

SOUTHWEST ROYALTIES, INC.
AUTHORITY FOR EXPENDITURE
EXPLORATORY DRILLING

AFE #	930360	AFE DESCRIPTION	McMillan #2 - D & C
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LEASE #: 1358-002	LEASE NAME: MCMILLAN #2
OPERATOR: SOUTHWEST ROYALTIES, INC.	
ORIGINATED BY: DOUG KEATHLEY	FIELD: Wildcat
COUNTY: LEA	STATE: New Mexico
LEGAL LOCATION: 1980' FSL & 1980' FWL, Sec. 29-T18S-R37E	
COMMENCEMENT DATE: 02/15/1994	ESTIMATED COMPLETION DATE: 03/15/1994

WORK TO BE PERFORMED:

Drill & Complete Wildcat San Andres Well

OBJECTIVES:

This is a wildcat San Andres oil well. Economics are based on making a well similar to wells made in the Hobbs field, several miles to the east. If a comparable San Andres well is made, conservative economics indicate an IRR of 91%, a payout of 17 months and a PI of 4.05:1.

Since this well is a wildcat to the San Andres, we do have a secondary target of the Queen/Penrose section as completed in the Maralo State, Howard State and McMillan. The performance of these wells indicates that a realistic downside expectation would be to make a well that will have an IRR of 2% with a PI of 1.09:1.

TOTAL AFE	INTANGIBLE	TANGIBLE
275,100.00	205,600.00	69,500.00

INTANGIBLE WELL COSTS	BCP AMOUNT	ACP AMOUNT	TOTAL
LAND & LEGAL SERVICES	3,000	0	3,000
DAMAGES	1,500	0	1,500
ROAD & LOCATION	8,000	1,000	9,000
CASING CREWS	0	1,000	1,000
CEMENT & SERVICES	3,000	9,400	12,400
DRILLING-FOOTAGE 4,700' @ \$12.00/ft	56,400		56,400
DRILLING-DAYWORK 1 day @ \$3,800/day	3,800		3,800
LOGGING-MUD	1,500		1,500
LOGGING-WIRELINE	4,500	0	4,500
POWER, FUEL & WATER	3,000	1,700	4,700
DRILLING MUD & CHEMICALS	3,500	0	3,500
SUPERVISION	1,500	4,000	5,500
OVERHEAD	1,500	4,000	5,500
EQUIPMENT RENTAL	500	8,000	8,500
COMPLETION, W/O, PULLING UNIT 10 days @ \$1300/day		13,000	13,000
CONTRACT LABOR	1,000	6,000	7,000
TRUCKING & HAULING	500	1,500	2,000
STIMULATION (FRAC/ACID)	0	45,000	45,000
CONTINGENCIES-BUDGET ONLY	5,800	5,000	10,800
BITS & REAMERS	0	500	500
DRILL STEM TESTING	0	1,000	1,000
PERFORATING/LOGGING	0	4,000	4,000
INSURANCE: DRILLING LIABILITY	1,500	0	1,500
TOTAL INTANGIBLE	100,500	105,100	205,600

TANGIBLE WELL COSTS	BCP AMOUNT	ACP AMOUNT	TOTAL
SURFACE CASING 8-5/8"	3,500		3,500
INTERMEDIATE CASING II 5-1/2"	0	24,000	24,000
TUBING 2-3/8"		8,900	8,900
RODS, SUBSURFACE PUMPS, ANCHORS		6,500	6,500
OTHER SUBSURFACE EQUIPMENT	0	500	500
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TANGIBLE WELL COSTS	BCP AMOUNT	ACP AMOUNT	TOTAL
---CONTINUED---			
WELL HEAD EQUIPMENT-BCP	800	800	1,600
FITTINGS		8,000	8,000
PUMPING EQUIP & PRIME MOVER		5,000	5,000
TANK, TREATER, SEPARATOR		6,500	6,500
ELECTRICAL EQUIPMENT		4,000	4,000
SALES EQUIP-METERS & GAUGES		1,000	1,000
TOTAL TANGIBLE	4,300	65,200	69,500

 SOUTHWEST ROYALTIES, INC.	<i>Northern Regional Engr</i> TITLE	<i>2/22/94</i> DATE
WORKING INTEREST OWNER	TITLE	DATE

PLEASE EXECUTE AND RETURN ONE COPY