

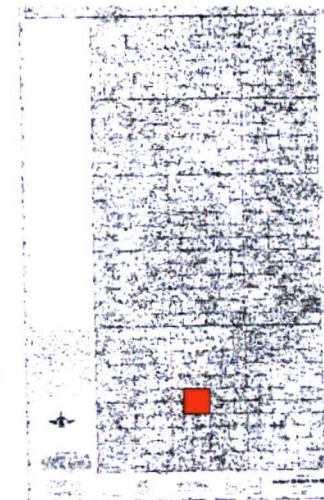
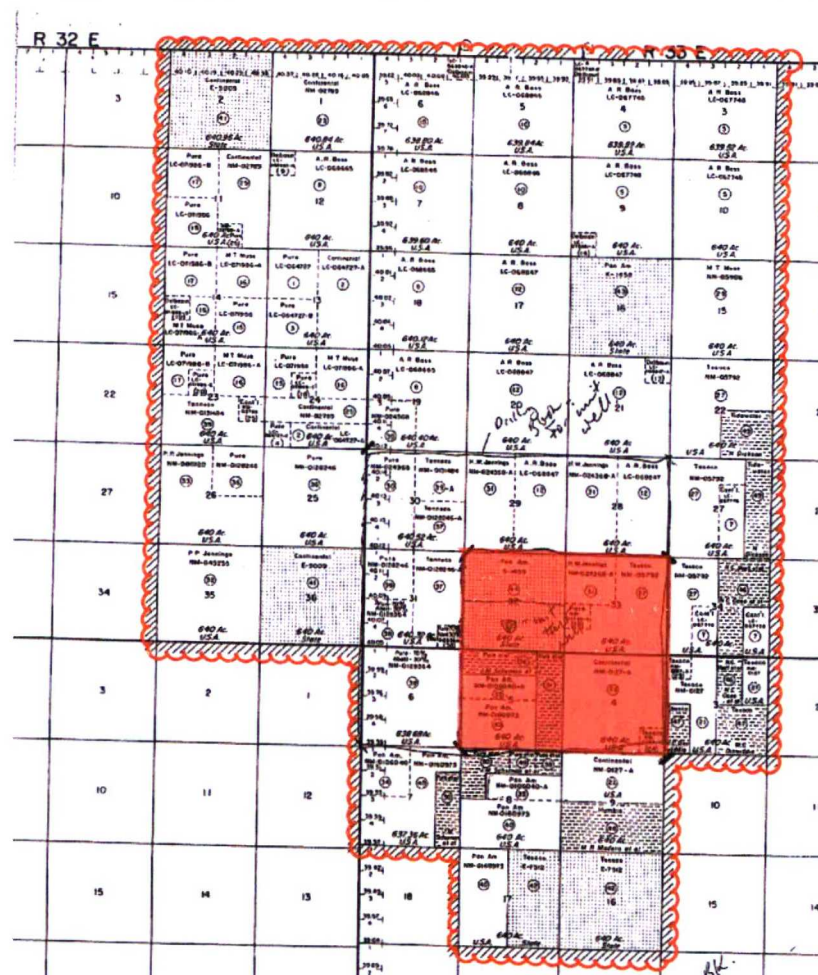


# RED HILLS UNIT

3/20/2019

# LOCATOR MAP AND UNIT HISTORY

- Unit Established November 20<sup>th</sup>, 1962
- Originally covered 28,796.48 acres – (Fed, State and Fee Minerals)
- 1968 Retracted to 4 Sections 2560 Gross Acres (64.06% Fed, 25% State, 10.94% Fee)
- 2297.5 Net Acres due to uncommitted BTA fee lease
- 2 unit participating areas covering entire unit: Wolfcamp, Siluro Devonian



