

SG INTERESTS I, LTD.

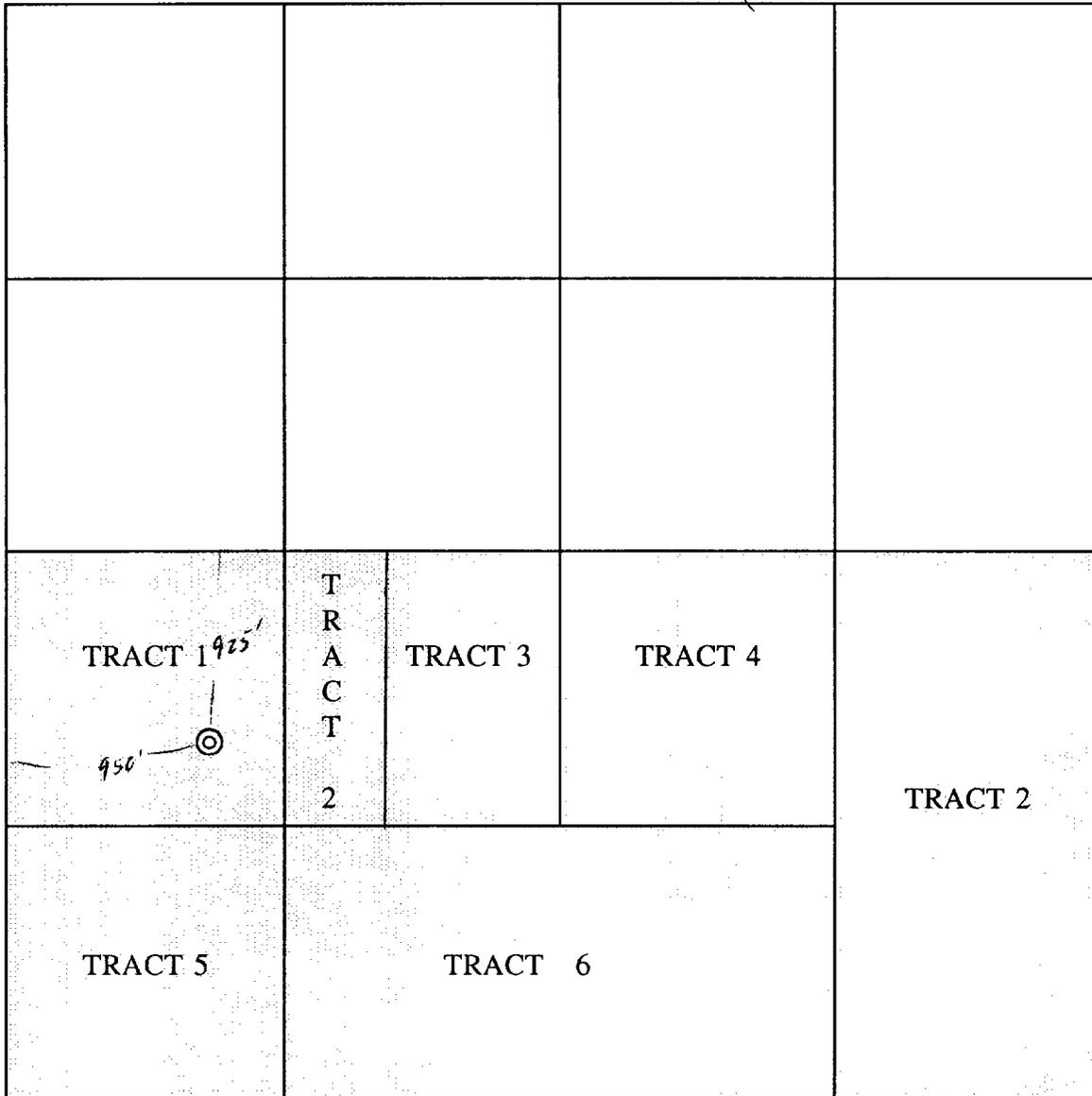
10-15-92

SIKES 29-10-30 #2 WELL
FRUITLAND COAL FORMATION
DRILLING AND SPACING UNIT
SECTION 30: S/2 TOWNSHIP 29 NORTH-RANGE 10 WEST
319.80 ACRES
SAN JUAN COUNTY, NEW MEXICO

LOCATION: 1715' FSL AND 950' FWL, UNIT L

(Standard Location)

1' 3"
 2640
 17.5
 ———
 925



Scale 6" = 1 Mile

III0614.EX

Application of SG Interests I, Ltd. for
 Compulsory Pooling

Case No. 10567

Examiner Hearing Docket Dated 10/29/92

Exhibit No. 1

SG INTERESTS I, LTD., OPERATOR

10-15-92

SIKES 29-10-30 #2 WELL

UNIT WORKING INTEREST

* SG Interests I, Ltd.	93.68805%	
James G. Morris	2.69945%	Participants
T. J. McFarland	.51608%	Participants
Don Morris Davis	1.03214%	subject to FP
Tommy Key	<u>2.06428%</u>	subject to FP
	100.00000%	

* Working Interest obtained through Farmout Agreements and Assignments.

✓

3.1%

SG INTERESTS I, LTD., OPERATOR

10-15-92

SIKES 29-10-30 #2 WELL

LEASEHOLD OWNERSHIP

Tract 1

39.85 Acres
NW/4 of SW/4 (Lot 3)

Horace F. McKay, Jr., Trustee 25.00%

David G. McLane 75.00%

Subject to Farmout Agreement to SG Interests I, Ltd. 100.00%

Tract 2

95.00 Acres
E/2 of SE/4 and
West 15 Acres of NE/4 of SW/4

Amoco Production Company 100.00%

Subject to Farmout Agreement to SG Interests I, Ltd.

Tract 3

25.00 Acres
NE/4 of SW/4
Less and Except West 15 Acres

SG Interests I, Ltd. 12.6953125%

Milton F. Lechner and Dorothy M. Lechner, Trustees 46.6796875%

Assignment to SG Interests I, Ltd. Pending

Rhea E. Latham 5.0781250%

Subject to Farmout Agreement to SG Interests I, Ltd.

√ Don Morris Davis 5.0781250%

Elizabeth Pickett 5.0781250%

Subject to Farmout Agreement to SG Interests I, Ltd.

James G. Morris 10.1562500%

✓ Tommy Key 10.1562500%

D. Pratas 2.5390625%

Subject to Farmout Agreement to SG Interests I, Ltd.

T. J. McFarland 2.5390625%

100.0000000%

Tract 4

40.00 Acres
NW/4 of SE/4

SG Interests I, Ltd.	12.6953125%
Milton F. Lechner and Dorothy M. Lechner, Trustees	41.6015575%

Assignment to SG Interests I, Ltd. Pending

Rhea E. Latham	5.0781250%
----------------	------------

Subject to Farmout Agreement to SG Interests I, Ltd.

/Don Morris Davis	5.0781250%
-------------------	------------

Elizabeth Pickett	5.0781250%
-------------------	------------

Subject to Farmout Agreement to SG Interests I, Ltd.

