

TMBR/Sharp

**Drilling, Inc.**

Drawer 10970
Midland, Texas 79702-7970
915-689-5050

Via Federal Express
Airbill No. 8297 4167 5428

January 22, 2002

James D. Huff
Lake Brenda Estates
506 County Road 2436
Mineola, Texas 75773

Re: Well Proposal
TMBR/Sharp Drilling Inc.'s Blue Fin "25" Well No. 1
N/2 Section 25, T16S, R35E, N.M.P.M.,
Lea County, New Mexico

Dear Mr. Huff:

TMBR/Sharp Drilling, Inc. hereby proposes to drill its Blue Fin "25" Well No. 1 at a standard well location in Unit E to a total depth of approximately 13,200 feet to be dedicated to a standard 320-acre gas spacing unit consisting of the N/2 of Section 25, T16S, R35E, N.M.P.M., Lea County, New Mexico, to test for production from any formation/pool currently spaced on 320-acre gas spacing units.

Based upon our most recent information, James D. Huff has a 14.6875% interest in this spacing unit based upon its working interest ownership of 4.50 acres in the W/2 NE/4 and 42.50 acres in the E/2 NE/4 of said Section 25.

Please find enclosed a copy of TMBR/Sharp Drilling, Inc.'s AFE which sets forth its estimate of the cost of drilling and completing this well. At this point, we have obtained the control of 81.7365% of the spacing unit.

Should you elect to participate, please sign the attached AFE and return it to me and upon our receipt our proposed Joint Operating Agreement will be forwarded to you for your execution.

Yours truly,

TMBR/Sharp Drilling, Inc.

Jeffrey D. Phillips
President

Enclosure

TMBR/ Sharp Drilling, INC.				API Number	22-Jan-0
AUTHORIZATION FOR EXPENDITURE				Well No. 1.	
License Name	State	County/Parish	Location		
Blue 196 25	New Mexico	Las	1913 FINE & 9.34 FMI, Sec. 25, T16S, R. 15E		
Acct Code	INTANGIBLE DESCRIPTION	COST TO CASING POINT	COMPLETION COST	TOTAL WELL COST	
1	Surveys / Permits / Bonds	1200		1,200	
2	Roads/Location/Damages	30000		30,000	
3	Mob/demob	25000		25,000	
4	Drilling Contract-				
5	Daywork 30 days At \$8520 /day.	400440	25,560	426,000	
6	Footage				
7	Completion Unit 15 days At \$ 2000 /day		30,000	30,000	
8	Mud/Chemicals	35000		35,000	
9	Water	18000	3,000	21,000	
10	Cement/Cementing Services	39000	18,000	56,000	
11	Fuel/Electricity/Generator/light.	28200	1,800	30,000	
12	Bits	65000		65,000	
13	Reamers/ stabilizers	15000		15,000	
14	Service Equipment	2000	5,000	7,000	
15	Equipment rentals	10000	5,000	15,000	
16	Wire line Unit				
17	Mud Logging/Paceo/Biossay	18000		18,000	
18	Open Hole Logging	25000		25,000	
19	Drill Stem Testing and coring	20000		20,000	
20	Tubular Inspection/Testing	3000	1,500	4,500	
21	Transportation (land)	3000	2,000	5,000	
22	Equipment inspection/leasing	2500	2,000	4,500	
23	Casing Crews/Tongs	3500	2,500	7,000	
24	Drilling Overhead	6500	1,500	8,000	
25	Supervision	2750	5,500	8,250	
26	Cased Hole Logging & Perf		5,500	5,500	
27	Stimulation		15,000	15,000	
28	Production Testing		10,000	10,000	
29	Completion Fluids		2,500	2,500	
30	Fishing Tools, Supervisor	5000		5,000	
31	Contract labor	2500	3,000	5,500	
32	Insurance	8756	2,919	11,675	
33	Plug and Abandon	15000		15,000	
34	Contingency (7%)	54004	9960	64,864	
TOTAL INTANGIBLE ESTIMATED COST		\$839,250	\$152,239	\$991,489	
TANGIBLE DESCRIPTION					
35	Conductor				
36	500' of 13 3/8" 54.5 @15.50/FT	Surface Casing	7,750	7,750	
37	5000' of 8 5/8" 40# @ 13.00/FT	Intermediate Csg	65,000	65,000	
38		Intermediate Csg			
39		Intermediate Csg			
40	12,000' of 7" 26# @ 11.50/FT	Production Csg			
41	2000' of 4 1/2" 11.00# @ 5.75/FT	Liner	11,500	11,500	
42	13800' of 2 7/8" 6.50# @3.20/FT	Tubing	44,160	44,160	
43		Tubing			
44		Tubing			
45	Wellhead Equipment	4,200	9,000	13,200	
46	Float Equipment	4,000	6,000	10,000	
47	Liner Equipment		5,000	5,000	
48	Pumping Unit / Base / Engine				
49	Sucker rods, Polished Rods				
50	Producing Equipment: Tank Battery, Flowline		30,000	30,000	
51	Flowlines, Valves, Fittings/Connections		8,000	8,000	
52	Packers & Other Subsurface Tools		6,500	6,500	
53	Compressor				
54	Miscellaneous Sale Items		5,000	5,000	
55	Contingency (7%)	5,667	18,421	24,088	
TOTAL TANGIBLE ESTIMATED COST		\$86,617	\$281,581	\$368,198	
TOTAL AFE ESTIMATED COST		\$925,867	\$433,820	\$1,359,687	
APPROVAL AND ACCEPTANCE					
Participant _____		I DO NOT wish to be covered by TMBR/Sharp's blow out insurance.			
W I _____		I wish to be covered by TMBR/Sharp's blow out insurance.			
Title _____		Date _____			
Signature _____					

IT IS RECOGNIZED THAT AMOUNTS HEREIN ARE ESTIMATES ONLY, AND APPROVAL OF THIS AUTHORIZATION SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATION SPECIFIED, WHETHER MORE OR LESS THAN BUS HEREIN SET OUT.

I wish to be covered by TMBR/Sharp's blow out insurance.

I DO NOT wish to be covered by TMBR/Sharp's blow out insurance.