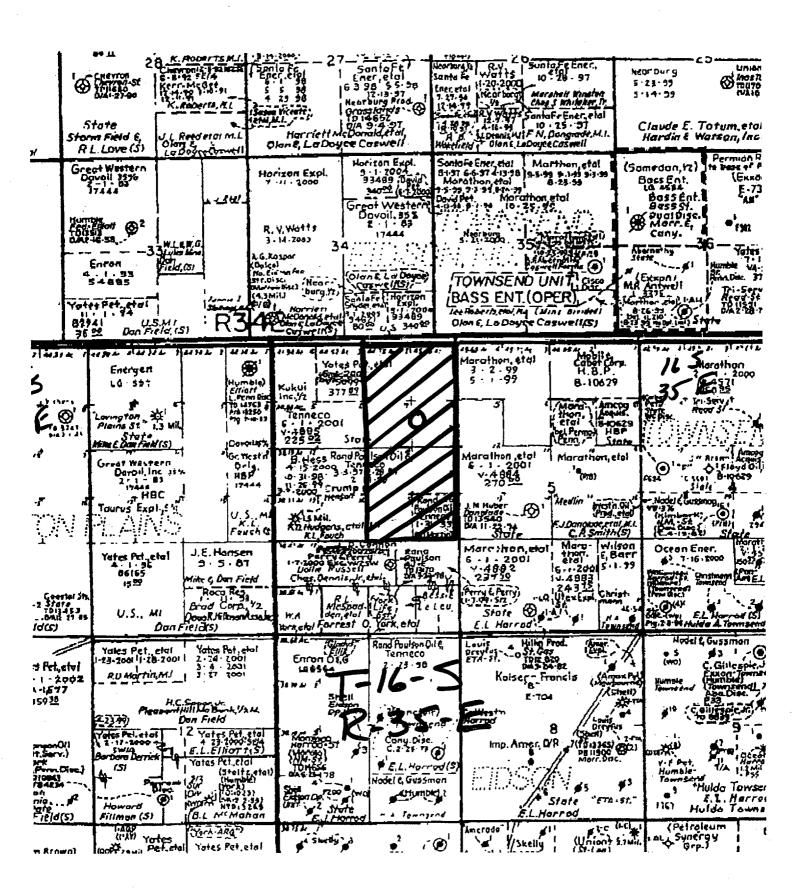
Protection Pipe Required: Surface Casing: 13.375" @ 450'

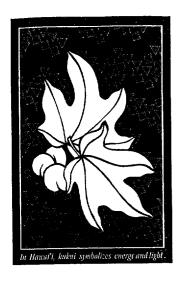
Intermediate: 9.625" or 8.625" @ 4550' (Just into the top of the San Andres)

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

Logging Program:

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





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.

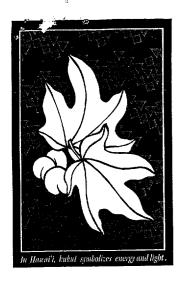
Thank you very much for your consideration. Your early response to this proposal is appreciated.

Yours very truly,

Steve Sandlin

Vice President - Land

SS:le



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,

Steve Sandlin

Vice President-Land

Enclosures

Z 191 787 014

ļ	US Postal Service Receipt for Cer No Insurance Coverage I Do not use for Internation	Provided.								
	Sent to Wells Fargo B Street & Number Acct. #99-149	i i								
Post Office, State, & ZIP Code P. O. BOX 1959										
	Midland, TX	\$ ⁷⁹⁷⁰¹								
	Certified Fee									
	Special Delivery Fee									
,	Restricted Delivery Fee									
2	Return Receipt Showing to Whom & Date Delivered									
2	Return Receipt Showing to Whom, Date, & Addressee's Address									
,	TOTAL Postage & Fees	\$								
	Postmark or Date									

