

**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 PURPOSES OF CONSIDERING:**

CASE NO. 13784

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

AFFIDAVIT OF JERRY MCHUGH, JR.

**STATE OF COLORADO §
 § ss.
CITY & COUNTY OF DENVER §**

Before me, the undersigned authority, personally Jerry McHugh, Jr. appeared and being first duly sworn stated:

A. My name and qualification as expert are as follows:

Jerry McHugh, Jr.

Education:	BA Economics, Colorado College—1980
Experience:	Practicing Landman and Oil and Gas Professional for 26 years in New Mexico
Occupation:	President of San Juan Resources, Inc.

I am over the age of majority and competent to make this Affidavit.

I am responsible for and involved in preparing the necessary documents for submittal to the New Mexico Oil Conservation Division for this case.

I am personally knowledgeable and familiar with the facts and circumstances of this case and the following factual statements.

This affidavit has been prepared in accordance with the New Mexico Oil Conservation Division Rule 1207.A(1)(b).

**Affidavit of Jerry McHugh, Jr.
NMOCD Case 13784
-Page 1-**

**BEFORE THE
OIL CONSERVATION DIVISION
Case No. 13748 Exhibit No. — 1
Submitted By:
San Juan Resources
Hearing Date: September 28, 2006**

B. My expert opinions are based on the following facts and events:

CHRONOLOGICAL SUMMARY OF SIGNIFICANT EVENTS

1. ~~San Juan Resources, Inc., ("SJR") has a 59.65% percent working interest~~ ownership in the oil and gas minerals from the surface to the base of the Dakota formation underlying the S/2 of Section 34, T32N, R13W, NMPM, San Juan County, New Mexico.

2. This gas spacing unit is located within the boundaries of the Basin-Dakota Gas Pool and the Blanco-Mesaverde Gas Pool.

3. By letters dated May 25, 2006, June 28, 2006 and again on July 31, 2006, SJR proposed to the other working interest or mineral owners that its Memgem Walters "34" Well No. 1 (API #30-045-33768) be drilled in the S/2 of this section to be dedicated to a non-standard 325.21-acre gas spacing unit consisting of the S/2 of this section. This well will be drilled and downhole completed in the Mesaverde and Dakota formations.

4. Despite its reasonable efforts, application has been unable to obtain a written voluntary agreement from certain uncommitted working interest and/or mineral interest owners as shown on **Exhibit "A"**

5. Pursuant to Section 70-2-17.C NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, SJR needs an order of the Division pooling the interest identified above in order to protect correlative rights and prevent waste.

RULE 1207.A(1)(b) REQUIREMENTS

6. In accordance with Division Rule 1207.A(1)(b) attached the following statements and exhibits in support of this case:

- (i) No opposition for the hearing is expected because the three parties to be pooled have not objected to the inclusion of this well into this pooling order.
- (ii) Map (a) outlining the spacing unit already pooled, being the S/2 of Section 34, T32N, R13W, NMPM, San Juan County, New Mexico which will include the Memgem Walters "34" Well No. 1(b) showing the well location and (c) percentage of ownership interest. **See Exhibit "B" attached**
- (iii) For name and last known address of the parties to be pooled with the nature and percent of their interest; I attest that a diligent search has been conducted of all public records in the county where the well is located and the parties have been contacted on our behalf on several occasions. **See Exhibit "A" attached**

Affidavit of Jerry McHugh, Jr.

NMOCD Case 13784

-Page 2-

- (iv) The names of the formations and pools to be pooled are as Basin-Dakota Gas Pool and the Blanco-Mesaverde Gas Pool, and any other formations/pools spacing in 320-acre gas spacing units.
- (v) The pooled unit is for gas.
- (vi) Written evidence of attempts to reach voluntary agreement including letters and summaries of telephone calls are included herein. **See Exhibit "C"**
- (vii) The maximum 200% risk factor penalty was justified prior to drilling the well in accordance with Commission Order R-11992 and Division Order R-11926
- (viii) The well costs overhead rates of \$5,000/month drilling and \$550/month producing well rates, subsequent to COPAS adjustment.
- (ix) Copy of the AFE in the amount of \$ 1,070,011 completed well costs for this well, which we conclude, is fair, reasonable and current for wells of this type in this area. **See Exhibit "D"**

ATTESTATION

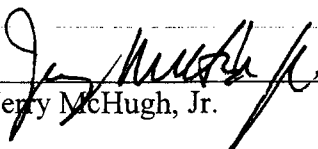
I, Jerry McHugh, Jr. attested that this submittal was prepared by me and the information is correct and complete to the best of my knowledge and belief.

I recommend that a compulsory pooling order be entered which provides that:

- (1) San Juan Resources, Inc. continue be to the named Operator;
- (2) Provisions be made for the including of an optional infill gas well included in this compulsory pooling order and for subsequent operations of this well;
- (3) for applicant and all working interest owners to participate in the costs of drilling, completing, equipping, and operating the infill gas well;
- (4) In the event a working interest owner fails to elect to participate, then provisions be make to recover out of production the costs of the drilling, completing, equipping and operating the optional infill gas well, including a risk factor penalty; and

Provisions for overhead rates of \$5,000 per month drilling and \$550 per month operating and a provision for an adjustment method of the overhead rates as provided by COPAS;

FURTHER AFFIANT SAYETH NOT:


Jerry McHugh, Jr.

STATE OF COLORADO

§

§

CITY & COUNTY OF DENVER

§

SUBSCRIBED AND SWORN TO before me this 26th day of September 2006, by
Jerry McHugh, Jr.


