

3/5/07 DATE IN	3/26/07 SUSPENSE	DLC ENGINEER	3/6/07 LOGGED IN	USP TYPE	PDXC 070653 5289 APP NO.
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
- Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



1916

ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
[DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
[PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
[WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
[SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
[EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

- [1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]
 [A] Location - Spacing Unit - Simultaneous Dedication
☐ NSL ☐ NSP ☐ SD
- Check One Only for [B] or [C]
 [B] Commingling - Storage - Measurement
☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM
- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR
- [D] Other: Specify _____
- [2] **NOTIFICATION REQUIRED TO:** - Check Those Which Apply, or Does Not Apply
 [A] ☐ Working, Royalty or Overriding Royalty Interest Owners
- [B] ☐ Offset Operators, Leaseholders or Surface Owner
- [C] ☐ Application is One Which Requires Published Legal Notice
- [D] ☐ Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F] ☐ Waivers are Attached
- [3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

_____ Print or Type Name	_____ Signature	_____ Title	_____ Date
_____ e-mail Address			

DATE IN	SUSPENSE	ENGINEER	LOGGED IN	TYPE	APP NO.
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- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



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U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
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Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Print or Type Name

Signature

KELLAMIN & KELLAMIN
 Attorneys At Law
 P.O. Box 2265
 Santa Fe, NM 87504-2265

Date

3/5/07

2007 MAR 5 PM 1 55

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

**IN THE MATTER OF THE ADMINISTRATIVE
APPLICATION OF ELM RIDGE EXPLORATION COMPANY, LLC
FOR APPROVAL OF TWO NON-STANDARD PRORATION
AND SPACING UNITS,
SAN JUAN COUNTY, NEW MEXICO.**

2007 MAR 5 PM 1

ADMINISTRATIVE APPLICATION

ELM RIDGE EXPLORATION COMPANY, LLC ("Elm Ridge") by its attorneys, Kellahin & Kellahin, seeks the approval of the New Mexico Oil Conservation Division ("Division") for the following two 160-acre non-standard proration and spacing units for gas production from the Basin Fruitland Coal-Gas Pool as follows:

- (a) a 160-acre non-standard gas spacing unit ("NSP") consisting of the NW/4 of Section 28, T25N, R12W, San Juan County, New Mexico; and
- (b) a 160-acre non-standard gas spacing unit ("NSP") consisting of the SW/4 of Section 28, T25N, R12W, San Juan County, New Mexico to be dedicated to the Elm Ridge Bisti Coal "28" Well No. 2 (API# 30-045-30895) that has been drilled at a location 1857 feet FSL and 1920 feet FWL (Unit K) of this section for production from the Basin Fruitland Coal-Gas Pool. See 9-section locator map attached as Exhibit "A".

Administrative Application (NSP)
Elm Ridge Exploration Company, LLC

In support of its application Elm Ridge states:

- (1) Elm Ridge had originally planned to communitize its two federal oil & gas leases to form a standard 320-acre spacing unit consisting of the W/2 of this section:
 - a. NW/4 = Federal Lease NMNM 90483, effective March 1, 1993, expiration February 28, 2003 (the BLM controls the minerals and The Navajo Nation controls the surface)
 - b. SW/4 = Federal Lease NMNM 51013, HBP from the Bisti Coal 28-1 well
- (2) The E/2 of this section is committed to the Bisti Coal 28-1 well (API# 30-045-28561).
- (3) The Bisti Coal 28-2 wellbore located on the SW/4 of this section was spud on November 2, 2002. Completion was deferred until a pipeline right-of-way could be obtained across Navajo surface. The lease in the NW/4 expired on February 28, 2003 while Elm Ridge was waiting for the surface right of way.
- (4) Elm Ridge commenced efforts to obtain another lease for the NW/4 from the BLM:
 - (a) by nominating the NW/4 for the next available BLM lease sale in its Expression of Interest letter dated December 19, 2003. To date, the BIA, acting as surface management agency for The Navajo Nation, has not cleared the surface for leasing. See **BLM letter dated 12/19/03 attached as Exhibit "B"**.
 - (b) On May 9, 2006, Elm Ridge filed a Sundry Notice with the BLM after receiving a letter from the BLM-Farmington Field Office ("FFO") requesting that Elm Ridge do something with this wellbore. See **Sundry Notice attached as Exhibit "C"**.

