

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(432) 682-3715
FAX (432) 685-4170

November 21, 2013

RECEIVED OGD

2013 NOV 26 P 2:4~

Brooks

Certified Mail

Ard Oil, Ltd.
222 W. 4th Street, PH #5
Port Worth, Texas 76102

Re: Notification of Election under Compulsory Pooling Order
Tamano "11" NC Fed COM #1-H Well
W/2E/2 Section 11, T-18-S, R-31-E
Eddy County, New Mexico
NMOCD Case No. 15052
Order R-13771

Dear Mrs. Ard:

In accordance with the terms of the New Mexico Oil Conservation Division Order R-13771, copy enclosed, you are hereby notified of your right to elect to participate in the above referenced well pursuant to this order. You own an undivided 3.54197% contractual interest in the W/2SW/4 of Section 11, T18S, R31E, Eddy County, New Mexico. As a result you would have a 1.77083% working interest in the participating area for the proposed well.

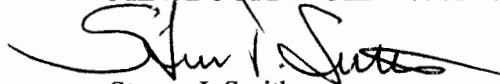
Should you desire to participate in this well under the pooling order and avoid the payment of the 200% risk factor out of your share of production, then within thirty days of the date you receive this letter, Mewbourne Oil Company (Mewbourne) must receive a cashier's check for \$77,261.31 being your 1.77083% share of the completed well costs for the subject well as reflected in the attached well AFE.

If you elect not to participate then you need do nothing further. In that event, Mewbourne will pay your share of the costs of the well and will recover your share out of production plus an additional 200%.

Feel free to contact me at (432) 682-3715 or via email at ssmith@mewbourne.com if you have any questions.

Sincerely,

MEWBOURNE OIL COMPANY



Steven J. Smith
Senior Landman

Enclosures: Copy of Order R-13771
AFE for subject well

XC: Director/NMOCD-Santa Fe

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 15052
ORDER NO. R-13771**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR A NON-STANDARD
OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 17, 2013, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 15th day of November, 2013, 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) Mewbourne Oil Company ("Applicant"), seeks approval of a non-standard 160-acre oil spacing and proration unit and project area ("the Unit") in the Bone Spring formation [Tamano-Bone Spring Pool (58040)], consisting of the E/2 of the W/2 (Units C, F, K and N) of Section 11, Township 18 South, Range 31 East, NMPM, in Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit in the Bone Spring formation.

(3) The Unit is to be dedicated to Applicant's Tamano 11 NC Federal Com. Well No. 1H (API No. 30-015-41350) ("the proposed well"), a horizontal well to be drilled from a surface location 150 feet from the South line and 2310 feet from the West line (Unit N) of Section 11. The well will penetrate the Bone Spring formation at a standard oil well location in Unit N of Section 11 and continue horizontally in the Bone Spring to a standard terminus, or bottomhole location, 330 feet from the North line and 2250 feet from the West line (Unit C) of Section 11. The completed interval of the

proposed well will be entirely within the producing area, and accordingly the location will be orthodox.

(4) Spacing in the Tamano-Bone Spring Pool is governed by statewide Rule 19.15.15.9.A NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The Unit consists of four adjacent quarter-quarter sections.

(5) Applicant appeared at the hearing through counsel and presented geologic evidence by affidavit to the effect that:

- (a) this area is suitable for development by horizontal drilling;
- (b) although parts of this area have been successfully drilled with east-west horizontal wells, Applicant expects better results with this north-south horizontal well; and
- (c) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring formation, so that formation of the Unit as requested will not impair correlative rights.

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

The Division concludes that:

(7) Approval of the proposed non-standard unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

(8) 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.

(9) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(10) There are interest owners in the Unit that have not agreed to pool their interests.

(11) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(12) Mewbourne Oil Company should be designated the operator of the proposed well and of the Unit.

(13) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(14) Although applicant requested overhead rates of \$8,000 per month while drilling and \$800 per month while producing, Applicant presented no specific evidence that these rates were reasonable and customary for wells of this depth in this area.