Notary Public

ACKNOWLEDGMENT

STATE OF COLORADO

§

§

CITY & COUNTY OF DENVER

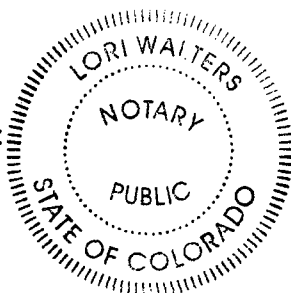
§

26th BEFORE me, the undersigned, a Notary Public in and for said County and State, on this
day of September, 2006, personally appeared Jerry McHugh, Jr. to me known to be the identical
person who subscribed the name of the maker thereof to the foregoing instrument and
acknowledged to me that he executed the same as his free and voluntary act and deed for the uses
and purposes therein set forth.

Given under my hand and seal the day and year last above written.

My Commission expires:

9/13/08




Notary Public

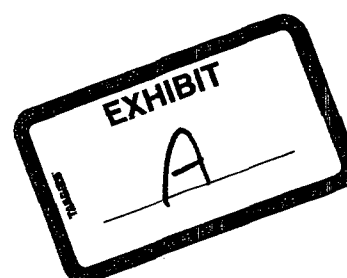
Affidavit of Jerry McHugh, Jr.

NMOCD Case 13784

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**San Juan Resources, Inc.
Memgem Walters 34 #1 Well
Section 34: S/2, T32N, R13W, NMPM
San Juan County, NM
Working Interest Owners List
September 28, 2006 Force Pooling Hearing**

<u>Party</u>	<u>Working Interest</u>
Samson Resources Company Attention: Craig Reed 370 17th Street, Suite 3000 Denver, CO 80202	11.844400%
Chateau Oil & Gas, Inc. Attention: Dana Dutcher 10440 N. Central Expy, Suite 1475 Dallas, TX 75231-2224	3.573773%
Chevron USA, Inc. 11111 S. Wilcrest Houston, Texas 77099	3.492622%
Total uncommitted WI owners	18.910795%



District I
PO Box 1980, Hobbs, NM 88241-1980

District II
PO Drawer DD, Artesia, NM 88211-0719

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

District IV
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals & Natural Resources Department

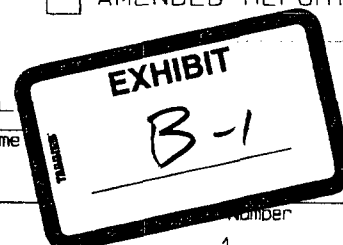
OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Form C-102
Revised February 21, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PL

*API Number		*Pool Code		*Pool Name	
*Property Code		*Property Name		*Number	
		MEMGEM WALTERS 34		1	
*OGRID No.		*Operator Name		*Elevation	
20208		SAN JUAN RESOURCES, INC.		5777	



¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
I	34	32N	13W		1980	SOUTH	885	EAST	SAN JUAN

¹¹ Bottom Hole Location If Different From Surface

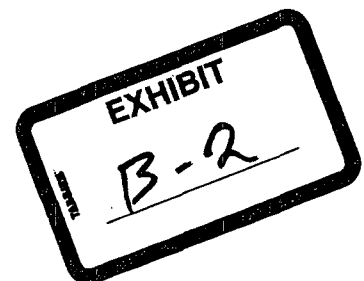
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
¹² Dedicated Acres					¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.		

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<div><div><div>16</div><div>2662.44'</div><div>2662.44'</div><div>2658.48'</div><div>5306.40'</div><div>34</div><div>2632.08'</div><div>2632.08'</div><div>LAT: 36.94156°N LONG: 108.18485°W DATUM: NAD83</div><div>885'</div><div>1980'</div></div></div>	<div><div><div><div>¹⁷ OPERATOR CERTIFICATION</div><div>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</div><div><div><div><div><i>Jerome P. McHugh Jr.</i></div><div>Signature</div></div><div><div><div>Jerome P. McHugh JR</div><div>Printed Name</div></div><div><div>President</div><div>Title</div></div><div><div>9/25/06</div><div>Date</div></div></div></div><div><div><div><div>¹⁸ SURVEYOR CERTIFICATION</div><div>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief</div><div><div><div>Date of Survey: MAY 1, 2006</div><div>Signature and Seal of Professional Surveyor</div></div></div><div><div><div><div>JASON C. EDWARDS</div><div>NEW MEXICO</div><div>15269</div><div>REGISTERED PROFESSIONAL SURVEYOR</div></div></div><div><div><div>JASON C. EDWARDS</div><div>Certificate Number 15269</div></div></div></div></div></div></div></div></div></div></div>
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Memgem Walters 34 #1 Well Section 34: S/2, T32N, R13W
Mesaverde/Dakota Well
San Juan County, NM
Division of Interest: GWI

Owner	GWI
Prime Energy Corporation	0.07150484
Noble Energy Production, Inc.	0.09562565
Samson Resources Company	0.11844400
Segal Oil & Gas, Inc.	0.02931699
Shirley Mizzy	0.00983192
Richard Leeds	0.00804429
Chateau Oil & Gas, Inc.	0.03573773
Chevron USA, Inc.	0.03492622
San Juan Resources, Inc.	0.59656836
	<hr/> 1.0000000



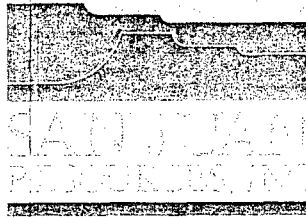
Chateau Oil & Gas, Inc.
Memgem Walters 34 - #1

On June 29, 2006, the JOA and AFE for the captioned well was certified mail to Chateau Oil & Gas, Inc., 10440 N. Central Expy., Suite 1475, Dallas, TX 75231.

