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

IN THE MATTER OF THE APPLICATION OF MARATHON OIL PERMIAN, LLC TO POOL ADDITIONAL PARTIES UNDER THE TERMS OF ORDER NO. R-20996, EDDY COUNTY, NEW MEXICO

Case No. 21213
Order No. R-20996-A

REPLY TO MARATHON OIL PERMIAN, LLC'S RESPONSE TO MOTION TO VACATE OR STAY ORDER NO. R-20996-A

Sugar Creek Resources, LLC ("Sugar Creek") replies to Marathon Oil Permian, LLC's ("Marathon") Response to Motion to Vacate or Stay Order No. R-20996-A (the "Response") as follows:

INTRODUCTION

First and foremost, it is **undisputed** in this case that Marathon did not comply with the mandatory prerequisites of NMAC 19.15.4.12.A(1)(b) prior to force-pooling the Sugar Creek Lessors.[1] As shown in Section I below, this single fact alone renders Order No. R-20996-A void and invalid on its face. *See Cont'l Oil Co. v. Oil Conservation Comm'n*, 1962-NMSC-062, 373 P.2d 809. Nevertheless, in its effort to avoid being held to account for its failure to comply with New Mexico law, Marathon primarily relies on red herrings, statutory cherry-picking and misstatements of previous cases heard before this Division. As evidenced in Section II below, Marathon omits key facts involved in the Division's past rulings and precedent regarding the procedure to pool royalty owners.[2] In doing so, Marathon attempts to reframe the question to

[1] These parties are Ronald Robbins, Christine Campos and Stephanie Aldemir, hereinafter referred to as the "Sugar Creek Lessors."

[2] Marathon argues that "the Division routinely enters orders pooling [non-cost bearing royalty interest owners]" without complying with NMAC 19.15.4.12.A(1)(b). However, Marathon does not cite a single

whether a royalty interest may be force pooled, rather than the real question of whether Marathon must follow the law in doing so. To be clear, Sugar Creek is not arguing that it or the Sugar Creek Lessors are immune from compulsory pooling. Rather, Sugar Creek simply submits that, if Marathon wishes to pool the interest, it must comply with New Mexico law requiring a good-faith attempt to reach a voluntary agreement.

Marathon also relies on a disingenuous argument that "the pooling language included in the leases is ambiguous and may be insufficient to voluntarily pool [the Sugar Creek Lessors] without an order issued by the Division." (*See* Marathon Response at p. 5).[3] However, notably absent from Marathon's Response is the actual lease language it contends is "ambiguous." This is so since the pooling clause is clearly sufficient for Marathon to voluntarily pool the leases. Indeed, no party had an issue with the pooling language prior to Marathon filing Case No. 21213, and only when Marathon needed an excuse for its failure to comply with New Mexico law did it devise this argument to circumvent the statutory mandates.

Finally, any alleged procedural deficiency in Sugar Creek's filings before this Division is inconsequential. Simply stated, Order No. R-20996-A is void and invalid on its face since there is no finding—and indeed, no showing by Marathon—that Marathon attempted to reach a voluntary agreement with the Sugar Creek Lessors prior to Marathon filing the Application. As such, the

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case or order of this Division to support this proposition. Rather, in each case cited by Marathon, the applicant provided evidence of its attempts to obtain a voluntary agreement with the royalty owners prior to the pooling application. (*See* Section II, *infra*).

[3] As stated in Sugar Creek's Pre-Hearing Statement, MRC Permian is also a mineral owner in the unit at issue and filed an *Application for De Novo Hearing* as a party adversely affected by Order No. R-20996-A. Marathon subsequently removed MRC Permian from the purview of such Order, despite the fact that **the pooling provision is the same as that found in the Prior Leases**. Nevertheless, neither Marathon nor MRC will disclose the reason for MRC's removal from the effect of the Order, the arrangement struck between the two parties or the reason why MRC and Sugar Creek are being treated differently despite the identical nature of their positions herein.

Division should vacate Order No. R-20996-A, or in the alternative, stay the effectiveness of the Order as to the Sugar Creek Lessors.

ARGUMENT AND AUTHORITIES

I. THE DIVISION'S ORDER IS FACIALLY INVALID AND VOID.

Marathon's primary argument is that it was not required make any attempt to gain a voluntary agreement with the Sugar Creek Lessors pursuant to NMAC 19.15.4.12. Marathon's pretext for this is that "the pooling language included in the leases is ambiguous and may be insufficient to voluntarily pool [the Sugar Creek Lessors] without an order issued by the Division." (*See* Marathon Response at p. 5). Thus, Marathon argues, it is not required "to send a **lease, new assignment, JOA, or AFE** (or any other document, other than notification of the hearing)" to the Sugar Creek Lessors in order to pool them. (*See* Marathon Response at p. 6).[4]

Marathon cites NMAC 19.15.4.12.A(1)(a) to support its position that the royalty owners are proper parties to be pooled.[5] However, it conveniently omits the very next paragraph, which states that "[t]he **application shall include** "written evidence of attempts the applicant made to gain voluntary agreement including but not limited to copies of relevant correspondence...." NMAC 19.15.4.12.A(1)(b)(vi). ***This provision is not discretionary***. Rather, it is a statutory prerequisite to obtaining an order pooling the Sugar Creek Lessors. *See* NMSA § 12-2A-4 ("'Shall' and 'must' express a duty, obligation, requirement or condition precedent" when used in a statute or rule); *see also Yedidag v. Roswell Clinic Corp.*, 2015-NMSC-012, ¶53, 346 P.3d 1136, 1151 ("The word 'shall' is ordinarily the language of command. And when a law uses 'shall,' the normal

[4] This is simply misdirection by Marathon. Sugar Creek is not contending that Marathon was required to send a lease, AFE or JOA to the Sugar Creek Lessors. While those types of agreements would satisfy the mandate of NMAC 19.15.4.12 A(1)(b), these are not the only types of proposed agreements Marathon could send to satisfy its obligation to reach a voluntary agreement with the Sugar Creek Lessors.

