

**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. 14464

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

AFFIDAVIT OF JEROME P. MCHUGH, JR.

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

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

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

Jerome P. McHugh, Jr.

Education:	BA Economics, Colorado College-1980
Experience:	Practicing Landman and Oil and Gas Professional for 30 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(l)(b).

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

**Affidavit of Jerome P. McHugh, Jr.
NMOCD Case 14464
-Page 1-**

**Before the Oil Conservation Division
Case 14464
Hearing April 29, 2010
San Juan Resources
Exhibit No. 1**

CHRONOLOGICAL SUMMARY OF SIGNIFICANT EVENTS

1. San Juan Resources, Inc. ("SJR") has approximately 30% percent working interest ownership in the oil and gas minerals from the base of the Pictured Cliffs formation to the base of the Dakota formation underlying the W/2 of Section 24, T30N, R12N, 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. About February 16, 2010, SJR proposed to the other working interest or mineral owners its Monarch Crest 24 Well No. 1 (API #30-045-34770) to drilled at a standard well location in Unit C of this section to be dedicated to a standard 320-acre gas spacing unit consisting of the W/2 of this section. This well is to be drilled and down hole completed in the Mesaverde and Dakota formations.

4. Despite its reasonable efforts, applicant has been unable to obtain a written voluntary agreement from certain uncommitted working interest owners 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(I)(b) attached are the following statements and exhibits in support of this case:

- (i) No opposition for the hearing is expected because these parties have not objected to the inclusion of this well into this pooling order.
- (ii) Map, subdivided into its mineral tracts, outlining the spacing unit being the W/2 of Section 24, T30N, R12W, NMPM, San Juan County, New Mexico and the subject wellbore. **See Exhibit "B".**

- (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 utilizing the database of various internet sites including whitepages.com and the parties have been contacted on our behalf on several occasions. **See Exhibit "A"**.
- (iv) The names of the formations and pools to be pooled are the 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 \$5,800 per month drilling and \$580 per month producing well rates, subsequent to COPAS adjustment.
- (ix) Copy of Division form C-102 showing the well location and the proposed depth of the well (approximately 6,750 feet). **See Exhibit "D"**.
- (x) Copy of the AFE in the amount of \$ 931,074 completed well costs for this well, which we conclude, is fair, reasonable and current for wells of this type in this area. **See Exhibit "E"**

ATTESTATION

I, Jerome P. 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.

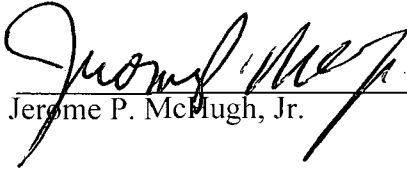
I recommend that a compulsory pooling order be entered which provides that:

- (1) San Juan Resources, Inc. be named Operator;
- (2) for applicant and all working interest and unleased owners to participate in the costs of drilling, completing, equipping, and operating this gas well;
- (3) In the event a working interest owner fails to elect to participate, then provisions be made to recover out of production the costs of the drilling, completing, equipping and operating this gas well, including a risk factor penalty;
- (4) Provisions for overhead rates of \$5,800 per month drilling and \$580 per month operating and a provision for an adjustment method of the overhead rates as provided by COPAS;

Affidavit of Jerome P. McHugh, Jr.

NMOCD Case 14464

FURTHER AFFIANT SAYETH NOT:


Jerome P. McHugh, Jr.

ACKNOWLEDGMENT

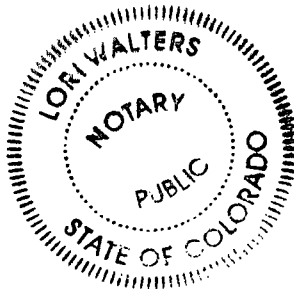
STATE OF COLORADO)
 § ss.
CITY & COUNTY OF DENVER)

BEFORE me, the undersigned, a Notary Public in and for said County and State, on this 16th day of April, 2010, personally appeared Jerome P. 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:

9/13/2012




Notary Public

Affidavit of Jerome P. McHugh, Jr.

NMOCD Case 14464

-Page 4-

Exhibit "A"

NMOCD Case 14464

UNCOMMITTED WORKING INTEREST AND MINERAL OWNERS

TOWNSHIP 30 NORTH, RANGE 12 WEST, N.M.P.M.

Section 24: W/2

from the base of the Pictured Cliffs formation to the base of the Dakota formation
containing 320 acres, more or less

OWNER

WORKING INTEREST

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

Mineral Interest 1.95219%

Four Star Oil & Gas Company
1500 Louisiana
Houston, TX 77002
new address: 1400 Smith St.
Houston, TX 77002 or
P O Box 2100
Houston, TX 77252
Attn: No Joint Venture Manager

