

**KELLAHIN & KELLAHIN**  
**Attorney at Law**

**W. Thomas Kellahin**  
Recognized Specialist in the Area of  
Natural Resources-oil and gas law-  
New Mexico Board of Legal Specialization

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November 17, 2004

**HAND DELIVERED**

Mr. Mark E. Fesmire, Director  
Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

*Case 13391*

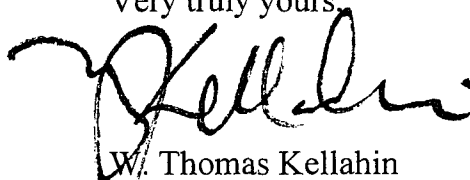
2004 NOV 17 PM 3 59

Re: Tecumseh Well No. 1-E  
Unit L, S/2 of Irregular Section 18, T30N, R11W  
Application of San Juan Resources of Colorado, Inc.  
to amend Division Order R-11926 (compulsory pooling)  
to include subsequent operations and an optional "infill" gas well,  
San Juan County, New Mexico

Dear Mr. Fesmire:

On behalf of San Juan Resources of Colorado, Inc., ("SJR") please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for December 16, 2004. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,

  
W. Thomas Kellahin

cc: San Juan Resources Properties, LLC  
Attn: Jerry McHugh, Jr.

CASE 13391: Application of San Juan Resources Of Colorado, Inc. to amend Division Order R-11926 to include subsequent operations and an optional "infill" gas well provisions (compulsory pooling), San Juan County, New Mexico. Applicant, in accordance with Division Rule 1207.A(1)(b), seeks an order amending this compulsory pooling order to provide for subsequent operations and the inclusion of its Tecumseh Well No. 1-E, to be located in Unit L as a well subject to this compulsory pooling order that pooled all mineral interests from the based of the Pictured Cliffs formation to the base of the Dakota formation underlying the S/2 of Irregular Section 18, T30N, R11W, NMPM, San Juan County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any production such production. Also to be considered will be the subsequent operations provisions and the costs of drilling and completion this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, and the continuing the designation of San Juan Resources of Colorado, Inc. as the operator of the well and a 200% charge for risk involved in this well. This unit is located approximately 2 miles East from Flora Vista, New Mexico. **IN THE ABSENCE OF OBJECTION, THIS APPLICATION WILL BE TAKEN UNDER ADVISEMENT.**

**STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION  
OF SAN JUAN RESOURCES OF COLORADO, INC.  
TO AMEND DIVISION ORDER R-11926  
(COMPULSORY POOLING) TO INCLUDE  
SUBSEQUENT OPERATIONS AND AN  
OPTIONAL INFILL GAS WELL PROVISIONS,  
SAN JUAN COUNTY, NEW MEXICO.**

CASE NO. *13391*

**APPLICATION**

San Juan Resources Of Colorado, Inc. ("SJR") by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17.C NMSA (1978) seeks an order amending Division Order R-11926 (compulsory pooling) to provide for subsequent operations and the inclusion of its Tecumseh Well No. 1-E, to be located in Unit L as a well subject to this compulsory pooling order that pooled all mineral interests from the base of the Pictured Cliffs formation to the base of the Dakota formation underlying the S/2 of Irregular Section 18, T30N, R11W, NMPM, San Juan County, New Mexico, forming a standard 326.50-acre gas spacing and proration unit for any production such production. Also to be considered will be the costs of drilling and completion this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, and the continuing the designation of San Juan Resources, Inc. as the operator of the well and a 200% charge for risk involved in this well.

In support of its application, San Juan Resources Of Colorado, Inc. ("SJR") states:

1. SJR has a 32% percent working interest ownership in the oil and gas minerals from the base of the Pictured Cliffs formation to the base of the Dakota formation underlying the S/2 of Irregular Section 18, T30N, R11N, NMPM, San Juan County, New Mexico.

2. This gas spacing unit is located within the boundaries of the Basin-Dakota Gas Pool and the Blanco-Mesaverde Gas Pool.

3. On March 23, 2003, the Division issued Order R-11926 to provided for the compulsory pooling of the S/2 of this section to be dedicated to its proposed Tecumseh Well No. 1 that was drilled and completed at a standard gas well location 1975 feet from the South line and 1480 feet from the East line (Unit J) of Section 18.

4. Order R-11962 did not include provision for the inclusion of an optional infill gas well or subsequent operations. SJR, by this application, seeks the inclusion of subsequent operation provision including an optional infill gas well in this compulsory pooling order.

6. By letter dated October 7, 2004, SJR proposed to the other working interest or mineral owners that its Tecumseh Well No. 1-E to drilled in the SW/4 of this section to be dedicated to a standard 326.50-acre gas spacing unit consisting of the S/2 of this section. This well be drilled and downhole completed in the Mesaverde and Dakota formations.

7. Despite its reasonable efforts, application has been unable to obtain a written voluntary agreement from certain uncommitted working interest and/or mineral interest owners as shown on **Exhibit "A"**

8. Pursuant to Section 70-2-17.C NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, SJR needs an order of the Division pooling the interest identified above in order to protect correlative rights and prevent waste.