[5] Sugar Creek is not disputing that a royalty interest can be validly pooled.

inference is that it is used in its usual sense—that being mandatory.") Marathon's motive in omitting this portion of the code is clear: it is keenly aware that it failed to comply with this mandate prior to its attempt to pool the Sugar Creek Lessors. Based on the plain and unambiguous language of NMAC 19.15.4.12.A(1)(b), Order No. R-20966-A is void and invalid on its face since Marathon made no showing—and the Division made no finding—that Marathon attempted to reach a voluntary agreement with the Sugar Creek Lessors.

In 1962, the New Mexico Supreme Court addressed this very issue in the seminal case of *Cont'l Oil Co. v. Oil Conservation Comm'n*, 1962-NMSC-062, 373 P.2d 809. In that case involving gas allowables, the Court made clear that any order of the Oil Conservation Commission must contain the basic findings mandated by the New Mexico statutes and corresponding Administrative Code provisions in order to be valid on its face. The Court held as follows:

> **We therefore find that the order of the commission lacked the basic findings necessary to and upon which jurisdiction depended, and that therefore Order No. R-1092-C and Order No. R-1092-A are invalid and void.** We would add that although formal and elaborate findings are not absolutely necessary, nevertheless basic jurisdictional findings, supported by evidence, are required to show that the commission has heeded the mandate and the standards set out by statute.

Cont'l Oil Co. v. Oil Conservation Comm'n at ¶20, 373 P.2d at 816 (emphasis added).[6] Applying New Mexico law, the 10th Circuit echoed this sentiment in *Amoco Production Co. v. Heimann*, 904 F.2d 1405, 1416 (10th Cir. 1990), holding that "the OCC's findings must be based on ultimate facts involving foundationary matters and basic conclusions of fact." (citing *Cont'l Oil v. Oil Conservation Comm'n*). Under these clear precedents, Order R-20996-A should be vacated as invalid and void.

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[6] While the later case of *Grace v. Oil Conservation Comm'n*, 1975-NMSC-001, 531 P.2d 939, 941, corrected the *Cont'l Oil* case's use of the term "jurisdictional," the *Grace* Court reaffirmed *Cont'l Oil* and held that "[t]he Commission's findings deal with all of the foundationary matters required to be found as prerequisite to a valid proration order under our leading case on this subject, *Continental Oil Co. v. Oil Conservation Comm'n*." *Grace v. Oil Conservation Comm'n* at ¶2, 531 P.2d at 941.

II. THE CASES CITED BY MARATHON ACTUALLY SUPPORT SUGAR CREEK'S POSITION.

Next, Marathon attempts to sidestep the statutory mandate by referring to previous decisions in cases before the Division, citing Case No. 20211, Order No. R-14372 and Order No. R-13945-A.[7] (*See* Marathon Response at pp. 5-6). Marathon then represents to the Division that it "routinely enters orders pooling [royalty interest]" without complying with the dictates of NMAC 19.15.4.12. However, none of the orders cited by Marathon support its position but, in fact, support Sugar Creek's argument that the statutory requirements must be met.

For instance, in Case 20211—cited by Marathon—the applicant sought to pool "royalty owners whose leases do not contain a pooling clause." (*See* Ex. 1, Verified Statement of Doug Lacey in Case No. 20211). The application filed in that case explicitly stated that "[a]pplicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the N/2 S/2 of Section 13 for the purposes set forth herein." (Ex. 2, Application in Case No. 20211, p. 1 at ¶3). The affidavit upon which that application was filed also contains an explicit statement that **"[applicant] has made a good faith effort to obtain the voluntary joinder of interest owners in a pooling designation."** (*See* Ex. 2, p. 2 at ¶2(f) (emphasis added)). Furthermore, in a letter to a leased royalty owner in the case, the applicant stated that "[b]efore proceeding with our…drilling program, we will require an amendment of your lease to provide for pooling beyond the current 43 acres for oil and 640 acres for gas." (*See* Ex. 3, p. 3). Included with the letter was an "Amendment of Oil, Gas and Mineral Lease" that would allow pooling beyond the terms of the lease at that time. (*See* Ex. 3).

In Case No. 15679 (resulting in Order No. R-14372)—also cited by Marathon—the applicant testified that, in seeking to pool "royalty owners without sufficient pooling language," it had sent them a communitization agreement to execute. (*See* Ex. 6, Transcript in Case No. 15679,

[7] Order No. R-14372 was issued in Case No. 15679 and Order R-13945-A was issued in Case No. 15268. Marathon states that these orders are "examples of orders pooling royalty interest owners."

p. 6:13-21 and p. 8:1-16); *see also* Ex. 7, 4/13/17 Letter seeking Communitization Agreement). Thus, the applicant in this case clearly made an attempt to reach a voluntary agreement with the royalty owners prior to applying for compulsory pooling.

Finally, Marathon cites Order No. R-13945-A (Case No. 15268) in support of its position that it is not required enter into good-faith negotiations prior to attempting to compulsorily pool the Sugar Creek Lessors. Similar to the other cases cited by Marathon, the record in that case also **directly contradicts its position**. The application in Case No. 15268 contains an unequivocal statement that "**[a]pplicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners**." (*See* Ex. 8, Application in Case No. 15268, p. 2) (emphasis added). Furthermore, the applicant provided the following testimony before the Division:

> Q: And just to confirm—I don't have a copy of the lease, but it either contained a pooling clause or allowed pooling of 40 acres for oil wells?
> A: That is correct.
> Q: What did Hunt and then Anschutz (the applicant) do to attempt to cure that problem?
> A: **We sent out amendments to the old leases allowing us to amend the pooling to the current spacing that the OCD would approve.**

(*See* Ex. 9, Transcript in Case No. 15268, p. 22:19-23:2). Lastly, the order issued in this final case found that:

> [S]ome fee leases **without pooling clauses** have not agreed to sign or modify the lease to add this pooling clause.
>
> * * *
>
> (h) Applicant has conducted a diligent search for all interests and **has made a good faith effort to obtain joinder in this well.**

(*See* Ex. 10, Order No. R-13945-A) (emphasis added).