.30259%

NMOCD Case 14464

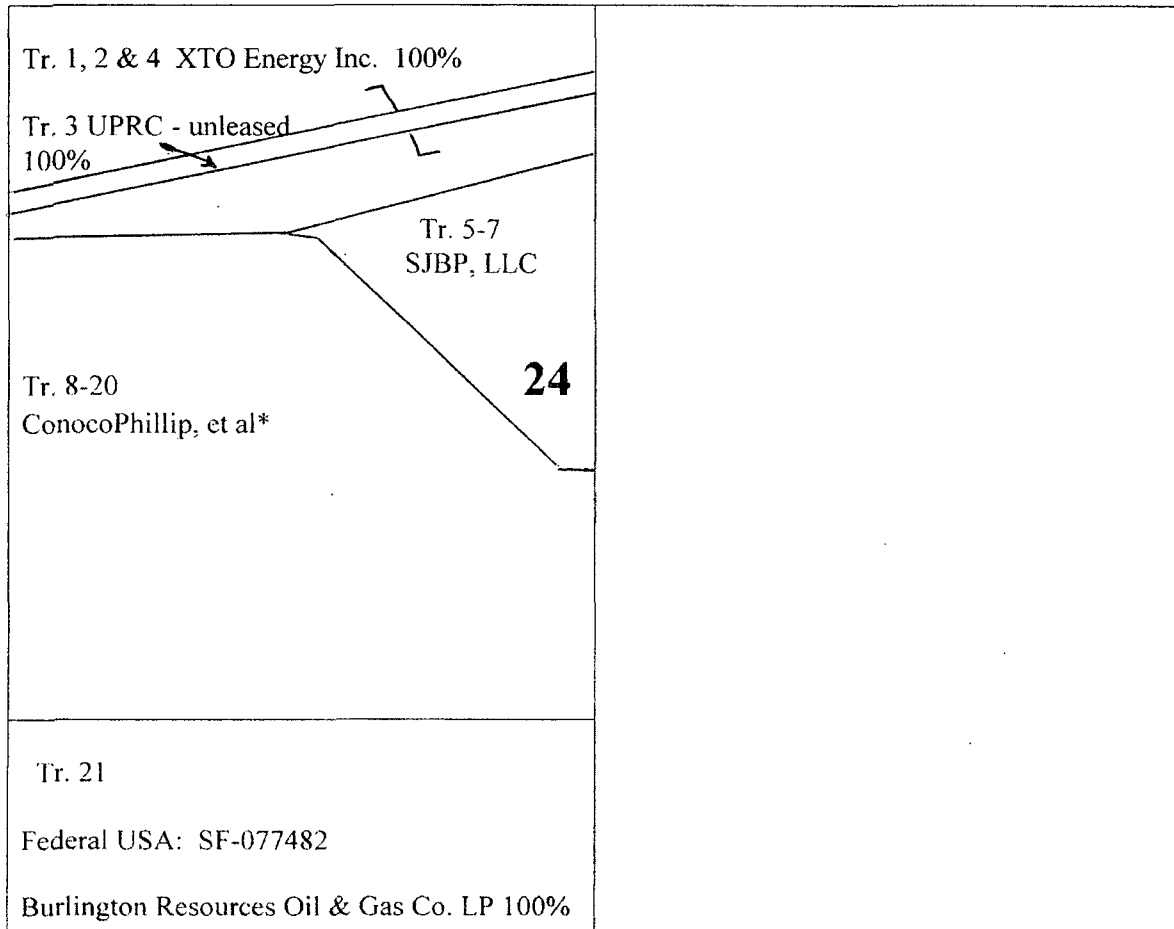
Exhibit A

LEASEHOLD OWNERSHIP

TOWNSHIP 30 NORTH, RANGE 12 WEST, N.M.P.M.

SECTION 24: W/2

**Base Pictured Cliffs to Base Dakota formations
SAN JUAN COUNTY, NEW MEXICO**



*includes leasehold interest of Four Star Oil & Gas Company (Tr. 8-20)

San Juan Resources, Inc.
Well Proposal 2010 Summary of Participation
Well: Monarch Crest 24 #1

Owner	Percentage	Letter/AFE Sent	Green Card Return	Participate		Alternatives			Force Pool	Notes
				Yes	No	Lease	Farmout	Sell		
Burlington Resources Oil & Gas Company, LP c/o ConocoPhillips Company P O Box 4289 Farmington, NM 87499 Attn: Ben Malone, Land Supervisor	40.83315%	2/16/2010	YES						No	Verbal approval
XTO Energy, Inc. Attn: Bradley Jameson 810 Houston Street, Suite 2000 Fort Worth, TX 76102	20.99344%	2/16/2010	YES		X		X		No	F/O with term assignment
ConocoPhillips Company P O Box 4289 Farmington, NM 87499 Attn: Ben Malone, Land Supervisor	15.83314%	2/16/2010	YES						No	Verbal approval
Kenneth and Elsie M. Blanceit Living Trust, dtd 12-9-98 DeWayne Blanceit, Successor Trustee 282 County Road 3000 Aztec, NM 87410	4.88895%	2/16/2010	YES		X	X			NO	2/17/10 executed OGL to San Juan Basin Properties
San Juan Basin Properties, LLC 1499 Blake Street, Suite 10-C Denver, CO 80202	4.13680%	N/A	N/A	X					NO	
George Vaughn, Jr. et ux P O Box 13557 Denver, CO 80201	5.52987%	2/16/2010	YES	X					NO	
Paul L. McCulliss and Debbie M, wife P O Box 3248 Littleton, CO 80161	5.52987%	2/16/2010	YES	X					No	3/12/10 T/C said will execute to participate & return election ltr. 3/17 received signed AFE. 3/19 T/C to request return of election ltr too.
Union Pacific Railroad Company c/o Farmers National Company 5110 So Yale, Suite 400 Tulsa, OK 74135 Attn: Samantha Morgan	1.95219%	2/16/2010	YES						Yes	Phone calls and emails from 1/12/10 thru 3/23/10 to amend lease terms. UPR informed SJB their lease terms are non-negotiable.
Four Star Oil & Gas Company 1500 Louisiana Houston, TX 77002 new address: 1400 Smith St. Houston, TX 77002 or P O Box 2100 Houston, TX 77252 Attn: No Joint Venture Manager	0.30259%	2/16/2010	YES		X				Yes	Also sent notice to Pure Resources LLC, Four Star's predecessor in title. Pure notice was returned as undeliverable. 2/24 Annika Burdell, Four Star, called with ? as to WI.V. ORL, provided new addresses, copy of Assign to Union Oil. 3/4/10 emailed title info to A Burdell. 3/12 A Burdell said interest was confirmed and sent AFE for processing. 3/12/10 SJB also emailed offer to purchase interest. 3/23/10 (after 30 day period) Four Star declined participation & offer topurchase.

