STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
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-20966, EDDY COUNTY, NEW MEXICO.

CASE NO. 21213
ORDER NO. R-20996-A

RESPONSE TO MOTION TO VACATE OR STAY ORDER NO. R-20966-A

Marathon Oil Permian LLC ("Marathon") hereby responds to the Motion to Vacate or Stay Order NO. R-20966-A filed by Sugar Creek Resources, LLC's ("Sugar Creek"). Sugar Creek's Motion must be denied.

BACKGROUND

1. In 2018, Marathon began planning the development of the following wells and started to engage in operations including obtaining permits and pooling orders:

- Crossbow 23 27 8 WXY 2H
- Crossbow 23 27 8 WXY 4H
- Crossbow Federal 23 27 8 WXY 9H
- Crossbow Federal 23 27 8 WA 10H
- Crossbow Federal 23 27 8 WXY 8H
- Crossbow Federal 23 27 8 WXY 14H
- Crossbow Federal 23 27 8 WXY 15H
- Crossbow Federal 23 27 8 WXY 16H

2. On July 12, 2018 and again on August 3, 2018, Marathon sent well proposal letters to uncommitted working interest owners. It also sent a proposed Joint Operating Agreement to working interest owners on January 8, 2019. It contacted owners who had not signed the proposed Joint Operating Agreement. *See* Case 16381, Ex. A-5.

3. Marathon filed a compulsory pooling application in Case 16381 on August 7, 2018, seeking to create a 1280-acre, more or less, spacing unit covering Sections 7 and 8, Township 23 South, Range 27 East, NMPM, Eddy County, New Mexico (the "Unit"); and, pooling all mineral interests in the Wolfcamp

formation. Case 16381 was continued until the September 19, 2019 docket, while Marathon entered into negotiations with interested parties. *See* Case File for Case 16381, September 27, 2018 Continuance Request, October 23, 2018 Motion, July 18, 2019 Motion, August 15, 2019 Motion.

4. At the hearing held on September 19, 2019 in Case 16381, Marathon presented written evidence of its good faith negotiations with interest owners and that it had sent well election letters and Authorities for Expenditures to such owners. Case 16381, Ex. A. Undisputed evidence presented at hearing further showed that Marathon owns approximately 88.46% of the working interest in the Unit, and that according to Marathon's record title search, there were no unleased mineral interests. Case 16381, Ex. A-4. No parties opposed Marathon's application at hearing.

5. On January 9, 2020, the Division granted Marathon's application in Case 16381 and entered Order R-20996. On March 3, 2020, Marathon filed an application in Case 21213 seeking to re-open Order R-20966 for the limited purpose of adding additional pooled parties within the Unit. The hearing was held on April 30, 2020. No-one, other than Marathon, appeared on the record before Case 21213 was taken under advisement by the Division. On May 7, 2020, the Division entered Order R-20996-A, granting Marathon's application in Case 21213.

6. The additional parties that Marathon sought to pool in Case 21213 own royalty interests. *See* Case 21213, B-2. These parties were notified and pooled because NMAC 19.15.4.12A(1)(a) states:

> **(1) Compulsory pooling and statutory unitization.**
> **(a)** The applicant shall give notice to each owner of an interest **in the mineral estate** of any portion of the lands the applicant proposes to be pooled or unitized **whose interest is evidenced by a written conveyance document either of record or known to the applicant at the time the applicant filed the application and whose interest has not been voluntarily committed to the area proposed to be pooled or unitized (other than a royalty interest subject to a pooling or unitization clause).** An applicant seeking compulsory pooling of a standard horizontal spacing unit need not give notice to affected persons in adjoining spacing units or tracts unless the division so directs.

(Emphasis added).

7. Royalty interest owners were notified and pooled in Case 21213 after Marathon discovered ambiguities in some lease pooling clauses. Marathon sent notice of Case 21213 to all royalty interest owners in the Unit.

8. Marathon's Exhibits in Case 21213 show that Ms. Campos, Mr. Robbins and Ms. Aldemir own royalty interests in the Unit. *See* Case 21213, Exhibit 2. This is because these three individuals entered into the following lease agreements in 2005, in which Marathon is a lessee of record as a successor in interest to Madison M. Hinkle:

Lessor(s):	Christine Campos, a married woman dealing in her sole and separate property
Lessee:	Madison M. Hinkle
Dated:	August 5, 2005
Recorded:	Book 610, Page 887
Description:	N/2 NE/4, SE/4 NE/4, NE/4 SE/4 and S/2 SE/4 of Section 8-23S-27E, Eddy County, NM
Net Acres:	Covering approximately 26.67 net acres

Lessor(s):	Ronald C. Robbins, a married man dealing in his sole and separate property
Lessee:	Madison M. Hinkle
Dated:	August 26, 2005
Recorded:	Book 610, Page 890
Description:	N/2 NE/4, SE/4 NE/4, NE4 SE/4 and S/2 SE/4 of Section 8-23S-27E, Eddy County, NM
Net Acres:	Covering approximately 26.67 net acres

Lessor(s):	Stephanie R. Aldemir, a married woman dealing in her sole and separate property
Lessee:	Madison M. Hinkle
Dated:	August 26, 2005
Recorded:	Book 610, Page 892
Description:	N/2 NE/4, SE/4 NE/4, NE/4 SE/4 and S/2 SE/4 of Section 8-23S-27E, Eddy County, NM
Net Acres:	Covering approximately 26.67 net acres

9. These lease agreements are filed of-record in Eddy County and it is Marathon's position that these leases are valid. *See* Exhibit 1. There is a well that Marathon operates, the Cypress #001 (API 30-015-35855), located on the leases that is in production.