Contrary to Marathon's representations in its Response, none of these cases support its position. Rather, it affirms the provisions of NMAC 19.15.4.12.A(1)(b), which requires an applicant to provide evidence that it attempted to gain voluntary agreement prior to applying for

compulsory pooling. In this case, it is undisputed that Marathon simply did not do so. As a result, Order No. R-20966-A is ineffective to pool the interest of the Sugar Creek Lessors.

III. SUGAR CREEK HAS STANDING TO CHALLENGE THE POOLING ORDER.

Finally, Marathon argues that Sugar Creek lacks standing to challenge the validity of the Prior Leases and Order No. R-20966-A. However, Marathon confuses the issue. The top leases obtained by Sugar Creek "cover Lessor's reversionary interest in the [lands]." Thus, Sugar Creek stepped into the shoes of the Sugar Creek Lessors by virtue of the top leases. Furthermore, the Sugar Creek Lessors expressly granted Sugar Creek the authority to challenge the validity of the Prior Leases, and to take any further actions it deems necessary to obtain such relief. As such, Sugar Creek **does** have standing to challenge the validity of the Pooling Orders since it now stands in the shoes of the Sugar Creek Lessors.

Marathon also posits that, until a court determines that the Prior Leases have expired, Sugar Creek does not own any interest in the unit. This is also ***flatly*** incorrect and reveals Marathon's fundamental misunderstanding of New Mexico oil and gas jurisprudence. Under New Mexico law, an oil and gas lease expires by its own terms—*i.e.*, a court order is not necessary to terminate the lease. *See King v. Estate of Gilbreath*, 215 F. Supp. 3d 1149, 1166 (D.N.M. 2016) ("The lessees could have saved themselves from automatic termination by complying with one of the saving clauses. Since they did not do so, the lease expired automatically, by its own terms, ninety days after cessation of production. **No notice and demand, opportunity to cure, or action by the lessor was required prior to termination of the lease.**"), citing *Greer v. Salmon*, 1971-NMSC-002, 479 P.2d 294 and *Maralex Res., Inc. v. Gilbreath*, 2003-NMSC-023, 76 P.3d 626) (emphasis added). Accordingly, it is Sugar Creek's position—consistent with New Mexico law—that it currently owns a valid leasehold interest in the unit, subject to the cloud on title caused by

Marathon's claim that the Prior Leases are still in effect.[8]

Lastly, Marathon again attempts to smear Sugar Creek in the eyes of the Division by stating that "[Sugar Creek] (who does not appear to even have a license to operate in New Mexico) would be allowed to obstruct development of a 1280-acre unit, impacting the correlative rights of numerous other entities." (*See* Marathon Response at p. 10). This statement is quite revealing for at least two reasons. First, Marathon insinuates that unless a party is a licensed operator in New Mexico, it should be barred from protecting its property rights guaranteed by New Mexico law. To be certain, **NMAC 19.15.4.12 A(1)(b) exists for the very purpose of protecting the rights of owners such as Sugar Creek and the Sugar Creek Lessors.**[9] Sugar Creek does not seek to obstruct development in any way. Rather, Sugar Creek simply asks that Marathon be required to comply with New Mexico law in obtaining the force-pooling relief it seeks. Second, Marathon's statement that Sugar Creek somehow seeks to obstruct development is ironic, because public filings reveal that "Marathon Oil has suspended further drilling activity in the Northern Delaware, with only a limited number of wells to sales expected through the balance of the year." https://ir.marathonoil.com/2020-05-06-Marathon-Oil-Reports-First-Quarter-2020-Results (July 5, 2020). Therefore, it appears that Marathon's own internal decision-making is obstructing development of the unit at issue, not Sugar Creek and the Sugar Creek Lessors. Thus, if Marathon is truly concerned about obstruction of development, it should request that the Division vacate the entirety of the pooling orders to allow another party to develop the unit at issue.

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[8] This is why Sugar Creek offered the alternative of simply staying the effectiveness of Order No. 20996-A until such time as the District Court determines that the Prior Leases expired.

[9] Just as in other oil and gas producing states, the statutory force-pooling requirements enacted by the New Mexico Legislature and the Division ensure that the correlative rights of smaller interest owners are protected and valued according to fair market value principles when the parties disagree as to the plan of development for a unit.

CONCLUSION

WHEREFORE, Sugar Creek Resources, LLC respectfully requests that the Division enter an Order vacating OCD Order No. R-20996-A for failure to comply with New Mexico law or, alternatively, staying the effectiveness of such Order until such time as the District Court determines that Marathon's Prior Leases clouding Sugar Creek's title to its leasehold have expired and are of no further force and effect.

RESPECTFULLY SUBMITTED,

CAVIN & INGRAM, P.A.

By: _____
Stephen D. Ingram
P. O. Box 1216
Albuquerque, NM 87103
(505) 243-5400
singram@cilawnm.com
Attorneys for Sugar Creek Resources, LLC

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via email and/or U.S. Mail on July 7, 2020 to the following:

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CAVIN & INGRAM, P.A.

By: _____
Stephen D. Ingram

EXHIBIT 1

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:

APPLICATION OF LIME ROCK RESOURCES II-A, L.P. FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 20211**

VERIFIED STATEMENT OF DOUG LACEY

Doug Lacey, being duly sworn upon his oath, deposes and states:

1. I am a landman for Lime Rock Resources II-A, L.P. ("Lime Rock"), and have personal knowledge of the matters stated herein. I have been qualified by the Division as an expert petroleum landman.

