IN THE MATTER OF THE APPLICATION OF PRESTON EXPLORATION, L.L.C. FOR COMPULSORY POOLING EDDY COUNTY, NEW MEXICO

CASE NO.

APPLICATION

PRESTON EXPLORATION, L.L.C., by its undersigned attorneys, Miller, Stratvert P.A., (J. Scott Hall) hereby makes application pursuant to NMSA 1978 Section 70-2-17 (1995) for an order pooling all mineral interests in all formations from the surface to the deeper of the base of the Morrow formation (Cemetary Morrow Gas **Bool**) or 9,772 feet subsurface which are spaced on 320-acres underlying the SW4 SVF of Section 2, Township 20 South, Range 25 East, NMPM, Eddy County, New Mexice The interests pooled will be dedicated to a standard 320-acre spacing and proration wit or units comprised of the S/2 of said Section 2. Applicant would show the Division:

This Application is submitted pursuant to the provisions of 19.15.14.1207
 A.(1)(b) NMAC.

Applicant owns certain working interests in and under the S/2 of Section
 and has the right to drill thereon.

3. Applicant proposes to dedicate the above-referenced pooled units to its Cemetary "2" No. 2 Well to be drilled at a standard gas well location 660' from the South line and 1750' from the East line in unit "O" of said Section 2 to a depth sufficient to test the Morrow formations underlying the S/2 of Section 2.

4. Applicant has been unable to obtain leases or voluntary agreement for pooling or farmout from certain other interest owners in the above-referenced formations

underlying the SW/SW of said Section 2. Specifically, Applicant seeks an order pooling the operating rights under Federal oil and gas lease NMNM 0553777 from the surface to the deeper of the base of the Morrow formation or 9,772 feet subsurface which are owned by Santa Fe Exploration Company. The interests to be pooled comprise approximately 12 $\frac{1}{2}$ % of the working interest in the 320-acre unit.

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5. After making diligent effort, Applicant has been unable to locate Santa Fe Exploration Company or its owners and it appears that the company no longer exists. For this reason, no opposition to this Application is expected.

6. A map outlining the spacing unit and the acreage to be pooled is attached as Exhibit A.

7. Copies of the Division's approved C-101 and C-102 forms showing the location of the proposed well, along with survey, vicinity and topography maps is attached as Exhibit B.

8. The last known address of the interest owner to be pooled is:

Santa Fe Exploration Company 201 W. Third Street Roswell, New Mexico 88201

9. An attestation of the Applicant's Land Manager of the diligent efforts to locate the interest owner to be pooled is attached as Exhibit C.

10. Copies of correspondence also evidencing the Applicant's efforts to located Santa Fe Exploration Company and obtain its voluntary participation in the well are attached as Exhibit "D".

11. Applicant proposes overhead charges of \$4,100.00 per month while drilling and \$410.00 per month while operating the well. Such overhead charges are in

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line with charges for wells drilled to similar depth in southeast New Mexico according to the Ernst & Young industry survey and based on the Applicant's experience.

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12. A copy of the AFE for the proposed well is attached as Exhibit "E".

13. In order to permit the Applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interests should be pooled and Applicant should be designated operator of the well.

14. The pooling of interests will afford the Applicant the opportunity to produce its just and equitable share of hydrocarbons underlying the spacing units, will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

WHEREFORE Applicant requests that this Application be set for hearing before a duly appointed examiner of the Oil Conservation Division on May 5, 2005 and that after notice and hearing as required by law, the Division enter its Order pooling the lands, including provisions for Applicant to recover its costs of drilling, equipping and completing the well, and the allocation of the cost thereof, its costs of supervision while drilling and after completion, including overhead charges and providing for adjustments to such rates in accordance with accepted COPAS accounting procedures, and imposing a 200% risk factor for the risk assumed by the Applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper.

MILLER STRATVERT P.A.

-Qull 7. Jun

J. Scott Hall Attorneys for Preston Exploration, L.L.C. Post Office Box 1986 Santa Fe, New Mexico 87504-1986 (505) 989-9614

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DISTRICT II

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DISTRICT III 1000 Rio Brazos Rd., Aztec, NM 87410

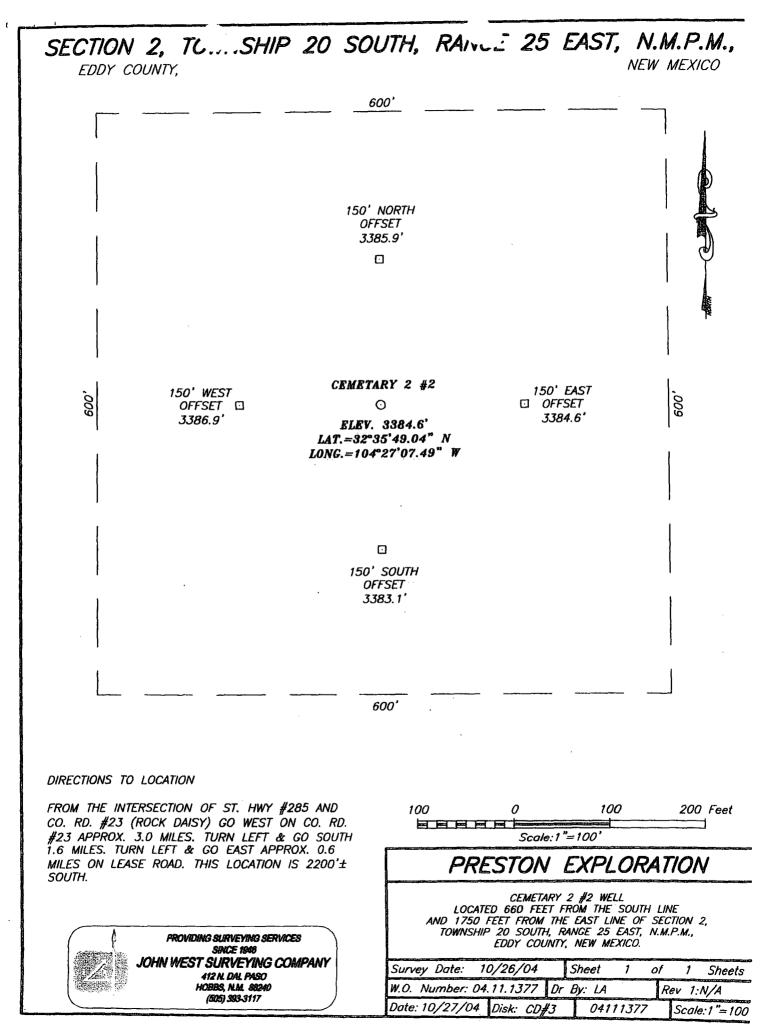
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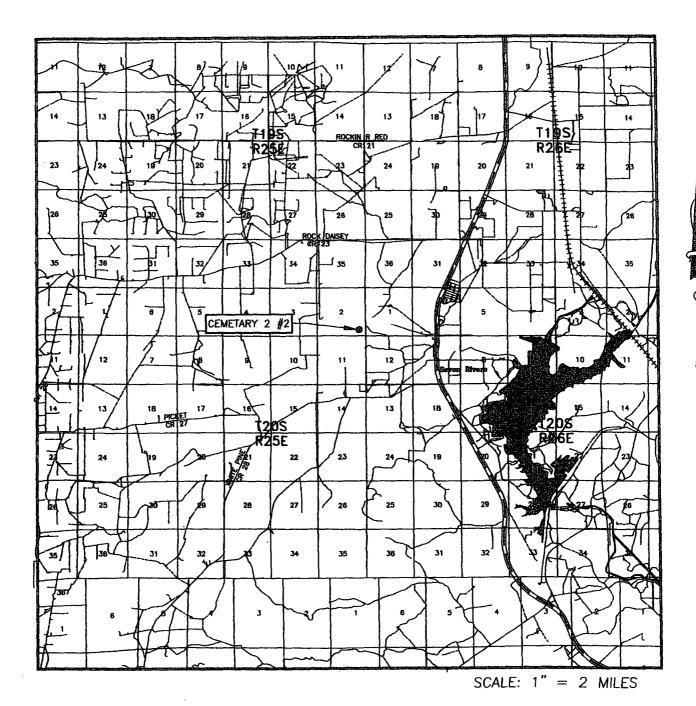
OIL CONSERVATION DIVISION 1220 SOUTH ST. FRANCIS DR. Santa Fe, New Mexico 87505

Form C-Revised JUNE 10, 1 Submit to Appropriate District Of State Lease - 4 Coj Pec Lease - 3 Coj

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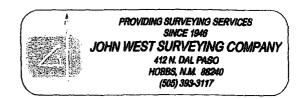


VICINITY MAP



SEC. <u>2</u> TWP. <u>20-S</u> RGE. <u>25-E</u> SURVEY <u>N.M.P.M.</u> COUNTY <u>EDDY</u> DESCRIPTION <u>660'</u> FSL <u>& 1750'</u> FEL ELEVATION <u>3385'</u> OPERATOR <u>PRESTON EXPLORATION</u> LEASE <u>CEMETARY 2</u>

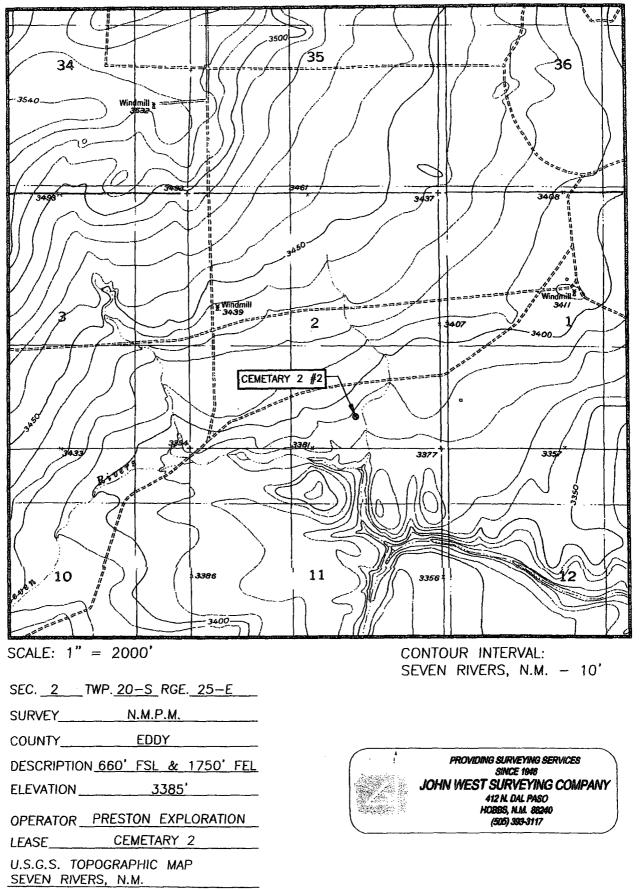
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STATE OF NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF PRESTON EXPLORATION, L.L.C. FOR COMPULSORY POOLING EDDY COUNTY, NEW MEXICO

CASE NO. _____

AFFIDAVIT OF JESSE BLUE

STATE OF TEXAS

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))ss.)

COUNTY OF MONTGOMERY

JESSE BLUE, being duly sworn, states:

- 1. I am the age of majority and am otherwise competent to testify to the matters set forth herein of which I have personal knowledge.
- 2. I am the Land Manager, New Ventures for Preston Exploration, LLC.
- 3. I have had the responsibility of determining ownership and proposing the drilling of the Cemetary "2" No. 2 well to the working interest owners in the S/2 of Section 2, T-20S, R-25-E, NMPM, in Eddy County, New Mexico.
- 4. Beginning in mid January, 2005, Preston began sending well proposals and AFE's to all uncommitted working interest owners in the unit area (there are no unleased mineral interests). According to our Original Drilling Title Opinion, the SW/4 SW/4 of Section 2, T20S, R25E, operating rights are owned by Santa Fe Exploration Company ("Santa Fe"). Santa Fe received an assignment of operating rights by Assignment dated November 14, 1983 from Monsanto Oil Company pursuant to completion of the Exxon State Com #1 well subject to the terms of a Farmout Agreement dated April 6, 1982. The interest of Monsanto Oil Company is now owned by Nearburg Producing Company ("Nearburg") and not having an address for Santa Fe, we sent a well proposal to Nearburg hoping they had a copy of the Farmout Agreement and/or a contract or address for Santa Fe. Nearburg informed us they could not find a copy of the Farmout Agreement in the files they received from Monsanto.
- 5. We sent a well proposal to Devon Energy as they had acquired a company of the same or similar name as Santa Fe. Devon reported back that they claim no interest in the SW/4 SW/4 of Section 2. We then checked the OCD online well information and got the last known address for Santa Fe off a Sundry Notice to



plug the Exxon State Com #1 well as 201 W. 3rd, Roswell, New Mexico 88201. Duke Roush with Nearburg made a trip to Roswell and found no Santa Fe at that address and none listed in Roswell for Santa Fe.