10. Marathon's exhibits in Case 21213 prove that notice of its application was sent via certified mail, return receipt requested, and delivered to the following:

Christine Campos	Mailed 3/12/2020	Delivered 3/16/2020
Ronald Robbins	Mailed 3/12/2020	Delivered 3/16/2020
Stephanie Aldemir	Mailed 3/12/2020	Delivered 3/16/2020

See Case 21213, Ex. 3 at pgs. 17 and 19.

11. Despite receiving notice, none of these three individuals appeared at the hearing in Case 21213. Additionally, none of these individuals filed an application with the Commission requesting *de novo* review.

12. To Marathon's knowledge on the date of this filing, none of above listed lessors ("Lessors"), have filed anything with the Division indicating that above-listed leases expired. Likewise, none of the Lessors informed Marathon that they considered their interests to be unleased mineral interests.

13. According to Sugar Creek, at some point after Marathon filed its application in Case 21213, Sugar Creek subsequently obtained top leases for the exact same acreage in the above-listed leases. These top leases did not exist and were not filed of-record before Marathon filed its application in Case 21213 and Marathon did not learn of Sugar Creek's top leases *until after* the Order in Case 21213 was issued. Order R-20996-A was issued on May 7, 2020, and Sugar Creek first contacted Marathon on May 13, 2020. *See* Exhibit 2.

14. On June 5, 2020, Sugar Creek filed its Motion to Vacate or Stay Order No. R-20966-A issued in Case 21213. In that Motion, Sugar Creek appears to argue that Marathon was required to send Lessors a lease, AFE or Joint Operating Agreement ("JOA") prior to hearing and that Marathon deprived Lessors an opportunity to elect to participate in the proposed Crossbow wells. Sugar Creek argues that NMSA 1978, § 70-2-17(C) and NMAC 15.19.4.12 require compulsory pooling applicants to send royalty owners a lease, AFE, or JOA prior to filing an application to compulsory pool. This argument is incorrect and fails to comport with long-standing Division practice and precedent (calling into question the validity of nearly every pooling order that pools overriding royalties and other types of royalty or non-participating interests).

ARGUMENTS

I. THE DIVISION'S ORDER COMPLIES WITH ALL APPLICABLE STATUTORY AND REGULATORY REQUIREMENTS, AND COMPORTS WITH PAST AGENCY PRACTICE.

NMSA 1978, § 70-2-17(C) sets forth the statutory requirements for compulsory pooling. NMSA 1978, § 70-2-17(C) states, in relevant part, that:

> 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.

(Emphasis added).

The above statute requires the Division to pool interests when parties have not agreed to pool their interest, and where one owner (in this case Marathon) has the right to drill, and there is proof that the application will avoid the drilling of unnecessary wells, protect correlative rights, and prevent waste. Marathon made these showings in Cases 16381 and 21213.

Marathon has lease agreements in place with the Lessors. The actual Lessors have not contacted Marathon to dispute the validity of these leases and, despite having notice, they did not appear at the hearing. Nonetheless, the pooling language included in the leases is ambiguous and may be insufficient to voluntarily pool these royalty interests without an order issued by the Division. In similar cases, the Division has pooled the royalty interests and, in doing so, has not required applicants to send royalty owners a new lease agreement, JOA (which would not be executed by royalty interest owners), or an AFE (which show cost estimates for expenses that royalty owners are not required to be paid). *See e.g.,* Case 20211 (transcript attached); Orders R-14372 and R-13945-A (examples of orders pooling royalty owners),

attached as Exhibit 3. Indeed, in this instance, there is essentially no difference under the Division's Rules in the way various types of royalty interests are treated, including overrides. *See* 38 Am. Jur. 2d Gas and Oil § 187 ("An overriding royalty is similar to a royalty in that both are nonrisk and noncost bearing interests"). The Division has *routinely* pooled overriding royalty interests when insufficient pooling language exists in the assignment creating the overriding royalty. When doing so, the Division has not required applicants to send a lease, new assignment, JOA, or AFE (or any other document, other than notification of the hearing) to overriding royalty interest owners. This is because overrides (similar to other royalty and production payment interests) are non-cost bearing.

Sugar Creek fails to cite any past precedent in which the Division has required a new lease or assignment, JOA, or AFE to be provided to a non-cost bearing royalty interest owners. Yet, the Division has routinely entered orders pooling such interests.

