

Ronald M. Mapel
3119 Cumberland Dr.
San Angelo, TX 76904
325-658-8579; Fax No. 325-655-1172
State Bar No. 12957800
Attorney for Debtor-in-Possession
mapel@suddenlinkmail.com

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
SAN ANGELO DIVISION**

IN RE: §
§
C.K. INVESTMENTS, INC. § CASE NO.: 16-60008
§
§ CHAPTER 11
§
DEBTOR-IN-POSSESSION § HEARING DATE: 08/24/2017
§ TIME: 1:30 PM

**MOTION FOR APPROVAL OF PROPOSED LEASE OF PROPERTY OUTSIDE THE
ORDINARY COURSE OF BUSINESS**

A HEARING WILL BE CONDUCTED HEREON ON AUGUST 24, 2017. OBJECTIONS TO THE MOTION SHOULD BE FILED WITH THE CLERK OF THE UNITED STATES BANKRUPTCY COURT, GEORGE MAHON FEDERAL BUILDING 1205 TEXAS AVE., ROOM 306, LUBBOCK, TEXAS 79401 BEFORE THE CLOSE OF BUSINESS ON AUGUST 18, 2017, WHICH IS SEVEN DAYS PRIOR TO THE HEARING ON THE PROPOSED MATTER.

ANY RESPONSE SHALL BE IN WRITING AND FILED WITH THE CLERK, AND A COPY SHALL BE SERVED UPON COUNSEL FOR THE MOVING PARTY PRIOR TO THE DATE AND TIME SET FORTH HEREIN.

IF NO OBJECTION TO THE MOTION IS TIMELY FILED, THE RELIEF REQUESTED SHALL BE DEEMED TO BE UNOPPOSED, AND THE COURT MAY ENTER AN ORDER GRANTING THE RELIEF SOUGHT OR THE NOTICED ACTION MAY BE TAKEN.

TO THE HONORABLE ROBERT L. JONES, U.S. BANKRUPTCY JUDGE:

NOW comes C.K. Investments, Inc., Debtor-in-Possession herein, and moves the Court for approval of a lease of real estate property outside the ordinary course of business and would respectfully show as follows:

1. This Motion is made pursuant to 11 USC § 363(b)(1) and is subject to FRBP 2002, 6004, and 9014. This is a core proceeding.

BACKGROUND

2. The Debtor-in-Possession filed its Chapter 11 bankruptcy proceeding on January 9, 2016. The Debtor was an active water hauling business for the oil and gas industry for the Permian Basin, with its primary office and yard approximately 8 miles south of Midland. The Debtor had also maintained several field offices throughout the region. The Debtor leased and operated water and frac tanks as well as truck- trailers, The Debtor was heavily indebted to several secured creditors who maintained liens on virtually all of its equipment. Mr. Kennedy has been in the water business in the Permian Basin for approximately 30 years. The case was filed due to (1) approximately 10,000 days of downtime and repair expense related to SCR systems on Mack/Volvo Tranvac Truck Tractors; (2) the contraction in the energy business during 2015; and (3) because the principal of the Debtor, Clayton Kennedy had entrusted much of the business operations to professional managers for about 3 years while he sought and received medical treatment for a debilitating bone disease, which involved a bone transplant.
3. During the Chapter 11 proceeding the Debtor factored most of its receivable accounts, cut expenses, and continued to operate. Unfortunately receipts declined. Finally, in October of 2016, the Debtor defaulted on Adequate Protection Orders and released its equipment to various secured creditors. The last of the secured creditors to finally sell equipment was BMO Harris Bank, a few weeks ago. Other than property taxes owed on the Debtors 5 acre yard south of Midland, all creditors are now unsecured.
4. During the Chapter 11 proceeding the Debtor has continued to pursue numerous claims against various parties, totaling in excess of \$10,000,000.00. Those claims are still being

prosecuted. The Debtor has also met with numerous investors interested in entering into the water hauling business from Dallas to Chicago. None of these contacts have been deemed worthy. The Permian Basin energy business has improved but the water transport portion of the business is extremely competitive.

