



August 15, 2007

Name  
Address  
City, State ZIP

**RE: Request for Oil & Gas Lease  
Lands in N/2 of Section 18, T29N, R13W  
San Juan County, New Mexico**

NAME:

Merrion Oil & Gas has determined that you own \_\_\_ acres of mineral rights in the N/2 of Section 18 on the west end of Farmington. We do not find any record that you have leased those minerals, and we would like to make an offer to lease them.

We assume you have received offers in the last few years to lease those minerals. Typically, the offers are in the range of \$50 to \$200 per acre bonus, with the mineral owner keeping a 12.5% royalty. While those are not unreasonable terms, we have recently purchased rights in the section in a competitive process that set a much higher price. We are willing to offer to lease your minerals on the same terms. In that regard, attached is a lease which has the following general provisions:

1. **\$900** per net mineral acre bonus up front.
2. **16.667%** royalty
3. 5 year paid up term.
4. You represent that you own the minerals and that you have not previously leased the minerals, or if you have, that those leases are no longer in effect.

What this means to you:

- You would get an upfront payment of \$\_\_\_ for your \_\_\_ net acres.
- Merrion has 5 years to drill a well (we intend to drill to the Fruitland Coal) in the N/2 of 18.
- All of the N/2 of Section 18 would share in the well. Your \_\_\_ acre lease represents \_\_\_% of the 250.15 acres in the N/2. Therefore, you would retain a royalty interest in the well equal to \_\_\_%. If the well makes 3000 MCF in a month at a \$5 wellhead gas price, that would net you \$\_\_\_ per month. Obviously, there is no guarantee what the well will make, or how long it will last.

If this all sounds messy and you don't want to have to deal with oil and gas checks on your taxes, we would offer to buy the minerals outright for **\$1800/acre, or \$\_\_\_\_\_.**

This is a nonbinding offer that is subject to additional title research and which Merrion can withdraw at any time without notice. Having said that, if you are interested in either leasing or selling your mineral rights, please give Martha Goats a call at 505-324-5317. She will double check title, and will coordinate getting you a check and getting the necessary paperwork signed.

If you have questions, please give me a call at 505-324-5314. We look forward to hearing from you.

Sincerely,

George Sharpe  
Manager, Oil & Gas Investments



June 18, 2008

CERTIFIED RETURN RECEIPT REQUESTED

**RE: PROPOSAL TO DRILL – WESTLAND PARK #1 AND #2  
N/2 SECTION 18, T29N, R13W  
SAN JUAN COUNTY, NEW MEXICO**

To Unleased Mineral Owners:

Merrion Oil & Gas is proposing to drill two Fruitland Coal wells in the north half of Section 18, T29N, R13W. Our title review indicates that you own mineral rights on this land as summarized in Attachment 1. You have a number of choices as to what you would like to do with the interest. Your options are listed below:

- 1. Your first option is to participate in the wells, where you would pay your proportionate share of the drilling, completion, and ongoing operating costs and would receive your proportional share of the production.** The Fruitland Coal formation is spaced on half of a section of land, which in this case, will be the N/2 of Section 18. This is a small truncated section, so the N/2 contains only 250 acres. All the mineral owners in the N/2 of 18 will share in the wells on a proportional basis. Therefore, if you own 1 acre of minerals, you would “own” 1/250th of each well (or 0.40%). The attached AFE provides an estimate of the drilling and completion costs, but actual costs may vary significantly from the AFE.
- 2. Your second option would be to lease to Merrion Oil & Gas. Merrion would pay you \$250 per net acre and you would retain a 15% royalty interest.** Therefore, if you own 1 acre of minerals, you would receive an upfront check for \$250 and a royalty interest of 0.060% (1/250 times 15%) in each well. You would have no obligation to pay ANY costs associated with drilling, producing, or plugging the wells. **NOTE: The lease calls for no well to be drilled on your surface without your expressed written permission and the negotiation of a mutually acceptable surface use agreement.**
- 3. Your third option is to sell your mineral interests to Merrion for \$1500 per net acre.** This represents a significant premium to you to help reduce our administrative burden.
- 4. If you do not choose one of the above options, your interest will be subject to the terms and provisions of any force-pooling order that may be issued by the NMOCD.** The rules of the State provide for the “force pooling” of non-committed interests so that one or more owners within a spacing unit are not able to deny the right of other owners to drill and access their minerals. Merrion will be starting the force pooling process parallel with our efforts to sign individuals up for one of the above three options. A hearing has been requested before the New Mexico Oil Conservation Division (NMOCD) on August 14, 2008 as part of the process. If your interest is force-pooled, you would still receive a 12.5% royalty proportionally reduced to your mineral acreage on revenue. The force-

pool order would also provide that Merrion would pay all costs and would receive the balance of your proportional share of the operating profit on each well until Merrion recovered the costs plus a penalty assessed for the risk assumed by Merrion on your behalf. At that point, you would own a 100% working interest proportionally reduced to your acreage, and would pay your full share of all operating costs and receive your full share of all revenue.