James G. Morris	15.2343800%
-----------------	-------------

/ Tommy Key	10.1562500%
-------------	-------------

D. Pratas	2.5390625%
-----------	------------

Subject to Farmout Agreement to SG Interests I, Ltd.

T. J. McFarland	<u>2.5390625%</u>
-----------------	-------------------

100.0000000%

Tract 5

39.95 Acres
SW/4 of SW/4 (Lot 4)

Amoco Production Company 100.00%

Subject to Farmout Agreement to SG Interests I, Ltd.

Tract 6

80.00 Acres
SE/4 of SW/4 and
SW/4 of SE/4

Meridian Oil, Inc. 100.00%

Subject to pending Farmout Agreement to SG Interests I, Ltd.

SG INTERESTS I, LTD., OPERATOR

10-15-92

SIKES 29-10-30 #2 WELL

DESCRIPTION OF LEASES

**SECTION 30: S/2 TOWNSHIP 29 NORTH-RANGE 10 WEST
SAN JUAN COUNTY, NEW MEXICO**

Tract 1

39.85 Acres
NW/4 of SW/4 (Lot 3)

ORIGINAL LESSOR: R. Bruce Sullivan and Opal H. Sullivan, his wife
ORIGINAL LESSEE: Horace F. McKay, Jr.
DATE: May 1, 1963
RECORDING DATA: Book 552, Page 180
DESCRIPTION: Lot 3 (ADA NW/4 SW/4)
Containing 39.85 acres, more or less

Tract 2

95.00 Acres
E/2 of SE/4 and
West 15 Acres of NE/4 of SW/4

ORIGINAL LESSOR: Rhoda Adelle Abrams and W. Boyd Abrams, her husband, and Zeida Mae Abrams Pomeroy, a femme sole
ORIGINAL LESSEE: Stanolind Oil and Gas Company
DATE: September 26, 1955
RECORDING DATA: Book 287, Page 140
DESCRIPTION: NE/4 SE/4
Containing 40 acres, more or less

ORIGINAL LESSOR: Aimee Teague Beach and Merle L. Beach, her husband and Betty Teague Rogers and Alfred E. Rogers, Jr., her husband
ORIGINAL LESSEE: Stanolind Oil and Gas Company
DATE: September 26, 1955
RECORDING DATA: Book 287, Page 141
DESCRIPTION: NE/4 SE/4
Containing 40 acres, more or less

ORIGINAL LESSOR: Luther Manning and Madge Manning, his wife
ORIGINAL LESSEE: Pan American Petroleum Corporation
DATE: August 22, 1957
RECORDING DATA: Book 348, Page 182
DESCRIPTION: W/2 SE/4 SE/4
Containing 20 acres, more or less

ORIGINAL LESSOR: Katherine Reid, Eva Reid Rhienhardt, Elenor Reid Hoffman, Edith Reid Bernadoni, Louis Reid, Elmer Reid, Kenneth Reid, Lou Ellen Reid Felder, Bud Reid, Edgar Reid, Melvin Hallett, Sylvan Hallett and Johnny Franchini, heirs of W. M. Reid
ORIGINAL LESSEE: Pan American Petroleum Corporation
DATE: January 29, 1958
RECORDING DATA: Book 367, Page 52
DESCRIPTION: E/2 SE/4 SE/4
Containing 20 acres, more or less

ORIGINAL LESSOR: Elta F. Rogers, a widow, as her sole and separate property
ORIGINAL LESSEE: Pan American Petroleum Corporation
DATE: June 19, 1958
RECORDING DATA: Book 382, Page 6
DESCRIPTION: West 15 acres of the NE/4 SW/4
Containing 15 acres, more or less

Tract 3

25.00 Acres
NE/4 of SW/4
Less and Except West 15 Acres

ORIGINAL LESSOR: Milton F. Lechner and Dorothy M. Lechner, husband and wife,
and John Lechner, as his sole and separate property
ORIGINAL LESSEE: Enid M. (Neibaur) Price
DATE: December 29, 1958
RECORDING DATA: Book 397, Page 164
DESCRIPTION: NE/4 SW/4, less the West 15 acres
Containing 25 acres, more or less

Tract 4

40.00 Acres
NW/4 of SE/4

ORIGINAL LESSOR: Milton F. Lechner and Dorothy M. Lechner, husband and wife,
and John Lechner, as his sole and separate property
ORIGINAL LESSEE: Enid M. (Neibaur) Price
DATE: December 29, 1958
RECORDING DATA: Book 397, Page 164
DESCRIPTION: NW/4 SE/4
Containing 40 acres, more or less

Tract 5

39.95 Acres
SW/4 of SW/4 (Lot 4)

SERIAL NO.: NM 020502
ORIGINAL LESSOR: United States of America
ORIGINAL LESSEE: Stanolind Oil and Gas Company
DATE: December 1, 1955
RECORDING DATA: Book 291, Page 55
DESCRIPTION: Lot 4 (ADA SW/4 SW/4)
Containing 39.95 acres, more or less

Tract 6

80.00 Acres
SE/4 of SW/4 and
SW/4 of SE/4

SERIAL NO.: NM 048570
ORIGINAL LESSOR: United States of America
ORIGINAL LESSEE: Skelly Oil Company
DATE: September 1, 1958
RECORDING DATA: Unrecorded
DESCRIPTION: SW/4 SE/4, SE/4 SW/4
Containing 80 acres, more or less

JAMES B. FULLERTON

PETROLEUM LANDMAN

NATURAL GAS CONSULTANT

1645 COURT PLACE
SUITE #406
DENVER, COLORADO 80202

PHONE: 303-534-4502

June 24, 1992

Don Moris Davis
c/o Texas Southwest Properties
P.O. Box 163622
Austin, Texas 78716-3622

CERTIFIED: RETURN RECEIPT REQUESTED

Re: Proposed Fruitland (Coal)
Formation well
SG Methane Company - Operator
Township 29 North, Range 10 West
Section 30: South 1/2
San Juan County, New Mexico

Dear Mr. Davis:

This correspondence is in regard to a proposed Fruitland Coal Formation well to be drilled by SG Methane Company in the South 1/2 of Section 30 - Township 29 North, Range 10 West, San Juan County, New Mexico.

SG Methane Company has entered into an Agreement with Amoco Production Company involving a large scale drilling program in Township 29 North, Range 10 West to test the Fruitland Coal Formation. The title information obtained from Amoco indicates that you own a portion of the leasehold interest under certain lands in the South 1/2 of Section 30. Your interest was acquired under that certain oil and gas lease from Milton F. Lechner and Dorothy M. Lechner. The records reflect that you own 1.03213% of the leasehold interest under the South 1/2 of Section 30. The drilling and spacing unit assigned to this well is the South 1/2 of Section 30. Thus, your Working Interest in the proposed well to be drilled by SG Methane Company would be 1.03213%.

The Fruitland Coal Formation is a shallow gas bearing zone that produces in many areas of the San Juan Basin. As reflected on the attached Authority for Expenditure, the estimated cost for drilling and completing the subject well is approximately \$265,000.00. Thus, the estimated cost to your 1.03213% Working Interest would be approximately \$2,800.00. If we are successful in establishing commercial production, operating costs are expected to be quite high due to the necessity of disposing of the anticipated formation water found in the Fruitland Coal Formation.