(c) After review, the BLM-FFO recommended that Elm Ridge apply for a Compensatory Royalty Agreement ("CRA").

(d) As instructed, Elm Ridge negotiated terms with the BLM appraiser, drafted and submitted an agreement with bonus and 1st year's rental to the BLM-FFO for approval. See CRA attached as Exhibit "D".

(e) On July 17, 2006, the BLM-FFO sent a letter to Elm Ridge advising that a CRA was not appropriate. See letter attached as Exhibit "E".

(f) On July 24, 2006, the BLM-Santa Fe advised by phone that there is a new policy directive indicating this tract is not eligible for a CRA because the lands have not been formally withdrawn from leasing.

(5) It appears to Elm Ridge that it is improbable that this tract will be leased or formally withdrawn from leasing by the BLM such that a standard gas spacing unit for this drilled well can be dedicated to it.

(6) Upon the advice of counsel, Elm Ridge believes that the federal government under these circumstances cannot be subject to compulsory pooling pursuant to the New Mexico Compulsory Pooling Act.

(7) The subject 320-acre spacing unit is within the Low Productivity area and eligible for two wells within the spacing unit in accordance with NMOCD Rule 7 of Order R-75888-B, dated June 22, 1988, being the New Mexico Oil Conservation Division special rules adopted for the Basin Fruitland Coal-Gas Pool.

(8) The approval of a 160-acre NSP for the SW/4 will provide Elm Ridge with the opportunity to complete and produce the subject well.

Administrative Application (NSP)
Elm Ridge Exploration Company, LLC

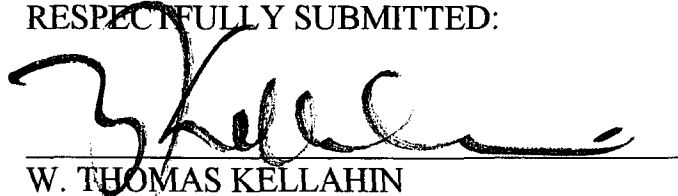
(9) The approval of a 160-acre NSP for the NW/4 will provide the BLM with the opportunity to lease this tract so that a well can be drilled to develop the Fruitland Coal-Gas Pool for the benefit of those owners.

(10) As required by NMOCD rule 19.15.14.1210 A (2) and A (3), Elm Ridge has sent notice, including a copy of this application, to all owners of interest in the mineral estate being excluded from the 320 acre proration unit in which the non-standard unit is located. See **Notice List attached as Exhibit "F"**.

(11) Approval of this application will be in the best interest of conservation, the protection of correlative rights and the prevention of waste.

WHEREFORE, Elm Ridge Exploration Company, LLC, as applicant, requests that this application be approved as requested.

RESPECTFULLY SUBMITTED:

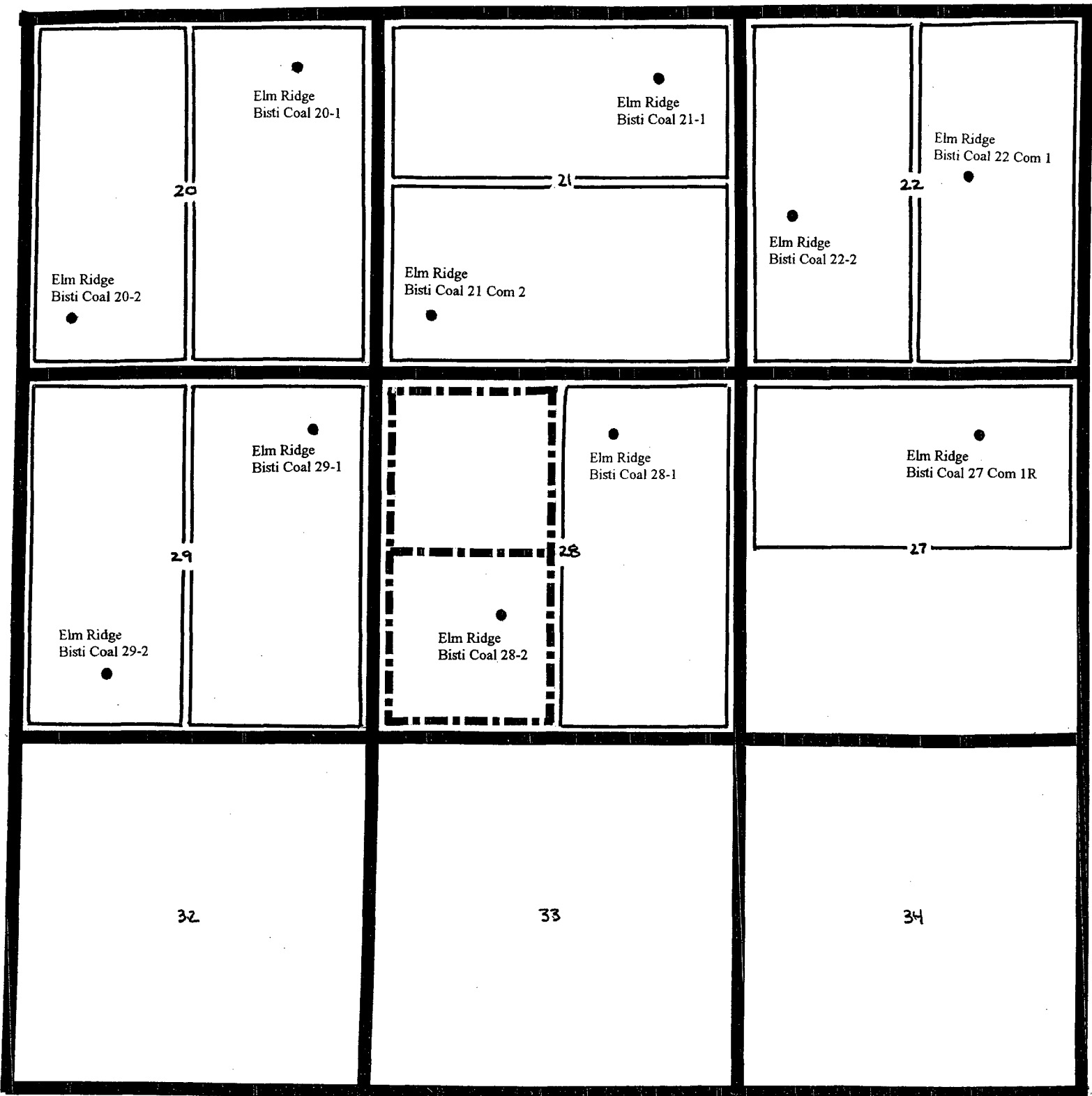
A handwritten signature in black ink, appearing to read 'W. Thomas Kellahein', is written over a horizontal line.

W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87504
Telephone: (505) 982-4285
Facsimile: (505) 982-2047
Attorney for Elm Ridge Exploration Company, LLC

Exhibit "A"

Elm Ridge Exploration Company, LLC

Application for Non-Standard Proration Unit



Township 25 North - Range 12 West
San Juan County, NM

Exhibit "B"

ELM RIDGE RESOURCES, INC.

*Cathleen Colby
1974 South Corona Street
Denver, Colorado 80210
Telephone (303) 777-1308
Fax (303) 698-7930*

December 19, 2003

Ms. Lou Ortiz
Bureau of Land Management
P.O. Box 27115
Santa Fe, NM 87502-0115

Re: BLM Oil and Gas Lease Sale
Nomination of Lands

Dear Ms. Ortiz:

The following oil and gas lease has terminated, and it appears the minerals are currently available to be offered for lease. Please nominate this tract for the next upcoming lease sale:

NMNM 090483
Township 25 North, Range 12 West, NMPM
Section 28: NW/4
Containing 160.00 acres, more or less

Thank you for your assistance in this matter. Please don't hesitate to call if you have any questions or if you need additional information.

Sincerely,

ELM RIDGE RESOURCES, INC.

Cathleen Colby
Cathleen Colby
Landman

bcc: Jamie Clark
Scott Lindsay / Terry Lindeman

DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or reenter an abandoned well. Use Form 3160-3 (APD) for such proposals.