Additionally, in Case 16381, Marathon documented its attempts to reach voluntary agreement with the cost bearing interest owners in the Unit. Marathon sent multiple well proposals to these interest owners and a proposed JOA. No-one appeared at the hearing, disputed this evidence or requested additional negotiations. The evidence presented in Case 16381 was incorporated into the record for Case 21213.

II. SUGAR CREEK DOES NOT OWN A MINERAL INTEREST IN THE UNIT, AND SUGAR CREEK'S ALLEGED INTERESTS DID NOT EXIST BEFORE MARATHON'S APPLICATION WAS FILED.

Sugar Creek is not a party to Marathon's leases with the Lessors. It is a stranger to those agreements. As a result, Sugar Creek lacks standing to attack the validity of Marathon's lease agreements with the Division, particularly when the Lessors did not enter an appearance in the Case.

Likewise, Sugar Creek is not a proper party to Case 21213. Rule 19.15.4.10.A(2), (3) NMAC governs how persons can become a "party" in a Division case. This rule states that parties consist of either a person to whom a statute or rule requires notice and who has entered an appearance in a case or a person who properly intervenes. Here, Sugar Creek never filed an entry of appearance in Case 21213 and it was not entitled to notice because it did not own an interest of record at time when Marathon's application was filed (nor does it own an interest now). The Division rules regarding affected persons entitled to notice

state that parties entitled to notice must have a recorded instrument in the county records at the time when the application is filed with the Division. *See, e.g.*, NMAC 19.15.2.7.A(8); NMAC 19.15.4.12.A(1). Here, both parties agree here that Sugar Creek did not record its top leases until after Marathon filed its application in Case 21213.

More importantly, it was impossible for Marathon to negotiate with Sugar Creek before it filed its application because Sugar Creek does not actually own a mineral interest in the Unit. Sugar Creek has instead obtained top lease, which was not recorded until long-after Marathon filed its application. Marathon did not become aware of this alleged interest until ***after*** the Order in Case 21213 was issued.

Sugar Creek has yet to establish that it even owns an interest within the Unit. Sugar Creek merely entered into top leases with the Lessors,[1] which state:

> 13. UNRELEASED OIL AND GAS LEASE(S): It is expressly acknowledged that certain oil and gas lease(s) currently burdening lessor's mineral interest in the above-described lands of record are unreleased of record, including, but not limited to the following oil and gas leases: (1) lease dated August 26, 2005, recorded in the Office of the County Clerk, Eddy County, New Mexico, in Book 610, at Page 892 (the "Existing Lease(s)"). To the extent the Existing Leases remain in effect as to all or any portion of the above-described lands, this lease covers Lessor's reversionary interest in the above-described lands and is hereby vested in interest, but is subordinate to the Existing Leases, and is to vest in possession upon (i) expiration, termination or release of said Existing Leases; or (ii) the date of this oil and gas lease, whichever is later.

See Exhibit 1. As a result, Sugar Creek's interests do not vest until "the expiration, termination or release" of the Existing Leases.

The term "top lease" is defined in Williams and Meyers as: "A lease granted by a landowner during the existence of a recorded mineral lease which is to become effective if and when the existing lease expires or is terminated." 8 HOWARD R. WILLIAMS & CHARLES J. MEYERS, OIL AND GAS LAW: MANUAL OF OIL AND GAS TERMS 1081 (LexisNexis Matthew Bender 2017).[2] "A top lease is a future

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[1] Some oil and gas lease documents are drafted to take effect upon the expiration of an existing lease covering the same land. These types of lease documents are commonly referred to as "top leases," while the existing leases are known as "bottom leases." *See* § 9:2 "Bottom" and "top" oil and gas lease interests distinguished, 1A Summers Oil and Gas § 9:2 (3d ed.).

[2] *See also Valentina Williston, LLC v. Gadeco, LLC*, 878 N.W.2d 397, 399 (N.D. 2016); *Concorde Res. Corp. v. Kepco Energy, Inc.*, 254 P.3d 734, 736 n. 4 (Okla.Civ.App.2011); *Peveto v. Starkey,* 645 S.W.2d 770, 772 (Tex. 1982) (recognizing similar definitions and concepts).

interest lease taken on a mineral estate already subject to a present lease. A bottom lease, on the other hand, is the valid existing lease that has been 'topped' by the top lease." Nelson Roach, *The Rule Against Perpetuities: The Validity of Oil and Gas Top Leases and Top Deeds in Texas After Peveto v. Starkey*, 35 Baylor L. Rev. 399, 399 (1983). "By their nature, top leases delay the new lessee's rights until the termination of an existing lease." 1 ERNEST E. SMITH & JACQUELINE LANG WEAVER, TEXAS LAW OF OIL AND GAS§ 4.5[F] (2d ed. 2015). Here, the Lessors have not appeared before the Division and they have not informed Marathon that their leases have expired. Sugar Creek has filed a petition requesting that the Fifth Judicial Court rule that Marathon's leases have expired. *See Sugar Creek Resources, LLC v. Marathon Oil Permian, LLC*, D-503-CV-2020-00407. No determination has been made by a court, finding that Marathon's leases have expired, and until such determination is made by a court, Sugar Creek does not have a mineral interest in the leases. Indeed, Rule 19.15.2.7.M(10) NMAC defines the term "mineral interest owner" to specifically mean a working interest owner, or an owner of a right to explore for and develop oil and gas that is not subject to an existing oil and gas lease; this language is not worded broadly to include options, or other types of contingent or reversionary interests.