2. Pursuant to Division Rules, the following information is submitted in support of the compulsory pooling application filed herein:

(a) The purpose of this application is to force pool royalty owners and overriding royalty interest owners into the horizontal spacing unit described below, and in a well to be drilled in the unit, for pooling designation purposes.

(b) No opposition is expected because the interest owners being pooled have simply failed to sign a pooling designation for the subject well unit.

(c) A Form C-102 outlining the well unit being pooled is attached as Attachment A. Lime Rock seeks an order pooling all interests in a 160-acre horizontal spacing unit in the Red Lake Glorieta-Yeso Pool comprised of the N/2 S/2 of Section 13, Township 18 South, Range 26 East, N.M.P.M., Eddy County, New Mexico. The unit will be dedicated to the Leavitt Well No. 13-4H, a horizontal well with a surface location in the NW/4 SW/4 of Section 18, Township 18 South, Range 27 East, N.M.P.M., with a first take point in the NE/4 SE/4 and a last take point in the NW/4 SW/4 of Section 13.

(d) The parties being pooled are listed on Attachment B. They are either royalty owners whose leases do not contain a pooling clause, or are overriding royalty interest owners. Lime Rock owns 100% of the working interest in the well unit.

Sugar Creek Resources, LLC
Exhibit 1

EXHIBIT 1

(e) Some of the interest owners being pooled are unlocatable. In order to locate the persons being pooled, Lime Rock reviewed its division order files on nearby wells, the pertinent county records, telephone records, and internet databases.

(f) Lime Rock has made a good faith effort to obtain the voluntary joinder of interest owners in a pooling designation, or to locate the interest owners.

(g) Lime Rock requests that it be designated operator of the well.

(h) The attachments to this affidavit were prepared by me, or compiled from company business records.

(i) The granting of this application is in the interests of conservation and the prevention of waste.

VERIFICATION

STATE OF TEXAS)
) ss.
COUNTY OF HARRIS)

Doug Lacey, being duly sworn upon his oath, deposes and states that: He is a landman for Lime Rock Resources II-A, L.P.; he is authorized to make this verification on its behalf; he has read the foregoing statement, and knows the contents thereof; and the same is true and correct to the best of his knowledge, information, and belief.

Doug Lacey

Doug Lacey

SUBSCRIBED AND SWORN TO before me this 22ND day of August, 2019 by Doug Lacey.

My Commission Expires: MAY 25, 2022

Notary Public

THAO PHAM
Notary Public, State of Texas
Comm. Expires 05-25-2022
Notary ID 131582786

EXHIBIT 2

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF LIME ROCK RESOURCES II-A, L.P. FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 20211**

APPLICATION

Lime Rock Resources II-A, L.P. applies for an order pooling all mineral interests in the Yeso formation underlying a horizontal spacing unit comprised of the N/2S/2 of Section 13, Township 18 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, and in support thereof, states:

1. Applicant is an operator in the N/2S/2 of Section 13, and has the right to drill a well thereon.

2. Applicant proposes to drill the Leavitt Well No. 13-4H, a Yeso horizontal well with a surface location in the NW/4SW/4 of Section 18, Township 18 South, Range 27 East, N.M.P.M., with a first take point in the NE/4SE/4 and a last take point in the NW/4SW/4 of Section 13.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the N/2S/2 of Section 13 for the purposes set forth herein.

4. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the Yeso formation underlying the N/2S/2 of Section 13, pursuant to NMSA 1978 §70-2-17.

Sugar Creek Resources, LLC
Exhibit 2

5. The pooling of all mineral interests in the Yeso formation underlying the N/2S/2 of Section 13 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

WHEREFORE, applicant requests that, after notice and hearing, the Division enter its order:

A. Pooling all mineral interests in the Yeso formation underlying the N/2S/2 of Section 13;

B. Designating applicant as operator of the well;

C. Considering the cost of drilling and completing the well, and allocating the cost thereof among the well's working interest owners;

D. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and

E. Setting a 200% charge for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Lime Rock Resources II-A, L.P.

EXHIBIT 3

Ann Landrith Holdings, LLC
PO Box #3363 Tulsa, OK 74101
918.237.5454

April 11th, 2019

New Mexico Oil Conservation Division
Florene Davidson, Commission Clerk
1220 S. Francis Drive
Santa Fe, NM 87505
florene.davidson@state.nm.us

RE: 4/18/2019 Pre-Hearing Statement regarding Case Nos. 20210 and 20211 (Lime Rock: Applicant) and perhaps competing Case Nos. 20227, 20369, 20232, 20371 (Percussion Petroleum: Applicant)

Dear Commission Clerk,

As manager of the mineral owner, Ann Landrith Holdings, LLC ("ALH"), I contest the referenced cases. I have not yet secured legal counsel, so I will either be representing ALH and myself as a member of ALH or have legal counsel in attendance on Thursday, April 18th, 2019. Below is a statement of our case:

1. At the 4/4/2019 hearing, NMOCD declared a continuance of a separate case (#20319) in order for Lime Rock to amend the current mineral lease ("Lease") in good faith. I have not heard back from them.

2. The current Lease in effect was executed by my family in 1954 and does not allow for pooling beyond 43 acres for oil and 640 acres for gas.

3. Lime Rock requested an amendment to the Lease to allow them to develop the lease in accordance with the revised NMOCD rules but would not agree to any form of equitable compensation (neither bonus nor an adjustment to the current 1/8th royalty interest).

4. Because of the significant change in circumstances since 1954, because the Applicants wish to no longer adhere to certain terms of the Lease, because ALH's share will be diluted contrary to the Lease without any consideration, and in support of the correlative rights and obligations of producers and royalty owners, I am requesting the OCD issue an order to the successful Applicant requiring corrective action to update the Lease in accordance with revised NMOCD rules, the awarded Applicant's drill plan, and a more reasonable ALH royalty interest. This is just and reasonable and will afford ALH the opportunity to receive without unnecessary expense it's just and fair share of oil and gas.