THE LEASE

5. The Debtor was recently approached by the owners of Rains Energy, LLC, a growing salt water disposal well operator to lease its yard to (1) immediately drill 2 deep water wells and begin selling fresh water within a few months and (2) drill a salt water disposal well and to sell water after appropriate permitting. This contract will produce profits to pay creditors at no cost to the Debtor-in-Possession. Mr. Kennedy desires and expects to pay 100% to unsecured creditors.
6. The Debtor-in-Possession, proposes to lease property of the estate described in the following paragraph upon the terms set forth in the Produced Water Disposal Contract dated July 12, 2017 a copy of which is attached to this Notice. The contract is contingent upon Court approval.
7. The property proposed to be leased is a Dirt yard of approximately 5 acres with a metal warehouse located at 1101 West County Road 180, Midland, Texas. The property is located approximately 8 miles south of the City of Midland, Texas. A legal description of the property is set forth in the attached agreement of as Exhibit "A". The property is improved with a shop building, measuring approximately 40' x 60'; a 14'x14' office; and a 2 room, 1 bath, 1600sqft office. The property has 3 shallow fresh water wells on it. The property was formerly used as the headquarters for operation of the water transport business.
8. The Property is subject to pre-petition property taxes of \$5,500.00 for 2015 and post-petition property tax of about the same for 2016. On information and belief, the property has a fair market value of \$125,000.00

9. The Debtor-in-Possession with assistance from the proposed Lessee has made the following projections for fresh water sales:

Upon approval of the lease, the partners intent is to drill two Santa Rosa Wells on the property, and within 60 days have the fresh water station operational.

Considerations and assumptions:

Timing: Ability of companies/equipment to drill lease

Availability: 2 new wells @100 gallons/minute each, 3 existing wells 10 gallons/minute = 230 gallons/minute

Numbers: 6 months of the year, sell 100% water made due to direct line meter (sold at .40/bbl) 7,885 bbls water a day@ .40 for 6 months = approx. 511,000/year, Other 6 months of the year, 30 Truck loads/day 120/bbl load @.50/bbl = approx. 328,500/year 839,500 /yearly gross 83,950/ yearly landowner royalty = 6,995/monthly royalty 755,500 NET

*Some will only want to pay .10/bbl for Santa Rosa water, however there is a potential to sell 'cement water' at a possible rate of 1.75/bbl

Cash Flow: Oil buyers will pay the next month, some water customers will pay Net 30, some Net 60-90. Revenues should start coming in 2 months from operations.

10. The Debtor in Possession, with assistance from the proposed Lessee has made projections of salt water disposal operations per Exhibit "B". The potential royalty to the Debtor is listed as "Landowner Royalty 10%" and projects between \$9,375 to \$37,500 per month, once sales begin. The permitting and drilling operations are projected to take between 6 and 12 months. There is no cost to the Debtor-in-Possession.

WHEREFORE, PREMISES CONSIDERED, the Debtor -in-Possession prays for an Order Approving the Proposed Lease of Property Outside the Ordinary Course of Business and for such other and further relief as the Court me deem appropriate.

Dated: August 3, 2017

Respectfully Submitted by,

/S/ Ronald M. Mapel
Ronald M. Mapel
3119 Cumberland Dr.
San Angelo, TX 76904
325-658-8579; Fax No. 325-655-1172
State Bar No. 12957800
Attorney for Debtor-in-Possession

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon all parties receiving electronic notice via the Court's CM/ECF system and/or the attached mailing matrix on August 3, 2017.

/S/ Ronald M. Mapel
Ronald M. Mapel

PRODUCED WATER DISPOSAL CONTRACT

This PRODUCED WATER DISPOSAL CONTRACT (this "Agreement") is made this day of July 12, 2017, by and between CK Investments, Inc. ("Owner") and Rains Energy, LLC ("Operator").

RECITALS:

A. WHEREAS, salt water, brine, and other fluid waste products ("Produced Water") may be produced in association with oil and gas; and

B. WHEREAS, Operator desires to drill and use wells located on the property described below for disposal and injection of Produced Water from oil and gas wells, for the production of fresh water, for the production of brine water, for the operation of a truck washout facility and for the operation of a Produced Water recycling center and Owner has agreed to such.