100.000000%

7009 2250 0003 4168 6212

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	\$ 61
Certified Fee	280
Return Receipt Fee (Endorsement Required)	230
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 5.71

Sent To
 Street, Apt. No. or PO Box No.
 City, State, ZIP

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

Postmark Here
 FEB 15 2010
 DENVER CO

PS Form 3811, February 2004

COMPLETE THIS SECTION

Items 1, 2, and 3. Also complete Restricted Delivery if desired. Same name and address on the reverse can return the card to you. card to the back of the mailpiece, but if space permits.

Addressed to:

Union Pacific Railroad Company
 Farmers National Company
 5110 So Yale, Suite 400
 Tulsa, OK 74135
 Samantha Morgan

Article Number (Transfer from service label)

7009 2250 0003 4168 6212

PS Form 3811, February 2004

COMPLETE THIS SECTION ON DELIVERY

A. Signature ☐ Agent ☐ Address

X *[Signature]*

B. Received by (Printed Name)

C. Date of Delivery 2-18-10

D. Is delivery address different from item 1? ☐ Yes ☐ No
 If YES, enter delivery address below:

FEB 22 2010

BY:

3. Service Type
☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

7009 2250 0003 4168 6212

PS Form 3811, February 2004

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1

SENDER COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:

Four Star Oil & Gas Company
 1500 Louisiana
 Houston, TX 77002

Article Number (Transfer from service label)

7009 2250 0003 4168 6229

PS Form 3811, February 2004

COMPLETE THIS SECTION ON DELIVERY

A. Signature ☐ Agent ☐ Address

X *[Signature]*

B. Received by (Printed Name)

C. Date of Delivery FEB 22 2010

D. Is delivery address different from item 1? ☐ Yes ☐ No
 If YES, enter delivery address below:

FEB 25 2010

BY:

3. Service Type
☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

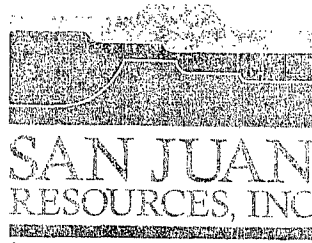
7009 2250 0003 4168 6229

PS Form 3811, February 2004

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1



VIA CERTIFIED RETURN, RECEIPT 7009 2250 0003 4168 6212

February 16, 2010

To: Union Pacific Railroad Company
c/o Farmers National Company
5110 So. Yale, Suite 4000
Tulsa, OK 74135
Attn: Ms. Samantha Morgan

Re: Well Proposal – Monarch Crest 24 #1 (NE4NW/4)
T30N-R12W, Section 24: W/2
San Juan County, New Mexico

Dear Ms. Morgan:

In 2008, San Juan Resources, Inc. ("SJR") proposed the W/2 of Section 24, T30N- R12W as the spacing unit for the Monarch Crest 24 Well No. 1 (API # 30-045-34770) which was not drilled. The pooled interval will be from the base of the Pictured Cliffs to the base of the Dakota formations.

SJR, as Operator, re-proposes this captioned Mesaverde / Dakota well with an anticipated spud date of July 1, 2010. Pursuant to the attached Authority for Expenditure (AFE), estimated drilling costs are \$482,533 and estimated completion costs are \$448,542 which total \$931,074. Should you elect to participate in the drilling of this well, your share of costs as reflected on the AFE are due prior to drilling.

As an alternative to participation, SJR would like to farm-in, lease, or purchase your interest from the base of the Pictured Cliffs to the base of the Dakota formations as follows: (i) SJR proposes a farmout of your interest. By drilling the well, SJR would earn 100% of your interest in the wellbore. In addition, if the well is productive, SJR will earn 50% of your interest in the proration unit outside of the wellbore; (ii) SJR offers to lease for \$125/net acre, 1/8th royalty interest, 3 year paid up lease upon receipt of the Producers 88 Paid Up, Rev No.5a (CBG) form; (iii) SJR will purchase your interest for \$250 per net mineral acre.

NMOCD Case 14464
Exhibit C

Well Proposal – Monarch Crest 24 #1
February 16, 2010
Page 2

If you elect not to participate in the drilling of the well, farmout, lease or sale, then SJR will apply for a compulsory pooling order pursuant to New Mexico law, which provides for a 300% penalty to recover drilling and completion costs. In order to timely commence this wellbore, SJR will file a compulsory pooling application not later than April 1, 2010.

If you choose to participate in the well, please sign and return the enclosed AFE and your payment. A copy of the model form AAPL Form 610-1982 Joint Operating Agreement will follow for your execution.

If you elect to participate in (i) the farmout option, (ii) lease option, or (iii) to sell your interest, please sign and return the election form in the envelope provided. A farmout agreement, Producers 88 Paid Up lease form, or Quitclaim Mineral Deed, as described on page one will be mailed to you under separate cover. If we do not receive a response from you, we will *assume that you have elected not to* participate in the well and want your interest subject to a compulsory pooling order.

We appreciate your consideration and timely response. Should you have any questions, please call 303-573-6333 or 303-253-4676.

Very truly yours,



Sheryl A. Olson, CPL
Land Consultant
San Juan Resources, Inc.

Enclosures: 1 + return envelope

Well Proposal – Monarch Crest 24 #1
February 16, 2010
Page 3

ELECTIONS 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 along with our well requirements. Upon receipt of the AAPL Form 610-1982 JOA, one originally executed signature page will be promptly returned.

_____ **No**, I/we decline participation in the Monarch Crest 24 #1 well.

ALTERNATIVES TO PARTICIPATION

_____ I/we hereby agree to lease my interest for \$125/net acre, 1/8th royalty interest, 3 year paid up lease upon receipt of the Producers 88 Paid Up, Rev No.5a (CBG) form.