*§32 & 33, T25S, R33E  
§4 & 5, T26S, R33E  
SW Lea County, NM*

## MINERAL OWNERSHIP AND WORKING INTEREST OWNERS

### **Contractual WI owners under Red Hills Unit Agreement and Operating Agreement**

(covering 2297.5 net acres of the 2560 gross acre unit)

|              |       |
|--------------|-------|
| Cimarex      | 74.5% |
| CXA          | 13.1% |
| OXY          | 9.3%  |
| Finley Group | 2.9%  |

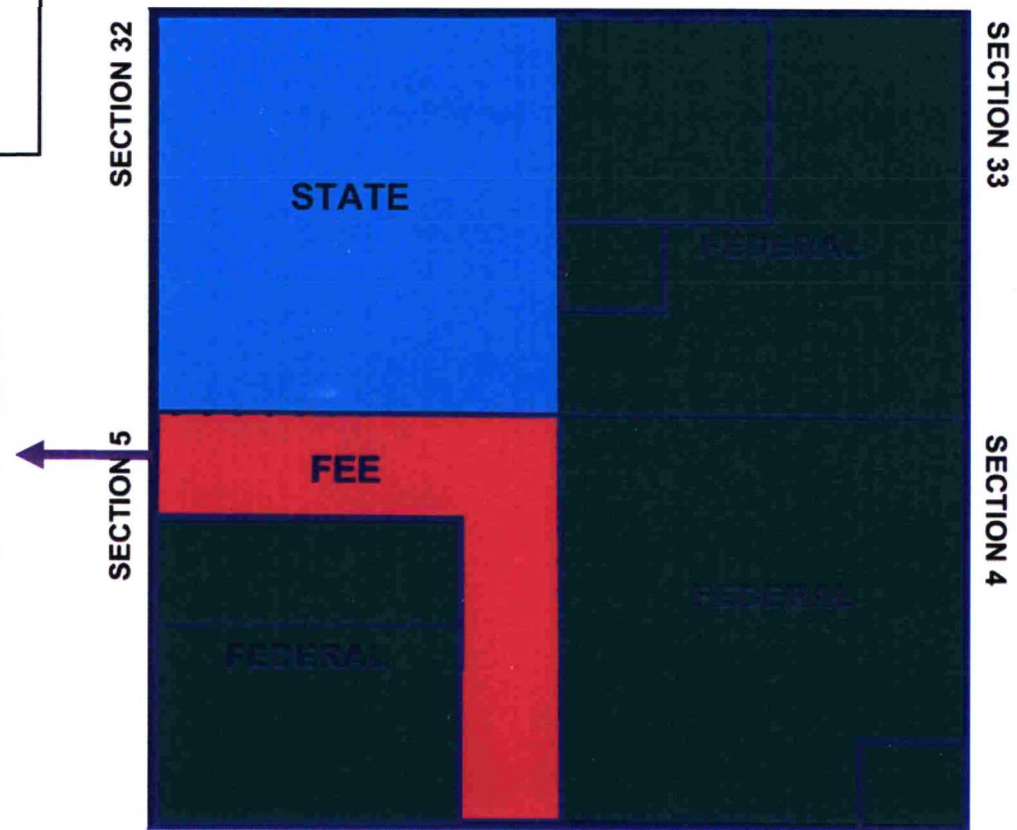
\*2560 – 262.5(BTA) = 2297.5 or 89.7% of the 4 Section unit

### **BTA's Fee Leasehold**

An undivided 262.5 net mineral acres (15/16<sup>th</sup>) is not subject to Red Hills Unit out of the Fee Mineral Tract - 3/8<sup>th</sup> Lease Burden!