WITNESSETH:

NOW, THEREFORE, for and in consideration of the rentals payable by Operator hereunder and other good valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Owner and Operator agree as follows:

1. **GRANT OF RIGHTS.** Owner hereby grants unto Operator the following rights and privileges on and regarding real property located in Midland County, Texas, more particularly described on Exhibit "A" attached hereto and incorporated herein by reference for all purposes (the "Property").

a. The right to use existing wells and to drill and use one or more new wells (the "Well") on the Property for the disposal and injection of Produced Water from oil and gas wells and for the production of brine water.

b. The right to use and drill one or more fresh water wells on the Property to be used in conjunction with the drilling of the Well, the disposal of Produced Water, the production and sale of fresh water, the production and sale of brine water, the operation of a truck washout facility and the operation of a Produced Water recycling center.

c. The right to use the Property for all purposes related to the disposal and injection of Produced Water into the Well, for all purposes related to the production and sale of fresh water, for all purposes related to the production and sale of brine water, for all purposes related to the operation of a truck washout facility and for all purposes related to the recycling and resale of Produced Water.

d. The right to use and place any and all equipment necessary for Operator's intended use of the Property.

The Property, Well and all improvements placed thereon are herein referred to as the "Premises." Owner also grants Operator the right of ingress and egress for the purpose of access to the Premises.

2. **PERMITTED USE.** Operator shall use the Premises solely for activities associated with the disposal and injection of Produced Water from oil and gas wells, the production and sale of fresh water, the production and sale of brine water, the operation of a truck washout facility and the recycling and resale of Produced Water (the "Permitted Use").

3. **DISCLAIMER OF WARRANTIES.** Operator is fully familiar with the Premises, its condition, state of repair and everything connected therewith from Operator's own investigation of same. Operator acknowledges that OWNER HAS MADE NO EXPRESS WARRANTIES WITH REGARD TO THE PREMISES AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, OWNER HEREBY DISCLAIMS, AND LESSEE WAIVES THE BENEFIT OF, ANY AND ALL IMPLIED WARRANTIES, INCLUDING IMPLIED WARRANTIES OF HABITABILITY, OR FITNESS OR SUITABILITY FOR LESSEE'S PURPOSE.

4. **SUBJECT TO EXISTING AND FUTURE LEASES.** This Agreement is subject to all existing oil, gas, and mineral leases and all existing easements, rights-of-way, and other interests covering or affecting the Premises and to all future oil, gas, and mineral leases, and other conveyances that may affect the Premises, to the extent the estates and interests created thereby are not inconsistent with the rights herein granted. Owner reserves the right and privilege to

execute and deliver oil, gas, and mineral leases, surface leases, covering all or any part of the Premises insofar as said leases do not unreasonably interfere with Operator's intended use of the Premises. Operator shall conduct its operations hereunder in such a manner as not to unreasonably interfere with any third party having a lease, permit, easement, or any other right or interest in the Premises.

5. **TERM AND SURRENDER.** This Agreement shall remain in force and effect for a period of two (2) years commencing July 12, 2017 and shall continue thereafter for so long as there is no continuous cessation of the use of any portion of the Premises for any Permitted Use of more than one (1) year.

6. **CHARGES.**

a. Operator shall pay Owner 10% of all gross revenue received by Operator for the disposal of Produced Water each month. Payment shall be made on the last day of the month following the month of receipt of said revenue by Operator.

b. Operator shall pay Owner 10% of all gross revenue received by Operator from the sale of skim oil generated from the Produced Water each month. Payment shall be made on the last day of the month following the month of receipt of said revenue by Operator.

c. Operator shall pay Owner 10% of all gross revenue received by Operator from the sale of fresh water on the Premises each month. Payment shall be made on the last day of the month following the month of receipt of said revenue by Operator.

d. Operator shall pay Owner 10% of all gross revenue received by Operator from the sale of brine water on the Premises each month. Payment shall be made on the last day of the month following the month of receipt of said revenue by Operator.

e. Operator shall pay Owner 10% of all net revenue received by Operator from the operation of a truck washout facility on the Premises each month. Net revenue is herein defined as gross revenue minus all operational costs attributable to the operation of a truck washout facility. Payment shall be made on the last day of the month following the month of receipt of said revenue by Operator.

f. Operator shall pay Owner 10% of all net revenue received by Operator from the recycling of Produced Water on the Premises each month. Net revenue is herein defined as gross

revenue minus all operational costs attributable to the recycling of Produced Water. Payment shall be made on the last day of the month following the month of receipt of said revenue by Operator.