I anticipate I, or my attorney if so secured, will need 10 minutes to present in the first case and less than 1 minute in any of the following referenced cases. Thank you very much for your consideration,

Adam J. Leavitt, Manager

Sugar Creek Resources, LLC
Exhibit 3

Ann Landrith Holdings, LLC
PO Box #3363 Tulsa, OK 74101
918.237.5454

Let it be known, that Ann Landrith Holdings, LLC's current manager, Adam James Leavitt, is authorized to present and conduct business on behalf of its members in all matters.

Signature

3/27/2019
Date

State of Oklahoma

County of Tulsa

Signed or attested before me on March 27, 2019 by Adam James Leavitt.

(NOTARY SEAL)

Signature of notarial officer

My commission expires: 02/01/2021

My commission # : 13001119

LIME ROCK RESOURCES

Via Certified Mail (9414 8108 9876 5015 2355 74)

July 20, 2018

Ann Landrith Holdings LLC
Attn: Amber Barbeau - Manager
P.O. Box 3363
Tulsa, OK 74101

Re: Pooling Amendment for Horizontal Wells
NW/4, W/2 NE/4 Section 13-18S-26E
E/2 NE/4 Section 14-18S-26E
East Artesia Area
Eddy County, New Mexico

Greetings:

Lime Rock Resources II-A, L.P. ("LRR"), as the Owner and Operator of Oil, Gas and Mineral Leases under which you own royalty, is planning to drill horizontal wells throughout the Artesia area. Paragraph 14 of our lease with you grants us the right to pool acreage but is limited to 43 acres for an oil well and 647 acres for a gas well. A 5000' horizontal oil well in the Artesia area typically has a 160 acre production unit and under the recently revised New Mexico Oil Conservation Division ("NMOCD") rules for horizontal wells, longer laterals may provide for larger production units. The Designation of Voluntary Unit that you signed in 2016 pooled 160 acres for a horizontal well but was limited to rights only from the surface to 3,000' and we now anticipate developing rights both above and below the 3000' interval.

Horizontal drilling is gaining in popularity as it allows for better penetration of the oil/gas bearing zones than a vertical well. If our first horizontal well is successful, LRR would pursue drilling additional horizontal wells and create additional units on other acreage in this area for the mutual benefit of all the interest owners. Before proceeding with our horizontal drilling program, we will require an amendment of your lease to provide for pooling beyond the current 43 acres for oil and 640 acres for gas.

Enclosed please find an Amendment of Oil, Gas and Mineral Lease that includes language that will allow us to develop your lease with horizontal drilling in accordance with the revised NMOCD rules. If acceptable, please execute same before a Notary Public and return the original to me at your earliest convenience. Should you have any questions, feel free to contact me at 713-345-2147 or by email at dlacey@limerockresources.com .

Your consideration of this proposal is much appreciated.

Sincerely,

Doug Lacey
Landman

Enclosure(s): 1) Amendment to Oil, Gas and Mineral Lease
2) Oil, Gas and Mineral Lease dated January 12, 1954

AMENDMENT OF OIL, GAS AND MINERAL LEASE

STATE OF NEW MEXICO §
§ KNOW ALL MEN BY THESE PRESENTS:
COUNTY OF EDDY §

WHEREAS, reference is hereby made to that certain Oil, Gas and Mineral Lease (hereinafter referred to as the "Lease") dated January 12, 1954, by and between John Anton Leavitt and his wife, Anna Louise Leavitt, as Lessor, and Standard Oil Company of Texas, as Lessee, which Lease is recorded in Volume 60, Page 1, of the Official Public Records of Eddy County, New Mexico, covering the following described lands in Eddy County, New Mexico, to wit:

> All of the NW/4 and the W/2 NE/4 of Section 13, Township 18 South, Range 26 East, N.M.P.M. and the E/2 NE/4 of Section 14, Township 18 South, Range 26 East, N.M.P.M.

WHEREAS, Lime Rock Resources II-A, L.P., whose address is 1111 Bagby Street, Suite 4600, Houston, TX 77002, Norwood Oil Company, whose address is P.O. Box 1029, Malakoff, TX 75148, Tanos Energy Holdings II, LLC, whose address is 821 E Southeast Loop 323, Suite 400, Tyler, TX 75701, and Energen Resources Corporation, whose address is 605 Richard Arrington Jr. Boulevard North, Birmingham, AL 35203, (collectively known as "Lessees") are the current owners of the Lease.

WHEREAS, it is the desire of Lessee and Ann Landrith Holdings, L.L.C., whose address is PO Box 3363, Tulsa, OK 74101, as an heir, successor, and/or assign of the original Lessor (hereinafter referred to as the "Lessor"), to amend the Lease as set forth below.

NOW THEREFORE, for adequate consideration, the receipt and sufficiency of which is hereby acknowledged and confessed, the undersigned do hereby delete Paragraph No. 14 of the lease in its entirety and substitute therefor the following, to wit:

14. Pooling. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well shall not exceed 43 acres and for a gas well shall not exceed 647 acres, provided that a larger unit may be formed for an oil well or gas well or horizontal oil or gas well to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental or regulatory authority having jurisdiction to do so. The term "horizontal oil or gas well" means an oil or gas well with a directional well bore with one or more laterals that extend a minimum of one hundred (100) feet horizontally in the target zone. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which

the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental or regulatory authority having jurisdiction, or to conform to any productive acreage determination made by such governmental or regulatory authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of the revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

Except as expressly amended herein, the Lease is and shall remain in full force and effect in accordance with and subject to all other terms and provisions as originally stated therein, and the undersigned do hereby ratify, adopt, confirm and revive the Lease, as hereby amended, as a valid and subsisting Lease, and the Lessor does hereby lease, grant, demise and let unto Lessor, the land described above, subject to and in accordance with all of the terms and provision of said Lease as hereby amended.

This agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, legal representatives, successors and assigns.

