

# SAN JUAN RESOURCES, INC.

JERRY McHUGH, Jr.

September 13, 2001

Frank King  
4580 Belfort Place  
Dallas, TX 75205

RE: Kaempf #1E Well, your MV Interest  
T30N, R11W, Section 19: S/2, San Juan County, NM

Dear Mr. King:

Enclosed please find a copy of the two AFE's, which you requested on the above referenced interest. Each AFE is for drilling and completion cost ONLY to the applicable zone: a Mesa Verde only well—\$422,060 or a Dakota only well—\$518,911.

As you can see, there are several duplicate items on each AFE, for which interest owners will not be double billed. I have noted these on the attached AFEs. Based on a conservative estimate, your 5.6% interest would be over \$23,600. I would anticipate costs to be less than this amount.

Please contact Dick Frazey or me if you have any questions or comments about this proposal and the materials you requested.

Very Truly Yours,  
SAN JUAN RESOURCES, INC.

Jerry McHugh, Jr.  
PRESIDENT

Enclosures as indicated

COPY

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12796 Exhibit No. 1  
Submitted By:  
San Juan Resources  
Hearing Date: February 21, 2002

1499 Blake Street, #7K  
Denver, CO 80202 U.S.A.

Fax: 303.573.6777  
email: [jmchugh@sanjuanbasin.com](mailto:jmchugh@sanjuanbasin.com)

\*\*\*\*\*  
LEER KMV-1  
BASIN  
30N-11W SEC 30 NWNE  
4560' MESAVERDE TEST  
\*\*\*\*\*

AFR #: 7  
COUNTY: SAN JUAN

DATE: MARCH 30, 2001  
STATE: NEW MEXICO

MV ONLY

SAN JUAN RESOURCES, INC.

WELL COST ESTIMATE

\*\*\* DRILLING INTANGIBLES \*\*\*

|                                                               |                                             |           |
|---------------------------------------------------------------|---------------------------------------------|-----------|
| 101 STAKE LOCATION, PERMITS, DAMAGES                          |                                             | \$3,500   |
| 102 LOCATION ROADS, LEASE RESTORATION                         |                                             | \$5,000   |
| 103 RIG MOBILIZATION/DEMobilIZATION                           |                                             | \$4,000   |
| 104 FOOTAGE DRILLED                                           | 4560 FT @                                   | \$112,180 |
| 5 FUEL, LUBRICANTS, POWER                                     | \$23.00 /FT AND 1 DAYS @ \$7,300.00 PER DAY |           |
| 7 BITS                                                        |                                             | \$500     |
| 108 WATER AND/OR WATER WELL                                   |                                             | \$5,000   |
| 109 DRILLING MUD / ADDITIVES                                  |                                             | \$6,000   |
| 111 CEMENT AND CEMENTING SERVICES                             |                                             | \$5,000   |
| 125 TRANSPORTATION - DRILLING                                 |                                             |           |
| 112 CONTRACT SERVICES & CONTRACT LABOR, WELDING & CASING CREW |                                             |           |
| 117 CORING                                                    |                                             |           |
| 118 DRILL STEM TESTING                                        |                                             |           |
| 119 OPEN HOLE LOGGING                                         |                                             | \$12,000  |
| 120 MUD LOGGING                                               |                                             | \$0       |
| 122 ENGINEERING SUPERVISION AND THIRD PARTY SERVICES          | GEOLOGICAL SERVICES                         | \$4,500   |
| 114 P&A & ENVIRONMENTAL CONCERNS                              |                                             |           |
| 116 MISC. EQUIPMENT & SUPPLIES - DRILLING                     |                                             | \$1,500   |
| 130 DRILL PIPE & COLLAR INSPECTION                            |                                             | \$15,918  |
| 135 CONTINGENCIES & TAXES                                     | 10% 8 @ 4,906/MONT                          | \$1,287   |
| 138 OVERHEAD                                                  |                                             | \$176,385 |

\*\*\* SUBTOTAL DRILLING INTANGIBLES \*\*\*

\*\*\* DRILLING TANGIBLES \*\*\*

|                                     |  |         |
|-------------------------------------|--|---------|
| 250 SURFACE CASING                  |  | \$4,000 |
| 250 INTERMEDIATE CASING             |  |         |
| 51 CASING ACCESSORIES - DRILLING    |  |         |
| 52 CASING HEAD                      |  | \$2,500 |
| 264 MISCELLANEOUS                   |  |         |
| *** SUBTOTAL DRILLING TANGIBLES *** |  | \$6,500 |

\*\*\* TOTAL DRY HOLE COST \*\*\*

\$182,865

SAN JUAN RESOURCES, INC. - WELL COST ESTIMATE

\*\*\*\*\*  
 LEE KMV-1  
 BASIN  
 30N-11W SEC 30 N4NE  
 4560' MESAVERDE TEST  
 \*\*\*\*\*

AFE #: 7  
 COUNTY: SAN JUAN  
 DATE: MARCH 30, 2001  
 STATE: NEW MEXICO

\*\*\* COMPLETION INTANGIBLES \*\*\*

|                                                              |    |        |                 |
|--------------------------------------------------------------|----|--------|-----------------|
| 102 DIRT WORK - ROAD & LOCATION                              |    |        |                 |
| 101 PERMANENT DAMAGES, PERMITS                               |    |        |                 |
| 104 COMPLETION UNIT                                          | 6  | DAYS @ | \$2,000 PER DAY |
| 3 EQUIPMENT RENTAL - COMPLETION                              |    |        | \$12,000        |
| 9 CASSED HOLE LOGGING & PERFORATING                          |    |        | \$4,500         |
| 128 STIMULATION & TREATMENT                                  |    |        | \$14,000        |
| 129 COMPLETION - TESTING                                     |    |        | \$70,000        |
| 111 CEMENT & CEMENTING SERVICES                              |    |        | \$30,000        |
| 108 WATER - COMPLETION FLUIDS                                |    |        | \$7,000         |
| 112 CONTRACT COMPLETION SERVICES - LABOR/WEIDING/CASING CREW |    |        | \$5,000         |
| 136 MISC EQUIPMENT & SUPPLIES - COMPLETION                   |    |        | \$1,000         |
| 122 ENGINEERING SUPERVISION & THIRD PARTY SERVICES           |    |        | \$6,500         |
| 135 CONTINGENCIES & TAXES                                    |    |        | \$15,500        |
| 138 OVERHEAD                                                 | 13 | DAYS @ | \$2,091         |
|                                                              |    |        | 10%             |
|                                                              |    |        | 4,906/MONTH     |
|                                                              |    |        | \$172,591       |

\*\*\* SUBTOTAL COMPLETION INTANGIBLES \*\*\*

\*\*\* COMPLETION TANGIBLES \*\*\*

|                                                           |              |         |           |          |
|-----------------------------------------------------------|--------------|---------|-----------|----------|
| 250 PRODUCTION CASING & LINER                             | 4560' 4 1/2" | \$4.450 | \$4.45/FT |          |
| 251 PRODUCTION TUBING & HANGER                            |              |         |           | \$20,292 |
| 252 WELHEAD EQUIPMENT                                     |              |         |           | \$11,392 |
| 257 SUBSURFACE EQUIPMENT, BOTTOM HOLE PUMP                |              |         |           | \$9,500  |
| 254 PUMPING UNIT/PRIME MOVER & PAD                        |              |         |           |          |
| 265 RODS - SUCKER/POLISHED/SCRAPER                        |              |         |           |          |
| 255 TANKS                                                 |              |         |           | \$8,400  |
| 267 SEPARATORS - TREATERS - DEHYDRATORS                   |              |         |           | \$12,000 |
| 3 LINES - FLOW/FUEL/SWD                                   |              |         |           | \$5,000  |
| 6 INSTALLATION                                            |              |         |           |          |
| 264 VALVES, FITTINGS, MISC BATTERY & PRODUCTION EQUIPMENT |              |         |           |          |
| 266 METERS - OIL/GAS/LACT                                 |              |         |           |          |
| 258 ELECTRICAL EQUIPMENT                                  |              |         |           |          |
| 261 COMPRESSORS                                           |              |         |           |          |
| 262 BUILDINGS                                             |              |         |           |          |

