

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 PURPOSES OF CONSIDERING:

CASE NO. 14019

APPLICATION OF PRO NM ENERGY, INC.
FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.

AFFIDAVIT OF JOLENE DICKS

STATE OF NEW MEXICO §
 § ss.
COUNTY OF SANTA FE §

Before me, the undersigned authority, personally appeared Jolene Dicks who being fully sworn stated:

A. My name and qualifications as expert are as follows:

Jolene Dicks
Director of Operations
Pro NM Energy, Inc.
1992 – present

B. I am over the age of majority and competent to make this Affidavit.

I am responsible for and involved in preparing the necessary documents for
submittal to the New Mexico Oil Conservation Division for this case.

I am personally knowledgeable and familiar with the facts and circumstances of
this case and the following factual statements.

This affidavit has been prepared in accordance with the New Mexico Oil
Conservation Division Rule 1207.A(1)(b).

Before the Oil Conservation Division
Exhibit No. 1
PRO NM
OCD CASE 14019
Hearing: November 1, 2007

- C. My opinion is based on the following facts and events:

CHRONOLOGICAL SUMMARY OF SIGNIFICANT EVENTS

1. Pro NM Energy, Inc. ("Pro") has a working interest ownership in the oil and gas minerals underlying the E/2, Section 18, T26N, R11W, San Juan County, New Mexico.
2. Pro has drilled and intends to complete its Gracia Federal 18-I Well No. 1 and Gracia Federal 18-I Well No. 1S at standard locations to test the Basin Fruitland Coal Formation.
3. Based upon an oil & gas title opinion, Pro believes that Chevron USA, Inc. owns a working interest in the subject proration unit.
4. Pro has submitted a written well proposal and AFE to Chevron USA, Inc. and has had numerous conversations and correspondence with personnel of Chevron USA, Inc. concerning its ownership and participation in drilling the two wells, including

July 19, 2004 letter to Chevron USA, Inc. proposing the Gracia Federal 18-I No. 1 Well and submitting the standard form of Communitization Agreement, a proposed Joint Operating Agreement and AFE for the subject well.

January 22, 2006 letter to Chevron USA, Inc., enclosing copies of the July 19, 2004 letter and enclosures, along with the AFE for the proposed infill well (Gracia Federal 18-I No. 1S Well), and copies of the Drilling Title Opinions prepared by Candace Callahan Esq.

February 2, 2006 letter from Chevron requesting additional time to process the well proposal and contracts attached to that proposal.

February 16, 2006 telephone conversation between Robert Nunmaker of Chevron USA, Inc. and myself.

May 29, 2007 letter to Mr. Larry Angle of Chevron USA, Inc., enclosing the proposed Joint Operating Agreement, Communitization Agreements and AFE's for each of the wells.

August 14, 2007 letter to Mr. Larry Angle of Chevron USA, Inc. constituting Pro NM Energy, Inc.'s offer to purchase Chevron's interest in the acreage underlying the W/2SE/4 Section 18, T26N, R11W, San Juan County, New Mexico.

Email to Mr. Larry Angle and Mr. David Crawford of Chevron USA, Inc., requesting confirmation that Chevron recommended Pro go forward with a forced pooling action, and Mr. Angle's response confirming that understanding.

5. Despite its good faith efforts, Pro NM Energy, Inc. has been unable to obtain a voluntary agreement with the party referenced herein.
6. Pursuant to Section 70-2-17(c) NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, Pro NM Energy, Inc. needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.
7. In accordance with Division Rule 1207.A(1)(b) attached are the following statements and exhibits in support of this case:
 - (i) No opposition for the hearing is expected because all other parties owning an interest in the wells have voluntarily committed their acreage and either agreed to participate or to go "non-consent" pursuant to the terms of the Joint Operating Agreement. Chevron USA Inc. has indicated that it will not oppose the application.
 - (ii) Map: (a) outlining the spacing unit to be pooled which is the E/2 of Section 18, T26S, R11W, NMPM, San Juan County, New Mexico and (b) showing the well location and (c) percentage of ownership interest.
 - (iii) The name and last known address of the party to be pooled with the nature and percent of their interest; I attest that a diligent search has been conducted of all public records in the county where the well is located and the party has been contacted on our behalf on several occasions.
 - (iv) The name of the formation and pool to be pooled is the Basin Fruitland Coal.
 - (v) The pooled unit is for gas.
 - (vi) Written evidence of attempts to reach voluntary agreement including letters and summaries of telephone calls are included herein.
 - (vii) Copy of Division form C102 showing the well location and the proposed depth of the well.

(viii) Copy of the AFE's in the amount of \$279,305.00 completed well costs for these wells, which we conclude, is fair, reasonable and current for wells of this type in this area.

8. We recommend that a compulsory pooling order be entered which provides that:

- (a) Pro NM Energy, Inc. be named Operator;
- (b) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping, and operating the well;
- (c) In the event a working interest owner fails to elect to participate, then provisions be made to recover out of production the costs of the drilling, completing, equipping and operating the well, including a 200% risk factor penalty; and
- (d) Provisions for overhead rates of \$3,000.00 per month drilling and \$600.00 per month operating and a provision for an adjustment method of the overhead rates as provided by COPAS;

C. We have formed the following opinions based upon our respective expertise and upon the foregoing chronology of events:

- (1) That Pro NM Energy, Inc. has been able to locate the owner of the interest to be pooled and the application is not expected to be opposed by that owner.
- (2) That the approval of Pro NM Energy, Inc.'s application in this case is necessary in order to consolidate the interest ownership within this spacing unit for the drilling, completing, and producing the subject wells, will not violate correlative rights and will help prevent waste and promote the conservation of natural resources.
- (3) That the New Mexico Oil Conservation Division should enter an order pooling all mineral interests from the surface to the base of the Bain Fruitland Coal formation underlying the E/2 Section 18, T26N, R11W, NMPM, San Juan County, New Mexico, and forming a standard 320 acre spacing and proration unit for any and all formations and/or pools developed on 320 acre spacing within said vertical extent, including the costs of drilling and completing said well and the allocation of costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a 200% charge for risk involved in drilling and completing said well.

