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KOCH EXPLORATION COMPANY, LLC

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New Mexico Oil Conservation Division
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1235 La Plata Highway, Suite A
Farmington, NM 87401-8731

David K. Brooks
Terry Warnell
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: NMOCD Order No. R-13132

Case 14295

Ladies and Gentlemen:

Persuant to NMOCD Order No. R-13132 which approved the application of Koch Exploration Company, LLC "KEC", ConocoPhillips Company, Burlington Resources Oil and Gas Company, LP, and Energen Resources Corporation to establish an eight well Pilot Increased Density Well Project in the Basin-Fruitland Coal. The terms of the order specified the following annual requirement:

Annually, on or before the anniversary, of the date of issuance of this Order, Applicants shall meet with representatives of the Division and the Farmington field office of the US Bureau of Land Management to provide them with geological and engineering data for wells drilled under the project. Within 30 days after each such meeting, Applicants shall provide a written summary of the events and data reported at such meeting to the Division's Santa Fe Office and to BLM's Farmington field office.

Please find attached a Meeting Memorandum summarizing the meeting and data provided.

Very truly yours,

Morgan J. Connor, CPL
Land Manager

Enclosure

cc: Robert Wright, Koch Exploration Company, LLC
Richard Corcoran, ConocoPhillips Company – 3401 E. 30th St., Farmington, NM 87402
Greg Jennings, Energen Resources Corporation – 605 Richard Arrington Jr. Blvd. N, Birmington, AL 35203

9777 Pyramid Court, Suite 210
Englewood, Colorado 80112

Meeting Memorandum

DATE: August 20, 2010

TO: NMOCD Santa Fe office and
BLM's Farmington field office

CC: Steve Hayden, District Geologist, NMOCD
Jim Lovato, BLM Farmington Field Office

FROM: Robert Wright, Koch Exploration Company, LLC

SUBJECT: NMOCD Order No. R-13132 written summary of the events and data reported for the meeting held on June 3rd, 2010

Purpose of Meeting

NMOCD Order No. R-13132 approved the application of Koch Exploration Company, LLC "KEC", ConocoPhillips Company, Burlington Resources Oil and Gas Company, LP, and Energen Resources Corporation to establish an eight well Pilot Increased Density Well Project in the Basin-Fruitland Coal. The terms of the order specified the following annual requirement:

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In accordance with the terms of the Order, Brian Kissick, VP Exploration, KEC and Bob Wright, Senior Reservoir Engineer, KEC met with Steve Hayden, District Geologist, NM OCD District 3 to provide him with geologic and engineering data obtained from three wells drilled by KEC within the Project. Jim Lovato, Petroleum Engineer, BLM Farmington Field Office was unable to attend due to a scheduling conflict.

This report satisfies the additional requirement of the Order in providing a written summary of said meeting.

Pilot Increased Density Well Project – Current Status

KEC operates four of the eight proposed Increased Density locations. ConocoPhillips operating as Burlington Resources owns two locations and Energen Resources owns two. To date three of KEC's four Increased Density wells have been drilled and completed.

Energen Resources has permitted their two locations. KEC is uncertain when their locations or ConocoPhillips's wells will be drilled.

The three wells drilled and completed are identified as follows:

Operator Name	API Number	Well Name	Date Spudded	Date Completed
KEC	30-045-35021	Aggie State 32 1B	10/30/2009	12/09/2009
KEC	30-045-35022	AB Geren 6B	11/10/2009	01/05/2010
KEC	30-045-35023	AB Geren 6C	10/30/2009	01/04/2010

All three wells were drilled as vertical wells using standard practice for non-fairway CBM wells. Mud log data were collected during drilling and well logs included high resolution density logs. During the completion phase, layered pressure data were collected in each well from the basal coal, middle coal and upper coal seams. During the completion phase, the overall interval was acidized and followed by a single stage nitrogen frac with sand quantities ranging from 250,000 to 300,000 pounds of proppant.

Overview of Results to Date

Layered pressure data obtained confirm layered reservoirs with differing degrees of drainage efficiency among the coalbed strata. KEC is encouraged by the overall performance of the three wells thus far.

Geologic Discussion

A cross section provided showed a depiction of the well logs from the newly drilled Pilot wells. The coal seams seen in each well were in line with pre-drill expectations in terms of thickness and general location within the Fruitland formation. The basal, middle and upper coals can be loosely correlated across the three wells.