- б. Lastly, we performed several internet searches on Google, Yahoo and Anywho.com for Santa Fe without success along with the Secretary of State of New Mexico. Additionally, we searched the names of anyone who signed on behalf of Santa Fe on records filed with the OCD and found no listing.
- 7. I have reviewed the Application and the materials submitted in connection therewith. The information set forth therein is correct and complete to the best of my knowledge and belief.

FURTHER AFFIANT SAYETH NOT.

JESSE BLUE

Subscribed, sworn to and acknowledged before me on this 11- day of Curl, 2005, by Jesse Blue.

My commission expires: 5/17/06



G:\Data\Clients\10940\34834\Pleadings\BlueAffidavit.doc

Preston Exploration, L.L.C.

January 17, 2005

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

Nearburg Production Company, LLC 3300 N. "A", Bldg. 2, Suite 120 Midland, Texas 79705

Attn: Bob Shelton

Re: Cemetary "2" #2 Well 660' FSL, 1750' FEL of Section 2, T20S, R25E Spacing Unit is S/2 of Section 2, T20S, R25E Eddy County, New Mexico

Gentlemen:

Preston Exploration, LLC ("Preston") hereby proposes the drilling of a well to a depth sufficient to adequately test the Morrow formation with an anticipated total depth being approximately 9,600°. Furthermore, Preston shall evaluate to its satisfaction, all other formations encountered at lesser depths in the drilling of said well. The proposed spacing or proration unit will be the S/2 of Section 2, T20S, R25E, Eddy County, New Mexico.

This well will be located approximately 660' FSL & 1750' FEL of Section 2, T20S, R25E, Eddy County, New Mexico. Preston's AFE for the drilling and completion of this well is enclosed for your review. Should you desire to participate to the full extent of you interest in the drilling of this proposed well, please return an executed copy of the AFE to the undersigned at your earliest convenience.

Upon receipt of your executed AFE, we will forward for your review and execution Preston's Joint Operating Agreement covering this proposed well.

In the event you should elect to not participate in the drilling of this test well, Preston is willing to negotiate an equitable agreement covering your interest in order to cause this well to be drilled.



We anticipate drilling the captioned well in the very near future. We therefore, request that you please review this matter as soon as possible and advised as to your position regarding this proposal within thirty (30) days from your receipt of this letter.

We would be glad to further discuss this matter with you, so we invite you to contact us with any questions or comments you might have. Thank you for your cooperation.

Yours very truly,

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Luc

Bo Blue New Ventures Land Manager

		LORATION, LLC]
		OR EXPENDITURE	
Lease and Well No. Cemetary "2" #2	Pros	Cemetary East	AFE no. 300501
Exploratory Well Development Well	Recompletion Injection Workover SWD	Other	Driginal
County/Parish, State Eddy Co., New Mexico	Survey/Township S2/Sec. 2, T20S, R25E	Unit Description/Measured Location 660' FSL & 1,750' FEL	Projected TD 9,600
Description of Work Drill and evaluate Morrow fo	rmation.		
	INTANGIB	LE COSTS	
	Description	Drilling	Completion
Abstracts / Legal Fees Surveys / Permits / Environmental		101 201 102 1,500	· · ·····

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Company

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		Total Intangibles		860,800	T	264,350

		TANGIBLE	COSTS					
Conductor Pipe	20" Set @ 40'				110	4,500		
Surface Casing	13 3/8" Set @ 350'	\$	31.00 P/FI		121	10,850		• •
Intermediate Casing / Liner	8 5/8" Set @ 3000'	\$	27.00 P/FI		122	81,000		• •
Production Casing / Liner			P/Ft		122			
Tie-Back	5 1/2" Set @ 9,600'	\$	11.00 P/Ft				226	105,600
Tubing			P/Ft				226	
Downhole Equipment	2 7/8" @ 9,300	5	4.80 P/F1				227	44,640
Artificial Lift Equipment							231	7,500
Tree & Other Production Equipment							232	3,000
Tanks							233	18,000
Pipe, Fillings, Valves, etc.	••••••••••••••••••••••••••••••••••••••						234	5,000
Separators, Treaters, Heaters, etc.							235	25,000
Taxes						2,750	236	9,850
Miscellaneous	ANTO AND AND ADDRESS OF THE PARTY AND ADDRESS AND ADDRESS ADDRES							
				Total Tangibles		99,100	1	218,590
					Dry Hole Co			959,900
				C	ompleted Well	Cost		1,427,840
	_	APPRO	VALS					

