

Fasken Center Tower II • 550 W. Texas, Suite 700 • Midland, Texas 79701 • 432-684-4293 • 432-684-0829 FAX

February 3, 2005

Via Certified Mail/Return Receipt Requested

Chesapeak Exploration L.P. Attn: Kathy Blick P.O. Box 18496 Oklahoma City, OK 73154-0496

## RE: PROPOSAL TO DRILL

Marine Fed 19 #1
Section 19, T-25-S, R-27-E
Eddy County, New Mexico

Dear Kathy:

Latigo Petroleum, Inc. ("Latigo") proposes to drill the Marine Fed 19 #1 well located 1480' FNL & 1130' FWL Section 19, T-25-S, R-27-E, Eddy County, New Mexico to test. The proposal is to drill to a depth of 12,100' or to a depth sufficient to test the Morrow formation. The N/2 Section 19, T-25-S, R-27-E is the dedicated Spacing Unit.

Please find attached an AFE for \$ 2,580.00 for the operation. Please notify Latigo of your election as provided for within 30 days of receipt. If you consent to the operation sign and return one original copy of the AFE along with your reporting requirements to me at the letterhead address.

Should Chesapeak Exploration L.P. not want to participate in the Marine Fed 19 #1, please give the undersigned a call to discuss Farmout terms.

If you have questions, please do not hesitate to give me a call at (432) 684-4293 or email me at <u>bchatham@latigopetro.com</u>.

Respectfully submitted,

William F. Chatham, CPL Sr. Staff Landman

Attachment: AFE (2)

NMOCD CASE NO. 13464 MAY 19, 2005 LATIGO PETROLEUM, INC. EXHIBIT NO. 4



## AUTHORITY FOR EXPENDITURE

LOCA	TION: 1480' FNL & 1130'			COUNTY:	Eddy		12/14/200
סוום	WI: OSE : Drill and complete	NR		_		STATE :	NM
		a 12,100 Mo	rrow lest		·	AFE NO:	4335
ACCTG					·	ESTIMATED CO	
CODE	INTANGIBLE COSTS		<u></u>		DRY HOLE	COMPLETION	TOTAL
201 202	Acreage Acquisition			ł	0	0	F 00
	Licenses/Survey/Stake				5,000	0	5,00
	Dirtwork / Fill Pit / Clean L	ocation				15,000	45,00
	Surface Damages Set and Cement Conducto				5,000		5,00
	Set and Cement Conducto	)F			16,000 80,000		16,00
	Drilling Rig - Daywork		50 dovo @	\$ \$12,000 / day		36,000	80,00 600,00
				\$12,000 / day	<u>564,000</u>		000,00
	Drilling Rig - Footage Turnkey Operations		<u>u ieer (a</u>	<u>\$0 / foot</u>	0	0	
	Drilling Fluids				100,000	5,000	105,00
	Mud Haul Off & Disposal				5,000	2,000	7,00
	Fuel & Water				120,000	20,000	140,00
	Casing Crews & Equipme	at			6,000	2,000	8,00
10/010	Rental Equipment	in			200,000	20,000	220,00
15/315					57,000	5,000	62,00
	Directional Drilling & Surve			<u>\$6,500 / day</u>	57,000	0	02,00
	Fishing Tools and Service			40,000 / day	0	0	
	Technical Services	•			0	0	
	Mud Logging		40 dave @	<u>\$750 / day</u>	30,000	0	30,00
	Open Hole Logs		<u>-vuays (a</u>	x x. vv i udž	75.000		75,00
	Supervision				37,500	7,500	45,00
	Drill Stem Test, Core etc.				10,000	7,500	10,00
	Trucking				25,000	5,000	30,00
	Welding				5,000	2,000	7,00
25 / 325					10,000	20,000	30,00
	Equipment Inspection & To	estina					
	Communications						
	Frac Oil						
	Cement - Surface				10,000		10,00
229	Cement - Intermediate				15,000		15,00
	Cement - Production				25,000	15,000	40,00
	Well Testing						
	Cased Hole Logs			1		9,000	9,00
	Perforating					6,000	6,00
	Completion Rig		10 days @	<u>\$2,000 / day</u>	0	20,000	20,00
336	Wireline				0		
338	Coiled Tubing Unit & Equi	p			0	0	_
	Acid Stimulation					12,500	12,50
340	Frac Stimulation					112,500	112,50
42 / 342	Legal Services						
41 / 341	Overhead				5,000	1,000	6,00
43 / 343	Insurance				25,000		25,00
4 / 344	Miscellaneous			<u>10%</u>	146,000	31,600	177,60
45 / 344	Contingency			<u>5%</u>	73,000	16,000	89,00
	TOTAL INTANGIBLES:				1,679,500	363,100	2,042,60
			· .				
CCTG					ESTIMATED COST		
	TANGIBLE COSTS				DRY HOLE	COMPLETION	TOTAL
		DEPTH	SIZE / TYPE	COST			- <del>-</del>
450	Water Casing	40'	1	@ \$37.00 / ft	1,480	0	1,48
	Surface Casing	400'	13-3/8"	@ \$33.00 / ft	13,200	0	13,20
	Intermediate Casing	2100'	9-5/8"	@ \$23.00 / ft	48,300	0	48,30
	Production Casing	8800'	7" 26# P110	@ \$17.00 / ft	149,600	0	149,60
	Production Casing	3600'	4 1/2" 15.1# P11		0	39,600	39,60
	Casing Head / Tubing Hea				20,000	10,000	30,00
	Packers, Anchors, Hanger				15,000	25,000	40,00
	Tubing	12100'	2 3/8" 4.7# N80	@ \$4.00 / ft	0	48,400_	48,40
	Miscellaneous Equipment				20,000	42,000	62,00
	Production Equipment					9,500	9,50
	Stock Tanks					20,000	20,00
560	Flow Lines & Connections					5,000	5,00
	Miscellaneous / Continger	icy	<u>10%</u>	<u>5%</u>	40,420	29,900	70,32
	TOTAL TANGIBLES:		· •	:	308,000	229,400	537,40
	SUBTOTAL ESTIMATED	COSTS			1,987,500	592,500	2,580,0
231	Cement - Plugging	000101			15,000	392,300	<b>2,000,0</b>

Prepared by : \_\_\_\_\_\_ Approvals : Oper

\_\_\_\_ Land \_\_\_\_\_ Acct \_\_\_

This AFE is only an estimate. By returning one signed copy the undersigned hereby agrees to pay its share of all actual dryhole costs and all actual completion costs hereof.

Engr

\_\_\_\_ Geol \_\_\_\_

\_ DATE \_