Layered Pressure Discussion

Reservoir pressure measurements were obtained by perforating the basal coal seam, establishing communication by breaking down the perfs with limited injection of 10 barrels of water, then isolating the zone with a retrievable bridge plug. Pressure gauges were hung below the bridge plug with the gauges near the mid point of perforations. This procedure was subsequently followed on the middle and upper coal seams with pressure measurements collected simultaneously from all three zones.

The intent of the pressure tests is to record the static reservoir pressure of each layer tested. Due to the limited injection to establish communication, the pressure tests represent falloff tests as the injection caused a 'supercharging' of the reservoir layer. The measured pressures reached a maximum at the point injection ceased and then declined throughout the pressure measurement through the end of each test.

The Aggie State 32 1B was the first well tested from November 23 – 30, 2009. After seven days of shut-in, the final pressures of all three layered pressure tests had not reached static equilibrium and were continuing to decline. Based on these results, KEC ran the layered pressure tests on the remaining two wells for a substantially longer time with shut-in time approaching one month for each well.

The AB Geren 6B was tested from November 30 – December 29, 2009 and the AB Geren 6C was tested from November 25 – December 22, 2009. Even after nearly one month of shut-in times, none of the tests achieved static equilibrium by the end of the survey. This demonstrates that the 'supercharge' of the reservoir takes an exceptionally long time to bleed off confirming an extraordinarily tight reservoir.

While the tests did not measure a definitive reservoir pressure for any given coal seam, they did confirm layered pressures with the basal coals showing the highest degree of pressure depletion. The middle and upper coals were less than virgin pressure indicating a degree of drainage on current spacing, but at reduced reservoir efficiency than the basal coals.

The next table summarizes the final observed pressures for each well and coal seam:

Table 1. Final Pressures by Well & Layer

Well Name	Basal Coal	Middle Coal	Upper Coal
Aggie State 32 1B	555 psig @ 2,398 – 2,411'	464 psig @ 2,325 – 41'	618 psig @ 2,283 – 2,303'
AB Geren 6B	148 psig @ 2,073 – 89'	549 psig @ 2012 – 21'	542 psig @ 1,975 – 97'
AB Geren 6C	122 psig @ 2,174 – 90'	302 psig @ 2,098 – 2,111'	398 psig @ 2,065 – 85'

Discussion of Well Performance to Date

KEC is pleased with the overall performance of the three pilot wells so far. The well with the longest production history, Aggie State 32 1B, began production on December 31, 2009 at a rate of 288 MCFD. Production peaked on January 10, 2010 at a rate of 446 MCFD and declined to around 120 MCFD by the end of May, 2010.

The AB Geren 6B came on production on February 10, 2010 at a rate of 327 MCFD and reached a maximum rate of 412 MCFD two days later on February 12. It is currently producing around 185 MCFD as of the end of May, 2010.

First production for the AB Geren 6C was also on February 10, 2010 at a rate of 246 MCFD with a maximum rate of 324 MCFD on March 11, 2010. Its rate at the end of May, 2010 is about 210 MCFD.

The Aggie State 32 1B and the AB Geren 6B declined hyperbolically for their first three months and now may be stabilizing at a decline rate in line with other field wells. The AB Geren 6C exhibited inclining production for a longer time than the other two wells and achieved a lower peak rate, but appears to have stabilized at the highest rate of the three wells.

Signed: _____

Robert Wright
Sr. Reservoir Engineer

Meeting Memorandum

Geologic and Engineering Data Provided at Meeting

The following data were provided at the June 3rd meeting in hardcopy:

1. Cross Section showing the 3 KEC increased density wells with Net Coal counts based on 2.25 g/cc (1 paper print)
2. Base map showing location of 3 KEC wells (1 paper print)
3. Density & Induction wireline log (1 paper log copy for each well)
   - Aggie State 32-1B
   - AB Geren 6B
   - AB Geren 6C
4. LAS digital file (3 discs; each disc contains all 3 LAS files)
   - Aggie State 32-1B
   - AB Geren 6B
   - AB Geren 6C
5. Mud Log for each well (1 paper log copy for each well)
   - Aggie State 32-1B
   - AB Geren 6B
   - AB Geren 6C
6. Post Frac report for each well (1 paper log copy for each well)
   - Aggie State 32-1B
   - AB Geren 6B
   - AB Geren 6C
7. Completion report for each well (1 paper log copy for each well)
   - Aggie State 32-1B
   - AB Geren 6B
   - AB Geren 6C

8. Pressure Gauge Data for each well (3 sets of paper copies & digital disc for each well)
   - Aggie State 32-1B
   - AB Geren 6B
   - AB Geren 6C
9. Daily production data from initial production through May 31, 2010 (1 plot for each well)