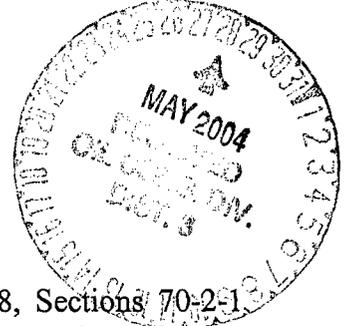


RECEIVED STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

MAY 24 2004

NMOCD - OGA 04-08

Oil Conservation Division
1220 S. Saint Francis Drive
Santa Fe, NM 87505
IN THE MATTER OF ELM RIDGE RESOURCES INC.
Respondent.



AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), the Director of the Oil Conservation Division ("OCD") and Elm Ridge Resources Inc. ("Operator") enter into this Order under which Operator agrees that the wells identified herein shall be brought into compliance with the Act and OCD Rule 201 [19.15.4.201 NMAC] in accordance with the following agreed schedule and procedures, and agrees to pay penalties as set out below if it fails to meet the schedule set out in this Order:

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a Corporation doing business in the state of New Mexico.
3. Operator is the operator of record for the wells identified in Exhibit "A," attached.
4. The wells identified in Exhibit "A":
 - a. have been continuously inactive for a period of one year plus ninety days;
 - b. are not properly plugged and abandoned under OCD Rule 202 [19.15.4.202 NMAC]; and
 - c. have not been placed on temporary abandonment status under OCD Rule 203 [19.15.4.203 NMAC].
5. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:
 - "A. The operator of any well drilled for oil, gas or injection; for seismic, core or other exploration, or for a service well, whether cased or uncased, shall be responsible for the plugging thereof.
 - B. A well shall be either properly plugged and abandoned or temporarily abandoned in accordance with these rules within ninety (90) days after:
....

....
(3) a period of one (1) year in which a well has been continuously inactive.”

6. NMSA 1978, Section 70-2-31(A) authorizes the assessment of civil penalties of up to one thousand dollars per day per violation against any person who knowingly or willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.

7. OCD Rule 7.P (2) [19.15.1.7.P (2) NMAC] defines “person” as

“an individual or any other entity including partnerships, corporation, associations, responsible business or association agents or officers, the state or a political subdivision of the state or any agency, department or instrumentality of the United States and any of its officers, agents or employees.”

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. As operator of the wells identified in Exhibit “A,” Operator is responsible for bringing those wells into compliance with Rule 201.
3. Operator is a “person” as defined by OCD Rule 7.P(2) subject to civil penalties for knowing and willful violations of the Oil and Gas Act or rules or orders adopted pursuant to the Act.

ORDER

1. Operator is hereby directed to bring each of the wells identified in Exhibit “A” into compliance with OCD Rule 201 by either:
 - (a) restoring such well to production or other OCD-approved beneficial use by April 30, 2005;
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 202 by April 30, 2005, and causing the site to be remediated in accordance with OCD Rule 202 within one year of plugging the wellbore; or
 - (c) securing OCD approval for temporary abandonment of the well in accordance with OCD Rule 203 by April 30, 2005.
2. Operator shall plug, temporarily abandon or restore to production or other approved beneficial use a minimum of two wells in May, an additional four (4) wells each following month so that all Forty-four (44) of the wells identified in Exhibit “A” are plugged, temporarily abandoned or restored to production or other beneficial use by April 30, 2005. If more than the required number of wells are plugged, temporarily abandoned or restored to production or other approved

beneficial use during any month, the wells in excess of the number agreed to herein shall be credited to Operator's obligation hereunder for succeeding months, provided that all of the wells identified in Exhibit "A" shall be plugged, temporarily abandoned or restored to production or other approved beneficial use by April 30, 2005 according to the following schedule (hereinafter "schedule"):

<u>Date:</u>	<u>Total number of wells:</u>
By the last day of May, 2004	2
By the last day of June, 2004	6
By the last day of July, 2004	10
By the last day of August, 2004	14
By the last day of September 2004	18
By the last day of October 2004	22
By the last day of November 2004	26
By the last day of December 2004	30
By the last day of January 2005	34
By the last day of February 2005	38
By the last day of March 2005	42
By the last day of April 2005	44

3. A well shall be considered "plugged" for purposes of the schedule set out in Ordering Paragraph (2), above, when the Operator has plugged the wellbore in accordance with Rule 202.A and B (1) and (2), and filed a sundry notice with the appropriate district office notifying them that the wellbore has been plugged. The wellsite must be remediated in accordance with Rule 202.B.(3) within one year of plugging the wellbore. Upon completion of the remediation, the Operator must contact the appropriate district office to arrange for an inspection of the well and location.
4. A well shall be considered "temporarily abandoned" for purposes of the schedule set out in Ordering Paragraph (2), above, when the well has successfully passed the mechanical integrity test required by Rule 203 and the Operator has filed the request for temporary abandonment with the appropriate district office.
5. A well shall be considered "restored to production or other approved beneficial use" for purposes of the schedule set out in Ordering Paragraph (2), above, when actual production or other approved beneficial use has commenced.
6. Operator shall file a written compliance report with the appropriate district office, and send a copy to the OCD's attorney, by the 10th day of each month starting with June listing the wells identified in Exhibit "A" that it has plugged, temporarily abandoned or restored to production or other approved beneficial use. For each well listed, the Operator shall identify each well plugged, temporarily abandoned or restored to production or other approved beneficial use, and the date that work was completed. Operator shall file monthly compliance reports until all wells identified in Exhibit "A" have been plugged, temporarily abandoned or