ls	your <u>Ri</u>	TURN	ADDF	RESS	con	ple	eted	or	the	e re	ver	se	side	?
PS Form 3811 , December 1994	6. Signature: (Addressee or Agent) X / Frence Robero	5. Received By: (Print Name)	A OZ	Midland, TX 79761	P. O. Box 1959 (文) (元)	Acct. #99-14960 (17)	Wells Fargo Bankolk, NA %	3. Article Addressed to: STA.	The Return Receipt will show to whom the article was delivered and the date delivered.	Permit. Write "Return Receipt Requested" on the mailpiece below the article number	Attach this form to the front of the malipiece, or on the back if space does not	Print your name and address on the reverse of this form so that we can return this	Complete items 1 and/or 2 for additional services. Complete items 3 4a and 4b	SENDER:
102595-98-B-0229 Domestic Return Receipt	T	8. Addressee's Address (Only if requested and fee is paid)	7. Date of Delivery or for	Return Receipt for Merchandise COD in COD	Certified	4b. Service Type	Z 191 787 014	4a. Article Number	consult postmaster for fee.	2. Restricted Delivery	1. Addressee's Address	extra fee):	following services (for an	I also wish to receive the

KUKUI OPERATING COMPANY

COST ESTIMATE DRILLING

AFE No. Supplement No. 10111

DATE:

ROSPECT: Mississipian Test COUNTY: 09/17/2001

LEA WELL NAME Degas '6' State Com. #1 STATE: FIELD:

New Mexico SE Eidson

\$30,000

\$16,000

\$8,000

\$30,000

\$313,850

\$1,500,500

SUMMARY OF ESTIMATED COST

NTANGIBLE COST DESCRIPTION					SUB.	DRY HOLE	COMPLETED	
ompany Labor	4	5 Days @	\$650	/ Day		05	\$27,300	\$29,250
itside Labor roustabout, welding, casing crews, wellhead installation			10	\$15,000	\$20,000			
ofessional Services surveys, permitting, consulting, title			12	\$6,000	\$8,000			
ansportation - Land			70	\$5,000	\$8,000			
el, Power, & Water			61	\$60,000	\$70,000			
pplies - Miscellane	ous					59	\$3,000	\$4,000
pplies - Bits						60	\$58,000	\$60,000
pplies - Casing Eq	uipment		float shoes, centralize	ers		59	\$4,500	\$6,000
pplies - Liner Equ	ipment					59		
ac Tank Rental			1 ea 500 bbl. 5	0 days (wate	er storage)	40	\$2,000	\$3,000
ment & Cement Se	rvices				-	11	\$20,000	\$36,000
mp / Vaccum Truc	k Services					12	\$5,000	\$8,000
ntals Drilling Tool	s & Service	s	chokes, separators, PV	VT, BHA		40	\$10,000	\$15,000
ntals Miscellaneou	S		doghouse, forklift, tra	ash bin, toilet	s, etc	40	\$10,000	\$12,000
surance			well control			91	\$12,000	\$12,000
ireline Services			perforating, logging,	coring		25	\$26,000	\$36,000
illing Fluids			15	\$75,000	\$85,000			
cation Expense			construction / reclam	ation		20	\$30,000	\$35,000
ontract Drilling		Feet		/ Foot		16		
ywork 4	0 drlg/4 comp	. Days	\$11,000	/ Day		16	\$440,000	\$484,000
orkover Rig 6 Days \$3,000 / Day			16		\$18,000			
rectional Drilling -	Tools & E	quipment				43		
ud Logging Service	es					44	\$25,000	\$25,000
g Mobilization & I	Demobilizati	on				21	\$50,000	\$50,000
imulation			clean-up acid treatmen	nt		75		\$20,000
ecial Services			DST tools / reports			09	\$12,000	\$12,000
bular Goods - Inspection & Testing				\$4,000	\$8,000			
lephone & Radio E	*					73	\$300	\$500
OPAS Drilling Over	rhead	·					\$12,000	\$14,000
ug & Abandon				···			\$12,000	
angible Subtotal	<u></u> .					_	\$924,100	\$1,078,750
nclassified and	1		Contingencies				\$92,400	\$107,900
	TOT	AL INT	ANGIBLE COST				\$1,016,500	\$1,186,650
ANGIBLE COST				***				
ELL TUBULAR G						· · · · · · · · · · · · · · · · · · ·		
	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
<u> </u>	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
	Foot		Sucker Dode		/ Thank	52		