FURTHER AFFIANT SAYETH NOT:

Jolene Dicks
Jolene Dicks

STATE OF NEW MEXICO §
 §
COUNTY OF SANTA FE §

SUBSCRIBED AND SWORN TO before me this 30th day of October, 2007, by Jolene Dicks.

Rebecca Montoya
Notary Public

ACKNOWLEDGMENT

STATE OF NEW MEXICO)
) SS:
COUNTY OF SANTA FE)

BEFORE me, the undersigned, a Notary Public in and for said County and State, on this 30th day of October, 2007, personally appeared Jolene Dicks, to me known to be the identical person who subscribed the name of the maker thereof to the foregoing instrument and acknowledged to me that she executed the same as her free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal the day and year last above written.

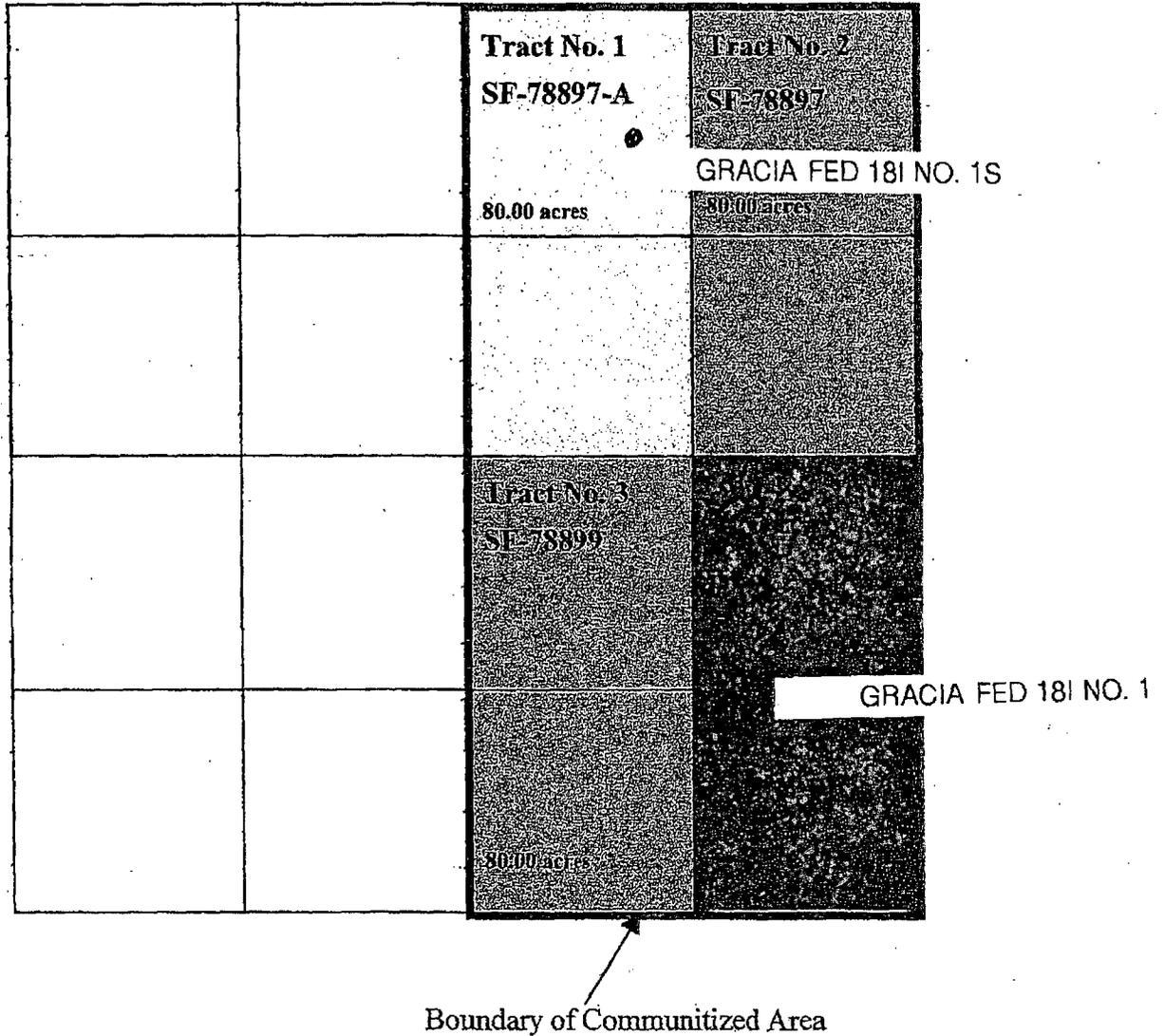
Rebecca Montoya
Notary Public

My Commission expires:

10/05/11

EXHIBIT "A"
Plat of communitized area covering:
E/2 Sec. 18, T26N, R11W, N.M.P.M.
San Juan County, New Mexico

Gracia Fed 18-I No. 1
Basin Fruitland Coal Formation



Plat of the Communitized Area
covering the SE/4 of Section 18,
T26N-R11W, N.M.P.M.
Basin Fruitland Coal formation

Pro NM Energy, Inc.
460 St. Michael's Dr. #300
Santa Fe, NM 87505
(505) 988-4171

EXHIBIT "B"

Page 1 of 4

To Communitization Agreement dated April 20, 2007,
embracing the following described land:

T26N-R11W, N.M.P.M.
Section 18: E/2
containing 320.00 acres, more or less
San Juan County, New Mexico

Operator of Communitized Area: **Pro NM Energy, Inc.**

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lease/Contract No. : SF-78897-A
Effective Date of Lease: July 1, 1947
Lease Term: Held by Production
Lessor: United States of America
Present Lessee: Sherman Dugan (20%)
Jim Jacobs (20%)
F. L. Crane (20%)
Tommy Roberts (20%)
Dorothy Winer (20%)