7. **REPORTING.** Together with the payment of Rental, Operator shall submit a report to Owner which shall include a statement showing the volume of Produced Water in barrels disposed of or injected in the Well in the relevant 1-month period, or any portion thereof during the term of this Agreement, the volume of fresh water in barrels sold in the relevant 1-month period, or any portion thereof during the term of this Agreement, the volume of brine water in barrels sold in the relevant 1-month period, or any portion thereof during the term of this Agreement, the number of truck washouts conducted in the relevant 1-month period, or any portion thereof during the term of this Agreement and the volume of recycled water in barrels sold in the relevant 1-month period, or any portion thereof during the term of this Agreement.

8. **OPERATIONS.**

a. **Injection Operations.** Prior to commencing injection operations, Operator shall isolate the injection interval from all potable water zones. Operator shall inject Produced Water in the injection interval in accordance with then current Railroad Commission of Texas regulations.

b. **Improvements.** Operator may construct on the Premises only those improvements which are reasonably necessary to the exercise of Operator's rights hereunder.

c. **Conveying Produced Water to the Well.** All Produced Water which is recycled or is injected into the Well must be conveyed to the Premises by truck or by means of a pipeline. Owner grants Operator any and all pipeline easements necessary to convey water across Owner's property to the Premises; provided, however, that Owner must consent in writing to the location of pipelines, which consent shall not be unreasonably withheld.

d. **Business and Management Practices.** Operator shall conduct all work and operations in a businesslike manner consistent with good business practices and with due regard for good land management, damage prevention, and environmental protection. Operator shall use every reasonable means to prevent damage to or contamination of any aquifer and to prevent waste from any aquifer.

9. **PAST DUE PENALTY.** A penalty in the amount of \$250.00, shall be added to the amount payable for each payment that is more than ten (10) days overdue.

10. **COMPLIANCE WITH LAWS.** Operator shall comply with all requirements of applicable local, state, and federal laws, rules, and regulations, including without limitation all applicable environmental laws, rules, and regulations.

11. **POLLUTION.** Operator shall use reasonable efforts to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium, by any waste, pollutant, or contaminant. Operator shall use reasonable efforts to contain any actual or potential release of any waste, contaminant, or pollutant to the environment and to recapture any escaped waste, contaminant, or pollutant, including without limitation any escaped brine on the surface.

12. **INDEMNIFICATION.**

Owner shall not be liable for any damage, loss, or injury to any person or property suffered in, on, or about the Premises arising from or out of the condition of the Premises, the occupancy, or use thereof by Operator, or any other cause whatsoever, including, without limitation, any activity thereon by Operator or the negligence or misconduct of Operator, Operator's agents, employees, contractors, or invitees. Operator shall defend, indemnify, and hold harmless Owner, its officers, employees and agents, from and against any and all liabilities, losses, claims, demands, penalties, fines, settlements, damages (including foreseeable and unforeseeable consequential damages), response, remedial, or inspection costs, and any expenses (including without limitation attorneys' and consultants' fees) of whatever kind or nature, which are incurred by Owner, its officers, employees or agents, which arise from or relate in any way to Operator's use of the Premises, regardless of the negligence of Owner, including without limitation any such liabilities, costs, or damages arising from contamination or pollution of any environmental medium resulting from Operator's operations hereunder.

13. **MAINTENANCE OF THE PREMISES.**

a. **Generally.** Operator shall, at Operator's sole expense, (i) construct and maintain such fences, barricades, and other restrictive devices on the Premises to adequately protect persons or livestock from injury relating to Operator's activities on the Premises or as Owner may reasonably request; (ii) fill and level all pits, trenches, and other excavations whenever same are abandoned or the use thereof is discontinued; and (iii) plug the Well after termination of this Agreement in accordance with the then current Texas Railroad Commission regulations and any and all other applicable regulations, unless Owner expressly directs Operator in writing not to plug the Well, in which event Operator will not be responsible for operations or plugging of the Well after the termination of this Agreement.

b. **Existing Improvements.** Operator shall not remove or damage any existing improvements on the Premises; commit or permit any waste, or allow any nuisance created by Operator, its employees, agents, successors or assigns to exist on the Premises.

c. **Restoration.** Prior to termination of this Agreement, Operator shall reasonably return the Premises to their condition as of the effective date of this Agreement and shall also restore the Premises to the same or similar condition as the lands adjoining the Premises.