stification for this request:

ckers and Downhole Equipment

~5,000

ELL EQUIPMENT ell Head & Christmas Tree

her Well Equipment

OWLINE

Feet

Feet

Sucker Rods

Line Pipe - buried

TOTAL TANGIBLE COST

casing head, tubing head,5M tree

battery, separators, heater treater, meter, etc

TOTAL ESTIMATED COST OF WELL \$1,112,400 Funds are requested to drill and complete a 13,600' Mississipian test well located in Sec. 6 - T16S - R35E, Lea County NM.

/Foot

/ Foot

\$6.00

53

105

78

95

\$5,000

\$95,900

JKUI Operating Company		JOINT INTEREST APPROVAL			
pared By:	Larry K. Strider	Name of Joint Owner:			
proved By:	John W. Wessels	Approved By:			
proved By:		Date:			
		Accept OEEL Insurance			
		Decline OEEL Insurance			

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:

Formation	Est. Depth
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.

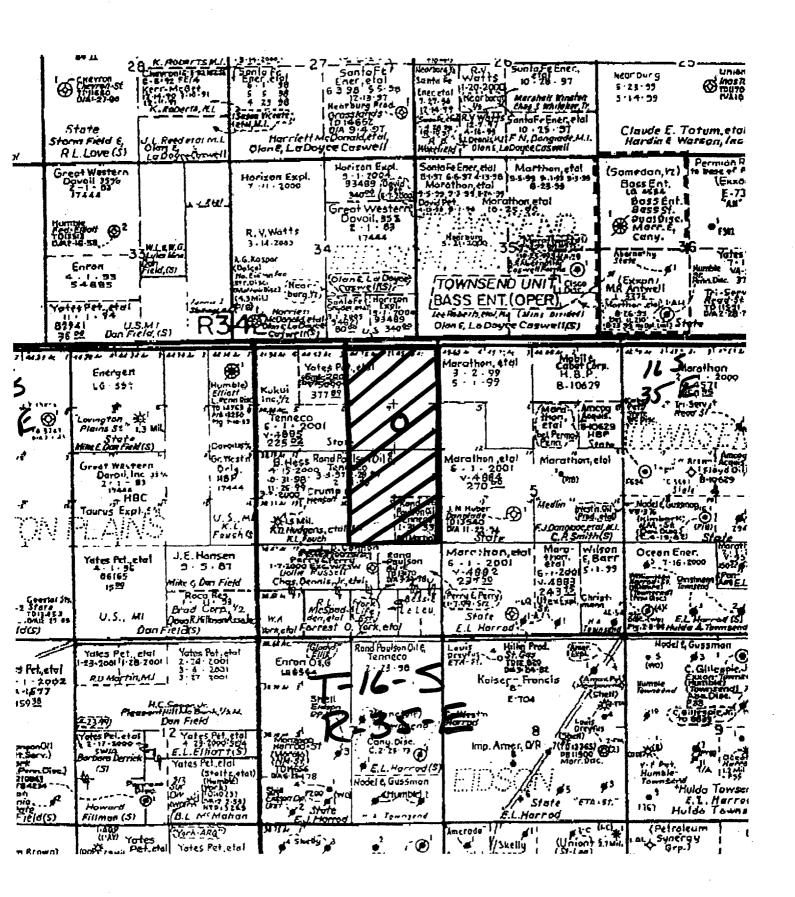
Protection Pipe Required: Surface Casing: 13.375" @ 450'

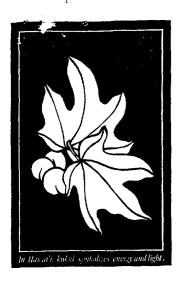
Intermediate: 9.625" or 8.625" @ 4550' (Just into the top of the San Andres)

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

Logging Program:

	LOG SUITE	INTERVALS
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





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,

Steve Sandlin

Vice President-Land

Enclosures

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 N.					
	Acct. #99-149	600				
		Post Office, State, & ZIP Code. P. O. BOX 1959				
	Midland, TX	\$ ⁷⁹⁷⁰¹				
	Certified Fee					
	Special Delivery Fee					
,	Restricted Delivery Fee					
מפפו ווילא	Return Receipt Showing to Whom & Date Delivered					
2	Return Receipt Showing to Whom, Date, & Addressee's Address					
	TOTAL Postage & Fees	\$				
5	Postmark or Date					
5						
L	00/95/01	'				

Is your RETURN ADDRESS completed on the reverse side? PS Form **3811**, December 1994 5. Received By: (Print Name) Article Addressed to: permit.

Write "Return Receipt Requested" on the malipiece below the article number.

The Return Receipt will show to whom the article was delivered and the date delivered. 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 matipiece, or on the back it space does not Signature: (Addressee or Agent) P. O. Box 1959 3 Acct. #99-14960 Wells Fargo Bank Grendy Rosers 102595-98-B-0229 Domestic Return Receipt 8. Addressee's Address (Only if requested and fee is paid) 7. Date of Delivery ☐ Return Receipt for Merchandise ☐ Registered 4b. Service Type ☐ Express Mail 4a. Article Number Z 191 787 014 extra fee): Consult postmaster for fee l also wish to receive the following services (for an Restricted Delivery Addressee's Address Certified Insured COD

Thank you for using Return Receipt Service.

KUKUI OPERATING COMPANY

COST ESTIMATE

DRILLING

AFE No. Supplement No. 10111

OS ECT: Mississipian Test COUNTY: LEA

DA : E: 09/17/2001 WELL NAME Degas '6' State Com. #1

STATE: FIELD:

New Mexico SE Eidson

SUMMARY OF ESTIMATED COST

TAN: IBLE COST DESCRIPTION	SUB.	DRY HOLE	COMPLETED
0.50	05	\$27,300	\$29,250
pan labor 45 Days @ \$650 / Day de labor roustabout, welding, casing crews, wellhead installation	10	\$15,000	\$20,000
ssic Services Surveys, permitting, consulting, title	12	\$6,000	\$8,000
spont ion - Land	70	\$5,000	\$8,000
Por A & Water	61	\$60,000	\$70,000
lies - Miscellaneous	59	\$3,000	\$4,000
lies - Bits	60	\$58,000	\$60,000
lies asing Equipment float shoes, centralizers	59	\$4,500	\$6,000
lies liner Equipment	59	Ψ+,500	Ψ0,000
Tan) Rental 1 ea 500 bbl. 50 days (water storage)	40	\$2,000	\$3,000
ent & Cement Services	11	\$20,000	\$36,000
o / Vaccum Truck Services	12	\$5,000	\$8,000
als Drilling Tools & Services chokes, separators, PVT, BHA	40	\$10,000	\$15,000
als Miscellaneous doghouse, forklift, trash bin, toilets, etc	40	\$10,000	
	91		\$12,000 \$12,000
		\$12,000	\$12,000
	25	\$26,000	\$36,000
ing Fluids tion Expense construction / reclamation	15	\$75,000	\$85,000
	20	\$30,000	\$35,000
ract Drilling Feet / Foot	16	6440.000	#101 000
work 40 drig/4 comp. Days \$11,000 / Day	16	\$440,000	\$484,000
cover Rig 6 Days \$3,000 / Day	16		\$18,000
ctional Drilling - Tools & Equipment	43	40.7.000	
Logging Services	44	\$25,000	\$25,000
Mobilization % Demobilization	21	\$50,000	\$50,000
ulation clean-up acid treatment	75	410.000	\$20,000
ial Services DST tools / reports	09	\$12,000	\$12,000
tlar Goods - Caction & Testing	 	\$4,000	\$8,000
phone & Remarks	73	\$300	\$500
AS Drilling verhead		\$12,000	\$14,000
& Abandon		\$12,000	61 070 750
gible Subtor	 	\$924,100	\$1,078,750
assified and 10 % Contingencies		\$92,400	\$107,900
TOTAL INTANGIBLE COST	1 1	\$1,016,500	\$1,186,650
GIBLE C(+-)			· · · · · · · · · · · · · · · · · · ·
L TUBUL/ 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		
WLINE			
~5,000 Feet 3" Line Pipe - buried \$6.00 / Foot			\$30,000
L EQUIPMENT			
Head & Christmas Tree casing head, tubing head, 5M tree	105	\$5,000	\$16,000
ers and Downhole Equipment	78		\$8,000
r 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