An undivided 17.5 net mineral acres (1/16<sup>th</sup>) is subject to Red Hills Unit out of the Fee Mineral Tract

## **RED HILLS UNIT 25S/33E, 26S/33E, LEA CO.**



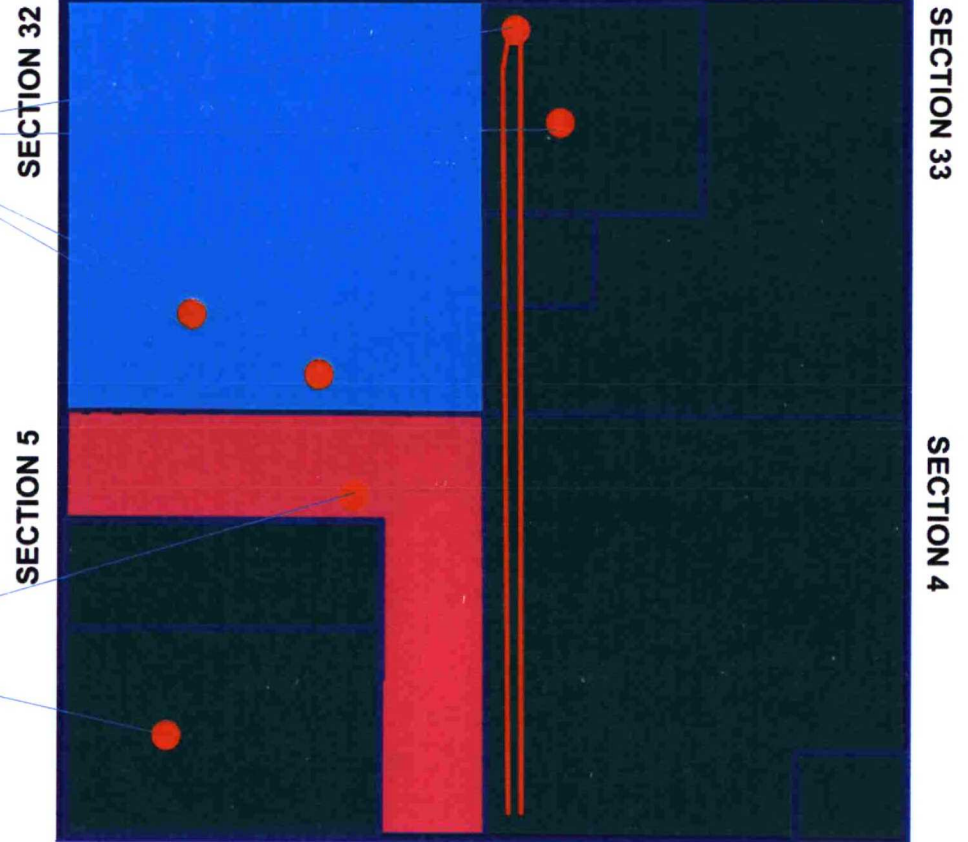


# EXISTING WELLS

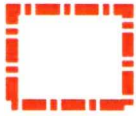
Red Hills Unit 1,4 and 5  
(vertical Wolfcamp)

Red Hills Unit 16H and 17H  
(horizontal Wolfcamp and Avalon)

Red Hills Unit 2 and 3  
(vertical Wolfcamp)



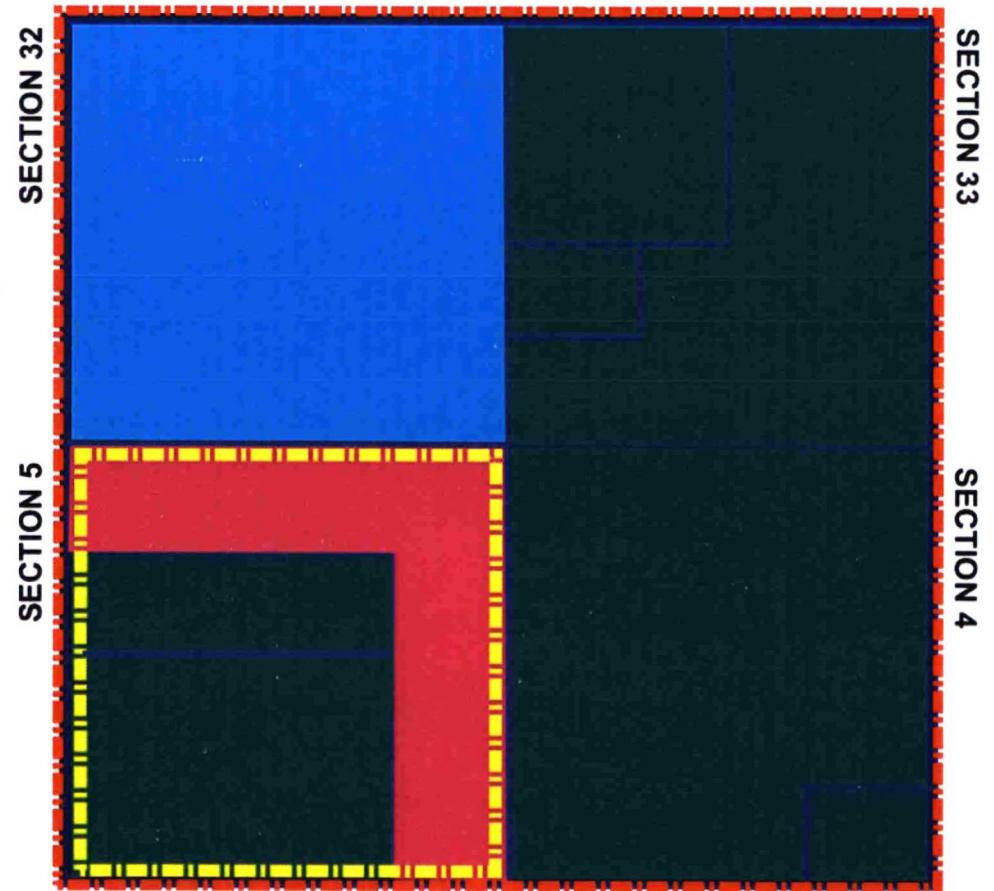
# EXISTING CONTRACTS



- Red Hills Unit – 2560 Gross Acres, 2297.5 Net Acres
- Red Hills Unit Operating Agreement – 2560 Gross Acres
- 2560 Gross Acre – Wolfcamp PA
  - BTA is not subject to unit agreement or unit operating agreement



- 640 Acre Communitized Area - Wolfcamp (NMNM 071173)
- Operating Agreement dated 6/15/1966
  - BTA is subject to this Com Agreement/JOA



# **RED HILLS UNIT – WOLFCAMP**

# State and Fed NRI in existing Wolfcamp Wells

## Red Hills Unit Wells

Red Hills Unit 1, 4 and 5  
(vertical Wolfcamp)

B  
U  
C  
K  
E  
T  
#1

Red Hills Unit 17H  
(horizontal Wolfcamp)

State NRI - 3.48205% (1/8<sup>th</sup> Lease Royalty)

Fed NRI - 8.92274% (1/8<sup>th</sup> Lease Royalty)