Application of SG Interests I, Ltd. for
Compulsory Pooling

Case No. 10567
Examiner Hearing Docket Dated 10/29/92
Exhibit No. 2

The interest SG Methane Company obtained from Amoco within this well spacing unit totals 42.19827% of the Working Interest. In order to justify the drilling of the well, it is pertinent that we obtain consent from the remaining interest owners to either participate for their Working Interest, Farmout to SG, or sell their interest in the Fruitland Coal Formation only. The remaining option would be for SG to obtain a Compulsory Pooling Order from the New Mexico Oil Conservation Commission affectively pooling all the parties who do not agree to participate for their Working Interest, Farmout to SG, or sell their interest to SG. Under a Compulsory Pooling arrangement, the parties who do not agree to participate would be subject to a penalty on their interest.

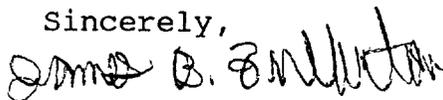
If you do not desire to pay your share of the drilling costs and participate for your Working Interest in the referenced well, SG Methane Company would offer the following options to you for a Farmout or sale of your interest:

- 1) SG would offer to purchase your Leasehold Interest from the surface to the base of the Fruitland Coal Formation only, for a cash consideration of \$265.00. This would equate to \$80.00 per acre on your 3.300751 net leasehold acres. This purchase would only cover your leasehold rights from the surface to the base of the Fruitland Coal Formation and thus you would still retain your interest as to all other formations.
- 2) SG would offer to Farmout your interest such that you would receive a proportionate 2.5% Overriding Royalty interest in return for an Assignment of your Leasehold Interest from the surface to the base of the Fruitland Coal Formation only. In this case, SG would assume all the risks and costs associated with drilling the well.

Please review the attached Authority for Expenditure and advise me if you wish to participate for your share of the costs of drilling and completing the well. If you do not desire to participate for your share of the costs, please review the options I have outlined above and advise me if you should have any questions. In as much as we are proposing to begin drilling operations within the next 45 days, your early attention to this matter would be greatly appreciated.

Thank you very much. If you should have any questions please feel free to call me at 303-534-4502.

Sincerely,



James B. Fullerton
Consulting Landman of behalf of
SG Methane Company

**SG INTERESTS I, LTD.
AUTHORITY FOR EXPENDITURE (AFE)**

WELL NO.	WELL NAME: To Be Determined	DATE: 06/22/92
FIELD: Basin Fruitland Coal	COUNTY: San Juan	STATE: New Mexico
LOCATION: South Half (S/2) of Section 30, Township 29 North - Range 10 West, N.M.P.M.		PROPOSED T.D. 2000'

PURPOSE OF EXPENDITURE: Drill & Complete Coalbed Methane Gas Well FORMATION: Fruitland Coal Seam

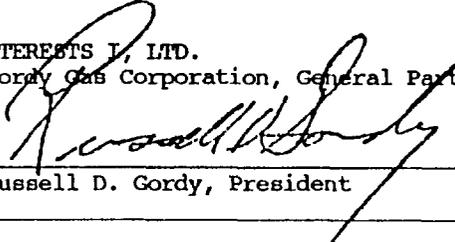
AFE CODE	INTANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST
220/101	Staking & Permitting	\$1,200		\$1,200
220/102	Location, Roads, Pits & Damages	\$17,000	\$2,500	\$19,500
220/103	Mobilization/Demobilization	\$1,800		\$1,800
220/104	Contract Drilling - Daywork 12 Hrs. @ \$175/Hour	\$2,100		\$2,100
220/105	Contract Drilling - Footage 2000 Ft. @ \$14.63/Foot	\$29,300		\$29,300
220/001	Contract Drilling - Turnkey			\$0
220/301	Completion Rig		\$7,500	\$7,500
840/110	Workover Rig			\$0
220/106	Fuel, Power & Lubricants			\$0
220/107	Bits, Roamers & Stabilizers			\$0
220/108	Drilling & Completion Fluids		\$3,200	\$3,200
220/302	Casing Crews, Tongs, Handling Tools		\$1,200	\$1,200
220/109	Misc Labor, Contract Services	\$1,000	\$6,500	\$7,500
220/110	Cement, Cmt Services, Mech Aids & Devices	\$2,500	\$6,900	\$9,400
220/111	Conventional Coring & Coring Service			\$0
220/303	Water & Hauling		\$3,600	\$3,600
220/112	Mud Logging			\$0
220/113	Logging - Open Hole - SWC's & Dipmeter	\$6,800		\$6,800
220/304	Cased Hole Logs, Perforating & Other Wireline Services		\$4,800	\$4,800
220/305	Inspection & Testing	\$800	\$1,200	\$2,000
220/307	Acidization, Fracturing & Stimulation		\$40,000	\$40,000
220/114	Rentals Tools & Equipment	\$650	\$1,850	\$2,500
220/115	Directional Drilling Services			\$0
220/117	Communications			\$0
220/120	Overhead per Operating Agreement	\$1,000	\$3,000	\$4,000
220/119	Supervision	\$1,200	\$4,000	\$5,200
220/121	Contingencies (10%) & Misc	\$6,580	\$8,600	\$15,180
TOTAL INTANGIBLE EXPENSE		\$71,930	\$94,850	\$166,780

AFE CODE	TANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST
230/101	Conductor Casing 64 Ft. 13-3/8" @ \$9.80/Ft.	\$625		\$625
230/102	Surface Casing 250 Ft. 8-5/8" @ \$8.60/Ft.	\$2,150		\$2,150
230/103	Intermediate Casing			\$0
230/104	Drilling Liner			\$0
230/301	Production Liner			\$0
230/302	Production Casing 2000 Ft. 5-1/2" @ \$5.15/Ft.		\$10,300	\$10,300
230/303	Tubing 1950 Ft. 2-3/8" @ \$2.20/Ft.		\$4,300	\$4,300
230/304	Wellhead Equipment, Tree	\$800	\$1,900	\$2,700
230/305	Artificial Lift Equipment, Pumping Unit			\$0
230/306	Separator, Heater Treater, Dehydrator		\$11,800	\$11,800
230/307	Motors & Flowlines		\$13,500	\$13,500
230/308	Tank Battery & Storage		\$5,500	\$5,500
230/309	Subsurface Production Equipment			\$0
230/310	Misc. Well Equipment		\$2,200	\$2,200
230/311	Installation - Production Facilities		\$5,700	\$5,700
230/312	Compressor		\$40,000	\$40,000
TOTAL TANGIBLE EXPENSE		\$3,575	\$95,200	\$98,775
TOTAL WELL COST		\$75,505	\$190,050	\$265,555

OPERATOR APPROVAL

DATE: 6/22/92

SG INTERESTS I, LTD.
Gordy Gas Corporation, General Partner

BY: 
Russell D. Gordy, President

JOINT INTEREST APPROVAL

DATE: X

COMPANY: Don Moris Davis

WORKING INTEREST:
1.03213% %

APPROVED BY: X
TITLE: _____

JAMES B. FULLERTON

PETROLEUM LANDMAN

NATURAL GAS CONSULTANT

1645 COURT PLACE
SUITE #406
DENVER, COLORADO 80202

PHONE: 303-534-4502

June 24, 1992

Tommy Key ²¹⁴⁻⁶⁵⁴⁻³³⁵⁹
c/o Keys Ranch
Route 1, Box 144
Avery, Texas 75554

CERTIFIED: RETURN RECEIPT REQUESTED

Re: Proposed Fruitland (Coal)
Formation well
SG Methane Company - Operator
Township 29 North, Range 10 West
Section 30: South 1/2
San Juan County, New Mexico

Dear Mr. Key:

This correspondence is in regard to a proposed Fruitland Coal Formation well to be drilled by SG Methane Company in the South 1/2 of Section 30 - Township 29 North, Range 10 West, San Juan County, New Mexico.