_____ I/we hereby agree to farmout my interest under the terms described in paragraph 3(i).

_____ I/we hereby agree to sell my interest for \$250 per net mineral acre from the base of the Pictured Cliffs to the base of the Dakota formations and will execute a mutually agreeable Quitclaim Mineral Deed.

Accepted and Agreed to this _____ day of _____, 2010

Union Pacific Railroad Company

By:
Title:

Address: _____

Phone: _____

Drilling and Completion Cost Estimate

San Juan Resources, Inc. AUTHORITY FOR EXPENDITURE

Well Name: Monarch Crest 24 #1
Location: Section 24, NE/4 NW/4, T30N, R12W, San Juan County, NM
Proposed Depth: 6750' **Objective:** Dakota/Mesaverde

	Tangible	Intangible	Total
I. Drilling Costs			
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	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 included 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
Total Drilling Cost	64,940	373,726	438,666
10% Contingency	6,494	37,373	43,867
Grand Total Drilling Costs	71,434	411,099	482,533

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
Completion Costs	107,265	300,500	407,765
10% Contingency	10,727	30,050	40,777
Total Completion Costs	117,992	330,550	448,542
Grand Total Well Costs	189,426	741,649	931,074

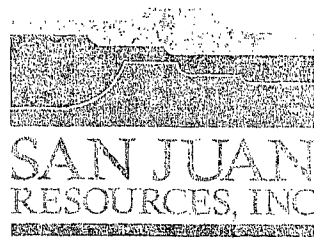
Prepared By: Jerome P. McHugh, Jr. President/Owner
Date: January 12, 2010

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: _____



February 16, 2010

To: Four Star Oil & Gas Company
1500 Louisiana
Houston, TX 77002
Via Certified Return Receipt
7009 2250 0003 4168 6229

Pure Resources, LLC
14141 Southwest Freeway
Sugar Land, TX 77478
Via Certified Return Receipt
7009 2250 0003 4168 6236

Re: Well Proposal – Monarch Crest 24 #1 (NE4NW/4)
T30N-R12W, Section 24: W/2
San Juan County, New Mexico

Attn: Land Departments: Four Star Oil & Gas Company and Pure Resources, LLC

In 2008, San Juan Resources, Inc. ("SJR") proposed the W/2 of Section 24, T30N- R12W as the spacing unit for the Monarch Crest 24 Well No. 1 (API # 30-045-34770) which was not drilled. The pooled interval will be from the base of the Pictured Cliffs to the base of the Dakota formations.

SJR, as Operator, re-proposes this captioned Mesaverde / Dakota well with an anticipated spud date of July 1, 2010. Pursuant to the attached Authority for Expenditure (AFE), estimated drilling costs are \$482,533 and estimated completion costs are \$448,542 which total \$931,074. Should you elect to participate in the drilling of this well, your share of costs as reflected on the AFE are due prior to drilling.

As an alternative to participation, SJR would like to farm-in, lease, or purchase your interest from the base of the Pictured Cliffs to the base of the Dakota formations as follows: (i) SJR proposes a farmout of your interest. By drilling the well, SJR would earn 100% of your interest in the wellbore. In addition, if the well is productive, SJR will earn 50% of your interest in the proration unit outside of the wellbore; (ii) SJR offers to lease for \$125/net acre, 1/8th royalty interest, 3 year paid up lease upon receipt of the Producers 88 Paid Up, Rev No.5a (CBG) form; (iii) SJR will purchase your interest for \$250 per net mineral acre.

NMOCD Case 14464
Exhibit C

Well Proposal -- Monarch Crest 24 #1
February 16, 2010
Page 2

If you elect not to participate in the drilling of the well, farmout, lease or sale, then SJR will apply for a compulsory pooling order pursuant to New Mexico law, which provides for a 300% penalty to recover drilling and completion costs. In order to timely commence this wellbore, SJR will file a compulsory pooling application not later than April 1, 2010.

If you choose to participate in the well, please sign and return the enclosed AFE and your payment. A copy of the model form AAPL Form 610-1982 Joint Operating Agreement will follow for your execution.

If you elect to participate in (i) the farmout option, (ii) lease option, or (iii) to sell your interest, please sign and return the election form in the envelope provided. A farmout agreement, Producers 88 Paid Up lease form, or Quitclaim Mineral Deed, as described on page one will be mailed to you under separate cover. If we do not receive a response from you, we will *assume that you have elected not to* participate in the well and want your interest subject to a compulsory pooling order.

This proposal is being provided to both Four Star Oil & Gas Company and Pure Resources, LLC because there appears to be a gap in title between Pure Resources LLC and Pure Resources LP. (Pure Resources LP registered a name change from same into Chevron Midcontinent, however, the record title holder was Pure Resources LLC.)

We appreciate your consideration and timely response. Should you have any questions, please call 303-573-6333 or 303-253-4676.

Very truly yours,



Sheryl A. Olson, CPL
Land Consultant
San Juan Resources, Inc.

Enclosures: 1+ return envelope

Well Proposal - Monarch Crest 24 #1
February 16, 2010
Page 3

ELECTIONS 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 along with our well requirements. Upon receipt of the AAPL Form 610-1982 JOA, one originally executed signature page will be promptly returned.

☒ No, I/we decline participation in the Monarch Crest 24 #1 well.

ALTERNATIVES TO PARTICIPATION

____ I/we hereby agree to lease my interest for \$125/net acre, 1/8th royalty interest, 3 year paid up lease upon receipt of the Producers 88 Paid Up, Rev No.5a (CBG) form.

____ I/we hereby agree to farmout my interest under the terms described in paragraph 3(i).

____ I/we hereby agree to sell my interest for \$250 per net mineral acre from the base of the Pictured Cliffs to the base of the Dakota formations and will execute a mutually agreeable Quitclaim Mineral Deed.

