

CCCC

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.



Coley Means

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

RECEIVED

2016 DEC 27 12:00

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

DATE: 8/30/2016 LEASE: Nosler 12 Fed WELL #: LJ 7H AFE #: 2452
 OPERATOR: Burnett Oil Co., Inc. LOCATION: 8L: Unit L, 2,080' FSL, 152' FWL, Sec 12, T17S, R31E
 COUNTY/STATE: Eddy County, NM BML: Unit J, 1,651' FSL, 1,651' FEL, Sec 12, T17S, R31E
 PROSPECT/FIELD: FREN (Glor. Vase) TD: MD: 9,100' TVD: 5,400'
 RECOMMENDATION: Drill & complete a 3,300' horizontal well in the Paddock
 Surface location dictated by Sand Dune Lizard habitat, existing infrastructure and offset operator activity

INTANGIBLE COSTS:						DRILL	COMPL	TOTAL
5830.10	5850.08	LOCATION & ROADWAY (RAT HOLE, ETC)				118,000	24,000	142,000
5830.15		LOCATION & ROADWAY RESTORATION				10,000		10,000
5830.23	5850.23	RIG MOVE-RIG UP, RIG DOWN				75,000	4,500	79,500
5830.20	5850.21	CONTRACT RATE-FTG/TURKEY		FEET @	PER FOOT			0
5830.21	5850.21	CONTRACT RATE/DAYWORK	15	DAYS @	PER DAY	172,500	0	172,500
	5850.20	COMPLETION, WORKOVER UNIT	2	DAYS @	PER DAY		21,600	21,600
5830.26	5850.26	BITS AND STABILIZERS				28,100	2,500	28,600
5830.22	5850.22	FUEL, LUBRICANTS, WATER				34,000	0,000	40,000
5830.80	5850.80	TRUCKING AND TRANSPORTATION (Water)				16,500	18,500	34,800
5830.30	5850.30	MUD AND CHEMICALS & COMPLETION FLUIDS & CUTTINGS DISPOSAL				103,000	0	103,000
5830.50	5850.50	PRIMARY CEMENTING (Incl. Equip.)			No KO plug	34,400	49,000	103,400
5830.50	5850.50	SQUEEZE CEMENTING						0
5830.44		CORING AND CORE ANALYSIS						0
5830.46		MUD LOGGING	15	DAYS @	PER DAY	15,600		15,600
5830.42		DRILL STEM TESTING						0
5830.40		OPEN HOLE LOGGING						0
	5850.40	PERFORATING AND Cased Hole Logs					0	0
5830.76	5850.76	CASING CREWS, TONGS, HANDLING TOOLS				11,800	9,300	21,200
5830.24	5850.24	SURFACE EQUIPMENT RENTALS				49,800	107,000	157,400
5830.29	5850.29	DOWNHOLE EQUIPMENT RENTALS				9,300	72,000	81,300
5830.76	5850.76	MISCELLANEOUS LABOR				18,600	3,600	22,200
	5850.10	ACIDIZING					4,000	4,000
	5850.15	FRACTURING					551,500	551,500
	5850.65	WELL TESTING (FLWBCK, BHP, ETC)					0	0
	5850.78	CONTRACT LABOR						0
5830.37		DIRECTIONAL DRILLING				76,600		76,600
5830.27	5830.27	FISHING RENTAL AND SERVICES						0
5830.71	5850.71	SUPERVISION	15	DAYS @	PER DAY	19,500	11,700	31,200
5830.72	5830.72	OPERATING OVERHEAD				7,300		7,300
5830.80	5850.80	OTHER / CONTINGENCIES	Drill	10.00%	Completion	10.00%	81,000	88,500
5830.58		PLUGGING EXPENSE				8,000		8,000
5830.84	5850.84	INSURANCE				4,200		4,200
TOTAL DRILLING AND COMPLETION INTANGIBLE COSTS:						\$915,800	\$974,400	1,890,200
TANGIBLE COSTS:								
840.10		CASING, DRIVE / CONDUCTOR	90	20"	Included in Location Cost			0
840.10		CASING, SURFACE	850	13-3/8"	48# J-55 ST&C	20,400		20,400
840.15		CASING, PROTECTION/INTERMED	2200	9-5/8"	38# J-55 LT&C	40,700		40,700
860.10		CASING, PROD. PACKER COMPLETION	9100	7" x 5-1/2"	23# L & 17# L-80 BT		359,400	359,400
860.15		TUBING	5000	2-7/8"	6.5# J-55		25,000	25,000
840.20		WELL HEAD TO CASING POINT				20,500		20,500
860.20		CHRISTMAS TREE ASSEMBLY - COMPLETION					10,000	10,000
TOTAL DRILLING AND COMPLETION TANGIBLE COSTS:						\$90,600	\$401,400	\$492,000
TOTAL DRILLING AND COMPLETION COSTS:						\$1,001,400	\$1,375,800	\$2,377,200
LEASE EQUIPMENT COSTS:								
870.20		TANKS, HEATERS, TREATING FACILITIES					0	0
870.22		SEPARATOR & HEATER TREATER					0	0
870.23		COMPRESSOR & DEHYDRATOR					0	0
870.83		FLOW LINE AND INSTALLATION	2500	2-7/8"	6.5# J-55	\$	12,500	12,500
870.25		PERM. IMPROVEMENTS (GATES, FENCES, ETC.)					0	0
870.13		ROADS	5000	3/4", 7/8" & 1"	Grade D	\$	22,500	22,500
870.15		SUBSURFACE PRODUCTION EQUIPMENT					4,600	4,600
870.10		PUMPING (SURFACE) UNIT & EQUIP					111,500	111,500
870.11		PUMP BASE & TIE DOWNS					5,000	5,000
870.14		MISCELLANEOUS VALVES, FITTINGS, SAFETY EQUIPMENT					5,000	5,000
870.17		INSTALLATION COSTS					17,200	17,200
870.70		SUPERVISION						0
		OTHER				5.00%	9,000	9,000
TOTAL LEASE EQUIPMENT COSTS:						\$0	\$188,300	\$188,300
LEASEHOLD COSTS:								
810.35		TITLE FEES					0	0
TOTAL LEASEHOLD COSTS:						\$0	\$0	\$0
TOTAL WELL COST:						\$1,001,400	\$1,564,100	\$2,565,500
TOTAL DRY HOLE COST:						\$1,001,400		

DIVISION OF INTEREST:
 Burnett Oil Company 38.48858%
 Chase Oil Corporation 33.33000%
 Javelina Partners 15.11612%
 Ard Oil Ltd. & Ard Energy Ltd. 10.83439%
 Zomo Partners, Ltd. 4.00000%
 EMC Oil and Gas, Ltd. 0.12546%
 Rose Anne Cranz, Individually, and as Trustee of the Cranz Credit Shelter Trust 0.12546%
 100.00000%

APPROVED:

APPROVED BY BURNETT OIL CO., INC.

SIGNATURE: *Charles E. Nagel*
 CHARLES E. NAGEL, JR. PRESIDENT

DATE: 8-31-16

COMPANY:

NAME:

TITLE:

DATE:

PREPARED BY: wrmg/bes

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

DATE: 8/30/2016 LEASE: Nealer 12 Fed WELL #: MO 8H AFE #: 2467
 OPERATOR: Burnett Oil Co., Inc. LOCATION: SL: Unit M, 673' FSL, 152' FWL, Sec 12, T17S, R31E PROPERTY #: GJH002K18-3856
 COUNTY/STATE: Eddy County, NM BHL: Unit O, 330' FSL, 1,851' FEL, Sec 12, T17S, R31E FED. LEASE #: NMLC0204188
 PROSPECT/FIELD: FREN (Glor. Yaso) TD: MD: 9,100' TVD: 5,400' FORMATION: Paddeck
 RECOMMENDATION: Drill & complete a 0.78 mile (3,300') horizontal well in the Paddeck
 Surface location dictated by Sand Dune Lizard habitat, existing infrastructure and offset operator activity

INTANGIBLE COSTS:						DRILL	COMPL	TOTAL
5830.10	5850.08	LOCATION & ROADWAY (RAT HOLE, ETC)				118,000	24,000	142,000
5830.15		LOCATION & ROADWAY RESTORATION				10,000		10,000
5830.23	5850.23	RIG MOVE-RIG UP, RIG DOWN				75,000	4,500	79,500
5830.20	5850.21	CONTRACT RATE-FTG/TURKEY						0
5830.21	5850.21	CONTRACT RATE/DAYWORK	15	DAYS @	\$11,500	172,500	0	172,500
	5850.20	COMPLETION, WORKOVER UNIT	9	DAYS @	\$2,400		21,600	21,600
5830.26	5850.26	BITS AND STABILIZERS				25,100	2,500	28,000
5830.22	5850.22	FUEL, LUBRICANTS, WATER				34,000	6,000	40,000
5830.30	5850.30	TRUCKING AND TRANSPORTATION (Water)				18,000	18,000	36,000
5830.30	5850.30	MUD AND CHEMICALS & COMPLETION FLUIDS & CUTTINGS DISPOSAL				103,000	0	103,000
5830.50	5850.50	PRIMARY CEMENTING (incl. Equip.)			No KO plug	54,400	49,000	103,400
5830.50	5850.50	SQUEEZE CEMENTING						0
5830.44		CORING AND CORE ANALYSIS						0
5830.46		MUD LOGGING	13	DAYS @	\$1,200	15,600		15,600
5830.42		DRILL STEM TESTING						0
5830.40		OPEN HOLE LOGGING						0
5830.78	5850.40	PERFORATING AND CASING HOLE LOGS					0	0
5830.78	5850.78	CASING CREWS, TONGS, HANDLING TOOLS				11,800	9,300	21,200
5830.24	5850.24	SURFACE EQUIPMENT RENTALS				49,800	107,800	157,400
5830.29	5850.29	DOWNHOLE EQUIPMENT RENTALS				9,300	72,000	81,300
5830.78	5850.78	MISCELLANEOUS LABOR				18,800	3,600	22,200
	5850.10	ACIDIZING					4,900	4,900
	5850.15	FRACTURING					551,500	551,500
	5850.85	WELL TESTING (FLWBCK, BHP, ETC)					0	0
	5850.78	CONTRACT LABOR						0
5830.37		DIRECTIONAL DRILLING				78,500		78,500
5830.27	5850.27	FISHING RENTAL AND SERVICES						0
5830.71	5850.71	SUPERVISION	15	DAYS @	\$1,300	19,500	11,700	31,200
5830.72	5850.72	OPERATING OVERHEAD				7,300		7,300
5830.90	5850.90	OTHER / CONTINGENCIES	0%		10.00%	81,000	88,600	169,600
5830.56		PLUGGING EXPENSE				8,000		8,000
5830.84	5850.84	INSURANCE				4,200		4,200
TOTAL DRILLING AND COMPLETION INTANGIBLE COSTS:						\$810,800	\$874,400	1,685,200
TANGIBLE COSTS:								
840.10		CASING, DRIVE / CONDUCTOR	90	20"	included in Location Cost			0
840.10		CASING, SURFACE	850	13-3/8"	488 J-55 ST&C	20,400		20,400
840.15		CASING, PROTECTION/INTERMED	2200	9-5/8"	388 J-55 LT&C	40,700		40,700
860.10		CASING, PROD. PACKER COMPLETION	9100	7" x 5-1/2"	238 L & 178 L-80 BT		388,400	388,400
860.15		TUBING	5000	2-7/8"	6 5/8 J-55		25,000	25,000
840.20		WELL HEAD TO CASING POINT				29,500		29,500
860.20		CHRISTMAS TREE ASSEMBLY - COMPLETION					10,000	10,000
TOTAL DRILLING AND COMPLETION TANGIBLE COSTS:						\$80,600	\$401,400	\$482,000
TOTAL DRILLING AND COMPLETION COSTS:						\$1,091,400	\$1,375,800	\$2,467,200
LEASE EQUIPMENT COSTS:								
870.20		TANKS, HEATERS, TREATING FACILITIES					0	0
870.22		SEPARATOR & HEATER TREATER					0	0
870.23		COMPRESSOR & DEHYDRATOR					0	0
870.53		FLOW LINE AND INSTALLATION	4500	2-7/8"	6 5/8 J-55		22,500	22,500
870.25		PERM IMPROVEMENTS (GATES, FENCES, ETC.)					0	0
870.13		RODS	5000	3/4", 7/8" & 1"	Grade D		22,500	22,500
870.15		SUBSURFACE PRODUCTION EQUIPMENT					4,600	4,600
870.10		PUMPING (SURFACE) UNIT & EQUIP					111,500	111,500
870.11		PUMP BASE & TIE DOWNS					8,000	8,000
870.14		MISCELLANEOUS VALVES, FITTINGS, SAFETY EQUIPMENT					3,000	3,000
870.17		INSTALLATION COSTS					17,200	17,200
870.70		SUPERVISION						0
		OTHER			5.00%		9,500	9,500
TOTAL LEASE EQUIPMENT COSTS:						\$0	\$188,800	\$188,800
LEASEHOLD COSTS:								
810.35		TITLE FEES				0		0
TOTAL LEASEHOLD COSTS:						\$0	\$0	\$0
TOTAL WELL COST:						\$2,578,000		
TOTAL DRY HOLE COST:						\$1,001,400		
TOTAL COST:						\$1,001,400	\$1,574,800	\$2,576,200

PREPARED BY: wmg/bas

DIVISION OF INTEREST:		
Burnett Oil Company		36.46858%
Chase Oil Corporation		33.38000%
Javelina Partners		15.11612%
And Oil Ltd. & And Energy Ltd.		7.22292%
Zorro Partners, Ltd		4.00000%
COG Operating, LLC		3.81148%
EMC Oil and Gas, Ltd		0.12548%
Rose Anne Cranz, Individually,		0.12548%
and as Trustee of the Cranz Credit Shelter Trust		
		100.00000%

APPROVED BY BURNETT OIL CO., INC. SIGNATURE: Charles E. Nagel DATE: 8-31-16
 CHARLES E. NAGEL, PRESIDENT
 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:

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 non-standard 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.

(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.

(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 Nosier 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

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.

(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.

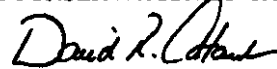
(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(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.

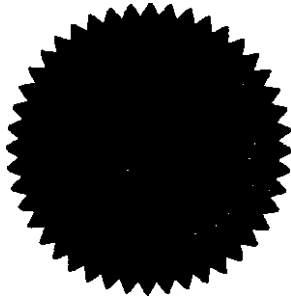
(20) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



DAVID R. CATANACH
Director



SEAL

**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 non-standard 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.

(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.

(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

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.

(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.

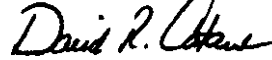

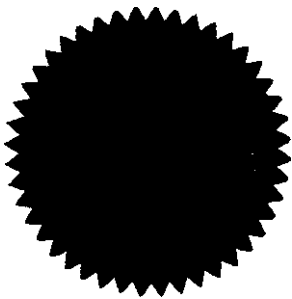
(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(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



DAVID R. CATANACH
Director

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