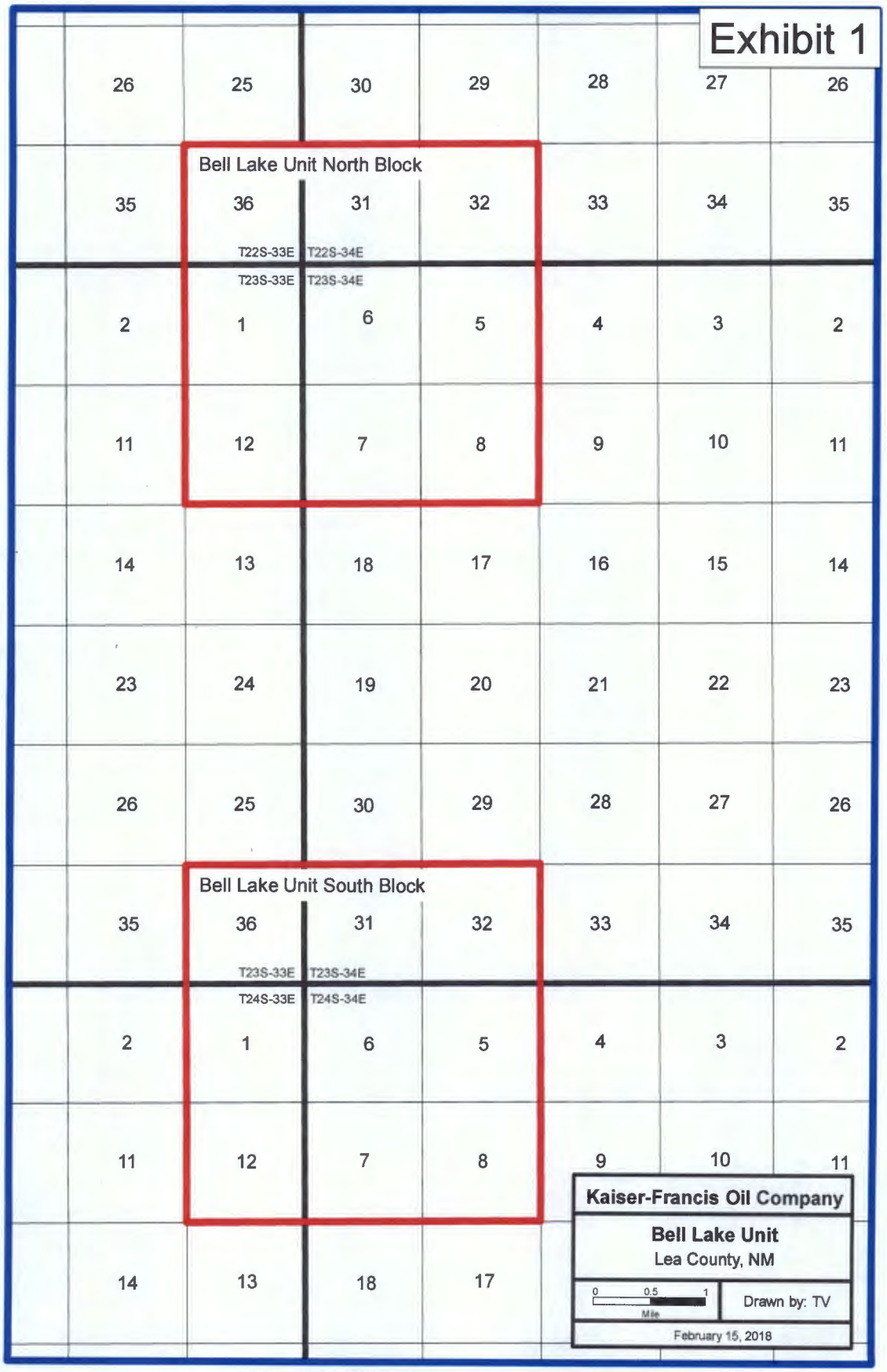


Exhibit 1
26 25 30 29 28 27 26
Bell Lake Unit North Block
35 36 31 32 33 34 35
T22S-33E T22S-34E
T23S-33E T23S-34E
2 1 6 5 4 3 2
11 12 7 8 9 10 11
14 13 18 17 16 15 14
23 24 19 20 21 22 23
26 25 30 29 28 27 26
Bell Lake Unit South Block
35 36 31 32 33 34 35
T23S-33E T23S-34E
T24S-33E T24S-34E
2 1 6 5 4 3 2
11 12 7 8 9 10 11
14 13 18 17
Kaiser-Francis Oil Company
Bell Lake Unit
Lea County, NM
0 0.5 1
Mile
Drawn by: TV
February 15, 2018

EXHIBIT 1

KAISER-FRANCIS OIL COMPANY

LEA COUNTY, NEW MEXICO

BELL LAKE UNIT – NORTH BLOCK

Section 31-22S-34E

Section 32-22S-34E

Section 36-22S-33E

Section 1-23S-33E

Section 12-23S-33E

Section 5-23S-34E

Section 6-23S-34E

Section 7-23S-34E

Section 8-23S-34E

Consisting of 5,727.58 total acres

BELL LAKE UNIT – SOUTH BLOCK

Section 31-23S-34E

Section 32-23S-34E

Section 36-23S-33E

Section 1-24S-33E

Section 12-24S-33E

Section 5-24S-34E

Section 6-24S-34E

Section 7-24S-34E

Section 8-24S-34E

Consisting of 5,747.56 total surface acres

EXHIBIT 2

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 TO CONSIDER:

CASE NO. 15823
ORDER NO. R-14527
NOMENCLATURE

APPLICATION OF KAISER-FRANCIS OIL COMPANY FOR POOL CREATION AND SPECIAL POOL RULES, LEA COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 14, 2017, at Santa Fe, New Mexico before Examiner William V. Jones and again on October 12, 2017 before Examiner Phillip R. Goetze.

NOW, on this 21st day of December, 2017, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

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

(2) Cases No. 15823 and 15824 were combined for purposes of testimony, but separate orders are being issued for each case.

(3) In Case No. 15823, Kaiser-Francis Oil Company ("KF" or "Applicant"), seeks to create a new oil pool within the ~~North Bell Lake Unit~~ Bell Lake Unit – North Block for production from the Bone Spring formation and seeks the promulgation of Special Rules for horizontal wells within the new pool.