\*\*\* SUB TOTAL COMPLETION TANGIBLES \*\*\*

\$66,584

\*\*\* TOTAL COMPLETION COST \*\*\*

\$239,175

SAN JUAN RESOURCES, INC. - WELL COST ESTIMATE

\*\*\*\*\*  
 LEE KRV-1  
 BASIN  
 30N-11W SEC 30 NWNE  
 4560' MEASUREDE TEST

APR # : 7  
 COUNTY: SAN JUAN

DATE: MARCH 30, 2001  
 STATE: NEW MEXICO

\*\*\*\*\*  
 OWNER INTEREST INTEREST

SAN JUAN RESOURCES, INC

0.5  
 211,030

BY DATE

DIVERSE GROUP III

0  
 0

BY DATE

JAMES MARTIN

0.21875  
 92,326

BY DATE

GEORGE TAOKA

0.28125  
 118,704

BY DATE

TOTAL DRILLING INTANGIBLES ..... \$176,385  
 TOTAL DRILLING TANGIBLES ..... \$6,500

TOTAL DRY HOLE COST ..... \$182,885

TOTAL COMPLETION INTANGIBLES ..... \$172,591  
 TOTAL COMPLETION TANGIBLES ..... \$66,584

TOTAL COMPLETION COST ..... \$239,175

\*\*\*\*\*  
 TOTAL WELL COST ..... \$422,060  
 \*\*\*\*\*

SAN JUAN RESOURCES, INC

AFE

DAK only

KAEMPH 1-E  
BASIN - DAKOTA  
T30N R11W SEC. 19: SE/4  
6790' DAKOTA TD 70' BELOW THE BASAL DAKOTA

AFE #: NO 3.  
COUNTY: SAN JUAN

DATE: 01-Mar-2001  
STATE: NEW MEXICO

\*\*\* DRILLING INTANGIBLES \*\*\*

|                                                               |                                                       |           |
|---------------------------------------------------------------|-------------------------------------------------------|-----------|
| 101 STAKE LOCATION, PERMITS, DAMAGES                          |                                                       | \$3,250   |
| 102 LOCATION ROADS, LEASE RESTORATION                         |                                                       | \$5,000   |
| 103 RIG MOBILIZATION/DEMobilIZATION                           |                                                       | \$4,000   |
| 104 FOOTAGE DRILLED                                           | 6790 FT @ \$23.00 /FT AND 1 DAYS @ \$7,300.00 PER DAY | \$163,470 |
| 106 FUEL, LUBRICANTS, POWER                                   |                                                       | \$500     |
| 107 BITS                                                      |                                                       | \$6,000   |
| 108 WATER AND/OR WATER WELL                                   |                                                       | \$5,000   |
| 109 DRILLING MUD / ADDITIVES                                  |                                                       | \$1,500   |
| 111 CEMENT AND CEMENTING SERVICES                             |                                                       | \$4,000   |
| 125 TRANSPORTATION - DRILLING                                 |                                                       | \$21,622  |
| 112 CONTRACT SERVICES & CONTRACT LABOR, WELDING & CASING CREW |                                                       |           |
| 117 CORING                                                    |                                                       |           |
| 118 DRILL STEM TESTING                                        |                                                       |           |
| 119 OPEN HOLE LOGGING                                         |                                                       |           |
| 120 MUD LOGGING                                               | \$4,000                                               |           |
| 122 ENGINEERING SUPERVISION AND THIRD PARTY SERVICES          |                                                       |           |
| 114 P&A & ENVIRONMENTAL CONCERNS                              |                                                       |           |
| 116 MISC. EQUIPMENT & SUPPLIES - DRILLING                     |                                                       |           |
| 130 DRILL PIPE & COLLAR INSPECTION                            | 10*                                                   |           |
| 135 CONTINGENCIES & TAXES                                     |                                                       |           |
| 138 OVERHEAD                                                  |                                                       |           |

\*\*\* SUBTOTAL DRILLING INTANGIBLES \*\*\*

\$237,842

\*\*\* DRILLING TANGIBLES \*\*\*

|                                   |  |         |
|-----------------------------------|--|---------|
| 250 SURFACE CASING                |  | \$4,000 |
| 250 INTERMEDIATE CASING           |  |         |
| 251 CASING ACCESSORIES - DRILLING |  | \$2,500 |
| 252 CASING HEAD                   |  |         |
| 264 MISCELLANEOUS                 |  |         |

