

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF CHI ENERGY,
INC. FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

Case No. 13,381

STATEMENT OF JOHN W. QUALLS

John W. Qualls, being duly sworn upon his oath, deposes and states:

1. I am over the age of 18, and have personal knowledge of the matters set forth herein.

2. Pursuant to Division Rule 1207.A(1)(b), the following information is submitted in support of the compulsory pooling application filed herein:

(a) No opposition to this application is expected because:

(i) the locatable unleased mineral interest owners have been contacted several times regarding the subject well, but have not agreed to lease their interests or participate in the wells; and

(ii) there are numerous unlocatable, unleased mineral interest owners, who applicant has attempted to locate since mid-2004 through a search of the Eddy County records, nationwide telephone records, and internet databases, but has been unable to locate them.

(b) A map outlining the spacing unit being pooled, and marking the location of the subject well, is attached hereto as Exhibit A. Applicant seeks to dedicate the S $\frac{1}{2}$ of Section 17, Township 22 South, Range 27 East, N.M.P.M. to the Kodiak Well No. 1 as to the depths from the surface to the base of the Morrow formation. Applicant also seeks to dedicate the SE $\frac{1}{4}$ and the NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 17 to the well for zones spaced on 160 acres and 40 acres, respectively. The primary zone of interest is the Morrow formation, which is a gas-bearing zone.

(c) The parties being pooled, their interests in the 320 acre well unit, and their last known addresses, are set forth on Exhibit B.

(d) Copies of the proposal letters which applicant sent to the uncommitted working interest owners are attached hereto as Exhibit C.

(e) Pursuant to Division rules, applicant requests that a 200% risk charge be assessed against any non-consenting interest owners.

OIL CONSERVATION DIVISION

CASE NUMBER

EXHIBIT NUMBER


(f) A copy of the Authority for Expenditure for the well is attached hereto as Exhibit D. The drilling and completion costs set forth therein are fair and reasonable, and are comparable to those of other wells of this depth drilled in this area of Eddy County.

(g) Overhead charges of \$6500/month for a drilling well, and \$600/month for a producing well, are requested. These rates are fair and reasonable, and are in line with rates charged by other operators in this area for wells of this depth.

VERIFICATION

STATE OF TEXAS)
) ss.
COUNTY OF MIDLAND)

John W. Qualls, being duly sworn upon his oath, deposes and states that: He is the Vice-President of Chi Energy, Inc.; he is authorized to make this verification on its behalf; he has read the foregoing statement and knows the contents thereof; and the same is true and correct to the best of his knowledge, information, and belief.



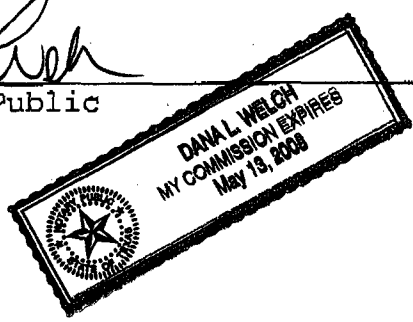
John W. Qualls
4th

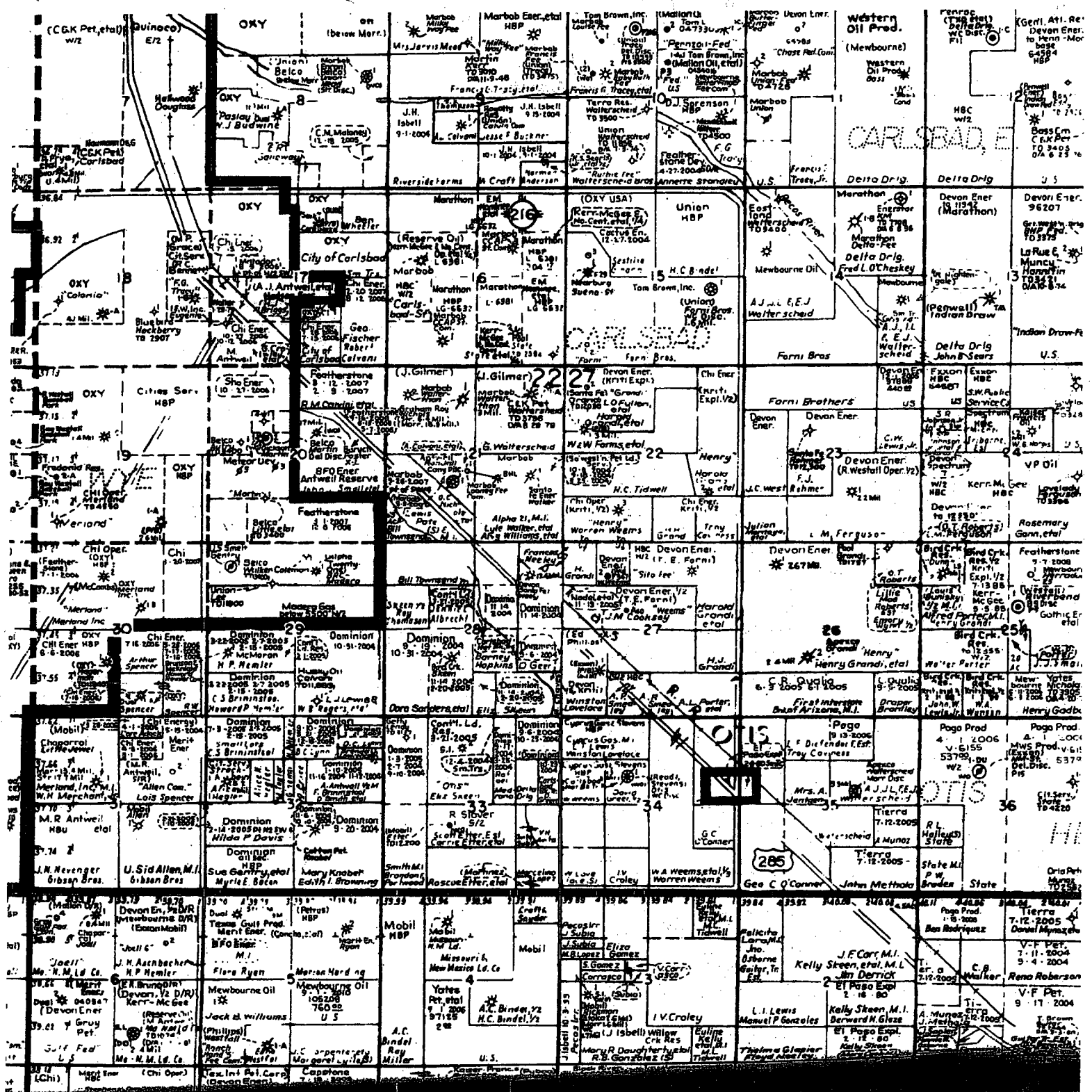
Subscribed and sworn to before me this _____ day of April, 2005 by John W. Qualls.