## 640 ac Comm'd Wells

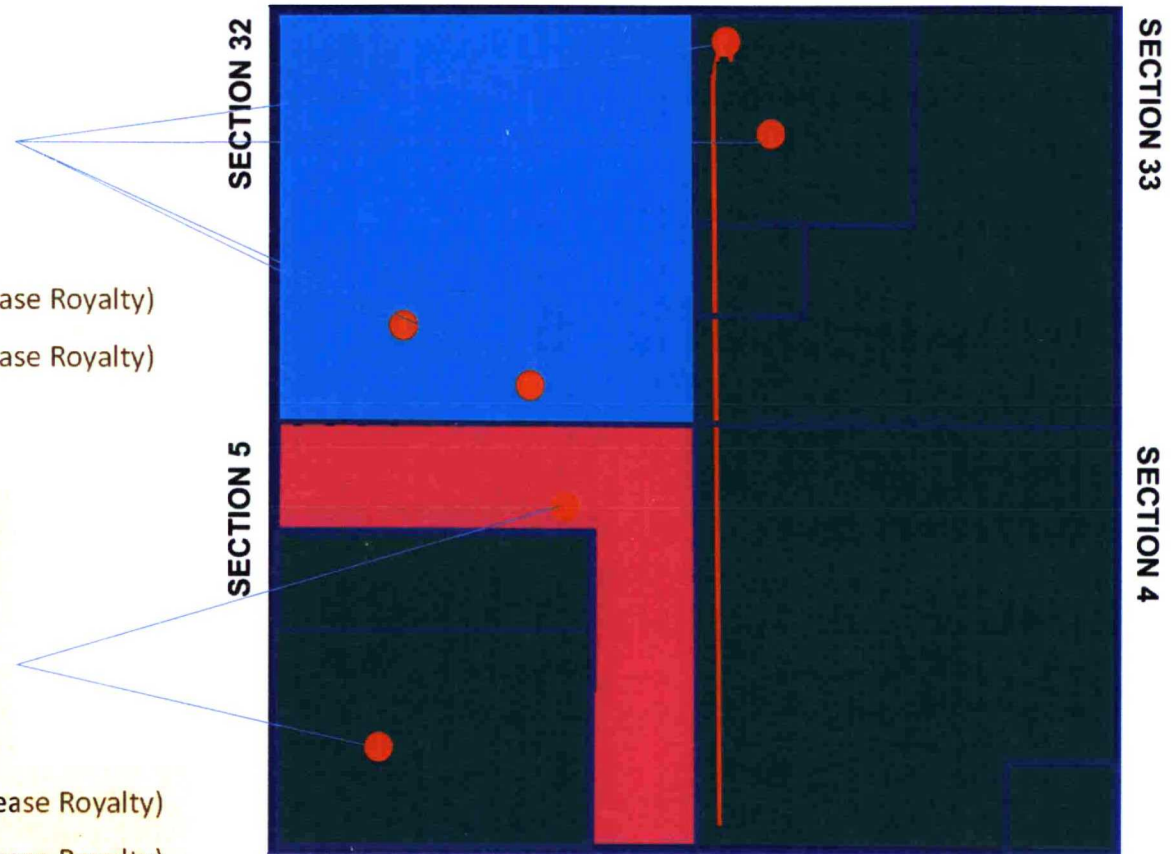
Red Hills Unit 2 and 3  
(vertical Wolfcamp)

B  
U  
C  
K  
E  
T  
#2

\*State NRI - 2.05386% (1/8<sup>th</sup> Lease Royalty)

\*Fed NRI - 5.26302% (1/8<sup>th</sup> Lease Royalty)

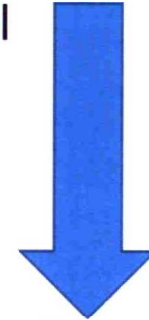
\*Net Revenue Interest proportionately reduced  
by the inclusion of BTA's interest and a 640 acre com agreement





# 2 Mile Development – Wolfcamp

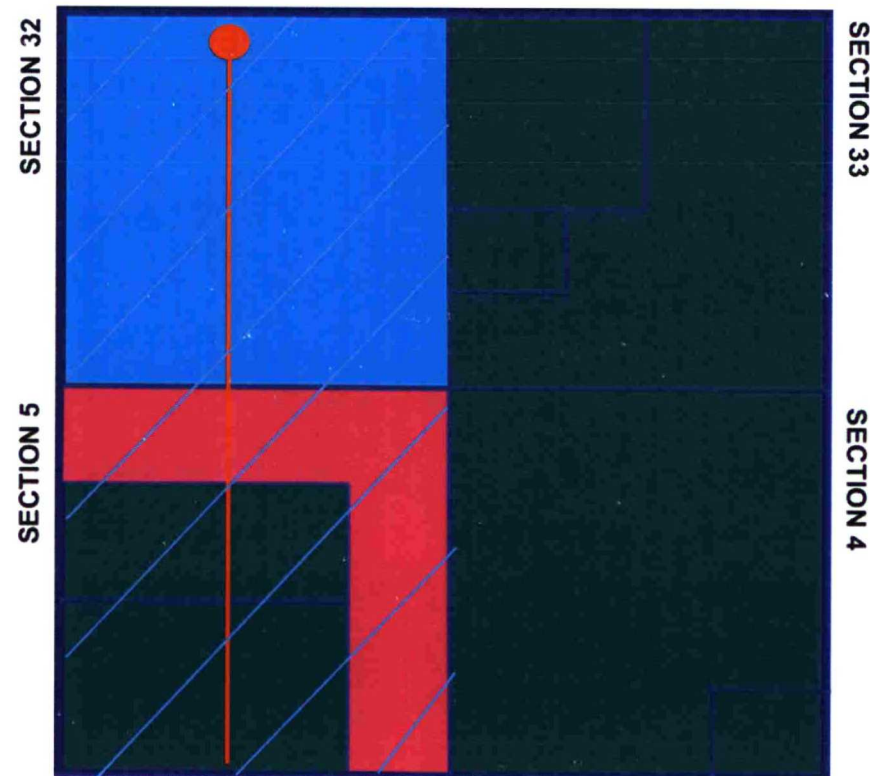
How do we set up Sections 32/5 for 2 mile lateral development with BTA's joinder?



