

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Joanna Prukop
Cabinet Secretary
Reese Fullerton
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



November 18, 2008

Thomas Kellahin
Kellahin & Kellahin
Attorney at Law
706 Gonzales Road
Santa Fe, New Mexico 87501

Dear Mr. Kellahin:

Based upon the reasons stated in your letter of November 13, 2008, and in accordance with the provisions of Division Order No. R-12987, San Juan Resources, Inc. is hereby granted an extension of time until February 28, 2009 in which to commence drilling the well pooled by this order.

Sincerely,

Mark E. Fesmire, P.E.
Director

fd/

cc: ✓ Case No. 14156
OCD - Aztec



KELLAHIN & KELLAHIN
Attorney at Law

W. THOMAS KELLAHIN
706 GONZALES ROAD
SANTA FE, NEW MEXICO 87501

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November 13, 2008

HAND DELIVERED

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

Re: Request for Extension of Commencement Date
Order R-12987, Case 14156
Blancett Ranch "24" Well No. 1 (API#30-045-33769)
Unit H, E/2 of Section 24, T30N, R12W
Application of San Juan Resources, Inc.
for compulsory pooling,
San Juan County, New Mexico

Dear Mr. Fesmire:

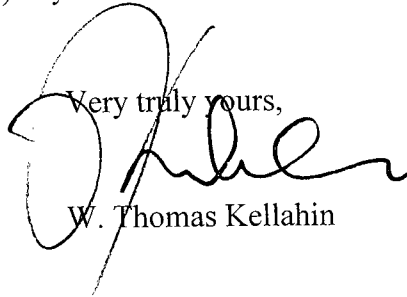
On behalf of San Juan Resources Inc. ("SRJ") and in accordance with Order R-12987, copy enclosed, I am requesting a ninety (90) day extension of the commencement date for the Blancett Ranch 24 Well No. 1 which is the well to be drilled pursuant to this compulsory pooling order and in support state:

- (1) On September 3, 2008, the Division entered Order R-12987 that provides that unless extended by the Division Director, this compulsory pooling order will expired if the Blancett Ranch "24" Well No.1 is not commenced on or before to November 30, 2008;
- (2) The drilling of this well is predicated upon the Division approval of an unorthodox well location. The hearing for that application was held on October 12, 2008 in Case 14179.

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- (3) Because an order has not yet been issued for the unorthodox well location, SJR need to change the schedule for the drilling of this well and now expects to commence drilling prior to February 28, 2009
- (4) In order to obtain the well location order and to provide for the possibility of further delays, SJR request an extension to February 28, 2009.

Accordingly, San Juan Resources, Inc. requests that the Division Director grant a ninety (90) day extension such that the new commencement date is on or before February 28, 2009.

Very truly yours,

W. Thomas Kellahin

cc: San Juan Resources, Inc.
Attn: Jerry McHugh

**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. 14156
ORDER NO. R-12987**

**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 August 21, 2008, at Santa Fe, New Mexico, before Examiners David K. Brooks and Terry Warnell.

NOW, on this 3rd day of September, 2008, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

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 interests from the base of the Pictured Cliffs formation to the base of the Dakota formation in the E/2 of Section 24, Township 30 North, Range 12 West, NMPM, in San Juan County, New Mexico, to form a standard 320-acre, more or less, 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 (72319), and the Basin-Dakota Gas Pool (71599).

(3) The Unit is to be dedicated to Applicant's proposed Blancett Ranch 24 Well No. 1 (API No. 30-045-33769), (the "proposed well") to be drilled at a non-standard location 2435 feet from the North line and 450 feet from the East line (Unit H) of Section 24. Applicant has filed a separate application for approval of this non-standard location.

(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 and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(6) There are interest owners in the Unit that have not agreed to pool their interests. Two interest owners, William G Drosten, Jr., Trustee and Ellen Berend, were not located, and were notified of the hearing by publication. No party other than applicant appeared at the hearing or otherwise opposed this application.

(7) 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.

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

(9) 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.

(10) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,000 per month while drilling and \$550 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

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 in the E/2 of Section 24, Township 30 North, Range 12 West, NMPM, in San Juan County, New Mexico, are pooled to form a standard 320-acre, more or less, 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 (72319) and the Basin-Dakota Gas Pool (71599).

(2) The Unit shall be dedicated to Applicant's Blancett Ranch 24 Well No. 1 (API No. 30-045-33769), to be drilled at a non-standard location 2435 feet from the North line and 450 feet from the East line (Unit H) of Section 24.

(3) The operator of the Unit shall commence drilling the proposed well on or before November 30, 2008, and shall thereafter continue drilling the well with due diligence to test the Mesaverde and Dakota formations.

(4) In the event the operator does not commence drilling the proposed well on or before November 30, 2008, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(5) Should the proposed well not be drilled to completion, or be abandoned, within 120 days after commencement thereof, then Ordering Paragraph (1) shall be of no further effect unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence.

(6) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 36, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) San Juan Resources, Inc (OGRID 20208) is hereby designated the operator of the proposed well and of the Unit.

(8) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled 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").

(9) 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."

(10) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) 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.

(11) 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.

(12) 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.

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

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,000 per month while drilling and \$550 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(15) Except as provided in Paragraphs (12) and (14) 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 (Attention: Records Clerk) of the name and address of the escrow agent not later than one year from the date of issuance of this Order.

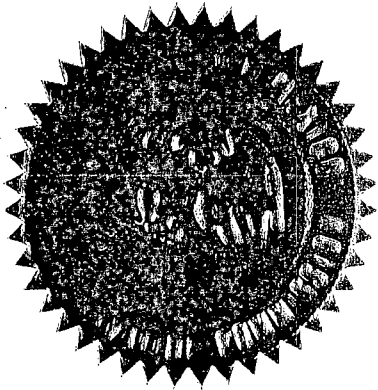
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director