

Brooks

RECEIVED OCD

2010 MAY -7 P 12: 58

May 5, 2010

**CERTIFIED MAIL-RETURN RECEIPT REQUESTED No. 7009 2250 0003 4168 6403**

New Mexico Oil Conservation Division  
Attn: Mark E. Fesmire, P.E. – Director  
1220 South St Francis Drive  
Santa Fe, NM 87505

**Re: NOTIFICATION OF ELECTION**

Compulsory Pooling  
Monarch Crest 24 Well No. 1, Unit H, **API #30-045-34770**  
Dedication: W/2 of Section 24, T30N- R12W, NMPM  
San Juan County, New Mexico  
NMOCD Case 14464, Order R-13249

Dear Mr. Fesmire:

In accordance with the terms of the New Mexico Oil Conservation Division Order R-13249 page 3, number (8), enclosed please find copies of the notice to the pooled working interest owner with enclosures of the AFE and Order R-13249.

Very truly yours,

Sheryl A. Olson, CPL  
Land Consultant

Enclosures: 1 Notice of Election with enclosures

cc: Thomas Kellahin



May 5, 2010

**CERTIFIED MAIL-RETURN RECEIPT REQUESTED No. 7009 2250 0003 4168 6397**

Union Pacific Railroad Company, c/o Farmers National Company  
5110 So Yale, Suite 400  
Tulsa, OK 74135  
Attn: Ms. Samantha Morgan

**Re: NOTIFICATION OF ELECTION**

Compulsory Pooling

Well: Monarch Crest 24 Well No. 1, Unit C, **API #30-045-34770**

Dedication: W/2 of Section 24, T30N - R12W, NMPM

San Juan County, New Mexico

NMOCD Case 14464, Order R-13249

Dear Ms. Morgan:

On behalf of San Juan Resources, Inc. and in accordance with the terms of the New Mexico Oil Conservation Division Order R-13249, copy enclosed, we are providing you with notice of your right to elect to participate in the drilling, completion and production of this well into the Mesaverde and Dakota formations pursuant to this order.

San Juan Resources' records indicate that you are an unleased mineral interest owner in these 320-acre spacing units for all formations from the base of the Pictured Cliffs formation to the base of the Dakota formation in this well. Should you desire to participate in this well and avoid the payment of the 200% risk factor out of its share of production, then within thirty (30) days of the date you receive this letter, San Juan Resources, located at 1499 Blake Street, Suite 10C, Denver, Colorado 80202 must receive a cashier's check for your percentage of the completed well costs and a letter signed by you agreeing to participate in this well pursuant to this pooling order. Enclosed is a copy of the AFE for this well, which is the same AFE, as introduced at the hearing.

If you decide not to participate then you need do nothing further. In that event, San Juan Resources will pay your share of the costs of drilling and completing the well and will recover your share out of production plus an additional 200 percent.

Very truly yours,

Sheryl A. Olson, CPL  
Land Consultant

Enclosures: 2.

cc: Director NMOCD-Santa Fe

May 5, 2010

Notification of Election, Compulsory Pooling NMOCD Case 14464, Order R-13249

Page 2

**ELECTION Monarch Crest 24 #1**

**T30N-R12W, Section 24: W/2, San Juan County, New Mexico**

\_\_\_\_\_ **Yes**, I/we hereby elect to participate in the Monarch Crest 24 #1 well, API #30-045-34770, and enclose one originally executed copy of the AFE, one original execution of this Election Letter and a cashier's check for the proportionate share of drilling and completion costs set forth of the enclosed AFE.

**Accepted and Agreed to this \_\_\_\_\_ day of \_\_\_\_\_, 2010**

**Union Pacific Railroad Company  
c/o Farmers National Company**

\_\_\_\_\_  
By:

Address: \_\_\_\_\_  
\_\_\_\_\_

Phone: \_\_\_\_\_

## Drilling and Completion Cost Estimate

### San Juan Resources, Inc. AUTHORITY FOR EXPENDITURE

Well Name: **Monarch Crest 24 #1**

Location: Section 24, NE1/4 NW1/4, T30N, R12W, San Juan County, NM

Proposed Depth: **6750'**

Objective: **Dakota/Mesaverde**

	Tangible	Intangible	Total
<b>I. Drilling Costs</b>			
Leasehold acquisition costs (acquisition, bonus, other)			
Survey and Permits		1,000	1,000
Title Opinion and Land Costs		30,000	30,000
Damages		20,000	20,000
Dirt Work (road, pad, pit etc)		12,000	12,000
Pit Liner and Fence		1,000	1,000
Drill Conductor hole		0	0
Drilling Rig day rate (\$11,800) @ 10 days		118,000	118,000
Rig Rentals (shock sub, forklift, trash basket, toilets, etc)		6,600	6,600
Drill Bits (12-1/4" surface: \$675, 8-3/4": \$7500)		8,175	8,175
Air Hammer		10,463	10,463
Rig Mob and Demob (rig plus trucking)		18,000	18,000
Water and Water Hauling		12,000	12,000
Drilling Mud		10,080	10,080
Conductor Casing			0
Surface Casing (320' of 9-5/8", 36# @ 22 \$/ft.)	7,040		7,040
Casing Head	5,600		5,600
Cement Surface		4,500	4,500
Intermediate Casing (4300' of 7", 20# @ 12.16 \$/ft)	52,300		52,300
Intermediate Cement		12,500	12,500
Logs		0	0
Geologist/Mud Logger		6,000	6,000
Miscellaneous		8,000	8,000
Air Package (rental plus moving costs, also includes fuel)		20,310	20,310
Nitrogen Unit (for Dakota/air drilling)		6,800	6,800
Fuel (over \$2.00/gal: \$0.41x7800 gal)		3,198	3,198
Trucking		9,500	9,500
Engineering/Supervision		9,600	9,600
Closed Loop System		46,000	46,000
<b>Total Drilling Cost</b>	<b>64,940</b>	<b>373,726</b>	<b>438,666</b>
10% Contingency	6,494	37,373	43,867
<b>Grand Total Drilling Costs</b>	<b>71,434</b>	<b>411,099</b>	<b>482,533</b>