A revised JOA and AFE was sent via Federal Express to Chateau on July 31, 2006. The revision was to change the drilling depth from the Mesaverde Formation to the Dakota Formation.

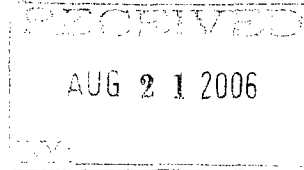
We received a phone call from Dana Dutcher of Chateau who advised that they did not wish to participate in the drilling of the well. On August 10, 2006, San Juan sent a letter to confirm Chateau's election to not participate. Same was received on August 21, 2006 signed by Dana M. Dutcher, President of Chateau. (copy of signed letter attached).





August 10, 2006

Mr. Dana M. Dutcher, President
Chateau Oil & Gas, Inc.
10440 N. Central Expy., Suite 1475
Dallas, TX 75231-2224



Re: MemGem Walters 34 #1
Township 32 North, Range 13 West, N.M.P.M.
Section 34: S/2
San Juan County, New Mexico

Dear Mr. Dutcher:

In accordance with a telephone call we received from you last week, it is our understanding that Chateau Oil & Gas, Inc. has elected not to participate for their 3.573773% interest in the drilling of the above captioned well.

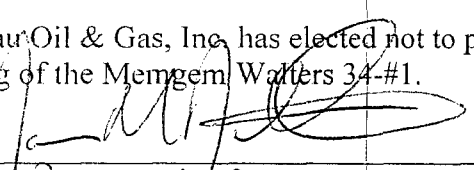
If this is correct, please sign in the space provided below and return one copy of this letter to the undersigned.

Thank you in advance for your attention to this request.

Sincerely,


Lynn Padgett
Landman

Chateau Oil & Gas, Inc. has elected not to participate for its 3.573773% interest in the drilling of the Memgem Walters 34-#1.

By: 
DANA M. DUTCHER

Title: PRESIDENT

Date: 8/17/06



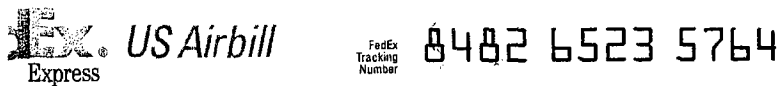
July 31, 2006

To: Working Interest Owners in the Memgem 34-#1

Re: Revised JOA and AFE
Township 32 North, Range 13 West, N.M.P.M.
Section 34: S/2
San Juan County, New Mexico

Ladies & Gentlemen:

If all goes as scheduled, the drilling of this well will commence the week of August 7th. Said well was scheduled to be a Mesaverde test but further research indicates the Dakota formation needs to be our objective depth.



Please print and press hard.
7/31/06 Sender's FedEx Account Number 2540-2049-4
Phone (303) 573-6333

SAN JUAN RESOURCES
1499 BLAKE ST APT 7K
DENVER State CO ZIP 80202-1360

Internal Billing Reference
characters will appear on invoice.

Client's Phone (814) 891-3350

Chateau Oil & Gas, Inc.
10440 N. Central Expwy, Ste. 1475
not deliver to P.O. boxes or P.O. ZIP codes.

Post a package be held at a specific FedEx location, print FedEx address here.

Dallas State TX ZIP 75231-2224



4a Express Package Service
☒ FedEx Priority Overnight Next business morning*
☐ FedEx Standard Overnight Next business afternoon*
☐ FedEx First Overnight Earliest next business morning delivery to select locations*
☐ FedEx 2Day Second business day*
☐ FedEx Express Saver Third business day*
FedEx Envelope rate not available. Minimum charge: One-pound rate

4b Express Freight Service
☐ FedEx 10Day Freight* Next business day**
☐ FedEx 2Day Freight Second business day**
☐ FedEx 3Day Freight Third business day**
* Call for Confirmation.
** To most locations

5 Packaging
☒ FedEx Envelope*
☐ FedEx Pak* Includes FedEx Small Pak, FedEx Large Pak, and FedEx Sturdy Pak
☐ FedEx Box
☐ FedEx Tube
☐ Other
* Declared value limit \$500

6 Special Handling
☐ SATURDAY Delivery Available ONLY for FedEx Priority Overnight, FedEx 2Day, FedEx 10Day Freight, and FedEx 2Day Freight to select ZIP codes.
☐ HOLD Weekday at FedEx Location NOT Available for FedEx First Overnight
☐ HOLD Saturday at FedEx Location Available ONLY for FedEx Priority Overnight and FedEx 2Day to select locations
Does this shipment contain dangerous goods?
One box must be checked.
☐ No ☐ Yes As per attached Shipper's Declaration
☐ Yes Shipper's Declaration not required
☐ Dry Ice Dry Ice, 9, UN 1845 X kg
Dangerous goods (including Dry Ice) cannot be shipped in FedEx packaging.
☐ Cargo Aircraft Only

7 Payment Bill to:
☒ Sender Acct. No. in Section 1 will be billed.
☐ Recipient Enter FedEx Acct. No. or Credit Card No. below.
☐ Third Party
☐ Credit Card
☐ Cash/Check

FedEx Acct. No. Credit Card No. Exp. Date
Total Packages Total Weight Total Declared Value*
\$.00
*Our liability is limited to \$100 unless you declare a higher value. See back for details.

FedEx Use Only

8 Sign to Authorize Delivery Without a Signature

By signing you authorize us to deliver this shipment without obtaining a signature and agree to indemnify and hold us harmless from any resulting claims.

