MODRALL SPERLING

LAWYERS

RECEIVED OCT 25 2017 By

October 18, 2017

Jennifer L. Bradfute
505.848.1845
Fax: 505.848.1882
jlb@modrall.com

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Re: APPLICATION OF MARATHON OIL PERMIAN, LLC TO RE-OPEN CASE NO 15594 FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

Case No. 15594 (re-opened)

TO: POOLED PARTIES AND OFFSETS

This letter is to advise you that Marathon Oil Permian, LLC ("Marathon") has filed the enclosed application with the New Mexico Oil Conservation Division seeking to re-open Case No. 15594 and in order to obtain an amended order (1) creating a 480-acre non-standard spacing and proration unit which covers the SE/4 of Section 25 and E/2 of Section 36, both located within Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico; and (2) pooling all uncommitted mineral interests in the Wolfcamp formation underlying this non-standard spacing and proration unit for the development of the Southern Comfort 25-36 State X Well No. 1H and Southern Comfort 25-36 State X Well No. 2H wells.

This application has been set for hearing before a Division Examiner at 8:15 a.m. on November 8, 2017. The hearing will be held in Porter Hall in the Oil Conservation Division's Santa Fe Office located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505. As a party who may be affected by this application, we are notifying you of your right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application. Failure to appear at the hearing may preclude you from any involvement in this case at a later date.

You are further notified that if you desire to appear in this case, then you are requested to file a Pre-Hearing Statement with the Division not later than 5:00 PM on November 1, 2017, with a copy delivered to the undersigned.

Modrall Sperling
Roehl Harris & Sisk P.A.

Bank of America Centre
500 Fourth Street NW
Suite 1000
Albuquerque,
New Mexico 87102

PO Box 2168
Albuquerque,
New Mexico 87103-2168

Tel: 505.848.1800
www.modrall.com

Sincerely,

Jennifer L. Bradfute
Attorney for Applicant

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

RECEIVED
OCT 25 2017
By______

APPLICATION OF MARATHON OIL PERMIAN, LLC TO RE-OPEN CASE NO 15594 FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 15594 (Re-opened)

APPLICATION

Marathon Oil Permian, LLC ("Marathon"), OGRID Number 372098, through its undersigned attorneys, hereby makes an application to the Oil Conservation Division to re-open Case No. 15594 and seeks and amended order (1) creating a 480-acre non-standard spacing and proration unit which covers the SE/4 of Section 25 and E/2 of Section 36, both located within Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico; and (2) pooling all uncommitted mineral interests in the Wolfcamp formation underlying this non-standard spacing and proration unit. In support of this application, Marathon states as follows:

1. Marathon is an interest owner in the subject lands and has a right to drill a well thereon.

2. Division Order R-14348, entered on May 15, 2017, created a 480-acre spacing and proration unit, consisting of the SE/4 of Section 25 and E/2 of Section 36, both located within Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico. This order further pooled the uncommitted interests in the Wolfcamp formation, Purple Sage Wolfcamp (Gas) Pool (Pool Code 98220) (the "Unit") and dedicated the Unit to the Southern Comfort 25-

36 State X Well No. 2H well. Marathon is drilling and completing the Southern Comfort 25-36 State X 2H well to a depth sufficient to test the Wolfcamp formation. This well is a horizontal well with a surface location 2404 feet from the South line, 1236 feet from the East line of Section 25, and a terminus 240 feet from the South line, 330 feet from the East line of Section 36. The producing interval that Marathon seeks to drill will comply with setback requirements established under Order R-14262, creating the Purple Sage Wolfcamp (Gas) Pool.

3. Order R-14348 designated BC Operating Inc. as operator of the well and the Unit. Marathon subsequently acquired BC Operating Inc.'s interests in the Unit.

4. Since taking over operations of the Unit, Marathon has discovered additional parties that own interests which need to be force pooled and additional parties entitled to notice of this application. Marathon has in good faith sought, but has been unable to obtain, voluntary joinder of all mineral interest owners in the Unit for purposes set forth herein.

5. Marathon further seeks to drill its Southern Comfort 25-36 State X 1H well within the Unit, to a depth sufficient to test the Wolfcamp formation. This well is a horizontal well with a surface location 2490 feet from the South line, 2310 feet from the East line of Section 25, and a terminus 240 feet from the South line, 2323 feet from the East line of Section 36. The producing interval that Marathon seeks to drill will comply with setback requirements established under Order R-14262, creating the Purple Sage Wolfcamp (Gas) Pool.