III. SUGAR CREEK'S REQUEST TO STAY IS WIHTOUT MERIT, PROCEDURALLY DEFICIENT, AND SHOULD BE DENIED.

Sugar Creek alternatively moves the Division to stay the effect of Order R-20966-A until such time as title to the above-listed leases is determined. It further requests a stay of any election letters being sent for the drilling or wells. *See* Sugar Creek Motion, p. 6. Rule19.15.4.23.B NMAC allows the Division Director to stay the effect of Division orders only in limited circumstances. That rule states:

> **B. Stays of division or commission orders.** A party requesting a stay of a division or commission order shall file a motion with the commission clerk and serve copies of the motion upon the other parties who appeared in the case, as Subsection A of 19.15.4.10 NMAC provides. The party shall attach a proposed stay order to the motion. The director may grant a stay pursuant to a motion for stay or upon the director's own initiative, after according parties who have appeared in the case notice and an opportunity to respond, if the stay is necessary to prevent waste, protect correlative rights, protect public health or the environment or prevent gross negative consequences to an affected party. A director's order staying a commission order shall be effective only until the commission acts on the motion for stay.

Sugar Creek has not complied with these requirements. First, Sugar Creek's motion to stay was not filed with the Commission. Second, Sugar Creek has not attached a proposed stay order to its motion. Third, and most important, Sugar Creek has failed to show and cannot show that it will suffer immediate irreparable harm. Rule 19.15.4.23.B NMAC provides that a stay of a Division order may be granted **only if** "the stay is necessary to prevent waste, protect correlative rights, protect public health and the environment or prevent gross negative consequences to any ***affected party***." (Emphasis added). Sugar Creek is not an affected party. Sugar Creek instead summarily states in its Motion that Order R-20966-A impacts its correlative rights and that the order must be stayed to prevent gross negative consequences to Sugar Creek. This sort of summary statement is insufficient to warrant the issuance of a stay, which, similar to an injunction, must be based on a showing of immediate and irreparable harm.

Finally, assuming, *arguendo*, that Sugar Creek qualifies as an affected party under Rule 19.15.4.23.B (which is not established in the Motion), it is still unclear how Order R-20966-A negatively impacts Sugar Creek's correlative rights or creates gross negative consequences.[3] Sugar Creek is not challenging the underlying pooling order, Order R-20966; so, the acreage is still pooled and able to be developed. The Lessors, Ms. Campos, Mr. Robbins and Ms. Aldemir, did not appear at the hearing to object to Marathon's application; and the leases at issues only cover approximately 80-acres within a larger 1280-acre Unit. Furthermore, Sugar Creek does not appear to have obtained an OGRID number from the Division, and it has not proposed development plans to Marathon for minerals underlying the Unit. As a result, Sugar Creek's request for a stay fails to comply with the requirements in Rule 19.15.4.23.B and should be stricken from the record.

The above facts are significant because 1) the pooling order entered in Case 16381 has been in place since January 2020; 2) Case 21213 was taken under advisement; 3) an order was issued in Case 21213; and 4) no persons or entities subject to the order (or who have voluntarily committed interests to

[3] Affected persons and parties entitled to notice indicate that the document creating the alleged working interest must be filed of record at the time when the application is filed with the Division. *See, e.g.*, Rule 19.15.2.7.A(8) NMAC; Rule 19.15.4.12.A(1) NMAC. Both parties agree here that Sugar Creek was not entitled to notice of Marathon's application as an affected person because it did not record its alleged leases until after Marathon filed its application.

the Unit) have notice of Sugar Creek's request to stay development until judicial determination of Sugar Creek's interest. If granted, one entity (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. Sugar Creek's argument is even less availing because it has not demonstrated that it could suffer imminent or irreparable harm, or demonstrated that it has any sort of alternative development plans for the Unit. This does not comport with the showing required under Rule 19.15.4.23.B.

CONCLUSION

WHEREFORE, Marathon respectfully requests that the Division deny Sugar Creek's Motion.