14. **USE OF SURFACE.**

Operator shall have the right of ingress and egress and right-of-way to Operator's operations on the Premises by way of existing roadways whenever possible. Operator shall conduct all operations in such a manner as to cause minimum surface damages. Operator may, at Operator's sole expense, erect and maintain power transmission lines on the Premises as are reasonably necessary to Operator's operations hereunder.

15. **HOLDING OVER.** Upon expiration or the earlier termination of this Agreement, Operator shall immediately surrender the Premises to Owner. In the event Operator occupies the Premises or any part thereof after the expiration or other termination of this Agreement, unless otherwise agreed in writing by Owner, Operator shall hold the Premises as a tenant at sufferance only at rental equal to 150% multiplied by the Rental due hereunder calculated on a per diem basis. In no event shall such holding over constitute or be construed as a renewal or extension of this Agreement.

16. **DEFAULT AND REMEDIES.**

a. **Events of Default.** The following events shall be deemed to be events of default hereunder ("Events of Default"):

(i) Except in the event of a bona fide dispute regarding entitlement to payment, if Operator should fail or refuse to make the payment of any sum due to Owner hereunder within ten (10) days after the due date thereof;

(ii) If Operator should fail to perform any other obligations specified herein, including without limitation refusal to permit Owner access to the Premises or any records pertaining to the Well.

(iii) If the Well does not comply with the standards of the Railroad Commission of Texas and Operator does not correct such non-compliance within one-hundred (180) days after notice from the Railroad Commission of Texas or Owner regarding same.

b. **Owner's Remedies.** Should one or more Events of Default occur, Owner shall notify Operator of the default and give the Operator sixty (60) days to cure the default. If Operator fails to timely cure the default, Owner may terminate this Agreement immediately and enforce the provisions of this Agreement in any other manner provided by law.

17. **AUDIT.** Operator shall provide reasonable access to, and Owner or Owner's authorized agent shall be entitled to inspect, examine and audit at reasonable times, Operator's books and records pertaining to the Well or Operator's use of the Premises.

18. **OPERATOR'S PERSONAL PROPERTY.** Unless directed otherwise in writing by Owner, Operator shall remove all of Operator's personal property, equipment, fixtures, and tubing from the Premises within one-hundred eighty (180) days after the expiration or termination of this Agreement. Should Operator fail to remove any of Operator's personal property, equipment, fixtures, or tubing, unless such failure is in accordance with Owner's written directions, such personal property shall become the property of Owner, at Owner's option. Owner shall be entitled to take possession of any such property and to sell or dispose of such property for any purpose.

19. **ASSIGNMENT.** Operator may assign this Agreement in whole or in part. Operator shall not remain responsible for performance of Operator's obligations hereunder following any assignment.

20. **PAYMENTS, DOCUMENTS AND NOTICES.**

a. **Payments.** The payment of amounts due to Owner hereunder, including Rental payments, shall each be made by check properly labeled so as to identify this Agreement and the purpose for which the payment is being made. Checks shall be made payable to Owner, and mailed via first-class mail to:

CK Investments, Inc.
415 W. 49th Street
San Angelo, Texas 76903

b. **Notices, Documents, and Reports.** Any and all notices and correspondence to be provided hereunder by Operator to Owner shall be addressed and mailed via first-class mail to:

CK Investments, Inc.
415 W. 49th Street
San Angelo, Texas 76903

c. **Correspondence to Operator.** Except for notice of an Event of Default (which shall be sent certified mail return receipt requested) any notices or other correspondence to Operator shall be addressed and mailed via first-class mail to:

Rains Energy, LLC
5914 Sheffield Drive
San Angelo, Texas 76901

d. **Delivery.** All payments, notices, documents, or reports delivered hereunder shall be deemed to be delivered upon delivery, if personally delivered, or three (3) days after deposit in the United States mail, properly addressed and with adequate postage.