Description of Land

Committed: W/2NE/4
Number of Acres: 80.00
Royalty Rate: 12.5%
Pooling Clause: Yes/With approval of Secretary of Interior
Name and Percent WI Owners:

Insofar as the Operating Rights for the Basin Fruitland Coal
Formation is concerned:

Sherman Dugan	20.00%
Jim Jacobs	20.00%
F. L. Crane	20.00%
Tommy Roberts	20.00%
Dorothy Winer	20.00%

EXHIBIT "B"

Page 2 of 4

To Communitization Agreement dated April 20, 2007,
embracing the following described land:

T26N-R11W, N.M.P.M.
Section 18: E/2
containing 320.00 acres, more or less
San Juan County, New Mexico

Operator of Communitized Area: **Pro NM Energy, Inc.**

Tract No. 2

Lease/Contract No. :	SF-78897
Effective Date of Lease:	July 1, 1947
Lease Term:	Held by Production
Lessor:	United States of America
Present Lessee:	Dugan Production Corp.
Description of Land	
Committed:	E/2NE/4
Number of Acres:	80.00
Royalty Rate:	12.5%
Pooling Clause:	Yes/With approval of Secretary of Interior
Name and Percent WI Owners:	
	Insofar as the Operating Rights for the Basin Fruitland Coal Formation is concerned:
Dugan Production Corp.	100.00%

EXHIBIT "B"

Page 4 of 4

To Communitization Agreement dated April 20, 2007,
embracing the following described land:

T26N-R11W, N.M.P.M.
Section 18: E/2
containing 320.00 acres, more or less
San Juan County, New Mexico

Operator of Communitized Area: **Pro NM Energy, Inc.**

Tract No. 4

Lease/Contract No. : SF 078899-A
Effective Date of Lease: July 1, 1947
Lease Term: Held by Production
Lessor: United States of America
Present Lessee: Pro NM Energy, Inc. (75%)
XTO Energy, Inc. (25%)

Description of Land

Committed: E/2SE/4
Number of Acres: 80.00
Royalty Rate: 12.5%
Pooling Clause: Yes/With approval of Secretary of Interior

Name and Percent WI Owners:

Insofar as the Operating Rights for the Basin Fruitland Coal
Formation is concerned:

Pro NM Energy, Inc.	75.000%
XTO Energy, Inc.	25.000%

RECAPITULATION

<u>Tract No.</u>	<u>No. of Acres Committed</u>	<u>Percentage of Interest in Communitized Area</u>
1	80.00	25.00%
2	80.00	25.00%
3	80.00	25.00%
2	<u>80.00</u>	<u>25.00%</u>
Total	320.00	100.00%

WORKING INTEREST OWNERSHIP IN
GRACIA FED 18-1 No. 1

Basin Fruitland Coal formation

Dugan Production Corp.	25.00%
Chevron U.S.A., Inc.	25.00%
Pro NM Energy, Inc.	18.75%
XTO Energy, Inc.	6.25%
Sherman Dugan	5.00%
Jim Jacobs	5.00%
F. L. Crane	5.00%
Tommy Roberts	5.00%
Dorothy Winer	<u>5.00%</u>
	100.00%

Chevron USA, Inc.
11111 S. Wilcrest
Houston, TX 77099

Gracia Federal 18-I No. 1 (25% WI)
Gracia Federal 18-I No. 1S (25% WI)



July 19, 2004

VIA FEDERAL EXPRESS

Chevron USA, Inc.
Attn: Janette Lorenz
11111 S. Wilcrest, Rm S-2040
Houston, TX 77099

Re: Gracia Federal 18-I No. 1 Well
Section 18: W/2, T26N, R11W
San Juan County, New Mexico

Gentlemen:

Pro NM Energy, Inc. ("Pro") proposes to drill the Gracia Federal 18I No. 1 well, to be dual completed, if successful, in both the Basin Fruitland Coal and the So. Gallegos Fruitland PC formations, at a standard location in the SE/4 of Section 18, T26N, R11W, San Juan County, New Mexico.

The proposed 320-acre standard spacing unit for the Basin Fruitland Coal formation is the E/2 of Section 18. The proposed 160-acre standard spacing unit for the So. Gallegos Fruitland PC formation is the SE/4 of Section 18. Chevron USA Inc. will have 25.00% interest in the So. Gallegos Fruitland PC formation and 12.50% interest in the Basin Fruitland Coal formation, according to the title information available to us. If this ownership interest is not accurate, please advise.

The costs of drilling, and if justified, completing this well in both formations will be split equally between each formation. The respective formations will be completed and tested. Production will be allocated to each formation based on its measured percentage of total MMBtu produced from the well.

Enclosed for your review are a copy of the standard form of Communitization Agreement for federal leases for each of the formations, with four original signature sheets for each, a copy of our proposed Joint Operating Agreement, with two original signature sheets, and two copies of our Authorization for Expenditure for each formation in the referenced well.

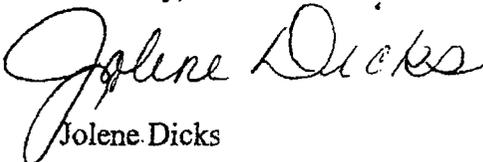
If you wish to participate in the drilling of this well, and are in agreement with the terms of the Com Agreement, JOA and AFE, please execute and return the four signature sheets for the Communitization Agreement, one original signature sheet for the Joint Operating Agreement, along with one signed AFE, within twenty (20) days of receipt of this letter and enclosures. If we do not hear from you within that time, we will assume you decline to voluntarily commit your interest to the spacing unit, and Pro will proceed according.

You do have the option of committing your interest to the spacing unit, and still elect to go "Non-Consent" regarding paying your share in the drilling of the well, pursuant to Article VI.B.2 of the Joint Operating Agreement. If that is the case, we still request that you please execute and return the four signature sheets for the Communitization Agreement and one original signature sheet for the Joint Operating Agreement.