Signature Title Date IT IS RECOGNIZED THAT THE AMOUNTS HEREIN ARE ESTIMATES ONLY AND APPROVAL OF THIS AUTHORIZATION SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATION SPECIFIED, WHETHER MORE OR LESS THAN THE AMOUNTS HEREIN SET OUT.

Preston Exploration, L.L.C.

February 10, 2005

Nearburg Production Company, LLC 3300 N. "A", Bldg. 2, Suite 120 Midland, Texas 79705

Attn: Bob Shelton

Re: Cemetary "2" #2 Well 660' FSL, 1750' FEL of Section 2, T20S, R25E Spacing Unit is S/2 of Section 2, T20S, R25E Eddy County, New Mexico

Gentlemen:

Enclosed please find title information that we have concerning Nearburg's ownership in the referenced spacing unit. We are unsure of the current relationship you have with Santa Fe Exploration Company (now Devon) as the Exxon State Com #1 well only made 72,000 MCF and was plugged in 1998.

Please advise us as to the status of Nearburg and Devon's ownership in the SW/4 SW/4 of Section 2, T20S, R25E.

Yours very truly,

Bo Blue New Ventures Land Manager

February 14, 2005

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Nearburg Production Company, LLC 3300 N. "A", Bldg. 2, Suite 120 Midland, Texas 79705

Attn: Bob Shelton

Re: Cemetary "2" #2 Well 660' FSL, 1750' FEL of Section 2, T20S, R25E Spacing Unit is S/2 of Section 2, T20S, R25E Eddy County, New Mexico

Gentlemen:

Enclosed please find a copy of the Original Title Opinion covering the referenced unit area. For your information, Preston Exploration, LLC is the operator under an existing agreement with the rest of the partners shown in the opinion. WJP Exploration, LLC is one of our entities we operate for.

Yours very truly,

Bo Blue New Ventures Land Manager

Preston Exploration, L.L.C.

February 16, 2005

Devon Energy Corporation 20 North Broadway, Suite 1500 Оклапота City, Oklahoma 73102-8260

Attn: Ken Gray

Re: Cemetary "2" #2 Well 660' FSL, 1750' FEL of Section 2, T20S, R25E Spacing Unit is S/2 of Section 2, T20S, R25E Eddy County, New Mexico

Dear Ken:

After a lengthy conversation with Duke Roush at Nearburg, I decided to send you the enclosed offer to participate letter for our proposed Morrow test referenced above. Apparently, title to the SW/4 SW/4 of Section 2 is subject to a farmout agreement involving Sante Fe (now Devon) and Nearburg which cannot be located. I have also enclosed a copy of our original title opinion which may help you figure the ownership situation.

We'd like to get this well going as soon as possible, so at the very least, if you and Duke can't find the necessary documents to determine who owns what interest, I'd like either a stipulation of interest from both parties or an agreement to either participate or go nonconsent under an operating agreement whereby Preston would suspend revenues until ownership is determined so we can proceed with drilling a well.

Please call me if you have any questions.

Yours very truly,

Bo Blue New Ventures Land Manager

Preston Exploration, L.L.C.

February 16, 2005

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

Devon Energy Corporation 20 North Broadway, Suite 1500 Oklahoma City, Oklahoma 73102-8260

Attn: Ken Gray

Re: Cemetary "2" #2 Well 660' FSL, 1750' FEL of Section 2, T20S, R25E Spacing Unit is S/2 of Section 2, T20S, R25E Eddy County, New Mexico

Dear Ken:

Preston Exploration, LLC ("Preston") hereby proposes the drilling of a well to a depth sufficient to adequately test the Morrow formation with an anticipated total depth being approximately 9,600'. Furthermore, Preston shall evaluate to its satisfaction, all other formations encountered at lesser depths in the drilling of said well. The proposed spacing or proration unit will be the S/2 of Section 2, T20S, R25E, Eddy County, New Mexico.