(4) Applicant is an interest owner and operator within what is recognized as the Bell Lake Unit – North Block ~~North Bell Lake Unit~~, comprising the following described 5727.58 acres (more or less) of Federal and State lands in Lea County, New Mexico:

Township 22 South. Range 34 East. NMPM
Sections 31 and 32: All

Township 22 South. Range 33 East. NMPM
Section 36: All

Township 23 South. Range 33 East. NMPM
Sections 1 and 12: All

Township 23 South. Range 34 East. NMPM
Sections 5 through 8: All

(5) The proposed Ojo Chiso, Bone Spring, Southwest Pool (Pool Code 98259) would cover all oil and gas production from the Bone Spring formation within the Bell Lake Unit – North Block ~~North Bell Lake Unit~~ and be limited to lands within the Unit.

(6) Applicant proposes Special Rules as follows to apply only to horizontal wells within the new pool:

(a) A standard oil spacing and proration unit of 480 acres.

(b) Wells to be located no closer than 330 feet from the exterior boundary of the~~–~~ Bell Lake Unit – North Block ~~North Bell Lake Unit~~.

(c) Interior setbacks of 10 feet from a quarter-quarter section line.

(d) Setbacks of 100 feet from the side line of a standard horizontal well unit except as provided above.

(e) A Special Depth Bracket Allowable of 9600 barrels of oil per day for each 480-acre horizontal spacing and proration unit.

(f) A limiting gas to oil ratio of 5000 cubic feet of gas per barrel of oil produced.

(g) All other rules to be in conformance with statewide rules.

(7) Energen Resources Corporation entered an appearance in the case and appeared through counsel at the hearing but did not oppose the application. No other party entered an appearance in this case or otherwise opposed this application.

(8) Applicant appeared at the hearing through counsel and presented exhibits and testimony showing the following.

(a) The Bell Lake Unit was formed in 1953 on a federal exploratory unit form and initially covered over 37,000 acres. Over the years it has been contracted down into two nine-section blocks; called the Bell Lake Unit

– North Block ~~North Bell Lake Unit~~ and the ~~South Bell Lake Unit~~ Bell lake Unit – South Block. The blocks are noncontiguous and each is a Devonian formation participating area.

(b) Without the requested spacing units and offset rules, the drilling plan would result in many non-standard units and well locations.

(c) There were many ownership changes over the years. KF determined the latest owners in the mineral estate and provided notice of this application to those owners and to operators of wells in this formation within one mile of the Unit boundaries.

(d) ~~Both the~~ Bell Lake Unit – North Block ~~North Bell Lake Unit and the South Bell Lake Unit are~~ is an all-depths units and the leases extend to all depths. The Bell Lake Unit – North Block ~~North Bell Lake Unit~~ consists of State and Federal lands~~,~~. ~~while the South Bell Lake Unit includes State, federal, and fee lands.~~

~~(e) The operating agreement covers depths below 9000 feet which includes almost all vertical members of the Bone Spring formation and all planned drilling targets.~~

Paragraph to be included in Bell Lake Unit – South Block

(e) Bell Lake Unit – South Block operating agreement covers depths below 9,000' which includes almost all vertical members of the Bone Spring formation and all planned drilling targets.

(e~~f~~) KF has not yet drilled a horizontal well within the North Bell Lake Unit but has drilled one in the South Bell Lake Unit. The BLM has not yet agreed to form a unit-wide participating area, but negotiations are continuing.

(f~~g~~) The Bone Spring formation in this area extends to the Wolfcamp formation. The Wolf camp formation extends down to the Strawn formation. Both formations are continuous across the Unit.

(g~~h~~) The first target in the Bone Spring formation will be the 2nd Bone Spring Sand member; however, there are numerous, vertically located drilling targets in the Bone Spring formation.

(i~~h~~) The proposed mile and one half long horizontal wells are optimum to drill in a three-mile by three-mile, square shaped Unit and will allow centralized facilities and minimize surface disturbance. There are multiple drilling targets, and Applicant expects the wells to be successfully drilled to one and one-half miles in length.

(~~ji~~) The existing horizontal Bone Spring well in the ~~South Bell Lake Unit~~ Bell Lake Unit – South Block would be re-dedicated to a larger, 480-acre spacing unit.

(~~jk~~) Stand-up (North/South) wells have been determined by prior drilling to be optimum. The hydraulic fracture treatments in the previous years have steadily increased in sand density, and are now up to 2000 pounds of sand per foot. Increased production rates per well will not harm this reservoir, but on a well by well basis, too high of an initial flowback could result in damage to the stimulation treatment.

(k~~l~~) A well density per drilling target of six wells per mile, or three wells per 480-acre spacing unit, has been determined to be best -in both the Bone Spring formation and in the Wolfcamp formation.

(l~~m~~) The requested increase in oil and gas allowable is needed to develop the multiple, stacked pay intervals, to support the planned well density, and to allow batch completions.

(m~~n~~) Existing production in this vicinity shows that wells initially produce at up to a gas oil ratio of 5,000 to 1 and the gas oil ratio does not vary significantly with differences in early-life oil production rates. The Division's standard limiting gas oil ratio of 2,000 to 1 is too small for this reservoir and the requested limiting gas oil ratio of 5,000 to 1 will not result in an undue waste of reservoir energy.

The Division concludes that:

(9) Applicant intends to locate surface well heads and production facilities extending in an East/West line, located in the center of these two nine-section exploratory units. The wells will be drilled for lengths of one and one-half miles beginning at those central locations and extending in a North/South direction to a maximum developed length no closer than 330 feet from the edge of the exploratory unit. This will allow for centralized facilities and reduce surface impacts.

(10) Applicant has shown that a well density of six wells per section or three wells per half section is optimum to recover the maximum amount of economical reserves. This well density was supported by a history-matched reservoir simulation with results input into economic models. To space out wells on this well density, the second (center) well would be optimally located 1320 feet from the section line. This would not be possible without allowing one-half section spacing units. The center well within that spacing unit would drain portions of all quarter-quarters within that spacing unit. And the lucrative technique of simultaneous completion of twin wells located relatively close together would be hampered and result in waste if well spacing was limited to less than one-half section.

~~(11) The center well within one of these proposed 480-acre spacing units is the well which would "develop" or drain portions of all quarter-quarter sections within the proposed 480-acre spacing unit. The outside wells would, in that sense, not "develop" all quarter-sections within a 480-acre spacing unit. Applicant should be required to drill and complete the center well as the first well within any 480-acre spacing unit, then drill the outside wells as optional infill wells, also dedicated to the spacing unit. If any of the outside wells are completed prior to the center well, the spacing unit should be limited in size to the 240 acres containing said well. If the center well is subsequently completed to establish the 480-acre spacing unit, then the existing outside well should be optionally allowed into the 480-acre spacing unit.~~

(12) Acreage is already held within ~~these two exploratory units~~this federal unit and all interest owners were noticed of these applications.