\*\*\* SUBTOTAL DRILLING TANGIBLES \*\*\*

\$6,500

\*\*\* TOTAL DRY HOLE COST \*\*\*

\$244,342

on both AFEs  
duplicates

KAEMPH 1-E  
BASIN - DAKOTA  
T30N R11W SEC. 19: SE/4  
6790' DAKOTA TD 70' BELOW THE BASAL DAKOTA

AFE #: NO 3.  
COUNTY: SAN JUAN

DATE: 01-Mar-2001  
STATE: NEW MEXICO

\*\*\* COMPLETION INTANGIBLES \*\*\*

|     |                                                          |   |        |                            |          |
|-----|----------------------------------------------------------|---|--------|----------------------------|----------|
| 102 | DIRT WORK - ROAD & LOCATION                              |   |        |                            | \$5,000  |
| 101 | PERMANENT DAMAGES, PERMITS                               |   |        |                            |          |
| 104 | COMPLETION UNIT                                          | 6 | DAYS @ | \$2,000 PER DAY            | \$12,000 |
| 115 | EQUIPMENT RENTAL - COMPLETION                            |   |        |                            | \$4,500  |
| 119 | CASED HOLE LOGGING & PERFORATING                         |   |        |                            | \$6,000  |
| 128 | STIMULATION & TREATMENT                                  |   |        |                            | \$70,000 |
| 129 | COMPLETION - TESTING                                     |   |        |                            |          |
| 111 | CEMENT & CEMENTING SERVICES                              |   |        | PRODUCTION CASING          | \$45,000 |
| 108 | WATER - COMPLETION FLUIDS                                |   |        | LONG @ TWO STAGE MESAVERDE | \$7,000  |
| 112 | CONTRACT COMPLETION SERVICES - LABOR/WELDING/CASING CREW |   |        |                            | \$5,000  |
| 136 | MISC EQUIPMENT & SUPPLIES - COMPLETION                   |   |        |                            | \$1,000  |
| 122 | ENGINEERING SUPERVISION & THIRD PARTY SERVICES           |   |        |                            | \$6,500  |
| 135 | CONTINGENCIES & TAXES                                    |   |        | 10%                        | \$16,200 |
| 138 | OVERHEAD                                                 |   |        |                            |          |

\*\*\* COMPLETION TANGIBLES \*\*\*

|     |                                                       |          |
|-----|-------------------------------------------------------|----------|
| 250 | PRODUCTION CASING & LINER                             | \$45,833 |
| 251 | PRODUCTION TUBING & HANGER                            | \$16,636 |
| 252 | WELHEAD EQUIPMENT                                     | \$9,500  |
| 257 | SUBSURFACE EQUIPMENT: BOTTOM HOLE PUMP                |          |
| 254 | PUMPING UNIT/PRIME MOVER & PAD                        |          |
| 265 | RODS - SUCKER/POLISHED/SCRAPER                        |          |
| 255 | TANKS                                                 | \$8,400  |
| 267 | SEPARATORS - TREATERS - DEHYDRATORS                   | \$16,000 |
| 253 | LINES - FLOW/FUEL/SWD                                 |          |
| 256 | INSTALLATION                                          |          |
| 264 | VALVES, FITTINGS, MISC BATTERY & PRODUCTION EQUIPMENT |          |
| 266 | METERS - OIL/GAS/LACT                                 |          |
| 258 | ELECTRICAL EQUIPMENT                                  |          |
| 261 | COMPRESSORS                                           |          |
| 262 | BUILDINGS                                             |          |

\*\*\* SUB TOTAL COMPLETION TANGIBLES \*\*\*

\*\*\*\*\* TOTAL COMPLETION COST \*\*\*\*\*

**\$274,565**

SAN JUAN RESOURCES, INC      AFE

\*\*\*\*\*  
KEMPH 1-E  
BASIN - DAKOTA  
T30N R14W SEC. 19: SE/4  
6790' DAKOTA TD 70' BELOW THE BASAL DAKOTA  
\*\*\*\*\*  
AF# : NO 3.  
COUNTY: SAN JUAN  
DATE: 01-Mar-2001  
STATE: NEW MEXICO  
\*\*\*\*\*

| PERCENTAGE WORKING INTEREST |            |
|-----------------------------|------------|
| OWNER                       | INTEREST   |
| SAN JUAN RESOURCES, INC     |            |
| BY _____                    | DATE _____ |
| PARTNER _____               | DATE _____ |

|                              |           |
|------------------------------|-----------|
| TOTAL DRILLING INTANGIBLES   | \$237,842 |
| TOTAL DRILLING TANGIBLES     | \$6,500   |
| TOTAL DRY HOLE COST          | \$244,342 |
| TOTAL COMPLETION INTANGIBLES | \$178,200 |
| TOTAL COMPLETION TANGIBLES   | \$96,369  |
| TOTAL COMPLETION COST        | \$274,569 |
| *****                        |           |
| TOTAL WELL COST              | \$518,911 |
| *****                        |           |