



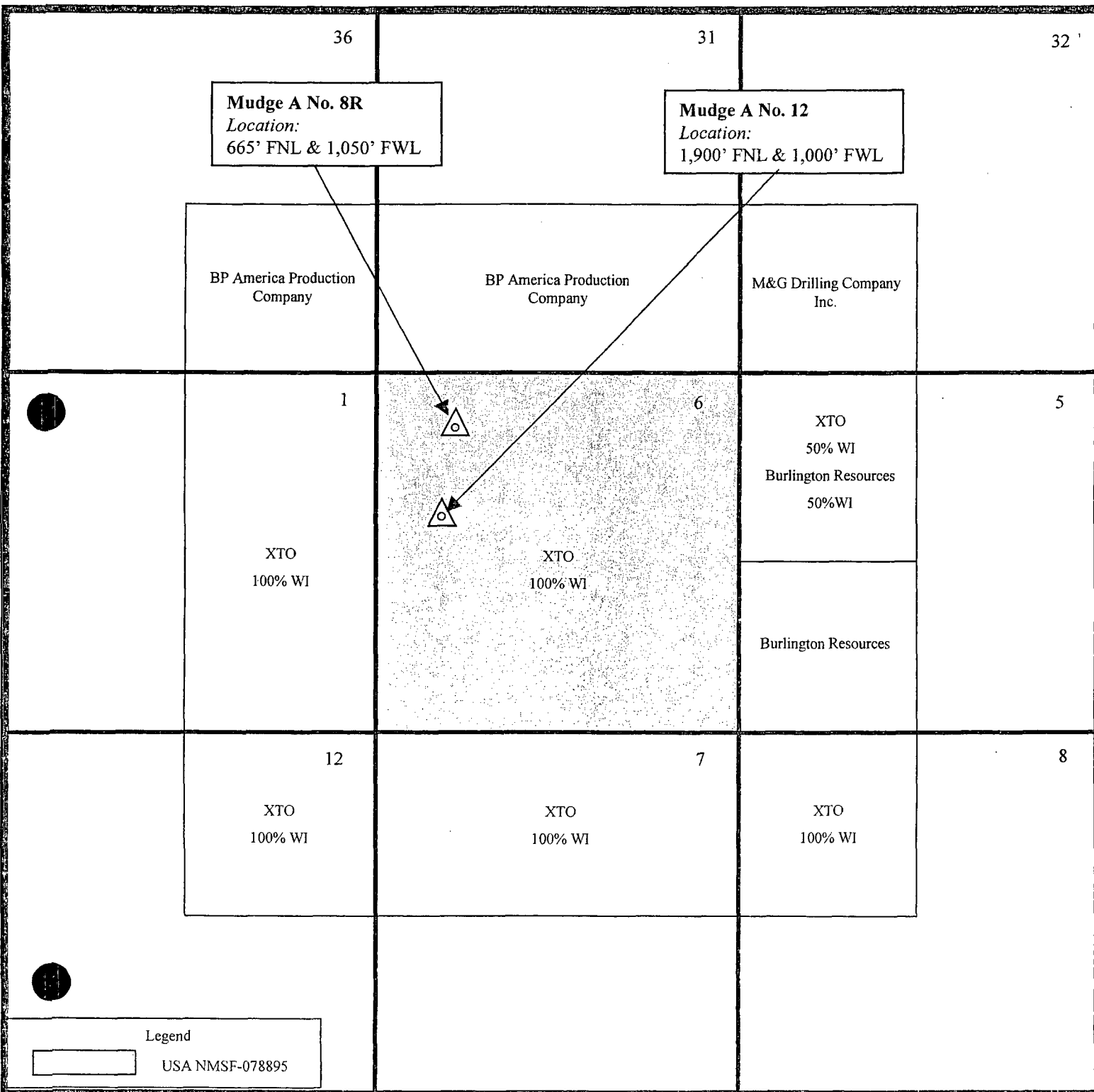
SECTION PLAT OF 9 SQUARE MILES

STATE: New Mexico **COUNTY:** San Juan

PROSPECT: Mudge A No. 8R & Mudge A No. 12 **DATE:** November 19, 2008

SECTION: 6 **TOWNSHIP:** 27 North **RANGE:** 11 West

SCALE: 1"=2000'



*Working Interest Owners/Operators above indicate Fruitland Coal & Pictured Cliffs formations Only

BASIN-FRUITLAND COAL GAS POOL - Cont'd.)