Accepted and Agreed to this 22nd day of March, 2010

Four Star Oil & Gas Company

Pure Resources LLC

By: 

By: _____

Address: See Attached

Chevron U.S.A. Inc.
J. David Crawford
NOJV Engineer

Phone: 713-372-7576

DISAPPROVED

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: 3750'

Objective: Dakota/Mesaverde

	Tangible	Intangible	Total
I. Drilling Costs			
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		10,483	10,483
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	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
Total Drilling Cost	64,940	373,725	438,665
10% Contingency	6,494	37,373	43,867
Grand Total Drilling Costs	71,434	411,098	482,532

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 (8700' of 2-3/8" @ 3.70 \$/ft.)	24,790		24,790
Rods, Pump, SB, PR, ect.	0		0
Pert/cased hole logs		10,500	10,500
Stimulation Dakota (100,000# x-link)		60,000	60,000
Stimulation Point Lookout (87,500# 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 (SP, 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
Completion Costs	107,265	300,500	407,765
10% Contingency	10,727	30,050	40,777
Total Completion Costs	117,992	330,550	448,542
Grand Total Well Costs	189,426	741,648	931,074

Prepared By: Jerome P. McHugh, Jr. President/Owner
Date: January 12, 2010Working Interest Owner %: 0.30259%
Working Interest Owner Share: \$ 2,817ESTIMATED COSTS ONLY--Each participating
Owner to pay Proportional Share of Actual
Well Costs Subject to Operating AgreementWorking Interest Owner:
Four Star Oil & Gas Company
1500 Louisiana
Houston, TX 77002

DISAPPROVED

Approved: _____
Title: _____ Date: _____Chevron U.S.A. Inc.
J. David Crawford
NOJV Engineer

3-22-10

NMOCD Case 14464

Exhibit C

DISTRICT I
1625 N. French Dr., Hobbs, N.M. 88240

State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-102
Revised October 12, 2005

DISTRICT II
1501 W. Grand Avenue, Artesia, N.M. 88210

Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

DISTRICT III
1000 Rio Brazos Rd., Aztec, N.M. 87410

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

☐ AMENDED REPORT

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number		*Pool Code	*Pool Name
*Property Code	*Property Name MONARCH CREST		*Well Number 24 #1
*GRID No.	*Operator Name SAN JUAN RESOURCES		*Elevation 5517'

¹⁰ Surface Location

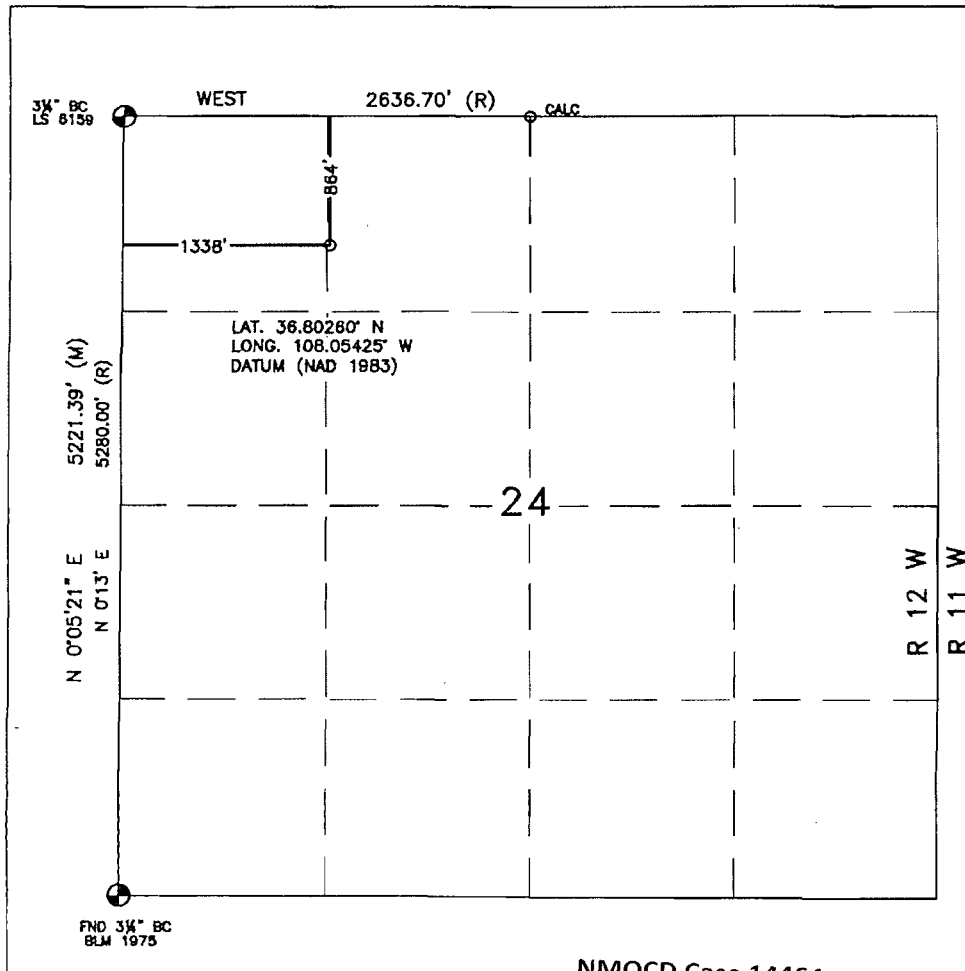
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
C	24	30N	12W		864'	NORTH	1338'	WEST	SAN JUAN

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

18



¹⁷ OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner or a compulsory pooling order heretofore entered by the division.

