

TMBR/Sharp

**Drilling, Inc.**

Drawer 10970
Midland, Texas 79702-7970
915-699-5050

Via Federal Express
Airbill No. 8297 4167 5428

January 22, 2002

James D. Huff
Lake Brenda Estates
506 County Road 2436
Mincola, Texas 75773

Re: Well Proposal
TMBR/Sharp Drilling Inc.'s Blue Fin "25" Well No. 1
N/2 Section 25, T16S, R35E, N.M.P.M.
Lea County, New Mexico

Dear Mr. Huff:

TMBR/Sharp Drilling, Inc. hereby proposes to drill its Blue Fin "25" Well No. 1 at a standard well location in Unit E to a total depth of approximately 13,200 feet to be dedicated to a standard 320-acre gas spacing unit consisting of the N/2 of Section 25, T16S, R35E, N.M.P.M., Lea County, New Mexico, to test for production from any formation/pool currently spaced on 320-acre gas spacing units.

Based upon our most recent information, James D. Huff has a 14.6875% interest in this spacing unit based upon its working interest ownership of 4.50 acres in the W/2 NE/4 and 42.50 acres in the E/2 NE/4 of said Section 25.

Please find enclosed a copy of TMBR/Sharp Drilling, Inc.'s AFE which sets forth its estimate of the cost of drilling and completing this well. At this point, we have obtained the control of 81.7365% of the spacing unit.

Should you elect to participate, please sign the attached AFE and return it to me and upon our receipt our proposed Joint Operating Agreement will be forwarded to you for your execution.

Yours truly,

TMBR/Sharp Drilling, Inc.

Jeffrey D. Phillips
President

Enclosure

TMBR/ Sharp Drilling, INC.
AUTHORIZATION FOR EXPENDITURE

API Number 71

22-Jan-0

Well No. 1

Location
1913' INT. & 924' FWL - Sec. 25, T16S, R15E.License Name
Blue Rin 25State
New MexicoCounty-Parish
Lea

Acct Code	INTANGIBLE DESCRIPTION	COST TO CASING POINT	COMPLETION COST	TOTAL WELL COST
1	Surveys / Permits / Bonds	1200		1,200
2	Roads/Location/Damages	30000		30,000
3	Mob/demob	25000		25,000
4	Drilling Contract-			
5	Daywork:50 days At \$8520 /day.	400440	25,560	426,000
6	Footage			
7	Completion Unit: 15 days At \$ 2000 /day		30,000	30,000
8	Mud/Chemicals	35000		35,000
9	Water	18000	3,000	21,000
10	Cement/Cementing Services	38000	18,000	56,000
11	Fuel/Electricity/Generator/Lights	28200	1,800	30,000
12	Bits	65000		65,000
13	Reamers/ stabilizers	15000		15,000
14	Service Equipment	2000	5,000	7,000
15	Equipment rentals	10000	5,000	15,000
16	Wire line Unit			
17	Mud Logging/Paceo/Bioassay	18000		18,000
18	Open Hole Logging	25000		25,000
19	Drill Stem Testing and coring	20000		20,000
20	Tubular Inspection/Testing	3000	1,500	4,500
21	Transportation (land)	3000	2,000	5,000
22	Equipment inspection/testing	2500	2,000	4,500
23	Casing Crews/Tongs	4500	2,500	7,000
24	Drilling Overhead	6500	1,500	8,000
25	Supervision	2750	5,500	8,250
26	Cased Hole Logging & Perf		5,500	5,500
27	Stimulation		15,000	15,000
28	Production Testing		10,000	10,000
29	Completion Fluids		2,500	2,500
30	Fishing Tools, Supervisor	5000		5,000
31	Contract labor	2500	3,000	5,500
32	Insurance	8756	2,919	11,675
33	Plug and Abandon	15000		15,000
34	Contingency (7%)	54904	9960	\$64,864
TOTAL INTANGIBLE ESTIMATED COST		\$839,250	\$152,239	\$991,489
TANGIBLE DESCRIPTION				
35	Conductor			
36	500' of 13 3/8" 54.5 @15.50/FT	7,750		7,750
37	5000' of 8 5/8" 40# @ 13.00/FT	65,000		65,000
38	Intermediate Csg			
39	Intermediate Csg			
40	12,000' of 7 7/8" 26# @ 11.50/FT		138,000	138,000
41	2000' of 4 1/2" 11.60# @ 5.75/FT		11,500	11,500
42	3800' of 2 7/8" 6.50# @3.20/FT		44,160	44,160
43	Tubing			
44	Tubing			
45	Wellhead Equipment	4,200	9,000	13,200
46	Float Equipment	4,000	6,000	10,000
47	Liner Equipment		5,000	5,000
48	Pumping Unit / Base / Engine			
49	Sucker rods, Polished Rods			
50	Producing Equipment, Tank Battery, Flowline		30,000	30,000
51	Flowlines, Valves, Fittings/Connections		8,000	8,000
52	Packers & Other Subsurface Tools		6,500	6,500
53	Compressor			
54	Miscellaneous Sale Items		5,000	5,000
55	Contingency (7%)	5,667	18,421	24,088
TOTAL TANGIBLE ESTIMATED COST		\$86,617	\$281,581	\$368,198
TOTAL AFE ESTIMATED COST		\$925,867	\$433,820	\$1,359,687

APPROVAL AND ACCEPTANCE

Participant _____

W.I. _____

Title _____

Signature _____

IT IS RECOGNIZED THAT AMOUNTS HEREIN ARE ESTIMATES ONLY, AND APPROVAL OF THIS AUTHORIZATION SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATION SPECIFIED, WHATEVER MORE OR LESS THAN THE HEREIN SET OUT.

____ I Wish to be covered by TMBR/Sharp's blow out insurance.

____ I DO NOT Wish to be covered by TMBR/Sharp's blow out insurance.

Date _____