

South Coteau Development Leasehold

Burke County, North Dakota

PRIMARY OBJECTIVE:	Tri-lateral Horizontal drilling of the Nesson “Notch” zone of the of the Mississippian Mission Canyon Formation
RESERVE POTENTIAL:	9.765 Million BO & 12.4 BCFG (12.4 Million BOE)
PER WELL RESERVES:	157,500 Barrels of Oil <u>340,000 MCFG</u> 200,000 MBOE
WELL SPACING:	320 acres
DEPTH:	6,500 – 7,000 Feet (vertical)
NET ACREAGE:	19,600 Acres Leased
DELIVERED NRI:	80%
ESTIMATED WELL COSTS:	320 Acre Tri-lateral Horizontal Drilling Cost \$ 1,614,000 Completion Cost \$ <u>561,000</u> Total Costs \$ 2,175,000
SECONDARY OBJECTIVES:	► Coteau/Bluell and Sherwood Zones of the Mission Canyon Formation

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The South Coteau leasehold is in a multi-pay prospect in the Mississippian Nesson “Notch” and the Bluell/Coteau zones of the Mission Canyon formation. The primary objective is the Nesson “Notch” porosity zone. Regional geologic analysis and existing production shows the Nesson “Notch” zone to be a widespread (+200 square mile), horizontal resource-play at approximately 6,500-7200.

Nesson Formation

The Mississippian Nesson is a proved horizontal play that was first exploited in 1997 by Burlington Resources with 17 tri-lateral horizontal wells spaced on 640 acres. These wells were purchased by Nance Petroleum in 2003. Average production to date is 78 MBO and 167 MMCFG/well (100 MBOE/well) with estimated, unstimulated, ultimate reserves of approximately 90 MBO and 195 MMCFG/well (114 MBOE/well). All MBOE calculations are based on 8 MCFG/1 BO.

Denali Oil & Gas (recently purchased by Cornerstone Natural Resources), Prima Exploration, Mancal Resources Corp. and Petroleum Development Corp (PDC) are all currently active in the Nesson “notch” horizontal play. The South Coteau leasehold represents the last opportunity to secure a significant leasehold position in the Nesson “Notch” play which has been “under the radar” in terms of horizontal plays in the Williston Basin.

Numerous wellbore configurations besides BR’s initial tri-lateral on 640 acre spacing have been attempted in the Nesson “Notch” horizontal play; single and tri-lateral on 160 acre spacing, single and dual-lateral on 320 acres spacing, dual lateral on stand up 640 acre spacing. None of these other wellbore configurations have proved to be as economic as the tri-lateral on 640 spacing. One exception is a Mancal well drill as a tri-lateral on 320 acre spacing. The key is maximizing the amount of formation open to the wellbore and it is believed drilling tri-laterals on 320 acre spacing is the most effective in meeting this objective.

PDC recently drilled 4 tri-lateral wells on 640 acre spacing which are waiting on completion. Since January 2006, 20-horizontals have been drilled in the Nesson “Notch” play, 2 additional wells are currently permitted, and 12 additional permits for 640-acre spacing units have been applied for to the North Dakota Industrial Commission.

Significant potential exists to increase recoverable reserves in the Nesson “Notch” play through acid stimulation. Acid stimulation in 4 of the BR wells (primarily in a single lateral in each well) has shown an average production increase of 3-4 fold. Conservative estimates of acidizing all 3 laterals estimate a 75% increase of the per well EUR (from 114 MBOE to 200 MBOE)

Additional vertical and horizontal potential exists on the leasehold for the Mississippian Midale of the Charles formation and the Coteau, Bluell and Sherwood zones of the upper Mission Canyon formation. These zones, 50-150 feet beneath the Nesson, produce from stratigraphic traps in vertical wells at S. Coteau (765 MBO & 501 MMCFG) and Coteau (345 BO & 213 MMCFG) fields just north of the leasehold. Vanville field (227 MBO & 62 MMCFG) is immediately south of the leasehold. Ansbro Petroleum Corp. completed a Coteau single lateral at Vanville field in 7/2005 which has produced 64 MBO and is currently producing 85 BOPD.