6. Certain interest owners executed a wellbore specific JOA for the development of the Southern Comfort 25-36 State X 2H well. Marathon has in good faith sought, but has been unable to obtain, voluntary joinder of all mineral interest owners in the Unit for purposes of developing the Southern Comfort 25-36 State X 1H within the Unit area and seeks to pool these interests.

7. Approval of the non-standard unit and the pooling of all interests in the Wolfcamp formation underlying the Unit will prevent the drilling of unnecessary wells, prevent waste and protect correlative rights.

8. Notice of this application is being given in accordance with Division rules.

WHEREFORE, Marathon requests this application be set for hearing before an Examiner of the Oil Conservation Division on November 8, 2017, and after notice and hearing as required by law, the Division enter its order:

A. Creating a non-standard oil spacing and proration unit ("project area") in the Wolfcamp formation covering the SE/4 of Section 25 and E/2 of Section 36, both located within Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico;

B. Pooling all mineral interests in the Wolfcamp formation underlying this non-standard spacing and proration unit/project area;

C. Designating Marathon as operator of this unit and the well to be drilled thereon;

D. Authorizing Marathon to recover its costs of drilling, equipping and completing this well;

E. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and

F. Setting a 200% charge for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,

MODRALL, SPERLING, ROEHL, HARRIS
& SISK, P.A.

By:
Earl E. DeBrine, Jr.
Jennifer Bradfute
Post Office Box 2168
Bank of America Centre
500 Fourth Street NW, Suite 1000
Albuquerque, New Mexico 87103-2168
Telephone: 505.848.1800
Attorneys for Applicant

CASE NO. 15594 (re-opened): Application of Marathon Oil Permian, LLC to re-open Case No. 15594 for a Non-Standard Oil Spacing and Proration Unit and Compulsory Pooling, Eddy County, New Mexico. Applicant seeks to amend Order R-14348 to reflect additional notice provided to affected parties and to pool additional interest owners. The amended order applicant seeks will (1) create a 480-acre, more or less, non-standard spacing and proration unit comprised of the SE/4 of Section 25 and E/2 of Section 36, both located within Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico; and (2) pool all uncommitted mineral interests in the Wolfcamp formation underlying this non-standard spacing and proration unit. Said unit is dedicated to the **Southern Comfort 25-36 State X Well No. 2H** and is located approximately 10 miles southwest of Carlsbad, New Mexico.

Kimberly Hill
Vice President Marathon Oil Permian LLC

Marathon Oil Permian LLC
5555 San Felipe
Houston, TX 77056
kbhill@marathonoil.com

Marathon Oil

DELIVERED VIA:
Email

CONFIDENTIAL CORRESPONDENCE

November 1, 2017

The Allar Company
P.O. Box 1567
Graham, TX 76450
Attn: Jack Graham
jack@allarcompany.com

RE: Non-Binding Offer to Purchase

Dear Mr. Graham:

Marathon Oil Permian LLC ("Marathon") respectfully submits this non-binding offer, subject to the terms and conditions set forth below, to purchase all of the working interest of The Allar Company ("Allar") in leases and wells shown on Exhibit A, being not less than 28.33 net acres delivering eighty one and one half percent (81.5%) net revenue interest, for Three Hundred Fifty Four Thousand One Hundred Seventy Dollars ($354,170.00). Please find the details of the potential acquisition below:

1. The potential purchase price set forth above is subject to Allar delivering the assets clear of all debt, hedges, or other liens, and any adjustments based on the results of due diligence and market conditions.

2. This offer will expire on November 10, 2017 at 5 p.m. (CST) and the transaction contemplated herein is subject to: (1) due diligence satisfactory to Marathon; (2) successful negotiation and execution of definitive agreements; and (3) obtaining final Marathon management approval.

3. Upon acceptance of this offer: (1) Marathon shall have the sole, exclusive and irrevocable right, but not the obligation, to acquire all of Allar's assets described herein; (2) Allar shall not disclose to any person or entity that such assets are for sale, or that Allar is attempting to sell or Marathon is attempting to purchase the same; and (3) except with regard to Marathon, Allar shall not, directly or indirectly, solicit, initiate, pursue, encourage, assist, facilitate, evaluate, entertain, negotiate, cooperate with or accept any offer from any other person or entity with respect to such assets.

4. Both Marathon and Allar agree to proceed diligently and use commercially reasonable efforts in good faith to negotiate a definitive agreement during the time period beginning on the date of Allar's acceptance of Marathon's offer as set forth below, and terminating forty-five (45) days thereafter, unless this offer is earlier terminated in writing by Marathon, which Marathon may do at its sole discretion.