9. SJR proposes that the Division adopted "infill well and subsequent operation" provisions for this compulsory pooling order. **See Exhibit "B"**

10. SJR, in accordance with Division Rule 1207.A(1)(b) submits its Affidavit as Exhibit "C" to this application.

11. SJR further requested that this case be advertised **IN THE ABSENCE OF OBJECTION, THIS APPLICATION WILL BE TAKEN UNDER ADVISEMENT.**

12. Applicant, in the absence of timely objection, will present its evidence by affidavit as provided by Division Rule 1207.A(1) and request the 200% risk charge in accordance with Commission Order R-11992, effective August 15, 2003.

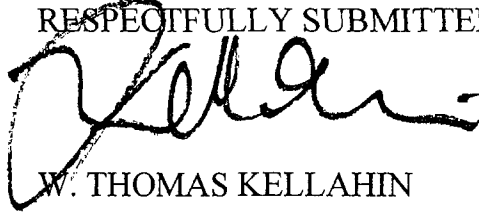
13. In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "A" notifying each of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for December 16, 2004.

WHEREFORE, San Juan Resources Of Colorado, Inc., as applicant, requests that this application be set for hearing on December 16, 2004 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in the appropriate spacing unit for this well at a standard well location upon terms and conditions which include:

- (1) San Juan Resources of Colorado, Inc. be named operator;
- (2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;
- (3) In the event a mineral interest or working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200%;
- (4) Provisions for subsequent operations and infill wells;

- (5) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;
- (6) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over the printed name.

W. THOMAS KELLAHIN  
KELLAHIN & KELLAHIN  
P. O. Box 2265  
Santa Fe, New Mexico 87504  
Telephone: (505) 982-4285  
Fax: (505) 982-2047

**TECUMSEH #1E PROSPECT**  
**T30N-R11W, NMPM**  
**Section 18: S/2, well located in NWSW, (UL "L")**  
**San Juan County, New Mexico**  
**Working Owners List**  
**Dec 16, 2004 Force Pooling Hearing**

Party	Working Interest	Party	Working Interest
James H. Reedy 45 Brewster Road Scarsdale, N Y 10583-3001	6.36910%	John C. Simpson, Jr. c/o J. Simpson 404 Cheswick Pl Bryn Mawr, PA 19010-1251	0.79614%
H. A. Arnold 460 Park Avenue New York, NY 10022-1906	2.38841%	Raymond A. Townley 532 Avonwood Road Haverford, PA 19041-1603	0.39820%
St. Francis Xavier Church 524 9 <sup>th</sup> Street Wilmette, Illinois 60091	0.79614%	W.B & L. 900 Wilshire Los Angeles, CA 90017-4701	1.59228%
Church of the Redeemer 5700 Forbes Avenue Pittsburg, PA 15127-1526	0.79614%	Charles T. Zaoral 230 Park Avenue New York, NY 10169-0005	0.79614%
St. John Parish in the Town of Lewisboro P.O. Box 224 South Salem, NY 10590	0.79614%	Raymond S. Page, Jr. Mill Creek Terrance Gladwyne PA 19035-1544	0.79614%
Mr. Fred H. Gowan 551 Fifth Avenue, Suite 1920 New York, NY	1.59228%	Peter B. Ruffin 753 Forest Hills Dr WILMINGTON, NC 28403	0.79614%
Arthur Levey 45 East End Avenue New York, NY 10028-7953	0.39280%	Murray Shields 551 Fifth Avenue, Suite 1920 New York, NY 10176-0001	0.79614%
Gilbert MacKay 551 Fifth Avenue, Suite 1920 New York, NY 10176-0001	1.59228%	Gustave Simons 515 Madison Avenue New York, NY 10022	0.79614%
Driscoll Estate c/o Steven McManus 3605 Rosedale Avenue Dallas, TX 75205	15.90467%		
Driscoll Estate c/o Michael Silverman 2100 McKinney Ave., #707 Dallas, TX 75201			
total column	30.62796%	total column	6.76732%
<b>Total uncommitted WI Owners</b>	<b>37.39528%</b>		



San Juan Resources of Colorado, Inc.  
TECUMSEH #1E PROSPECT  
T30N-R11W, NMPM  
Section 18: S/2, NWSW well location (UL "L")  
San Juan County, New Mexico  
Minerals Owners List  
December 16, 2004 Force Pooling Hearing

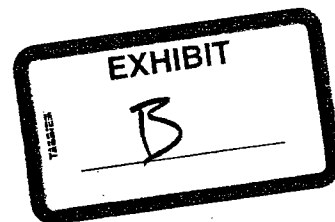
Party	Mineral Interest
O. Leonard Mosley, & Leona M. P.O. Box 4401 Gillette, WY 82727	1.00470%
George A. Mosley & Janet R. 42307 N. Newport Hwy. Elk, WA 99009	1.00470%
Bob L. Mosley 701 E. Zia P.O. Box 1653 Aztec, NM 87410	1.00470%
Mary Gwendolyn Mosley P.O. Box 9201 Brooks, OR 97305	1.00470%
Betty A. Nelms PO Box 737 Newport, WA 99156-0737	1.00470%
<b>Total Uncommitted Min Owners</b>	<b>5.02350%</b>



## 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 of Colorado, Inc. shall be the operator of the infill well
- (b) The operator, 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 received 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 or 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.