21. **MISCELLANEOUS.**

a. **Captions.** The captions and headings used herein are for reference purposes only and shall not affect the meaning or interpretation of the terms and provisions of this Agreement.

b. Binding Effect. This Agreement is binding upon the parties hereto and their respective successors and assigns. This provision does not constitute a waiver of the requirement for prior written consent by Owner to any assignment or subletting by Operator.

c. Applicable Law and Interpretation. This Agreement shall be construed and interpreted in accordance with the laws of the State of Texas.

d. Entire Agreement. This Agreement constitutes the sole and entire agreement between the parties relating to the subject matter and shall not be amended except by written instrument signed by both parties.

e. Licenses and Permits. Operator shall, at Operator's own expense, obtain any necessary licenses, and permits, and shall comply with all laws, ordinances and regulations applicable to the Premises and Operator's use thereof.

f. Authority to Enter into this Agreement. If Operator is a corporation, partnership, or other entity, each individual executing this Agreement on behalf of Operator represents that he has full power and authority to enter into this Agreement and that upon such individual's execution hereof, this Agreement shall become a valid obligation of the corporation, partnership, or other entity. Notwithstanding anything herein contained to the contrary, the parties acknowledge that Owner is a debtor-in-possession in a United States Chapter 11 bankruptcy case and that this Agreement is subject to United States Bankruptcy Court approval.

This Agreement is executed by the parties on the dates shown below to be effective on the date first set forth above.

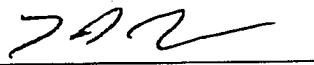
OWNER:

CK Investments, Inc.

By: 
Its: President

OPERATOR:

Rains Energy, LLC

By: 
Its: Manager

STATE OF TEXAS

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§
§

COUNTY OF Tom Green

This instrument was acknowledged before me on July 17, 2017, by Clayton C. Kennedy, President of CK Investments, Inc., a Texas corporation, on behalf of said corporation.

Rhonda Kay Bolton
Notary Public, State of Texas

11-10-2019
My Commission expires:



STATE OF TEXAS

§
§
§

COUNTY OF Tom Green

This instrument was acknowledged before me on July 12, 2017, by Tony Smith, Manager of Rains Energy, LLC, a Texas limited liability company, on behalf of said limited liability company.

Rhonda Kay Bolton
Notary Public, State of Texas

11-10-2019
My Commission expires:



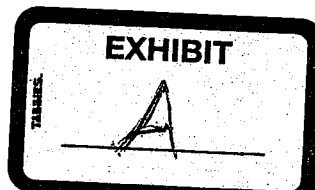
Being a 5.0 acre tract of land out of the Northeast quarter (NE/4) of Co. Survey, Midland County, Texas and being described more particularly

BEGINNING at a 1/2" iron rod with cap marked "RPL9 4170" set in the line of State Highway 349 (Rankin Highway) and the South Right-of-Way Northeast corner of this tract, from which the Northeast corner of said distance of 40.0 feet and N 74°52'00"E a distance of 87.76 feet;

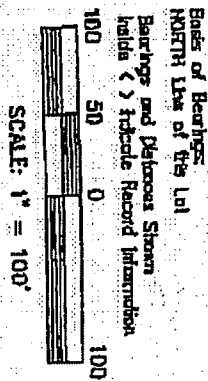
THENCE S 14°42'00"E a distance of 264.0 feet along the West Right-of-Way (Rankin Highway) to a point for the Southeast corner of this tract;

THENCE S 74°52'00" W a distance of 825.8 feet to a 1/2" iron rod at the Southwest corner of this tract;

THENCE N 14°42'00" W a distance of 264.0 feet to a 1/2" iron rod at County Road #188-W for the Northwest corner of this tract;



***COPYRIGHT 2004**
 This survey plat is being provided solely for the use of Dalton C. & Allison J. Stock & Stephanie Abstract & Title Co., and that no license has been granted express or implied, to copy the survey plat except as is necessary in conjunction with the original transaction dated July 9, 2004 which shall take place within 90 days after the survey was provided.



Books of Bearings:
 NORTH Line of the Lot
 Bearings and Distances Shown
 include () indicate Record Information

The following Easements, Rights-of-Way, and Restrictive covenants are listed on the title commitment furnished by: Strategic Abstract and Title Co., Inc. G.F. No. 4-09360

Right-of-Way: State of Texas, Vol. 74, Pg. 478, Deed Records, Anderson Co., Texas
 Right-of-Way: City of Midland, Vol. 150 Pg. 371, Official Records, Midland Co., Texas

Census Tract: 20109
 This tract is in Flood Zone "X" as shown on the Flood Insurance Rate Map, Dated December 8, 1999 provided by the Federal Emergency Management Agency Flood Plain Number: 432900350 E

The undersigned does hereby certify that this survey was this day made on the ground of the property (exactly described hereon and is correct, and that there are no visible discrepancies, curricula, sporadics in area, boundary line conflicts, encroachments, overlapping of improvements, easements or rights-of-way, except as shown hereon, and that said property has access to and from a dedicated roadway.