FORM APPROVED
OMB No. 1004-0135
Expires July 31, 1996

5. Lease Serial No.

NM-51013

6. If Indian, Allotment or Tribe Name

Navajo Allotment

7. If Unit or CA/Agreement, Name and/or No.

N/A

8. Well Name and No.

Bisti Coal 28-2

9. API Well No.

30-045-28896 30895

10. Field and Pool, or Exploratory Area

Basin Fruitland Coal

11. County or Parish, State

San Juan County, NM

1. Type of Well

☐ Oil Well ☒ Gas Well ☐ Other

2. Name of Operator

Elm Ridge Exploration CO LLC

3a. Address

PO Box 156, Bloomfield, NM 87413

3b. Phone No. (include area code)

505-632-3476 x201

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)

2310' FSL X 1850' FWL

18 57' 19 20'

"K" Sec. 28-T25N-R12W

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize <input type="checkbox"/> Deepen <input type="checkbox"/> Production (Start/Resume) <input type="checkbox"/> Water Shut-Off
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing <input type="checkbox"/> Fracture Treat <input type="checkbox"/> Reclamation <input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair <input type="checkbox"/> New Construction <input type="checkbox"/> Recomplete <input checked="" type="checkbox"/> Other Notice of application for CRA.
	<input type="checkbox"/> Change Plans <input type="checkbox"/> Plug and Abandon <input type="checkbox"/> Temporarily Abandon
	<input type="checkbox"/> Convert to Injection <input type="checkbox"/> Plug Back <input type="checkbox"/> Water Disposal

13. Describe Proposed or Completed Operations (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recomplete horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

Elm Ridge Exploration Co, LLC is working on obtaining approval for a Compensatory Royalty Agreement covering a portion of the lands within the spacing and portion unit. We expect to have an application filed within 60 days. Once the Compensatory Royalty Agreement is approved, subject well will be completed.

14. I hereby certify that the foregoing is true and correct

Name (Printed/Typed)

Amy Mackey

Title

Production Technician

Signature

Date

May 3, 2006

Approved by

Title

Date

Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would enable the applicant to conduct operations thereon.

Office

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

(Instructions on reverse)

ACCEPTED FOR RECORD

MAY 09 2006

OPERATOR

FARMINGTON FIELD OFFICE

Exhibit "D"



June 5, 2006

2006 JUN 18 PM 9 03
RECEIVED
070 FARMINGTON NM

Ms. Margie Dupre
Bureau of Land Management
Farmington Field Office
1235 La Plata Highway
Farmington, NM 87401

Re: Compensatory Royalty Agreement
NW/4-Section 28-Township 25 North-Range 12 West
San Juan County, New Mexico

Dear Ms. Dupre:

In accordance with our recent telephone conversation, enclosed is an original Compensatory Royalty Agreement, in triplicate, covering a 160.00 acre tract of land described as the NW/4 of Section 28, Township 25 North, Range 12 West, NMPM. We offer to pay bonus consideration based on Two Hundred Fifty Dollars (\$250.00) per net mineral acre, Three Dollars (\$3.00) per net mineral acre per year for delay rentals for a three (3) year term and 18.75% royalty in the event of production.

Enclosed is our check in the amount of \$40,480.00 in payment of bonus consideration and the first year's rental.

Please provide us with an original copy of the fully executed and acknowledged Agreement when it is available. Should you have any questions or if you need additional information, please contact Cathy Colby at (303) 777-1308.

Thank you for your assistance in this matter.

Sincerely,

ELM RIDGE EXPLORATION COMPANY, LLC

James M. Clark, Jr.
President

CASE RECORDATION NO.

COMPENSATORY ROYALTY AGREEMENT

THIS AGREEMENT is made and entered into this _____ day of _____, 2006, by and between the United States of America, through the Secretary of the Interior or his designated representative, hereinafter referred to as the "USA", and Elm Ridge Exploration Company, LLC, a New Mexico limited liability company, hereinafter referred to as "Operator".