(13) Applicant proposes an increased depth bracket oil allowable and limiting gas oil ratio above those values allowed in Rules 19.15.20. (12 and 13) NMAC and Rule 19.15.16.14. B. (3) NMAC. Applicant has shown that this reservoir will not be harmed by oil and gas production at higher rates and the higher rates are needed to allow batch drilling and batch completions in multiple, vertical pay intervals.

(14) Applicant does not anticipate completion of any vertical wells in this pool and did not propose any change to the spacing unit size, depth bracket allowable, or limiting gas oil ratio for vertically drilled and completed wells. Any existing or future vertically drilled wells which are completed in the Bone Spring formation within this Unit and Pool should obey statewide rules for oil wells.

(15) Applicant's proposal should be granted to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Kaiser-Francis Oil Company ("KF") to create a new pool for oil production from the Bone Spring formation and promulgate Special Rules within the new pool is hereby approved.

(2) The Ojo Chiso; Bone Spring, Southwest Pool (pool Code 98259) is hereby created and shall be effective on January 1, 2018.

(3) The Ojo Chiso; Bone Spring, Southwest Pool shall extend vertically throughout the Bone Spring formation and is laterally limited to the Bell Lake Unit – North Block ~~North Bell Lake Unit~~ in Lea County, New Mexico. Lands within the Unit are described as follows:

Township 22 South. Range 34 East. NMPM
Sections 31 and 32: All

Township 22 South. Range 33 East. NMPM
Section 36: All

Township 23 South. Range 33 East. NMPM
Sections 1 and" 12: All

Township 23 South. Range 34 East. NMPM
Sections 5 through 8: All

(4) The operator of each well permitted for completion in the Bone Spring formation within the boundaries of the Bell Lake Unit – North Block ~~North Bell Lake Unit~~ shall file an amended form C102 with the Division's Hobbs district office, dedicating the well to the new pool within 30 days after issuance of this order.

(5) The Special Rules for this pool shall be as follows:

SPECIAL RULES FOR THE
OJO CHISO; BONE SPRING, SOUTHWEST POOL

Rule 1: Each horizontal well drilled and completed in the Ojo Chi so; Bone Spring, Southwest Pool shall be produced in accordance with the Special Rules hereinafter set forth. The Pool and Special Rules for the Pool shall not extend beyond the boundaries of the Bell Lake Unit – North Block ~~North Bell Lake Unit~~.

Rule 2: The completed interval of a horizontal well shall be located no closer than 100 feet from the side line of a standard horizontal well unit and no closer than 330 feet from the exterior boundary of the Bell Lake Unit – North Block ~~North Bell Lake Unit~~.

Rule 3: A standard horizontal oil spacing and proration unit shall consist of 480 acres, comprising three contiguous governmental quarter sections, aligned in a north/south or stand-up orientation~~; provided however, said unit shall only be established by completion of a well located (along the longest axis) within 100 feet of the center line of said unit (the "center well").~~

~~Rule 4: If any well located more than 100 feet from the center line of a standard 480acre unit is completed prior to the completion of the center well or other establishment of the 480-acre unit, that well shall be dedicated to a 240-acre standard horizontal oil spacing unit, comprised of six contiguous governmental quarter-quarter sections, aligned in a north/south or stand-up orientation.~~

Rule 5: The surface location and bottom hole location of vertical or horizontal wells shall be no closer than 10 feet from a quarter-quarter section line.

Rule 6: Each 40-acre quarter-quarter section located within a horizontal oil spacing unit shall constitute a separate proration unit and may produce no more than 800 barrels of oil per day, average for a calendar month. Each such quarter-quarter section is assumed to equally contribute to the production from the well or wells within the unit or units in which it is located.

Rule 7: For horizontal wells, the Limiting Gas Oil Ratio shall be 5000 cubic feet of gas per barrel of oil produced. The oil and gas allowable may be produced in any proportion from any well that contributes to the production attributed to each 40-acre quarter-quarter section.

Rule 8: Vertically drilled and completed wells within the Pool shall not be subject to rules specific herein to horizontal wells and shall remain governed by otherwise 6applicable Division Rules.

Rule 9: The procedures for obtaining exceptions to these Special Rules shall be as provided under Division rules.

~~(6) Operators of Wells having 240 dedicated acres being overlapped with a standard 480-acre oil spacing and proration unit, may increase spacing to the standard 480acre spacing unit in the Pool by filing an application to increase spacing as provided by Division rules. Notice of any such application shall be given to each owner of an interest in the mineral estate in the existing spacing unit or in the increased spacing unit whose interest would be affected by the increase. The requested increase may be granted administratively, without hearing, if all affected owners execute waivers of objection, or if all affected owners are duly noticed and no such owner files a protest within 20 days after the Division receives the application.~~

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

EXHIBIT 3

70-2-17: Equitable allocation of allowable production; pooling; spacing.

A. The rules, regulations or orders of the division shall, so far as it is practicable to do so, afford to the owner of each property in a pool the opportunity to produce his just and equitable share of the oil or gas, or both, in the pool, being an amount, so far as can be practically determined, and so far as such can be practicably obtained without waste, substantially in the proportion that the quantity of the recoverable oil or gas, or both, under such property bears to the total recoverable oil or gas, or both, in the pool, and for this purpose to use his just and equitable share of the reservoir energy.

B. The division may establish a proration unit for each pool, such being the area that can be efficiently and economically drained and developed by one well, and in so doing the division shall consider the economic loss caused by the drilling of unnecessary wells, the protection of correlative rights, including those of royalty owners, the prevention of waste, the avoidance of the augmentation of risks arising from the drilling of an excessive number of wells, and the prevention of reduced recovery which might result from the drilling of too few wells.

C. When two or more separately owned tracts of land are embraced within a spacing or proration unit, or where there are owners of royalty interests or undivided interests in oil and gas minerals which are separately owned or any combination thereof, embraced within such spacing or proration unit, the owner or owners thereof may validly pool their interests and develop their lands as a unit. Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the division, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit.

