

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

Ken McQueen
Cabinet Secretary

Matthias Sayer
Deputy Cabinet Secretary

David Catanach, Division Director
Oil Conservation Division



August 14, 2017

Petrolia Energy Corporation
ATTN: Zel Khan
710 N. Post Oak Rd., Suite 512
Houston, TX 77024

Re: ACOI No. 327
Operator: Petrolia Energy Corporation; OGRID No. 371666

Dear Operator:

Thank you for returning the signed agreed compliance order regarding inactive wells operated by Petrolia Energy Corporation (Petrolia). Enclosed is a copy of the fully executed order.

The Order requires Petrolia to bring 6 of the wells identified in the Order into compliance with Rule 19.15.25.8 NMAC by **February 15, 2018**. Please remember that to bring a well into compliance under the order, Petrolia must not only plug the wellbore, place the well on approved temporary abandonment, or return it to production or other beneficial use, Petrolia must also file the appropriate paperwork. For example, if Petrolia plugs the wellbore of a well, it must also file a C-103 subsequent report on the plugging. You may wish to confirm the status of each well on the list with the appropriate district office prior to the expiration of the Order.

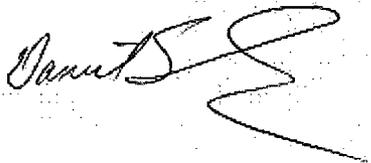
The Order also requires Petrolia to file a compliance report with the Oil Conservation Division (OCD) Compliance and Enforcement Manager, Daniel Sanchez, by **February 15, 2018**. This means **the compliance report must be received by the OCD by February 15, 2018**. I will review the report to determine whether the wells have been returned to compliance. If you have questions about how to file a compliance report, please contact me at (505) 476-3493.

As Petrolia works to fulfill its obligations under the order, it should also monitor the status of its other wells to ensure that wells do not remain inactive for a period exceeding 15 months. Remember that you can search the OCD's Inactive Well List for wells that are inactive, but not yet out of compliance.

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The OCD appreciates Petrolia's commitment to bringing its inactive wells into compliance. If you have any questions, or if I can help you in any way, please do not hesitate to call. My email address is daniel.sanchez@state.nm.us.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Daniel Sanchez", with a stylized flourish at the end.

Daniel Sanchez
NMOCD Compliance & Enforcement Manager

Encl. ACOI No. 327

CC: Maxey Brown, OCD District I Supervisor
Raymond Podany, OCD District II Geologist
Charlie Perrin, OCD District III Supervisor
Will Jones, OCD District IV Supervisor

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

NMOCD – ACOI- 327

IN THE MATTER OF PETROLIA ENERGY CORPORATION

Respondent.

**INACTIVE WELL
AGREED COMPLIANCE ORDER**

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act") and OCD Rule 19.15.5.10(E) NMAC, the Director of the Oil Conservation Division ("OCD") and Petrolia Energy Corporation ("Operator") enter into this Inactive Well Agreed Compliance Order ("Order" or "ACOI"). Operator agrees to plug, place on approved temporary abandonment status, or restore to production or other beneficial use the wells identified herein in accordance with the following agreed schedule and procedures, or face the possibility of no further agreed compliance orders. See 19.15.25.8 NMAC

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a Texas corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 371666. Operator desires to become the Operator for the wells identified in Exhibit "A," attached. Operator shall, upon posting financial assurance as required by 19.15.8 NMAC for all wells identified in Exhibit "A", become the operator of record for the wells identified in Exhibit "A".
4. OCD Rule 19.15.25.8 NMAC states, in relevant part:

"A. The operator of wells drilled for oil or gas or services wells including seismic, core, exploration or injection wells, whether cased or uncased, shall plug the wells as Subsection B of 19.15.25.8 NMAC requires.
B. The operator shall either properly plug and abandon a well or place the well in approved temporary abandonment in accordance with 19.15.25 NMAC within 90 days after:

....
....

