

T. Russell Operating selling properties in Stephens, Shackelford counties

Staff Report-Midland Reporter Telegram 05/22/2005

T. Russell Operating Inc. is offering for sale its operated interest in certain properties in Stephens and Shackelford counties, Texas.

For sale are 26 leases covering a total surface area of over 4,093 acres. Production is from various formations, including the Strawn, Caddo Lime, Conglomerate, Marble Falls, Lake Sand, Duffer Lime, Mississippian Reef and Ellenburger. The Barnett Shale is present above the Ellenburger but has not been produced in the area. Mud logs through the Barnett Shale indicate it contains gas. Producing depths range from 2,800 to 4,500 ft. All depth rights are being sold.

Currently there are 27 producing gas wells, six producing oil wells, nine water injection or salt water disposal wells and three temporarily abandoned wells. Current gross production is 1.7 Mmcfd and 71 barrels of oil or condensate per day. Annual gas decline rate is 3 percent to 4 percent. Oil decline averages 7 to 8 percent. Two leases yield 70 percent of the water production, with one of the leases being a small waterflood.

Working interest for sale is 100 percent in all the leases except one in which the working interest being offered for sale is 50 percent. Average net revenue interest is 81 percent.

Net operating income to the interest being sold averaged 338,000 a month from October 2004 through March 2005. Gas prices averaged \$6.84 and oil/condensate price averaged \$48.46 during this period. Operating costs average \$830 per well per month. Net gross operating income (100 percent) averaged \$343,000 per month.

There is 3D and 2D seismic available on six of the leases. Four Duffer Lime and five Ellenburger locations have been identified through the use of 3D seismic. Additional drilling potential exists on the 160 acre to 450 acre leases with only one producing well on them and on other leases with 160 acre-plus well spacing. There is behind-the-pipe potential on 16 of the wells that can be easily identified from the Density/Neutron and Micro logs. The wells with this potential usually have two or more prospective intervals.

The Barnett Shale is present on wells that were drilled deep enough. Mud logs yielded gas units of 450-plus units through the Barnett Shale on wells where it was available. The Barnett Shale was 136 to 300 ft. thick in these wells.

T. Russell Operating is offering these properties through Riviera Energy Corporation, which will operate a data room beginning May 23 in its Midland office and will maintain that room through June 28. Offers are due on or before June 29 with closing on or before July 15. Effective date of sale will be July 1.