Please indicate your decision to participate or not in the well expense by appropriate signature below on the enclosed copy of this letter and returning it to us, along with the executed documents.

If you have any questions or comments, please do not hesitate to call. Thank you for your prompt attention to this matter.

Sincerely,


Jolene Dicks

_____ (yes or no) I agree to commit my interest to the spacing unit. If you agree, please return the executed signature sheets for the Communitization Agreement and Joint Operating Agreement enclosed.

_____ (yes or no) I consent to participation in the drilling of the Gracia Federal 18-I No. 1 well. If you consent, please also return the executed AFE.

Working Interest Owner

Date

FedEx USA Airbill

Express

8425 3326 2876

From Please print and press hard **Sender's FedEx Account Number** 1602-6521-3

Date 7/19/04 **Sender's Name** Jolene Dicks **Phone** (505) 988-4171

Company PRO NEW MEXICO INC

Address 460 SAINT MICHAELS DR STE 300

City SANTA FE **State** NM **ZIP** 87505-7622

Your Internal Billing Reference 0PT10381

To **Recipient's Name** Janette Lorenz **Phone** (281) 56103986

Company Chevron USA Inc.

Address 11111 S. Wilcrest, S-2040

City Houston **State** TX **ZIP** 77099

Address Houston TX 77099



By using this Airbill you agree to the service conditions on the back of this Airbill and in our current Service Guide, including terms that limit our liability.

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4a Express Package Service Delivery commitment may be later in some areas. Packages up to 150 lbs.

FedEx Priority Overnight Next business morning FedEx Standard Overnight Next business morning FedEx First Overnight Next business morning

FedEx 2Day Second business day FedEx Express Saver Third business day

4b Express Freight Service Delivery commitment may be later in some areas. Packages over 150 lbs.

FedEx 1Day Freight* Next business day FedEx 2Day Freight Second business day FedEx 3Day Freight Third business day

5 Packaging *Declared value limit \$500

FedEx Envelope* FedEx Pak* Other

6 Special Handling Include FedEx address in Section 3

SATURDAY Delivery Available ONLY for FedEx Priority Overnight and FedEx 2Day to select ZIP codes

HOLD Weekend at FedEx Location HOLD Saturday at FedEx Location Available ONLY for FedEx Priority Overnight and FedEx 2Day to select locations

7 Payment Bill to: One box must be checked.

No Yes Sender's Declaration required Day/leg Cargo Aircraft Only

8 Release Signature Sign to authorize delivery without obtaining signature.

Sender Recipient Third Party Credit Card Cash/Check

Total Packages 1 **Total Weight** 1.00 **Total Declared Value*** 1.00

9 Release Signature By signing you authorize us to deliver this shipment without obtaining a signature and agree to indemnify and hold us harmless from any resulting claims.

447

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PRO NM ENERGY INC.
OIL AND GAS PRODUCTION AND PROPERTIES

January 11, 2006

VIA FEDERAL EXPRESS

Chevron USA, Inc.
Attn: Rob Nunmaker
11111 S. Wilcrest, Rm S-2040
Houston, TX 77099

Re: Gracia Federal 18-I No. 1 Well and
Gracia Federal 18-I No. 1S Well
Section 18: E/2, T26N, R11W
San Juan County, New Mexico

Dear Rob:

Per our discussion earlier this week with reference to the above-referenced, enclosed are copies of the following documents:

1. Our letter of July 29, 2004 concerning the Gracia Federal 18-I No. 1 Well which enclosed the following:
 - a) Communitization Agreements covering the E/2 of Sec. 18, T26N, R11W (one for the Basin Fruitland Coal Formation and one for the So. Gallegos Fruitland PC Formation), along with four signature sheets for each, to be returned upon execution by Chevron.
 - b) A copy of the proposed Joint Operating Agreement covering the E/2 of Sec. 18, T25N, R11W, along with signature sheets to be returned upon execution.
 - c) 2 copies of the AFE for each of the formation, one each to be returned to Pro upon execution.
2. A copy of the Drilling Title Opinion prepared by Candace Callahan, Esq., covering the SE/4 Section 18 (So. Gallegos Fruitland PC Formation)
3. A copy of the Drilling Title Opinion prepared by Candace Callahan Esq., covering the E/2 Section 18 (Surface to the Base of the Pictured Cliffs Formation)

4. Copies of the documents provided to us by Dominion Exploration & Production, Inc., and their letter stating that Dominion owns record title only in the subject acreage.

Pro has recently determined that it would be prudent to drill an infill well, to be completed in the Basin Fruitland Coal formation. AFE's for that well are provided for your review, and execution, should Chevron agree to participate in the drilling of that well.

If Chevron wishes to participate in the drilling of these well, and is in agreement with the terms of the Com Agreements, JOA and AFE's, please execute and return the four signature sheets for the Communitization Agreement, one original signature sheet for the Joint Operating Agreement, along with one signed AFE for each of the wells/formations, within twenty (20) days of receipt of this letter and enclosures. If we do not hear from you within that time, we will assume you decline to voluntarily commit your interest to the spacing unit, and Pro will proceed according.

You do have the option of committing your interest to the spacing unit, and still elect to go "Non-Consent" regarding paying your share in the drilling of the well, pursuant to Article VI.B.2 of the Joint Operating Agreement. If that is the case, we still request that you please execute and return the four signature sheets for the Communitization Agreement and one original signature sheet for the Joint Operating Agreement.

Please indicate your decision to participate or not in the well expense by appropriate signature below on the enclosed copy of this letter and returning it to us, along with the executed documents.

If you have any questions or comments, please do not hesitate to call. Thank you for your prompt attention to this matter.

Sincerely,

Jolene Dicks

_____ (yes or no) I agree to commit my interest to the spacing unit. If you agree, please return the executed signature sheets for the Communitization Agreement and Joint Operating Agreement enclosed.

