

KC Resources, Inc.

169 Saxony Road, Suite 212
PO Box 1118

Encinitas, CA 92024
Cardiff, CA 92007

Office: (760) 753-3330
Facsimile: (760) 753-4337

March 20, 2002

Via Fax: (505) 476-3462

Mr. David K. Brooks, Assistant General Counsel
State of New Mexico
Energy, Mineral and Natural Resources Department
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: Paul Terry Et Al Gas Com #002
API No. 30-015-10860

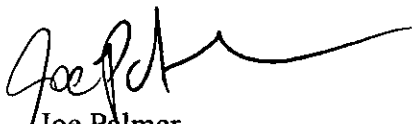
Dear Mr. Brooks:

Please accept this letter as follow-up to our conversation earlier today. Attached is a Form C-103 describing recent work done on the well. As specified, the well flowed Gas on 03/06/02 with a field test indicating a volume of 75 MCFPD. The well is waiting on a pipeline connection.

The purchaser will be Agave. We are planning to install a meter run within the next few days at which time production will continue. We anticipate filing a Form C-115 showing Production in the month of March 2002.

We will notify the District office when Sales occur. Should you have any questions, please feel free to call me at (760) 753-3330.

Sincerely,


Joe Palmer
Tax/Production Analyst

Cc: Van Barton, OCD District No. 2

Submit 3 Copies To Appropriate District
Office
District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Ave., Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources

Form C-103
Revised March 25, 1999

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

WELL API NO. 30-015-10860
5. Indicate Type of Lease STATE <input type="checkbox"/> FEE <input checked="" type="checkbox"/>
6. State Oil & Gas Lease No. N/A
7. Lease Name or Unit Agreement Name: Paul Terry Et Al Gas Com #002
8. Well No. 2
9. Pool name or Wildcat Atoka Penn (#70800)

SUNDRY NOTICES AND REPORTS ON WELLS (DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.) 1. Type of Well: Oil Well <input type="checkbox"/> Gas Well <input checked="" type="checkbox"/> Other	
2. Name of Operator KC Resources, Inc.	
3. Address of Operator P.O. Box 1118, Cardiff, CA 92007	
4. Well Location Unit Letter H : 1,650 feet from the North line and 990 feet from the East line Section 15 Township 18S Range 26E NMPM County: Eddy	
10. Elevation (Show whether DR, RKB, RT, GR, etc.) KB: 15' ; DF: 3,344'	

11. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data	
NOTICE OF INTENTION TO: PERFORM REMEDIAL WORK <input type="checkbox"/> PLUG AND ABANDON <input type="checkbox"/> TEMPORARILY ABANDON <input type="checkbox"/> CHANGE PLANS <input type="checkbox"/> PULL OR ALTER CASING <input type="checkbox"/> MULTIPLE COMPLETION <input type="checkbox"/> OTHER: <input type="checkbox"/>	SUBSEQUENT REPORT OF: REMEDIAL WORK <input checked="" type="checkbox"/> ALTERING CASING <input type="checkbox"/> COMMENCE DRILLING OPNS. <input type="checkbox"/> PLUG AND ABANDONMENT <input type="checkbox"/> CASING TEST AND CEMENT JOB <input type="checkbox"/> OTHER: <input checked="" type="checkbox"/>

12. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompilation.

Start: 02/21/02: MIRU & POOH w/70 jts 2-3/8" Tbg. RIH w/267 jts 2-3/8" Tbg. Tagged cmt. On Plug @ 8,793' PBD. Swab Well; Treat Strawn perfs 8,262'-69' & 8,470'-84' w/ 4,000 gals 15% HCl acid.
02/28/02: RU to perf: 8,744'-52'; 8,755'-58'; 8,765'-70'; 8,775'-79' & 8,782'-90' w/1 shot/ft. (28 holes). Acidized new perfs w/2,800 gals 15% HCl acid.
03/01/02: RU to Swab & Treat well through 03/06/02 w/Gas Flowing. Tbg. in Hole as follows:

KB	15.00'	
248 jts	8,146.39'	
SN	1.10'	
Packer	6.20'	@ 8,162.49'
1 jt	33.27'	
End of Tbg.	8,201.96'	

03/06/02: Pumper to install surface equipment and connect to Pipeline w/OCD approval.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE Joe Palmer TITLE Tax/Production Analyst DATE 3/19/02

Type or print name Joe Palmer Telephone No. (760) 753-3330

(This space for State use)

APPROVED BY _____ TITLE _____ DATE _____

Conditions of approval, if any: