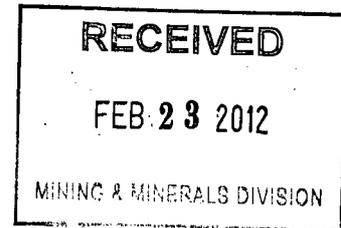




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BP America Production Co. P.O. Box 3092
North American Gas - San Juan Houston, TX 77253-3092
281-366-2761 (direct) 501 West Lake Park Blvd.
281-366-0700 (fax) Houston, TX 77079

February 20, 2012

TO: Gallegos Canyon Unit Working Interest Owners

RE: Pay Well Determination for Recompletions to a Different Zone
Gallegos Canyon Federal Unit
San Juan County, New Mexico

Dear Gallegos Canyon Unit Working Interest Owners:

As a Working Interest Owner in the Gallegos Canyon Unit ("GCU"), you are aware that this 39,324.51 acre, more or less, Federal Unit was unitized in 1950 and is governed by the following instruments:

- (1) Unit Agreement for the Development and Operation of the Gallegos Canyon Unit Area – dated November 1, 1950("UA")
- (2) Unit Operating Agreement under UA – dated January 15, 1951.
- (3) Miscellaneous other Amendments – various dates.

Over the last 60 years, hundreds of the wells have been drilled and completed in various zones within the GCU. These zones are Dakota, Mancos, Fruitland Coal, Fruitland Sand and Pictured Cliffs, all having one or more Participating Areas ("PA") associated with each zone.

BP America Production Company ("BP"), as the Operator of the GCU, is in the initial stages of a recompletion program to identify any low or under performing Dakota wells with the intention to recomplete, on a well-by-well basis, to the Basin Mancos zone. Depending upon specific data related to each Dakota well, the Dakota zone will either be commingled with the Basin Mancos zone or the Dakota may be plugged and abandoned. Currently, there are four Basin Mancos Participating Areas located within the boundaries of the GCU:

- (1) Gallup "A" PA
- (2) Gallup "B" PA
- (3) Gallup "C" PA
- (4) Gallup "D" PA

Many of the upcoming recompletions will be located within the boundaries of one of the above listed PA's, but others will be offsetting the above PA's and pursuant to the terms of the UA must be recompleted on a lease basis. It is anticipated that the recompletions that are offsetting a PA will be successful and will produce in paying quantities as to the associated recompletion and producing costs. Should any of the offsetting recompletions be successful, BP would like to expand the offsetting PA to include the new recompleted well: Article 10 of the UA states that:

“The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities.”

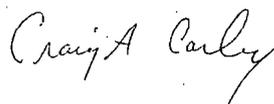
Per 43 CFR 3186.1 the Bureau of Land Management (“BLM”) defines “paying quantities” as follows:

“quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit.”

In order to expand any PA to include a successfully recompleted well, BP proposes using the recompletion costs in the commerciality determination above as the functional equivalent of the drilling and completion costs. In recent discussions on this issue with representatives of the BLM, the BLM was open to this method of calculating the commerciality determination, on the assumption that the GCU working interest owners would have no objection to same.

As to these recompletions or any other recompletions to different formations, BP plans to file the commerciality determinations by using the recompletion costs as stated above. If you are in opposition to this method of determining commerciality please reply in writing within 20 days of receiving this letter. Should you have any questions call the undersigned at 281-366-2761.

Sincerely,



Craig A. Carley
Sr. Land Negotiator – San Juan Asset

cc: Bureau of Land Management
Attn: Mr. Wayne Townsend
1235 LaPlata Highway
Farmington, NM 87401

Commissioner of Public Lands
Attn: Mr. Pete Martinez
P.O. Box 1148
Santa Fe, NM 87504-1148

GALLEGOS CANYON UNIT
Working Interest Owners

Chase Oil Corporation
Attn: Land – Oil & Gas
P.O. Box 1767
Artesia, NM 88211-1767

Dugan Production Corporation
Skip Fraker – Land Mgr.
P.O. Box 420
Farmington, NM 87499-0420

Mina Ruth Fitting
3910 Edgebrook Court
Midland, TX 79707-1434

Four Star Oil & Gas
c/o Chevron USA Inc.
Attn: Cory Wilson
1400 Smith Street
Houston, TX 77002

Johnson Family Royalty Trust
Theodore A Johnson Successor Trustee
5318 East 2nd Street #341
Long Beach, CA 90803-5354

Maryan Klinger Revocable Trust
Robert W Klinger Successor Trustee
1788 Monty Court
Stockton, CA 95207

Production Gathering Company
8080 North Central Expressway – Ste 100
Dallas, TX 75206

Ricky D. Raindl
P.O. Box 11234
Midland, TX 79702

Mary E. Nevitt
3412 Riverbend Road
Muskogee, OK 74403-2337

Transrepublic Resources Inc.
P.O. Box 3638
Midland, TX 79702-3638

ConocoPhillips Company
Terry Ruby – Land Mgr.
P.O. Box 4289
Farmington, NM 87499-4289

Energen Resources Corporation
David Poage – Dist. Landman
2010 Afton Place
Farmington, NM 87401-1601

Robert D Fitting Trust
Janet Barr Fitting, Trustee
P.O. Box 50582
Midland, TX 79710-0582

Richard M. Fulsaa
1417 W. Kiernan Ave.
Spokane, WA 99205-2640

Kalvestrand Family 1997 Trust
3453 Toro Way
Redding, CA 96002-9763

B Charles Rogers Gas Ltd.
500 West Texas, Suite 1420
Midland, TX 79701

R M Energy LLC
P. O. Box 831
Casper, WY 82602

Paul Slayton
P.O Box 2035
Roswell, NM 88202-2035

Patrick Hegarty
Synergy Operating LLC
P.O. Box 5513
Farmington, NM 87499

Robert Umbach Cancer Foundation
ZIA Data Search Corporation Agent
P.O. Box 2188
Roswell, NM 88202-2188

George Umbach
Bank of Oklahoma, Agent
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Tulsa, OK 74101

Bright Rock Partners, LLC
5956 Sherry Land, Suite 1221
Dallas, TX 75225

State of New Mexico
Commissioner of Public Lands
P.O. Box 1148
Santa Fe, NM 87504-1148

Joan Matthews
5329 Santa Teresa
El Paso, TX 79932

Bureau of Land Management
Farmington District Office
Attn: Mr. Jim Lovato
1235 La Plata Highway, Suite A
Farmington, NM 87401

State of New Mexico, Energy,
Minerals and Natural Resources
Attn: Lori Wrotenbery
1220 South St. Francis Drive
Santa Fe, NM 87505

Las Colinas Minerals
125E. John Carpenter Fwy., Ste600
Irving, TX 75062

MHT Properties, Ltd.
30840 Windsor Lane
Dallas, TX 75205

McLondon Energy, LP
P.O. Box 14230
Odessa, TX 79768

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