Please be advised that Marathon considers this letter and the contents to be confidential information and request it be kept confidential. Once executed, this letter will be subject to the confidentiality obligations in Section 3, above. This is not an offer or acceptance of offer to enter into a binding agreement; nor does this letter create any obligations for either party to continue discussions or pursue this transaction; nor does it set forth all of the terms of any mutually acceptable purchase and sale agreement or obligate any party to negotiate the terms of the transaction. It is not the intention of the parties to create, nor shall this letter be construed as creating, a partnership, joint venture, agency relationship or association, or to render the parties liable as partners, co-venturers, or principals.

If Allar is in agreement with these terms and conditions, please have an authorized individual affix their signature in the space provided below and return to Steve Virant at svirant@marathonoil.com by November 10, 2017 at 5 p.m.

Sincerely,

APPROVED BY LAW
Can

Kimberly Hill
Vice President, Marathon Oil Permian LLC

cc. Matthew McGowen

The Allar Company agrees to the conditions contained herein.
AGREED AND ACCEPTED TO THIS ____ DAY OF ____________, 2017

The Allar Company

By: ____________________
Print Name: ______________
Title: ____________________

EXHIBIT A

Lease Number:	NM LG-5998
Lessor:	State of New Mexico
Lessee:	HNG Oil Company
Issue Date:	November 1, 1978
Recording information:	LG-5998

Wells

Southern Comfort 25 26 State X 1H
API: 3001543209
Southern Comfort 25 36 State X 2H
API: 3001525806

Davidson, Florene, EMNRD

From:	Vartabedian, Rob <Rob.Vartabedian@tklaw.com>
Sent:	Thursday, November 2, 2017 5:09 PM
To:	Davidson, Florene, EMNRD
Subject:	Pre-Hearing Statement and Motion for Continuance - The Allar Company [Case No. 15594 (Re-opened)]
Attachments:	1615_001.pdf

Ms. Davidson-

I attempted to send this to you several times before 5:00 p.m., but my paralegal apparently wrote down your email address incorrectly. Below is our Pre-Hearing Statement and Motion for Continuance for Case No. 15594. Please to not hesitate to contact me if you have any questions.

I. Pre-Hearing Statement

1. **Name of Party**: The Allar Company ("Allar")
   P.O. Box 1567
   735 Elm Street
   Graham, Texas 76450

2. **Name of Attorney:** Robert C. Vartabedian
   Thompson & Knight LLP
   801 Cherry Street, Unit #1
   Burnett Plaza, Suite 1600
   Fort Worth, Texas 76102-6881
   New Mexico Bar No. 148254

3. **Statement of the Case**:

   a. Allar opposes the Application of Marathon Oil Permian, LLC ("Marathon") to Re-Open Case No. 15594 for a Non-Standard Oil Spacing and Production Unit and Compulsory Pooling (the "Application").

   b. Without limiting the generality of the foregoing, Allar opposes the appointment of Marathon as operator of the unit referenced in the Application (such unit, the "Unit").

   c. Marathon has not, in good faith, sought the voluntary of joinder of Allar to the Unit.

   d. The approval of the Unit will not prevent the drilling of unnecessary wells, prevent waste or protect correlative rights.

   e. The Application was not received until October 23, 2017 – less than twenty (20) days before the scheduled hearing date of November 8, 2017. The notice from Marathon was dated October 18, 2017, but there is no evidence the Application was sent on that date.

   f. The notice from Marathon incorrectly stated that the deadline to file a Pre-Hearing Statement was November 1, 2017. After conferring with counsel at the New Mexico Department of

Energy, Minerals and Natural Resources – Oil Conservation Division, it is clear that the deadline to file a Pre-Hearing Statement is November 2, 2017.

4. **Witness**: John Graham
   The Allar Company
   P.O. Box 1567
   735Elm Street
   Graham, Texas 76450

5. **Approximate Time to Present Case:** 2 hours.

6. **Procedural Matters to be Resolved**: Sufficiency of notice provided as referenced in Section 3.e. above.

7. **Exhibits**: Attached Notice.

II. Motion for Continuance

Further, for the reasons stated above, in addition to the fact that counsel for Allar has an irresolvable scheduling conflict on November 8, 2017, Allar hereby files a motion for continuance pursuant to Section 19.15.4.13.C. NMAC.

-Rob

Rob Vartabedian | Thompson & Knight LLP
Partner

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