Notary Public

My Commission Expires:
5-15-2008





Shamberg No. 5119
EXHIBIT
A



PARTIES BEING POOLED

Vivian Burhus
HC-1 Box 530-4
Center Point, TX 78010

Ronald D. Fischer
109 Colinas Ave. NE
Albuquerque, NM 87113

Kenneth E. Fischer
2423 Garden Ave.
Waverly, Iowa 50677

Steven Fischer
1009 East Wood
Carlsbad, NM 88220

Tom Fischer
1442 East Harmony
Mesa, Az 85204

Carol Fischer Matsumoto
2403 Hanston Court
Pearland, TX 77803

Linda Fischer Mathews
2512 Hardwood
Bryan, TX 77803

Eddie Lee Fischer
c/o Betty Harris
2402 West Story
Midland, TX 79710

OXY USA WTP Limited
6 Desta Drive
Midland, TX 7970

Richard A. Smead
206 E. Rose Street
Carlsbad, NM 88220

Henry H. Hrandi
P.O. Box 893
Carlsbad, NM 88220

Gary L. Roberts
210 E. Rose Street
Carlsbad, NM 88220

B.V. Ballard
1311 W. Merriod
Carlsbad, NM 88220

Jimmie Houchin
220 E. Rose Street
Carlsbad, NM 88220

James B. Garrett
2408 Faulkner Apt A-3
Midland, TX 79705

Marion Jenkins
1206 West Merriod Street
Carlsbad, NM 88220

Clinton J. Coleman
P.O. Box 941
Harlingen, Tx

Margaret Keeling Guengerich
1941 East Delsur Dr.
Tempe, Az 85383

Bobbie Javine Smith
306 East Rose Street
Carlsbad, NM 88202

Raymond C. Foreman
1012 Spring Street
Carlsbad, NM 88220

Shawn Judah
316 East Rose Street
Carlsbad, NM 88202

W.D. Briminstool
2502 South Canal Street
Carlsbad, NM 88220

Linda S. Crowley
P.O. Box 1295
Carlsbad, NM 88220

Donna Croley Laman
Route 1 Box 5M
Carlsbad, NM 88220

Dorothy Croley, a widow
2421 Primrose
Carlsbad, NM 88220

Kathy Faye Croley
2421 Primrose
Carlsbad, NM 88220

Ethelyn Louise Croley Sheuy
Carlsbad, NM 88220

Bibby Lee Croley
19 Rockridge
Pueblo, Co 81001

Jerry and Nancy Calvani
Revocable Trust
P.O. Box 172
Carlsbad, NM 88220

Emma Irene Blackwell
1206 North Thorpe
Hobbs, NM 88240

Doris Ann Croley Melvin
430 Knotty Pine
Green River, WY 82935

Albert H. Fisher and wife
Lena L. Fisher, Joint Tenants
Rt 1, Box 266
Carlsbad, NM 88220

Cotton Growers Inc.
P.O. Box CC
Carlsbad, NM 88220

Queen Oil and Gas
P.O. Box 959
Carlsbad, NM 88220

Elvira Murphy
209 North Missouri
Roswell, NM 88201

Flora Louise Tracy and Charles G. Tracy
Trustees of The Francis G. Tracy and Bessie
Driver Tracy Revocable Trust, Dated 07/30/81
P.O. Box 700
Carlsbad, NM 88220

