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Via FedEx

December 21, 2016

Ard Oil, Ltd. and Ard Energy Group, Ltd. 222 West 4th Street, Suite PH5 Fort Worth, Texas 76102

Attention Mr. Julian Ard

RE: Nosler 12 Fed LJ No. 7H Well and Nosler 12 Fed MO No 8H Well Maljamar Prospect; Eddy County, New Mexico

Dear Mr. Ard:

Included herewith are copies of the NMOCD compulsory pooling orders for the captioned wells both dated effective December 15, 2016. Also included are the itemized schedules of the estimated costs of drilling, completing, and equipping the proposed wells. Please let us know within thirty days of your receipt of this letter whether Ard Oil and Ard Energy Group elect to participate in the drilling and completion of the captioned wells by executing the AFE and returning the same along with payment for the estimated well costs.

If you have any questions regarding this matter please do not hesitate to contact us.

Sincerely, BURNETT OIL CO., INC.

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Enclosures: Order R-14248, R-14249, 7H AFE, 8H AFE

cc: New Mexico Oil Conservation Division Mr. David Catanach, Director 1220 South St. Francis Dr. Santa Fe, NM 87505

BURNETT OIL CO., INC. AUTHORITY FOR EXPENDITURE - COST ESTIMATE

DATE:	8/30/2016 Rumati Oli Calline		Nosier 12 Fed		WELL #	LJ 7H	AFE	
OPERATOR:	Burnett Oil Co., Inc.	LOCATION		4500 Mail 0 48 7470 Mar	-			G-8002L;16-3835
XOUNIY/STATE: PROSPECT/FIELD:	Ediy County, NM FREN (Gior, Yeso)			152' FWL, Sec 12, T175, R31			FED LEASE #:	
LECOMMENDATION:	Drill & complete a 3,300' horizontal well in the Paddock	BHC	Unit 3, 1,031 P3L,	1,651' FEL, Sec 12, T17S, R3	TE: MD: 9,100'	TVD: 5,400"	FORMATION:	PAQQOCK
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INTANGELE C							1	·····
DRILL 5830.10	5550.08 LOCATION & ROADWAY (RAT HOLE, ETC)				······································	DRILL 118 000	24,000	TOTAL
5830,15	5850.08 LOCATION & ROADWAY (RAT HOLE, ETC) LOCATION & ROADWAY RESTORATION					10,000	and the second second second second	142,
5630 23	5650,23 RIG MOVE-RIG UP, RIG DOWN			we we have a set of the set of th		75,000		
5630,20	5650.21 CONTRACT RATE-FTG/TURNKEY		FEET 🥝		PER FOOT			
5630,21	5650.21 CONTRACT RATE/DAYWORK	15	DAYS G	\$11.500	PERDAY	172 500	0	172.1
5830,26	5850 20 COMPLETION, WORKCVER UNIT 5850 26 BITS AND STABILIZERS	ą.	DAYS 🔮	\$2,400	PER DAY	28,100	21 600	21,
5630,22	5650.22 FUEL, LUBRICANTS, WATER				and the state was been succeeded a	34,000		28, 49,
5830.80	5850,60 TRUCKING AND TRANSPORTATION (Water)					10 000	18.500	
5630,30	5850,30 MUD AND CHEMICALS & COMPLETION FLUI	DS & CUTTIN		a		103,000	a wayne have been an one of the same	103,
5830,50 5830,50	5850.50 PRIMARY CEMENTING (Incl. Equip.) 5850.50 SQUEEZE CEMENTING		No KO piug	· · · · · · · · · · · · · · · · · · ·	···· · · · · · · · · · · · · · · · · ·	54 400	000 81	103,
5630,44	CORING AND CORE ANALYSIS		. /					
5830.46	MUD LOGGING	13	DAYS @	31 <u>200</u>	PERDAY	15,600		15,
5830,42	DRULL STEM TESTING							
5530,40	OPEN HOLE LOGGING						asser et e	
6630.76	5650.40 PERFORATING AND CASED HOLE LOGS 5850.76 CASING CREWS, TONGS, HANDLING TOOLS			a a la cala de la composición de la contra de la contra composición de la contra composición de la contra compo		1.400	D 9,300	21,
5630,24	5850 24 SURFACE EQUIPMENT RENTALS					49 800	107 500	157,
5830,29	5850.29 DOWNHOLE EQUIPMENT RENTALS					9,100	72,000	61,