Signature

Date

Printed Name

¹⁸ SURVEYOR CERTIFICATION

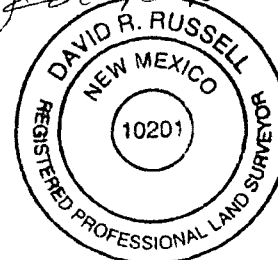
I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

JULY 30, 2008

Date of Survey

Signature and Seal of Professional Surveyor:

David R. Russell



DAVID RUSSELL

Certificate Number

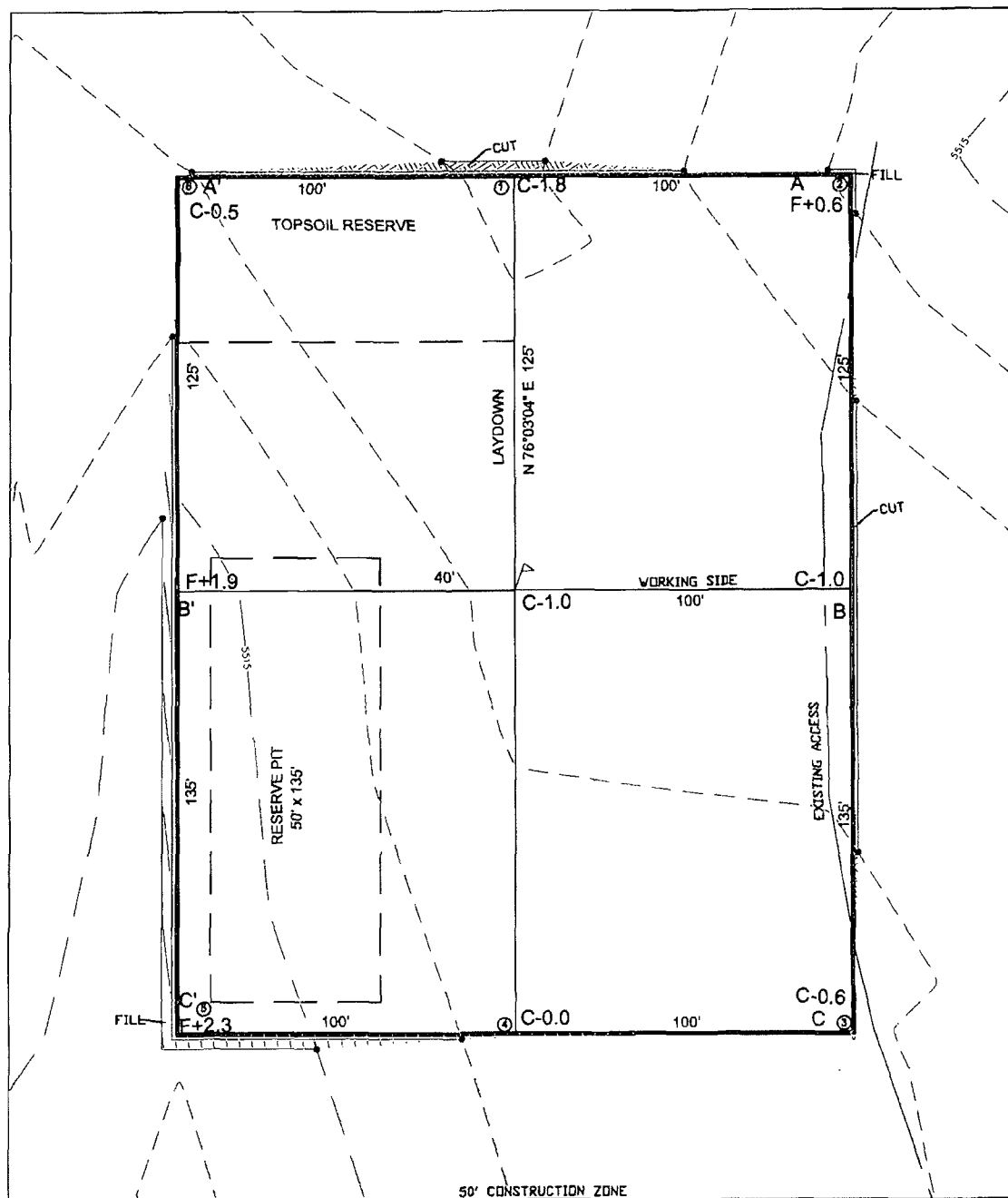
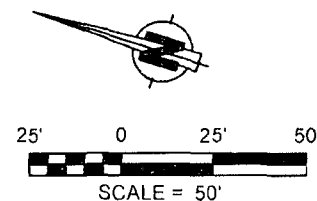
10201

NMOCD Case 14464

Exhibit D

LATITUDE: 36.80260°N
LONGITUDE: 108.05425°W
DATUM: NAD 83

SAN JUAN RESOURCES
MONARCH CREST 24 #1
864' FNL & 1338' FWL
LOCATED IN THE NE/4 NW/4 OF SECTION 24,
T30N, R12W, N.M.P.M.,
SAN JUAN COUNTY, NEW MEXICO
GROUND ELEVATION: 5517', NAVD 88
FINISHED PAD ELEVATION: 5516.4', NAVD 88