466

SF# Rev Date 11/03 • Part #158279 • ©1994-2003 FedEx • PRINTED IN U.S.A.

PULL AND RETAIN THIS COPY BEFORE AFFIXING TO THE PACKAGE.

June 28, 2006

CERTIFIED MAIL

Chateau Oil & Gas, Inc.
10440 N. Central Expy., Suite 1475
Dallas, TX 75231-2224

Re: AFE & JOA - Memgem Walters 34 #1
Township 32 North, Range 13 West, N.M.P.M.
Section 34: S/2
San Juan County, New Mexico

Chateau's # 214-891-3350



Ladies & Gentlemen:

Enclosed please find an AFE for the above captioned well. Our title records from San Juan County show that you own 3.573773% interest in the S/2 of Section 34, T32N-R13W. San Juan Resources, Inc. ("SJR") is proposing to drill a well to a depth sufficient to test the Mesaverde formation. We plan to spud said well by July 31, 2006.

Also enclosed is a Joint Operating Agreement (JOA) dated May 15, 2006 which covers the captioned lands. We

Please return the JOA signed of your receipt of same. should you fail to return

Please do not hesitate to information.

Sincerely,

Lynn Padgett
Landman

Enclosures

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<input checked="" type="checkbox"/> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. <input checked="" type="checkbox"/> Print your name and address on the reverse so that we can return the card to you. <input checked="" type="checkbox"/> Attach this card to the back of the mailpiece, or on the front if space permits.		A. Signature <input checked="" type="checkbox"/> Agent <input type="checkbox"/> Addressee 	
1. Article Addressed to: Chateau Oil & Gas, Inc. 10440 N. Central Expy. Ste. 1475 Dallas, TX 75231-2224		B. Received by (Printed Name) <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No C. Date of Delivery 7/15/06 RECEIVED D. Is delivery address different from item 1? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If YES, enter delivery address below BY: OK Lynn	
2. Article Number (Transfer from service label)		3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.	
		4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes	

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

7005 18

Total Postage & Fees

\$ 6.32

Sent To Chateau Oil & Gas, Inc.	
Street, Apt. No., or PO Box No. 10440 N. Central Expy., Ste. 1475	
City, State, ZIP+4 DALLAS, TX 75231-2224	

Chevron MidContinent
Memgem Walters 34 - #1

On June 29, 2006 the JOA and AFE for the above captioned well were certified mailed to Hallwood Consolidated Partners, LP and EM Nominee Partnership Company. Both packages were returned to San Juan offices on July 5, 2006 with the notation "undeliverable as addressed -- forwarding order expired".

Per our title attorney, Mike Cunningham, Chevron MidContinent succeeded to the aforementioned interests. On 7/31/2006, a JOA and AFE were certified mailed to Chevron MidContinent (NOJV Manager) at 11111 S. Wilcrest, Houston, TX 77099.

Lynn Padgett, consulting Landman, received a call from Rob Nunmaker on 8/3/2006. Rob advised that it could take several weeks for Chevron to reach a decision on whether or not to participate in the drilling of the well.

On August 21, 2006, San Juan Resources received a fax from Rob @ Chevron regarding a proposal which would grant San Juan Basin Properties LLC, a subsidiary of San Juan Resources, a term assignment. (Letter attached).

On 9/5/2006, San Juan sent Rob a counterproposal regarding Chevron's offer. (Email attached).



SJB Landman

From: Jerry McHugh
Sent: Tuesday, September 05, 2006 4:46 PM
To: Robert Nunmaker (robertnunmaker@chevron.com)
Cc: SJB Landman
Subject: Memgem Walters 34 #1 well, Sec 34, 32N, 13W, San Juan Co, NM
Contacts: Robert Nunmaker

Dear Mr. Nunmaker:

Sorry we have not responded to you sooner concerning your letter of August 21, 2006. Lynn Padgett had eye surgery last week and did not return to work. She'll be out of the office Labor Day week on vacation. We are in receipt of your letter on Chevron's interest in this well.

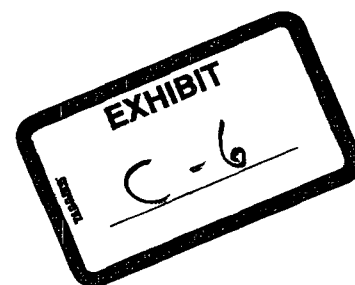
In Lynn's absence you and I can discuss matters regarding the above acreage in San Juan County. I propose the following:

- On your proposal "San Juan Basin Properties LLC" (SJBP) is the party Chevron would deal with on this. SJBP is a subsidiary of San Juan Resources, Inc.
- SJBP would to earn from base of PC to deepest depth drilled, earning the entire drill block of the S/2 of Section 34 which Chevron owns. SJBP will earn by drilling.
- Chevron would reserve an OR equal to the difference between existing burdens and 20% covering said term assignment. If Chevron had less than 80% NRI in leases, then Chevron would earn a 1% OR.
- SJBP is willing to pay a \$50/acre bonus.