5830.76	5650,76 MISCELLANEOUS LABOR	بالا در در در ه. ه. همچوند ۲۰۰۰ ۳۰				18,600	3,500	27,
	5850,10 ACIDIZING 5850,15 FRACTURING						4,000	4
	5850.65 WELL TESTING (FLWBCK, BHP, ETC)						0	551,
	5850,78 CONTRACT LABOR							
5830.37	DIRECTIONAL DRILLING					75,600		76,
5530.27 5530.71	5630.27 FISHING RENTAL AND SERVICES 5850.71 SUPERVISION		DAYS @	\$1,300	PER DAY	19,500	11,700	31,
5830,72	5830.72 OPERATING OVERHEAD			·····		7 100		7,
5830,50	5850,80 OTHER / CONTINGENCIES	Drili		10 00-4 Complet	ion 10.00%	81,000	50 500	169,
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						\$910,800	\$974,400 860386778768666	
ANGIBLE COSTS: 840,10		FEET	SIZE 'OD	WEIGHT / GRADE			\$974,400	
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840,10 840,10 840,15	CASING, DRIVE / CONDUCTOR CASING, SURFACE CASING, PROTECTION/INTERMED	FEET 90 850 2200	5(2E, 'OD 20" 13-3/8" 5-5/8"	WEIGHT / GRADE Included in Logation (49# J-55 8T&C 28# J-65 LT&C	1051			20. 40.
840,10 840,10 840,15 960,10	CASING, ORIVE / CONDUCTOR CASING, SURFACE CASING, PROTECTOWINTERMED CASING, PROD. PACKER COMPLETION	FEET 90 850 2200 9100	5125. 'OD 20" 13-3/8" 5-5/8" 7" x 5-1/2"	WEIGHT / GRADE Included in Logation (45# J-55 87%) 28# J-65 LT&C 23# L & 17# L-50 B	1051	20.400	\$\$77,400 309,400 359,400 25,000	20. 40. 365.
840,10 840,10 840,15	CASING, DRIVE / CONDUCTOR CASING, SURFACE CASING, PROTECTION/INTERMED	FEET 90 850 2200	5(2E, 'OD 20" 13-3/8" 5-5/8"	WEIGHT / GRADE Included in Logation (49# J-55 8T&C 28# J-65 LT&C	1051	20.400	300.436	20, 40, 365, 25,
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840,10 940,10 940,15 960,15 960,10 980,20 940,20 960,20 97At, Digit Lang Ak	CASING, DRIVE / CONDUCTOR CASING, BURFACE CASING, PROTECTION/INTERMED CASING, PROD, PACKER COMPLETION TUBING WELL HEAD TO CASING PORYT CHRISTINAS TREE ASSEMBLY - COMPLETIO D CORPLETION TANGIBLE COSTS:	FEET 90 850 2200 9100 5000	5125. 'OD 20" 13-3/8" 5-5/8" 7" x 5-1/2"	WEIGHT / GRADE Included in Logation (45# J-55 87%) 28# J-65 LT&C 23# L & 17# L-50 B	1051	20,400 40,700	300.400 25,000	20. 40. 363. 23. 20. 19. 5492.0
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840,10 840,10 840,15 860,10 860,16 840,20 860,20 860,20 874,054,180,24 870,20 870,22 870,23 870,13 870,14	CASING, DRIVE / CONDUCTOR CASING, BURFACE CASING, BURFACE CASING, PROTECTION/INTERMED CASING, PROTECTION/INTERMED CASING, PROTECTION/INTERMED WELL HEAD TO CASING PORYT CHRISTIMAS TREE ASSEMBLY - COMPLETION WELL HEAD TO CASING PORYT CHRISTIMAS TREE ASSEMBLY - COMPLETION D COMPLETION TANGIBLE COSTS: D COMPLETION TANGIBLE COSTS: D COMPLETION COSTS: SEPARATOR & HEATER TREATING FACILITIES SEPARATOR & HEATER TREATER COMPLETION ON TA ECOLOR FLOW UNE AND INSTALLATION PENAL IMPROVEMENTS (CATES, FENCES, F ROOS SUBSURFACE PRODUCTION EQUIPMENT PUMP BASE & THE DOWNING MISCELLANEOUS VALVES, FITTINGS, SAFE INSTALLATION COSTS SUBERVISION	Figs 90 850 2200 9700 5000 5000 5000 5000 5000	512E. 300 20° 13-3/8 5-5/5 77 x 5-1/2 2-7/8 2-7/8 2-7/8 2-7/8 3/4* 7/8* & 1	WEIGHT / GRADE Indukted in Lossbon (45# J-55 674C) 28# J-55 14C 28# J-55 14C 23# J-55 14C 6.3# J-55 6.3# J-55 6.5# J-55	2 2 1 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7	20,400 40,700 20,500 \$ 80,600	330,400 25,000 \$601,600 \$1,377,800 \$00 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	20 40 308 28 309 54322 42 377 4 42 377 4 12 12 12 12 12 12 13 14 111 9 3 17 17
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APPROVED BY BURNETT OL CO/TIK. DATE: 8-31-16