(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

**STATE OF NEW MEXICO  
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION DIVISION  
FOR THE PURPOSES OF CONSIDERING:**

**CASE NO. \_\_\_\_\_**

**APPLICATION OF SAN JUAN RESOURCES OF COLORADO, INC.  
TO AMENDED DIVISION ORDER R-11926 FOR COMPULSORY  
POOLING TO INCLUDE SUBSEQUENT OPERATIONS AND  
AN OPTIONAL INFILL GAS WELL  
SAN JUAN COUNTY, NEW MEXICO.**

**AFFIDAVIT OF JERRY MCHUGH, JR.**

**STATE OF COLORADO                   §  
   § ss.  
CITY & COUNTY OF DENVER   §**

Before me, the undersigned authority, personally Jerry McHugh, Jr. appeared and being first duly sworn stated:

A. My name and qualification as expert are as follows:

Jerry McHugh, Jr.

Education:	BA Economics, Colorado College—1980
Experience:	Practicing Landman and Oil and Gas Professional for 23 years in New Mexico
Occupation:	President of San Juan Resources of Colorado, Inc.

I am over the age of majority and competent to make this Affidavit.

I am responsible for and involved in preparing the necessary documents for submittal to the New Mexico Oil Conservation Division for this case.

I am personally knowledgeable and familiar with the facts and circumstances of this case and the following factual statements.

This affidavit has been prepared in accordance with the New Mexico Oil Conservation Division Rule 1207.A(1)(b).

**Affidavit of Jerry McHugh, Jr.  
NMOCD Case \_\_\_\_\_  
-Page 1-**



C. My expert opinions are based on the following facts and events:

### **CHRONOLOGICAL SUMMARY OF SIGNIFICANT EVENTS**

1. SJR has a 32% percent working interest ownership in the oil and gas minerals from the base of the Pictured Cliffs formation to the base of the Dakota formation underlying the S/2 of Irregular Section 18, T30N, R11N, NMPM, San Juan County, New Mexico.

2. This gas spacing unit is located within the boundaries of the Basin-Dakota Gas Pool and the Blanco-Mesaverde Gas Pool.

3. On March 23, 2003, the Division issued Order R-11926 to provided for the compulsory pooling of the S/2 of this section to be dedicated to its proposed Tecumseh Well No. 1 that was drilled and completed at a standard gas well location 1975 feet form the South line and 1480 feet from the East line (Unit J) of Section 18.

4. Order R-11962 did not include provision for the inclusion of an optional infill gas well or subsequent operations. SJR, by this application, seeks the inclusion of subsequent operation provision including an optional infill gas well in this compulsory pooling order.

5. By letter dated October 7, 2004, SJR proposed to the other working interest or mineral owners that its Tecumseh Well No. 1-E to drilled in the SW/4 of this section to be dedicated to a standard 326.50-acre gas spacing unit consisting of the S/2 of this section. This well be drilled and downhole completed in the Mesaverde and Dakota formations.

6. Despite its reasonable efforts, application has been unable to obtain a written voluntary agreement from certain uncommitted working interest and/or mineral interest owners as shown on Exhibit "A"

7. Pursuant to Section 70-2-17.C NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, SJR needs an order of the Division pooling the interest identified above in order to protect correlative rights and prevent waste.

### **RULE 1207.A(1)(b) REQUIREMENTS**

8. In accordance with Division Rule 1207.A(1)(b) attached the following statements and exhibits in support of this case:

- (i) No opposition for the hearing is expected because many of these parties cannot be located and those located has not objected to the inclusion of this well into this pooling order.
- (ii) Map (a) outlining the spacing unit already pooled, being the S/2 of Section 18, T30N, R11W, NMPM, San Juan County, New Mexico which currently included the Tecumseh Well No. 1, located in Unit J and to now include the Tecumseh Well No. 1-E to be located in Unit L and (b) showing the well location and (c) percentage of ownership interest. **See Exhibit "B" attached**
- (iii) For name and last known address of the party to be pooled with the nature and percent of their interest; I attest that a diligent search has been conducted of all public records in the county where the well is located and the party has been contacted on our behalf on several occasions. **See Exhibit "A" attached**
- (iv) The names of the formations and pools to be pooled are as Basin-Dakota Gas Pool and the Blanco-Mesaverde Gas Pool, and any other formations/pools spacing in 320-acre gas spacing units.
- (v) The pooled unit is for gas.
- (vi) Written evidence of attempts to reach voluntary agreement including letters and summaries of telephone calls are included herein. **See Exhibit "C"**
- (vii) The maximum 200% risk factor penalty was justified prior to drilling the well in accordance with Commission Order R-11992 and Division Order R-11926
- (viii) The well costs overhead rates of \$4,905/month drilling and \$890/month producing well rates, subsequent to COPAS adjustment, that were awarded in Order R-11926 should continue to apply for this case. **See Order R-11926 attached as Exhibit "D"**
- (ix) Copy of Division form C-102 showing the well location and the proposed depth of the well (approximately 6750 feet). **See Exhibit "E"**
- (x) Copy of the AFE in the amount of \$ 648,454 completed well costs for this well, which we conclude, is fair, reasonable and current for wells of this type in this area. **See Exhibit "F"**
- (xi) SJR proposed provisions for an optional infill well and for subsequent operations for either the original well or the infill well. **See Exhibit "G"**

**Affidavit of Jerry McHugh, Jr.**

**NMOCD Case \_\_\_\_\_**

## ATTESTATION

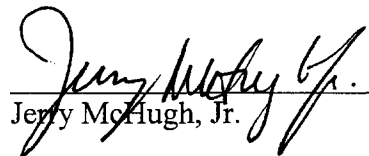
I, Jerry McHugh, Jr. attested that this submittal was prepared by me and the information is correct and complete to the best of my knowledge and belief.