Sec. 6 - T16S - R35E , Lea County NM.

UI Operating Company		JOINT INTEREST APPROVAL
ired By:	Larry K. Strider	Name of Joint Owner :
oved By:	John W. Wessels	Approved By:
oved By:		Date:
		Accept OEEL Insurance
		Decline OEEL Insurance

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:

Formation	Est. Depth
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:

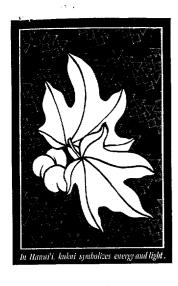
LOG SUITE INTERVALS

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

Medical No. 2000 Merchell Monet White the state of heorourg 5 · 23 · 33 5 · 14 · 33 ₩ 1/1/18/0-24 State Clavde E. Totum etal Hardin & Watson, Inc Storm Field E, R L.Love (S) J L Regder or M.L. Olong & La Doyce (vzveti) Harriei Olane, Lati Permidn P Pers of F (Enso: E-73 All' niofe Erier, etal Marthon, etal 31 6-6-97 4-13-96 9-5-99 9-1-13-96 orathon, etal 79 73-93 8-24-79 93489 (15) (Somedon, /z)
Boes Ent.
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Boes St.
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Worr. E.
Cany. Great Wustern Dovail 3376 271 53 Horizon Expl. 4341_ ⊕¹ F302 R, Y, Watts 3 - 14 - 2003 Enron umble VA. たいです 4 . [・35 5 4 **自も**5 TOWNSEND UNIT 70111 PET 2141 U.S. BASS ENT. (OPER) R3/4 U.S.MI Dan Field (S) 484 & 4141 174 Marathon, 4tgl 3 · 2 · 99 5 · 1 · 99 Mobile Pro Yotes P 1500 - 290 1500 - 290 1500 - 290 377 22 ∰' Humble) Eifiaff Conn Ris To 14763 Fre 1250 LG 397 Mora Ameng Ø' Gr West Delg. HBP 17444 Marathon etal 6 - 1 - 2001 V-4864 270 - 8 Daroll Bs Maratherselel M Hober Constitute (013940 DA 11-23-74 STOFE Medin bjerin (ii) Ppd. etal C. A. Smith (S) JDanotx C, A S Mara-thort, eral Marc : hon, Ho 6 - 1 - 2001 7-4882 23730 J.E. Honsen 5 · 5 · 67 Yeles Pelebal A 1 1 5 5 06165 Mike G Dan Field
Roco Reg.
Brad Corp. 12
Dough Hillmanksse
ield(S) Geerlei Sh Stare IDIJAEJ DAIE ET ES (E) State () (Amenity (Astronomy) ti,etol - 2002 577 R.U Martin, M.J Koiser Francis Den Field 12 Yates Pet etal | 4 23-2000 Seta | E.L.Elliot 1(5) ionO() iory;) ranDise.} adj Imp. Amer, O/R "Ø Yates Pel. eldi Yates Pel. eldi (3+elfe.eta 173 (Humble) 1000 si 1000(3) Processi 1000(3) Proces (51 CHIMIDIC 1 [Q(2) State 1161 L.Harrod Fillmon (5) (Union) \$744. (Petroleum Lau, Synergy Gep.) (('A') Yorkes crode // skelly



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.

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- 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 & Dalco (D. Lynch) along with Viola Barton.

- Does not want to parturpate - weil grant to month fur term assign.