Respectfully submitted,

By: */s/ Jennifer L. Bradfute*
Jennifer Bradfute
Marathon Oil Permian LLC
5555 San Felipe Street
Houston, TX 77056
Telephone: 505-264-8740
jbradfute@marathonoil.com

Deana M. Bennett
Modrall, Sperling, Roehl, Harris & Sisk, P.A.
Post Office Box 2168
Alb., NM 87103-2168
Phone: 505-848-1800
Email: dmb@modrall.com

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on counsel of record by electronic mail on June 30, 2020:

Stephen D. Ingram
P.O. Box 1216
Albuquerque, NM 87103
(505) 243-5400
singram@cilawnm.com
awilliamson@cilawnm.com

Respectfully submitted,

By: */s/ Jennifer L. Bradfute*
Jennifer Bradfute
Marathon Oil Permian LLC
5555 San Felipe Street
Houston, TX 77056
Telephone: 505-264-8740
jbradfute@marathonoil.com

Producer's 88 Producer's Revised 1994 New Mexico Form 3429, Paid-up

OIL & GAS LEASE

THIS AGREEMENT made this 26th day of August, 2005 between Stephanie R. Aldenitz, a married woman dealing in her sole and separate property, Mission Viejo, CA 92692, herein called Lessor (whether one or more) and Madison M. Hinkle, Post Office Box 2292, Roswell, NM 88202-2292, Lessee

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Eddy County, New Mexico, to-wit

TOWNSHIP 23 SOUTH, RANGE 27 EAST, N.M.P.M.
Section 8: N1/2NE1/4, SE1/4NE1/4, NE1/4SE1/4, S1/2SE1/4

Said land is estimated to comprise 240.00 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of Five (5) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil and other liquid hydrocarbons saved at the well, three sixteenths (3/16) of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of three sixteenths (3/16) of the gas used, provided that on gas sold on or off the premises, the royalties shall be three sixteenths (3/16) of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut-in, either before or after production therefrom, then on or before 90 days after said well is shut in and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to $1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such condition as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions of Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

Madison M. Hinkle
P O Box 2292
Roswell NM 88202-2292

EXHIBIT
tabbies
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8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors, and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder, and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written.

* Stephanie R. Aldemir

Stephanie R. Aldemir

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF CALIFORNIA

COUNTY OF Orange

This instrument was acknowledged before me on this * 2nd day of * Sept., 2005, Stephanie R. Aldemir, a married woman dealing in her sole and separate property

* See Attached Acknowledgment

* _____
Notary Public,

My Commission Expires: * Nov. 29, 2005

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

KIMBERLY FISHMAN
Commission # 1382370
Notary Public — California
Orange County
My Comm. Expires Nov 29, 2008

State of California

County of Orange

On 09/02/05 (Date) **before me,** Kimberly Fishman, Notary Public (Name and Title of Officer),

personally appeared ***Stephanie R. Aldemir*** (Name of Signer),

proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that she executed the same in her authorized capacity, and that by her signature on the instrument the person or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Kimberly Fishman

OPTIONAL

Description of Attached Document

Title or Type of Document: Oil And Gas Lease

Document Date: 00, 0000 #of Pages 2

Signer(s) Other Than Named Above:

RECEPTION NO: 0510834 STATE OF NEW MEXICO, COUNTY OF EDDY
RECORDED 09/08/2005 8:33 AM
BOOK 0610 PAGE 0892 Linda Nelson
JEAN BLENDEN, COUNTY CLERK

COUNTY CLERK SEAL EDDY COUNTY NEW MEXICO

Producer's 88-Producer's Revised 1994 New Mexico Form 342P, Paid-up

OIL & GAS LEASE

THIS AGREEMENT made this 8th day of August, 2005 between Christine Campos, a married woman dealing in her sole and separate property, 32722 Jonathan, Dana Point, CA 92629 herein called Lessor (whether one or more) and Madison M. Hinkle, Post Office Box 2292, Roswell, NM 88202-2292, Lessee

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Eddy County, New Mexico, to-wit:

TOWNSHIP 25 SOUTH, RANGE 27 EAST, N.M.P.M.
Section 8: N1/2NE1/4, SE1/4NE1/4, NE1/4SE1/4, S1/2SE1/4

Said land is estimated to comprise 240.00 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of Five (5) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, One Sixth (1/6) of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of One Sixth (1/6) of the gas used, provided that on gas sold on or off the premises, the royalties shall be One Sixth (1/6) of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut-in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to $1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such condition as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions of Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

Madison M. Hinkle
P O Box 2292
Roswell NM 88202-2292

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors, and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties to the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith, and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written.

x Christine Campos
Christine Campos

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF CALIFORNIA

COUNTY OF Orange

This instrument was acknowledged before me on this 15th day of August, 2005, by Christine Campos, a married woman dealing in her sole and separate property.

LISA GARDNER
Commission # 1391272
Notary Public - California
Orange County
My Comm. Expires Dec 21, 2006

x Lisa Gardner - See attached
Notary Public.

My Commission Expires x Dec. 21, 2006

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California
County of Orange } ss.