- Create a 1280 Communitized area covering all of Sections 32 and 5 by drilling an initial Wolfcamp well within 330 feet of the center line

## Red Hills 32-5 Fed Com 155H

- Staked and applied for permit
- Plan to spud 2/2020
- BTA is agreeable to executing a 1280 JOA





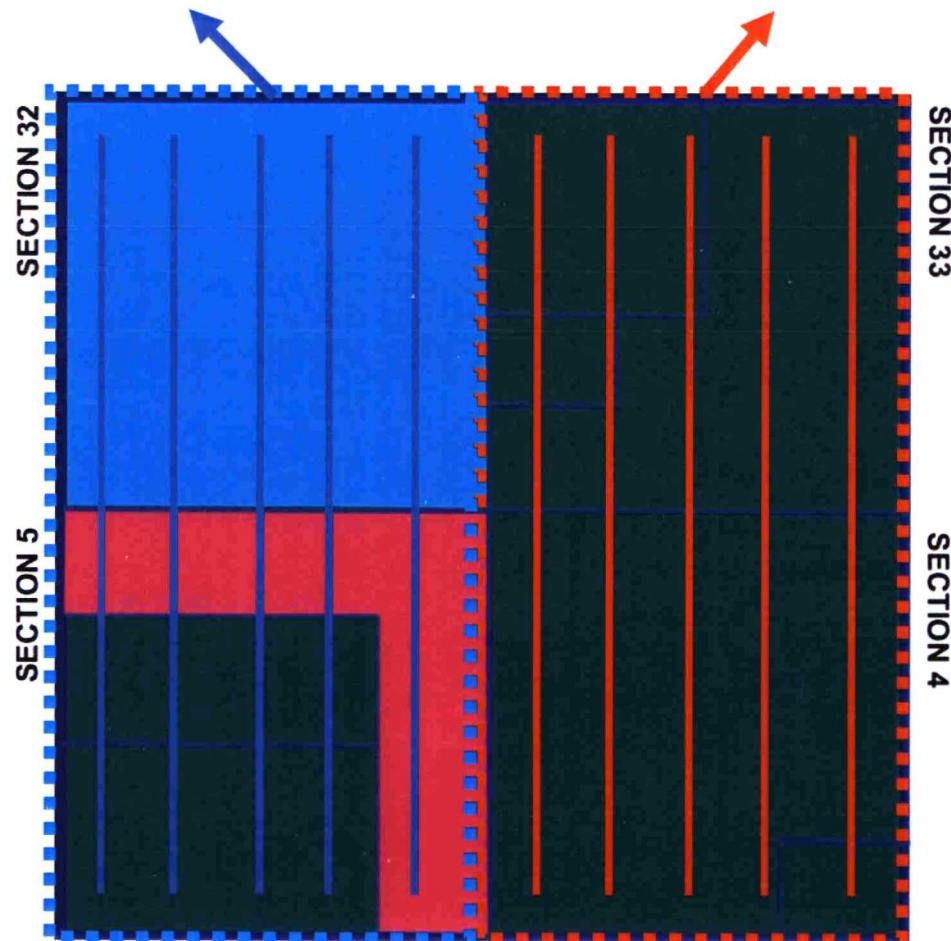
## State and Fed (NRI) incorporating 1280 acre Com