Sections 10 through 13: All
 Township 30 North, Range 9 West, NMPM
 Section 2: All
 Township 31 North, Range 6 West, NMPM
 Section 6: All
 Section 31: All
 Township 31 North, Range 7 West, NMPM
 Section 1: All
 Sections 12 through 14: All
 Sections 19 through 36: All
 Township 31 North, Range 8 West, NMPM
 Sections 4 through 10: All
 Sections 13 through 36: All
 Township 31 North, Range 9 West, NMPM
 Sections 1 through 7: All
 Sections 11 through 14: All
 Sections 22 through 27: All
 Sections 34 through 36: All
 Township 32 North, Range 6 West, NMPM
 Section 19: All
 Sections 29 through 31: All
 Township 32 North, Range 7 West, NMPM
 Sections 23 through 26: All
 Section 36: All
 Township 32 North, Range 8 West, NMPM
 Section 19: All
 Sections 30 through 32: All
 Township 32 North, Range 9 West, NMPM
 Sections 24 through 26: All
 Sections 30 through 32: All
 Sections 35 and 36: All
 Township 32 North, Range 10 West, NMPM
 Sections 7 through 12: All
 Sections 14 through 25: All
 Sections 28 through 30: All
 Township 32 North, Range 11 West, NMPM
 Sections 11 through 13: All
 Section 24: All

(2) Low Productivity Area: There is established within the consolidated boundaries of the Basin-Fruitland Coal (Gas) Pool a "Low Productivity Area" consisting of that acreage within the horizontal limits of the Basin-Fruitland Coal (Gas) Pool that is not included within the High Productivity Area described above.

RULE 7(d). (As Amended by Order No. R-8768-F, July 17, 2003.)
WELL DENSITY:

(1) Well density within the Low Productivity Area: No more than two (2) wells per standard 320-acre gas spacing unit may be located in the "Low Productivity Area" of the pool as follows:

(i) the **OPTIONAL INFILL WELL** drilled on an existing spacing unit shall be located in the quarter section not containing the **INITIAL Fruitland coal gas well**;

(ii) the plat (Form C-102) accompanying the "Application for Permit to Drill" ("APD") (Form C-101 or federal equivalent) for the optional infill well within an existing spacing unit shall have outlined the boundaries of the unit and shall show the location (well name, footage location, API number) of the initial Fruitland coal gas well plus the proposed infill well.

(2) Well density within the High Productivity Area: The well density requirements applicable in the High Productivity Area of the pool shall be the same as those applicable in the Low Productivity Area, provided, however, that prior to commencement of any **OPTIONAL INFILL WELL** in the High Productivity Area, the following notice requirements shall be met:

(i) The operator shall send a copy of its Application for Permit to Drill ("APD"), including NMOC form C-102 or Bureau of Land Management form 3160-3, as applicable, by certified mail, return receipt requested, to each affected person as defined in OGD Rule 1207(a)(2) [19.15.14.1207(1)(2) NMAC] in each spacing unit that contains the quarter section in which the proposed optional infill well is to be located, together with a notice advising such affected persons that they have twenty (20) days from receipt thereof in which to file with the District Office of the Division written objection to the

proposed APD. A copy of the notice letter, together with proof of mailing, shall be filed in the District Office of the Division.

(ii) The District Supervisor may approve the APD that has been filed at any time after the expiration of the twenty-day notice period if no objection has been received.

(iii) In the event that an objection is timely received, or otherwise in the discretion of the Director of the Division, the application shall be set for a hearing in accordance with NMSA 1978, Section 70-2-13, as amended, at which the protesting party or the Division shall have an opportunity to demonstrate that the proposed infill well would cause waste or impair correlative rights.

RULE 8. The Division Director may grant an exception to the requirements of Rule (7) without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions, the recompletion of a well previously drilled to a deeper horizon, provided said well was drilled at an orthodox or approved unorthodox location for such original horizon, or the drilling of an intentionally deviated horizontal wellbore. All operators or owners of undrilled tracts offsetting the proposed location shall be notified of the application by registered or certified mail, and the applicant shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all parties described above or if no objections to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 9(A). The Division Director shall have the authority to administratively approve an intentionally deviated well in the Basin-Fruitland Coal Gas Pool for the purpose of penetrating the coalbed seams by means of a wellbore drilled horizontally, provided the following conditions are complied with:

(1) the surface location of the proposed well is a standard location or the applicant has obtained approval of an unorthodox surface location as provided for in Rule (8) above.

