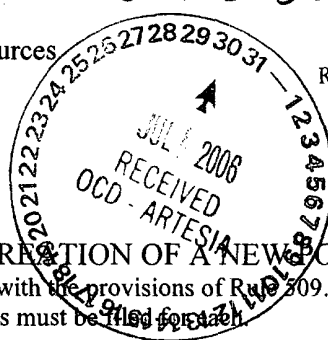


District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy Minerals and Natural Resources

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

30-015-33720



Form C-109
Revised June 10, 2003

Instructions on
Reverse Side

APPLICATION FOR DISCOVERY ALLOWABLE AND CREATION OF A NEW POOL

NOTE: This form is to be filed and attachments made in accordance with the provisions of Rule 309.

If discovery is claimed for more than one zone, separate forms must be filed for each.

Operator Kaiser-Francis Oil Company		Address 6733 South Yale Avenue, Tulsa, OK 74136	
Lease Name Mesa "11" Grande		Well No. 2	County Eddy
Well Location Unit Letter <u>L</u> : 2661 Feet from The <u>South</u> Line and <u>660</u> Feet From the <u>West</u> Line of Section <u>11</u> Township <u>22S</u> Range <u>26E</u> NMPM			
Suggested Pool Names (List in order of Preference) 1. Living Desert (Bone Springs) 2. Carlsbad South (Bone Springs) 3. Pecos Valley (Bone Springs)			
Name of Producing Formation Second Bone Springs Lime	Perforations 6321'-6426'	Depth of Top Perf from GL 6303'	Date of Filing Form C-104 4/20/06 and 6/21/06
Was "Affidavit of Discovery" Previously Filed For This Well in this Pool? No	If yes, Give Date of Filing	Date Well was Spudded 1/13/05	Date Compl. Ready to Prod. 5/18/06
Total Depth 11500'	Plugged Back Depth 7670'	Depth Casing Shoe 11500'	Tubing Depth 6211'
Elevation (Gr., DF, RKB, RT, etc.) 3175; Gr, 3193KB			
Oil Well Potential (Test to be taken only after all load oil has been recovered) <u>157</u> Bbls, Oil Per Day Based On <u>157</u> Bbls In <u>24</u> Hours; <u>0</u> Bbls Water Per Day Based on <u>0</u> Bbls In <u>24</u> Hours; Gas Production During Test: <u>1391</u> MCF; Gas-Oil Method Of Choke <u>15/64</u> Ratio <u>8,860scf/bbl</u> Producing Flwg Size			

NEAREST PRODUCTION TO THIS DISCOVERY (Includes past and present oil or gas producing areas and zones whether this discovery is based on horizontal or vertical separation):

Pool Name <u>Happy Valley</u>	Name of Producing Formation <u>Morrow</u>	Top of Pay <u>11107'</u>	Bottom of Pay <u>11246'</u>	Currently Producing? <u>Yes</u>
Horizontal Distance and Direction from Subject Discovery Well to the Nearest well in this Pool <u>1503'</u>		Vertical Distance from Subject Discovery Zone to Producing Interval this Pool <u>4681'</u>		

NEAREST COMPARABLE PRODUCTION (Includes past and present oil or gas production for this pay or formation only):

Pool Name <u>Happy Valley SE (3rd Bone Springs Lime)</u>	Top of Pay <u>7745'</u>	Bottom of Pay <u>7752'</u>	Currently Producing <u>No</u>
Horizontal Distance and Direction from Subject Discovery Well to the Nearest Well in this Comparable Pool <u>11669' (White Wing "22" Fed Com #1 @2635' FWL & 1930' FSL Section 22-22S-26E)</u>			

Is "County Deep" Discovery Allowable Requested for Subject Discovery Well? <u>No</u>	If Yes, Give Name, Location, and Depth of Next Deepest Oil Production in this Count
---	---

Is the Subject Well Multiple Completion? <u>No</u>	Is Discovery Allowable Requested for Other Zone(s)?	If Yes, Name all Such Formations
---	---	----------------------------------

(Continue on reverse side)

LIST ALL OPERATORS OWNING LEASES WITHIN ONE MILE OF THIS WELL (Attach additional sheet if necessary)

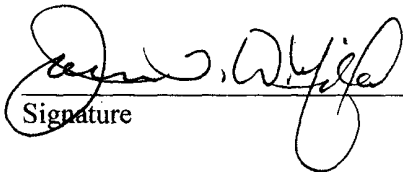
NAME	ADDRESS
J. Cleo Thompson, P.O. Box 12577, Odessa, TX 79768-2577	
Chi Operating, P.O. Box 1799, Midland, TX 79702	
Devon Energy Production Co., L.P. 20 N Broadway, Suite 1500, Oklahoma City, OK 73102	
Marbob Energy Company, P.O. Box 227, Artesia, NM 88211-0227	

Attach evidence that all of the above operators have been furnished a copy of this application. Any of said operators who intends to object to the designation of the subject well as a discovery well, eligible to receive a discovery allowable, must notify the appropriate District Office and the Santa Fe Office of the Division of such intent in writing within ten days after receiving a copy of this application.

Remarks: There are no Second Bone Springs Lime completions or production within several townships. The closest well is the Mesa Grande 1-11 which is production from the Morrow at 11107-246'. The nearest Bone Springs completion is the White Wing "22" Fed Com #1 in N/2 S/2 Sec 22-22S-26E which has been abandoned after producing 1471 barrels of oil and 22,918 MCF gas from perforations @ 7745-52' (See attached logs) Which is not part of the Second Bone Springs Lime Zone.