I recommend that a compulsory pooling order be entered which provides that:

- (1) San Juan Resources of Colorado, Inc. continue be to the named Operator;
- (2) Provisions be made for the including of the Tecumseh Well No 1-E as an optional infill gas well included in this compulsory pooling order and for subsequent operations of this wells;
- (3) for applicant and all working interest owners to participate in the costs of drilling, completing, equipping, and operating the infill gas well;
- (4) In the event a working interest owner fails to elect to participate, then provisions be make to recover out of production the costs of the drilling, completing, equipping and operating the optional infill gas well, including a risk factor penalty; and

Provisions for overhead rates of \$4905 per month drilling and \$890 per month operating and a provision for an adjustment method of the overhead rates as provided by COPAS;

FURTHER AFFIANT SAYETH NOT:

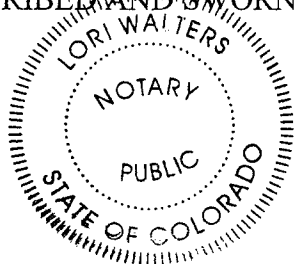
  
Jerry McHugh, Jr.

STATE OF COLORADO

§  
§  
§

CITY & COUNTY OF DENVER

SUBSCRIBED AND SWORN TO before me this 16<sup>th</sup> day of November 2004, by Jerry McHugh, Jr.



  
Notary Public

**ACKNOWLEDGMENT**

STATE OF COLORADO

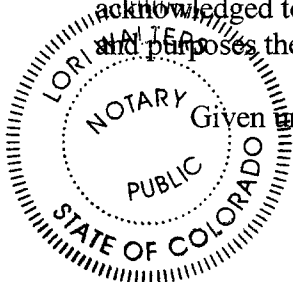
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CITY & COUNTY OF DENVER

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§

BEFORE me, the undersigned, a Notary Public in and for said County and State, on this 16<sup>th</sup> day of November, 2004, personally appeared Jerry McHugh, Jr. to me known to be the identical person who subscribed the name of the maker thereof to the foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.



Given under my hand and seal the day and year last above written.

*Lori Winter*  
Notary Public

My Commission expires:

9/13/2008

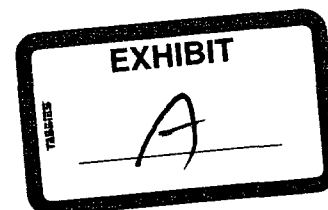
**Affidavit of Jerry McHugh, Jr.**

**NMOCD Case \_\_\_\_\_**



**TECUMSEH #1E PROSPECT**  
**T30N-R11W, NMPM**  
**Section 18: S/2, well located in NWSW, (UL "L")**  
**San Juan County, New Mexico**  
**Working Owners List**  
**Dec 16, 2004 Force Pooling Hearing**

Party	Working Interest	Party	Working Interest
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St. Francis Xavier Church 524 9 <sup>th</sup> Street Wilmette, Illinois 60091	0.79614%	W.B & L. 900 Wilshire Los Angeles, CA 90017-4701	1.59228%
Church of the Redeemer 5700 Forbes Avenue Pittsburg, PA 15127-1526	0.79614%	Charles T. Zaoral 230 Park Avenue New York, NY 10169-0005	0.79614%
St. John Parish in the Town of Lewisboro P.O. Box 224 South Salem, NY 10590	0.79614%	Raymond S. Page, Jr. Mill Creek Terrance Gladwyne PA 19035-1544	0.79614%
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Driscoll Estate c/o Michael Silverman 2100 McKinney Ave., #707 Dallas, TX 75201			
total column	30.62796%	total column	6.76732%
<b>Total uncommitted WI Owners</b>	<b>37.39528%</b>		