All orders effecting such pooling shall be made after notice and hearing, and shall be upon such terms and conditions as are just and reasonable and will afford to the owner or owners of each tract or interest in the unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil or gas, or both. Each order shall describe the lands included in the unit designated thereby, identify the pool or pools to which it applies and designate an operator for the unit. All operations for the pooled oil or gas, or both, which are conducted on any portion of the unit shall be deemed for all purposes to have been conducted upon each tract within the unit by the owner or owners of such tract. For the purpose of determining the portions of production owned by the persons owning interests in the pooled oil or gas, or both, such production shall be allocated to the respective tracts within the unit in the proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit. The portion of the production allocated to the owner or owners of each tract or interest included in a well spacing or proration unit formed by a pooling order shall, when produced, be considered as if produced from the separately owned tract or interest by a well drilled thereon. Such pooling order of the division shall make definite provision as to any owner, or owners, who elects not to pay his proportionate share in advance for the prorata reimbursement solely out of production to the parties advancing the costs of the development and operation, which shall be limited to the actual expenditures required for such purpose not in excess of what are reasonable, but which shall include a reasonable charge for supervision and may include a charge for the risk involved in the drilling of such well, which charge for risk shall not exceed two hundred percent of the nonconsenting working interest owner's or owners' prorata share of the cost of drilling and completing the well.

In the event of any dispute relative to such costs, the division shall determine the proper costs after due notice to interested parties and a hearing thereon. The division is specifically authorized to provide that the owner or owners drilling, or paying for the drilling, or for the operation of a well for the benefit of all shall be entitled to all production from such well which would be received by the owner, or owners, for whose benefit the well was drilled or operated, after payment of royalty as provided in the lease, if any, applicable to each tract or interest, and obligations payable out of production, until the owner or owners drilling or operating the well or both have been paid the amount due under the terms of the pooling order or order settling such dispute. No part of the production or proceeds accruing to any owner or owners of a separate interest in such unit shall be applied toward the payment of any cost properly chargeable to any other interest in said unit.

If the interest of any owner or owners of any unleased mineral interest is pooled by virtue of this act, seven-eighths of such interest shall be considered as a working interest and one-eighth shall be considered a royalty interest, and he shall in all events be paid one-eighth of all production from the unit and creditable to his interest.

D. Minimum allowable for some wells may be advisable from time to time, especially with respect to wells already drilled when this act takes effect, to the end that the production will repay reasonable lifting cost and thus prevent premature abandonment and resulting waste.

E. Whenever it appears that the owners in any pool have agreed upon a plan for the spacing of wells, or upon a plan or method of distribution of any allowable fixed by the division for the pool, or upon any other plan for the development or operation of such pool; which plan, in the judgment of the division, has the effect of preventing waste as prohibited by this act and is fair to the royalty owners in such pool, then such plan shall be adopted by the division with respect to such pool; however, the division, upon hearing and after notice, may subsequently modify any such plan to the extent necessary to prevent waste as prohibited by this act.

F. After the effective date of any rule, regulation or order fixing the allowable production, no person shall produce more than the allowable production applicable to him, his wells, leases or properties determined as in this act provided, and the allowable production shall be produced in accordance with the applicable rules, regulations or orders.

History: Laws 1935, ch. 72, § 12; 1941 Comp., § 69-2131/2; Laws 1949, ch. 168, § 13; 1953, ch. 76, § 1; 1953 Comp., § 65-3-14; Laws 1961, ch. 65, § 1; 1973, ch. 250, § 1; 1977, ch. 255, § 51.

Meaning of "this act". — The term "this act," referred to in this section, means Laws 1935, ch. 72, §§ 1 to 24, which appear as 70-2-2 to 70-2-4, 70-2-6 to 70-2-11, 70-2-15, 70-2-16, 70-2-21 to 70-2-25, 70-2-27 to 70-2-30, and 70-2-33 NMSA 1978.

ANNOTATIONS

The terms "spacing unit" and "proration unit" are not synonymous and the commission has power to fix spacing units without first creating proration units. Rutter & Wilbanks Corp. v. Oil Conservation Comm'n, 87 N.M. 286, 532 P.2d 582 (1975).

Determination of recoverable gas. — The commission is not required, as a prerequisite to the entry of a valid proration order, to first determine the amount of gas underlying each producer's tract and in the pool, in a case in which the commission's findings demonstrate that such determinations are impracticable, and such findings are sustained by the record. Grace v. Oil & Gas Comm'n of N.M., 87 N.M. 205, 531 P.2d 939 (1975).

Where the commission adopted a 100% surface acreage formula for allocating allowable production in a new pool that was not developed and had little production history; there having been sufficient production from the pool to accurately measure gas reserves using the pressure decline curve method; and data obtained at the well bore, such as effective feet of pay, water saturation, and deliverability were not sufficiently reliable to determine gas reserves under each tract, the commission was not required to

Overview

Current allowable from state regulation (19.15.20.12 NMAC):
- 320 bopd/40 acre unit
- 2,000 scf/bbl

Requesting an allowable increase as follows:

Zone	Oil Allowable	GOR
Bone Spring	9,600 bopd/480 acre unit	5,000 scf/bbl
Wolfcamp	6,000 bopd/480 acre unit	5,000 scf/bbl

The increased allowable is needed to develop multiple stacked pay zones with the anticipated optimal well density and projected well rates.

The thick geologic section will require a high well density to optimize resource recovery and development economics.

Offset well production, numerical modeling and our anticipated rig utilization were used to develop production forecasts that support the need for the increase in allowable.

