

**PRO NM ENERGY INC.**  
OIL AND GAS PRODUCTION AND PROPERTIES

RECEIVED

2008 FEB 13 PM 5:46

February 11, 2008

BY FEDERAL EXPRESS

Mr. Larry Angle  
Chevron U.S.A., Inc.  
1111 S. Wilcrest, Rm S-2040  
Houston, TX 77099

Re: NOTIFICATION OF ELECTION

Compulsory Pooling

Wells: Gracia Federal 18I No. 1, Unit I, API # 30-045-32857

Gracia Federal 18I No. 1S, Unit B, API #30-045-33468

Dedication: E/2 of Section 28, T26N, R11W, NMPM

San Juan County, New Mexico

NMOCD Case 14019, Order R-12902

Dear Mr. Angle:

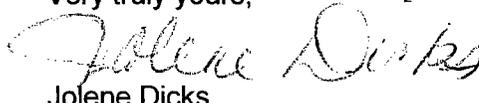
On behalf of Pro NM Energy, Inc. and in accordance with the terms of the New Mexico Oil Conservation Division Order R-12902, copy enclosed, I am providing you with notice of your right to elect to participate in the wells on the pooled acreage.

Pro NM Energy's records indicate that you have 18.75% working interest ownership in this 320-acre spacing unit for all formations from the surface to the base of the Pictured Cliffs formation in these well. Should Chevron desire to participate in the wells and avoid the payment of the 200% risk factor out of its share of production, then within thirty days of the date you receive this letter, provide notice to Pro NM Energy, Inc., 460 St. Michael's Dr., #300, Santa Fe, NM 87505 that you wish to participate in the wells. Upon receipt of such notification, we will provide a detailed accounting of the drilling and completion costs to date for Chevron's interest, and in return Chevron will pay for its percentage of the costs.

If you decide not to participate then you need do nothing further. In that event, Pro NM Energy, Inc. will pay your share of the costs of drilling, completing and operating charges for the wells and will recover your share out of production plus an additional 200 percent, until payout.

In the alternative, Pro NM Energy, Inc., requests that Chevron reconsider our August 14, 2007 invitation to sell Chevron's interest. The offer has been revised to correctly reflect Chevron's interest of 75% working interest in the W/2SE/4, T26N, R11W, San Juan County, New Mexico, and the revised Offer to Purchase is enclosed.

Very truly yours,

  
Jolene Dicks

Enclosures

cc: Director NMOCD-Santa Fe

**PRO** NM ENERGY INC.  
OIL AND GAS PRODUCTION AND PROPERTIES

VIA FEDERAL EXPRESS

February 11, 2008

Chevron USA, Inc.  
Attn: Larry Angle  
11111 S. Wilcrest, Rm S-2040  
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:

Pro NM Energy, Inc., ("Pro") offers to purchase all of Chevron's right, title and interest in the W/2 of Said Section 18, (75% operating rights in W/2SE/4, Section 18, T26N, R11W, San Juan County, New Mexico) amounting a net 60 acres, on the following terms:

- a. Pro NM Energy, Inc., offers the sum of Eighteen Thousand Dollars (\$18,000.00) (\$300.00 per net 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.

Chevron USA Inc.  
Offer to Purchase  
Page 2  
February 11, 2008

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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.

Very truly yours,

PRO NM ENERGY, INC.

By   
Its President

PURCHASE AND SALE AGREED TO AND  
ACCEPTED on \_\_\_\_\_, 2008

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Chevron, USA, Inc.  
By: Its \_\_\_\_\_

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 PURPOSE OF  
CONSIDERING:

CASE NO. 14019  
ORDER NO. R-12902

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came for hearing at 8:15 a.m. at Santa Fe, New Mexico on November 1, 2007 before Examiner William V. Jones.

NOW, on this 4<sup>th</sup> day of February 2008, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) The applicant, PRO NM Energy, Inc. ("applicant" or "PRO NM"), seeks an order pooling all uncommitted interests from the surface to the base of the Fruitland Coal formation underlying the E/2 of Section 18, Township 26 North, Range 11 West, NMPM, San Juan County, New Mexico, in the following manner:

the E/2 to form a standard 320-acre gas spacing unit for all formations and pools spaced on 320 acres within this vertical extent, including but not limited to, the Basin-Fruitland Coal Gas Pool (71629).