This agreement may be executed in multiple counterparts, each of which, when so executed shall be deemed an original, and all such counterparts, when taken together, shall constitute one and the same instrument. For recordation purposes, the separate signature pages and acknowledgements may be affixed to the body of one original instrument without the necessity of recording each separate counterpart in its entirety.

EXECUTED on the respective dates of the acknowledgements below, but effective for all purposes as of January 12, 1954.

LESSOR

ANN LANDRITH HOLDINGS, L.L.C.

By: _____

Title: _____

Printed Name: _____

EXHIBIT 4

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:

APPLICATION OF COG OPERATING, LLC FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 15679

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 11, 2017

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, May 11, 2017, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

Q. Are there any depth severances in the Wolfcamp in this area?

A. No depth severances.

Q. What is Exhibit 2?

A. Exhibit 2 shows the spacing unit and the interest -- side tract interest for the unit. The owners that are highlighted in yellow are the uncommitted working interest owners, Judkins Walton is an unleased mineral interest owner.

And on the next page, the uncommitted royalty interest owners with insufficient pooling language are also listed.

Q. And you seek to pool working interest owners and unleased mineral interest owners and royalty owners without sufficient pooling language in their instruments; is that correct?

A. That is correct.

Q. Is Exhibit 3 a letter you sent to the royalty interest owners without sufficient pooling language?

A. Yes. We sent that letter for them to sign the communitization agreement.

Q. Did any of them respond to this?

A. No.

Q. Is Exhibit 4 a copy of the letter that you sent to the unleased mineral interest owner?

A. Yes. It was an offer to lease.
Q. Did you also send him a well-proposal letter?
A. Yes, and a joint operating agreement and a communitization agreement.
Q. Did you have any response from him?
A. I've spoken to him on the phone, but no response as to him wanting to do anything.
Q. Is Exhibit -- well, I'll take a step back. When did you send the well-proposal letter to all the working interest owners?
A. March 7th is when we originally sent out the well proposal -- the revised well proposal for the Purple Sage pool.
Q. Okay. And did you subsequently become aware of some change in title?
A. Yes.
Q. And so did you send a follow-up letter to all working interest owners that's included in Exhibit 5?
A. Yes.
Q. And did that letter include an AFE?
A. Yes, it did.
Q. Are the costs reflected on this AFE consistent with what Concho has incurred for drilling similar horizontal wells in the area?
A. Yes.

Q. What additional efforts did you undertake to reach an agreement with the parties that you're seeking to pool today?

A. For Tap Rock Resources and Chevron, we are currently in negotiations on the documents and hoping to get those finalized soon.

For Judkins Walton, we sent him lease offer, a well proposal JOA and communitization agreement.

And I've had correspondence with both Tap Rock and Chevron through email and phone conversations, and I've spoken to the unleased mineral interest owner on the phone.

For the royalty interest owners with insufficient pooling language, we sent them the communitization agreement to sign.

Q. Have you estimated overhead and administrative costs for drilling and producing this well?

A. Yes, 7,000 a month for drilling and 700 a month for producing.

Q. Are those costs in line with what COG and other operators in the area are charging for similar wells?

A. Yes, they are.

Q. Do you request those costs be incorporated into the order resulting from this hearing?

EXHIBIT 5

CONCHO

COPY

April 13, 2017

Via Certified Mail Return Receipt Requested
WORKING INTEREST OWNERS AND MINERAL INTEREST OWNERS LISTED ON ATTACHED EXHIBIT "A"

Re Revised Communitization Agreement
Sidewinder Federal Com #4H
Lot 1 and NW/4 NW/4 Section 32 T26S R29E
and W/2 W/2 Section 29 T26S R29E
Eddy County, New Mexico

To Whom It May Concern

Enclosed please find a revised Communitization Agreement in regard to the above referenced well These revisions reflect updated lease activities for the area described above Please execute before a notary public where indicated and return to my attention in the enclosed envelope

Should you have any questions please do not hesitate to contact me at 432 818 2358

Sincerely,

COG Operating LLC

Brittany Hull
Land Coordinator – Northern Delaware Basin

Enc

Sugar Creek Resources, LLC
Exhibit 5

BEFORE THE OIL CONSERVATION COMMISSION
Santa Fe New Mexico
Exhibit No 3
Submitted by COG Operating LLC
Hearing Date May 11 2017

EXHIBIT "A"
WORKING INTEREST OWNERS AND MINERAL INTEREST OWNERS

Via Certified Mail Return Receipt Requested
No 91 7199 9991 7036 0800 4257
OXY USA Inc
Occidental Permian Limited Partnership
Attn Jeremy Murphrey
nlc 5 Greenway Plaza
Houston TX 77046

Via Certified Mail Return Receipt Requested
No 91 7199 9991 7036 0800 4240
Chevron USA, Inc
Attn Brandon South
6301 Deauville
Midland TX 79706

Via Certified Mail Return Receipt Requested
No 91 7199 9991 7036 0800 4356
Tap Rock Resources, LLC
Attn Clayton Sporich
602 Park Point Drive Suite 200
Golden, CO 80401

Via Certified Mail Return Receipt Requested
No 91 7199 9991 7036 0800 4233
nld **Ray Properties**
P O Box 37207
Houston TX 77237

Via Certified Mail Return Receipt Requested
No 91 7199 9991 7036 0800 4202
MBJW Limited Partnership
P O Box 187
Midland TX 79702

Via Certified Mail Return Receipt Requested
No 91 7199 9991 7036 0800 4196
James A Walton Oil and Gas, LP
P O Box 2514
Midland, TX 79702

Via Certified Mail Return Receipt Requested
No 91 7199 9991 7036 0800 4219
HRH Properties, Ltd
Attn James Bickman
P O Box 9432
Midland TX 79708

EXHIBIT 6

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF ANSCHUTZ OIL COMPANY, LLC FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, RIO ARRIBA COUNTY, NEW MEXICO. Case No. 15268

APPLICATION

Anschutz Oil Company, LLC applies for an order (i) approving a non-standard oil spacing and proration unit comprised of the W/2 of Section 14 and E/2 of Section 15, Township 25 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico, and (ii) pooling all interests in the Gavilan-Mancos Pool underlying the non-standard unit, and in support thereof, states:

1. Applicant is an interest owner in the W/2 of Section 14 and E/2 of Section 15, and has the right to drill a well thereon.