WITNESSETH:

WHEREAS, pursuant to the provisions of Order R-8768 issued by the New Mexico Oil Conservation Division in Case No. 9420 on October 17, 1988, to be effective November 1, 1988, the Basin Fruitland Coal (Gas) Pool was created, thereby providing for the development of the Basin Fruitland Coal (Gas) formation on the basis of 320 acre spacing and proration units;

WHEREAS, the USA has reviewed and accepted 320 acre spacing for the Basin Fruitland Coal (Gas) formation;

WHEREAS, Operator is the owner of all or a portion of the oil and gas leasehold operating rights interest in and under Federal Oil and Gas Lease NMNM 51013 insofar as said lease covers the SW/4 of Section 28, Township 25 North, Range 12 West, NMPM, San Juan County, NM;

WHEREAS, the oil, gas and other mineral rights in and under the NW/4 of Section 28, Township 25 North, Range 12 West, NMPM, San Juan County, NM, hereinafter referred to as "the Lands", are owned by the USA and are unleased;

WHEREAS, Operator has drilled the Bisti Coal 28 #2 well at a standard location in the NE/4SW/4 of Section 28, Township 25 North, Range 12 West, NMPM, ^{2310'} FSL and ^{1857'} ~~1850'~~ FWL, to test the Basin Fruitland Coal (Gas) formation and to be dedicated to ^{1920'} the W/2 of Section 28;

WHEREAS, Operator has offered to lease the oil, gas and other mineral interests owned by the USA in and under the Lands, which offer was made to the Bureau of Land Management on December 19, 2003. The Bureau of Indian Affairs, acting as surface management agency for The Navajo Nation, will not clear the surface for leasing;

WHEREAS, in order to conserve natural resources, prevent waste, and protect correlative rights, the USA and Operator desire to enter into an agreement which will facilitate the orderly development of the subject lands in accordance with the rules and regulations established by the New Mexico Oil Conservation Division while, at the same time, recognizing the proprietary interests of the USA.

NOW, THEREFORE, in consideration of the premises and covenants and agreements hereinafter contained, the USA and Operator agree as follows:

1. Operator agrees to pay to the USA compensatory royalty in an amount equal to 18.75% of the value of all production which is allocated to the Lands under which the USA owns the oil, gas and other mineral rights. Any allocation of production to the Lands shall be based on the proportion that the number of surface acres in said tract bears to the total number of surface acres included within the spacing and proration unit established for the well.
2. The obligation of Operator to pay compensatory royalty as provided herein shall commence as of the date of first sales.
3. Notwithstanding the foregoing, the compensatory royalty shall not be due and payable on production used on lease in conformity with good operating practices for drilling, pressure maintenance, operation and other production or development purposes, for repressurizing or recycling in accordance with a plan of development approved by the authorized officer of the Bureau of Land Management, or for production unavoidably lost.

4. The compensatory royalty shall be free of all taxes, royalties, expenses and investment costs.
5. The compensatory royalty shall be computed and shall be payable in accordance with applicable oil and gas operating regulations.
6. During the term of this Agreement, the proceeds of production attributable to the working interest associated with the oil, gas and other mineral rights owned by the USA shall be paid to Operator.
7. During the term of this Agreement, the USA shall not execute, nor shall it enter into an agreement for the issuance of any oil and gas lease(s) in and under the Lands under which the USA owns the oil, gas and other mineral rights.
8. This Agreement shall be effective as of the date of acceptance by the USA, as evidenced by its execution hereof, and shall remain in full force and effect for a three year primary term and for so long thereafter as the Lands, or any portion thereof, are committed to a spacing and proration unit(s) on which there is a well capable of producing oil, gas and/or condensate in paying quantities.
9. If production of oil, gas and/or condensate should thereafter cease from any cause and if Operator commences additional drilling or reworking operations on the Lands, or on lands combined therewith, within 90 days after such cessation of production, this Agreement shall remain in force as long as same are prosecuted with reasonable diligence until a well is established as being capable of producing oil, gas and/or condensate in paying quantities.
10. Operator will not use or occupy the surface of the Lands under which the USA owns the oil, gas and other mineral interests unless such use or occupancy is authorized in writing by the appropriate surface management agency.
11. Any and all subsurface operations conducted with respect to the Lands shall be subject to the operating regulations promulgated by the Bureau of Land Management.

12. In connection with the performance of work under this Agreement, Operator agrees to comply with all of the provisions of Section 202(1) to (7), inclusive, of Executive Order 11246, as amended (30 F.R. 12319).
13. This Agreement and the rights, privileges and obligations thereunder, may be assigned by Operator, either in whole or in part.
14. This Agreement shall be binding upon, and shall inure to the benefit of, the USA and Operator and their successors and assigns.

