

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary

Brett F. Woods, Ph.D.
Deputy Cabinet Secretary

Jami Bailey, Division Director
Oil Conservation Division



June 11, 2014

Legend Natural Gas III, Limited Partnership
Attn: Jennifer Elrod

ADMINISTRATIVE NON-STANDARD LOCATION AND NON-STANDARD PRORATION
UNIT ORDER

Administrative Order NSL-7107
Administrative Application Reference No. pMAM1413438212

Administrative Order NSP-1992
Administrative Application Reference No. pMAM1413438938

Legend Natural Gas III, Limited Partnership
OGRID 258894
Full choke Federal Com Well No. 6H
API No. 30-015-pending

Non-Standard Location

Proposed Location:

	<u>Footages</u>	<u>Unit/Lot</u>	<u>Sec.</u>	<u>Twsp</u>	<u>Range</u>	<u>County</u>
Surface	290 FNL & 1060 FWL	4	5	25S	28E	Eddy
Penetration Point	339 FSL & 2608.1 FWL	N	32	24S	28E	Eddy
Terminus	330 FNL & 2620 FWL	C	32	24S	28E	Eddy

Proposed Project Area:

<u>Description</u>	<u>Acres</u>	<u>Pool</u>	<u>Pool Code</u>
W/2 E/2 and E/2 W/2 Section 32	320	Willow Lake; Bone Spring	64450

Reference is made to your application received on May 13, 2014.

You have requested to drill this horizontal well at an unorthodox oil well location described above in the referenced pool or formation. This location is governed by statewide Rule 19.15.15.9.A NMAC, which provides for 40-acre units, with wells located at least 330 feet

from a unit outer boundary, and Rule 19.15.16.14.B(2) NMAC concerning directional wells in designated project areas. This surface location is outside the project area, and is permitted by Rule 19.15.16.15.B (4) NMAC which allows for surface locations outside project area. This location is unorthodox because portions of the proposed completed interval are closer to outside boundaries of the proposed project area than any location that would be a standard location under the applicable pool rules.

Your application has been duly filed under the provisions of Division Rules 19.15.15.13 NMAC and 19.15.4.12.A(2) NMAC.

It is our understanding that you are seeking this location to recover additional oil and gas reserves underlying the middle two quarter sections of Section 32 that may otherwise not be recovered by other proposed wells, thereby preventing waste and will not violate correlative rights.

It is also understood that you have given due notice of this application to all operators or owners who are "affected persons," as defined in Rule 19.15.4.12 (A) 2 NMAC, in all adjoining units towards which the proposed location encroaches.

Non-Standard Proration Unit

You have also requested approval of one or more non-standard proration to be included in your proposed project area, as follows:

Units Comprising this Project Area

<u>Unit</u>	<u>Acres</u>	<u>Pool</u>	<u>Code</u>
W/2 E/2 and E/2 W/2 Section 32	320	Willow Lake; Bone Spring	64450

You have requested an exception pursuant to Rule 19.15.15.9.A NMAC, to approve a non-standard oil spacing and proration unit comprising 320 acres, consisting of the entire area described above as the Subject Units. Your proposed non-standard proration unit consists of 320-acres.

We understand that you are seeking this exception in order to allow you to create a 320-acre proration unit, comprised of the W/2 E/2 and E/2 W/2 of Section 32, Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico. Due to leasehold ownership not being common in the E/2 and W/2 of the Section, by forming the 320-acre unit it is only fair to the mineral/royalty owners in the sense that the mineral owner in the E/2 W/2 and W/2 E/2 will share royalties from the production of this well.

It is understood that you have given due notice of this application to all operators or owners to whom notice is required by Rule 19.15.4.12.A(3) NMAC.

Pursuant to the authority conferred by Division Rule 19.15.15.11.B(2), the above-described non-standard proration unit is hereby approved.

June 11, 2014

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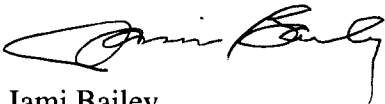
General provisions

The above approvals are subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 19.15.5.9 NMAC.

This approval is subject to like approval from the United States Bureau of Land Management (BLM), and New Mexico State Land Office (NMSLO).

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 June 11, 2014

A handwritten signature in black ink, appearing to read "Jami Bailey", is written over a horizontal line.

Jami Bailey
Director

JB/mam

cc: New Mexico Oil Conservation Division – Artesia
United States Bureau of Land Management - Carlsbad
New Mexico State Land Office – Oil, Gas, and Minerals