SG Methane Company has entered into an Agreement with Amoco Production Company involving a large scale drilling program in Township 29 North, Range 10 West to test the Fruitland Coal Formation. The title information obtained from Amoco indicates that you own a portion of the leasehold interest under certain lands in the South 1/2 of Section 30. Your interest was acquired under that certain oil and gas lease from Milton F. Lechner and Dorothy M. Lechner. The records reflect that you own 2.06427% of the leasehold interest under the South 1/2 of Section 30. The drilling and spacing unit assigned to this well is the South 1/2 of Section 30. Thus, your Working Interest in the proposed well to be drilled by SG Methane Company would be 2.06427%.

The Fruitland Coal Formation is a shallow gas bearing zone that produces in many areas of the San Juan Basin. As reflected on the attached Authority for Expenditure, the estimated cost for drilling and completing the subject well is approximately \$265,000.00. Thus, the estimated cost to your 2.06427% Working Interest would be approximately \$5,500.00. If we are successful in establishing commercial production, operating costs are expected to be quite high due to the necessity of disposing of the anticipated formation water found in the Fruitland Coal Formation.

Application of SG Interests I, Ltd. for
Compulsory Pooling
Case No. 10567
Examiner Hearing Docket Dated 10/29/92
Exhibit No. 3

The interest SG Methane Company obtained from Amoco within this well spacing unit totals 42.19827% of the Working Interest. In order to justify the drilling of the well, it is pertinent that we obtain consent from the remaining interest owners to either participate for their Working Interest, Farmout to SG, or sell their interest in the Fruitland Coal Formation only. The remaining option would be for SG to obtain a Compulsory Pooling Order from the New Mexico Oil Conservation Commission affectively pooling all the parties who do not agree to participate for their Working Interest, Farmout to SG, or sell their interest to SG. Under a Compulsory Pooling arrangement, the parties who do not agree to participate would be subject to a penalty on their interest.

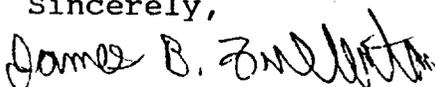
If you do not desire to pay your share of the drilling costs and participate for your Working Interest in the referenced well, SG Methane Company would offer the following options to you for a Farmout or sale of your interest:

- 1) SG would offer to purchase your Leasehold Interest from the surface to the base of the Fruitland Coal Formation only, for a cash consideration of \$529.00. This would equate to \$80.00 per acre on your 6.6015625 net leasehold acres. This purchase would only cover your leasehold rights from the surface to the base of the Fruitland Coal Formation and thus you would still retain your interest as to all other formations.
- 2) SG would offer to Farmout your interest such that you would receive a proportionate 2.5% Overriding Royalty interest in return for an Assignment of your Leasehold Interest from the surface to the base of the Fruitland Coal Formation only. In this case, SG would assume all the risks and costs associated with drilling the well.

Please review the attached Authority for Expenditure and advise me if you wish to participate for your share of the costs of drilling and completing the well. If you do not desire to participate for your share of the costs, please review the options I have outlined above and advise me if you should have any questions. In as much as we are proposing to begin drilling operations within the next 45 days, your early attention to this matter would be greatly appreciated.

Thank you very much. If you should have any questions please feel free to call me at 303-534-4502.

Sincerely,



James B. Fullerton
Consulting Landman of behalf of
SG Methane Company

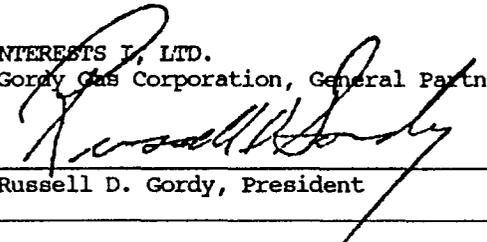
**SG INTERESTS I, LTD.
AUTHORITY FOR EXPENDITURE (AFE)**

WELL NO.		WELL NAME: To Be Determined		DATE: 06/22/92	
FIELD: Basin Fruitland Coal		COUNTY: San Juan		STATE: New Mexico	
LOCATION: South Half (S/2) of Section 30, Township 29 North - Range 10 West, N.M.P.M.				PROPOSED T.D. 2000'	
PURPOSE OF EXPENDITURE: Drill & Complete Coalbed Methane Gas Well			FORMATION: Fruitland Coal Seam		
AFE CODE	INTANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST	
220/101	Staking & Permitting	\$1,200		\$1,200	
220/102	Location, Roads, Pits & Damages	\$17,000	\$2,500	\$19,500	
220/103	Mobilization/Demobilization	\$1,800		\$1,800	
220/104	Contract Drilling - Daywork 12 Hrs. @ \$175/Hour	\$2,100		\$2,100	
220/105	Contract Drilling - Footage 2000 Ft. @ \$14.63/Foot	\$29,300		\$29,300	
220/001	Contract Drilling - Turnkey			\$0	
220/301	Completion Rig		\$7,500	\$7,500	
840/110	Workover Rig			\$0	
220/106	Fuel, Power & Lubricants			\$0	
220/107	Bits, Reamers & Stabilizers			\$0	
220/108	Drilling & Completion Fluids		\$3,200	\$3,200	
220/302	Casing Crews, Tongs, Handling Tools		\$1,200	\$1,200	
220/109	Misc Labor, Contract Services	\$1,000	\$6,500	\$7,500	
220/110	Cement, Cmt Services, Mech Aids & Devices	\$2,500	\$6,900	\$9,400	
220/111	Conventional Coring & Coring Service			\$0	
220/303	Water & Hauling		\$3,600	\$3,600	
220/112	Mud Logging			\$0	
220/113	Logging - Open Hole - SWC's & Dipmeter	\$6,800		\$6,800	
220/304	Cased Hole Logs, Perforating & Other Wireline Services		\$4,800	\$4,800	
220/305	Inspection & Testing	\$800	\$1,200	\$2,000	
220/307	Acidization, Fracturing & Stimulation		\$40,000	\$40,000	
220/114	Rentals Tools & Equipment	\$650	\$1,850	\$2,500	
220/115	Directional Drilling Services			\$0	
220/117	Communications			\$0	
220/120	Overhead per Operating Agreement	\$1,000	\$3,000	\$4,000	
220/119	Supervision	\$1,200	\$4,000	\$5,200	
220/121	Contingencies (10%) & Misc	\$6,580	\$8,600	\$15,180	
TOTAL INTANGIBLE EXPENSE		\$71,930	\$94,850	\$166,780	
AFE CODE	TANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST	
230/101	Conductor Casing 64 Ft. 13-3/8" @ \$9.80/Ft.	\$625		\$625	
230/102	Surface Casing 250 Ft. 8-5/8" @ \$8.60/Ft.	\$2,150		\$2,150	
230/103	Intermediate Casing			\$0	
230/104	Drilling Liner			\$0	
230/301	Production Liner			\$0	
230/302	Production Casing 2000 Ft. 5-1/2" @ \$5.15/Ft.		\$10,300	\$10,300	
230/303	Tubing 1950 Ft. 2-3/8" @ \$2.20/Ft.		\$4,300	\$4,300	
230/304	Wellhead Equipment, Tree	\$800	\$1,900	\$2,700	
230/305	Artificial Lift Equipment, Pumping Unit			\$0	
230/306	Separator, Heater Treater, Dehydrator		\$11,800	\$11,800	
230/307	Meters & Flowlines		\$13,500	\$13,500	
230/308	Tank Battery & Storage		\$5,500	\$5,500	
230/309	Subsurface Production Equipment			\$0	
230/310	Misc. Well Equipment		\$2,200	\$2,200	
230/311	Installation - Production Facilities		\$5,700	\$5,700	
230/312	Compressor		\$40,000	\$40,000	
TOTAL TANGIBLE EXPENSE		\$3,575	\$95,200	\$98,775	
TOTAL WELL COST		\$75,505	\$190,050	\$265,555	