BURNETT OIL CO., INC. AUTHORITY FOR EXPENDITURE - COST ESTIMATE

DPERATOR:	8/30/2016 Burnett Oil Co., In	e	LOCATION:	Nosler 12 Fed		WELL I	MO BH	AFE #:	
	Eddy County, NM	-		11-11 M 8741 584	152' FWL, Sec 12, T175, R31	F		FED LEASE #	
SPECT/FIELD:	FREN (Glor. Yeso)				1,651' FEL, Sec 12, 11/3, K31			FORMATION:	
		.75 mile (3,300') horizontal well in the i		UNICO, 330 135,	1,001 FEL, 846 12, 1113, Ka	TD: MD: 9,100'	TVD: 5,400'	PORMATION	~2000CX
	-	ited by Sand Dune Lizard habkat, existin		and affaet operator a	clivity	10. 4.0, 9,100	140. 3,500		
INTANGIBLE								1 1	
5830 10	5850.08 LOC/	TION & ROADWAY (RAT HOLE, ETC)					ORUL	COMPL	TOTAL
5830.15		TION & ROADWAY RESTORATION		·· · · · · · · · · · · · · · · · · · ·			118,000	24,600	
5830.23		NOVE-RIG UP, RIG DOWN			ي يونيو ويوني المراجع		75,000	4,500	
5830.20		TRACT RATE FTG/TURNKEY		FEET @		PER FOOT			
5630.21		TRACT RATE/DAYWORK	15	DAYS @		PER DAY	172,500	0	1
5830.26		PLETION, WORKOVER UNIT	9	DAYS g	\$2,400	PER DAY		21,600	
5830.22		AND STABILIZERS			, مېښې د د د د د د د مېږې د د مېږې د د د د د د د د د د د د د د د د د د		25,100	2,500	
6830,60		KING AND TRANSPORTATION (Water	1				16,090	15,500	· ·
5830.30		AND CHEMICALS & COMPLETION FLI		S DISPOSAL	· · · · · · · · · · · · · · · · · · ·		103,000	0	1
5830.50		ARY CEMENTING (Incl. Equip.)		No KO plug			54,400	49,000	1
5830.50		EZE CEMENTING					والمتعلقة والاردار والأربية		
5830,44 5830,46		NG AND CORE ANALYSIS LOGGING	***	DAYS @	51 200	PER DAY	15.600		· · · · · · · · · · ·
5830.42		STEM TESTING	1.3		312-00				1. Anno 1979 (1) 1979 (1) 1979 (1) 1979 (1) 1979 (1) 1979 (1) 1979 (1) 1979 (1) 1979 (1) 1979 (1) 1979 (1) 197
5850.40	OPEN	HOLE LOGOING		·····		······································	· · · · · · · · · · · · · · · · · · ·		
		ORATING AND CASED HOLE LOGS				· · · · · · · · · · · · · · · · · · ·		9	•
5630,76		NG CREWS, TONGS, HANDLING TOOL	.8				11,000	8,300	
5830.24 5830 29		ACE EQUIPMENT RENTALS					40,800 9,300	107 600	1
5830 76	al 1 alf new water both on many room that all services queen	ELLAREOUS LABOR					008,82	3,600	
	5850.10 ACID							4.900	
		TURING						551,500	6
••••••••••		TESTING (FLWBCK, BHP, ETC)							
5830.37		RACT LABOR		manufat timeran kana unan yangan silam ortu	er mer værdend som e filmere der enser mer mer er e		78 500		
5830.27		NG RENTAL AND SERVICES		and a second second second				HARDER HAR	