Thanks

Very truly yours,

Jerry McHugh



9/25/2006



Robert A Nunmaker III
Land Department
Non-Operated Joint
Ventures

MidContinent SBU
Chevron North America
Exploration and Production
11111 S. Wilcrest
Houston, Texas 77099
Tel (281) 561-4767
robertnunmaker@chevron.com

August 21, 2006

San Juan Resources, Inc.
Attn: Lynn Padgett
1499 Blake Street, Suite 7K
Denver, Colorado 80202

Re: Mengem Walters 34 #1 Well
Section 34: S1/2
Township 32 North, Range 13 West
San Juan County, New Mexico

Dear Lynn:

Please refer to your July 13, 2006 letter regarding the captioned acreage proposal. Pursuant thereto, Chevron Midcontinent, L.P. is willing to grant San Juan Resources, Inc. a term assignment covering the above captioned properties, subject to final management approval, under the following basic terms:

1. Chevron Midcontinent, L.P. shall deliver a term assignment to San Juan Resources, Inc. covering 100% of our working interest rights covering the said lands, limited in depth from the top of the Mesaverde formation down to the stratigraphic equivalent of the lesser of the following in each proration unit: total depth drilled, plus 100 feet, but in no event below the base of the deepest formation penetrated or the base of the deepest producing formation not to exceed the base of the Dakota formation or 50 feet below the deepest commercially productive perforation.
2. Chevron Midcontinent, L.P. shall reserve an overriding royalty interest equal to the difference between existing burdens and 25% covering said term assignment acreage. The term assignment shall be for a period of 6 months from August 1, 2006 with a 90 day continuous drilling provision commencing at the expiration of the primary term.
3. A bonus amount of \$2,837.5 (\$250.00 per net acre x 11.3583 net acres) will be required for the term assignment.
4. Chevron Midcontinent, L.P.'s interest will be assigned without warranty of title.
5. The term assignment shall be drafted on Chevron Midcontinent, L.P.'s standard form.



August 21, 2006
Page 2

Please advise if the above terms are acceptable so I can commence preparation of the necessary documents.

Should you have any questions, please do not hesitate to contact me at 281-561-4767.

Yours truly,

A handwritten signature in black ink, appearing to read "Robert A. Nunmaker III", with a stylized flourish at the end.

Robert A. Nunmaker III
Land Representative





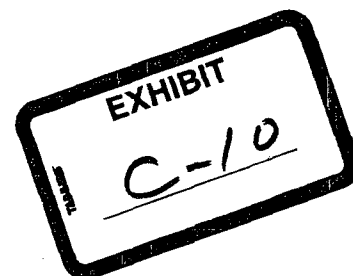
Mid-Continent Business Unit
Non-Operated Joint Ventures
Chevron USA Inc.
P.O. Box 36366
Houston, TX 77236
Fax 281 561 3880

Facsimile

To Lynn Padgett
Company San Juan Resources
Fax 303-573-6444
Re Mengem

From R. Dummer
Date 8/24/06
Pages (including cover) 3
Urgent ☒ Routine ☐





July 31, 2006

To: Working Interest Owners in the Memgem 34-#1

Re: Revised JOA and AFE
Township 32 North, Range 13 West, N.M.P.M.
Section 34: S/2
San Juan County, New Mexico

Ladies & Gentlemen:

If all goes as scheduled, the drilling of this well will commence the week of August 7th.
Said well was scheduled to be a Mesaverde test but further research indicates the Dakota

fedEx US Airbill
Express
Sender's Tracking Number 8482 6523 5720

From Please print and press hard.
Date 7/31/06 Sender's FedEx Account Number 2540-2049-4
Sender's Name Phone (303) 573-6333

Company SAN JUAN RESOURCES

Address 1499 BLAKE ST APT 7K

City DENVER State CO ZIP 80202-1360

Your Internal Billing Reference
First 24 characters will appear on invoice.

To Recipient's Name NOJV MANAGER Phone 281-561-4761

Company CHEVRON USA, INC.

Recipient's Address 11111 S. WILCREST

We cannot deliver to P.O. boxes or P.O. ZIP codes.

Address To request a package be held at a specific FedEx location, print FedEx address here.

City HOUSTON State TX ZIP 77099

4a Express Package Service
☒ FedEx Priority Overnight Next business morning*
☐ FedEx Standard Overnight Next business afternoon*
☐ FedEx First Overnight Earliest next business morning delivery to select locations*
☐ FedEx 2Day Second business day*
☐ FedEx Express Saver Third business day*
FedEx Envelope rate not available. Minimum charge: One-pound rate.

4b Express Freight Service
☒ FedEx 1Day Freight* Next business day**
☐ FedEx 2Day Freight Second business day**
☐ FedEx 3Day Freight Third business day**
Declared value limit \$500

5 Packaging
☒ FedEx Envelope*
☐ FedEx Pak* Includes FedEx Small Pak, FedEx Large Pak, and FedEx Sturdy Pak.
☐ FedEx Box
☐ FedEx Tube
☐ Other

6 Special Handling
Include FedEx address in Section 3.
☐ SATURDAY Delivery Available ONLY for FedEx Priority Overnight, FedEx 2Day, FedEx 1Day Freight, and FedEx 2Day Freight to select ZIP codes.
☐ HOLD Weekday at FedEx Location NOT Available for FedEx First Overnight.
☐ HOLD Saturday at FedEx Location Available ONLY for FedEx Priority Overnight and FedEx 2Day to select locations.
Does this shipment contain dangerous goods?
One box must be checked.
☐ No ☐ Yes As per attached Shipper's Declaration ☐ Yes Shipper's Declaration not required
Dry Ice Dry Ice, 9, UN 1845 x kg
Dangerous goods (including Dry Ice) cannot be shipped in FedEx packaging. ☐ Cargo Aircraft Only

7 Payment Bill to: Enter FedEx Acct. No. or Credit Card No. below.
☒ Sender Acct. No. in Section 1 will be billed. ☐ Recipient ☐ Third Party ☐ Credit Card ☐ Cash/Check

FedEx Acct. No. Credit Card No. Exp. Date
Total Packages Total Weight Total Declared Value*
\$.00
*Our liability is limited to \$100 unless you declare a higher value. See back for details.

