



Lynda F. Townsend, CPL/ESA  
Senior Landman

March 9, 2005

**VIA FACSIMILE (918) 491-4387**  
**& EXPRESS MAIL**

Mr. Jim Wakefield  
Kaiser Francis Oil Company  
P.O. Box 21468  
Tulsa, OK 74121-1468

Re: Chesapeake's Proposed KF State 4 #1  
S/2 Section 4-21S-35E  
Lea County, New Mexico

Dear Mr. Wakefield:

Chesapeake Operating, Inc., on behalf of Chesapeake Permian, LP ("Chesapeake"), hereby proposes to drill the KF State 4 #1 well to an approximate depth of 12,100', or a depth sufficient to test the Morrow Formation and all other potentially productive formations encountered in the captioned well.

Please indicate the option of Kaiser Francis Oil Company's ("Kaiser Francis") choice below, sign and return this letter by facsimile, if available, to our office at (405) 767-4251, followed by a hard copy in the mail. If Kaiser Francis elects to participate in the proposed operation, please also execute and return the enclosed AFE along with a check in the amount of \$537,687.50 (43.750000% VI X \$1,229,000.00), which represents Kaiser Francis' share of the AFE dry hole costs. Please also include a Well Requirement Sheet containing a contact name, facsimile number and e-mail address, if available, to insure receipt of well information.

As an alternative to the above, Chesapeake would be interested in purchasing Kaiser Francis' interest, including any producing well bores, subject to the negotiation of a mutually agreeable price and terms. If Kaiser Francis is interested in pursuing this alternative, please so indicate in the space provided below and/or contact the undersigned. We will immediately forward this information to our Acquisitions and Divestitures Department for follow up. However, please be advised that entering into negotiations to sell Kaiser Francis' interest does not excuse or allow Kaiser Francis to delay the required election under this well proposal.

Chesapeake Energy Corporation  
6100 N. Western Ave. • Oklahoma City, OK 73118 • P.O. Box 18496 • Oklahoma City, OK 73154-0496  
405.879.9414 • fax 405.767.4251 • ltownsend@chkenergy.com

CHK 000140

Mr. Jim Wakefield  
March 9, 2005  
Page 2 of 2

Your early attention and response to this proposal will be greatly appreciated. Should you have any questions, please contact the undersigned.

Sincerely,

Chesapeake Operating, Inc.

*Lynda F. Townsend*  
Lynda F. Townsend

\_\_\_\_\_ Kaiser Francis Oil Company hereby elects to participate in the KF State 4 #1.

\_\_\_\_\_ Kaiser Francis Oil Company hereby elects not to participate in the KF State 4 #1.

**KAISER FRANCIS OIL COMPANY**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_ Kaiser Francis Oil Company is interested in selling its interest in this unit including any producing well bores. Please contact me to discuss.

W:\Permian\Operated Wells\KF State 4 #1\Certified Letters.doc\Operated Wells\KF State 4 #1\_Certified Letters.doc

CHK 000141

## CHESAPEAKE OPERATING, INC.

## AUTHORIZATION FOR EXPENDITURE

Project Area: Permian New Mexico  
Well Name: KP State 4 #1  
Operator: Chesapeake Operating, Inc.  
AFE #: 140522  
Spacing Unit: S/2 Section 4-218-35E

County, State: Lea, New Mexico  
Ditch: 3/7/2005  
Total Depth: 12,900'  
Formation: Morrow  
Property #: 819828

CODE	INTANGIBLE COSTS	WORK DESCRIPTION	DRY HOLE	PRODUCER
233400	Location:	Roads, Location, Pits	\$40,000.00	\$40,000.00
233401		Demolition	\$12,000.00	\$12,000.00
233402		Governmental Filings	\$2,000.00	\$2,000.00
233404		Seismic Costs	\$0.00	\$0.00
233405		Reclamation	\$5,000.00	\$5,000.00
233406		Top Drive	\$0.00	\$0.00
233408	Drilling:	Pipeline Construction	\$0.00	\$0.00
233409		Fuel	\$95,000.00	\$95,000.00
233410		Drilling Contractor: 3103 days @ \$12500 per day	\$388,000.00	\$413,000.00
233411		Drilling Services	\$5,000.00	\$5,000.00
233413		Rig Mobilization/Demobilization	\$100,000.00	\$100,000.00
233414		Contract Labor	\$18,000.00	\$51,000.00
233415		Bills	\$84,000.00	\$84,000.00
233416		Supplies and Utilities	\$1,000.00	\$11,000.00
233418		Cement Conductor	\$0.00	\$0.00
233419		Cement Surface Casing	\$10,000.00	\$10,000.00
233420		Cement Intermediate Casing	\$18,000.00	\$18,000.00
233421		Cement Production Casing	\$0.00	\$25,000.00
233422		Cement Drilling Liner	\$0.00	\$0.00
233423		Cement Production Liner	\$0.00	\$0.00
233424		Mud Logging	\$14,000.00	\$14,000.00
233425		Drilling Fluids, Mud, Chem.	\$76,000.00	\$102,000.00
233426		Drill String Inspection	\$5,000.00	\$5,000.00
233427		Open Hole Logging	\$35,000.00	\$35,000.00
233428		Fishing	\$0.00	\$0.00
233429		Downhole Rental Equipment	\$44,000.00	\$71,000.00
233430		Completion Unit	\$0.00	\$80,000.00
233431	Completion:	Cased Hole Services/Perforating	\$0.00	\$30,000.00
233432		Jetting	\$0.00	\$0.00
233433		Formation Stimulation	\$0.00	\$150,000.00
233434		Surface Equipment Rental	\$52,000.00	\$112,000.00
233435	General:	Transportation	\$8,000.00	\$18,000.00
233436		Flowback Hauloff	\$0.00	\$0.00
233437		Slowdown/Emergencies	\$0.00	\$0.00
233438		Supervision	\$11,000.00	\$12,000.00
233439		Technical Labor	\$11,000.00	\$12,000.00
233440		Direct Labor	\$13,000.00	\$14,000.00
233441		Consultants	\$25,000.00	\$45,000.00
233442		Company Overhead	\$11,000.00	\$12,000.00
233443		Insurance	\$19,000.00	\$19,000.00
233444		Plug to Abandon	\$0.00	\$0.00
233445		0% Contingency	\$0.00	\$0.00
233446				
TOTAL INTANGIBLES		Total Intangible Costs	\$1,046,000.00	\$1,527,000.00

  

CODE	TANGIBLE COSTS	WORK DESCRIPTION		
230108	Tubulars:	Conductor	\$0.00	\$0.00
230109		Surface Casing: 15-3/8" 450'	\$14,000.00	\$14,000.00
230110		Intermediate Casing: 9-5/8" 8,320'	\$149,000.00	\$149,000.00
230111		Production Casing: 6-1/2" 12,100'	\$0.00	\$160,000.00
230112		Drilling Liner	\$0.00	\$0.00
230113		Production Liner	\$0.00	\$0.00
230114		Fluid Equipment	\$9,000.00	\$15,000.00
230115		Tubing: 2-7/8" 12,000'	\$0.00	\$54,000.00
230116	Lease Equipment:	Wellhead Equipment	\$13,000.00	\$43,000.00
230117		Downhole Equipment	\$0.00	\$18,000.00
230118		Artificial Lift Pumping Unit	\$0.00	\$0.00
230119		Production Equipment	\$0.00	\$36,000.00
230120		Compressor/Compression	\$0.00	\$0.00
230121		Pipeline Equipment	\$0.00	\$0.00
230122		Non-Production Equipment	\$0.00	\$0.00
230123		0% Contingency	\$0.00	\$0.00
TOTAL TANGIBLES		Total Tangible Costs	\$184,000.00	\$486,000.00
		Total Costs	\$1,229,000.00	\$2,012,000.00

Prepared by: DFD

Approved by: CMS

OPERATOR'S APPROVAL:

Operations/Geology

DATE:

OPERATOR'S APPROVAL:

Land/Accounting

DATE: 3/8/05

NON-OPERATOR'S APPROVAL:

DATE:

The costs on this AFE are estimates only and may not be construed as ceilings on any specific item or the total cost of the project. In executing this AFE, the participant agrees to pay its proportionate share of actual costs incurred, including legal, curative, regulatory, brokerage and well costs under the terms of the applicable joint operating agreement, regulatory order or other agreement covering this well. The Operator may contract with an affiliated entity to drill the well at prevailing rates in the area. Participant shall be covered by and billed proportionately for Operator's well control and general liability insurance unless participant provides Operator a certificate evidencing its own insurance in amounts acceptable to the Operator by the date of spent.

CHK 000142

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\*\*\* TX REPORT \*\*\*  
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TRANSMISSION OK

TX/RX NO	1626
RECIPIENT ADDRESS	*919184914387
DESTINATION ID	
ST. TIME	03/11 14:13
TIME USE	01'10
PAGES SENT	3
RESULT	OK



Lynda E. Townsend, CPL/ESA  
Senior Landman

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Kaiser Francis Oil Company  
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CHK 000143



**EXPRESS  
MAIL**

Customer Copy  
Label 71-B, March 2004

UNITED STATES POSTAL SERVICE®

Post Office To Addressee

ED 322425742 US	
<b>ORIGIN (POSTAL SERVICE USE ONLY)</b>	
PO ZIP Code 73118	Day of Delivery <input checked="" type="checkbox"/> Next <input type="checkbox"/> 2nd <input type="checkbox"/> 3rd Out Day
Date Accepted 3/1/05	Scheduled Date of Delivery Month Day Year 3 1 05
Time Accepted 1:05 PM	Scheduled Time of Delivery <input checked="" type="checkbox"/> Noon <input type="checkbox"/> 3 PM
Flat Rate <input type="checkbox"/> or Weight lbs. 2 ozs.	Postage \$ 13.65
	Return Receipt Fee \$ 1
	COO Fee Insurance Fee \$ \$
	Military <input type="checkbox"/> 2nd Day <input type="checkbox"/> 3rd Day
	Int'l Alpha Country Code
	Acceptance Emp. Initials
<b>FROM: (PLEASE PRINT) PHONE ( )</b>	
TAMM R BRODY CHICAGO ENERGY 6100 N. LEXINGTON CHICAGO, IL 60631	
<b>FOR PICKUP OR TRACKING</b>	
Visit <a href="http://www.usps.com">www.usps.com</a>	
Call 1-800-222-1811	
<b>DELIVERY (POSTAL USE ONLY)</b>	
Delivery Attempt Mo. Day	Time <input type="checkbox"/> AM <input type="checkbox"/> PM
Delivery Attempt Mo. Day	Time <input type="checkbox"/> AM <input type="checkbox"/> PM
Delivery Date Mo. Day	Time <input type="checkbox"/> AM <input type="checkbox"/> PM
Employee Signature K. E. Smith #1	
<b>CUSTOMER USE ONLY</b>	
PAYMENT BY ACCOUNT Express Mail Corporate Acct. No. <input type="checkbox"/>	
Federal Agency Acct. No. or Postal Service Acct. No.	
<input type="checkbox"/> NO DELIVERY <input type="checkbox"/> Weekend <input type="checkbox"/> Holiday	
<b>TO: (PLEASE PRINT) PHONE ( )</b>	
KAISER FRANCIS Oil Company ATTN: JIM L. PESTER P.O. BOX 21928 TULSA, OK	
ZIP + 4 (U.S. ADDRESSES ONLY. DO NOT USE FOR FOREIGN POSTAL CODES.) 7 4 1 2 1 + 1 0 6 8	
FOR INTERNATIONAL DESTINATIONS, WRITE COUNTRY NAME BELOW.	

CHK 000144