

TORCH ENERGY SERVICES

AUTHORITY FOR CAPITAL EXPENDITURE

Drill & Complete Prospect Well

| | | | | | | | | |
|-----------------------------|--|------|-----|------------------|-------|--|---------|------|
| PROSPECT : San Juan Mesa | San Juan Mesa State #16-1 | 8600 | TES | WELL NAME & N° | DEPTH | OPERATOR | AFE NO. | DATE |
| PROSPECT #: | 660' FNL & 660' FEL Sec. 16 - T4S - R30E | | | LOCATION | | DRILLING <input checked="" type="checkbox"/> WORKOVER <input type="checkbox"/> | | |
| | Roosevelt COUNTY | | | New Mexico STATE | | SINGLE <input type="checkbox"/> DUAL <input type="checkbox"/> | | |

| DETAIL OF EXPENDITURES | DRY HOLE | COMPLETION | TOTAL |
|--|------------------|------------------|--------------------|
| 1. LOCATION | \$46,000 | \$14,000 | \$60,000 |
| 2. CONTRACT DRILLING | \$306,500 | | \$306,500 |
| 3. DRILLING BITS | \$24,500 | | \$24,500 |
| 4. FUEL & WATER | \$17,500 | | \$17,500 |
| 5. CEMENT & SERVICE | \$58,000 | \$16,500 | \$74,500 |
| 6. FORMATION EVALUATION | \$42,000 | | \$42,000 |
| 7. DRILLSTEM TEST (INCLUDING TEST EQUIP) | | | |
| 8. CONVENTIONAL CORING & ANALYSIS | | | |
| 9. SPECIALIZED SERVICE | \$6,000 | | \$6,000 |
| 10. FISHING TOOLS & SERVICE | | \$9,000 | \$9,000 |
| 11. JETTING & SWABBING SERVICE | | | |
| 12. FILTERING | | | |
| 13. EQUIPMENT RENTAL | \$29,500 | \$18,000 | \$47,500 |
| 14. LOST IN HOLE | | | |
| 15. DRILLING MUD & COMPLETION FLUIDS | \$57,000 | \$10,000 | \$67,000 |
| 16. WELLSITE SUPERVISION | \$28,500 | \$10,200 | \$38,700 |
| 17. CONSTRUCTION SITE SUPERVISION | \$3,000 | | \$3,000 |
| 18. MARINE TRANSPORTATION | | | |
| 19. AIR TRANSPORTATION | | | |
| 20. GROUND TRANSPORTATION | \$17,500 | \$9,500 | \$27,000 |
| 21. COMPLETION RIG COST | | \$32,000 | \$32,000 |
| 22. COMPLETION BITS | | \$4,000 | \$4,000 |
| 23. CASED HOLE WIRELINE | | \$22,500 | \$22,500 |
| 24. GRAVEL PACKING EQUIP & SERVICE | | | |
| 25. ACID & FRACTURE STIMULATION | | \$85,000 | \$85,000 |
| 26. SUPPLIES & SMALL TOOLS | | | |
| 27. ENVIRONMENTAL | \$2,500 | | \$2,500 |
| 28. COMMUNICATIONS | \$2,500 | | \$2,500 |
| 29. CATERING/GROCERIES | | | |
| 30. INSURANCE | \$10,000 | \$5,000 | \$15,000 |
| 31. OVERHEAD | | | |
| 32. CONTINGENCIES | \$37,500 | \$20,000 | \$57,500 |
| 33. INSPECTION & TESTING | | | |
| 34. DIVING | | | |
| 35. MISCELLANEOUS INTANGIBLE COSTS | | | |
| 36. COMPANY LABOR | \$5,000 | \$5,000 | \$10,000 |
| 37. WORK IN PROGRESS CASH CELLS | | | |
| TOTAL INTANGIBLES | \$693,500 | \$260,700 | \$954,200 |
| 38. CASING | | | |
| 400 13.375 | \$10,000 | | \$10,000 |
| 50 24 | \$2,750 | | \$2,750 |
| 2300 8.625 | \$37,490 | | \$37,490 |
| 8700 5.5 | | \$100,920 | \$100,920 |
| 39. TUBING 8500 2.875 | | \$39,100 | \$39,100 |
| 40. WELLHEAD | \$4,500 | \$15,100 | \$19,600 |
| 41. SUBSURFACE EQUIPMENT | | \$7,000 | \$7,000 |
| 42. PRODUCTION EQUIPMENT | | \$152,500 | \$152,500 |
| 43. MEASUREMENT EQUIPMENT | | \$5,000 | \$5,000 |
| 44. SHOREBASE FACILITY | | | |
| TOTAL TANGIBLES | \$54,740 | \$319,620 | \$374,360 |
| TOTAL THIS AFE | \$748,240 | \$580,320 | \$1,328,560 |
| PRIOR AUTHORIZATIONS | | | |

REMARK: *** This AFE is an estimate. By returning one signed copy, you agree to pay your share of the actual costs incurred. ***

| | | |
|-------------------|----------------------|------------------------|
| | APPROVED AS TO _____ | DECIMAL INTEREST _____ |
| Prepared By _____ | DATE _____ | |
| | COMPANY _____ | |
| Prepared By _____ | BY _____ | |
| Approved By _____ | TITLE _____ | |

WELL CONTROL INSURANCE

This AFE includes Well Control "Blowout" Insurance drilling and completion only, covering: 1) the cost of control of a well in the event of a blowout; 2) bodily injury or property damage liability caused by pollution, seepage or contamination; 3) pollution cleanup; 4) extinguishing of an oil or gas well fire; and, 5) redrilling of the well. You may indicate your declination of your pro rata share of the subject insurance by signing below. If you elect not to participate in the Well Control "Blowout" Insurance, you must sign and return this form, along with an acceptable certificate of insurance evidencing adequate Well Control Insurance coverage, to Torch Operating Company within ten days of your receipt of this AFE or prior to the spudding or reworking of any well hereunder, whichever is earlier. NO RESPONSE WITHIN THIS TIME PERIOD WILL BE CONCLUSIVE PRESUMPTION OF ACCEPTANCE.

We hereby reject Torch Energy Service Inc's Well Control Insurance. Enclosed is a copy of our certificate of insurance outlining our coverage.

COMPANY: _____
BY: _____

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 14495 Exhibit No. 2
Submitted by:
TORCH ENERGY SERVICES, INC.
Hearing Date: June 24, 2010



TORCH
ENERGY ADVISORS

San Juan Mesa Prospect
Roosevelt County, NM

Geology by: Louis J. Mazzullo
Denver, Colorado

RELATIVE SEISMIC
ISOPACH MAP,
FUSSELMAN-MONTOYA
C. I. = 25 FEET

Possible locations for
stratigraphic/structural traps
shown by yellow stars. The faults
shown all intersect this
mapping horizon.