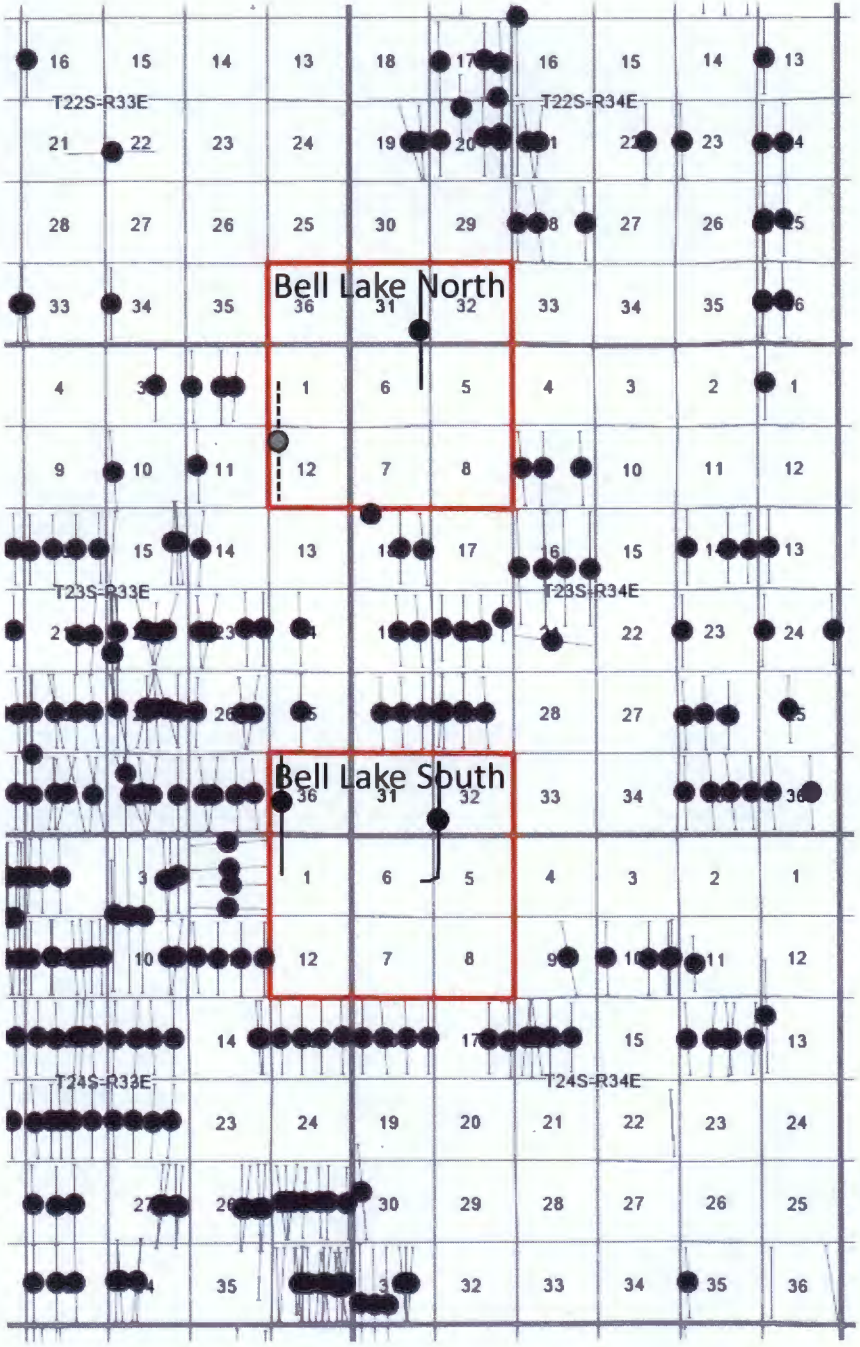
Bell Lake Unit Configuration

- North and South Blocks are each 9-sections, 3 mile by 3 mile square area.

- A large number of horizontal wells have been drilled offsetting Bell Lake.

- The large amount of offset production data available provides key information to use for planning Bell Lake development.

- Bell Lake Development has been optimized for well spacing, lateral length, directional orientation based on offset wells and subsurface geology and engineering evaluations.

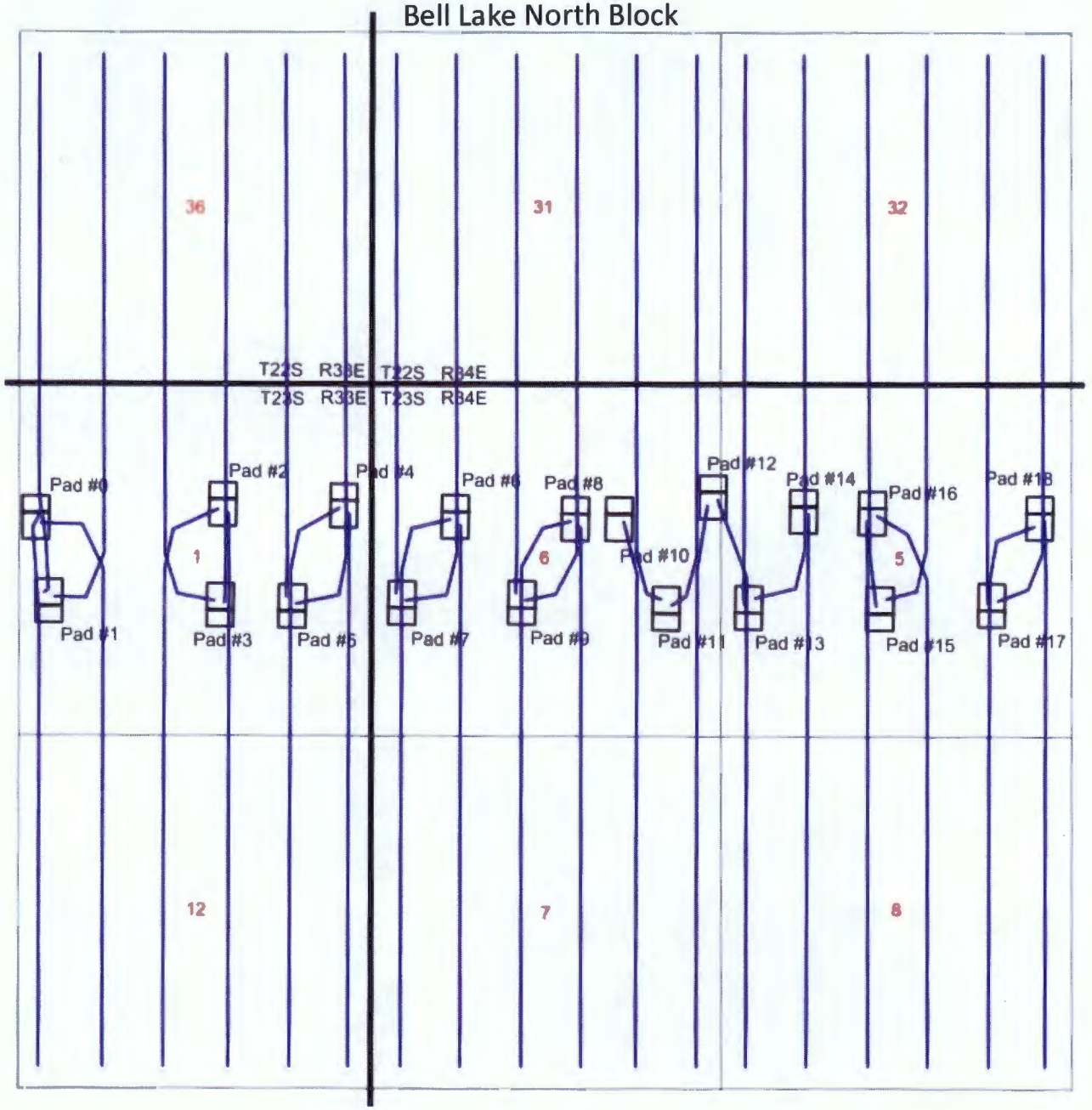


Key Elements of Development Plan

- 3 mi. by 3 mi. configuration allows for central corridor for pad and infrastructure locations.