OPERATOR APPROVAL

DATE: 6/22/92

SG INTERESTS I, LTD.
Gordy Gas Corporation, General Partner

BY: 
Russell D. Gordy, President

JOINT INTEREST APPROVAL

DATE: _____

COMPANY: Tommy Key

WORKING INTEREST:
2.06427% %

APPROVED BY: _____
TITLE: _____

JAMES B. FULLERTON

PETROLEUM LANDMAN

NATURAL GAS CONSULTANT

1645 COURT PLACE
SUITE #406
DENVER, COLORADO 80202

PHONE: 303-534-4502

August 25, 1992

Tommy Key
c/o Keys Ranch
Route 1, Box 144
Avery, Texas 75554

CERTIFIED: RETURN RECEIPT REQUESTED

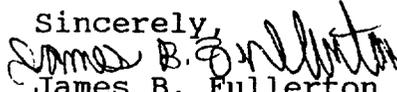
Re: Proposed Fruitland (Coal)
Formation Well
SG Methane Company - Operator
Township 29 North, Range 10 West
Section 30: South 1/2
San Juan County, New Mexico

Dear Mr. Key:

By letter dated June 24, 1992 I forwarded you an Authority for Expenditure covering the proposed Fruitland (Coal) Formation well to be drilled by SG Methane Company on the above referenced lands. As I stated in my letter, our records indicate that you own a portion of the Leasehold Interest under the referenced lands. Your interest derived from that certain Oil and Gas Lease from Milton F. Lechner and Dorothy M. Lechner.

I have attempted to contact you by telephone but have been unable to reach you. SG is proposing to begin drilling operations on the subject well within the next 30 days. We recently purchased the Leasehold Interest owned by your sister, Karen Rott, and other parties involved in this drilling unit. It is pertinent that we hear from you regarding your desire to participate in the costs of the well for your 2.06427% Working Interest. Again, if you do not desire to participate, SG would offer to purchase your Leasehold Interest under the same terms as agreed to by the other parties.

Again, as much as we are preparing to begin drilling operations soon, your early attention to this matter would be greatly appreciated. Please call me at your earliest convenience so that we may discuss that matter in more detail. Our telephone number is 303-534-4502. Thank you very much.

Sincerely,

James B. Fullerton
Consulting Landman on behalf of
SG Methane Company

JAMES B. FULLERTON

PETROLEUM LANDMAN

NATURAL GAS CONSULTANT

1645 COURT PLACE
SUITE #406
DENVER, COLORADO 80202

PHONE: 303-534-4502

September 9, 1992

Tommy Key
c/o Keys Ranch
Avery, Texas 75554

CERTIFIED: RETURN RECEIPT REQUESTED

Re: Joint Operating Agreement
dated September 1, 1992
Sikes 29-10-30 #2 Well
SG Interests I, Ltd. - Operator
Township 29 North, Range 10 West
Sec. 30: South 1/2 (Spacing Unit)
NW/4SW/4 (Well Location)
San Juan County, New Mexico

Dear Mr. Key:

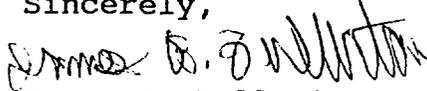
Enclosed please find one copy of the Joint Operating Agreement dated September 1, 1992 to cover operations for the drilling of the Sikes 29-10-30 #2 Well (Fruitland Coal Formation) to be operated by SG Interests I, Ltd. By cover letter dated June 24, 1992 I previously provided you an Authority for Expenditure outlining the estimated costs for drilling and completing the subject well.

As I stated in my most recent correspondence to you dated August 25, 1992, SG Interests I, Ltd. is preparing to drill the subject well to test the Fruitland (Coal) Formation. Please review the attached Joint Operating Agreement and advise us if you desire to participate in the drilling of this well for your proportionate Working Interest (2.06428%). If you wish to participate for your Working Interest please execute 2 signature pages to the Joint Operating Agreement and the Authority for Expenditure and return the documents to me at the address listed above. As I outlined in my letter dated August 25, 1992, if you do not desire to participate for your Working Interest, SG Interests I, Ltd. would offer to purchase your Leasehold Interest, from the surface to the base of the Fruitland (Coal) Formation only, for a cash consideration of \$529.00. This amount is identical to the sum tendered to Karen Key Rott for purchase of her Leasehold Interest.

In as much as SG Interests I, Ltd. proposes to begin drilling operations soon, we would appreciate a response from you as to your desire to participate on or before September 18, 1992. In the

meantime, if you should have any questions please feel free to call me at 303-534-4502.

Sincerely,

A handwritten signature in cursive script, appearing to read "James B. Fullerton".

James B. Fullerton
Consulting Landman on behalf of
SG Interests I, Ltd.

TANSEY, ROSEBROUGH, GERDING & STROTHER, P.C.