This well will be located approximately 660' FSL & 1750' FEL of Section 2, T20S, R25E, Eddy County, New Mexico. Preston's AFE for the drilling and completion of this well is enclosed for your review. Should you desire to participate to the full extent of you interest in the drilling of this proposed well, please return an executed copy of the AFE to the undersigned at your earliest convenience.

Upon receipt of your executed AFE, we will forward for your review and execution Preston's Joint Operating Agreement covering this proposed well.

In the event you should elect to not participate in the drilling of this test well, Preston is willing to negotiate an equitable agreement covering your interest in order to cause this well to be drilled.

We anticipate drilling the captioned well in the very near future. We therefore, request that you please review this matter as soon as possible and advised as to your position regarding this proposal within thirty (30) days from your receipt of this letter.

We would be glad to further discuss this matter with you, so we invite you to contact us with any questions or comments you might have. Thank you for your cooperation.

Yours very truly,

2 , , 2

n Flue J.

Bo Blue New Ventures Land Manager

Bo Blue

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From:	Duke Roush [droush@nearburg.com]
Sent:	Monday, March 28, 2005 11:12 AM
To:	Bo Blue
Subject	t: RE: Cemetary 2 #2 Well

5

No but I will do some calling around today

-----Original Message----- **From:** Bo Blue [mailto:bblue@prestonexpl.com] **Sent:** Monday, March 28, 2005 10:42 AM **To:** Duke Roush **Subject:** Cemetary 2 #2 Well

I went through all the filings listed on OCD website concerning the Exxon State Com #1 well which was operated by Santa Fe Energy Company. At various stages in the life of this well, several "Agents" have signed on behalf of Santa Fe. Jackie Midkiff and Lorraine R. Schmitt are most prominent, then Richard Hubbertt, Trustee and Robert B. Wilson with a law firm in Lubbock and finally Richard Yellowland shows up in the record. Any of these names mean anything?

Bo Blue Preston Exploration, LLC New Ventures Land Manager Office: 281-367-8697 Fax: 281-364-4919

Submit 3 Copies to Appropriate District Office <u>DISTRICT 1</u> P.O. Box 1980, Hobbs, NM 88240 <u>DISTRICT 11</u> P.O. Drawer DD, Artesia, NM 88210 <u>DISTRICT 111</u> 1000 Rio Brazos Rd., Aztec, NM 87410 SUNDRY NOT	Egy, Minerals and OIL CONSER 310 Old Santa Santa Fe, N	VATIO a Fe Trail	sources Department N DIVISION , Room 206	Form C-103 Revised 1-1-89 WELL API NO. 30-015-24091	
P.O. Box 1980, Hobbs, NM 88240 DISTRICT II P.O. Drawer DD, Artesia, NM 88210 DISTRICT III 1000 Rio Brazos Rd., Aztec, NM 87410	310 Old Santa Santa Fe, N	a Fe Trail	, Room 206		
DISTRICT II P.O. Drawer DD, Anesia, NM 88210 DISTRICT III 1000 Rio Brazos Rd., Azzec, NM 87410	Santa Fe, N			30-015-24091	
P.O. Drawer DD, Artesia, NM 88210 <u>DISTRICT III</u> 1000 Rio Brazos Rd., Azzec, NM 87410			0 6/303		l l
1000 Rio Brazos Rd., Azzec, NM 87410				5. Indicate Type of Lease	
· · ·				6. State Oil & Gas Lease No.	EL
		,		V-391	
	TICES AND REPORTS ROPOSALS TO DRILL OR TO ERVOIR. USE "APPLICATIO C-101) FOR SUCH PROPOS			7. Lease Name or Unit Agreement Name	
1. Type of Well: OL GAS			RECEIVED	/Exxon State	Į
WELL WELL 2. Name of Operator	X OTHER		OCD - ARTESIA		
Santa Fe Explorat:	ion Company	· · ·	500	8. Well No.	[
3. Address of Operator 201 W. 3rd, Rosewa	ell, NM 88201		-15302	9. Pool name or Wildcat Cemetary (MOrrow)	
4. Well Location Unit Letter L : 198		uth	Line and660	West	• •
	/ WA / INLE / INC				Line
Section 2	Township 20 SO	uth Ra	nge 25 East M DF, RKB, RT, GR, etc.)	MPM Eddy Cou	
		422			
11. Check	Appropriate Box to I			port, or Other Data	1111
NOTICE OF IN	TENTION TO:		SUBS	SEQUENT REPORT OF	
	PLUG AND ABANDO		REMEDIAL WORK	ALTERING CASING	
	CHANGE PLANS	Π	COMMENCE DRILLING		NT I
PULL OR ALTER CASING			CASING TEST AND CEN		
DTHER:			OTHER:		_ 🗆
12. Describe Proposed or Completed Oper work) SEE RULE 1103.	rations (Clearly state all pertin	ent details, a	nd give pertinent dates, inclu	ding estimated date of starting any proposed	
2-05-98 1) Cut	2 3/8" tbg. @	9238	Got Approval	from OCD to set CIBP @	92
	4 1/2" CIBP @				
2-05-98 3) Circ CIBP		orine y	W/25# salt ge	t per bbl spot 25 sx or	1 60
2-06-98 4) Cut	41/2" csg @ 82	292			
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2-11-98 10) Spot				, , ,	
2-11-98 11) Spot				_	
2-11-98 12) Cut	orr WH & Inst	all di	ry noie warke	E C	
I hereby certify that the information above is true	e and complete to the best of my kno	wiedge and bei	lief.		
SIGNATURE Billing CONTRACT	h	m	re Sujerliner	DATE 2/13/98	
TYPE OR PRINT NAME BILLY	CARRUTH			915/523-5786	
(This space for State Use)					
(This space for State Use)			TE	Date	