- Central corridor with all pads, roads, pipelines and power lines will minimize surface impacts and create most efficient deployment of capital.

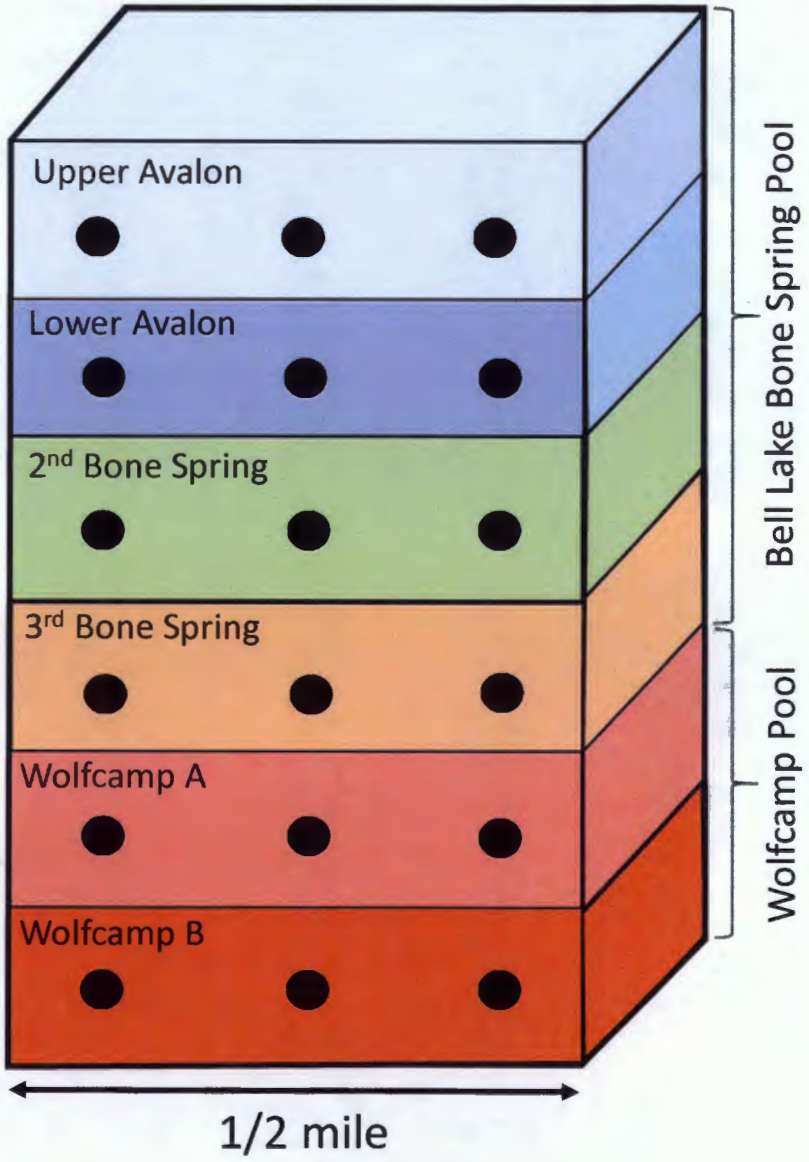
- Central drilling pads allow for all wells to be consistent 1.5 mile laterals.



Development of Multiple Stacked Pay Zones

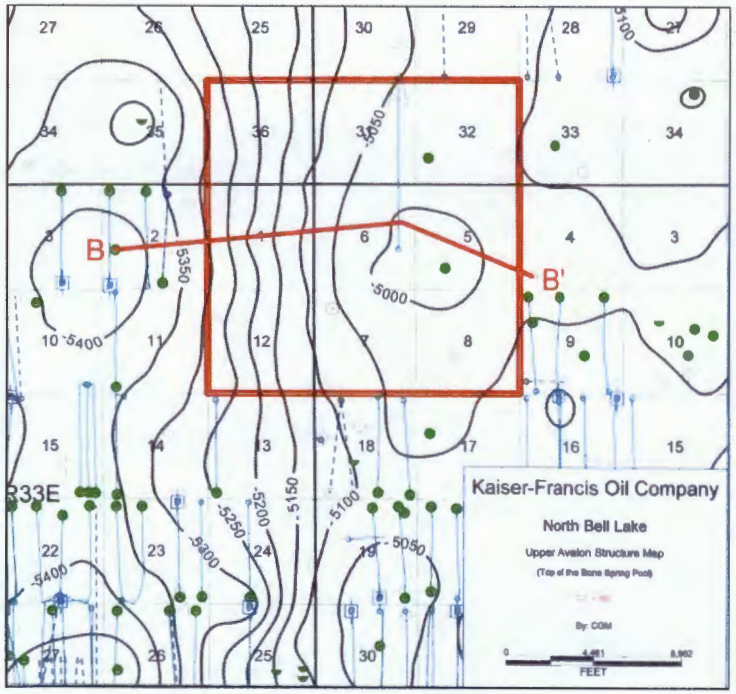
Bell Lake Bone Spring Pool
- Over 3000 ft of gross interval
- Four discrete development zones:
  . Upper Avalon
  . Lower Avalon
  . 2nd Bone Spring
  . 3rd Bone Spring
- Technical work suggest 6 wells per 1 mile wide drainage area is optimal