Robert Wilson Finlay, Jr.
720 Appaloosa Drive
Walnut Creek, CA 94596

Nancy Finlay Rodekrohr
720 Appaloosa Drive
Walnut Creek, CA 94596

Nota Finley Cook
720 Appaloosa Drive
Walnut Creek, CA 94596

Everet L. Wheeler
1801 N. Mission Ave.
Carlsbad, NM 88220

C.E. Wheeler
647 Old Cavern Hwy
Carlsbad, NM 88220

Phyllis Marie Wheeler Western
1174 East Center Ave.
Carlsbad, NM 88220

Heirs of Elsie M. Weldon
c/o Mary Francis Linnardon
Carlsbad, NM

Ralph Calvani
28765 Via Zapato
Munieta CA 92563

Heirs of Albert C. Boeglin
c/o Albert C. Boeglin
Las Cruces, NM

Betty Holder Hackler
715 East Fiesta
Carlsbad, NM 88220

Faith Holder Paddock
P.O. Box 307
Marana, AZ 85653

Mary Holder Stahle
516 North 3rd
Bloomfield, NM 87413

Dorothy Holder Roberts
P.O. Box 640
Gilmer, TX 75644

Lois Holder
Apt. 206
4602 50th Street
Lubbock, TX 79414

William N. Holder
802 East Wood Avenue
Carlsbad, NM 88220

Brenda Holder Stockton
1406 West Tansill
Carlsbad, NM 88220

Marla Holder Parker
2504 North Houston
Hobbs, NM 88240

Jimmy Fischer
c/o Robert Fischer
3407 Daniel Street
Arlington, TX 76014

Phillips Marketing Properties
4001 Penbrook Street
Odessa, Texas 79762

Elvira Murphy
209 South Missouri
Roswell, NM 88201

Donna Croley Laman
1419 Eagle
Carlsbad, NM 88220

B.V. Ballard
1309 W. Ural
Carlsbad, NM 88220

Richard A. Smead
4205 Townsend Road
Carlsbad, NM 88220

Dorothy Croley
4110 S. Thomason Rd.
Carlsbad, NM 88220

Kathy Faye Croley
4110 S. Thomason Rd.
Carlsbad, NM 88220

Richard Menuey
1221 Sapient
Carlsbad, NM 88220

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

William A. Wheeler
1604 Desert Willow Drive
Carlsbad, New Mexico 88220


**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Wheeler:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls

JWQ/fh



CHI ENERGY, INC.**P.O. BOX 1799
MIDLAND, TEXAS 79702**

October 28, 2004

"Certified-Return Receipt"

Deria Ann Croley Melvin
430 Knotty Pine
Green River, Wyoming 83935

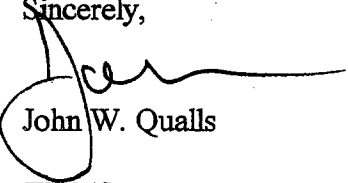
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Melvin:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

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Sincerely,


John W. Qualls

JWQ/fh

CHI ENERGY, INC.**P.O. BOX 1799
MIDLAND, TEXAS 79702**

October 28, 2004

"Certified-Return Receipt"

Jerry and Nancy Calvani
Revocable Trust
P. O. Box 172
Carlsbad, New Mexico 88220

**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Calvani:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.**P.O. BOX 1799
MIDLAND, TEXAS 79702**

October 28, 2004

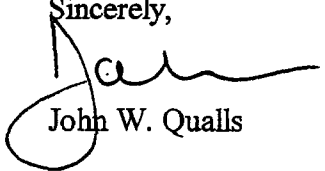
"Certified-Return Receipt"**Emma Irene Blackwell
1206 North Thorpe
Hobbs, New Mexico 88240****Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Blackwell:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls

JWQ/fh

CHI ENERGY, INC.**P.O. BOX 1799
MIDLAND, TEXAS 79702**

October 28, 2004

"Certified-Return Receipt"

Albert H. Fischer and
Wife Lena L. Fischer, Joint Tenants
Rt. 1 Box 266
Carlsbad, New Mexico 88220

**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. & Mr. Fischer:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Cotton Growers, Inc.
P. O. Box CC
Carlsbad, New Mexico 88220

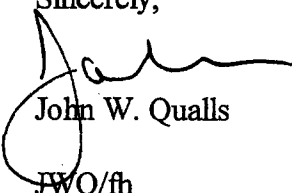
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Gentlemen:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Queen Oil & Gas
P. O. Box CC
Carlsbad, New Mexico 88220

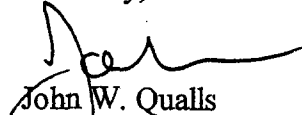
**Re: South Carlsbad Prospect
Kodiak #1
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Eddy County, New Mexico**

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Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Elvira Murphy
209 Missouri
Roswell, New Mexico 88201

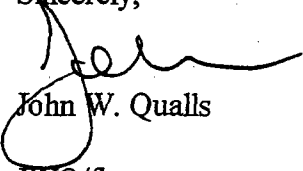
**Re: South Carlsbad Prospect
Kodiak #1
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S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Murphy:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Flora Louise Tracy and Charles G. Tracy
Trustees of The Francis G. Tracy and Bessie
Driver Tracy Revocable Trust, Dated 07/30/81
P. O. Box 700
Roswell, New Mexico 88220

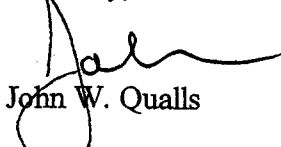
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Tracy:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls
JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Robert Wilson Finlay, Jr.
720 Appaloosa Drive
Walnut Creek, California 94596