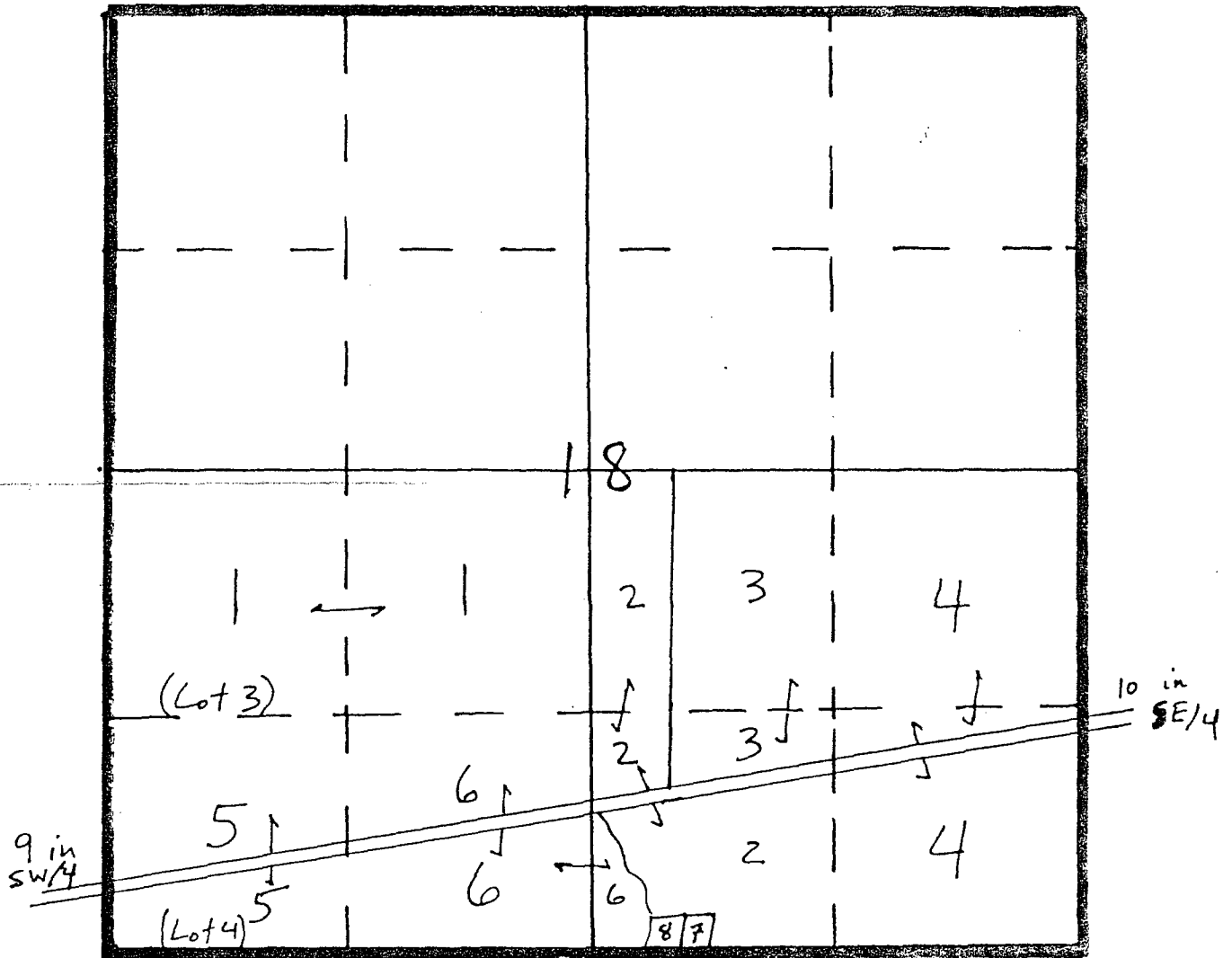


**San Juan Resources of Colorado, Inc.**  
**TECUMSEH #1E PROSPECT**  
**T30N-R11W, NMPM**  
**Section 18: S/2, NWSW well location (UL "L")**  
**San Juan County, New Mexico**  
**Minerals Owners List**  
**December 16, 2004 Force Pooling Hearing**

Party	Mineral Interest
O. Leonard Mosley, & Leona M. P.O. Box 4401 Gillette, WY 82727	1.00470%
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Bob L. Mosley 701 E. Zia P.O. Box 1653 Aztec, NM 87410	1.00470%
Mary Gwendolyn Mosley P.O. Box 9201 Brooks, OR 97305	1.00470%
Betty A. Nelms PO Box 737 Newport, WA 99156-0737	1.00470%
<b>Total Uncommitted Min Owners</b>	<b>5.02350%</b>

Township 30 N, Range 11 W County San Juan

Section 18: S/2  
(Lots 3, 4; E/2 SW/4, SE/4)  
326.50 acres  
Tracts 1-10



Remarks, Comments:

- Denver Rio Grande & Western RR R-O-W bisects S/2 Sec 18 as shown.
- Lot 3  $\approx$  43.18 acres
- Lot 4  $\approx$  43.32 acres

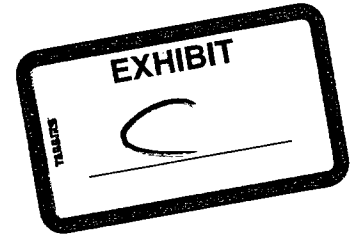


# **SAN JUAN RESOURCES, INC.**

**JERRY McHUGH, Jr.**

November 16, 2004

Kellahin and Kellahin  
W. Thomas Kellahin  
117 North Guadalupe  
P. O. Box 2265  
Santa Fe, NM 87504-2265



RE: Tecumseh #1E well, S/2 18, 30N, 11W, San Juan County, NM  
Written evidence of contacting uncommitted working and mineral interest owners

Dear Mr. Kellahin,

San Juan Resources of Colorado, Inc. ("SJR") has sent out well proposals to the interest owners in the Tecumseh #1E well. I have enclosed a sample copy of the cover letter and an AFE (Leonard Mosley). Enclosed also, is the mailing list where we sent all working and mineral interest owners in the well a certified letter, return receipt. I have marked up this list indicating status of letters sent out and whether the letters came back (RS— return to Sender) or we have a signed Green card received (GCR). Copies of the receipts and returned Green Cards and Returned Letters are enclosed herein as copies.