On 8/15/05 (Date) before me, Lisa Gardner, Notary Public (Name and Title of Officer (e.g., "Jane Doe, Notary Public"))

personally appeared Christine Campos (Name(s) of Signer(s))

☐ personally known to me
☑ proved to me on the basis of satisfactory evidence

to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Lisa Gardner
Signature of Notary Public

LISA GARDNER
Commission # 1391272
Notary Public - California
Orange County
My Comm. Expires Dec 21, 2006

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

Title or Type of Document: Oil & Gas Lease

Document Date: 8/5/05 Number of Pages: 1

Signer(s) Other Than Named Above: —

Capacity(ies) Claimed by Signer

Signer's Name: See attached

☑ Individual
☐ Corporate Officer — Title(s): _____
☐ Partner — ☐ Limited ☐ General
☐ Attorney-in-Fact
☐ Trustee
☐ Guardian or Conservator
☐ Other: _____

Signer Is Representing: _____

RIGHT THUMBPRINT OF SIGNER
Top of thumb here

RECEPTION NO: 0510832 STATE OF NEW MEXICO, COUNTY OF EDDY
RECORDED 09/08/2005 8:30 AM
BOOK 0610 PAGE 0887 Ruby Nelson
JEAN BLENDEN, COUNTY CLERK

COUNTY CLERK SEAL EDDY COUNTY, NEW MEXICO

Producer's 88 Producer's Revised 1964 New Mexico Form 342P, Paid-up

OIL & GAS LEASE

THIS AGREEMENT made this 26th day of August, 2005 between Ronald C. Robbins, a married man dealing in his sole and separate property, 215 6th Street, Petaluma, CA 94952, herein called Lessor (whether one or more) and Madison M. Hinkle, Post Office Box 2292, Roswell, NM 88202-2292, Lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Eddy County, New Mexico, to-wit

TOWNSHIP 23 SOUTH, RANGE 27 EAST, N.M.P.M.
Section 8: N/2NE/4, SE/4NE/4, NE/4SE/4, S/2SE/4

Said land is estimated to comprise 240.00 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of Five (5) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, three sixteenths (3/16) of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of three sixteenths (3/16) of the gas used, provided that on gas sold on or off the premises, the royalties shall be three sixteenths (3/16) of the amount realized from such sale, (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut-in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to $1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such condition as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term, however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions of Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

Madison M. Hinkle
P O Box 2292
Roswell NM 88202-2292

Producer's 88-Producer's Revised 1994 New Mexico Form 3429, Paid-up

OIL & GAS LEASE

THIS AGREEMENT made this 26th day of August, 2005 between **Ronald C. Robbins, a married man dealing in his sole and separate property, 215 6th Street, Petaluma, CA 94952**, herein called Lessor (whether one or more) and **Madison M. Hinkle, Post Office Box 2292, Roswell, NM 88202-2292**, Lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Eddy County, New Mexico, to-wit:

TOWNSHIP 23 SOUTH, RANGE 27 EAST, N.M.P.M.
Section 8: N1/2NE1/4, SE1/4NE1/4, NE1/4SE1/4, S1/2SE1/4

Said land is estimated to comprise 240.00 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of **Five (5) years** from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, **three sixteenths (3/16)** of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of **three sixteenths (3/16)** of the gas used, provided that on gas sold on or off the premises, the royalties shall be **three sixteenths (3/16)** of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut-in either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to $1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such condition as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions of Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

Madison M. Hinkle
P O Box 2292
Roswell NM 88202-2292

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors, and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith, and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder, and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written.

X _____
Ronald C. Robbins

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF CALIFORNIA

COUNTY OF Sonoma

This instrument was acknowledged before me on this second day of X June, 2005, by Ronald C. Robbins, a married man dealing in his sole and separate property.

P. ROBBINS
COMM. #1493543
NOTARY PUBLIC-CALIFORNIA
SONOMA COUNTY
My Comm. Expires June 28, 2008

X _____
Notary Public

My Commission Expires: X 6-29-08

RECEPTION NO: 0510833 STATE OF NEW MEXICO, COUNTY OF EDDY
RECORDED 06/08/2005 8:32 AM
BOOK 0610 PAGE 0890
JEAN BLENDEN, COUNTY CLERK

SEAL

Karlene S. Schuman

From: Ryan Hartwig <ryan.sugarcreek@gmail.com>
Sent: Monday, May 18, 2020 2:58 PM
To: Rule, Clayton W. (MRO)
Subject: [External] Re: Sec. 8-23S-27E - Eddy County, NM - OGLs

Beware of links/attachments.

Clayton:

Would you be available for a quick phone call tomorrow morning regarding Sugar Creek's leases in Sec. 8-23-27?

Thanks,

Ryan Hartwig, CPL
Wake Energy, LLC
(405) 664-2824

On May 13, 2020, at 2:52 PM, Ryan Hartwig <ryan.sugarcreek@gmail.com> wrote:

Clayton:

Good afternoon. I am emailing to give you the heads up that Sugar Creek Resources owns 80.0 acres of top leases in the E/2 of Sec. 8-23S-27E, Eddy County, NM. Two of these leases are recorded of record and the other will be recorded by tomorrow. Since Marathon's base leases have expired due to the lack of commercial production from the Cypress Well, are you agreeable to willingly release the base leases? If Marathon is instead interested in purchasing Sugar Creek's leases due to Marathon's development plans for Section 8, we would be willing to discuss that as well.

Thanks and have a great day.