**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Finlay:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Nancy Finlay Rodekohr
720 Appaloosa Drive
Walnut Creek, California 94596

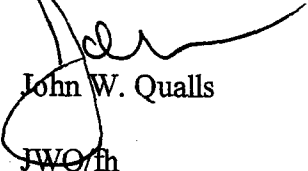
**Re: South Carlsbad Prospect
Kodiak #1
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T-22S-R-27E
Eddy County, New Mexico**

Ms. Rodekohr:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Nora Finlay Cook
720 Appaloosa Drive
Walnut Creek, California 94596

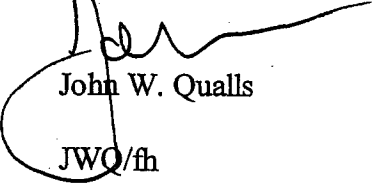
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Cook:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

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Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

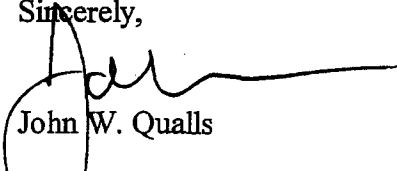
"Certified-Return Receipt"William A. Wheeler
1604 Desert Willow Drive
Carlsbad, New Mexico 88220**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Wheeler:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Everet L. Wheeler
1801 N. Mission Ave.
Carlsbad, New Mexico 88220

**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Wheeler:

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Sincerely,



John W. Qualls

JWQ/th

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

C. E. Wheeler
647 Old Cavern Hwy
Carlsbad, New Mexico 88220

**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Wheeler:

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Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Phyllis Marie Wheeler Western
1174 East Center Ave.
Carlsbad, New Mexico 88220

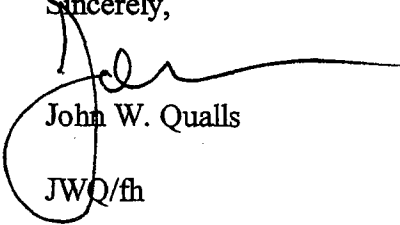
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Western:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Kenneth E. Fischer
2423 Garden Ave.
Waverly, Iowa 50677


**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Fischer:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Ralph Calvani
28765 Via Zapato
Munieta, California 92563

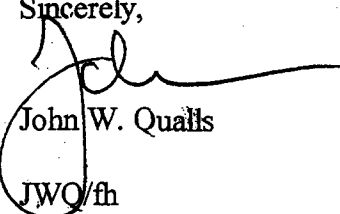
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Calvani:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Ronald D. Fischer
109 Colinas Ave. N E
Albuquerque, New Mexico 87113

**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Fischer:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Vivian Burrhus
HC-1, Box 530-4
Center Point, Texas 78010

**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Burrus:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Steven Fischer
1009 East Wood
Carlsbad, New Mexico 88220

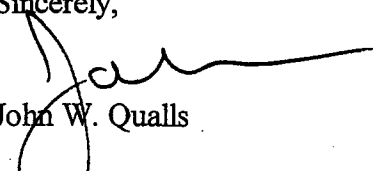
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Fischer:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/gh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Marion Jenkins
1206 West Mermod Street
Carlsbad, New Mexico 88220

**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Jenkins:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/th

CHI ENERGY, INC.P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

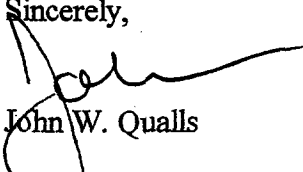
"Certified-Return Receipt"Clinton J. Coleman
P. O. Box 941
Harlingen, Texas 78551**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Coleman:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls

JWQ/th

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Margaret Keeling Guengerich
1941 East Delsur Dr.
Tempe, Arizona 85383

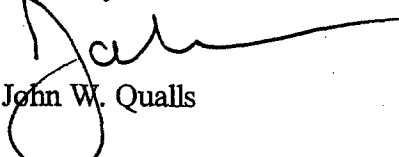
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Guengerich:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls
JWQ/m

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Bobbie Javine Smith
306 East Rose Street
Carlsbad, New Mexico 88220

**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Smith:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/ff

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Carlsbad National Bank
Trustee Erminia Holder Trust
William Holder Trust
202 W. Stevens
Carlsbad, New Mexico 88220

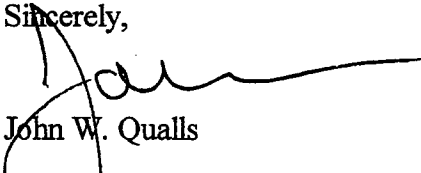
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Gentlemen:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.**P.O. BOX 1799
MIDLAND, TEXAS 79702**

October 28, 2004

"Certified-Return Receipt"

Raymond C. Foreman
1012 Spring Street
Carlsbad, New Mexico 88220

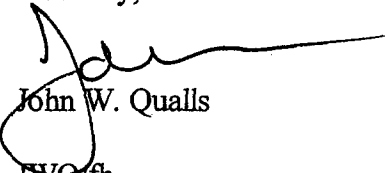
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Foreman:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Shawn Judah
316 East Rose Street
Carlsbad, New Mexico 88220