The following is a rundown of telephone, email and postal contacts with various types of owners in the subject well:

Industry Partners: Maralex Resources, Inc., Hartman Oil & Gas LLC, Burlington Resources Oil & Gas have all signed the AFE and joined the well. ConocoPhillips has yet to join the well.

Non-Industry Partners: Small leasehold interest owners in the well have been contacted and few who are alive don't understand anything about the well, drilling, what is involved. These people are as follows: Peter Ruffin, Sr.; James Reedy; Gilbert MacKay; St. John's Parish in the Town of Lewisboro; Joseph Driscoll Estate, c/o Steven McManus, Michael Silverman; Raymond Townley; Charles Zoaral; Fred Gowen; Arthur Levey; Raymond Page, Jr.; Church of the Redeemer; HA Arnold; WB&L; John Simpson, Jr.; Murray Shields; St. Francis Xavier Church.

The following are direct telephone conversations or emails to the below listed parties:  
Mr. Ruffin Sr. died in March and I have discussed this with his son (Nov 13 tele), EEO Peter Ruffin Sr. I doubt that the son will join the well. The Churches (Nov 16 tele—Redeemer), St.

1499 Blake Street, #7K  
Denver, CO 80202 U.S.A.

Tel: 303.573.6333  
Fax: 303.573.6444  
email: [jmchugh@sanjuanbasin.com](mailto:jmchugh@sanjuanbasin.com)

Francis, and (October-Nov 16 emails—St. John's) don't seem to want to do anything in the well—it is something beyond their expertise or interest and they probably will choose to be forcepooled. The Driscoll Estate heirs have indicated (Nov 15 tele) that they don't want to have anything to do with the affairs of Joseph Driscoll. They are not interested in joining at all.

Of the others listed above where there was no contact, either we cannot find them or they don't return our calls. In all instances we have done detailed internet searches and tried to pinpoint where these people might have last lived. Our efforts have been futile, to say the least. Copies of contacts and internet searches are in files at SJR offices here in Denver.

Mineral Interest Owners:

The Mosley's—Bob, Leonard, George, and Mary, with Betty Nelms are all going to join the well. They all signed the AFE we sent them. However, when we sent them a Joint Operating Agreement, they refused to sign it and said that they wanted to be forcepooled as they were in the Tecumseh #1 well. Their attorney advised them not to sign SJR's JOA. They will not oppose SJR at the pooling hearing on December 16, 2004 according to conversations with their representative, Bob Mosley. I talked with Bob on two occasions in October and on November 15 via telephone. I assured him that they will be receiving their option to join the well as the Commission stipulates in their orders.

Thank you very much for your attention to this. Respectfully submitted.

Very Truly Yours,  
SAN JUAN RESOURCES OF COLORADO, INC.

A handwritten signature in cursive script, reading "Jerry McHugh, Jr.", written in dark ink.

Jerry McHugh, Jr.  
PRESIDENT

Enclosures as indicated

October 7, 2004

Mr. O. Leonard & Leona M. Mosley  
P.O. Box 4401  
Rozet, WY 82727

Re: San Juan Resources, Inc. No. 1E Tecumseh Well  
Township 30 North, Range 11 West, N.M.P.M.  
Section 18: Lots 3, 4, E/2SW/4, SE/4  
San Juan County, New Mexico

Ladies and Gentlemen:

San Juan Resources, Inc., (hereinafter referred to as "SJR"), as a working interest owner under the captioned lands, hereby proposes the drilling a well to be drilled in Township 30 North, Range 11 West, N.M.P.M., Section 18: SW/4 to a depth sufficient to test the Dakota formation or to a depth of 6750 feet whichever is lesser. SJR plans to complete the Mesaverde formation and commingle production in the Dakota and Mesaverde. Enclosed herewith is a photocopy of a summary of the estimated costs that will be incurred in drilling, testing and completing said well, ("AFE").

Please advise us as soon as it is convenient as to whether or not you would be willing to participate in the drilling of this well or if you would rather farmout or lease your interest on mutually acceptable terms. A review of the San Juan County, New Mexico records indicates that you own the interest indicated on the AFE in and to the captioned lands that will comprise the drillsite spacing unit for this well.

Upon receipt of the elections of all interest owners, we will prepare the appropriate joint operating agreement or determine who will prepare any farmout agreement(s).

If you have any questions, please feel free to contact me.

Very truly yours,  
SAN JUAN RESOURCES, INC.

Jerry McHugh, Jr.

Enclosure as indicated

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:

CASE NO. 12992  
ORDER NO. R-11926

APPLICATION OF SAN JUAN RESOURCES, INC. FOR COMPULSORY  
POOLING, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 20, 2003, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 25th day of March, 2003, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) San Juan Resources, Inc., ("Applicant"), seeks an order pooling all uncommitted mineral interests from the base of the Pictured Cliffs formation to the base of the Dakota formation underlying the S/2 of Section 18, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, in the following manner:

The S/2, forming a standard 320-acre gas spacing and proration unit (the "Unit") for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the Blanco-Mesaverde Gas Pool and the Basin-Dakota Gas Pool.

(3) The above-described unit ("the Unit") is to be dedicated to Applicant's proposed Tecumseh Well No. 1 ("the proposed well") to be drilled at a standard gas well location 1975 feet from the South line and 1480 feet from the East line (Unit J) of Section 18.