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- (3) a period of one year in which a well has been continuously inactive.”
5. The wells identified in Exhibit “A”
 - (a) have been continuously inactive for a period of one year plus 90 days;
 - (b) are not plugged or abandoned in accordance with OCD Rule 19.15.25.9 NMAC through 19.15.25.11 NMAC; and
 - (c) are not on approved temporary abandonment status in accordance with OCD Rule 19.15.25.12 NMAC through 19.15.25.14 NMAC.
 6. An operator faces sanctions if it is out of compliance with OCD Rule 19.15.5.9 NMAC. Sanctions include possible denial of registration by operator or certain related entities (OCD Rule 19.15.9.8B NMAC), possible denial of change of operator that would transfer wells to the noncompliant operator (OCD Rule 19.15.9.9C.1 NMAC), mandatory denial of injection permits (OCD Rule 19.15.26.8A NMAC), possible revocation of injection permits after notice and hearing (OCD Rule 19.15.26.8A NMAC), possible denial of applications for a drilling permit (OCD Rule 19.15.14.10A NMAC), and mandatory denial of allowable and authorization to transport (OCD Rule 19.15.16.19A NMAC).
 7. Operator is currently out of compliance with OCD Rule 19.15.5.9.A(4) NMAC because it has too many wells out of compliance with OCD Rule 19.15.25.8 NMAC (the inactive well rule) that are not subject to an agreed compliance order setting a schedule for bringing the wells into compliance with the inactive well rule and imposing sanctions if the schedule is not met. See OCD Rule 19.15.5.9(A)(4) NMAC.
 8. As an Operator proposing the purchase of 25 wells, to be in compliance with OCD Rule 19.15.5.9.A(4) NMAC, Operator may have no more than 2 wells out of compliance with OCD Rule 19.15.25.8 NMAC (inactive well rule). See OCD Rule 19.15.5.9A(4)(b) NMAC. According to the inactive well list kept pursuant to OCD Rule 19.15.5.9(F) NMAC, Operator will have 24 wells out of compliance as of August 18, 2017. The Operator’s inactive well list, dated August 8, 2017 is attached as Exhibit “A.” Operator faces sanctions for being out of compliance with OCD Rule 19.15.5.9 NMAC.
 9. Operator intends to seek privileges from the OCD that would be subject to sanction due to Operator being out of compliance with OCD Rule 19.15.5.9 NMAC. By placing the wells identified in Exhibit “A” under this Order, Operator will not face sanctions for being out of compliance with OCD Rule 19.15.5.9 NMAC.

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CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Exhibit "A" are out of compliance or will be out of compliance with OCD Rule 19.15.25.8 NMAC.
3. The wells identified in Exhibit "A" are out of compliance or will be out of compliance with OCD Rule 19.15.8.9 NMAC.
4. As operator of the wells identified in Exhibit "A," Operator is responsible for bringing those wells into compliance with OCD Rules 19.15.8.9 & 19.15.25.8 NMAC.
5. The OCD and Operator enter into this Order to remove the wells identified in Exhibit "A" from the inactive well list kept pursuant to OCD Rule 19.15.5.9(F) NMAC and consideration of Operator's compliance with the inactive well rule for purposes of Operator's compliance with OCD Rule 19.15.5.9 NMAC. Operator remains subject to sanctions for being out of compliance with OCD Rule 19.15.5.9 NMAC IF Operator becomes out of compliance with OCD Rule 19.15.5.9 NMAC for any reason other than the inactive wells identified in Exhibit "A."

ORDER

1. Operator agrees to bring 6 wells identified in Exhibit "A" into compliance with OCD Rule 19.15.25.8 NMAC by February 15, 2018 via
 - (a) restoring the well to production or other OCD-approved beneficial use and filing a C-115 documenting such production or use;
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 19.15.25.10(B) NMAC and filing a C-103 describing the completed work; or
 - (c) placing the well on approved temporary abandonment status in accordance with OCD Rule 19.15.25.12 NMAC through 19.15.25.14 NMAC.
2. Oil and gas produced during swabbing does not count as production for purposes of this Order.
3. Operator shall file a compliance report identifying each well returned to compliance, stating the date it was returned to compliance and describing how the well was returned to compliance (restored to production or other approved beneficial use, plugged wellbore, approved temporary abandonment status.) Transfer of a well identified on Exhibit "A" to another operator does not count towards Operator's obligation to return wells to compliance under the terms of this Order, but does reduce the total number of wells for which Operator is responsible

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under the terms of this Order. The written compliance report must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager and to the OCD attorney in charge of inactive well agreed compliance orders so that it is **received by** the compliance deadline of February 15, 2018. The total length of this Agreed Compliance Order is six months.

4. Operator understands that if it fails to meet the terms of this Order, the OCD may decide not to enter into any further agreed compliance orders with Operator. If the operator fails to meet the terms of this Order, the OCD will not approve the transfer of other wells to the Operator.
5. This Order shall expire on March 15, 2018. At that time, any wells on Exhibit "A" not in compliance with OCD Rule 19.15.25.8 NMAC will appear on the inactive well list kept pursuant to OCD Rule 19.15.5.9(F) NMAC, and will be considered when determining Operator's compliance with OCD Rule 19.15.5.9 NMAC. If Operator is in good standing and compliant with this Order, the OCD
6. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance 6 wells identified in Exhibit "A" by February 15, 2018;
 - (c) agrees to submit a compliance report as required in Ordering Paragraph 3 by the February 15, 2018 compliance deadline set by this Order;
 - (d) waives any right, pursuant to the Oil and Gas Act or otherwise, to an appeal from this Order, or to a hearing either prior to or subsequent to the entry of this Order other than a hearing on a request for waiver; and
 - (e) agrees that the Order may be enforced by OCD or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the OCD or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
7. This Order applies only to the enforcement of OCD Rules 19.15.8.9 & 19.15.25.8 NMAC against those wells identified in Exhibit "A." Other wells operated by Operator out of compliance with OCD Rule 19.15.25.8 NMAC may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules. Wells identified in Exhibit "A" that are out of compliance with the Oil and Gas Act or OCD Rules other than OCD Rule 19.15.25.8 NMAC may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules.
8. The OCD reserves the right to file an application for hearing to obtain authority to plug any well identified in Exhibit "A" and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

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9. Operator shall not operate any wells identified in Exhibit "A" unless and until all financial assurance, as required by 19.15.8 NMAC, is in place for all wells identified in Exhibit "A".

Done at Santa Fe, New Mexico this 14th day of August, 2017

By: David Catanach
David Catanach
Director, Oil Conservation Division

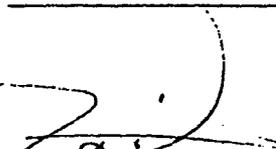
ACCEPTANCE

Petrolia Energy Corporation hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

By: Zel C. Khan
(Please print name): Zel C. Khan
Title: CEO
Date: 8/10/2017

Exhibit "A" to Agreed Compliance Order for Petrolia Energy Corporation

<u>API #</u>	<u>Well Name</u>	<u>OGRID</u>	<u>Lease Type</u>	<u>Well Type</u>	<u>Last Production</u>
30-005-60470	Twin Lakes San Andres Unit #016	371666	S	O	2/1/2014
30-005-60536	Twin Lakes San Andres Unit #018	371666	S	O	6/1/2014
30-005-60329	Twin Lakes San Andres Unit #036	371666	S	O	9/1/2014
30-005-60973	Twin Lakes San Andres Unit #037	371666	S	O	1/1/2016
30-005-00342	Twin Lakes San Andres Unit #045	371666	S	O	11/1/2014
30-005-60767	Twin Lakes San Andres Unit #049	371666	P	O	7/1/2015
30-005-62069	Twin Lakes San Andres Unit #064	371666	P	O	9/1/2014
30-005-62212	Twin Lakes San Andres Unit #071	371666	P	O	11/1/2013
30-005-61032	Twin Lakes San Andres Unit #077	371666	P	O	3/1/2014
30-005-62213	Twin Lakes San Andres Unit #080	371666	P	O	1/1/2014
30-005-61095	Twin Lakes San Andres Unit #092	371666	P	O	8/1/2014
30-005-61452	Twin Lakes San Andres Unit #101	371666	P	O	10/1/2014
30-005-60844	Twin Lakes San Andres Unit #102	371666	P	O	10/1/2014
30-005-61332	Twin Lakes San Andres Unit #106	371666	P	O	7/1/2014
30-005-62845	Twin Lakes San Andres Unit #123	371666	P	O	11/1/2014
30-005-63140	Twin Lakes San Andres Unit #203	371666	P	O	6/1/2015
30-005-63185	Twin Lakes San Andres Unit #316	371666	S	O	10/1/2015
30-005-63187	Twin Lakes San Andres Unit #319	371666	P	O	3/1/2016
30-005-63189	Twin Lakes San Andres Unit #326	371666	P	O	3/1/2014
30-005-60796	Twin Lakes San Andres Unit #050	371666	P	I	6/1/2014
30-005-60807	Twin Lakes San Andres Unit #059	371666	P	I	7/1/2014
30-005-61007	Twin Lakes San Andres Unit #068	371666	P	I	6/1/2014
30-005-60885	Twin Lakes San Andres Unit #070	371666	P	I	7/1/2014
30-005-61006	Twin Lakes San Andres Unit #088	371666	P	I	7/1/2014


 By: Zell C. Khan
 Title: CEO

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