621 WEST ARRINGTON
FARMINGTON, NEW MEXICO 87401
TELEPHONE: (505) 325-1801

OF COUNSEL
Charles M. Tansey

TELECOPIER:
(505) 325-4675

Douglas A. Echols
Richard L. Gerding
Connie R. Martin
Michael T. O'Loughlin
James B. Payne
Tommy Roberts
Haskell D. Rosebrough
Robin D. Strother
Karen L. Townsend

Mailing Address:
P. O. Box 1020
Farmington, N.M. 87499

CERTIFIED MAIL NO. P 081 703 713
RETURN RECEIPT REQUESTED

September 21, 1992

Tommy Key
c/o Keys Ranch
Avery, Texas 75554

Re: Application for Compulsory Pooling
SG Interests I, Ltd.
San Juan County, New Mexico

Dear Mr. Key:

The purpose of this letter is to provide notice to you, in accordance with the rules and regulations of the New Mexico Oil Conservation Division, that SG Interests I, Ltd. has filed an application with the New Mexico Oil Conservation Division seeking an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying the S/2 of Sec. 30, T29N, R10W, N.M.P.M., San Juan County, New Mexico, forming a standard 319.80 acre coal gas spacing and proration unit for said pool, to be dedicated to its Sikes 29-10-30 No. 2 Well to be drilled at a standard coal gas well location 1,715 feet from the South line and 950 feet from the West line (Unit L) of said Section 30. SG Interests I, Ltd., has requested that it be designated as the operator of the proposed well and that the order to be issued by the New Mexico Oil Conservation Division provide for the recovery by joining working interest owners of the costs of drilling, completing, equipping and operating the proposed well, together with a reasonable charge for risk involved in drilling the well. In addition, SG Interests I, Ltd. has requested that the order establish a reasonable charge for the supervision of the well during the drilling and production stages.

BEFORE EXAMINER STOGNER SG Interests I, Ltd. Oil Conservation Division ____ Exhibit No. <u>4</u> Case No. <u>10567</u> <u>October 29, 1992</u>

Mr. Tommy Key
Page 2
September 21, 1992

This application has been placed on the October 15th, 1992 docket of the New Mexico Oil Conservation Division. In accordance with the rules and regulations of the New Mexico Oil Conservation Division, you are entitled to be present at the hearing to present testimony and to submit evidence in support of your position regarding the merits of the application.

Do not hesitate to contact me should you have any questions regarding this matter.

Sincerely,



Tommy Roberts,
Attorney for SG Interests I, Ltd.

cc: James B. Fullerton
Consulting Landman on behalf
of SG Interests I, Ltd.
1645 Court Place, Suite 406
Denver, Colorado 80202

P 081 703 713



Receipt for Certified Mail

No Insurance Coverage Provided
Do not use for International Mail
(See Reverse)

PS Form 3800, June 1991

Sent to <i>Jimmy Key</i>	
Street and No. <i>90 Keys Ranch</i>	
P.O. State and ZIP Code <i>Ave. TX 75554</i>	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date <i>9-21-92</i>	

56-6 Fourt

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.

Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

- 1. Show to whom delivered, date, and addressee's address. (Extra charge)
- 2. Restricted Delivery (Extra charge)

3. Article Addressed to: <i>Jimmy Key</i> <i>C/O Keys Ranch</i> <i>Ave., TX 75554</i>	4. Article Number <i>P-081-703-713</i> Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise Always obtain signature of addressee or agent and DATE DELIVERED.
--	---

5. Signature - Addressee X <i>[Signature]</i>	8. Addressee's Address (ONLY if requested and fee paid)
--	---

6. Signature - Agent X	
---------------------------	--

7. Date of Delivery <i>9-21-92</i>	
---------------------------------------	--

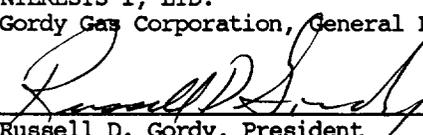
**SG INTERESTS I, LTD.
AUTHORITY FOR EXPENDITURE (AFE)**

WELL NO. NM401-0007		WELL NAME: Sikes 29-10-30 #2		DATE: 06/22/92	
FIELD: Basin Fruitland Coal		COUNTY: San Juan		STATE: New Mexico	
LOCATION: South Half (S/2) of Section 30, Township 29 North-Range 10 West, N.M.P.M.				PROPOSED T.D. 2000'	
PURPOSE OF EXPENDITURE: Drill, Complete & Equip Coalbed Methane Gas Well			FORMATION: Fruitland Coal Seam		
AFE CODE	INTANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST	
220/101	Staking & Permitting	\$1,200		\$1,200	
220/102	Location, Roads, Pits & Damages	\$17,000	\$2,500	\$19,500	
220/103	Mobilization/Demobilization	\$1,800		\$1,800	
220/104	Contract Drilling-Daywork 12 Hrs. @ \$175/Hour	\$2,100		\$2,100	
220/105	Contract Drilling-Footage 2000 Ft. @ \$14.63/Foot	\$29,300		\$29,300	
220/001	Contract Drilling-Turnkey			\$0	
220/301	Completion Rig		\$7,500	\$7,500	
840/110	Workover Rig			\$0	
220/106	Fuel, Power & Lubricants			\$0	
220/107	Bits, Reamers & Stabilizers			\$0	
220/108	Drilling & Completion Fluids		\$3,200	\$3,200	
220/302	Casing Crews, Tongs, Handling Tools		\$1,200	\$1,200	
220/109	Misc Labor, Contract Services	\$1,000	\$6,500	\$7,500	
220/110	Cement, Cmt Services, Mech Aids & Devices	\$2,500	\$6,900	\$9,400	
220/111	Conventional Coring & Coring Service			\$0	
220/303	Water & Hauling		\$3,600	\$3,600	
220/112	Mud Logging			\$0	
220/113	Logging-Open Hole-SWC's & Dipmeter	\$6,800		\$6,800	
220/304	Cased Hole Logs, Perforating & Other Wireline Services		\$4,800	\$4,800	
220/305	Inspection & Testing	\$800	\$1,200	\$2,000	
220/307	Acidization, Fracturing & Stimulation		\$40,000	\$40,000	
220/114	Rentals Tools & Equipment	\$650	\$1,850	\$2,500	
220/115	Directional Drilling Services			\$0	
220/117	Communications			\$0	
220/120	Overhead per Operating Agreement	\$1,000	\$3,000	\$4,000	
220/119	Supervision	\$1,200	\$4,000	\$5,200	
220/121	Contingencies (10%) & Misc	\$6,580	\$8,600	\$15,180	
TOTAL INTANGIBLE EXPENSE		\$71,930	\$94,850	\$166,780	
AFE CODE	TANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST	
230/101	Conductor Casing 64 Ft. 13-3/8" @ \$9.80/Ft.	\$625		\$625	
230/102	Surface Casing 250 Ft. 8-5/8" @ \$8.60/Ft.	\$2,150		\$2,150	
230/103	Intermediate Casing			\$0	
230/104	Drilling Liner			\$0	
230/301	Production Liner			\$0	
230/302	Production Casing 2000 Ft. 5-1/2" @ \$5.15/Ft.		\$10,300	\$10,300	
230/303	Tubing 1950 Ft. 2-3/8" @ \$2.20/Ft.		\$4,300	\$4,300	
230/304	Wellhead Equipment, Tree	\$800	\$1,900	\$2,700	
230/305	Artificial Lift Equipment, Pumping Unit			\$0	
230/306	Separator, Heater Treater, Dehydrator		\$11,800	\$11,800	
230/307	Meters & Flowlines		\$13,500	\$13,500	
230/308	Tank Battery & Storage		\$5,500	\$5,500	
230/309	Subsurface Production Equipment			\$0	
230/310	Misc. Well Equipment		\$2,200	\$2,200	
230/311	Installation-Production Facilities		\$5,700	\$5,700	
230/312	Compressor		\$40,000	\$40,000	
TOTAL TANGIBLE EXPENSE		\$3,575	\$95,200	\$98,775	
TOTAL WELL COST		\$75,505	\$190,050	\$265,555	