restored to production or other approved beneficial use. If, at any time, the OCD determines that a well identified in the Operator's compliance report is not plugged, temporarily abandoned or restored to production or other approved beneficial use according to the definitions set out in this agreement, the OCD shall promptly notify the Operator, and those wells shall not be credited toward the Operator's obligations under this Order until they are plugged, temporarily abandoned or restored to production or other approved beneficial use as defined in this agreement.

7. If, at the end of any month, the total number of wells the Operator has plugged, temporarily abandoned or restored to production or other beneficial use is less than the number required under the schedule, Operator shall have a one-month grace period in which to become current. If, at the end of that one-month grace period, Operator has not become current under the schedule, Operator shall pay a penalty of \$1000 times the number of wells it is short of the total required for the current month. Payment shall be made by certified or cashier's check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the appropriate district office with the next month's report. Penalties are calculated, and payable, each month.

Example A: ABC Company's agreed compliance order requires it to plug, temporarily abandon or restore to production or other approved beneficial use a minimum of 6 wells each month. ABC Company meets or exceeds its obligations in months 1-4. The agreed schedule calls for a total of 30 wells to be plugged, temporarily abandoned or restored to production or other approved beneficial use by the end of month 5. But at the end of month 5, ABC Company is two wells behind schedule. ABC Company will have a one-month grace period in which to become current. At the end of month 6, however, ABC Company has plugged, temporarily abandoned or restored to production or other approved beneficial use a total of 35 wells: one well short of the 36 required by the schedule. ABC Company must pay a penalty of \$1000 when it files its report for month 6. At the end of month 7, ABC Company is 4 wells short of the 42 required by the schedule. ABC Company must pay a penalty of \$4000 when it files its report for month 7.

Example B: XYZ Company's agreed compliance order requires it to plug, temporarily abandon or restore to production or other approved beneficial use a minimum of 5 wells each month. XYZ Company files compliance reports each month indicating that it is meeting its agreed schedule. In month 3, the OCD inspects the site of one of the wells listed as "plugged" in XYZ Company's compliance report for month 1, and determines that the wellbore has not been properly plugged under Rule 202.B(2) because the marker has not been placed on the site. Because the well has not been properly "plugged" as defined by this agreement, it will not count towards fulfilling XYZ Company's obligations under the schedule. XYZ Company will be responsible for calculating, and paying, any additional penalties that apply.

8. If Operator fails to plug, temporarily abandon or restore to production or other approved beneficial use all the wells identified in Exhibit "A" by April 30, 2005, Operator shall pay a penalty of \$2000 per well for each full month the well remains out of compliance with this order after that date. No grace period applies. Payment shall be made by certified or cashier's check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the appropriate district office with the next month's report. Penalties are calculated, and payable, each month.
9. For each plugged well, if the Operator fails to remediate the site and request inspection by the appropriate district office within one year of plugging the wellbore, the Operator shall pay a penalty of \$1000 for each full month that the well remains out of compliance with the remediation requirements of Rule 202.B(3). No grace period applies. Payment shall be made by certified or cashier's check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the appropriate district office. Penalties are calculated, and payable, each month.
10. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to plug, temporarily abandon or restore to production or other approved beneficial use the wells identified in Exhibit "A" under the schedule set out in Ordering Paragraph (2), and remediate plugged wells within one year of plugging the wellbore as set out in Ordering Paragraph (3);
 - (c) agrees to file monthly compliance reports as required in Ordering Paragraph (6);
 - (d) agrees to pay penalties as set out in Ordering Paragraphs (7) (8) and (9) if it fails to meet the schedule set out in Ordering Paragraph (2) and the remediation requirements set out in Ordering Paragraph (3);
 - (e) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior or subsequent to the entry of this Order or to an appeal from this Order; and
 - (f) agrees that the Order may be enforced by Division or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the Division entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
7. This Order applies only to those wells identified in Exhibit "A." Other wells operated by Operator out of compliance with Rule 201 may be subject to immediate enforcement action under the Oil and Gas Act.

Done at Santa Fe, New Mexico this 25th day of May, 2004

By: [Signature]

Director, Oil Conservation Division

ACCEPTANCE

Elm Ridge Resources Inc. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Elm Ridge Resources Inc.