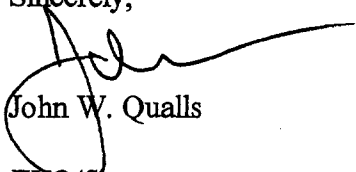
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Judah:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/m

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

W.D. Bininstool
2502 South Canal Street
Carlsbad, New Mexico 88220

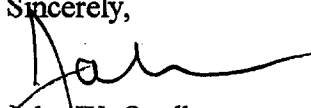
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Brininstool:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/th

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Linda S. Crowley
P. O. Box 1295
Carlsbad, New Mexico 88220

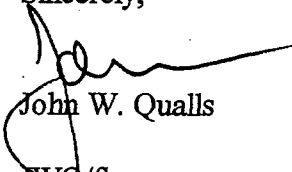
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Crowley:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Donna Croley Laman
Route 1, Box 5M
Carlsbad, New Mexico 88220

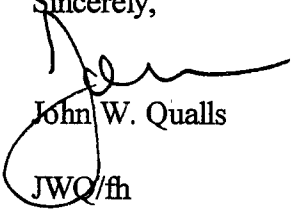
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Laman:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Dorothy Croley
2421 Primrose
Carlsbad, New Mexico 88220

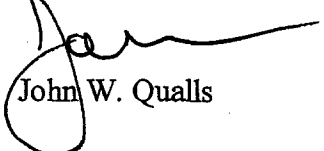
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Croley:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Kathy Faye Croley
2421 Primrose
Carlsbad, New Mexico 88220

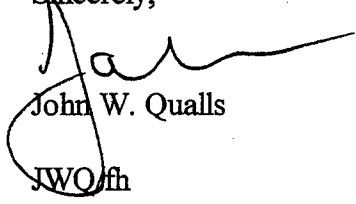
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Croley:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

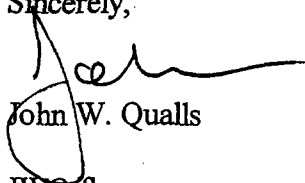
"Certified-Return Receipt"Billy Lee Croley
10 Rockridge
Pueblo, Colorado 81001**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Croley:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Tom Fischer
1442 East Harmony
Mesa, Arizona 85204

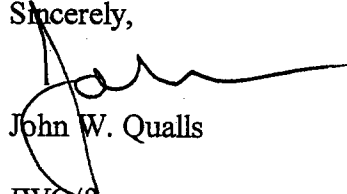
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Fischer:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Jimmy Fischer
C/O Robert Fischer
3407 Daniel St.
Arlington, Texas 76104

**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Fischer:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fn

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Carol Fischer Matsumato
2403 Hanston Court
Pearland, Texas 77803

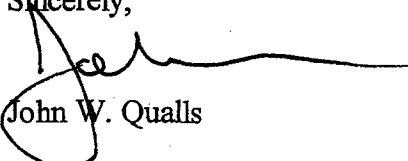
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Matsumato:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Linda Fischer Mathews
2512 Hardwood
Bryan, Texas 77803


**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Mathews:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Eddie Lee Fischer
C/O Betty Harris
2402 West Story
Midland, Texas 79710


**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Fischer:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls

JWQ/th

CHI ENERGY, INC.**P.O. BOX 1799
MIDLAND, TEXAS 79702**

October 28, 2004

"Certified-Return Receipt"**W. R. Williamson, Jr.
837 East Parkway
Coppell, Texas 75019****Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Williamson:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Richard A. Smead
206 E. Rose Street
Carlsbad, New Mexico 88220

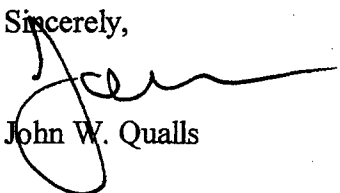
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Smead:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/th

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Henry H. Hrandi
P. O. Box 893
Carlsbad, New Mexico 88220

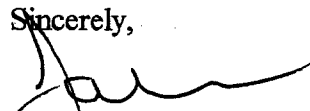
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Hrandi:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"Gary L. Roberts
210 E. Rose Street
Carlsbad, New Mexico 88220**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Roberts:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

B. V. Ballard
1311 Mermod
Carlsbad, New Mexico 88220

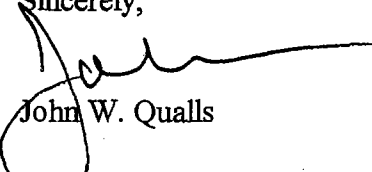
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Ballard:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

Jimmie Houchin
220 E. Rose Street
Carlsbad, New Mexico 88220

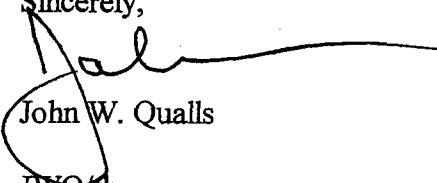
**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Houchin:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/th

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 28, 2004

"Certified-Return Receipt"

James B. Garrett
2408 Faulkner Apt A-3
Midland, Texas 79705


**Re: South Carlsbad Prospect
Kodiak #1
660' FEL & 660' FSL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Garrett:

Chi Operating, Inc. is proposing a Morrow test in the SE/4SE/4 of Section 17-22S-27E, Eddy County, New Mexico to a depth of approximately 12,000'. The South one-half (S/2) of Section 17 is the proposed spacing unit. Attached is an "Authority for Expenditures" and approval page of same. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/th