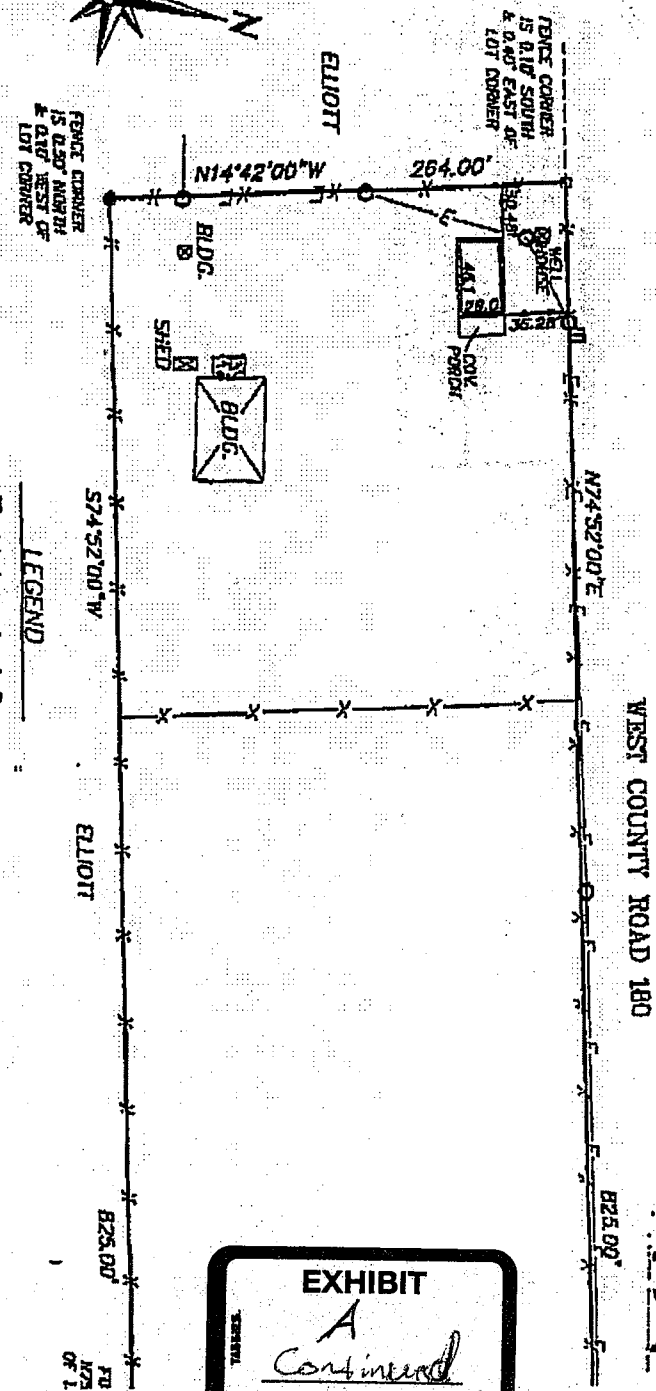
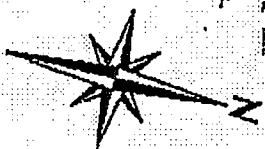
Dated this 9th day of July 2004

Registered Professional Land Surveyor No. 4170
 Date: 07/09/04

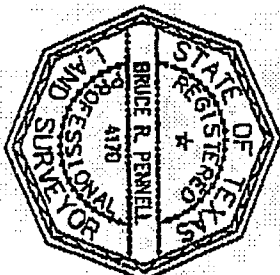
BRP ENTERPRISES, INC. - (BRUCE R. PENNELL)
 PROFESSIONAL LAND SURVEYING
 P.O. BOX 51822, MIDLAND, TEXAS 79710
 FAX: (432)882-3222 MOBILE: (432)528-1027

