

Brooks

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May 5, 2010

CERTIFIED MAIL-RETURN RECEIPT REQUESTED No. 7009 2250 0003 4168 6403

New Mexico Oil Conservation Division
Attn: Mark E. Fesmire, P.E. – Director
1220 South St Francis Drive
Santa Fe, NM 87505

Re: NOTIFICATION OF ELECTION

Compulsory Pooling
Monarch Crest 24 Well No. 1, Unit H, **API #30-045-34770**
Dedication: W/2 of Section 24, T30N- R12W, NMPM
San Juan County, New Mexico
NMOCD Case 14464, Order R-13249

Dear Mr. Fesmire:

In accordance with the terms of the New Mexico Oil Conservation Division Order R-13249 page 3, number (8), enclosed please find copies of the notice to the pooled working interest owner with enclosures of the AFE and Order R-13249.

Very truly yours,

Sheryl A. Olson, CPL
Land Consultant

Enclosures: 1 Notice of Election with enclosures

cc: Thomas Kellahin



May 5, 2010

CERTIFIED MAIL-RETURN RECEIPT REQUESTED No. 7009 2250 0003 4168 6397

Union Pacific Railroad Company, c/o Farmers National Company
5110 So Yale, Suite 400
Tulsa, OK 74135
Attn: Ms. Samantha Morgan

Re: NOTIFICATION OF ELECTION

Compulsory Pooling

Well: Monarch Crest 24 Well No. 1, Unit C, **API #30-045-34770**

Dedication: W/2 of Section 24, T30N - R12W, NMPM

San Juan County, New Mexico

NMOCD Case 14464, Order R-13249

Dear Ms. Morgan:

On behalf of San Juan Resources, Inc. and in accordance with the terms of the New Mexico Oil Conservation Division Order R-13249, copy enclosed, we are providing you with notice of your right to elect to participate in the drilling, completion and production of this well into the Mesaverde and Dakota formations pursuant to this order.

San Juan Resources' records indicate that you are an unleased mineral interest owner in these 320-acre spacing units for all formations from the base of the Pictured Cliffs formation to the base of the Dakota formation in this well. Should you desire to participate in this well and avoid the payment of the 200% risk factor out of its share of production, then within thirty (30) days of the date you receive this letter, San Juan Resources, located at 1499 Blake Street, Suite 10C, Denver, Colorado 80202 must receive a cashier's check for your percentage of the completed well costs and a letter signed by you agreeing to participate in this well pursuant to this pooling order. Enclosed is a copy of the AFE for this well, which is the same AFE, as introduced at the hearing.

If you decide not to participate then you need do nothing further. In that event, San Juan Resources will pay your share of the costs of drilling and completing the well and will recover your share out of production plus an additional 200 percent.

Very truly yours,

Sheryl A. Olson, CPL

Land Consultant

Enclosures: 2.

cc: Director NMOCD-Santa Fe

May 5, 2010

Notification of Election, Compulsory Pooling NMOCD Case 14464, Order R-13249

Page 2

**ELECTION Monarch Crest 24 #1
T30N-R12W, Section 24: W/2, San Juan County, New Mexico**

_____ **Yes**, I/we hereby elect to participate in the Monarch Crest 24 #1 well, API #30-045-34770, and enclose one originally executed copy of the AFE, one original execution of this Election Letter and a cashier's check for the proportionate share of drilling and completion costs set forth of the enclosed AFE.

Accepted and Agreed to this _____ day of _____, 2010

**Union Pacific Railroad Company
c/o Farmers National Company**

By:

Address: _____

Phone: _____

Drilling and Completion Cost Estimate

San Juan Resources, Inc.
AUTHORITY FOR EXPENDITURE

Well Name: Monarch Crest 24 #1

Location: Section 24, NE1/4 NW1/4, T30N, R12W, San Juan County, NM

Proposed Depth: 6750'

Objective: Dakota/Mesaverde

| | Tangible | Intangible | Total |
|---|---------------|----------------|----------------|
| I. Drilling Costs | | | |
| Leasehold acquisition costs (acquisition, bonus, other) | | | |
| Survey and Permits | | 1,000 | 1,000 |
| Title Opinion and Land Costs | | 30,000 | 30,000 |
| Damages | | 20,000 | 20,000 |
| Dirt Work (road, pad, pit etc) | | 12,000 | 12,000 |
| Pit Liner and Fence | | 1,000 | 1,000 |
| Drill Conductor hole | | 0 | 0 |
| Drilling Rig day rate (\$11,800) @ 10 days | | 118,000 | 118,000 |
| Rig Rentals (shock sub, forklift, trash basket, toilets, etc) | | 6,600 | 6,600 |
| Drill Bits (12-1/4" surface: \$675, 8-3/4": \$7500) | | 8,175 | 8,175 |
| Air Hammer | | 10,463 | 10,463 |
| Rig Mob and Demob (rig plus trucking) | | 18,000 | 18,000 |
| Water and Water Hauling | | 12,000 | 12,000 |
| Drilling Mud | | 10,080 | 10,080 |
| Conductor Casing | | | 0 |
| Surface Casing (320' of 9-5/8", 36# @ 22 \$/ft.) | 7,040 | | 7,040 |
| Casing Head | 5,600 | | 5,600 |
| Cement Surface | | 4,500 | 4,500 |
| Intermediate Casing (4300' of 7", 20# @ 12.16 \$/ft) | 52,300 | | 52,300 |
| Intermediate Cement | | 12,500 | 12,500 |
| Logs | | 0 | 0 |
| Geologist/Mud Logger | | 6,000 | 6,000 |
| Miscellaneous | | 8,000 | 8,000 |
| Air Package (rental plus moving costs, also includes fuel) | | 20,310 | 20,310 |
| Nitrogen Unit (for Dakota/air drilling) | | 6,800 | 6,800 |
| Fuel (over \$2.00/gal: \$0.41x7800 gal) | | 3,198 | 3,198 |
| Trucking | | 9,500 | 9,500 |
| Engineering/Supervision | | 9,600 | 9,600 |
| Closed Loop System | | 46,000 | 46,000 |
| Total Drilling Cost | 64,940 | 373,726 | 438,666 |
| 10% Contingency | 6,494 | 37,373 | 43,867 |
| Grand Total Drilling Costs | 71,434 | 411,099 | 482,533 |