(2) The bore hole shall not enter or exit the coalbed seams outside of a drilling window which is in accordance with the setback requirements of Rule (7), provided however, that the 10 foot setback distance requirement from the quarter-quarter section line or subdivision inner boundary shall not apply to horizontally drilled wells.

(B) To obtain administrative approval to drill an intentionally deviated horizontal wellbore, the applicant shall file such application with the Santa Fe and Aztec offices of the Division and shall further provide a copy of such application to all operators or owners of undrilled tracts offsetting the proposed gas proration unit for said well by registered or certified mail, and the application shall state that such notice has been furnished. The application shall further include the following information:

(1) A copy of Division Form C-102 identifying the proposed proration unit to be dedicated to the well.

(2) Schematic drawings of the proposed well which fully describe the casing, tubing, perforated or open hole interval, kick-off point, and proposed trajectory of the drainhole section.

The Director may approve the application upon receipt of written waivers from all parties described above or if no objection to the intentionally deviated horizontal wellbore has been entered within 20 days after the Director has received the application. If any objection to the proposed intentionally deviated horizontal well is received within the prescribed time limit as described above, the Director shall, at the applicant's request, set said application for public hearing.

(C) During or upon completion of drilling operations the operator shall further be required to conduct a directional survey on the vertical and lateral portions of the wellbore and shall submit a copy of said survey to the Santa Fe and Aztec Offices of the Division.

(D) The Division Director, at his discretion, may set any application for intentionally deviated horizontal wellbores for public hearing.

RULE 10. Notwithstanding the provisions of Division Rule No. 404, the Supervisor of the Aztec District office of the Division shall have the authority to approve the venting or flaring of gas from a Basin-Fruitland Coal Gas Well upon a determination that said venting or flaring is necessary during completion operations, to obtain necessary well test information, or to maintain the producibility of said well. Application to flare or vent gas shall be made in writing to the Aztec district office of the Division.

RULE 11. Testing requirements for a Basin-Fruitland Coal Gas well hereinafter set forth may be used in lieu of the testing requirements contained in Division Order No. R-333-I. The test shall consist of a

(BASIN-FRUITLAND COAL GAS POOL - Cont'd.)

SPECIAL RULES AND REGULATIONS
FOR THE
BASIN-FRUITLAND COAL GAS POOL

RULE 1. Each well completed or recompleted in the Basin-Fruitland Coal Gas Pool shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. A gas well within the Basin-Fruitland Coal Gas Pool shall be defined by the Division Director as a well that is producing from the Fruitland coal seams as demonstrated by a preponderance of data which could include the following:

- a. Electric Log Data
- b. Drilling Time
- c. Drill Cuttings of Log Cores
- d. Mud Logs
- e. Completion Data
- f. Gas Analysis
- g. Water Analysis
- h. Reservoir Performance
- i. Other evidence which may be utilized in making such determination.

RULE 3. (As Amended by Order No. R-8768-A, July 16, 1991) The Division Director may require the operator of a proposed or existing Basin-Fruitland Coal Gas well, Fruitland Sandstone well, or Pictured Cliffs Sandstone well, to submit certain data as described in Rule (2) above, which would not otherwise be required by Division Rules and Regulations, in order to demonstrate to the satisfaction of the Division that said well will be or is currently producing from the appropriate common source of supply. The confirmation that a well is producing exclusively from the Basin-Fruitland Coal Gas Pool shall consist of approval of Division Form C-104, provided however that such approval shall be for Division purposes only, and shall not preclude any other governmental jurisdictional agency from making its own determination of production origination utilizing its own criteria.

RULE 4. (As Amended by Order No. R-8768-A, July 16, 1991, Order No. R-8768-C, October 15, 200, and Order No. R-8768-F, July 17, 2003.) Each standard gas spacing unit will consist of 320 acres, more or less, comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the United States Public Lands Survey.

RULE 5. (As Amended by Order No. R-8768-A, July 16, 1991) The Supervisor of the Aztec district office of the Division shall have the authority to approve a non-standard gas proration unit within the Basin-Fruitland Coal Gas Pool without notice and hearing when the unorthodox size or shape is necessitated by a variation in the legal subdivision of the United States Public Lands Survey and/or consists of an entire governmental section and the non-standard unit in not less than 70% nor more than 130% of a standard as proration unit. Such approval shall consist of acceptance of Division Form C-102 showing the proposed non-standard unit and the acreage contained therein.