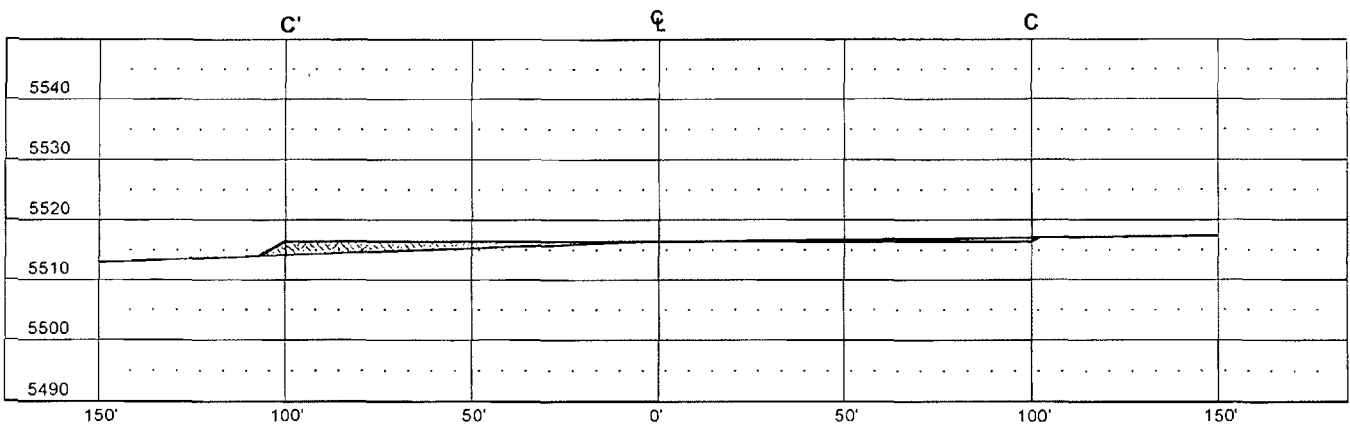
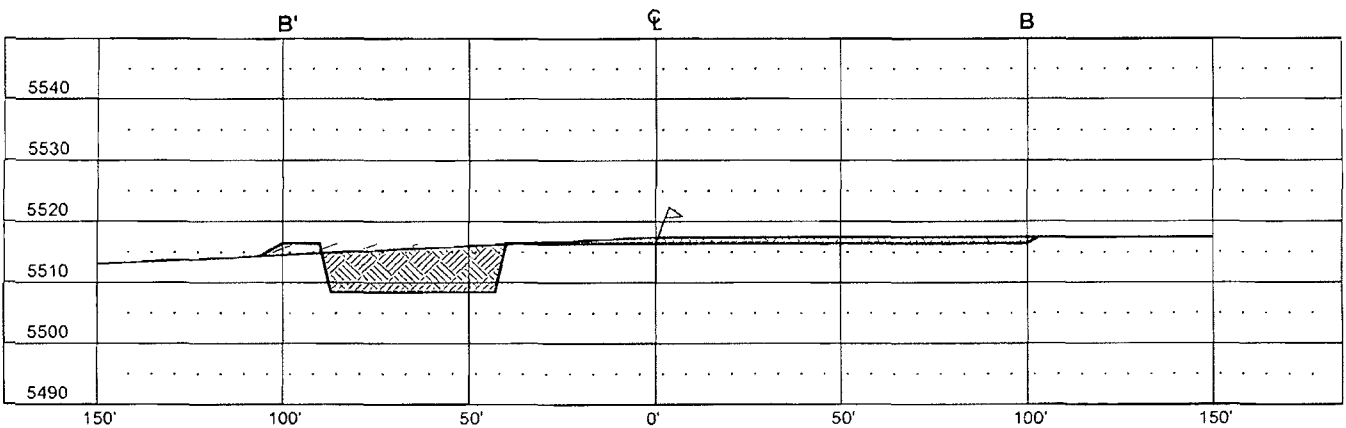
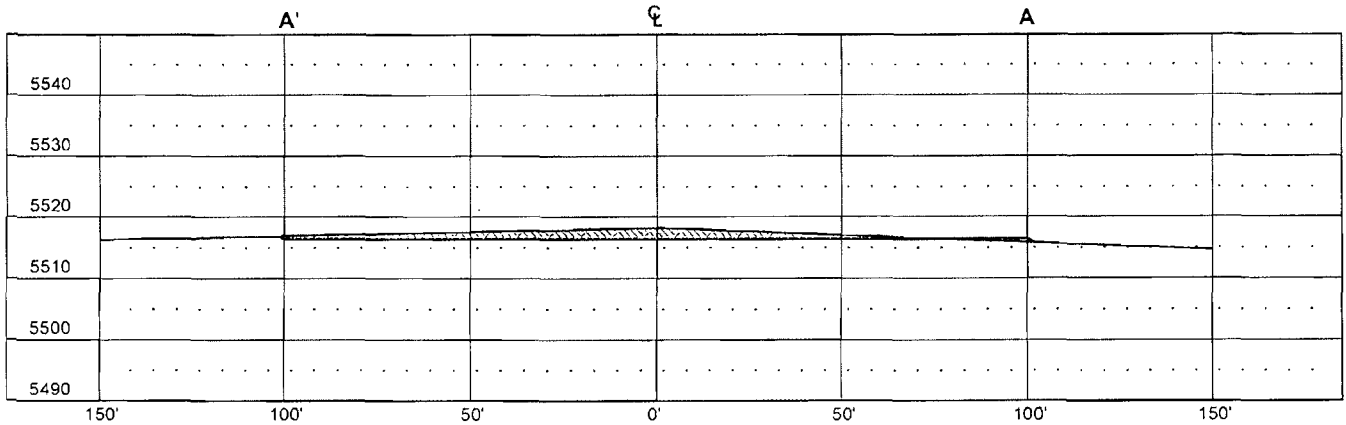
1 FOOT CONTOUR INTERVAL SHOWN
SCALE: 1" = 40'
JOB No.: KAR0002
DATE: 08/05/08

NMOCD Case 14464
Exhibit D



Russell Surveying
1409 W. Aztec Blvd. #2
Aztec, New Mexico 87410
(505) 334-8637

MONARCH CREST 24 #1
864' FNL & 1338' FWL
LOCATED IN THE NE/4 NW/4 OF SECTION 24,
T30N, R12W, N.M.P.M.,
SAN JUAN COUNTY, NEW MEXICO
GROUND ELEVATION: 5517', NAVD 88
FINISHED PAD ELEVATION: 5516.4', NAVD 88