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

October 24, 2004

Rick Farrell
Magnum Hunter Production Inc.
3500 William D. Tate
Suite 200
Grapevine, Texas 76051

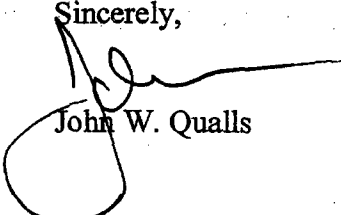
**Re: South Carlsbad Prospect
Kodiak #1 (S/2 Proration Unit)
Section 17-T-22S-R-27E (12,000' Morrow Test)
Eddy County, New Mexico
NE/4SW/4 and that part of the NW/4SW/4 lying East of the Railroad
Magnum Hunter's Interest
53.5 gross acres / 26.75 net acres**

Mr. Farrell:

Our Record Checking indicates that Magnum Hunter owns a lease taken by Matador in August of 1991 covering the above referenced acreage in Section 17-T-22S-R-27E, Eddy County, New Mexico. Chi would be interested in acquiring a Term Assignment for \$200.00, 20.0% Royalty and a two (2) year term. Should you not be interested in leasing, I have enclosed an AFE for you to execute should you decide to participate.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Vivian Burrhus
HC-1, Box 530-4
Center Point Texas 78010

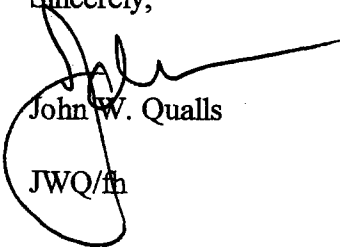
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Burrhus:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

November 3, 2004

Keneth E. Fischer
2423 Garden Ave.
Waverly, Iowa 50677

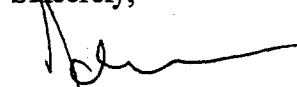
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Fischer:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/th

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Ronald D. Fischer
109 Colinas Ave. NE
Albuquerque, NM 87113

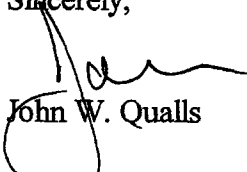
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Fischer:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.**P.O. BOX 1799
MIDLAND, TEXAS 79702**

November 3, 2004

Steven Fischer
1009 East Wood
Carlsbad, NM 88220

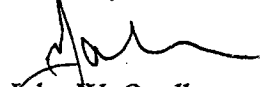
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Fischer:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls
JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Tom Fischer
1442 East Harmony
Mesa, AZ 85204

**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Fischer:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Carol Fischer Matsumato
2403 Hanston Court
Pearland, Texas 77803

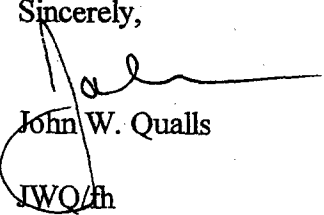
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Fischer:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/th

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Jimmy Fischer
C/O Robert Fischer
3407 Daniel St.
Arlington, Texas 76014

**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Fischer:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,

John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Linda Fischer Mathews
2512 Hardwod
Bryan, Texas 77803

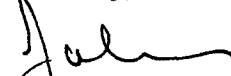
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Fischer:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

November 3, 2004

OXY USA WTP Limited
6 Desta Drive
Midland, Texas 79705
Attn: Doug Hurlbut

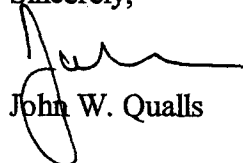
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Hurlbut:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Richard A. Smead
206 E. Rose Street
Carlsbad, NM 88220

**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Smead:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Henry H. Hrandi
P.O. Box 893
Carlsbad, NM 88220

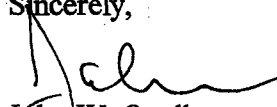
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Hrandi:

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Thanks and please call should you have any questions.

Sincerely,



John W. Qualls
JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Gary L. Roberts
210 E. Rose Street
Carlsbad, NM 88220

**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Roberts:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

B.V. Ballard
1311 W. Mermod
Carlsbad, NM 88220

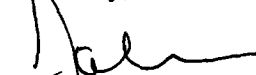
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Ballard:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Jimmie Houchin
220 E. Rose Street
Carlsbad, NM 88220

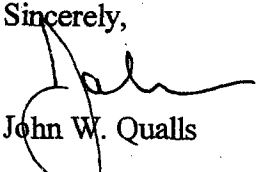
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Houchin:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

James B. Garrett
2408 Faulkner Apt A-3
Midland, Texas 79705

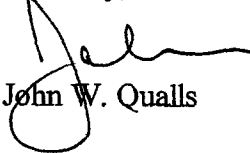
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Faulkner:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls
JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

November 3, 2004

Marion Jenkins
1206 West Mermod Street
Carlsbad, NM 88220

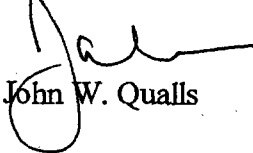
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Jenkins:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Clinton J. Coleman
P.O. Box 941
Harlingen, Texas 78551