RULE 6. (As Amended by Order No. R-8768-A, July 16, 1991) The Division Director may grant an exception to the requirements of Rule (4) when the unorthodox size or shape of the gas proration unit is necessitated by a variation in the legal subdivision of the United States Public Lands Survey and the non-standard gas proration unit is less than 70% or more than 130% of a standard gas proration unit, or where the following facts exist and the following provisions are complied with:

- (a) the non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.
- (b) The non-standard unit lies wholly within a governmental half section, except as provided in paragraph (c) following.
- (c) The non-standard unit conforms to a previously approved Blanco-Mesaverde or Basin-Dakota Gas Pool non-standard unit as evidenced by applicant's reference to the Division's order number creating said unit.
- (d) The applicant presents written consent in the form of waivers from all offset operators or owners of undrilled tracts and from all operators owning interests in the half section in which the non-standard unit is situated and which acreage is not included in said non-standard unit.
- (e) In lieu of paragraph (d) of this rule, the applicant may furnish proof of the fact that all of the aforesaid parties were notified by

certified or registered mail or overnight express mail with certificate of delivery of his intent to form such non-standard unit. The Division Director may approve the application if no such party has entered an objection to the formation of such non-standard unit within 30 days after the Division Director has received the application.

(f) The Division Director, at his discretion, may set any application under Rule (6) for public hearing.

RULE 7. (a) (As Amended by Order No. R-8768-B, Effective February 10, 2000, Order No. R-8768-C, October 15, 2002, and Order No. R-8768-F, July 17, 2003.) WELL LOCATION:

(1) A well drilled or recompleted on a standard or non-standard spacing unit in the Basin-Fruitland Coal (Gas) Pool shall be located no closer than 660 feet from the outer boundary of the spacing unit and no closer than 10 feet to any interior quarter-quarter section line or subdivision inner boundary.

(2) A well drilled or recompleted within a federal exploratory unit is not subject to the 660-foot setback requirement to the outer boundary of the spacing unit, provided however:

(i) the well shall not be closer than 10 feet to any section, quarter section, or interior quarter-quarter section line or subdivision inner boundary;

(ii) the well shall not be closer than 660 feet to the outer boundary of the federal exploratory unit;

(iii) if the well is located within the federal exploratory unit area but adjacent to an existing or prospective spacing unit containing a non-committed tract or partially committed tract, it shall not be closer than 660 feet to the outer boundary of its spacing unit;

(iv) if the well is located within a non-committed or partially committed spacing unit, it shall not be closer than 660 feet to the outer boundary of its spacing unit;

(v) if the well is located within a participating area but adjacent to an existing or prospective spacing unit that is not within the same participating area, it shall not be closer than 660 feet to the outer boundary of the participating area; and

(v) if the well is located within an exploratory unit area but in an existing or prospective spacing unit that is a non-participating spacing unit, it shall not be closer than 660 feet to the outer boundary of its spacing unit.

(3) The operator filing an Application for Permit to Drill ("APD") for any well within a federal exploratory unit area that is closer to the outer boundary of its assigned spacing unit than 660 feet shall provide proof in the form of a participating area plat that such well meets the requirements of Rule 7(a).

RULE 7(b). (As Amended by Order No. R-8768-F, July 17, 2003.) ADMINISTRATIVE EXCEPTIONS:

The Division Director, in accordance with Division Rule 104, may administratively grant an exception to the well location requirements of Rule 7(a) upon application to the Division which includes notification by certified mail-return receipt requested to affected parties [see Division Rule 1207.A(2)].

RULE 7(c). (As Amended by Order No. R-8768-F, July 17, 2003.) ESTABLISHMENT OF THE "HIGH PRODUCTIVITY AREA" AND "LOW PRODUCTIVITY AREA":

(1) High Productivity Area: There is established within the consolidated boundaries of the Basin Fruitland Coal (Gas) Pool a "High Productivity Area" consisting of the following-described acreage in San Juan and Rio Arriba Counties, New Mexico:

Township 29 North, Range 6 West, NMPM
Sections 2 through 8: All
Sections 11 and 12: All
Sections 17 and 18: All
Township 29 North, Range 7 West, NMPM
Section 1: All
Sections 12 and 13: All
Township 30 North, Range 5 West, NMPM
Sections 19 through 21: All
Sections 29 through 31: All
Township 30 North, Range 6 West, NMPM
Sections 5 through 35: All
Township 30 North, Range 7 West, NMPM
Sections 1 through 18: All
Sections 22 through 26: All
Section 36: All
Township 30 North, Range 8 West, NMPM
Sections 1 through 4: All