VOICE: (432)570-6256

| | | |
|-----------------------------|---------------------|-------------------------------------|
| ABSTRACT OFFICE/STAFF/CLERK | tel. # 4-03900 | COMMITMENT EFFECTIVE DATE: 07/09/04 |
| CAD FILE: BRP0318 | DATA FILE: 11017020 | DRAWN BY: MARY S. GREVIER/AMM |



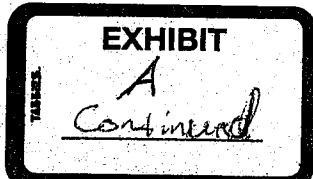
- LEGEND**
- Telephone Junc't. Box
 - Spt 1/2" LR
 - ◆ W/Comp "RPLS 4170"
 - Prnt 1/2" LR
 - Power Pole
 - OVERHEAD ELECTRIC
 - Water Well



Being a S.D. were tract of land out of the Northeast quarter (NE/4) of Section 5, Township 33N, Range 12E, County 10W, State of Texas, and being described more particularly as follows: BEGINNING at a 1/2" iron rod with cap marked "RPLS 4170" set in the line of State Highway 319 (Frontier Highway) and the South Right-of-Way Northeast corner of this tract, from which the Northwest corner of said distance of 400 feet and N 74°52'00"E a distance of 87.76 feet; THENCE S 14°42'00"E a distance of 264.0 feet along the West Right-of-Way (Frontier Highway) to a point for the Southeast corner of this tract; THENCE S 74°52'00"E a distance of 825.0 feet to a 1/2" iron rod at Southwest corner of this tract; THENCE N 14°42'00"W a distance of 264.0 feet to a 1/2" iron rod at County Road #180-W for the Northwest corner of this tract; THENCE N74°52'00"E a distance of 825.0 feet along said South Right-of-Way to the POINT OF BEGINNING.

SAVE AND EXCEPT, All oil, gas and other minerals as reserved by the Deed Records of Midland County, Texas.

Alison Stock



Alison Stock

**SOUTH MIDLAND SWD
PRO FORMA**

| | | | | |
|---|-----------------------|---------------------|---------------------|---------------------|
| Average Number of Barrels per Day Per Month (30 day) | 5000 150000 | 10000 300000 | 15000 450000 | 20000 600000 |
| Revenue | | | | |
| SWD Disposal Fee | \$60,000.00 | \$120,000.00 | \$180,000.00 | \$240,000.00 |
| Skim Oil (.005) Oil @ \$45.00/bbl | \$33,750.00 | \$67,500.00 | \$101,250.00 | \$135,000.00 |
| Total Monthly Revenue | \$93,750.00 | \$187,500.00 | \$281,250.00 | \$375,000.00 |
| Expenses | | | | |
| Lease Operating (pumper) | \$5,000.00 | \$5,000.00 | \$5,000.00 | \$5,000.00 |
| Lease Operating (Supplies and expenses) | \$1,100.00 | \$1,300.00 | \$1,500.00 | \$1,700.00 |
| Landowner Royalty 10% | \$9,375.00 | \$18,750.00 | \$28,125.00 | \$37,500.00 |
| Electrical | \$5,000.00 | \$10,000.00 | \$15,000.00 | \$20,000.00 |
| Insurance | \$4,000.00 | \$4,000.00 | \$4,000.00 | \$4,000.00 |
| Office and Accounting | \$2,000.00 | \$2,800.00 | \$3,200.00 | \$4,000.00 |
| Chemicals | \$1,000.00 | \$2,200.00 | \$3,500.00 | \$4,500.00 |
| Taxes - Property | \$2,000.00 | \$2,000.00 | \$2,000.00 | \$2,000.00 |
| Repairs | \$1,000.00 | \$1,000.00 | \$1,500.00 | \$2,000.00 |
| MISC | \$500.00 | \$500.00 | \$750.00 | \$750.00 |
| Total Expenses | \$30,975.00 | \$47,550.00 | \$64,575.00 | \$81,450.00 |
| Revenue minus Expenses | \$62,775.00 | \$139,950.00 | \$216,675.00 | \$293,550.00 |
| Total Capital Raised | \$1,500,000.00 | | | |

0.75

| | | | | |
|-------------------------|----|----|---|---|
| Payout in Months | 32 | 14 | 9 | 7 |
|-------------------------|----|----|---|---|