8 Sign to Authorize Delivery Without a Signature

By using this Airbill you agree to the service conditions on the back of this Airbill and in our current Service Guide, including terms that limit our liability.
Questions? Visit our Web site at fedex.com
or call 1.800.GoFedEx 1.800.463.3339.

0294530472

By signing you authorize us to deliver this shipment without obtaining a signature and agree to indemnify and hold us harmless from any resulting claims.

466

June 28, 2006

CERTIFIED MAIL

EM Nominee Partnership Co.
4582 S. Ulster St., Suite 1700
Denver, CO 80237

Re: AFE & JOA - Memgem Walters 34 #1
Township 32 North, Range 13 West, N.M.P.M.
Section 34: S/2



FedEx Express **US Airbill** **FedEx Tracking Number** **8482 6523 5499**

1 From Please print and press hard.
Date 7/13/06 Sender's FedEx Account Number 2540-2049-4
Sender's Name JERRY MCHUGH Phone (303) 573-6333
Company SAN JUAN RESOURCES
Address 1499 BLAKE ST APT 7K Dept./Floor/Suite/Room
City DENVER State CO ZIP 80202-1360

2 Your Internal Billing Reference **OPTIONAL**
3 To
Recipient's Name NOJV MANAGER ROB MUNAKER Phone (281) 561-4267
Company Chevron USA, Inc.
Recipient's Address 1111 S. Wilcrest Dept./Floor/Suite/Room
We cannot deliver to P.O. boxes or P.O. ZIP codes.
Address
To request a package be held at a specific FedEx location, print FedEx address here.
City Houston State TX ZIP 77099

By using this Airbill you agree to the service conditions on the back of this Airbill and in our current Service Guide, including terms that limit our liability.
Questions? Visit our Web site at fedex.com
or call 1.800.GoFedEx 1.800.463.3339.

0294530472

SAC11
0215 **Sender's Copy**

4a Express Package Service **Packages up to 150 lbs.**
☒ FedEx Priority Overnight Next business morning* ☐ FedEx Standard Overnight Next business afternoon* ☐ FedEx First Overnight Earliest next business morning delivery to select locations*
☐ FedEx 2Day Second business day** ☐ FedEx Express Saver Third business day**
FedEx Envelope rate not available. Minimum charge: One-pound rate.

4b Express Freight Service **Packages over 150 lbs.**
☐ FedEx 1Day Freight* Next business day** ☐ FedEx 2Day Freight Second business day** ☐ FedEx 3Day Freight Third business day**
* Call for Confirmation.

5 Packaging *** Declared value limit \$500**
☒ FedEx Envelope* ☐ FedEx Pak* Includes FedEx Small Pak, FedEx Large Pak, and FedEx Sundry Pak ☐ FedEx Box ☐ FedEx Tube ☐ Other

6 Special Handling **Include FedEx address in Section 3.**
☐ SATURDAY Delivery Available ONLY for FedEx Priority Overnight, FedEx 2Day, FedEx 1Day Freight, and FedEx 2Day Freight to select ZIP codes. ☐ HOLD Weekday at FedEx Location NOT Available for FedEx First Overnight. ☐ HOLD Saturday at FedEx Location Available ONLY for FedEx Priority Overnight and FedEx 2Day to select locations.
Does this shipment contain dangerous goods?
One box must be checked.
☐ No ☐ Yes As per attached Shipper's Declaration ☐ Yes Shipper's Declaration not required ☐ Dry Ice Dry Ice, 9 UN 1845 x kg ☐ Cargo Aircraft Only
Dangerous goods (including Dry Ice) cannot be shipped in FedEx packaging.

7 Payment **Bill to:** Enter FedEx Acct. No. or Credit Card No. below.
☒ Sender Acct. No. in Section 1 will be billed. ☐ Recipient ☐ Third Party ☐ Credit Card ☐ Cash/Check
FedEx Acct. No. Credit Card No. Exp. Date
Total Packages Total Weight Total Declared Value*
\$.00
*Our liability is limited to \$100 unless you declare a higher value. See back for details. FedEx Use Only

8 Sign to Authorize Delivery Without a Signature

By signing you authorize us to deliver this shipment without obtaining a signature and agree to indemnify and hold us harmless from any resulting claims.

SFP • Rev. Date 11/03 • Part #158279 • ©1994-2003 FedEx • PRINTED IN U.S.A.

466

Total Postage & Fees **\$ 6.32**

Sent To EM Nominee Partnership Co.
Street, Apt. No., or PO Box No. 4582 S. Ulster St., Ste. 1700
City, State, ZIP+4 Denver CO 80237

July 13, 2006

FED EX

Chevron USA, Inc.
P.O. Box 36366
Houston, TX 77236

Re: AFE & JOA - Memgem Walters 34 #1
Township 32 North, Range 13 West, N.M.P.M.
Section 34: S/2
San Juan County, New Mexico

Ladies & Gentlemen:

Enclosed please find an AFE for the above captioned well. Our title records from San Juan County show that you own 3.492622% interest in the S/2 of Section 34, T32N-R13W. San Juan Resources, Inc. ("SJR") is proposing to drill a well to a depth sufficient to test the Mesaverde formation. We plan to spud said well by August 6, 2006.

Also enclosed is a Joint Operating Agreement (JOA) dated May 15, 2006 which covers the captioned lands. We have included an extra copy of the signature page.

Please return the JOA signature page and signed AFE to the undersigned at your earliest convenience.

Please do not hesitate to contact us in the event you have questions or need any additional information.