By: [Signature]

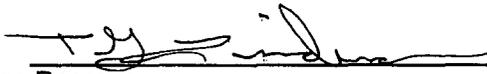
Title: District Superintendent

Date: May 21, 04

EXHIBIT "A"

ELM RIDGE RESOURCES AGREED COMPLIANCE ORDER WELL LIST

1	30-039-22924	G	12-1998	AXI D #006	M-20-24N-04W	
2	30-043-20497	O	08-2001	BONANZA #003	D-01-22N-03W	*16M
3	30-045-26726	O	03-2002	BRYAN SIMPSON #001	D-32-25N-11W	*16M
4	30-045-13301	S	04-1999	CARSON UNIT #001	B-24-25N-12W	*16M
5	30-045-05413	O	09-2001	CARSON UNIT #032	G-17-25N-11W	*16M
6	30-045-05374	O	09-2001	CARSON UNIT #033	J-15-25N-12W	*16M
7	30-045-05394	O	01-2001	CENTRAL BISTI UNIT #044	F-16-25N-12W	*16M
8	30-045-05424	O	04-1999	CENTRAL BISTI UNIT #069	B-16-25N-12W	*16M
9	30-045-25937	O	01-2001	CENTRAL BISTI UNIT #095	L-04-25N-12W	*16M
10	30-045-25792	O	09-2002	CHAMPLIN FEDERAL #001	D-11-25N-13W	*16M
11	30-045-24678	O	04-2001	FEDERAL 15 #041	A-15-23N-08W	*16M
12	30-045-25117	O	03-2002	FEDERAL 35 #043	I-35-24N-08W	*16M
13	30-039-82343	O	07-2002	HARVEY STATE #002	D-36-25N-06W	*16M
14	30-039-23967	G	NONE	JICARILLA 398 B #002	M-15-23N-04W	
15	30-039-05778	G	11-1997	JICARILLA APACHE A #005	P-25-25N-05W	
16	30-039-21373	O	04-2002	JICARILLA APACHE A #010	B-35-25N-05W	*16M
17	30-039-21244	G	NONE	JICARILLA APACHE B #016	K-29-24N-05W	
18	30-039-21214	O	02-1999	JICARILLA APACHE I #003	O-14-23N-03W	*16M
19	30-039-21382	O	04-1999	JICARILLA APACHE I #004	M-11-23N-03W	*16M
20	30-039-23691	O	11-2001	MARCUS #005	5-06-23N-06W	*16M
21	30-039-24056	O	07-2002	MARCUS #008	B-12-23N-07W	*16M
22	30-039-23453	O	12-1999	MARTIN WHITTAKER #028	C-15-23N-04W	*16M
23	30-039-23456	O	09-2000	MARTIN WHITTAKER #033	M-16-23N-04W	*16M
24	30-043-20727	O	09-1997	MARTIN WHITTAKER #052	O-21-23N-04W	
25	30-039-23513	O	04-1999	MARTIN WHITTAKER #056	C-18-24N-04W	*16M
26	30-043-20740	O	04-1999	MARTIN WHITTAKER #060	E-22-23N-04W	*16M
27	30-045-30772	G	NONE	S BLANCO COAL 22 #001	H-22-24N-08W	*16M
28	30-045-24227	O	08-1998	S CARSON FEDERAL 25 #008	H-25-25N-12W	
29	30-045-25097	O	11-2002	SOUTH BLANCO FEDERAL 22 #002	P-22-24N-08W	*16M
30	30-045-24861	O	07-2002	STATE OF NEW MEXICO 16 #021	C-16-23N-08W	*16M
31	30-045-25198	O	08-2001	STATE OF NEW MEXICO 36 #012	E-36-24N-08W	*16M
32	30-045-26770	O	11-2002	TONO HIXON #001	N-25-25N-12W	*16M
33	30-045-28558	O	07-2002	WEST BISTI 32 K #001	K-32-26N-13W	*16M
34	30-045-27209	O	11-2001	YOMAMASAN #001	N-32-25N-11W	*16M
35	30-039-20180	G	07-1998	CINCO DIABLOS #002Y	C-09-23N-04W	
36	30-043-20591	G	07-2001	DUFF B FEDERAL #002	4-19-23N-01W	*16M
37	30-039-24363	O	NONE	HARRINGTON FEDERAL 28 #001Y	G-28-24N-01W	
38	30-039-05091	G	06-2002	JICARILLA D 156 #002	J-11-23N-02W	*16M
39	30-039-05314	G	02-2001	JOHN F BROWN #001	C-27-24N-02W	*16M
40	30-039-24263	O	09-2000	MISSY #002	K-35-25N-03W	*16M
41	30-039-23582	G	08-1996	MOBIL APACHE #023	K-13-23N-03W	
42	30-039-21794	G	09-2002	MYERS #001	D-35-25N-03W	*16M
43	30-039-21095	G	05-1991	REGINA #006	B-34-24N-01W	
44	30-039-05296	G	04-1999	SUNICO FEDERAL #019	I-26-24N-02W	*16M

Signed 
 Elm Ridge Resources