- Not acceptable & Karaca.

rm\land\DeGas 6-Address/Letter

n 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 card to you. Attach this form to the front of the mailpiece, or on the back if space permit. Write "Return Receipt Requested" on the mailpiece below the article The Return Receipt will show to whom the article was delivered and delivered.	e does not e number. If the date	2. Restricte Consult postmas	s (for an ee's Address 2 d Delivery 3
d on	3. Article Addressed to:	4a. Article N	lumber 1 787 0	ū
completed	David A. Lynch	4b. Service		
E	P. O. Box 1904	☐ Register	,,	Certified 💆
	Lovington, NM 88260	☐ Express	Mail	☐ Insured ☐ COD
RESS		☐ Return Re	ceipt for Merchandise	COD
ADD		7. Date of D	eliyery	77 P
TURN	5. Received By: (Print Name)	8. Addresse and fee is	e's Address (Only s paid)	if requested
your RE	6. Signature: Addressee or Agent) X			F.
<u>s</u>	PS Form 3811 , December 1994	2595-98-B-0229	Domestic Retu	ırn Receipt

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KUKUI OPERATING COMPANY

COST ESTIMATE DRILLING

AFE No. Supplement No.

10111

DATE:

PROSPECT: Mississipian Test COUNTY:

09/17/2001

LEA

WELL NAME Degas '6' State Com. #1

STATE: FIELD:

New Mexico SE Eidson

SUMMARY OF ESTIMATED COST

INTANGIBLE COST	CTIP	DDV HOLE	COMPLETED
DESCRIPTION	SUB.	\$27,300	COMPLETED
Company Labor 45 Days @ \$650 / Day	05		\$29,250
Outside Labor roustabout, welding, casing crews, wellhead installatio		\$15,000 \$6,000	\$20,000
Professional Services surveys, permitting, consulting, to	tle 12 70	\$5,000	\$8,000
Transportation - Land			\$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	40.000	A 0000
Frac Tank Rental 1 ea 500 bbl. 50 days (war		\$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, toile		\$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	000 02	000 02

WELL TUBULAR G	OODS						·	
	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	Name of Joint Owner:					
Approved By:	John W. Wessels	Approved By:					
Approved By:		Date:					
		Accept OEEL Insurance					
		Decline OEEL Insurance					

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:

Formation	Est. Depth
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.

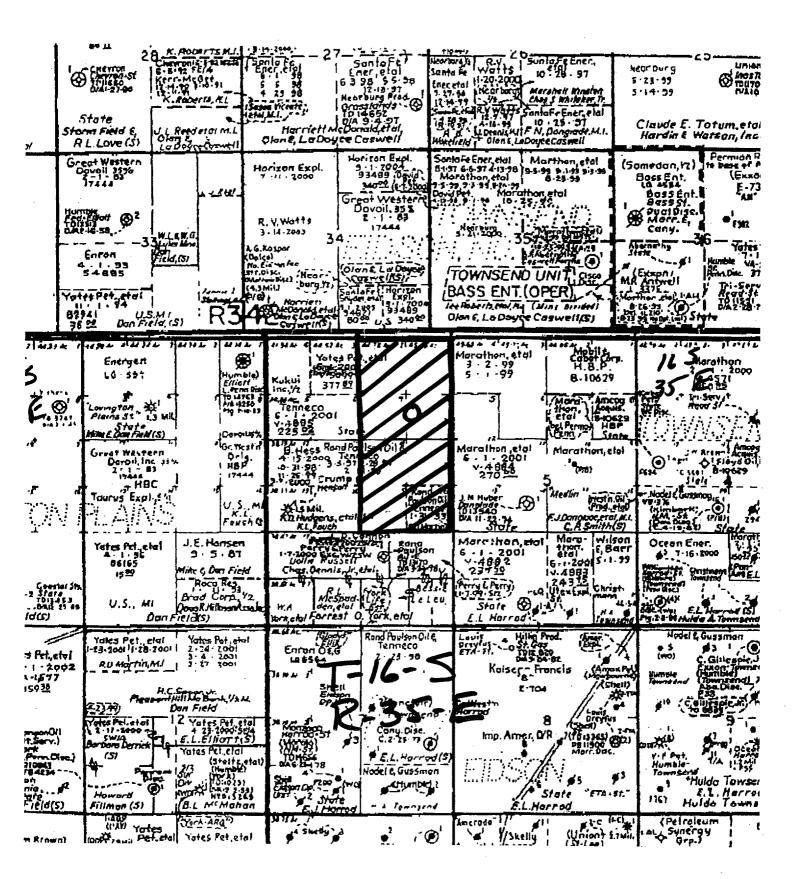
Protection Pipe Required: Surface Casing: 13.375" @ 450'