Sincerely,

Lynn Padgett
Landman

Enclosures



Samson Resources
Memgem Walters 34-#1

On May 25, 2006, the JOA and AFE for the Memgem Walters 34-#1 was sent via Certified Mail to Geodyne Nominee Corporation. Package was returned unopened with stamped "return to sender". JOA and AFE mailed and sent to Samson Resources, successor to the Geodyne Nominee interest.

On 6/18/2006, we received the signed JOA signature page and AFE from Samson Resources. It was signed by Kevin Stowe, Senior Landman. We also received Samson's well information requirements.

On 7/10/2006, we received phone call from Kevin Stowe requesting the original signed AFE back. We returned the original AFE to Samson. A copy was saved for our files. Kevin advised that Samson only wanted to drill to the Mesaverde formation not the Dakota as specified in the signed AFE.

By letter dated 6/28/2006 a new AFE was sent to all the WI partners. AFE covered drilling to the Mesaverde formation only. Per conversation with Kevin, they were going to sign the AFE and return to us.

On 7/31/2006, we sent a letter to the WI partners to advise that we had decided to go ahead and drill the well to the Dakota formation. A revised AFE was attached to the notification letter.

On 8/21/2006, Lynn Padgett, Consulting Landman for San Juan Resources, Inc., placed a call to Tom Hewitt at Samson who was filling in for Kevin Stowe. Tom was advised that we had not received Samson's signed AFE. Tom stated that Samson did not want to participate in the drilling of the well.

On 8/21/2006, we advised Tom Kellahin to give Samson notice regarding the compulsory pooling hearing.



July 31, 2006

To: Working Interest Owners in the Memgem 34-#1

Re: Revised JOA and AFE
Township 32 North, Range 13 West, N.M.P.M.
Section 34: S/2
San Juan County, New Mexico

Ladies & Gentlemen:

If all goes as scheduled, the drilling of this well will commence the week of August 7th. Said well was scheduled to be a Mesaverde test but further research indicates the Dakota formation needs to be our objective depth.

Enclosed is a revised AFE & revised pages 4 and 6 to the Joint Operating Agreement. Page 4, Article VI. A. has been changed to reflect that the drilling of the well will be to a depth of 6900' or to a depth sufficient to test the Dakota Formation. Page 6, Article VI. (b) has been changed to show the correct percentages of 300% /100% . Finally, Article XV. (2) (g) of Page 17, the allocations for drilling more than one objective formation have been changed from 60/40 to 80/20.

Please sign the AFE in the space provided and return to us at your earliest convenience. Should you have any questions, please do not hesitate to call us at 303-573-6333.

Sincerely,

Lynn Padgett
Landman

Enclosures

*Delivered by
Speedy Messenger 8/1/06*



May 25, 2006

CERTIFIED MAIL

Geodyne Nominee Corporation
Two West 2nd Street
Tulsa, OK 74103

Re: AFE & JOA - Memgem Walters 34 #1
Township 32 North, Range 13 West, N.M.P.M.
Section 34: S/2
San Juan County, New Mexico

Gentlemen:

Enclosed please find an AFE for the above captioned w/ Juan County show that you own 11.84440% interest in t R13W. San Juan Resources, Inc. ("SJR") is proposing to drill a well to a depth sufficient to test the Dakota formation. We plan to spud said well by July 31, 2006.

Also enclosed is a Joint Operating Agreement (JOA) dated May 15, 2006 which covers the captioned lands. We have included an extra copy of the signature page.

Please return the JOA signature page and signed AFE to the undersigned within 30 days of your receipt of same. You will be deemed Non-Consent as to the proposed operation should you fail to return the signed JOA and AFE within the said 30 day period.

Please do not hesitate to contact us in the event you have questions or need any additional information.

Sincerely,

Jerry McHugh, Jr.
President

Enclosures



U.S. Postal Service
CERTIFIED MAIL, RECEIPT
(Domestic Mail Only. No Insurance Coverage Provided.)
For delivery information, visit our website at www.usps.com

OFFICIAL USE

Postage	\$ 2.79
Certified Fee	2.40
Return Receipt Fee (Endorsement Required)	1.85
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 7.04

Sent To: Geodyne Nominee Corp.
Street, Apt. No., or PO Box No. Two W. 2nd Street
City, State, ZIP+4 Tulsa, OK 74103

PS Form 3800, June 2002 See Reverse for Instructions

7002 2410 0000 2555 3622

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<input checked="" type="checkbox"/> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. <input checked="" type="checkbox"/> Print your name and address on the reverse so that we can return the card to you. <input checked="" type="checkbox"/> Attach this card to the back of the mailpiece, or on the front if space permits.	A. Signature <input checked="" type="checkbox"/> Agent <input type="checkbox"/> Addressee
1. Article Addressed to: <u>Geodyne Nominee Corp.</u> <u>Two West 2nd Street</u> <u>Tulsa, OK 74103</u>	B. Received by (Printed Name) C. Date of Delivery D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No
2. Article Number (Transfer from service label)	3. Service Type <input type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> O.D.
	4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes

7002 2410 0000 2555 3622

May 25, 2006

CERTIFIED MAIL

Noble Energy, Inc.
1625 Broadway, Suite 2000
Denver, CO 80202

Re: AFE & JOA - Memgem Walters 34 #1
Township 32 North, Range 13 West, N.M.P.M.
Section 34: S/2
San Juan County, New Mexico

Gentlemen:

Enclosed please find an AFE for the above captioned well. Our title records from San Juan County show that you own a % interest in the S/2 of Section 34, T32N-R13W. San Juan Resources, Inc. ("SJR") is proposing a well to be drilled deep enough to test the Dakota formation. We plan to spud said well by July 31, 2006.