OPERATOR CERTIFICATION

I hereby certify the all rules and regulations of the New Mexico Oil Conservation Division have been complied with, with respect to the subject well, and that it is my opinion that a bona fide discovery of a hitherto unknown common source of oil supply has been made in said well, I further certify that the discovery allowable for the subject well, if authorized, will be produced from the subject zone in this well only. Further, that the information given herein and attached hereto is true and complete to the best of my knowledge and belief.


Signature

VP
Title

7/26/06
Date

James T. Wakefield
Printed Name

918-491-4510
Telephone No.

Jimwake@kfoc.net
E-mail Address

INSTRUCTIONS: File two copies of Form C-109 with attachments with appropriate district office and one copy with attachments with the Santa Fe Office.

Attachments: (See Rule 509 for details)

- 1) Map showing all wells within a two-mile radius of discovery well.
- 2) Electrical log with tops and bottoms of producing formations marked.
- 3) A sub-surface structure map if application is based on horizontal separation.
- 4) Geological cross-section.
- 5) Summary of reservoir data.
- 6) Evidence that all operators (listed above) owning leases within one mile of this well have been furnished a copy of this application.

KAISER-FRANCIS OIL COMPANY

P. O. BOX 21468

TULSA, OKLAHOMA 74121-1468

6733 South Yale Avenue, 74136
(918) 494-0000



Certified No.7000411600000232016129

July 26, 2006

Chi Operating
P.O. Box 1799
Midland, Texas 79702

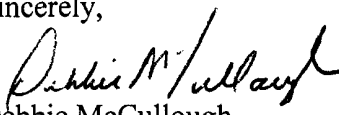
RE: Mesa "11" Grande #2
Section 11-T22S-R26E
Eddy County, New Mexico

Gentlemen:

Enclosed is the Application for Discovery Allowable and Creation of a New Pool. The enclosed C-109 application will be filed on behalf of Kaiser-Francis Oil Company as required by the State of New Mexico.

If you have any questions contact regarding the above please contact. Jim Wakefied at (918) 491-4510.

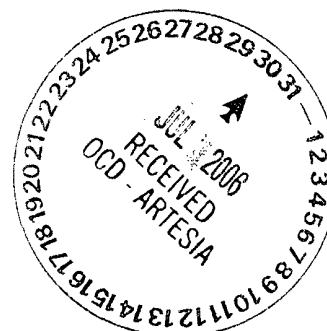
Sincerely,


Debbie McCullough
Senior Land Technician

/dym

Enclosure(s)

Kaiser-Francis Oil Company
Mesa Grande No. 2-11
Formation Tops Comparison with Offsets



<u>Formation Name</u>	Offset Wells				Log Tops	
	Mesa Grande 1-11		Mesa Arriva 1-10		Mesa Grande 2-11	
KB	3,168	subsea	3,197	subsea	3,183	subsea
Delaware	2,330	838	2,380	817	2,392	791
Cherry Canyon	2,612	556	2,710	487	2,650	533
Brushy Canyon	4,542	-1,374	4,492	-1,295	4,521	-1,338
Lower Brushy Cnyn	4,696	-1,528	4,652	-1,455	4,684	-1,501
Bone Springs Carb	4,980	-1,812	4,948	-1,751	4,948	-1,765
Bone Springs 1st sd	6,158	-2,990	6,074	-2,877	6,060	-2,877
Bone Springs 2nd Lm	6,284	-3,116	6,208	-3,011	6,230	-3,047
Bone Springs 2nd sd	6,668	-3,500	6,646	-3,449	6,664	-3,481
Bone Springs 3rd Lm	6,936	-3,768	6,866	-3,669	6,888	-3,705
Bone Springs 3rd sd	8,154	-4,986	8,056	-4,859	8,122	-4,939
Wolfcamp	8,560	-5,392	8,490	-5,293	8,544	-5,361
Strawn	9,980	-6,812	9,912	-6,715	9,908	-6,725
Lower Strawn	10,096	-6,928	10,015	-6,818	10,000	-6,817
Atoka	10,330	-7,162	10,310	-7,113	10,322	-7,139
Morrow Carbs	10,692	-7,524	10,673	-7,476	10,682	-7,499
Morrow A Sand	11,020	-7,852	11,005	-7,808	11,022	-7,839
Morrow B Sand	11,080	-7,912	11,070	-7,873	11,080	-7,897
Morrow C Sand	11,164	-7,996	11,175	-7,978	11,176	-7,993
Lower Morrow	11,250	-8,082	11,260	-8,063	11,250	-8,067
L. Mw Basal Sd	11,362	-8,194	11,352	-8,155	11,330	-8,147
Mississippi	11,484	-8,316	11,480	-8,283	11,501	NDE

NDE not deep enough



Kaiser-Francis Oil Company
Mesa "11" Grande 2
Sec. 11-22S-26E
Eddy Co., NM
Application for Discovery Allowable and
Creation of a New Pool C-109

Summary of Reservoir Data
Second Bone Springs Lime @ 6,312' to 6,452'
KFOC Mesa "11" Grande No. 2 Well
2,661' FSL & 660' FWL Section 11-22S-26E
Eddy County, New Mexico

Parameter	Value
net pay > 4% Density Porosity	64'
Avg Porosity	6.30%
Avg Water Saturation	22%
Initial Formation Pressure	2,931 psig@ 6,373'
Formation Temperature	119
Gas Gravity	0.7
API Oil Gravity	43.4
Formation Volume Factor @ Pi	1.47

Kaiser-Francis Oil Company
Mesa "11" Grande 2
Sec. 11-22S-26E
Eddy Co., NM
Application for Discovery Allowable and
Creation of a New Pool C-109