5830,71		RVISION	15	DAYS @	\$1 300	PER DAY	16,500	11,700	
5830,72		ATING OVERHEAD					7,300		
5830.60		R / CONTINGENCIES	Del		10 00% Comple	tion 19 00%	81,000	50,520	
5830,55 5830.84		GING EXPENSE					8,000 4,200	·	
	COMPLETION INT						\$910,800	\$974,400	1,8
GIBLE COSTS:			TEET	SIZE TOO		הוביים פאנאיזיים בייניין איז איזייים. E		1	
640,10	CAS	VO, DRIVE / CONDUCTOR	90	20	included in Location		212,212,22,24,24,24,24,24,24,24,24,24,24,24,24		
840.10		IG, SURFACE	850	13-3/8	488 J-95 ST&C		20,400		
540,15 860,10		NG, PROTECTION/INTERMED	2200	9-5/8* 7* x 5-1/2*	358 J-55 LT&G		40,700	386.400	
860 15	TUBIA		5000	2-7/8	23# L & 17# L-60 8 6 6# J-65			25,000	31
840 20		HEAD TO CASING POINT					29.500		
860.20		STMAS TREE ASSEMBLY - COMPLETI	ON				NULL STATE	10,000	
AL DRILLING AND	COMPLETION TAN	GIELE COSTS:					\$90,600	\$401,400	F49
AL DRILLING AND	COMPLETION COS	T8:				· · · · · · · · · · · · · · · · · · ·	\$1,001,400	\$1,378,800	\$2,37
SE EQUIPHENT C	OSTS:				ala na tanàna mandritra mandritra dia dia dia kaominina dia dia dia dia dia dia dia dia dia di				
870,20	TANS	S, HEATERS, TREATING FACILITIES						0	
870.22		RATOR & HEATER TREATER		mentanti atar ang katan sa sa	to sum assess of Counterport States on their scatter body. States and a			<u>q</u>	·,
670.23 870.53		RESSOR & DEHYDRATOR	4500	2-7/8"	6.5# J-65	1 LM		22,500	
670.25		MPROVEMENTS MATES, FENCES,		£-110	<u> </u>	<u> </u>	11. 11. 11. 11. 11. 11. 11. 11. 11. 11.	5	
870,13	RODS		5000	3/4". 7/8" &	1" Grada D	4.50		22.500	
870.15	8U83	URFACE PRODUCTION EQUIPMENT	·····		******			4,500	
870.10		ING (SURFACE) UNIT & EQUIP				• • • • • • • • • • • • • • • • • • •		111.500	1
870.11 870.14		BASE & THE DOWING ELLANEOUS VALVES, FITTINGS, SAFE		T				6,000 5,000	A 1444-1447 - A 444-1444
870,17		LLATION COSTS						17,200	
870.70		RVISION	·						
	OTHE				na na serie de la serie de	5 00%		9,500	
AL LEASE EQUIP	MENT COSTS:			San and the second second	and a state of the second s		80	\$188,800	FIE .
SEHOLD COSTS:									
810.35	TITLE	FEES						REFERENCE	
AL LEASEHOLD (wo18;	TATAL MELL AND			n an		50 50	50	
		TOTAL WELL COST:	\$2,576,000	BDCD			\$1,001,400	\$1,574,800	\$2,57
THE REAL PROPERTY AND		TOTAL DRY HOLE COST:	\$1,001,400		ARED BY: wmg/bas	Lange - States -	the state of the s		
四位间期 计	过常算得之		34月6日中国	1. 4 1. 1. A.	いたう 演奏に引き	45.49图纸-65	37. St. St. 14 19	金、副标志 书	
ION OF INTERES	<u>17:</u>								