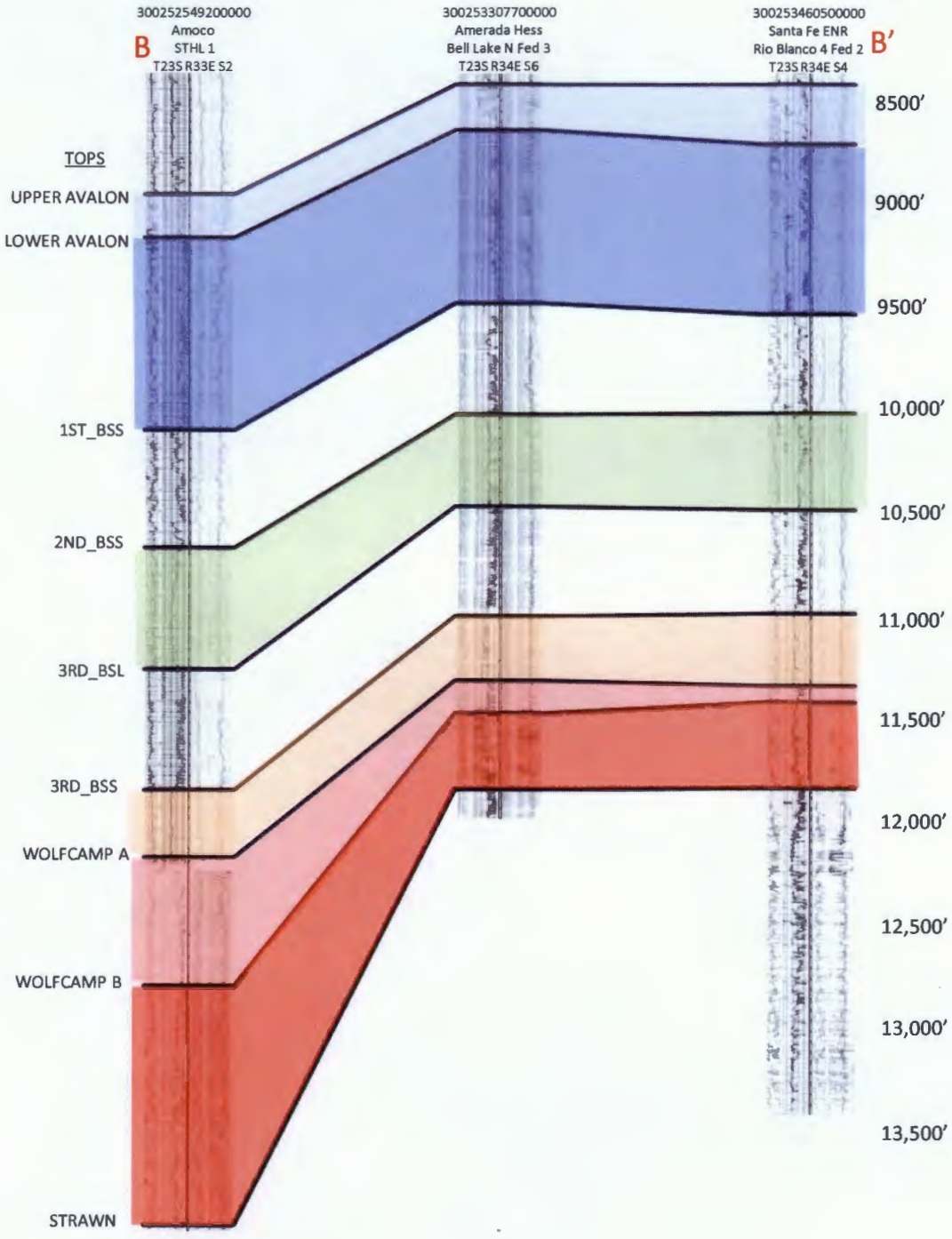
Wolfcamp Pool
- Over 1700 ft of gross interval
- Two discrete development zones:
  .Wolfcamp A
  .Wolfcamp B
- Technical work suggest 6 wells per 1 mile wide drainage area is optimal



Formation of Large Participation Areas (PA's)

- Bone Spring and Wolfcamp zones are continuous across the Bell Lake Unit with more than sufficient thickness and porosity to support commercial production.