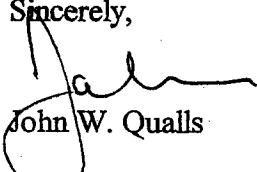
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Coleman:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Margaret Keeling Guengerich
1941 East Delsur Drive
Tempe, AZ 85383


**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Guengerich:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Bobbie Javine Smith
306 E. Rose Street
Carlsbad, NM 88220

**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Smith:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Carlsbad Nat'l Bank
Trustee Erminia Holder Trust
William Holder Trust
202 W. Stevens
Carlsbad, NM 88220

**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.**P.O. BOX 1799
MIDLAND, TEXAS 79702**

November 3, 2004

Raymond C. Foreman
1012 Spring Street
Carlsbad, NM 88220

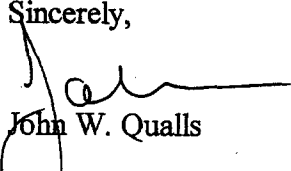
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Foreman:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Shawn Judah
316 East Rose Street
Carlsbad, NM 88220

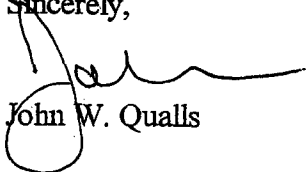
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Judah:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

W.D. Brininstool
2502 South Canal Street
Carlsbad, NM 88220

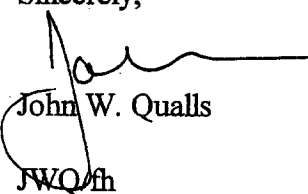
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Brininstool:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

November 3, 2004

Linda S. Crowley
P.O. Box 1295
Carlsbad, NM 88220

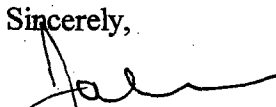
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Crowley:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Donna Crowley, a widow
Route 1 Box 5M
Carlsbad, NM 88220

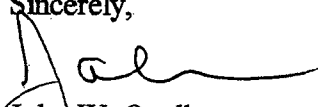
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Crowley:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Kathy Faye Crowley
2421 Primrose
Carlsbad, NM 88220

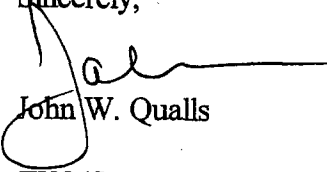
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Crowley:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

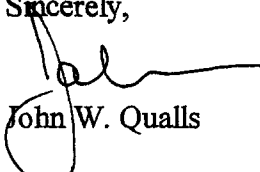
Billy Lee Crowley
10 Rockridge
Pueblo, CO 81001**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Crowley:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

November 3, 2004

Doris Ann Crowley Melvin
430 Knotty Pine
Green River, WY 82935

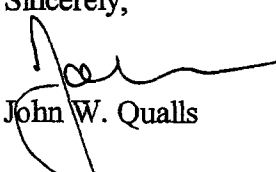
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Crowley:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/mh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

November 3, 2004

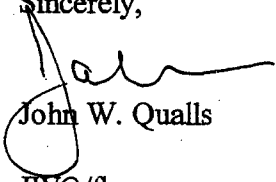
Jerry and Nancy Calvani Rev Trust
P.O. Box 172
Carlsbad, NM 88220

**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Emma Irene Blackwell
1206 N. Thorpe
Hobbs, NM 88240

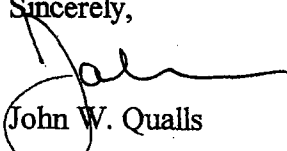
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Blackwell:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.**P.O. BOX 1799
MIDLAND, TEXAS 79702**

November 3, 2004

Albert H. Fischer and wife
Lena L. Fischer, Joint Tennants
Rt 1, Box 266
Carlsbad, NM 88220

**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. And Mrs. Fischer:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

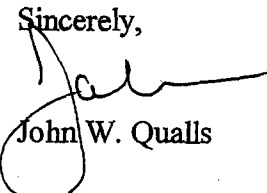
Queen Oil and Gas
P.O. Box 959
Carlsbad, NM 88220

**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

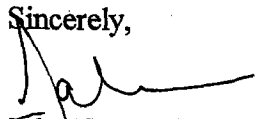
Cotton Growers Inc.
P.O. Box CC
Carlsbad, NM 88220

**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,


John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Flora Louise Tracy and Charles G. Tracy
Trustees of the Francis G. Tracy and Bessie
Driver Tracy Rrev Trust
P.O. Box 700
Carlsbad, NM 88220

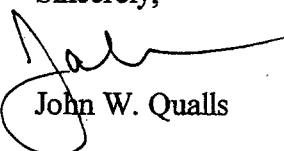
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. And Mrs. Tracy:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Robert Wilson Finlay, Jr.
720 Appaloosa Drive
Walnut Creek, CA 94596

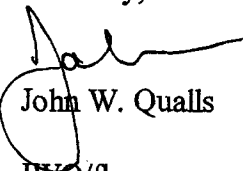
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Finlay:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Nancy Finlay Rodekohr
720 Appaloosa Drive
Walnut Creek, CA 94596

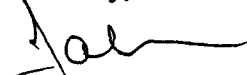
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Rodekohr:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