Burnett Oli Company	38,46858%
Chase Oil Corporation	33. 12000 %
Javelina Parinera	15,11612%
And Oğ Lid, & And Emergy Lid,	7,22292%
Zono Parinen, Lut	4,00007%
COG Operating, LLC	3 61148%
EMC Oil and Gas, Ltd	0,12545%
Rose Anne Cranz, Individually,	0.12546%
and as Trustee of the Cranz Credit Shelter Trust	
	100,00000%

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APPROVED BY BURNETT ON AND INA ESIDENT DATE 8-31-16

APPROVED-

COMPANY:	
NAME:	
TITLE:	
DATE:	

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 PURPOSE OF CONSIDERING:

> CASE NO. 15566 ORDER NO. R-14248

APPLICATION OF BURNETT OIL CO. INC FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

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This case came on for hearing at 8:15 a.m. on October 27, 2016, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 15th day of December, 2016, the Division Director, having considered the testimony, the record and the recommendations of Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and the subject matter.

(2) Burnett Oil Co. Inc (the "Applicant") seeks approval of a 120-acre nonstandard oil spacing and proration unit and non-standard project area (the "Unit") for oil and gas production from the Glorieta-Yeso formation, Fren; Glorieta-Yeso Pool (Pool code 26770), comprising the NW/4 SE/4 and N/2 SW/4 of Section 12, Township 17 South, Range 31 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Glorieta-Yeso formations.

(3) The Unit will be dedicated to Applicant's Nosler 12 Federal LJ Well No. 7H (the "proposed well"; API No. 30-015-43907), a horizontal well to be drilled from a surface location 2080 feet from the South line and 152 feet from the West line (Unit L) of Section 12 to a bottom-hole location 1651 feet from the South line and 1651 feet from the East line (Unit J) of Section 12, both in Township 17 South, Range 31 East, NMPM. The location of the completed interval will be standard for oil production within the Unit. Case No. 15566 Order No. R-14248 Page 2 of 6

(4) The proposed oil well is within the Fren; Glorieta-Yeso Pool and is subject to Division Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks from the unit boundaries and standard 40-acre units each comprising a governmental quarter-quarter section. The proposed Unit and project area consists of three adjacent quarter-quarter sections oriented west to east.

(5) Applicant appeared through counsel and presented the following land and geologic evidence:

- (a) The Glorieta-Yeso formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal well from west to east is appropriate for the Unit;
- (c) all quarter-quarter sections to be included in the Unit are expected to be productive in the Glorieta-Yeso formation, so that the Unit as requested will not impair correlative rights;
- (d) notice was provided to lessees or operators of surrounding tracts as affected parties of the proposed non-standard spacing unit; and
- (e) notice was provided to all interest owners subject to pooling proceedings as affected parties of the proposed compulsory pooling within the Unit.
- (6) No other party entered an appearance or otherwise opposed this application.

The Division concludes as follows:

(7) This well is not planned to develop Unit I (the NE/4 SE/4) of Section 12; however, this acreage is not stranded since the Puckett 12 Federal Well No. 7H (API No. 30-015-39476) is already dedicated and producing from the E/2 E/2 of Section 17 within the Fren; Glorieta-Yeso Pool.

(8) The proposed non-standard unit should be approved to enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(9) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(10) Applicant is owner or affiliate of an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

Case No. 15566 Order No. R-14248 Page 3 of 6

(11) There are interest owners in the Unit that have not agreed to pool their interests.

(12) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense a just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(13) Burnett Oil Co. Inc should be designated the operator of the proposed well and the Unit.

(14) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the proposed well.