(15) Accordingly, the Division concludes that reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month while drilling and \$750 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*"

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 160-acre oil spacing and proration unit (the Unit) is hereby established in the Bone Spring formation [Tamano-Bone Spring Pool (58040)], consisting of the E/2 of the W/2 (Units C, F, K and N) of Section 11, Township 18 South, Range 31 East, NMPM, in Eddy County, New Mexico.

(2) Pursuant to the application of Mewbourne Oil Company, all uncommitted interests, whatever they may be, in the oil and gas in the Bone Spring formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Tamano 11 NC Federal Com. Well No. 1H (API No. 30-015-41350) ("the proposed well"), a horizontal well to be drilled from a surface location 150 feet from the South line and 2310 feet from the West line (Unit N) of Section 11. The well will penetrate the Bone Spring formation at a standard oil well location in Unit N of Section 11 and continue horizontally in the Bone Spring to a standard terminus, or bottomhole location, 330 feet from the North line and 2250 feet from the West line (Unit C) of Section 11. The completed interval of the proposed well will be entirely within the producing area, and accordingly the location will be orthodox.

(4) The operator of the Unit shall commence drilling the proposed well on or before November 15, 2014, and shall thereafter continue drilling the well with due diligence to test the Bone Spring formation.

(5) In the event the operator does not commence drilling the proposed well on or before November 15, 2014, Ordering Paragraphs (1) and (2) shall be of no effect,

unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed in all of the quarter-quarter sections included in the proposed unit within 120 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which the well is completed.

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

(8) Mewbourne Oil Company (OGRID 14744) is hereby designated the operator of the well and of the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(14) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,500 per month while drilling and \$750 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(16) Except as provided in Paragraphs (13) and (15) above, all proceeds from production from the proposed well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act, (NMSA 1978 Sections 7-8A-1 through 7-8A-7-8A-28, as amended).

(17) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

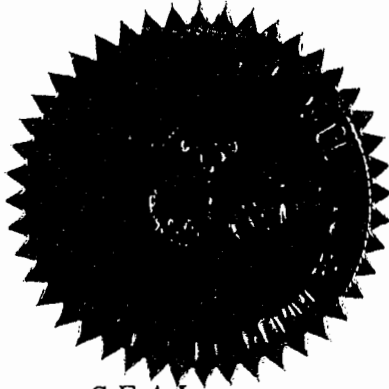
(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(19) 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.

(20) This order is subject to the approval of compulsory pooling by the United States Bureau of Land Management (BLM).

(21) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY
Director

MEWBOURNE OIL COMPANY
AUTHORIZATION FOR EXPENDITURE

Well Name: Tamano 11 NC Federal #1H		Prospect: Tamano	
Location: SL: 150' FSL & 2310' FWL BHL: 330' FNL & 2310' FWL		County: Lea ST: NM	
Sec: 11	BLK: 	TWP: 18S	RNG: 31E Prop. TYP: 8569' TMD: 13165'

INTANGIBLE COSTS 0180	CODE	TCP	CODE	CC
Permits and Surveys	0180-0100	\$10,000	0180-0200	
Location: Roads, Pits & Site Preparation	0180-0105	\$75,000	0180-0205	\$5,000
Location: Site Restoration, Excavation & Other	0180-0106	\$155,000	0180-0206	
Day Work, Footage, Turnkey Drilling 21 days drlg/3 day comp @ \$16,500/day + GRT	0180-0110	\$370,000	0180-0210	\$50,000
Fuel	0180-0114	\$80,000		
Mud	0180-0120	\$60,000		
Chemicals and Additives	0180-0121		0180-0221	
Cementing	0180-0125	\$95,000	0180-0225	
Logging, Wireline & Coring Services	0180-0130	\$20,000	0180-0230	
Casing, Tubing & Snubbing Services	0180-0134	\$37,000	0180-0234	\$14,000
Mud Logging	0180-0137	\$16,000		
Stimulation			0180-0241	\$900,000
Stimulation Rentals & Other			0180-0242	\$250,000
Water & Other	0180-0145	\$54,000		
Bits	0180-0148	\$60,000	0180-0248	
Inspection & Repair Services	0180-0150	\$10,000	0180-0250	\$2,000
Misc. Air & Pumping Services	0180-0154		0180-0254	\$6,000
Testing	0180-0158	\$15,000	0180-0258	\$21,500
Completion / Workover Rig			0180-0260	\$20,000
Rig Mobilization	0180-0164	\$167,000		
Transportation	0180-0165	\$20,000	0180-0265	\$10,000
Welding and Construction	0180-0168	\$2,200	0180-0268	\$7,500
Engineering & Contract Supervision	0180-0170	\$22,000	0180-0270	\$4,500
Directional Services	0180-0175	\$140,000		
Equipment Rental	0180-0180	\$150,000	0180-0280	\$5,000
Well / Lease Legal	0180-0184	\$8,000	0180-0284	\$1,000
Well / Lease Insurance	0180-0185	\$4,300	0180-0285	\$1,000
Intangible Supplies	0180-0188	\$10,000	0180-0288	\$1,000
Damages	0180-0190		0180-0290	
Pipeline, Road, Electrical ROW & Easements	0180-0192		0180-0292	
Pipeline Interconnect			0180-0293	
Company Supervision	0180-0195	\$65,000	0180-0295	\$30,000
Overhead Fixed Rate	0180-0196	\$8,000	0180-0296	\$7,000
Well Abandonment	0180-0198		0180-0298	
Contingencies 10% (TCP) 5% (CC)	0180-0199	\$165,400	0180-0299	\$66,800
TOTAL		\$1,818,900		\$1,402,300