(4) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(5) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill to and produce from a common source of supply within the S/2 of Section 18.

(6) There are interest owners in the proposed unit that have not agreed to pool their interests.

(7) The land testimony offered by Applicant indicates that:

(a) the heirs or successors in title of Joseph P. Driscoll, deceased, own interests in several oil and gas leases covering portions of the Unit;

(b) some of the leases pursuant to which the Driscoll heirs own their interests may have expired;

(c) Applicant claims title under junior leases to some of those interests;

(d) the Driscoll heirs or successors may own as much as a 39.45775% gross working interest in the Unit; and

(e) Applicant has been unable to identify the true owners of the Driscoll interests.

(8) In view of the possible conflict between the indicated title of the Driscoll heirs or successors and interests claimed by Applicant, Applicant should be ordered to place the entire proceeds accruing to the Driscoll interests after the cost recovery and risk charge herein provided in suspense unless and until applicant can demonstrate, as to a specific portion of those interests, that there is not a reasonable probability that the Driscoll heirs or successors have valid title thereto.

(9) Bob L. Mosley, who owns a 1.0047% unleased mineral interest, appeared at the hearing in opposition to the formation of the proposed Unit and offered testimony concerning his negotiations with Applicant, but did not offer any evidence opposing Applicant's plan of development of the Unit or propose any alternative plan of



development.

(10) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(11) Applicant should be designated the operator of the proposed well and of the Unit.

(12) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$4,905 per month while drilling and \$890 per month while producing.

**IT IS THEREFORE ORDERED THAT:**

(1) Pursuant to the application of San Juan Resources, Inc., all uncommitted interests, whatever they may be, in the oil and gas from the base of the Pictured Cliffs formation to the base of the Dakota formation underlying the S/2 of Section 18, Township 30 North, Range 11 West, N.M.P.M., San Juan County, New Mexico, are hereby pooled, as follows:

The S/2, forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include but are not necessarily limited to the Blanco-Mesaverde Gas Pool and the Basin-Dakota Gas Pool.

The Unit shall be dedicated to Applicant's proposed Tecumseh Well No. 1, to be drilled at a standard gas well location 1975 feet from the South line and 1480 feet from the East line (Unit J) of Section 18.

(2) The operator of the Unit shall commence drilling the proposed well on or before June 30, 2003, and shall thereafter continue drilling the well with due diligence to test the Dakota formation.

(3) In the event the operator does not commence drilling the proposed well on or before June 30, 2003, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(4) Should the proposed well not be drilled to completion, or be abandoned, within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(5) Upon final plugging and abandonment of the well, the pooled unit created by this Order shall terminate unless this order has been amended to authorize further operations.

(6) Applicant is hereby designated the operator of the proposed well and of the Unit.

(7) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Uncommitted working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(8) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(9) The operator shall furnish the Division and each known pooled working interest owner (including each non-consenting working interest owner) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(10) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(11) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(12) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$4,905 per month while drilling and \$890 per month while producing.

(14) Except as provided in Ordering Paragraphs (11) and (13) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(15) Without limiting the generality of the immediately foregoing paragraph, all proceeds attributable to the entire 39.45775% gross working interest attributed to the heirs or successors of Joseph P. Driscoll, after recovery of costs and risk charges as herein provided, shall be deposited into the escrow account described above unless and until the operator can demonstrate that, as to a specific portion of that interest, there is not a reasonable probability that the Driscoll heirs or successors have valid title thereto.

(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of

production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

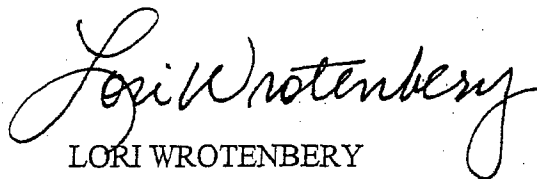
(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

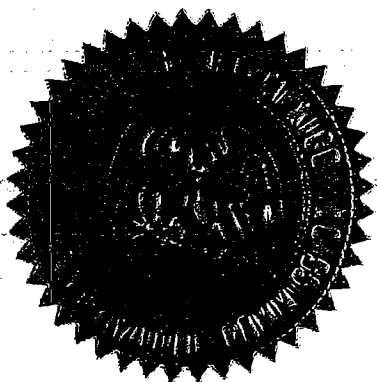
(18) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(19) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

  
LORI WROTENBERY  
Director



SEAL

District I  
PO Box 1980, Hobbs, NM 88241-1980

District II  
PO Drawer 00, Artesia, NM 88211-0719

District III  
1000 Rio Brazos Rd., Aztec, NM 87410

District IV  
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico  
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION  
PO Box 2088  
Santa Fe, NM 87504-2088

Form C-102

Revised February 21, 1994

Instructions on back  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number	*Pool Code 72319 / 71599	*Pool Name BLANCO MESAVERDE / BASIN DAKOTA
*Property Code	*Property Name TECUMSEH	*Well Number 1E
*GRID No. 20208	*Operator Name SAN JUAN RESOURCES OF COLORADO INC.	*Elevation 5538'