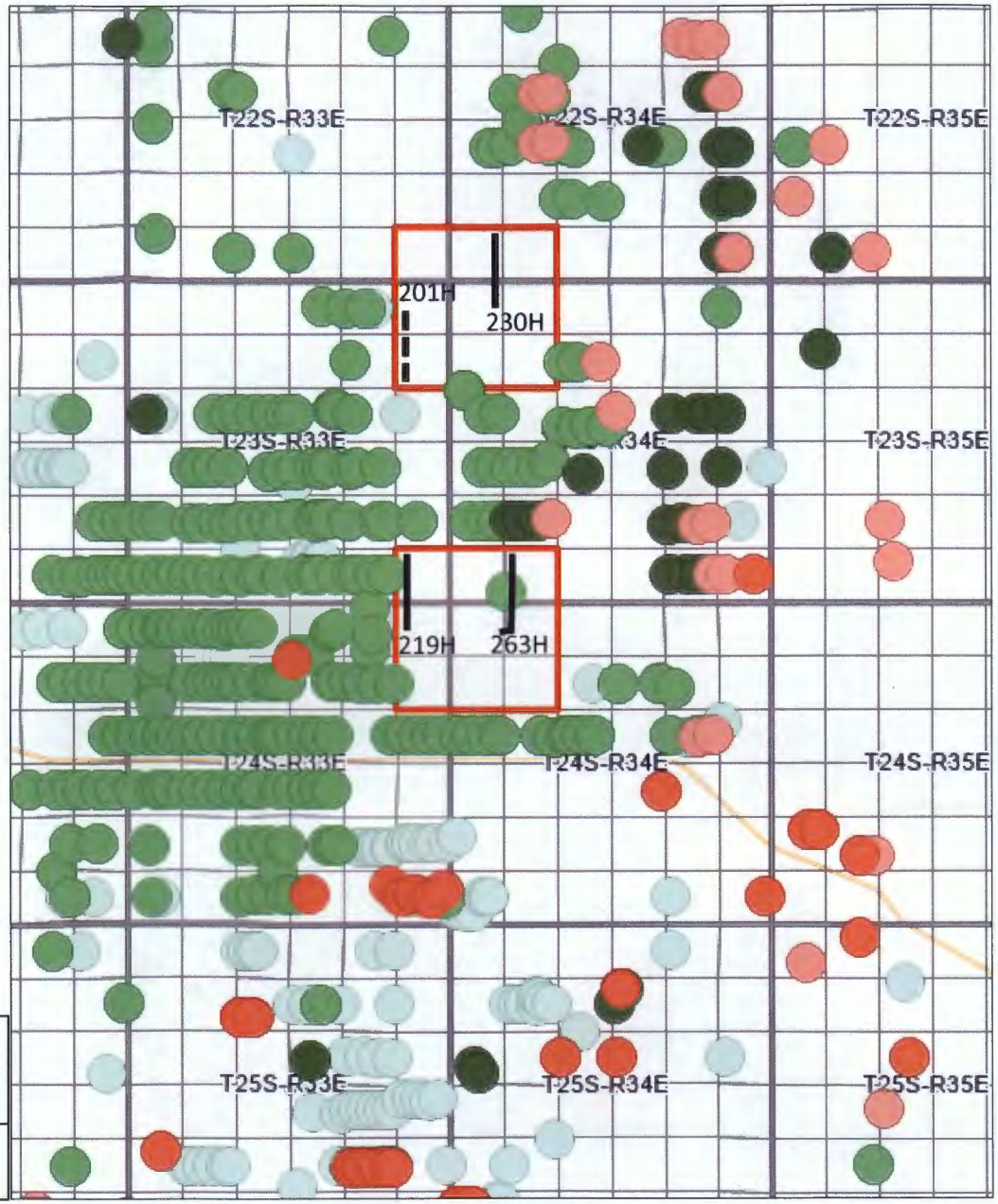
Formation of Large PA's

- Very large number of offset wells in Bone Spring and Wolfcamp formations.

- BLM has provided guidance on creating these large PA's.

- We will apply to BLM for 9-section PA's after 2nd well in each block.

- We expect BLM will approve large PA's at Bell Lake such as was done at Devon's Thistle Unit



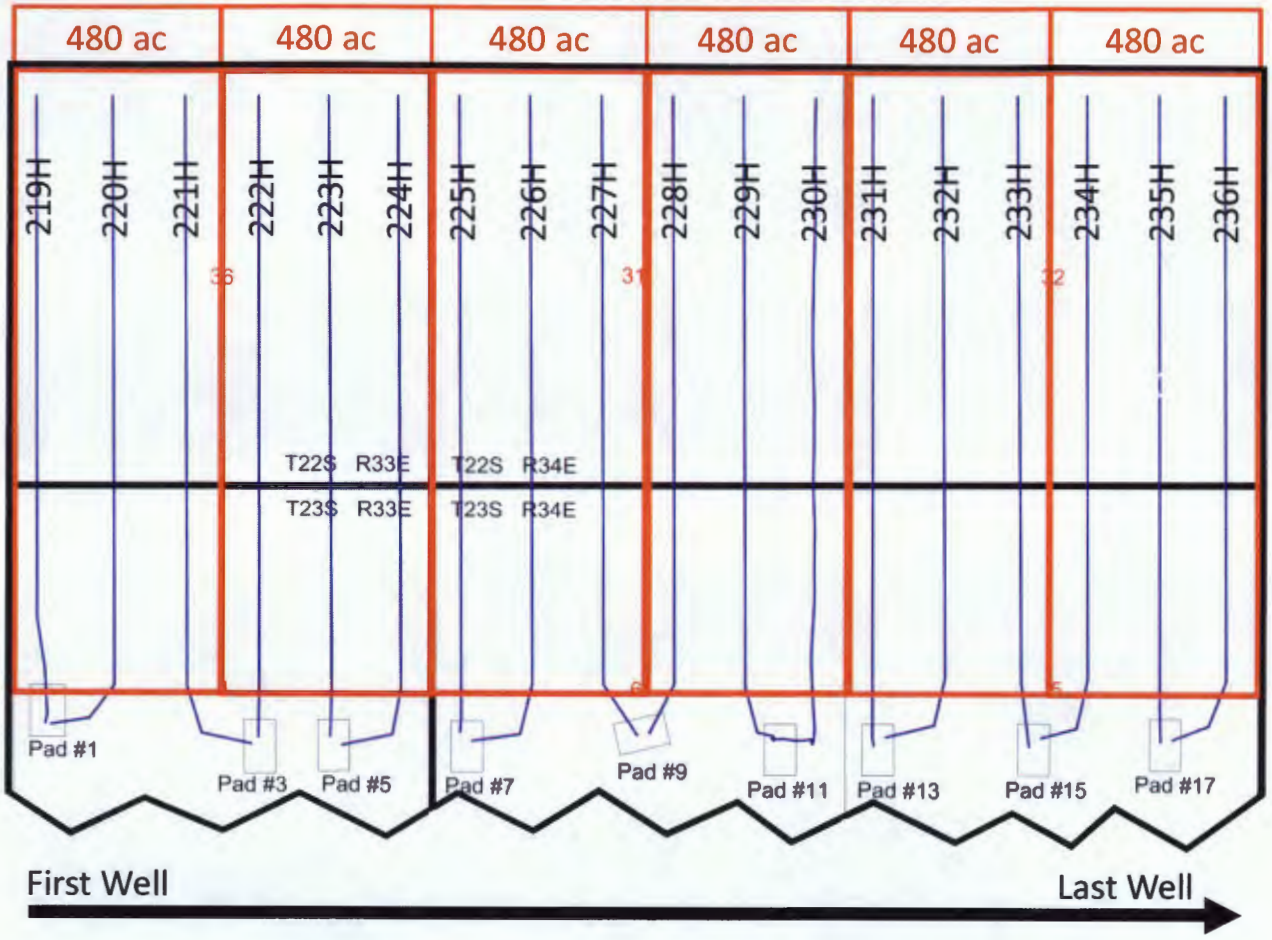
Optimum Development Sequence

- With the 6 well per section plan, it is inevitable that center wells will be drilled in each 480 acre spacing unit.

- We will utilize Pad drilling to reduce surface impacts, and drill sequentially across the field from Pad to Pad.

- Drilling the center well first in each 480 spacing unit creates unnecessary rig moves, which results in substantially higher well costs, and large increase in risk moving back to pads with wells already on production.

- Center well first also results in potential loss in reserves if "child" wells are delayed.



Illustrates sequence of drilling

Summary of Major Points

- With the thick and continuous reservoir interval across the blocks and the 6 well per section plan, it is inevitable that center wells will be drilled.

- There are so many existing Bone Spring and Wolfcamp wells offsetting Bell Lake Unit, it is feasible to create large Participation Areas early in the horizontal development of the Unit.

- The BLM will approve a Participation Area in each 9-section block after 2 or 3 wells are drilled, thus creating two large project areas, such as was done in the Devon's Thistle Unit.

- Sequential drilling of wells is needed to reduce costs, reduce risks due to simultaneous production/drilling operation, and increase reserves.

- A requirement to place the first well in the center of each spacing unit will increase costs, increase operational risks, and decrease reserves.