### Horizontal Wells Traversing Sections 32/5 on a 1280 Communitized basis:

- State NRI – 2.76795%
- Fed NRI – 7.09288%
- Calculations on next page

### Horizontal Wells Traversing Sections 33/4:

- Remains unchanged from existing Wolfcamp “Unit” wells
- State NRI – 3.48205%
- Fed NRI – 8.92274%



**Horizontal Wells traversing Sections 33/4:**

State:  $1/8 \text{ (State Royalty)} \times 640/2297.5 \text{ (State acreage contribution to PA/Total PA acreage)} = .03482045$

Feds:  $1/8 \text{ (Fed Royalty)} \times 1640/2297.5 \text{ (Fed acreage contribution to PA/Total PA acreage)} = .0805226$

**Horizontal Wells traversing Sections 32/5 on a 1280 communitized basis:**

State:  $1/8 \text{ (State Royalty)} \times 640/2297.5 \text{ (State acreage contribution to PA/Total PA acreage)} \times 1017.5/1280 \text{ (PA acreage contribution in Com Agreement)} = .02767954$

Feds:  $1/8 \text{ (Fed Royalty)} \times 1640/2297.5 \text{ (Fed acreage contribution to PA/Total PA acreage)} \times 1017.5/1280 \text{ (PA acreage contribution in Com Agreement)} = .07092883$

# **RED HILLS UNIT – BONE SPRING**

Propose to mirror the Bone Spring as per the Wolfcamp

- 2560 Gross/ 2297.5 Net ac PA covering the Bone Spring
- A 1280 Gross/Net Com Agreement covering Sections 32 and 5
- All Working Interest and Royalty Interest shall be treated as per the Wolfcamp
- BTA has verbally agreed to execute the necessary agreements to allow for 2 mile well development on Sections 32 and 5 in the event a 1280 acre Com is put into place (Wolfcamp and Bone Spring)

## **PARTICIPATION UNDER RED HILLS UA**

Standard language Section 12 of UA:

“All unitized substances produced from each participating area ... shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area ...

It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area.”



### **Red Hills Unit**

- Federal Exploratory Unit created in 1962, operated by Cimarex since 2009
- Originally consisted of 28,796.48 acres of federal (81.52%), state (12.22%) and fee (6.25%) lands in T25S, R32E and 33E and T25S, R 33E Lea County, NM
- Unit contracted in 1968 when lands automatically eliminated due to lack of development
  - Revised Unit 2560 acres of federal (64.06%) State (25%) and fee (10.94%) lands
    - Sections 32 and 33 in T25S, R33E
    - Sections 4 and 5 in T26S, R333E
    - Two Participating Areas covering entire unit: Siluro Devonian & Wolfcamp
- Unit Agreement Section 11:
  - Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the Supervisor or the Land Commissioner, the Unit Operator shall submit for approval by the Director and the Land Commissioner a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director and the Land Commissioner to constitute a participating area, effective as of the date of completion of such well or the effective date of the unit agreement, whichever is later.
  - The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of the initial participating area. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective.
  - A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director and the Land Commissioner.
  - It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.
- Section 12:
  - All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production

or development purposes for repressuring or recycling in accordance with a plan of development approved by the Supervisor, and Land Commissioner and the State Commission, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise.

- It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area.

Federal Exploratory Bone Spring and Wolfcamp Units approved in 2018

- Chevron Javelina Unit 5119.76 acres, Eddy County Bone Spring single PA for entire unit
- Chevron Polvadera Unit 1920 acres Lea County Bone Spring single PA for entire unit
- Oxy Mesa Verde Unit 3,461.80 acres, Eddy County Bone Spring
- Excluded existing vertical wells