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6000 per month while drilling and \$600 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Burnett Oil Co. Inc, a 120-acre non-standard oil spacing and proration unit (the "Unit") is hereby established for oil and gas production from the Glorieta-Yeso formation, Fren; Glorieta-Yeso Pool (Pool code 26770), comprising the NW/4 SE/4 and N/2 SW/4 of Section 12, Township 17 South, Range 31 East, NMPM, Eddy County, New Mexico.

(2) All uncommitted interests, whatever they may be, in the oil and gas in the Glorieta-Yeso formations underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Nosler 12 Federal LJ Well No. 7H (the "proposed well"; API No. 30-015-43907), a horizontal well to be drilled from a surface location 2080 feet from the South line and 152 feet from the West line (Unit L) of Section 12 to a bottom-hole location 1651 feet from the South line and 1651 feet from the East line (Unit J) of Section 12, both in Township 17 South, Range 31 East, NMPM. The location of the completed interval will be standard for oil production within the Unit.

(4) The operator of the Unit shall commence drilling the proposed well on or before December 31, 2017, and shall thereafter continue drilling the proposed well with due diligence to test the Glorieta-Yeso formations.

(5) In the event the operator does not commence drilling the proposed well on or before December 31, 2017, Ordering Paragraphs (1) and (2) shall be of no effect, unless

Case No. 15566 Order No. R-14248 Page 4 of 6

the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the Unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed in all of the standard spacing units included in the proposed project area (or Unit) then the operator shall apply to the Division for an amendment to this order to contract the Unit so that it includes only those standard spacing units in which the well is completed.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled Unit created by this order shall terminate, unless this Order has been amended to authorize further operations.

(8) Burnett Oil Co. Inc (OGRID 3080) is hereby designated the operator of the well and the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

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(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from production from each well:

- (a) The proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) As a charge for the risk involved in drilling the well, 200% of the above costs.

(14) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$6000 per month while drilling and \$600 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(16) Except as provided in Paragraphs (13) and (15) above, all proceeds from production from the proposed well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 7-8A-31, as amended).

(17) Any unleased mineral interests shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this Order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

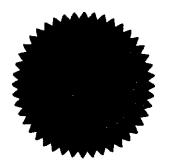
(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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(19) The operator of the well and the Unit shall notify the Division in writing of the subsequent voluntary agreement of parties subject to the compulsory pooling provisions of this order.

(20) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO OIL CONSERVATION DIVISION Hard mid K.

DAVID R. CATANACH Director

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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 PURPOSE OF CONSIDERING:

> CASE NO. 15567 ORDER NO. R-14249

APPLICATION OF BURNETT OIL CO INC FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 27, 2016, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 15th day of December, 2016, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and the subject matter.

(2) Burnett Oil Co Inc (the "Applicant") seeks approval of a 120-acre nonstandard oil spacing and proration unit and non-standard project area (the "Unit") for oil and gas production from the Glorieta-Yeso formation, Fren; Glorieta-Yeso Pool (Pool code 26770), comprising the SW/4 SE/4 and S/2 SW/4 of Section 12, Township 17 South, Range 31 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Glorieta-Yeso formations.

(3) The Unit will be dedicated to Applicant's Nosler 12 Federal MO Well No. 8H (the "proposed well"; API No. 30-015-Pending), a horizontal well to be drilled from a surface location in either the SE/4 SE/4 (Unit P) of offsetting Section 11 or in the SW/4 SW/4 (Unit M) of Section 12 to a bottom-hole location in the SW/4 SE/4 (Unit O) of Section 12. The location of the completed interval will be standard for oil production within the Unit. Case No. 15567 Order No. R-14249 Page 2 of 6

(4) The proposed oil well is within the Fren; Glorieta-Yeso Pool and is subject to Division Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks from the unit boundaries and standard 40-acre units each comprising a governmental quarter-quarter section. The proposed Unit and project area consists of three adjacent quarter-quarter sections oriented west to east.

(5) Applicant appeared through counsel and presented the following land and geologic evidence:

- (a) The Glorieta-Yeso formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal well from west to east is appropriate for the Unit;
- (c) all quarter-quarter sections to be included in the Unit are expected to be productive in the Glorieta-Yeso formation, so that the Unit as requested will not impair correlative rights;
- (d) notice was provided to lessees or operators of surrounding tracts as affected parties of the proposed non-standard spacing unit; and
- (e) notice was provided to all interest owners subject to pooling proceedings as affected parties of the proposed compulsory pooling within the Unit.
- (6) No other party entered an appearance or otherwise opposed this application.