_____ (yes or no) I consent to participation in the drilling of the Gracia Federal 18-I No. 1 and Gracia Federal 18-I No. 1S wells. If you consent, please also return the executed AFE's.

Working Interest Owner

Date



Robert A Nunmaker III
Land Department
Non-Operated Joint Ventures

MidContinent SBU
Chevron North America
Exploration and Production
11111 S. Wilcrest
Houston, Texas 77099
Tel (281) 561-4767
robertnunmaker@chevron.com

February 2, 2006

Pro NM Energy Inc.
Attn: Jolene Dicks
460 St. Michael's Drive, Ste: 300
Santa Fe, New Mexico 87505

Re: Gracia Federal 18-I No. 1 and 1S Wells
Section 18: E1/2, T26N-R11W
San Juan County, New Mexico

Dear Jolene:

As I indicated in our previous phone conversation, Chevron U.S.A. Inc. is still in the process of assessing ownership in the W1/2SE1/4 of section 18. You had set a 20 day deadline for our response in your January 11, 2006 letter addressed to me. Chevron will need more time to assess our ownership and process the well proposal and all contracts attached to that proposal. We are requesting a two week long extension and will have an answer by February 17, 2006.

Thank you for your understanding and please do not hesitate to call if you have any questions at (281) 561-4767.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert A. Nunmaker III", written over a horizontal line.

Robert A. Nunmaker III

MEMORANDUM

TO: 18-I LAND FILE

FROM: JOLENE DICKS

RE: CHEVRON OWNERSHIP – TELE CONF W/ROB NUNMAKER
(CHEVRON)

DATE: FEBRUARY 16, 2006

Rob Nunmaker of Chevron called today. He continues to work on establishing the ownership of Chevron, and may require more time to complete his investigation and get signed documents back to us. Rob says that Chevron is definitely interested in the well, but that he now has reason to believe that Chevron may own 100% operating rights in the SW/SE Sec. 18. He has the federal records and has ordered the county records. He will get back to us as soon as possible with the results of his investigation.

Rob's direct number is: 281-561-4767.

PRO NM ENERGY INC.
OIL AND GAS PRODUCTION AND PROPERTIES

May 29, 2007

Mr. Larry Angle
Chevron U.S.A., Inc.
11111 S. Wilcrest
Houston, Texas 77099

Re: Gracia Federal 181 No. 1 and Gracia 181 No. 1S,
Sec. 18-26N-11W, San Juan County, New Mexico

Dear Mr. Angle:

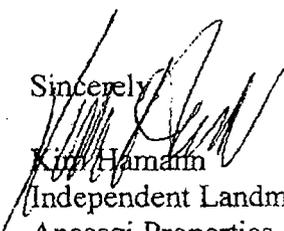
In accordance with our conversation this morning please find enclosed the following:

1. JOA, Pro NM Energy, Inc. Operator, covering the E/2 of Section 18-26N-11W, **including two signature pages to be executed and one returned;**
2. 2 sets of 3 AFEs (two for the Gracia Federal 181 No. 1 (Basin Fruitland Coal and So. Gallegos Fruitland PC) and one for the Gracia 181 No. 1S (Basin Fruitland Coal), **one set of each to be executed and returned;**
3. Two Communitization Agreements, one for the E/2 and the other covering the SE/4 **along with 4 additional signature pages to be executed and returned;**
4. Stipulation and Cross-conveyance **to be executed and returned.**

It is my understanding that your predecessor, Steve Emory, reviewed and obtained the necessary approvals to process these documents; however, if you have any questions regarding any of the enclosed documents please call at your earliest convenience. It is easiest to reach me on my cell phone, 505/660-1329.

I also understand that a rig has been secured for the end of June; therefore, whatever you can do to expedite this matter, including returning same by overnight mail is appreciated since Pro NM must secure government approvals before the rig shows up.

Sincerely,



Kim Hamann

Independent Landman
Anasazi Properties, LLC

FedEx Express US Airbill

FedEx Tracking Number: 8586 756J 7817

1 From *Business and personal* Sender's FedEx Date: 5/29/07 Sender's FedEx Account Number: 1424-2343-6

Sender's Name: Kim Hamann Phone: (505) 982-8219

Company: CALLAHAN AND HAMANN PC

Address: 440 SAINT MICHAELS DR STE 401

City: SANTA FE State: NM ZIP: 87505-7688

2 Your Internal Billing Reference: Pro Num - Sec 18

3 To Recipient's Name: Larry Angle Phone: _____

Company: Chevron USA

Recipient's Address: 11111 S. Wilcrest

City: HOUSTON State: TX ZIP: 77099

0346621297



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FedEx 2Day FedEx Express Saver Saturday Delivery NOT available

4b Express Freight Service

FedEx 1Day Freight* FedEx 2Day Freight FedEx 3Day Freight

5 Packaging FedEx Envelope* FedEx Pak* FedEx Box FedEx Tube Other

6 Special Handling SATURDAY Delivery HOLD Weekday at FedEx Location HOLD Saturday at FedEx Location

7 Payment Billing Sender Recipient Third Party Credit Card Cash/Check

Total Packages: 5 Total Weight: 1.00 Total Declared Value*: \$00

8 NEW Residential Delivery Signature Options No Signature Required Direct Signature Indirect Signature

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PRO NM ENERGY INC.
OIL AND GAS PRODUCTION AND PROPERTIES

VIA FEDERAL EXPRESS

August 14, 2007

Chevron USA, Inc.
Attn: Larry Angle
11111 S. Wilcret
Houston, TX 77099

OFFER TO PURCHASE

RE: Township 26 North, Range 11 West
Section 18: W/2SE/4, containing 80.00 acres, more or less
USA Lease No. NMSF 078899
San Juan County, New Mexico

Dear Mr. Angle:

You have had recent communications with our landman, Kim Hamann, concerning development of the Fruitland formation underlying the above-referenced acreage. It is our understanding that your engineers do not believe there is any merit to development of the acreage, and that Chevron is not interested in participating in the drilling of the proposed wells (Gracia Federal 18-I No. 1, and Gracia Federal 18-I No. 1S).