<sup>10</sup> Surface Location

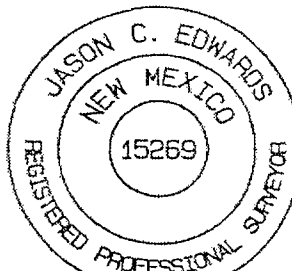
UL or lot no.	Section	Township	Range	Lot 100	Feet from the	North/South line	Feet from the	East/West line	County
L	18	30N	11W		<del>1470</del> 1455	SOUTH	<del>1095</del> 1225	WEST	SAN JUAN

<sup>11</sup> Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot 100	Feet from the	North/South line	Feet from the	East/West line	County

<sup>12</sup> Dedicated Acres 326.50 Acres - S/2	<sup>13</sup> Joint or In(113)	<sup>14</sup> Consolidation Code	<sup>15</sup> Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED  
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<sup>16</sup> 1349.04'  LOT 1  CORRECTED Per Jason Edwards 11/16/04 new C-102 is being drafted	1260.60'	2649.90'	<sup>17</sup> OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief  Signature <u>Jerry McHugh Jr.</u> Printed Name <u>Jerry McHugh JR.</u> Title <u>President</u> Date <u>11/16/04</u>
LOT 2			
LOT 3			
LOT 4			
5266.80'	18	2675.30'	<sup>18</sup> SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief. Survey Date: OCTOBER 8, 2003 Signature and Seal of Professional Surveyor   <u>JASON C. EDWARDS</u> Certificate Number 15269
1095'	1225'	1470'	
1225'	1455'	2620.86'	
1384.02'	1275.12'		

# WALSH ENGINEERING & PRODUCTION CORP.

## Drilling and Completion Cost Estimate

### San Juan Resources of Colorado AUTHORITY FOR EXPENDITURE

#### Tecumseh #1E

Location: Section 18, S/2 T30N, R11W, San Juan Co., NM

Proposed Depth: 6750' NW/4SW/4

Objective: Mesaverde and Dakota,  
with completion in DK & MV

	Tangible	Intangible	Total
<b>I. Drilling Costs( Include Running Casing)</b>			
Survey and Permits		1,000	1,000
Drilling Title Opinion/Ownership Report/Curative Costs		10,000	10,000
Damages		5,000	5,000
Dirt Work		10,000	10,000
Pit Liner and Fence		1,000	1,000
Drilling Daywork at \$8200/day		90,200	90,200
Rig Rentals		16,000	16,000
Drill Bits		10,000	10,000
Rig Mob and Demob		8,000	8,000
Water and Water Hauling		15,000	15,000
Drilling Mud, Air Pkg , and Nitrogen		20,000	20,000
Surface Casing (250' of 9-5/8" @ 20.36 \$/ft.)	5,090		5,090
Casing Head	10,000		10,000
Cement Surface		3,500	3,500
Logs		5,000	5,000
Mud Logger		0	0
Intermediate Casing (3625' of 7' @ 11.81 \$/ft.)	42,811		42,811
Casing Crew		6,000	6,000
Cement Intermediate		11,000	11,000
Miscellaneous		6,000	6,000
Trucking		26,000	26,000
Engineering/Supervision		8,200	8,200
Overhead		1,670	1,670
<b>Total Drilling Cost</b>	<b>57,901</b>	<b>253,570</b>	<b>311,471</b>
10% Contingency	5,790	25,357	31,147
<b>Grand Total Drilling Costs</b>	<b>63,691</b>	<b>278,927</b>	<b>342,618</b>

#### II. Completion Costs (as needed).

Production Casing (6750' at \$6.86/ft)	46,305		46,305
Cement Production Casing		8,200	8,200
Casing Crew		4,000	4,000
Tubing Head and Well Connection Fittings	600		600
Tubing (6750' of 2-3/8" @ 3.29 \$/ft.)	22,208		22,208
Perf		11,000	11,000
Stimulation		105,000	105,000
Tool Rental (Frac Valve)		1,100	1,100
Frac Tank Rental		1,300	1,300
Completion Fluids		4,000	4,000
Completion Rig (7 days at \$2100/day)		14,700	14,700
Separator	6,900		6,900
Flowlines and Install	2,000	4,650	6,650
Tank and Fittings	12,900		12,900
Trucking		8,000	8,000
Pipelines/gathering Lines	10,000	10,000	20,000
Restore Location		1,500	1,500
Engineering/Supervision		2,000	2,000
Overhead		1,670	1,670
<b>Completion Costs</b>	<b>100,913</b>	<b>177,120</b>	<b>278,033</b>
10% Contingency	10,091	17,712	27,803
<b>Total Completion Costs</b>	<b>111,004</b>	<b>194,832</b>	<b>305,836</b>
<b>Grand Total Well Costs</b>	<b>174,695</b>	<b>473,759</b>	<b>648,454</b>

Prepared By: Paul C. Thompson, P.E.  
Date: Sept 21, 2004

Working Interest Owner 1.02587%  
Leonard Mosley et ux \$6,652.30

ESTIMATED COSTS ONLY--Each participating  
Owner to pay Proportionate Share of Actual  
Well Costs Subject to Operating Agreement

By: \_\_\_\_\_  
Title: \_\_\_\_\_



## 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 of Colorado, Inc. shall be the operator of the infill well
- (b) The operator, 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 received 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 or 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.



(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