Also enclosed is a Joint Operating Agreement (JOA) dated May 15, 2006 which covers the captioned lands, along with an extra copy of the signature page.

Please return the JOA signature page and signed AFE to the undersigned within 30 days of your receipt of same. You will be deemed Non-Consent as to the proposed operation should you fail to return the signed JOA and AFE within the said 30 day period.

Please do not hesitate to contact us in the event you have questions or need any additional information.

Sincerely,

Jerry McHugh, Jr.
President

Enclosures



June 28, 2006

To: All working interest owners in the Memgem 34 #1
Township 32 North, Range 13 West, N.M.P.M.
Section 34: S/2
San Juan County, New Mexico

Ladies and Gentlemen:

Enclosed please find a revised page 4 to the Joint Operating Agreement dated May 15, 2006 covering the above captioned well. Please note that the Memgem #1 is now scheduled to be drilled only to the Mesaverde formation (approx. 4800') instead of the Dakota formation (6900'). Therefore, we have enclosed a revised AFE. Please sign in the space provided and return to us at your earliest convenience.

Finally, we have also enclosed a revised Exhibit "A" to said Operating Agreement. Per the Drilling Title Opinion we received this week, working interest percentages changed as well as working interest owners.

Please do not hesitate to contact us should you have any questions or need any additional information.

Sincerely,

Lynn Padgett
Landman
Email: landman@sanjuanbasin.com

Enclosures



July 31, 2006

To: Working Interest Owners in the Memgem 34-#1

Re: Revised JOA and AFE
Township 32 North, Range 13 West, N.M.P.M.
Section 34: S/2
San Juan County, New Mexico

Ladies & Gentlemen:

If all goes as scheduled, the drilling of this well will commence the week of August 7th. Said well was scheduled to be a Mesaverde test but further research indicates the Dakota formation needs to be our objective depth.

Enclosed is a revised AFE & revised pages 4 and 6 to the Joint Operating Agreement. Page 4, Article VI. A. has been changed to reflect that the drilling of the well will be to a depth of 6900' or to a depth sufficient to test the Dakota Formation. Page 6, Article VI. (b) has been changed to show the correct percentages of 300% /100% . Finally, Article XV. (2) (g) of Page 17, the allocations for drilling more than one objective formation have been changed from 60/40 to 80/20.

Please sign the AFE in the space provided and return to us at your earliest convenience. Should you have any questions, please do not hesitate to call us at 303-573-6333.

Sincerely,

Lynn Padgett
Landman

Enclosures



Drilling and Completion Cost Estimate

San Juan Resources, Inc.
AUTHORITY FOR EXPENDITURE

Memgem Walters 34 #1

Location : T32N, R13W, Section 34, NE/4

Proposed Depth : 6900'

Objective : Mesaverde and Dakota Formations

	Tangible	Intangible	Total
I. Drilling Costs(Include Running Casing)			
Survey and Permits		5,000	5,000
Drilling Title Opinion/Ownership Report/Curative Costs		10,000	10,000
Surface Damages, legal and logistics on surface owner		25,000	25,000
Dirt Work		25,000	25,000
Pit Liner and Fence		4,600	4,600
Drilling Daywork at \$12,370/day @ 12 days + misc rig chgs		169,000	169,000
Drilling fuel		22,500	22,500
Rig Rentals		10,000	10,000
Drill Bits		25,000	25,000
Mud Motor		10,000	10,000
Rig Mob and Demob		13,000	13,000
Water and Water Hauling		28,000	28,000
Drilling Mud, Air Pkg , and Nitrogen		50,000	50,000
Surface Casing (250' of 8-5/8" @ 15.30 \$/ft.)	3,750		3,750
Casing Head	10,000		10,000
Cement Surface		14,000	14,000
Logs		20,000	20,000
Mud Logger		7,000	7,000
Miscellaneous		10,000	10,000
Trucking		8,750	8,750
Engineering/Supervision		11,000	11,000
Overhead		2,260	2,260
Total Drilling Cost	13,750	467,850	481,600
10% Contingency	1,375	46,785	48,160
Grand Total Drilling Costs	15,125	514,635	529,760
II. Completion Costs (as needed).			
Production Casing (5000' 4-1/2" at \$7.20/ft)	50,400		50,400
Cement Production Casing		50,000	50,000
Casing Crew		4,000	4,000
Tubing Head and Well Connection Fittings	600		600
Tubing (5000' of 2-3/8" @ 3.48 \$/ft.)	24,360		24,360
Air Package		20,000	20,000
Perf		11,000	11,000
Stimulation 2 stage frac (MV & DK)		190,000	190,000
Tool Rental (Frac Valve)		1,100	1,100
Frac Tank Rental & Hauling		5,000	5,000
Completion Fluids & Hauling		8,500	8,500
Completion Rig (7 days at \$2500/day)		25,000	25,000
Separator	20,000		20,000
Flowlines and Install	3,000	9,250	12,250
Tank and Fittings	12,000		12,000
Trucking		19,000	19,000
Pipeline/gathering facility	10,000	10,000	20,000
Restore Location		5,000	5,000
Misc Equipment	3,257		3,257
Engineering/Supervision		8,000	8,000
Overhead		1,670	1,670
Completion Costs	123,617	367,520	491,137
10% Contingency	12,362	36,752	49,114
Total Completion Costs	135,979	404,272	540,251
Grand Total Well Costs	151,104	918,907	1,070,011

Prepared By: JMjr

Date: June 29, 2006

Working Interest Owner

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

By: _____
Title: _____