2. Applicant has drilled its Regina Com. 25-2-14-15 Well No. 1H to a depth sufficient to test the Mancos formation (Gavilan-Mancos Pool). The well was originally dedicated to a 960 acre non-standard unit comprised of the W/2 of Section 14 and all of Section 15 under Division Administrative Order NSP-1974 and Order No. R-13945. During drilling downhole conditions were encountered which required the wellbore to be shortened. As a result, applicant now seeks to dedicate the W/2 of Section 14 and E/2 of Section 15 to the well to form a non-standard 640 acre spacing and proration unit for any formations and/or pools developed on 640 acre spacing within that vertical extent. The well is a horizontal well drilled from a surface location in the NW/4NE/4 of Section 14, with a terminus in the NW/4NE/4 of Section 15. The beginning of the producing interval is 893.3 feet from the north line and 2291.4 feet from the west line of Section 14, with a terminus 859.6 feet from the north line and 1821 feet from the

east line of Section 15. The beginning of the producing interval is unorthodox under the special rules and regulations for the Gavilan-Mancos Pool. The unorthodox location was approved by Order No. R-13945.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the W/2 of Section 14 and E/2 of Section 15 for the purposes set forth herein.

4. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the W/2 of Section 14 and E/2 of Section 15, pursuant to NMSA 1978 §§70-2-17, 18.

5. The pooling of all mineral interests in the Gavilan-Mancos Pool underlying the W/2 of Section 14 and E/2 of Section 15 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

WHEREFORE, applicant requests that, after notice and hearing, the Division enter its order:

A. Approving a non-standard oil spacing and proration unit (project area) in the Mancos formation comprised of the W/2 of Section 14 and E/2 of Section 15;

B. Pooling all mineral interests in the Gavilan-Mancos Pool underlying the W/2 of Section 14 and E/2 of Section 15;

C. Designating Anschutz Exploration Corporation as operator of the well;

D. Considering the cost of drilling and completing the well, and allocating the cost among the well's working interest owners;

E. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and

F. Setting a 200% charge for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043
jamesbruc@aol.com

Attorney for Anschutz Oil Company, LLC

EXHIBIT 7

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:

ORIGINAL

APPLICATION OF ANSCHUTZ OIL COMPANY, LLC FOR A NONSTANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, RIO ARRIBA COUNTY, NEW MEXICO.

CASE NO. 15268

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 5, 2015

Santa Fe, New Mexico

RECEIVED OCD
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BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
MICHAEL McMILLAN, TECHNICAL EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, Michael McMillan, Technical Examiner, and Gabriel Wade, Legal Examiner, on Thursday, March 5, 2015, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

west half of 14 and all of 15 and the east half of 14 and all of 13. And that notice went out to all of those mineral owners apprising them of the fact that we had applied for a nonstandard location and proration units, spacing units.

Q. Now, with respect to -- I believe in the current well -- proposed well unit, what type of land is the east half of 15?

A. The east half of 15 is fee.

Q. (Indicating.)

A. East half?

Q. Is it federal land? I believe.

A. The east half of 14 would be federal and fee, and the east half of 15 would be fee.

Q. With respect to the east half of 14 -- again, it's a very old fee lease covering the fee land in the west half of 14 -- in the west half of 14?

A. Yes. That is correct.

Q. And just to confirm -- I don't have a copy of the lease, but it either contained a pooling clause or allowed pooling of 40 acres for oil wells?

A. That is correct.

Q. What did Hunt and then Anschutz do to attempt to cure that problem?

A. We sent out amendments to the old leases

allowing us to amend the pooling to the current spacing that the OCD would approve.

Q. Even if it was in excess of 640 acres?

A. That's correct.

Q. Looking at Exhibit 6, what does that reflect?

A. This reflects a list of the mineral and royalties owners that we contacted or attempted to contact. This is a 1940 lease, and a lot of them were -- we were not able to contact. But we did an extensive title search in the county records and the BLM records. We did an Internet search, as well as a LexisNexis search to try to find these folks. The majority of them we were able to contact, and they have assigned -- have executed amendments. And we have those in our -- in our possession.

Q. And that's what the third column was? Where it says "Received to be recorded," those are people who signed amendments -- pooling amendments to their leases?

A. That's correct.

Q. And I noticed there are a lot of unknown -- or "address unknown" people. Do you believe you made a good-faith effort to locate all of the fee mineral owners in the west half of Section 14?

A. We do. We also contacted operators of wells in the area that had some of the same ownership to help us

EXHIBIT 8

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:

APPLICATION OF ANSCHUTZ OIL COMPANY, LLC FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, RIO ARRIBA COUNTY, NEW MEXICO

CASE NO. 15268
ORDER NO. R-13945-A

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 5, 2015, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 23rd day of March, 2015, 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 of the subject matter.

(2) Anschutz Oil Company, LLC ("Applicant"), requests a non-standard oil spacing and proration unit (the "Unit") for oil production from the Mancos formation, Gavilan-Mancos Pool (Pool Code 27194) consisting of the W/2 of Section 14 and the E/2 of Section 15, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

(3) In addition, Applicant requests to compulsory pool the uncommitted royalty owners within this Unit.

(4) The Unit will be dedicated to the Regina Com 25 2 14 15 Well No. 1H (the "subject well"; API No. 30-039-31203) which has been horizontally drilled from (i) a surface location in Unit letter B of Section 14, 1070 feet from the North line and 2383 feet from the East line, (ii) landing in Unit letter C of Section 14, 893 feet from the North

Sugar Creek Resources, LLC
Exhibit 8

line and 2291 feet from the West line, and (iii) terminating in Unit letter B of Section 15, 860 feet from the North line and 1821 feet from the East line.

