

COMPULSORY POOLING INFILL WELL PROVISIONS

Provided further that, pursuant to Division Rule 104, an optional infill well may be drilled and produced within this 320-acre spacing unit in accordance with the following provisions:

- (a) San Juan Resources, Inc. shall be the operator of the infill well
- (b) The operator or any working interest owner who consent to and paid its share of costs of the original well, pursuant to either an voluntary agreement or a compulsory pooling order, may propose drilling of an infill well or subsequent operations of either the original well or the infill well by giving written notice of the proposed well to all working interest owners and all unleased mineral owners with the 320-acre pooled unit. Any such proposal shall specify the work to be performed, the location, proposed depth, objective formations and the estimated costs of the operation.
- (c) The parties receiving such a notice shall have thirty (30) days election period after receipt of this notice within which to notify the proposing party whether they elect to participate in the costs of the subsequent operations or the infill well. Failure of a party receiving such notice to deliver to the proposing party an written election, plus payment for this share of the total costs, within a thirty (30) day election period shall constitute an election by that party not to participate in the costs of the well or the proposal operation and shall be "a non-consenting party."
- (d) Any non-consenting party shall be subject to a 200% risk penalty charge for that well or the operations.
- (e) Production from the original well cannot be used to pay for the costs of the infill well nor can production from the infill well be used to pay for the costs of the original well. The recovery of costs for subsequent operations shall be paid by the production from the well on which those operations were conducted.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 13391 Exhibit No. — 14
Submitted By:
San Juan Resources
Hearing Date: January 6, 2005

- (f) If all parties elect to participate in the infill well or in subsequent operations ("a consenting party"), the operator shall, within ninety (90) day after the expiration of the thirty (30) day election period, actually commence and conduct operations with due diligence at the risk of expense of all parties.
- (g) If less than all parties elect to participate in the infill well or the subsequent operations, then all parties who elected not to participate shall be considered non-consenting working interest owners and all the provisions of this order shall apply to the drilling of the infill well or the subsequent operations with the FOLLOWING EXCEPTIONS:
- a. The proposing party shall be solely responsible for carrying the non-consenting working interest owner's interest subject to the risk penalty charge provided for in the order. The proposing party may enter into an agreement, or recognize an existing agreement, that provides for the sharing of the non-consenting interest by the consenting parties. The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall notify the Division and all other parties of such decision.
 - b. If the operator is a non-consenting working interest owner in the infill well, the consenting parties shall either: (a) request the operator to perform the work required for the account of the consenting parties, or (b) designate one of the consenting parties as operator of the infill well. If the infill well results in a producer of oil and/or gas in paying quantities, one of the consenting parties shall be designated as operator and shall complete and equip the well to produce at the sole costs and risk of the consenting parties and thereafter the operator designated by this compulsory pooling order shall operate this well at the expense and for the account of the consenting working interest owners.
 - c. To be entitled to the benefits of this order, the operator, or the designated consenting party, shall within ninety (90) days after the expiration of the thirty (30) days election period, actually commence and conduct the operations with due diligence at the sole risk and expense of the consenting parties.

- d. If operations for the drilling of an infill well results in a dry hole, the consenting parties shall plug and abandon the well and restore the surface location at their sole costs, risk and expense.

- (h) If operations for the drilling of a proposed infill well or any subsequent operation for either the original well or the infill well have not been commenced within the time provided, and if any party still desires to drill the infill well, written notice proposing same must be resubmitted in accordance with the provision hereof as if no prior proposal had been made