Attachment 4 is a copy of Merrion's application for force pooling on these two wells. Merrion has requested an August 14 hearing date to give all parties adequate time to review the options and make an informed decision. If you choose not to elect one of the first three options above and you oppose Merrion's application, then you may choose to participate in the hearing process by notifying the NMOCD in writing of your desire to participate prior to the hearing, by filing a pre-hearing statement with the NMOCD in accordance with its rules, and by attending the hearing. The mailing address for the NMOCD and the location of the hearing is 1220 S. St. Francis Dr., Santa Fe, NM 87505.

Please indicate on the attached Option Summary which of the first three options you choose and follow the directions for that option. Again, a non-response will ultimately go through the force pooled process.

If you have any specific questions as to your mineral interest or your options, please give me a call and I will do my best to give you answers.

Sincerely,

Briana Campbell  
Land Analyst  
505-324-5325  
bcampbell@merrion.bz

## Summary of Options Westland Park 1 & 2 Drilling Proposal

**1. Participate as working interest owner in drilling of wells**

- Please note option 1 below and return this form
- Please sign and return a copy of the attached Authorization For Expenditures
- Please sign and return a copy of the Operating Agreement (OA) signature page. Note that the entire proposed OA can be reviewed on line at <ftp://merrion.bz/WestlandPark/OA.PDF>
- If you do not have on line access and would like to get a copy of the OA, please contact Briana Campbell at 505-324-5325.

**2. Lease to Merrion Oil & Gas**

- Please note option 2 below and return this form
- Merrion will send you a lease to execute (lease form can be viewed at <ftp://merrion.bz/WestlandPark/LSE.PDF> )
- Upon receipt of executed lease, Merrion will pay you your bonus check

**3. Sell Minerals to Merrion Oil & Gas**

- Please note option 3 below
- Merrion will send you a Deed to execute (form of Deed can be viewed at <ftp://merrion.bz/WestlandPark/MD.PDF> )
- Upon receipt of executed Deed, Merrion will pay you your purchase check

**4. Allow Minerals to be Force Pooled**

- A hearing has been requested for August 14, 2008 before the NMOCD
- If you object to the force pooling or would like to participate in the hearing, please contact the NMOCD at 1220 S. St. Francis Dr., Santa Fe, NM 87505 at least 20 days prior to the hearing. You will be required to file a prehearing statement in accordance with the rules of the NMOCD.
- The Operating Agreement that will be presented to the NMOCD to govern operations of the well, both before and after payout, can be viewed on line at <ftp://merrion.bz/WestlandPark/OA.PDF>. If you do not have on line access and would like to get a copy of the OA, please contact Briana Campbell.

OPTION CHOSEN \_\_\_\_\_ Date: \_\_\_\_\_  
Name: \_\_\_\_\_ Spouse: \_\_\_\_\_  
Signature: \_\_\_\_\_ Spouse: \_\_\_\_\_  
Address: \_\_\_\_\_  
Phone: \_\_\_\_\_ Email: \_\_\_\_\_

Please sign and return this page along with the documents listed above to Briana Campbell, Merrion Oil & Gas, 610 Reilly Ave., Farmington, NM 87401

## **List of Attachments**

1. Unleased mineral owners, address, and mineral acres owned.
2. Authorization for Expenditures (AFEs)
3. Operating Agreement Signature Pages
4. Application to NMOCD for Force Pooling



June 24, 2008

CERTIFIED RETURN RECEIPT REQUESTED

**RE: NOTIFICATION OF REVISED HEARING DATE  
COMPULSORY POOLING – WESTLAND PARK #1 AND #2  
N/2 SECTION 18, T29N, R13W  
SAN JUAN COUNTY, NEW MEXICO**

To Unleased Mineral Owners and Uncommitted Working Interest Owners:

Merrion Oil & Gas sent you a letter dated June 18, 2008 proposing to drill the subject wells. In the letter we noted that we had requested that the NMOCD set the matter of compulsory pooling of these wells on the August 14, 2008 docket. Unfortunately, the NMOCD does not have a hearing on that date. Therefore, Merrion has requested that the matter be moved to the August 7, 2008 docket. Attached is that letter for your review. Sorry for the confusion.

Again, we hope you will choose one of the other options presented in our letter. We look forward to hearing from you in that regard.

Sincerely,

A handwritten signature in cursive script that reads "Briana Campbell". The signature is written in black ink and is positioned to the right of the word "Sincerely,".

Briana Campbell  
Land Analyst  
505-324-5325  
bcampbell@merrion.bz