IN WITNESS WHEREOF, this Agreement is executed on the day and year first above written.

"USA"

The United States of America

By: _____

Title: _____

"OPERATOR"

Elm Ridge Exploration Company, LLC

By:  _____
James M. Clark, Jr., President

STATE OF NEW MEXICO)
)ss.
COUNTY OF SAN JUAN)

The foregoing instrument was acknowledged before me this _____ day of _____, 2006, by _____, the designated representative of the Secretary of the Interior on behalf of the United States of America.

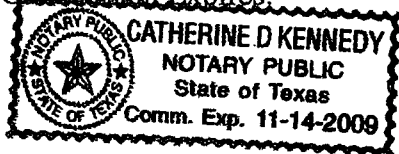
My Commission Expires:

Notary Public

STATE OF TEXAS)
)ss.
COUNTY OF DALLAS)

The foregoing instrument was acknowledged before me this 13th day of June, 2006, by James M. Clark, Jr., the President of Elm Ridge Exploration Company, LLC, a New Mexico limited liability company, on behalf of said corporation.

My Commission Expires:



Catherine D. Kennedy
Notary Public

ELM RIDGE EXPLORATION, LLC
12225 GREENVILLE AVE., SUITE 950 • DALLAS, TX 75243

CHECK NO.

009290

COMPENSATORY ROYALTY AGREEMENT
NW/4-SECTION 28-TOWNSHIP 25 NORTH-RANGE 12 WEST
SAN JUAN COUNTY, NM

1900 BUREAU OF LAND MANAGEMENT

06/13/06

\$40,480.00

GW-100

WARNING: DO NOT ACCEPT THIS DOCUMENT UNLESS YOU CAN SEE AN ARTIFICIAL WATERMARK ON THE REVERSE SIDE.

ELM RIDGE EXPLORATION, LLC
12225 GREENVILLE AVE., SUITE 950
DALLAS, TX 75243

OPERATING ACCOUNT

TEXAS CAPITAL BANK
DALLAS, TX 76206

32-17971110

009290

DATE

06/13/06

CONTROL NUMBER

9290

PAY ***FORTY THOUSAND, FOUR HUNDRED EIGHTY AND 00/100 DOLLARS***

TO THE
ORDER
OF

BUREAU OF LAND MANAGEMENT
FARMINGTON FIELD OFFICE
1235 LA PLATA HIGHWAY
FARMINGTON, NM 87401

AMOUNT

\$40,480.00

VOID IF NOT PRESENTED FOR PAYMENT WITHIN 90 DAYS

⑈009290⑈ ⑆111017979⑆ 1111022065⑈

Exhibit "E"



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
1235 La Plata Highway, Suite A
Farmington, New Mexico 87401

IN REPLY REFER TO:
3160-9 (NM211)

July 17, 2006

Elm Ridge Resources, Inc.
12225 Greenville Ave., Suite 950
Dallas, Texas 75243-9362

Dear Ms. Kennedy:

In regards to your letter requesting a Compensatory Royalty Agreement for the NW/4 of Section 28, Township 25 North, Range 12 West, NMPM with a bonus and first year's rental in the amount of \$40,480.00. The Compensatory Royalty Agreement refers to the NW/4 as an unleaseable tract of land. The NW/4 is a leaseable tract and can not be compensatory pooled. We are returning your application for the Compensatory Royalty Agreement with no further action. The bonus and first year's rental of \$40,480.00 will be refunded.

If you have any questions please contact Margie Dupre at above address or 505 599-8918.

Sincerely,

Margie Dupre
Legal Instruments Examiner
Petroleum Management Branch

JUL 21 2006

Elm Ridge Exploration Company, LLC
Administrative Application for Approval of
Two Non-Standard Proration and Spacing Units

EXHIBIT "F"

LIST OF AFFECTED OWNERS

Bureau of Land Management
New Mexico State Office
Attn: Mr. Gary Stephens
P.O. Box 27115
Santa Fe, New Mexico 87502-0115

Bureau of Land Management
Farmington Field Office
Attn: Mr. Steve Mason
1235 La Plata Highway, Suite A
Farmington, NM 87401-8731