As Chevron has refused to commit its acreage to the proration unit because it does not believe the project has geological merit, we offer 2 alternatives:

1. Pro offers to purchase all of Chevron's right, title and interest in the subject 80 acre tract (Section 18: W/2SE/4, T26N, R11W, San Juan County, New Mexico, on the following terms:
 - a. Pro NM Energy, Inc., offers the sum of Twenty-four Thousand (\$24,000.00) (\$300.00 per acre) by Cashier's Check to Chevron, which amount and payment will be made within three (3) working days of return of an executed edition of this agreement.
 - b. Contemporaneously with payment of the stated purchase money Chevron shall execute and deliver a mutually acceptable Assignment to Pro NM Energy, Inc., which transfer will be effective January 1, 2006 as of 7:00 a.m. Mountain Daylight Time. Chevron shall assign the property without warranty, except as against claims made by, through and under it or as a result of its ownership.

c. Chevron shall deliver to Pro its complete files with all documents, records, contracts, abstracts and title opinions, if any, pertaining to the Subject Property via United Parcel Service, delivery to 460 St. Michael's Drive, Suite 300, Santa Fe, New Mexico 87505 within three (3) working days after the purchase payment is received.

d. Chevron and Pro will execute any additional instruments or documents as may be necessary to effectuate this purchase and sale. This includes, but is not limited to federal lease assignment forms.

e. This letter agreement and the terms hereof shall survive the closing and shall not be merged into the instrument of conveyance and assignment.

If the terms of this offer are accepted, a binding agreement is formed by Chevron signing below and sending a facsimile transmittal or by returning via the U.S. mail no later than 5:00 p.m. Mountain Daylight Time within ten (10) days of receipt of this offer. Thereupon Chevron shall be entitled to the purchase payment provided and shall execute the specified instruments and return them immediately to Pro. This offer will expire and terminate if not sooner accepted in the manner and time specified.

2. Pro will apply to the New Mexico Oil Conservation Division for an order for compulsory pooling of Chevron's 25% interest in a 320-acre spacing unit consisting of the E/2 of Section 18.

If Chevron does not wish to sell its interest in the subject acreage, Pro must immediately make application to the New Mexico Oil Conservation Division for an order for compulsory pooling of Chevron's acreage. As time is of the essence, we will be contacting you early next week to discuss this matter and determine Chevron's course of action.

If you have any questions or wish to discuss this offer, please contact Jolene Dicks at (505) 988-4171, or Kim Hamann at (505) 660-1329. Thank you for your consideration.

Very truly yours,

PRO NM ENERGY, INC.

By  _____
Its President

PURCHASE AND SALE AGREED TO AND
ACCEPTED on _____, 2007

Chevron, USA, Inc.
By: Its _____

From: kbhamann@aol.com
To: pronmene@aol.com; tkellahin@comcast.net
Subject: Fwd: Pro NM proposal
Date: Thu, 6 Sep 2007 3:59 pm

—Original Message—

From: ANGLE, LARRY R <LARRY.ANGLE@chevron.com>
To: Kim Hamann <kbhamann@aol.com>
Cc: Crawford, David (DCrawford) <DCrawford@chevron.com>
Sent: Thu, 6 Sep 2007 7:10 am
Subject: RE: Pro NM proposal

Your understanding is correct.

From: Kim Hamann [mailto:kbhamann@aol.com]
Sent: Wednesday, September 05, 2007 9:06 PM
To: ANGLE, LARRY R
Subject: Pro NM proposal

Mr. Larry Angle
Mr. David Crawford
Chevron USA
Via email: Larry.Angle@Chevron.com

September 5, 2007

RE: Township 26 North, Range 11 West
Section 18: W/2SE/4, containing 80.00 acres, more or less
USA Lease No. NMSF 078899
San Juan County, New Mexico

Dear Mr. Angle and Mr. Crawford:

Pro NM Energy, Inc. ("Pro") has submitted a written well proposal letter with an AFE to Chevron for its consideration in participating in the drilling of the Gracia Federal 18-I No. 1 and Gracia Federal 18-I No. 1S. Pro has also attempted to negotiate to purchase Chevron's interest underlying the above-referenced acreage. It is Pro's understanding that at this time Chevron does not plan to take any other action regarding Pro's well proposal but instead recommends that Pro go forward with a forced pooling action so that Pro may move forward on the proposed wells.

Please confirm the accuracy of our understanding of Chevron's position regarding Pro's well proposals, as stated above, by e-mail confirmation. If Chevron's position is other than that stated above please so indicate by e-mail response.

Sincerely,
Kim Hamann
Anasazi Properties, LLC
Santa Fe, NM 87505
(505) 660-1329

No virus found in this outgoing message.

Checked by AVG Free Edition.

Version: 7.5.485 / Virus Database: 269.13.5/990 - Release Date: 9/4/2007 10:36 PM

Email and AIM finally together. You've gotta check out free [AOL Mail!](#)

DISTRICT I
1625 N. French Dr., Hobbs, N.M. 88240

State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-102
Revised June 10, 2003

DISTRICT II
1301 W. Grand Avenue, Artesia, N.M. 88210

Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

DISTRICT III
1000 Rio Brazos Rd., Aztec, N.M. 87410

OIL CONSERVATION DIVISION

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

AMENDED REPORT

DISTRICT IV
1220 South St. Francis Dr., Santa Fe, NM 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number		*Pool Code	*Pool Name
		77310/71629	So. Gallegos Fr PC / Basin Fruitland Coal
*Property Code	*Property Name		*Well Number
	GRACIA FEDERAL 18I		070 RECEIVED
*GRID No.	*Operator Name		*Elevation
018118	PRO NM ENERGY, INC.		6103'