November 3, 2004

Nora Finlay Cook
720 Appaloosa Drive
Walnut Creek, CA 94596

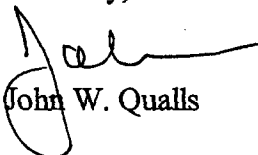
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Cook:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Everet L. Wheeler
1801 N. Mission Ave.
Carlsbad, NM 88220

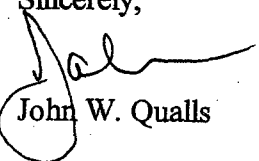
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Wheeler:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

C.E. Wheeler
647 Old Cavern Hwy
Carlsbad, NM 88220

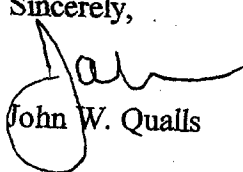
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Mr. Wheeler:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 3, 2004

Phyllis Marie Wheeler Western
1174 East Center Ave.
Carlsbad, NM 88220

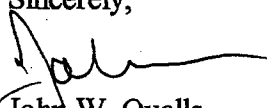
**Re: South Carlsbad Prospect
Kodiak #1
1980' FSL & 660' FEL
S/2 of Section 17
T-22S-R-27E
Eddy County, New Mexico**

Ms. Western:

The location for the Kodiak #1 has been re-located to 1980' FSL & 660' FEL. This is due to geologic mapping in the area. Please return a signed AFE at your earliest convenience. Should you not wish to participate, Chi would be interested in acquiring a Three (3) year Oil & Gas Lease for \$100.00 per net acre and a 3/16ths Royalty.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

November 3, 2004

Eddie Lee Fischer
c/o Betty Harris
2402 West Story
Midland, Texas 79710

**Re: Oil & Gas Lease
E/2SE/4 of Sec. 17-T-22S-R-27E
Eddy County, New Mexico**

Ms. Harris:

Enclosed is the Oil & Gas Lease we discussed. Please sign in the space provided and have it notarized. I will need a Power of Attorney from you showing you have authority to sign for Eddie Lee Fischer. Send it back to me and I will send you a check in the amount of \$100.00. (.5555 net acres x \$150.00 = \$83.32). Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

DESCRIPTION	BUDGET
DRILLING & PERFORATE	25,000
PIPE/WIRELINE	2,000
- PRODUCTIONS/PLUG BACK	12,000
DRILLING	7,000
DRILLING	65,000
DRILLING	5,000
CEMENT REPAIR	
DRILLING	2,000
CEMENT RENTAL	6,000
DRILLING	5,000
DRILLING	5,000
DRILLING	5,000
WELLHEAD & EXPENSES	2,000
DRILLING CREWS	4,200
MISCELLANEOUS INTANGIBLES	12,000
DRILLING UNIT	
INTANGIBLE COMPLETION	161,000
DRILLING - PRODUCTION/EQUIPMENT	18,000
WELLHEAD	12,000
DRILLING	33,000
CREWS - PRODUCTION & WATER	14,000
VALVES & FITTINGS	5,000
PIPE/WIRELINE	10,000
WHOLE TOOLS	7,000
MISCELLANEOUS TANGIBLES	9,000
DRILLING FAC	25,000
INTANGIBLE COMPLETION	133,000
TOTAL WELL COSTS	2,390,000

PROSPECT..... KODIAK #1
OBJECTIVE.....
SPUD DATE.....
COMPL DATE....
CASING DATE...
DEPTH..... 0

STATE..... NM
LOCATION..... S/2: SEC. 17: T-22
REMARKS.....

DESCRIPTION	BUDGET	NET ACTUAL	VARIANCE	% UNDER
SURVEYING & PERMIT	2,000			100.00
DAMAGES	2,500			100.00
ROADS & LOCATIONS	20,000			100.00
RIG MOVE	30,000			100.00
DRILLING - DAYWORK	388,800			100.00
CEMENT - SURFACE	6,000			100.00
CEMENT - INTERMEDIATE	22,000			100.00
CORING	8,000			100.00
DRILLSTEM TESTING	4,500			100.00
DRILLING FLUIDS	45,000			100.00
WATER	30,000			100.00
BITS & REAMERS	50,000			100.00
ENGINEERING	37,000			100.00
MUD LOGGING	25,000			100.00
OPENHOLE LOGGING	35,000			100.00
EQUIPMENT RENTAL	15,000			100.00
TRUCKING	5,000			100.00
LABOR	5,000			100.00
LEGAL	8,000			100.00
OVERHEAD & EXPENSES	6,000			100.00
INSURANCE & BONDS	2,000			100.00
CASING CREWS	5,000			100.00
PLUGGING & ABANDONING	35,000			100.00
MISCELLANEOUS INTANGIBLES	50,000			100.00
FUEL	38,000			100.00
INTANGIBLE DRILLING	974,800			
CASING - SURFACE	5,950			100.00
CASING - INTERMEDIATE	61,525			100.00
WELLHEAD EQUIPMENT	7,000			100.00
CASING - PRESSURE STRING	116,400			100.00
MISCELLANEOUS TANGIBLES	13,500			100.00
TANGIBLE DRILLING	204,375			
ANCHORS	1,000			100.00
LOCATIONS	1,000			100.00
COMPLETION UNIT	12,000			100.00