Ryan Hartwig
Sugar Creek Resources
(405) 664-2824

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

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 22, 2019

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
KATHLEEN MURPHY, TECHNICAL EXAMINER
DYLAN ROSE-COSS, TECHNICAL EXAMINER
BILL BRANCARD, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner; Kathleen Murphy and Dylan Rose-Coss, Technical Examiners; and Bill Brancard, Legal Examiner, on Thursday, August 22, 2019, 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

APPEARANCES

FOR APPLICANT LIME ROCK RESOURCES II-A, L.P.:

JAMES G. BRUCE, ESQ.
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043
jamesbruc@aol.com

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EXHIBITS OFFERED AND ADMITTED

(4:33 p.m.)

EXAMINER McMILLAN: Call Case Number 20211, application of Lime Rock Resources, II-A, L.P. for compulsory pooling, Eddy County, New Mexico.

Call for appearances.

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe representing the Applicant.

I am submitting the case by affidavit.

Okay. Exhibit 1, a verified statement of the landman. They're seeking to force pool the north half-south half of Section 11 -- Section 13, 18-26, for the Leavitt well 13-4H, a well in the Glorieta-Yeso, Red Lake; Glorieta-Yeso Pool. They are only seeking to force pool fee royalty owners and overriding royalty interest owners who have not joined in a pooling designation. It is all fee land. There is C-102 attached.

And then Attachment B shows the three parties that are being pooled.

Exhibit 2 is the statement of Stan Bishop, the geologist, and he has a locator map. There are a lot of Glorieta-Yeso wells out there, vertical wells. This is a horizontal one; the structure map, the structure dips to the southeast; a cross section showing that the target zone, which is the Paddock within the

Glorieta-Yeso Pool shows that the well -- or the target zone is continuous across the well unit. It does give the horizontal landing zone. And then the Standard Planning Report is attached, and it states that the application -- or the -- each quarter-quarter section in the well unit will contribute more or less equally to production.

Affidavit of Notice to the parties being pooled is submitted as Exhibit 3.

Exhibit 4 is the just the Affidavit of Publication. So the three parties received notice either actually or constructively by publication.

And I would move the admission of Exhibits 1 through 4 and ask that the case be taken under advisement.

(Lime Rock Resources II-A, L.P. Exhibit Numbers 1 through 4 are offered into evidence.)

EXAMINER McMILLAN: Okay. So the first question is: What are the costs?

MR. BRUCE: They are overriding royalty interest owners and royalty interest owners, so --

EXAMINER McMILLAN: No cost-bearing?

MR. BRUCE: No cost-bearing, no overhead rates.

EXAMINER McMILLAN: Hold on.

And let's see. That takes care of that. Don't worry about that.

Okay. There was -- what's going on with Percussion Petroleum Operating?

MR. BRUCE: They -- they sold out to Lime Rock, so they're no longer involved in the case. And they had --

EXAMINER McMILLAN: What about Ann Landrith Holdings?

MR. BRUCE: She was only involved in Case 20210 and 20319.

EXAMINER McMILLAN: Okay. So she's not a factor.

MR. BRUCE: And if you look at page 6 of the docket, you will see --

EXAMINER McMILLAN: It was dismissed.

MR. BRUCE: -- cases 98 through 101 were Percussion Petroleum cases, the Cranberries and Toadies wells, and those were contrary to the Lime Rock ads [sic], but they sold out, and so those cases were dismissed.

EXAMINER McMILLAN: And what's the status of the well?

MR. BRUCE: It is not drilled.

EXAMINER McMILLAN: Okay. And were all of these overriding royalty interests locatable?

MR. BRUCE: One, the letter came back. The landman does discuss in his affidavit the efforts taken to locate these. And there was one entity down in Artesia where the letter came back, but we did publish notice against them.

EXAMINER McMILLAN: Okay. Let's make sure that's right.

MR. BRUCE: It is Donald Fanning & Sons, Inc.

EXAMINER McMILLAN: Okay. Well, then we're done.

So Case Number 20211 was heard and is taken under advisement.

Tomorrow, 8:30.

(Case Number 20211 concludes, 4:38 p.m.)

(Recess, 4:38 p.m.)

STATE OF NEW MEXICO

COUNTY OF BERNALILLO

CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, Certified Court Reporter, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings that were reduced to printed form by me to the best of my ability.

I FURTHER CERTIFY that the Reporter's Record of the proceedings truly and accurately reflects the exhibits, if any, offered by the respective parties.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this case.

DATED THIS 13th day of September 2019.

MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
Paul Baca Professional Court Reporters

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

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.

SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director

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. 15712
ORDER NO. R-14419

APPLICATION OF SPECIAL ENERGY CORPORATION FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 8, 2017, at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 16th day of August, 2017, 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 the subject matter.

(2) Cases No. 15712 and 15713 were consolidated at the hearing for the purpose of testimony; however, separate orders will be issued for each case.

(3) Special Energy Corporation (the "Applicant") seeks approval of a 160-acre non-standard oil spacing and proration unit and project area (the "Unit") for oil and gas production from the San Andres formation, Gladiola; San Andres Pool (Pool code 27810), comprising the W/2 W/2 of Section 20, Township 12 South, Range 38 East, NMPM, Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the San Andres formation.

