

DALEN Resources  
Oil & Gas Co.

March 13, 1995



Mr. M. B. Williams  
State of New Mexico  
Oil and Gas Division  
Drawer D  
Artesia, New Mexico 88210

RECEIVED  
MAR 14 1995  
OIL & GAS DIV.  
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RE: DALEN Resources Oil & Gas Co.  
No. 1 Murchison 2  
Eddy Co., New Mexico

Dear Mr. Williams:

DALEN Resources Oil & Gas Co. initiated the drilling of the subject well on January 20, 1995 and released the drilling rig February 12, 1995 after reaching a total depth of 8,631'. Conventional logs, an MRI log, and sidewall cores determined that our lowest zone, the Bone Spring, was too tight to produce economically. Consequently, three open hole plugs were set and casing was run to 5,520'.

After perforating and acidizing, the first Bushy Canyon completion (5,306'-16') tested tight and very wet. The second attempt (5,133' to 66') is more encouraging and was fractured on March 3, 1995. This interval was flowed only to the point of recovering most of the frac fluid. We are currently installing the surface equipment required for sustained production.

DALEN Resources requests permission to flow the well prior the installation of a gas sales pipeline. We need to establish the size of the reservoir and accurately measure the GOR (expected to be around 2,000 SCF/BBL) and other fluid properties prior to moving ahead with our offset plans. Flowing the well prior to pipeline installation will accelerate the offset drilling.

To determine the quality of the reservoir we will need to temporarily flow the well above the 107 BOPD allowable. DALEN Resources also requests to flow above the allowable, but no greater than 500 BOPD. DALEN Resources considers all information about the Murchison well confidential and asks that the State of New Mexico treat this information the same way. We do understand that once a discovery allowable is filed for and a hearing is set that this information will become public. Please feel free to call me with any questions related to our new well.

Sincerely,

A handwritten signature in dark ink, appearing to read "Eric F. Hadsell", written over a horizontal line.

Eric F. Hadsell  
Senior Petroleum Engineer