(3) The above-described unit ("the Unit") is to be dedicated to the following two wells already drilled and cased by the applicant, but not yet completed:

(a) The Gracia Federal 18-1 Well No. 1 (API No. 30-045-32857) is located 1495 feet from the South line and 660 feet from the East line (Unit I) of Section 18. The well was drilled through the Pictured Cliffs formation and casing was run in February of 2007.

(b) The Gracia Federal 18-1 Well No. 1S (API No. 30-045-33468) is located 730 feet from the North line and 1495 feet from the East line (Unit B) of Section 18. The well was drilled through the Pictured Cliffs formation and casing was run in March of 2007.

(4) No other parties entered an appearance in this case or otherwise opposed the application.

(5) The applicant provided testimony by affidavit at the hearing as follows:

(a) The applicant proposed these wells to all parties controlling acreage in this E/2 of Section 18 and has received a response from all of these except Chevron USA, Inc. who is the lessee of the W/2 SE/4 of Section 18. Chevron has indicated it would not respond to PRO NM's well proposals; however, it would not oppose this application for compulsory pooling.

(b) It was first thought, by both Chevron and PRO NM, that Chevron only owned the SW/4 SE/4 of Section 18. The latest title opinion showed Chevron controlling the 80 acres consisting of the W/2 SE/4 – see applicant's Exhibit 1(B).

(6) According to early filed correspondence with the Division, the intended completion target for at least one of these wells was to include both the Fruitland Sands and the Fruitland Coals. The Sands are spaced on 160-acre units. However, PRO NM has now decided to complete both wells only in the Basin-Fruitland Coal Gas Pool.

(7) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill its Gracia Federal 18-1 Wells No. 1 and 1S to a common source of supply within the E/2 of Section 18.

(8) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(9) There are interest owner(s) in this Unit that have not yet agreed to pool their interest(s).

(10) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(11) Applicant should be designated the operator of the proposed well and of the Unit.

(12) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$3000 per month per well while drilling and \$600 per month per well while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

**IT IS THEREFORE ORDERED THAT:**

(1) Pursuant to the application of PRO NM Energy, Inc. ("applicant"), all uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Fruitland Coal Formation underlying the E/2 of Section 18, Township 26 North, Range 11 West, NMPM, San Juan County, New Mexico, are hereby pooled, as follows:

the E/2 to form a standard 320-acre gas spacing unit for all formations and pools spaced on 320 acres within this vertical extent, including but not limited to, the Basin-Fruitland Coal Gas Pool (71629).

(2) The above-described unit ("the Unit") shall be dedicated to the applicant's Gracia Federal 18-I Well No. 1 (API No. 30-045-32857), located in Unit I of Section 18 and to the applicant's Gracia Federal 18-I Well No. 1S (API No. 30-045-33468), located in Unit B of Section 18.

(3) The operator of the Unit shall commence completing these wells on or before April 30, 2008 and shall thereafter continue completion operations with due diligence to test the Fruitland Coal formation in each of these wells at an approximate total depth of 1450 feet.

(4) In the event the operator does not commence completion operations on at least one of the proposed wells on or before April 30, 2008, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(5) Should neither of these proposed wells be completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the unit created by this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

(6) Upon final plugging and abandonment of the Gracia Federal 18-I Well No. 1 (API No. 30-045-32857) and the Gracia Federal 18-I Well No. 1S (API No. 30-045-33468), and any other well drilled on the Unit pursuant to Division Rule 36, the pooled

unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) PRO NM Energy, Inc. (OGRID 18118) is hereby designated the operator of the proposed wells and of the Unit.

(8) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(9) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(10) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(11) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(12) The operator is hereby authorized to withhold the following costs and charges from production:

(a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and

(b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(13) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$3000 per month per well while drilling and \$600 per month per well while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*" The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(15) Except as provided above in Ordering paragraphs (12) and (14), all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

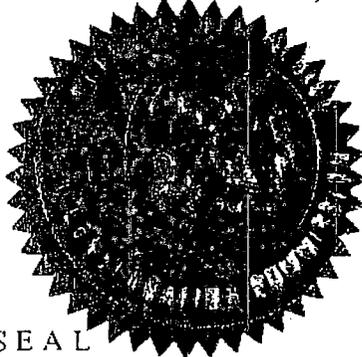
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(18) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(19) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.  
Director