(4) The Unit will be dedicated to Applicant's Decker Well No. 1H (the "proposed well"; API No. 30-025-43890), a horizontal well to be drilled from a surface location 250 feet from the South line and 640 feet from the West line (Unit M) of Section

17, to a bottom-hole location 330 feet from the South line and 640 feet from the West line (Unit M) of Section 20, both in Township 12 South, Range 38 East, NMPM. The location of the completed interval will be standard for oil production within the Unit.

(5) The proposed oil well is within the Gladiola; San Andres Pool and is subject to Division Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks from the unit boundaries and standard 40-acre units each comprising a governmental quarter-quarter section. The proposed Unit and project area consists of four (4) adjacent quarter-quarter sections oriented north to south.

(6) Applicant appeared through counsel and presented the following land, engineering, and geologic evidence:

(a) the San Andres formation in this area is suitable for development by horizontal drilling;

(b) each quarter-quarter section in the proposed unit can be expected to contribute more or less equally to production from the San Andres formation;

(c) Applicant seeks to pool unleased mineral interest owners, and uncommitted working interest owners;

(d) Applicant is also seeking to compulsory pool royalty interest owners subject to leases that lack sufficient language to allow for pooling of royalty interests. Further, these royalty interest owners would not be subject to the risk penalty;

(e) The Applicant had an oil and gas lease with Betty and James Kringle ("Kringle"), which lacked a pooling clause in a Unit greater than 40 acres. Applicant stated that the Kringle interest would have to be compulsory pooled in order to consolidate the Unit; however, it would not be subject to the risk penalty. Further, Kringle made an appearance at the hearing;

(f) Applicant also stated that a combined fixed rate of $8,000 per month while drilling, and $800 while producing is reasonable for horizontal San Andres wells;

(g) Notice was provided to lessees or operators of surrounding tracts as affected parties of the proposed non-standard spacing unit;

(h) Notice was provided to all interest owners subject to pooling proceedings as affected parties of the proposed compulsory pooling within the Unit; and

(i) Applicant provided notice of this application by publication before hearing in a newspaper of general circulation in Lea County, New Mexico, the county in which the property is located for all parties subject to the pooling provisions of this Order. No unlocatable parties are subject to this order.

(7) Betty and James Kringle made an appearance through counsel, but otherwise did not oppose granting this application. No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes as follows:

(8) The non-standard spacing and proration unit should be approved.

(9) 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.

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

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

(12) 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.

(13) Special Energy Corporation should be designated the operator of the subject well and the Unit.

(14) 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 subject well.

(15) Applicant's proposed overhead rates (combined fixed rates) of $8,000 per month while drilling and $800 per month while producing, are not warranted and should be lowered. Applicant did not provide testimony for any known drilling hazards, hazards associated with drilling deep wells, or high operating costs. Rather, this is a shallow well with no known drilling hazards.

(16) 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) Pursuant to the application of Special Energy Corporation, a 160-acre non-standard oil spacing and proration unit (the "Unit") is hereby established for oil and gas production from the San Andres formation, Gladiola; San Andres Pool (Pool code 27810), comprising the W/2 W/2 of Section 20, Township 12 South, Range 38 East, NMPM, Lea County, New Mexico. All uncommitted interests, whatever they may be, including royalty interests, in the oil and gas in the San Andres formation within the Unit are hereby pooled.

(2) The Unit shall be dedicated to Applicant's Decker Well No. 1H (the "proposed well"; API No. 30-025-43890), a horizontal well to be drilled from a surface location 250 feet from the South line and 640 feet from the West line (Unit M) of Section 17, to a bottom-hole location 330 feet from the South line and 640 feet from the West line (Unit M) of Section 20, both in Township 12 South, Range 38 East, NMPM. The location of the completed interval will be standard for oil production within the Unit.

(3) The operator of the Unit shall commence drilling the proposed well on or before August 31, 2018, and shall thereafter continue drilling the proposed well with due diligence to test the San Andres formation.

(4) In the event the operator does not commence drilling the proposed well on or before August 31, 2018, 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.

(5) 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 standard spacing units included in the proposed project area (or Unit), then the operator shall apply to the Division for an amendment to this order to contract the Unit so that it includes only those standard spacing units in which the well is completed.

(6) 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.

(7) Special Energy Corporation (OGRID 305614) is hereby designated the operator of the well and the Unit.

(8) 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").

(9) 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."

(10) 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.

(11) 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.

(12) The operator is hereby authorized to withhold the following costs and charges from production attributable to each non-consenting working interest owner from each well:

(a) the proportionate share of reasonable well costs attributable to each such owner; and

(b) as a charge for the risk involved in drilling the well, 200% of the above costs.

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

(14) Reasonable charges for supervision (combined fixed rates) for the well 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 more than what are reasonable, attributable to pooled working interest owners.

(15) Except as provided in Paragraphs (12) and (14) 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-31, as amended).

(16) 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.

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

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

(19) If the applicant requests for infill wells within the Unit, the proposed infill wells shall be subject to Division Rule 19.15.13 NMAC.

(20) 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

David R. Catanach

DAVID R. CATANACH
Director