OPERATOR APPROVAL

SG INTERESTS I, LTD.
Gordy Gas Corporation, General Partner

DATE: June 22, 1992

BY: 
Russell D. Gordy, President

JOINT INTEREST APPROVAL

DATE: _____

COMPANY: _____

WORKING INTEREST: _____

APPROVED BY: _____

_____ &

TITLE: _____

Application of SG Interests I, Ltd. for
Compulsory Pooling

Case No. 10567
Examiner Hearing Docket Dated 10/29/92
Exhibit No. 5

BEFORE EXAMINER

OIL CONSERVATION DIVISION

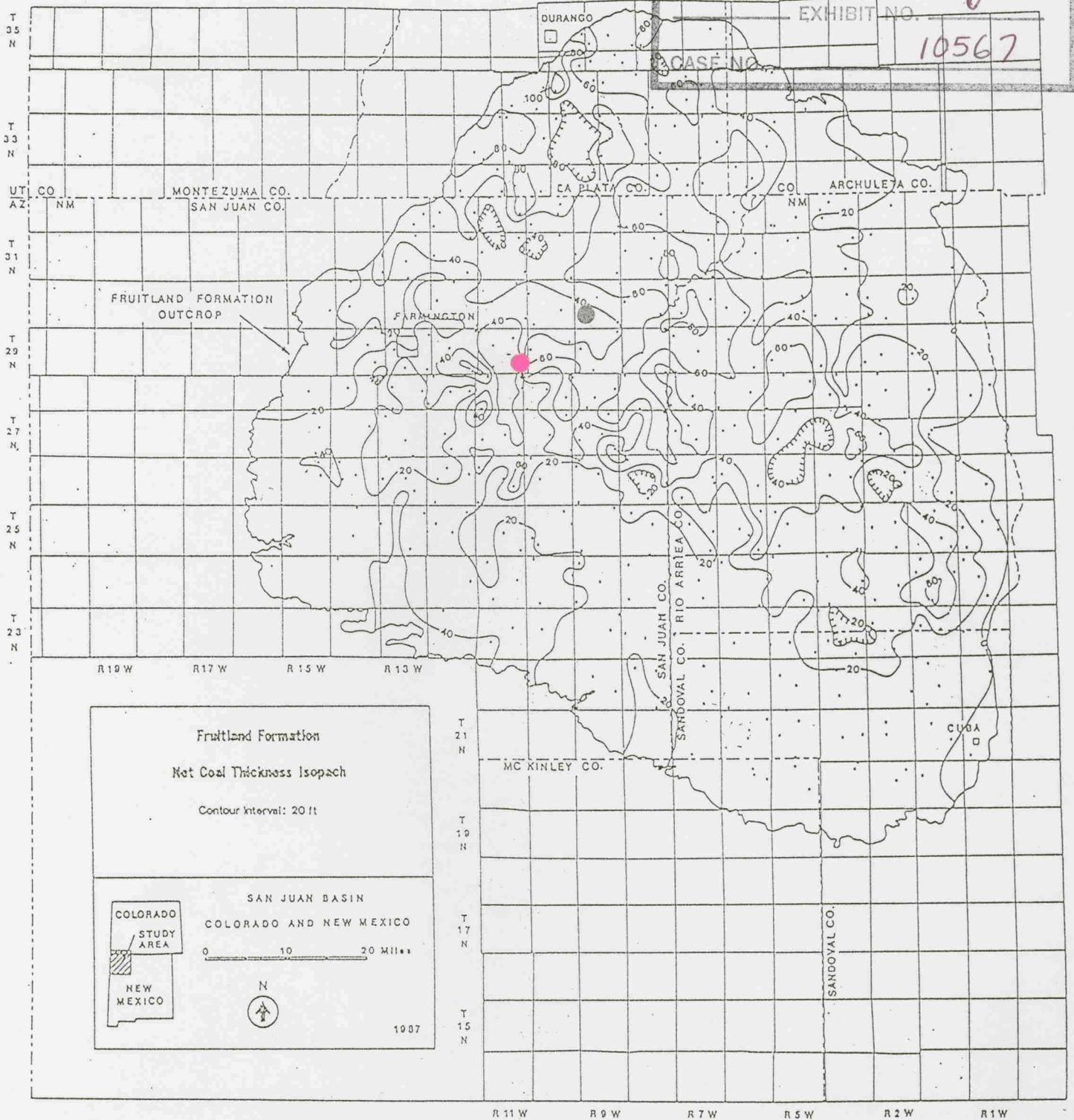
10-29-92

EXHIBIT NO.

6

CASE NO.

10567



Fruitland Formation net-coal-thickness isopach map.

Kelso, Bruce S. and Wicks, Donald E. Geology and Coal-Bed Methane Resources of the Northern San Juan Basin, Colorado and New Mexico 1988