	PRESTON EXP	LORATION, LLC		
	AUTHORIZATION	OR EXPENDITURE		
Lease and Well No Cemetary "2" #2	Pros	Cemetary East	<u>, , , , , , , , , , , , , , , , , , , </u>	AFE no 300501
Exploratory Well Development Well	Recompletion Injection Workover SWD	Other		Original Supplement
County/Parish, State Eddy Co., New Mexico	Survey/Township S2/Sec. 2, T20S, R25E	Unit Description/Measured Location 660' FSL & 1,750' FE	E.	Projected TD 9,600
Description of Work Drill and evaluate Morrow forma	ation.			, <u></u>
	INTANGIE	LE COSTS		
	Description		Drilling	Completion
Abstracts / Legal Fees Surveys / Permits / Environmental Right - of - Way	· · · · · · · · · · · · · · · · · · ·		101 21 102 1,500 103 5,000	
Location / Restoration Mob & Demob			104 45,000 20 105 40,000 20	04 1,500 05
Transportation / Hauling / Barges Drilling / Completion Rig - Turnkey/Footage Drilling / Completion Rig - Day Rate	20 Days @ \$ 2,500.00 per 32 Days @ \$ 11,500.00 per	Day Day	107 20	26 3,000 27 50,000 28

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iniling / Completion Rig - Turnkey/Footage 20 Days (2 \$ 2,500.00 per Day 707 207 50,000				368,000	208	

		TANGIBLE COSTS				·····
Conductor Pipe	20" Set @ 40'		110	4,500		
Surface Casing	13 3/8" Set @ 350'	\$ 31.00 P/FL	121	10,850		
Intermediate Casing / Liner	8 5/8" Set @ 3000'	\$ 27.00 P/Ft	122	81,000		
Production Casing / Liner		P/Ft	122		: .	
Tie-Back	5 1/2" Set @ 9,600'	\$ 11.00 P/Ft			226	105,600
Tubing		P/Ft			226	
Downhole Equipment	2 7/8" @ 9,300	\$ 4.80 P/Ft		•••••	227	44,640
Artificial Lift Equipment					231	7,500
Tree & Other Production Equipment					232	3,000
Tanks					233	18,000
Pipe, Fittings, Valves, etc.				,	234	5,000
Separators, Treaters, Heaters, etc.					235	25,000
Taxes				2,750	236	9,850
Miscellaneous	· · · · · · · · · · · · · · · · · · ·					
	······································					
		Total Tan	gibles	99,100		218,590
			Dry Hole Cos	t l	T	959,90
			Completed Well	Cost]	1,427,84
		APPROVALS				

Company Signature IT IS RECOGNIZED THAT THE AMOUNTS HEREIN ARE EST COSTS INCURRED IN CONDUCTING THE OPERATION



Title

Date AUTHORIZATION SHALL EXTEND TO THE ACTUAL S THAN THE AMOUNTS HEREIN SET OUT.