(5) The Mancos formation within Sections No. 14 and 15 is contained within the Gavilan-Mancos Pool (Pool Code 27194). This pool has special pool rules promulgated by Order No. R-7407 (as amended). Among other things, such rules allow for 640-acre oil spacing and proration units and well locations no closer than 790 feet from the outer boundary of the spacing unit.

(6) The landing point of the subject well will be non-standard if perforated at that point. Applicant requests approval of the non-standard location of the landing point of this subject well. This non-standard location was previously approved in Division Order No. R-13945 issued in January of 2015.

(7) All other provisions of Division Order No. R-13945 should no longer be in force or effect.

(8) Applicant appeared at the hearing and presented testimony from experts in land and engineering which indicates the following:

(a) The subject well in this case was also the subject of Case Nos. 15234 and 15246 and was the "proposed well" within compulsory pooling Order No. R-13945 issued in January of 2015. That order compulsory-pooled all uncommitted interests in an existing 960-acre non-standard spacing unit approved by Administrative Order NSP-1974 consisting of the W/2 of Section 14 and all of Section 15. The well was proposed to be drilled one and one half miles horizontally, beginning in Unit letter B of Section 14 and terminating in Unit letter D of Section 15.

(b) Since that time, the subject well has been drilled, logged, and cased, but not perforated or completed. The well was spud in Unit Letter C of Section 14, but was terminated in Unit letter B of Section 15 due to drilling and formation difficulties. Applicant now is proposing to dissolve the 960-acre Unit and form another non-standard oil spacing and proration unit of 640 acres consisting of the W/2 of Section 14 and the E/2 of Section 15.

(c) At this stage of the drilling and completion process, Applicant does not know whether standup or laydown horizontally drilled wells are optimum in this area.

(d) The W/2 of Section 14 and the E/2 of Section 15 are both expected to contribute to the production from this well.

(e) Applicant requested the hearing record in Case No. 15234 and Case No. 15246 be incorporated into this case and requests a new Division Order

replacing Order No. R-13945 in all aspects except permission for the non-standard well location.

(f) From testimony in Case No. 15234, Anschutz Oil Company, LLC has obtained interest in this spacing unit and this well through agreement with Hunt Oil Company and asked that Anschutz Exploration Corporation be named as operator of the Unit and of this well. Anschutz Exploration Corporation has a federal bond and has obtained an OGRID No. 146909 allowing it to operate within New Mexico.

(g) The Unit consists of only federal and Fee lands. There is no unleased acreage and all working interests have decided to participate in this well or have entered into agreements with Applicant to farmout or assign their interests in the well and Unit; however, some fee leases without pooling clauses have not agreed to sign or modify the lease to add this pooling clause. And some lessors on leases without pooling clauses could not be located. All federal lands have joined in the subject well.

(h) Applicant has conducted a diligent search for all interests and has made a good faith effort to obtain joinder in this well. Applicant has provided notice of this case and of this hearing to all affected parties both for purposes of the non-standard spacing unit and for compulsory pooling.

(9) No other party appeared at either hearing, or otherwise opposed the granting of this application.

(10) The non-standard Unit created in Administrative Order NSP-1974 should be rescinded and Applicant's request to form the non-standard oil spacing and proration unit as described above should be approved.

(11) Applicant's request for a non-standard location for the landing point of the subject well as previously permitted under Division Order No. R-13945 should be approved.

(12) 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.

(13) Applicant is owner of an oil and gas working interest within the Unit. Applicant has the right to drill and has drilled the subject well to a common source of supply within the Unit at the above detailed location.

(14) There are royalty interest owners in the Unit that have not agreed to pool their interests as well as royalty interest owners that have not been located. All lands within this Unit are under lease and all working interests have agreed to participate in this well.

(15) This application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(16) Anschutz Exploration Corporation should be designated the operator of the proposed well and of the Unit.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Anschutz Oil Company, LLC ("Applicant"), a 640-acre non-standard oil spacing and proration unit (the "Unit") for oil production from the Mancos formation, Gavilan-Mancos Pool (Pool Code 27194) consisting of the W/2 of Section 14 and the E/2 of Section 15, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, is hereby approved.

(2) Administrative Order NSP-1974 is rescinded and the non-standard Unit created by said order is dissolved.

(3) All royalty interests within this Unit which have not either signed the Unit agreement or agreed to a lease with a pooling clause are hereby pooled.

(4) The Unit shall be dedicated to Applicant's **Regina Com 25 2 14 15 Well No. 1H** (API No. 30-039-31203), located at (i) a surface location in Unit letter B of Section 14, 1070 feet from the North line and 2383 feet from the East line, (ii) landing in Unit letter C of Section 14, 893 feet from the North line and 2291 feet from the West line, and (iii) terminating in Unit letter B of Section 15, 860 feet from the North line and 1821 feet from the East line.

(5) The non-standard location of the landing point within this well, previously approved by Division Order No. R-13945, remains as an approved location for future perforating and completion.

(6) Division Order No. R-13945 is no longer in force or effect and is hereby replaced by this order.

(7) Upon final plugging and abandonment of this well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled unit shall terminate, unless this Order has been amended to authorize further operations.

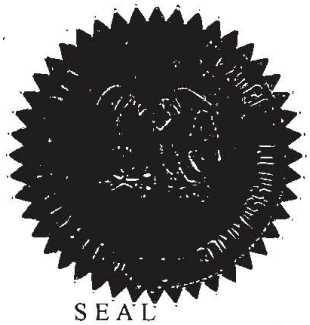
(8) Anschutz Exploration Corporation (OGRID No. 146909) is hereby designated the operator of the well and the Unit.

(9) 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.

(10) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this Order.

(11) 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

David R. Catanach

DAVID R. CATANACH
Director