II. Completion Costs (as needed).

| | | | |
|---|----------------|----------------|----------------|
| Production Casing (5750' of 4-1/2" J-55 @ \$7.50/ft + 1000' 4-1/2" N-80 @ \$9.35/ft) | 52,475 | 0 | 52,475 |
| Casing Crew | | 10,200 | 10,200 |
| Linger Hanger | 0 | | 0 |
| Production Cement | | 15,000 | 15,000 |
| Tubing Head and Well Connection Fittings | 4,500 | | 4,500 |
| Tubing (6700' of 2-3/8" @ 3.70 \$/ft.) | 24,790 | | 24,790 |
| Rods, Pump, SB, PR, ect. | 0 | | 0 |
| Perf/cased hole logs | | 10,500 | 10,500 |
| Stimulation Dakota (100,000# x-link) | | 60,000 | 60,000 |
| Stimulation Point Lookout (67,500# slickwater) | | 64,000 | 64,000 |
| Stimulation Menefee/Cliff House (30,000# slickwater) | | 43,000 | 43,000 |
| Tool Rental (Frac Valve) | | 1,800 | 1,800 |
| Downhole tools (BP, packers, etc) | | 3,500 | 3,500 |
| Frac Tank Rental (13 tanks plus moving costs) | | 8,500 | 8,500 |
| Completion Fluids | | 16,000 | 16,000 |
| Completion Rig (10 days at \$3000/day) | | 30,000 | 30,000 |
| Air Package (including trucking & fuel) | | 11,000 | 11,000 |
| Separator | 13,000 | | 13,000 |
| Flowlines and Install | 2,000 | 6,000 | 8,000 |
| Tank and Install | 10,500 | 1,000 | 11,500 |
| Trucking | | 7,500 | 7,500 |
| Restore Location | | 5,000 | 5,000 |
| Engineering/Supervision | | 7,500 | 7,500 |
| Completion Costs | 107,265 | 300,500 | 407,765 |
| 10% Contingency | 10,727 | 30,050 | 40,777 |
| Total Completion Costs | 117,992 | 330,550 | 448,542 |
| Grand Total Well Costs | 189,426 | 741,649 | 931,074 |

Prepared By: Jerome P. McHugh, Jr. President/Owner
 Date: January 12, 2010

Working Interest Owner %: 1.95219%
 Working Interest Owner Share: \$ 18,176

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

Working Interest Owner:
 Union Pacific Railroad Company
 c/o Farmers National Company
 5110 So Yale, Suite 400
 Tulsa, Ok 74135
 Attn: Ms. Samantha Morgan

Approved: _____
 Title: _____ Date: _____

**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. 14464
ORDER NO. R-13249**

**APPLICATION OF SAN JUAN REOURCES, 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 April 29, 2010, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 3rd day of May, 2010, 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 interests from the base of the Pictured Cliffs formation to the base of the Dakota formation in the W/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 Monarch Crest 24 Well No. 1 (API No. 30-045-34770), (the "proposed well") to be drilled at a standard location 846 feet from the North line and 1338 feet from the West line (Unit C) of Section 24.

(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. However, all interest owners have been located, and there is no evidence of a title dispute.

(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 \$5,800 per month while drilling and \$580 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 W/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 proposed Monarch Crest 24 Well No. 1 (API No. 30-045-34770), to be drilled at a standard location 846 feet from the North line and 1338 feet from the West line (Unit C) of Section 24.

(3) The operator of the Unit shall commence drilling the proposed well on or before April 30, 2011, and shall thereafter continue drilling the well with due diligence to test the Dakota formation.

(4) In the event the operator does not commence drilling the proposed well on or before April 30, 2011, 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 and completed within 120 days after commencement thereof, then Ordering Paragraph (1) shall be of no further effect, and the Unit created by this Order shall terminate, 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 Part 13, Sections 9 through 11, 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 \$5,800 per month while drilling and \$580 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.

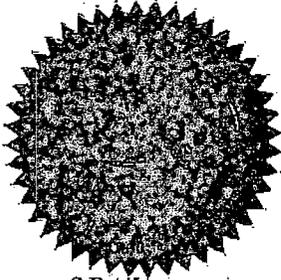
(15) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(16) 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.

(17) 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.

(18) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Director