### II. Completion Costs (as needed).

Production Casing (5750' of 4-1/2" J-55 @ \$7.50/ft + 1000' 4-1/2" N-80 @ \$9.35/ft)	52,475	0	52,475
Casing Crew		10,200	10,200
Linger Hanger	0		0
Production Cement		15,000	15,000
Tubing Head and Well Connection Fittings	4,500		4,500
Tubing (6700' of 2-3/8" @ 3.70 \$/ft.)	24,790		24,790
Rods, Pump, SB, PR, ect.	0		0
Perf/cased hole logs		10,500	10,500
Stimulation: Dakota (100,000# x-link)		60,000	60,000
Stimulation: Point Lookout (67,500# slickwater)		64,000	64,000
Stimulation: Menefee/Cliff House (30,000# slickwater)		43,000	43,000
Tool Rental (Frac Valve)		1,800	1,800
Downhole tools (BP, packers, etc)		3,500	3,500
Frac Tank Rental (13 tanks plus moving costs)		8,500	8,500
Completion Fluids		16,000	16,000
Completion Rig (10 days at \$3000/day)		30,000	30,000
Air Package (including trucking & fuel)		11,000	11,000
Separator	13,000		13,000
Flowlines and Install	2,000	6,000	8,000
Tank and Install	10,500	1,000	11,500
Trucking		7,500	7,500
Restore Location		5,000	5,000
Engineering/Supervision		7,500	7,500
<b>Completion Costs</b>	<b>107,265</b>	<b>300,500</b>	<b>407,765</b>
10% Contingency	10,727	30,050	40,777
<b>Total Completion Costs</b>	<b>117,992</b>	<b>330,550</b>	<b>448,542</b>
<b>Grand Total Well Costs</b>	<b>189,426</b>	<b>741,649</b>	<b>931,074</b>

Prepared By: Jerome P. McHugh, Jr. President/Owner  
Date: January 12, 2010

Working Interest Owner %: 1.95219%  
Working Interest Owner Share: \$ 18,176

ESTIMATED COSTS ONLY--Each participating  
Owner to pay Proportionate Share of Actual  
Well Costs Subject to Operating Agreement

Working Interest Owner:  
Union Pacific Railroad Company  
c/o Farmers National Company  
5110 So Yale, Suite 400  
Tulsa, OK 74135  
Attn: Ms. Samantha Morgan

Approved: \_\_\_\_\_  
Title: \_\_\_\_\_ Date: \_\_\_\_\_

**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. 14464  
ORDER NO. R-13249**

**APPLICATION OF SAN JUAN REOURCES, INC. FOR COMPULSORY  
POOLING, SAN JUAN COUNTY, NEW MEXICO.**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This case came on for hearing at 8:15 a.m. on April 29, 2010, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 3<sup>rd</sup> day of May, 2010, 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) San Juan Resources, Inc. ("Applicant"), seeks an order pooling all uncommitted interests from the base of the Pictured Cliffs formation to the base of the Dakota formation in the W/2 of Section 24, Township 30 North, Range 12 West, NMPM, in San Juan County, New Mexico, to form a standard 320-acre, more or less, gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the Blanco-Mesaverde Gas Pool (72319) and the Basin-Dakota Gas Pool (71599).

(3) The Unit is to be dedicated to Applicant's proposed Monarch Crest 24 Well No. 1 (API No. 30-045-34770), (the "proposed well") to be drilled at a standard location 846 feet from the North line and 1338 feet from the West line (Unit C) of Section 24.

(4) 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.

(5) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(6) There are interest owners in the Unit that have not agreed to pool their interests. However, all interest owners have been located, and there is no evidence of a title dispute.

(7) 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.

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

(9) 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.

(10) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,800 per month while drilling and \$580 per month 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 San Juan Resources, Inc., all uncommitted interests, whatever they may be, in the oil and gas from the base of the Pictured Cliffs formation to the base of the Dakota formation in the W/2 of Section 24, Township 30 North, Range 12 West, NMPM, in San Juan County, New Mexico, are pooled to form a standard 320-acre, more or less, gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the Blanco-Mesaverde Gas Pool (72319) and the Basin-Dakota Gas Pool (71599).

(2) The Unit shall be dedicated to Applicant's proposed Monarch Crest 24 Well No. 1 (API No. 30-045-34770), to be drilled at a standard location 846 feet from the North line and 1338 feet from the West line (Unit C) of Section 24.

(3) The operator of the Unit shall commence drilling the proposed well on or before April 30, 2011, and shall thereafter continue drilling the well with due diligence to test the Dakota formation.

(4) In the event the operator does not commence drilling the proposed well on or before April 30, 2011, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(5) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraph (1) shall be of no further effect, and the Unit created by this Order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence.

(6) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule Part 13, Sections 9 through 11, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) San Juan Resources, Inc. (OGRID 20208) is hereby designated the operator of the proposed well 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 \$5,800 per month while drilling and \$580 per month 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) 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.

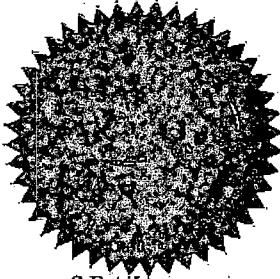
(16) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(17) 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.

(18) 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.



SEAL

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.  
Director