The Division concludes as follows:

(7) This well is not planned to develop Unit P (the SE/4 SE/4) of Section 12; however, this acreage is not stranded since the Puckett 12 Federal Well No. 7H (API No. 30-015-39476) is already dedicated and producing from the E/2 E/2 of Section 17 within the Fren; Glorieta-Yeso Pool.

(8) The proposed non-standard unit should be approved to enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(9) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(10) Applicant is owner or affiliate of an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

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(11) There are interest owners in the Unit that have not agreed to pool their interests.

(12) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense a just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(13) Burnett Oil Co Inc should be designated the operator of the proposed well and the Unit.

(14) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the proposed well.

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6000 per month while drilling and \$600 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Burnett Oil Co Inc, a 120-acre non-standard oil spacing and proration unit (the "Unit") is hereby established for oil and gas production from the Glorieta-Yeso formation, Fren; Glorieta-Yeso Pool (Pool code 26770), comprising the SW/4 SE/4 and S/2 SW/4 of Section 12, Township 17 South, Range 31 East, NMPM, Eddy County, New Mexico.

(2) All uncommitted interests, whatever they may be, in the oil and gas in the Glorieta-Yeso formations underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Nosler 12 Federal MO Well No. 8H (the "proposed well"; API No. 30-015-Pending), a horizontal well to be drilled from a surface location in either the SE/4 SE/4 (Unit P) of offsetting Section 11 or in the SW/4 SW/4 (Unit M) of Section 12 to a bottom-hole location in the SW/4 SE/4 (Unit O) of Section 12. The location of the completed interval will be standard for oil production within the Unit.

(4) The operator of the Unit shall commence drilling the proposed well on or before December 31, 2017, and shall thereafter continue drilling the proposed well with due diligence to test the Glorieta-Yeso formations.

(5) In the event the operator does not commence drilling the proposed well on or before December 31, 2017, Ordering Paragraphs (1) and (2) shall be of no effect, unless

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the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the Unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed in all of the standard spacing units included in the proposed project area (or Unit) then the operator shall apply to the Division for an amendment to this order to contract the Unit so that it includes only those standard spacing units in which the well is completed.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled Unit created by this order shall terminate, unless this Order has been amended to authorize further operations.

(8) Burnett Oil Co Inc (OGRID 3080) is hereby designated the operator of the well and the Unit.

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(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

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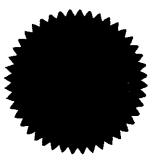
(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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(19) The operator of the well and the Unit shall notify the Division in writing of the subsequent voluntary agreement of parties subject to the compulsory pooling provisions of this order.

(20) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

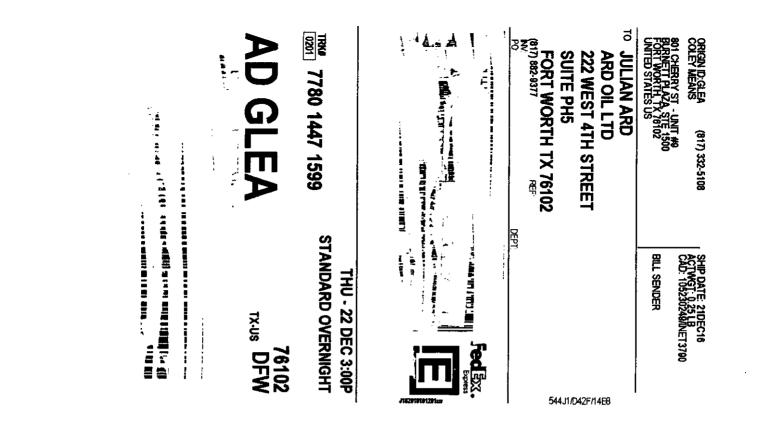


STATE OF NEW MEXICO OIL CONSERVATION DIVISION

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DAVID R. CATANACH Director

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