MARALEX Resources, Inc.

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February 25, 1990

FEDERAL EXPRESS

State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division
Attn: William J. Lemay
P. O. Box 2088
Santa Fe, NM 87504

Case 10275

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MAR [illegible]

OIL CONSERVATION DIVISION

RE: Compulsory Pooling
N/2 Section 19, T30N, R11W
E/2 Section 24, T30N, R12W
San Juan County, NM

Gentlemen:

This letter serves as an application for Compulsory Pooling of all of the interests in the subject drillsite spacing units. Maralex Resources, Inc. (Maralex) is the name of the applicant.

Maralex is requesting that ownership of the Basin Fruitland Coal common source of supply be pooled for the possible re-entry of one well and the drilling of another well to be located in the northeast quarters of the specified sections. Both pooled units will be for the production of coalbed methane gas.

Enclosed as Exhibit 1 is an unopened well proposal that was sent to the last known address of Glen Dial, Jr. Exhibit 1 also contains an affidavit indicating the measures taken to locate and contact Enid M. Neibaur Price. Also enclosed as Exhibit 1 are copies of proposals and offers submitted to the remaining interest owners set out below along with the returned mail receipts, evidencing Maralex's attempts to gain voluntary agreements. The interest of each party as derived from title opinions prepared at the request and for the benefit of Maralex in each of the drillsite spacing units is as follows:

| | Working Interest Ownership In Basin Fruitland Coal Pool | |
|---|---|---|
| Owner | N/2 19 | E/2 24 |
| Caprock Energy | 36.75625% | 0.00000% |
| Norman L. Gilbreath & Loretta E. Gilbreath | 0.00000% | 46.45937% |

| | | |
|---|---|---|
| Glen Dial, Jr. | 0.00000% | 2.25938% |
| Enid M. Price | 0.00000% | 12.50000% |
| Southland Royalty Co. | 0.00000% | 37.50000% |
| El Paso Production Co. | 37.50000% | 0.00000% |
| Denver & Rio Grande Western Railroad Company | 0.00000% | 1.28125% |
| Koch Exploration Co. | 25.00000% | 0.00000% |
| Snyder Oil and Gas Co. | .37813% | 0.00000% |
| Thomas M. & Donita R. Fisher | 0.36562% | 0.00000% |

All of these owners are being notified of this pooling request by certified copy of the letter attached as Exhibit 1 which was submitted to their last known address. Also notified are unleased and uncommitted mineral owners and royalty owners not subject to a pooling clause in the lands affected by this application. Maralex does not expect this application to be opposed.

Exhibit 2 is an overall net coal isopach map showing the projected thickness of the Fruitland coals in the two drillsite spacing units. Geologically, the risk of not encountering the coals is very low. However, there is substantial risk associated with the establishment of commercial production from the coals. Maralex recompleted the Scott No. 1 in the southwest quarter of Section 18 to the Fruitland coals making that well essentially a 160-acre offset to both of Maralex's proposed locations. Production from that well during its first month has averaged less than 100 MCFD with more than 100 BWPD. Making the assumptions that production increases to a peak rate of 200 MCFD over the next twelve months and then declines at the fairly shallow rate of 5 percent per year and operating costs average $6000 per month for the first year and then decline over two years to $2000 per month generates the following economics:

Payout: 91.8 months
R.O.I.: 1.28 to 1.0
DROI (15): -0.29
ROR: 9.61
PW(15): -68.58

Exhibit 3 contains the detailed economics summarized in the above table. These economics are based on an initial gas price of $1.20 per MCF and an escalation rate of six percent per year. An AFE detailing the charges anticipated for the drilling and completion of the proposed wells is included as Exhibit 4.

Clearly, the economics shown above indicate the risk involved in the drilling of the proposed wells. Maralex is gambling that higher gas prices and a better incline in production over the projections will result in substantially better economics for the Fruitland coals. Maralex is requesting that those owners who are either unwilling or are unavailable to participate in this gamble be assessed a risk penalty of 300 percent of the cost to re-enter and complete or drill and complete the well in the northeast quarter of Section 24 and 256 percent of the cost to drill and complete the proposed well in the northeast quarter of Section 19.

As an alternative aimed at minimizing the risk of obtaining a commercially successful well, Maralex is attempting to secure permission from the current owners to re-enter the Polokoff Blancett No. 1 and attempt a completion to the Fruitland Coal Formation. The lower cost associated with this proposal (Exhibit 5) results in the improved economics shown in Exhibit 6. Though this alternative reduces the risk of commercial failure, this reduction is offset by an increased risk of mechanical failure of the wellbore. The Blancett well was drilled in the early fifties and abandoned in 1955. The mechanical integrity of the production casing may have deteriorated to the point that extensive repairs will be required. In such a case, the costs projected will be significantly eclipsed by the work required to repair wellbore problems. In addition, there is a risk that the wellbore problems will be determined to be irreparable after a substantial amount of funds has been expended and then a new wellbore will be required. Therefore, Maralex is requesting the risk penalty of 300 percent for the proposed Fruitland Coal test in the northeast quarter of Section 24.

Maralex is proposing combined fixed rate overhead charges for drilling and production operations of $3,000 and $300 per month, respectively. These charges should be considered a bargain as most operators in the Basin charge from $300 to $420 per month for combined fixed rate overhead on production operations and ten times that range for drilling operations.

The Hidden Valley No. 1 well will be located in the SENE Section 19, T30N, R11W. The Hidden Valley No. 1 well will be drilled to an approximate total depth of 2100 feet. The Polokoff Blancett No. 1 well is located in the SENE Section 24, T30N, R12W. If a new well is required it will be drilled to a total depth of approximately 2100 feet. If a re-entry is feasible, the Polokoff Blancett will have a plug back depth of about 1900 feet.

Maralex intends to commence one of the proposed wells by the first of April. Therefore, Maralex requests that this application for compulsory pooling be placed on the Docket for the Division's March 21 hearing.

Please direct any questions or requests for additional information regarding this application to the undersigned at (303) 571-4220.

Sincerely,

A. M. O'Hare, by [illegible]

A. M. O'Hare, P.E.
President
Maralex Resources, Inc.

cc: See attached