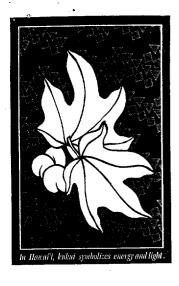
Intermediate: 9.625" or 8.625" @ 4550' (Just into the top of the San Andres)

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

Logging Program:

Run #1 DLL-GR
CNL-LDT-GR
CNL-LDT-GR
TD - Base Intermediate Casing
(GR - Neutron to Surface)
BHC-Sonic-GR
TD - Base Intermediate Casing
(TD - Base Intermediate Casing)





KUKUI Operating Company

September 25, 2001

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

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:

Per M. Barter Lynd Leaved & David Lynd 1 Aug. 200, Jos 3 years. 55

> Dand Lynch 505-396-2912 Dalco Pet. LLC.

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)

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,

Steve Sandlin

Vice President-Land

Enclosures

card to you. Attach this form to the front of the mailpiece, or on the back if space permit. Write "Return Receipt Requested" on the mailpiece below the article	e does not e number.	following services extra fee): 1.	ee's Address de Delivery
3. Article Addressed to: Viola Mae Barton, SSP 602 West Avenue B Lovington, NM 88260 620	2 /9/ 4b. Service ☐ Register ☐ Express ☐ Return Re 7. Date of D	Type ed Mail ceipt for Merchandise	Certified Insured COD
5. Received By: (Print Name) 10 4 Distant 6. Signature: (Addressee or Agent) X Viola Bartin	and fee is	s paid)	
	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 card to you. Attach this form to the front of the mailpiece, or on the back if space permit. Write "Return Receipt Requested" on the mailpiece below the article The Return Receipt will show to whom the article was delivered and delivered. 3. Article Addressed to: Viola Mae Barton, SSP West Avenue B Lovington, NM 88260 6. Received By: (Print Name) 10 4 Complete items 1 and 4b. Complete items 3, 4a, and 4b. Print Provided In the provided in the reverse of this form so that we card to you. The Peturn Receipt Requested on the mailpiece below the article was delivered and delivered. 3. Article Addressed to: Viola Mae Barton, SSP COLUMN BEST AVENUE B Lovington, NM 88260 6. Signature: (Addressee or Agent) X Will Bartin	■ 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. 3. Article Addressed to: Viola Mae Barton, SSP Service ■ Register □ Register □ Register □ Return Re 7. Date of □ □ Complete items 1 and/or 2 for additional services. ■ Complete items 3, 4a, and 4b. ■ Article Number 2 for a for	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 Consult postmas 3. Article Addressed to: Viola Mae Barton, SSP West Avenue B Lovington, NM 88260 Express Mail Return Receipt for Merchandise 7. Date of Delivery 2 9-21 8. Addressee's Address (Only and fee is paid)

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PS Form **3800**, April 1995

KUKUI OPERATING COMPANY

COST ESTIMATE **DRILLING**

AFE No. Supplement No. 10111

DATE:

PROSPECT: Mississipian Test COUNTY:

09/17/2001

LEA

WELL NAME Degas '6' State Com. #1

STATE: FIELD:

New Mexico SE Eidson

\$30,000

\$313,850

\$1,500,500

SUMMARY OF ESTIMATED COST

INTANGIBLE CO	ST							
		DESC	CRIPTION			SUB.	DRY HOLE	COMPLETED
Company Labor	4:	5 Days @	\$650	/ Day		05	\$27,300	\$29,250
Outside Labor	roustabout	, welding	, casing crews, wellhe	ad installation	l	10	\$15,000	\$20,000
Professional Services			surveys, permitting,	consulting, tit	ile	12	\$6,000	\$8,000
Transportation - Land						70	\$5,000	\$8,000
Fuel, Power, & Water							\$60,000	\$70,000
Supplies - Miscellaneous							\$3,000	\$4,000
Supplies - Bits						60	\$58,000	\$60,000
Supplies - Casing Equ	ipment		float shoes, centraliz	ers		59	\$4,500	\$6,000
Supplies - Liner Equi						59		
Frac Tank Rental			1 ea 500 bbl.	50 days (wate	er storage)	40	\$2,000	\$3,000
Cement & Cement Se	rvices				,	11	\$20,000	\$36,000
Pump / Vaccum Truck						12	\$5,000	\$8,000
Rentals Drilling Tools		s	chokes, separators, P	VT, BHA		40	\$10,000	\$15,000
Rentals Miscellaneous			doghouse, forklift, tr	· · · · · · · · · · · · · · · · · · ·	s, 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 / reclam	nation		20	\$30,000	\$35,000
Contract Drilling		Feet		/ Foot		16	450,000	450,000
	0 drlg./4 comp.		\$11,000	/ Day		16	\$440,000	\$484,000
Workover Rig		6 Days	\$3,000	/ Day		16	Ψ110,000	\$18,000
Directional Drilling -			ψ3,000	/ Day		43		Ψιο,σοσ
Mud Logging Service		uipinciit			· · · · · · · · · · · · · · · · · · ·	44	\$25,000	\$25,000
Rig Mobilization & D						21	\$50,000	\$50,000
Stimulation	CHIOOHIZALI	J11	clean-up acid treatme	nt		75	Ψ30,000	\$20,000
Special Services			DST tools / reports			09	\$12,000	\$12,000
Tubular Goods - Inspe	ection & Tes	ating	DOT ROOM / TOPOTO			+ 0,	\$4,000	\$8,000
Telephone & Radio E		,				73	\$300	\$500
COPAS Drilling Over						+ , , ,	\$12,000	\$14,000
Plug & Abandon	11000						\$12,000	Ψ11,000
Intangible Subtotal						 	\$924,100	\$1,078,750
Unclassified and	10) %	Contingencies				\$92,400	\$107,900
CHOILSHING AIG			ANGIBLE COST		·····	+	\$1,016,500	\$1,186,650
TANGIBLE COST	1012		,				Ψ1,010,500	Ψ1,100,030
WELL TUBULAR GO	2000							
	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
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13,600	Feet	5 1/2"	Production Casing	\$7.00	/ Foot	92		\$05.200
		2 7/8"				+ 92 +	· · · · · · · · · · · · · · · · · · ·	\$95,200
12,500	Feet	2 1/8"	Tubing	\$3.50	/Foot	F2		\$43,750
ET OUT DET	Feet		Sucker Rods		/ Foot	53		
FLOWLINE	P	211	Time Dime desired	<u> </u>	/10: /	+		#20.000
~5,000	Feet	3"	Line Pipe - buried	\$6.00	/ Foot			\$30,000
WELL EQUIPMENT	m			1577		105	0 C 000	M : C 000
Well Head & Christma			casing head, tubing he	ead, M tree		105	\$5,000	\$16,000
Packers and Downhole	e Equipmen	t				78		\$8,000

TOTAL ESTIMATED COST OF WELL Justification for this request:

Other Well Equipment

Funds are requested to drill and complete a 13,600' Mississipian test well located in

95

\$95,900

\$1,112,400

Sec. 6 - T16S - R35E, Lea County NM.

TOTAL TANGIBLE COST

battery, separators, heater treater, meter, etc

KUKUI Operating	g 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	
		Decline OEEL Insurance	

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:

Formation	Est. Depth
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:

Run #1 DLL-GR INTERVALS
TD - Base Inte

#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