Reserves

Potential Wells: 62 wells (20,000 acres on 320 acres spacing)

Estimated per well EUR: 157,500 BO
340,000 MCFG
200,000 MBOE

Potential Leasehold Reserves: 9,765,000 BO
21,080,000 MCFG
12,400,000 MBOE



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**** AUTHORIZATION FOR EXPENDITURE ****

Well Name: 320 acre Tri-Lateral Non Operated
Type of Operation: Drill New Horizontal Well
Acidize Tri-lateral
Location: S. Coteau Prospect
County: Burke

Date: 5-07-07
Field: S. Coteau Area

State: North Dakota

<u>INTANGIBLE EXPENSE</u>	<u>Csg.Pt. Cost</u>	<u>Compl. Cost</u>	<u>Total Cost</u>
Site preparation/pit reclamation-disposal and lease cleanup.....	35,000	7,500	42,500
Move in and out.....	100,000	-	100,000
Drilling-(Turnkey).....	-	-	-
Drilling-(Moving Rate) 2 days @ \$12,500.00/day.....	25,000	-	25,000
Drilling-(Daywork) 28 days @ \$17500.00/day.....	490,000	-	490,000
Mud and chemicals (Invert Mud in Lateral).....	125,000	-	125,000
Water.....	10,000	-	10,000
Electrical and other logging.....	30,000	7,000	37,000
DST and formation testing	-	-	-
Rig/Boiler fuel, subsistence and invert pay and mileage.....	110,000	-	110,000
Cementing services.....	40,000	-	40,000
Rental tools/drill pipe and equipment.....	275,000	50,000	325,000
Bits..... No Cores/ No analysis.....	60,000	1,000	61,000
Stake, permit & legal	3,500	-	3,500
Casing crews	20,875	-	20,875
Geologic services.....	35,000	-	35,000
Surface damages & right-of-way.....	5,000	-	5,000
Supervision/Engineer time.....	40,000	10,000	50,000
Drilling overhead.....	-	-	-
Service Rig- DW 9 days @ \$6000.00 /day.....	-	54,000	54,000
Perforating.....	-	-	-
Formation treating (acidize)/Packer fluid.....	-	150,000	150,000
Installation costs.....	-	20,000	20,000
Trucking.....	10,000	5,000	15,000
Contingencies @ 5%.....	70,719	15,225	85,944
TOTAL INTANGIBLE EXPENSE	1,485,094	319,725	1,804,819

<u>TANGIBLE EXPENSE</u>								
Drive 40 ft. 16" O.D.cs /ft.....	8,500	-	8,500					
Cond. ft. O.D.cs /ft.....	-	-	-					
Surf. Csg. 1400 ft. 8 5/8" O.D.cs \$13.50 /ft.....	18,900	-	18,900					
Intrmd. Csg. ft. O.D.cs /ft.....	-	-	-					
Prod. Csg. 7500 ft. 7" O.D.cs \$12.00 /ft.....	90,000	-	90,000					
Liner ft. O.D.cs /ft.....	-	-	-					
Tubing 7000 ft. 2 7/8" O.D.cs \$6.50 /ft.....	-	45,500	45,500					
Float equipment and centralizers	3,500	-	3,500					
Wellhead equipment	7,500	2,500	10,000					
Packers and subsurface equipment	-	2,500	2,500					
Rods and pump.....	-	30,000	30,000					
Pumping unit and prime mover	-	75,000	75,000					
Tanks.....	-	30,000	30,000					
Separators.....	-	35,500	35,500					
Treating equipment	-	-	-					
Line pipe, valves, fittings & Misc. equipment	-	20,000	20,000					
TOTAL TANGIBLE EXPENSE	128,400	241,000	369,400					
TOTAL WELL COST	1,613,494	560,725	2,174,219					

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

<u>COMPANY</u>	<u>% Before Csg. Pt.</u>	<u>COMPLETED COSTS</u>	<u>TOTAL</u>
	0.000000%	\$ -	\$ -

SIGNED: _____
TITLE: _____

EAGLE OPERATING INC.
BY: _____