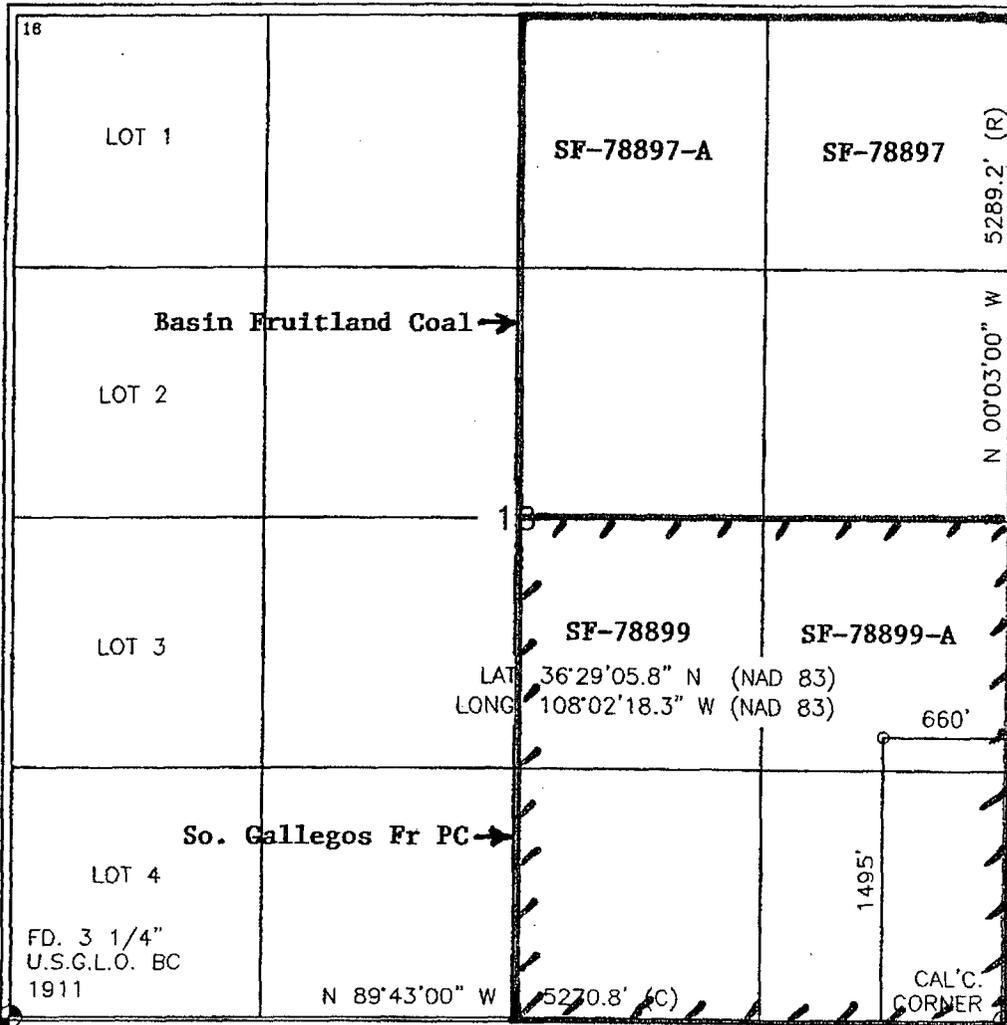
¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
1	18	26-N	11-W		1495	SOUTH	660	EAST	SAN JUAN

¹¹ Bottom Hole Location if Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
** Dedicated Acres			** Joint or Infill		** Consolidation Code		** Order No.		
160 / 320			N		C				

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



17 OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Dana J. Delventhal
Signature

Dana L. Delventhal
Printed Name

Agent
Title

01/26/05
Date

18 SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Date: December 2, 2004
Signature: *John A. Vukovich*
Registered Professional Surveyor



FD. 3 1/4"
U.S.G.L.O. BC
1911

N 89°43'00" W 5270.8' (C)

660'
1495'
CAL'C. CORNER

Certificate No. 14831

DISTRICT I
1625 W. French Dr., Hobbs, N.M. 88240

DISTRICT II
1301 W. Grand Ave., Artesia, N.M. 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, N.M. 87410

DISTRICT IV
1220 South St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

2006 MAY 15 PM 12 22

AMENDED REPORT

RECEIVED

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number		2 Pool Code 71629		3 Pool Name Basin Fruitland Coal	
4 Property Code		5 Property Name GRACIA FEDERAL 18I			6 Well Number 1S
7 OGRID No. 018118		8 Operator Name PRO NEW MEXICO ENERGY			9 Elevation 6100

10 Surface Location

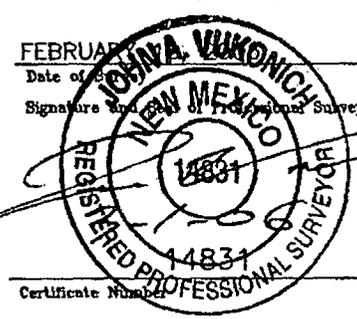
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
B	18	26-N	11-W		730	NORTH	1495	EAST	SAN JUAN

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
12 Dedicated Acres 320			13 Joint or Infill Y		14 Consolidation Code C		15 Order No.		