VERT. SCALE: 1" = 30'
HORIZ. SCALE: 1" = 50'
JOB No.: KAR0002
DATE: 08/05/08



CUT



511 I

NMOCD Case 14464Exhibit *D*

Russell Surveying
1409 W. Aztec Blvd. #2
Aztec, New Mexico 87410
(505) 334-8637

SAN JUAN RESOURCES

MONARCH CREST 24 #1

864' FNL & 1338' FWL

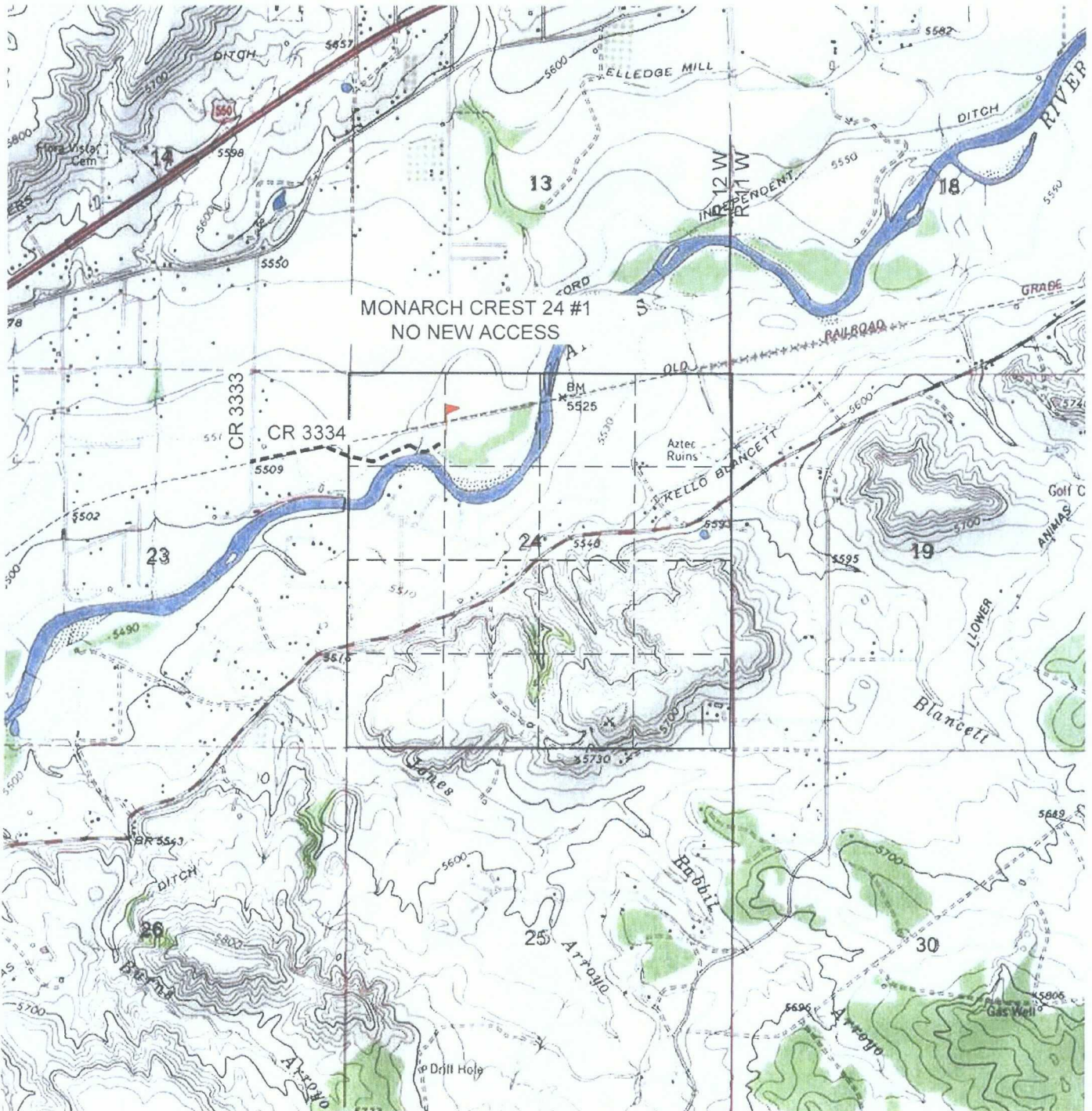
LOCATED IN THE NE/4 NW/4 OF SECTION 24,

T30N, R12W, N.M.P.M.,

SAN JUAN COUNTY, NEW MEXICO

GROUND ELEVATION: 5517', NAVD 88

NO NEW ACCESS



U.S.G.S. QUAD: FLORA VISTA
SCALE: 1" = 2000' (1:24,000)
JOB No.: KAR0002
DATE: 08/05/08

NEW OR RECONSTRUCTED ROADS MUST MEET
SMA DESIGN STANDARDS
INSTALL CULVERTS AS NEEDED

NMOCD Case 14464

Exhibit D



Russell Surveying
1409 W. Aztec Blvd. #2
Aztec, New Mexico 87410
(505) 334-8637

Drilling and Completion Cost Estimate

San Juan Resources, Inc. AUTHORITY FOR EXPENDITURE

Well Name: Monarch Crest 24 #1

Location: Section 24, NE/4 NW/4, T30N, R12W, San Juan County, NM

Proposed Depth: 6750'

Objective: Dakota/Mesaverde

	Tangible	Intangible	Total
I. Drilling Costs			
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	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
Total Drilling Cost	64,940	373,726	438,666
10% Contingency	6,494	37,373	43,867
Grand Total Drilling Costs	71,434	411,099	482,533

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/Climf 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
Completion Costs	107,265	300,500	407,765
10% Contingency	10,727	30,050	40,777
Total Completion Costs	117,992	330,550	448,542
Grand Total Well Costs	189,426	741,649	931,074

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

Working Interest Owner %:
Working Interest Owner Share:

Working Interest Owner:

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

Approved: _____

Title: _____

Date: _____