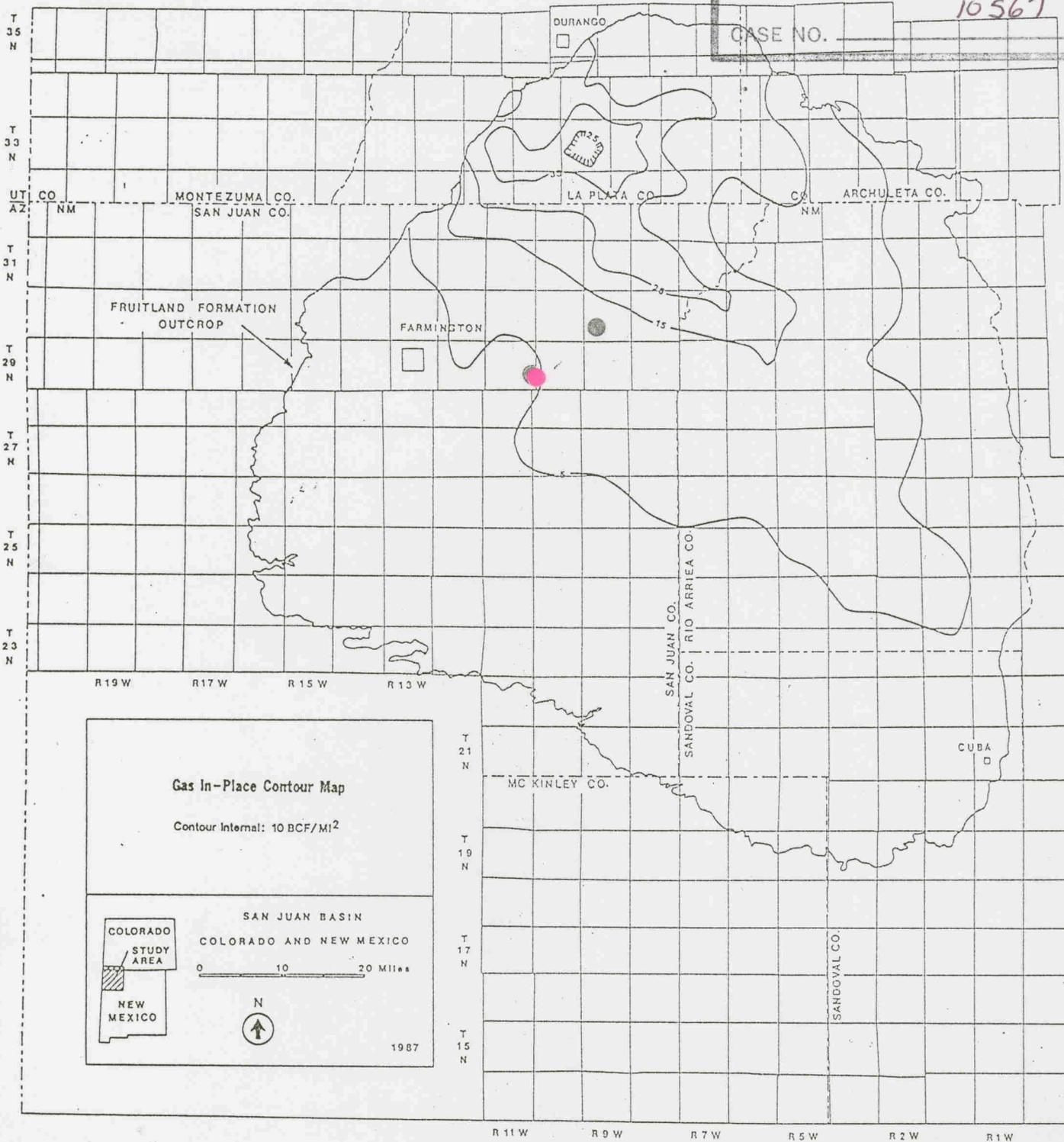
BEFORE EXAMINER

OIL CONSERVATION DIVISION

10-29-92 EXHIBIT NO. 7

10567

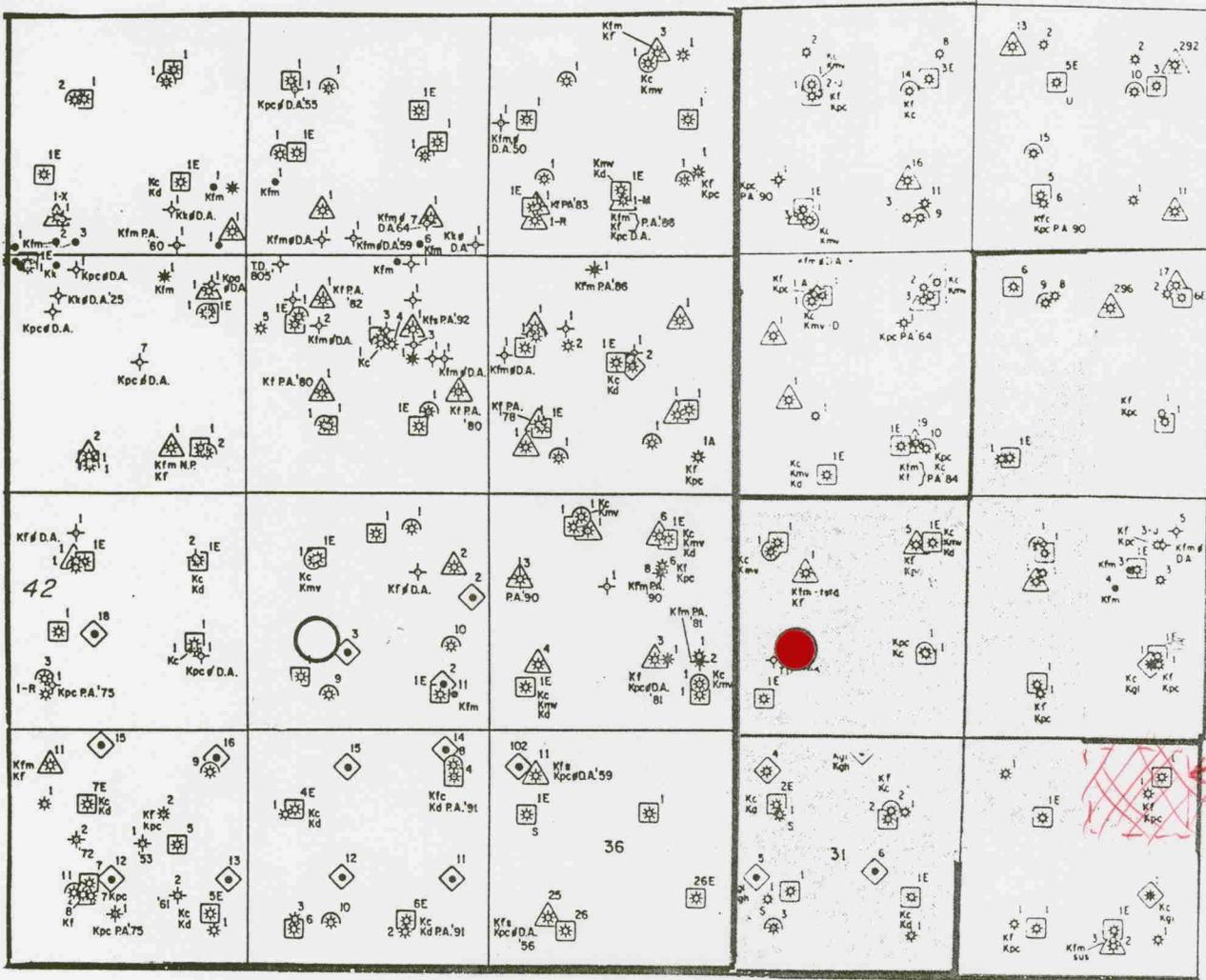
CASE NO.



Gas-in-place contour map.

R-11-W

R-10-W



5 wells drilled or will be drilled

T
29
N

31 feet of coal

 = Subject Well

Maralex Resources, Inc.

Sikes and Bloomfield Well Vicinity Map

Fruitland Coal
San Juan Co., New Mexico

Current Production 6/92
Force Pooling Action 10/29/92

BEFORE EXAMINER
OIL CONSERVATION DIVISION
10-29-92 EXHIBIT NO. 8
CASE NO. 10567

SG INTERESTS I, LTD.
SIKES 29-10-30 NO. 2
SW SECTION 30, T28N, R10W
SAN JUAN COUNTY, NEW MEXICO
ECONOMIC SUMMARY

ASSUMPTIONS: Initial Rate: 150 MCFD
Decline Rate: 5% per yr.
Gas Price: \$1.50/MCF
Escalation Rate: 4% per yr.
Operating Costs: \$1000/mo.
Cost Escalator: 5% per yr.

RESULTS:

WITHOUT TAX CREDITS

Payout: 87.4 months
ROI: 1.12
DROI(15) -0.18
ROR 10.6
PV(15) \$-48.5

WITH TAX CREDITS

Payout: 49.9 months
ROI: 2.09
DROI(15) -0.24
ROR 21.4
PV(15) \$62.72