TANGIBLE COSTS 0181				
Casing (19.1" - 30")	0181-0793			
Casing (10.1" - 19.0") 750' 13 3/8" 48# K55 STC @ \$36.00/ft w/GRT	0181-0794	\$27,000		
Casing (8.1" - 10.0") 2200' 9 5/8" 36# K55 LTC @ \$25.50/ft w/GRT	0181-0795	\$56,100		
Casing (6.1" - 8.0") 8900' 7" 26# P110 BTC/LTC @ \$26.70/ft w/GRT	0181-0796	\$237,700		
Casing (4.1" - 6.0") 4400' 4 1/2" 13.5# P110 LTC @ \$14.20/ft w/GRT			0181-0797	\$62,500
Tubing (2" - 4") 8500' 2 7/8" 6.5# L80 EUE 8rd \$ 7.05/ft w/GRT			0181-0798	\$60,000
Drilling Head	0181-0860	\$16,000		
Tubing Head & Upper Section			0181-0870	\$13,000
Downhole Directional Equipment			0181-0871	\$230,000
Sucker Rods			0181-0875	\$50,000
Packer Pump & Subsurface Equipment			0181-0880	\$25,000
Artificial Lift Systems			0181-0884	\$14,000
Pumping Unit			0181-0885	\$115,000
Surface Pumps & Prime Movers			0181-0886	
Tanks - Steel 3 500 bbl ST			0181-0890	\$45,000
Tanks - Others 2 500 bbl WT			0181-0891	\$26,000
Separation & Gas Treating Equipment			0181-0895	\$25,000
Heater Treaters, Line Heaters			0181-0897	\$22,000
Metering Equipment			0181-0898	\$7,500
Line Pipe - Gas Gathering and Transportation			0181-0900	
Misc. Fittings, Valves, Line Pipe and Accessories			0181-0906	\$45,000
Cathodic Protection			0181-0908	
Electrical Installations			0181-0909	\$25,000
Production Equipment Installation			0181-0910	\$40,000
Pipeline Construction			0181-0920	
TOTAL		\$336,800		\$805,000
SUBTOTAL		\$2,155,700		\$2,207,300
TOTAL WELL COST		\$4,363,000		

Prepared by: S. Puryear Date: 4/22/2013

Co. Approval: m. whitte Date: 4/22/2013

Joint Owner Interest: 1.77083000% Amount: \$77,261.31

Joint Owner Name: Ard Oil, Ltd.

Joint Owner Approval: _____

Operator has secured Operator's Extra Expense Insurance covering costs of well control, clean up and redrilling as estimated in Line Item 0180-0185. Non-Operator may elect NOT to be covered by this Operator's Extra Expense Insurance only by signing below. **The undersigned elects NOT to be covered by Operator's Extra Expense Insurance for their well.**

Joint Owner Name: Ard Oil, Ltd.

Signature: _____

Form Rev: 4/2012