

PANOLA FIELD PROSPECT

PANOLA COUNTY TEXAS

A HORIZONTAL MULTI-WELL FREDERICKSBURG/GOODLAND LIME PROJECT

INTRODUCTION / LAND

The Panola Field Property consists of 1116 acres, more or less, and 51 oil and gas wells located primarily in the Jane Tharp A-665, William H. Lacy A-404, and Baily Anderson A-24 Surveys in Northeast Panola County, Texas. In relation to a major metropolitan area the property lies approximately 25 miles SW of Shreveport Louisiana. The nearest town to the property is Bethany Texas, which is adjacent to the East boundary of the property. OMDA Oil & Gas with S&H Resources will be undertaking an 8 to 10 well. Medium risk developmental, horizontal drilling program. The goal of this project is to capitalize on the large volume of drilling information compiled on this field, along with the significantly higher oil and gas prices and state of the art drilling and completion techniques.

GEOLOGY AND HISTORY

Mapping of the surface geology led to the first drilling operations and to the discovery of shallow production in the Panola Field. The subsurface data afforded by these shallow wells led to successful drilling exploration for production in deeper zones. Some of the more notable area producing formations in the Fredericksburg Group of the Comancian Series are the Goodland lime (FGL), Paluxy, Edwards, Walnut and Kiamichi. In the same area, but in the shallower Gulfian there are three additional potential productive zones that could be tested on our property. These are the Nacatoch (est. 1050'), Saratoga (est. 1280') and Blossom (est. 1900'). In June, 1916 the Palmetto Petroleum Co., drilling a well on the Trooper farm in the Northeastern corner of Panola County, had a blow-out from a sand found at 1050' estimated at 4 million cubic feet of gas per day believed to be the Nacotosh Sand. Rapid development of the Field occurred through the 1950's primarily in the deeper formations.

In the 1970's, Crystal Oil Company (Shreveport) became interested in the Goodland and began an exploration program in the field. This program led to the discovery of 51 producing oil and gas wells in the area in the FGL Formation (2500' or less). These wells were vertically drilled on 20 acre spacing units and as can be seen on the enclosed Production Map, all were productive. Due to the obvious "blanket" nature of this zone, Crystal only ran two Open hole logs, the Jernigan #8 and the Griffin #5. The remaining wells had only cased hole gamma-ray neutron logs run.

Depending on natural fractures encountered in each well, initial production rates varied considerably from a high of 56 BOPD and 100 MCFGPD from the Douglas Estate #3, to a low of 6 BOPD and 10 MCFGPD from the CG Cline 1-A (Though the surrounding wells to this one did have IP rates averaging 27 BOPD and 15 MCFGPD). These vertical wells, while all commercial, were essentially all abandoned in the year 2001 having produced marginally during the years 1991-2001, primarily due to the inherently low permeability of the FGL formation and low oil and gas prices.

FIELD DEVELOPMENT USING HORIZONTAL LATERALS

While there is no history of horizontal drilling of the in the Panola Field, the FGL, with good porosity and low permeability with gas, oil and water has proven to be successful with horizontal drain holes as evidenced in Shelby County Texas in recent years. Three of these wells are the Trinidad, which initially tested 130 BOPD of oil, 95MCFPD, the O.H. Polley, 142 BOPD, and the Kraemer with 479.9 BOPD, 409 MCFPD. The Kraemer was drilled as a new hole entry horizontal well and has successfully produced 27,371 Barrels of Oil and 149,691 Million Cubic Feet of Gas in the 16 months since completion, or about \$685,000 for the oil calculated at \$25/BBL and \$450,000 for the gas calculated at \$3/MCF (substantially less than current prices). The Trinidad and Polley were old well re-entries drilled horizontally. Though they did have a lower initial cost, due to continuing down hole problems, the incremental costs to keep the wells in production have been significant. The Trinidad has produced over 25,180 B/oil and 70 MMCF of gas over 31 months (approx \$810,000 @ \$30 and \$3) and the Polley has produced 40,496 B/oil and 163,484 MMCF of gas in 26 months (approx. \$1.5 million @ \$30 and \$3). While these wells are in the next county south, they do represent the three other Fredricksburg/Goodland Lime, horizontal wells in the area, and prove the validity of horizontal drilling in this structure.

RESERVES AND ECONOMICS

The 15 leases which comprise the property have been shut in for some time and therefore any production after March 1997 will be minimal. From initial drilling in 1977 through March 1997, the property produced 543,000 Bbls of oil and 2.54 BCF of from the Goodland lime. Original oil in place was estimated at 13,092,000 Bbls. The production to this point represents only 4.2% of the original oil in place. The wells were drilled on 20 acre spacing, but from the low recovery of 4.2%, it appears they were draining much less than 20 acres. A recovery factor of 10% to 15% is much more common in a depletion drive reservoir. At the 4.2% rate, it appears that the existing wells have only drained approximately 4 acres each. Assuming a 10% level, drainage should equate to approximately 8.4 acres. For maximum drainage, due to the tight permeability of this formation, it appears that a horizontal program would be the most efficient way to maximize production. Assuming just primary production alone, estimated recoverable reserves should equate to approximately 766 thousand bbls of Oil and 2.3 Billion CF of gas, or about \$26,050,000 million or approximately \$2.9 million per well based on 9 wells. These numbers were calculated from isopach maps and rock properties from a full core taken in the Jernigan #3 well. Open hole logs were available from the Griffin #5 and the Jernigan #8.

When secondary waterflood recoverable reserves are added to these numbers, on the low side an additional 1,151,000 MBBLS and 2,451,000 on the high side or a total of \$56,250,000 field total, or \$ 6,250,000 per well on the low side to \$90,000,000, or \$10,000,000 per well (@\$25/BBL equivalent), on the high side as per estimates from the Verelli third party reservoir engineering report enclosed. (see Varelli Report). A Waterflood program, which will be commenced after normal recovery through downhole pressure flow and pump jack depletes. In the case of this field, each of the existing 51 shut in wells can be used for water disposal wells and therefore increase the economics of a waterflood significantly.

The reserve projections and future values are estimates only and should not be construed as being exact quantities. Actual producing rates and associated values will vary from the assumptions made here. The reserves may or may not ever be recovered.

PIPELINE AND MARKET

As 2,540 MMCF of gas from this property was previously marketed, we anticipate a cost effective gas line hookup compared to lands that never had gas lines. Oil will be collected and stored in tank batteries and collected by truck.