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

18

FD 8" IRON PIPE IN FENCE LOT 1 Basin Fruitland Coal LOT 2 LOT 3 LOT 4	FD 2 1/2" BC 1965 BOR BM LAT. 36.49336' N. (NAD 83) LONG. 108.04123' W. (NAD 83)	N 89-49-11 W 2643.5' (C) 730' 18 SF-78897-A SF-78899 SF-78899-A	CALC'D COR. DBL. PROP 1495' SF-78897 SF-78899-A S 00-03-18 W 5289.1' (C) CALC'D COR. DBL. PROP	17 OPERATOR CERTIFICATION <i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</i> Dana J. Delventhal 5/12/06 Signature Date Dana L. Delventhal Printed Name
	18 SURVEYOR CERTIFICATION <i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i>			
	FEBRUARY Date of Signature and Title of Professional Surveyor  Certificate Number			

Area	Farmington, NM	Field	Basin Fruitland Coal	AFE No.
Type: (X) 1. D & E 2. Repair 3. Other				Well Name <u>Gracia Federal 181 No. 1S</u>
Group: (X) 1. Dev. 2. Maint. 3. Expl. 4. Inv. 5. Other				County and State <u>San Juan, New Mexico</u>
Project: <u>Develop Basin Fruitland Coal Reserves</u>				TD and Obj. <u>1458' - Basin Fruitland Coal</u>
				Land Lease No. <u>Communitized</u>
				AFE Date <u>6-Dec-06</u>
Operator <u>Pro NM Energy, Inc.</u>				Commencement Date: <u>Jan-07</u>
				Completion Date: _____

(1) Location, (2) Division of Int. (3) Justification

(1) Location: NE/4 Section 18, T26N, R11W
 San Juan County, New Mexico
 Dedicated Acreage: E/2 of Section 18, comprising 320 acres m/l

(2) Division of Interest:

Dugan Production Corp.	25.00%
Chevron USA Inc.	25.00%
Pro NM Energy	18.75%
XTO Energy, Inc.	6.25%
Sherman Dugan	5.00%
Jim Jacobs	5.00%
F. L. Crane	5.00%
Tommy Roberts	5.00%
Dorothy Winer	5.00%

(3) Justification: To develop Basin Fruitland Coal reserves in the E/2 of Section 18, T26N, R11W

Description	TANGIBLE Gross \$	INTANGIBLE Gross \$	GROSS ECONOMICS
Material Purchased	38,039		Gross Recovery _____
Fuel, Water, Lubs., Elec.		4,900	Discount Factor _____%
Loc. Damages, Roads-Bridges		15,480	Discounted Profit \$ _____
Salvage & Dismantling Costs			
Drilling Contract-Footage		37,617	Rate of Return _____ %
Drilling Contract-Daywork		8,500	Payout _____
Drilling Bits & Reamers			
Fishing Tool Expense			
Directional Drilling Costs			
Mud Mat'ls, Chems. & Services		3,600	
Cement & Cementing Service		17,490	
Noncontrollable Materials			
Rentals		12,200	
Coring Costs			
Drill Stem Tests			
Perforating		7,362	Cash and Warehouse Outlay
Acidizing, Fracturing		50,000	
Well Services, Elec.-Mud Log.		6,000	Gross Cost <u>\$ 279,305.40</u>
Transportation			
Overhead-Partner Op'd.		2,000	Net <u>\$ 69,826.35</u>
Area Expense			
Meter	4,000		Approvals: _____ Date _____
Contract Labor		10,756	
Pumping Unit and Engine	32,368		
Miscellaneous Services		3,602	
Compressor			Chevron U.S.A., Inc.
Subtotal	\$ 74,407	\$ 179,507	
Tot. Cash & Wrhs. Outlay			
Material on Hand			
Contingency at 10%	7,441	17,951	
Grand Total	\$ 81,848	\$ 197,458	
TOTAL WELL COST	\$ 279,305		

Area	Farmington, NM	Field	Basin Fruitland Coal	AFE No.
Type: (X) 1. D & E 2. Repair 3. Other				Well Name Gracia Federal 18I No. 1
Group: (X) 1. Dev. 2. Maint. 3. Expl. 4. Inv. 5. Other				County and State San Juan, New Mexico
Project: Develop Basin Fruitland Coal Reserves				TD and Obj. 1468' - Basin Fruitland Coal
				Land Lease No. Communitized
				AFE Date 6-Dec-06
Operator Pro NM Energy, Inc.				Commencement Date: Jan-07
				Completion Date:

(1) Location, (2) Division of Int. (3) Justification

(1) Location: SE/4 Section 18, T26N, R11W
 San Juan County, New Mexico
 Dedicated Acreage: E/2 of Section 18, comprising 320 acres m/l

(2) Division of Interest:

Dugan Production Corp.	25.00%
Chevron U.S.A., Inc.	25.00%
Pro NM Energy, Inc.	18.75%
XTO Energy, Inc.	6.25%
Sherman Dugan	5.00%
Jim Jacobs	5.00%
F. L. Crane	5.00%
Tommy Roberts	5.00%
Dorothy Winer	5.00%

(3) Justification: To develop Basin Fruitland Coal reserves in the E/2 of Section 18, T26N, R11W

Description	TANGIBLE Gross \$	INTANGIBLE Gross \$	GROSS ECONOMICS
Material Purchased	22,210		Gross Recovery _____
Fuel, Water, Lubs., Elec.		2,450	Discount Factor _____ %
Loc. Damages, Roads-Bridges		10,865	Discounted Profit \$ _____
Salvage & Dismantling Costs			
Drilling Contract-Footage		19,000	Rate of Return _____ %
Drilling Contract-Daywork		8,500	Payout _____
Drilling Bits & Reamers			
Fishing Tool Expense			
Directional Drilling Costs			
Mud Mat'ls, Chems. & Services		1,800	
Cement & Cementing Service		8,745	
Noncontrollable Materials			
Rentals		6,100	
Coring Costs			
Drill Stem Tests			
Perforating		3,681	Cash and Warehouse Outlay
Acidizing, Fracturing		50,000	
Well Services, Elec.-Mud Log.		3,000	Gross Cost \$ 218,106.90
Transportation			
Overhead-Partner Op'd.		2,000	Net \$ 54,526.73
Area Expense			
Meter	15,000		Approvals: _____ Date
Contract Labor		8,628	
Pumping Unit and Engine	16,184		
Miscellaneous Services		20,116	
Compressor			Chevron U.S.A., Inc.
Subtotal	\$ 53,394	\$ 144,885	
Tot. Cash & Wrbs. Outlay			
Material on Hand			
Contingency at 10%	5,339	14,489	
Grand Total	\$ 58,733	\$ 159,374	
TOTAL WELL COST	\$ 218,107		