

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. 14341
ORDER NO. R-13150

APPLICATION OF ARMSTRONG ENERGY CORPORATION
FOR APPROVAL OF A UNIT AGREEMENT, CHAVES
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on July 23, 2009 at Santa Fe, New Mexico, before Examiner Terry Warnell.

NOW, on this 29th day of July, 2009, the Division Director, having considered 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 its subject matter.
- (2) Division Cases No. 14341 and 14342 were consolidated at the hearing for the purpose of testimony.
- (3) The applicant, Armstrong Energy Corporation ("Applicant"), seeks approval of its Round Tank-Queen Waterflood Unit Agreement for all oil and gas in the Queen formation underlying the following-described 1,922.72 acres, more or less, of State of New Mexico and Federal lands in Chaves County, New Mexico:

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM

Section 24: E/2, E/2 W/2
Section 25: E/2

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM

Irregular Section 19: Lots 1 through 4, E/2 W/2

(W/2 Equivalent), SE/4
Irregular Section 30: Lots 1 through 4, E/2 W/2
(W/2 Equivalent), E/2
Section 18: E/2
Section 20: All

(4) The "Unitized Formation" as described in the Round Tank-Queen Waterflood Unit Agreement, is the interval underlying the Unit Area commonly known as the "Queen Formation," the vertical limits of which extend from an upper limit of 1,510 feet to a lower limit of 1,526 feet. These geologic markers having been previously found to occur in the Christine Federal #3 Well located 680 feet from the North line and 1980 feet from the East line of Section 30, Township 15 South, Range 29 East, NMPM, Chaves County, New Mexico.

(5) Within the Unit Area, the applicant proposes to initiate a waterflood project for the secondary recovery of oil from the Unitized Formation (being the subject of companion Case No. 14342).

(6) Applicant appeared at the hearing through counsel and presented testimony that demonstrates that:

- (a) All working interest owners in the Unit area have been afforded an opportunity to commit their interests to the Unit Agreement and the owners representing 100% of the working interest ownership in the Unit Area have committed their interests to the Unit Agreement;
- (b) The royalty interest ownership in the proposed Round Tank-Queen Unit is owned 100% by the Federal Government and the State of New Mexico, 79.1129% Federal land and 20.8871% State land;
- (c) The Commissioner of Public Lands has given preliminary approval for the proposed Unit;
- (d) The Bureau of Land Management has designated the Unit Area as a logical unit area;
- (e) Sufficient working interest and royalty interest within the Unit Area have been voluntarily committed to afford effective control of unit operations pursuant to the Unit Plan.

(7) Applicant presented geological evidence that showed that the Queen formation is present throughout the proposed unit, has a net thickness in the Unit Area of approximately 15 feet, with an estimated average porosity of 18%, an average permeability of approximately 100md and it is a good candidate for a waterflood project.

(8) No other interested party appeared or otherwise objected to the proposed unit agreement or to the application in this case.

(9) All of the acreage proposed for inclusion in the unit appears prospective for recovery of oil or gas from the target formation under the concept proposed by Applicant. These areas should be unitized and should equally share in the benefits from future oil and gas production.

(10) The approval of the proposed unit agreement will serve to prevent waste and protect correlative rights within the lands assigned to the unit area.

IT IS THEREFORE ORDERED THAT:

(1) The Round Tank-Queen Unit Agreement is hereby approved for all oil and gas in the Queen formation underlying the following-described 1922.72 acres, more or less, of State Of New Mexico and Federal lands in Chaves County, New Mexico:

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM

Section 24: E/2, E/2 W/2
Section 25: E/2

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM

Irregular Section 19: Lots 1 through 4, E/2 W/2
(W/2 Equivalent), SE/4
Irregular Section 30: Lots 1 through 4, E/2 W/2
(W/2 Equivalent), E/2
Section 18: E/2
Section 20: All

(2) The unitized interval in the Round Tank-Queen Waterflood Unit Agreement is the interval underlying the Unit Area commonly known as the "Queen Formation," the vertical limits of which extend from an upper limit of 1,510 feet to a lower limit of 1,526 feet. These geologic markers having been previously found to occur in the Christine Federal #3 Well located 680 feet from the North line and 1980 feet from the East line of Section 30, Township 15 South, Range 29 East, NMPM, Chaves County, New Mexico.

(3) The plan contained in the Round Tank-Queen Waterflood Unit Agreement for the further development and operation of the above-described unit area is hereby approved in principle; provided, however, notwithstanding any of the provisions contained in the unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation that is now, or may hereinafter be, vested in the Division to supervise and control operations for the unit and production of oil and gas therefrom.

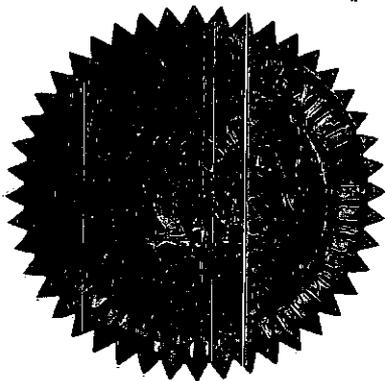
(4) The unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30 days of the effective date thereof; in the event of subsequent joinder by any other party, or expansion or contraction of the unit area, the unit operator shall file with the Division, within 30 days thereafter, copies of the unit agreement reflecting the subscription of those interests having joined or ratified.

(5) All (i) plans of development and operation; (ii) creations, expansions or contractions of participating areas; and (iii) expansions or contractions of the unit area shall be submitted to the Division Director for approval.

(6) This order shall become effective on the first day of the calendar month next following approval of the unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Authorized Officer of the Bureau of Land Management for the Federal government. This order shall terminate upon the termination of the unit agreement. The last unit operator shall notify the Division immediately in writing of such termination.

(7) 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire". The signature is fluid and cursive.

MARK E. FESMIRE, P. E.
Director