ORDER NO. 008-2017-02

March 06, 2017

General Rule B-43 Well Spacing Area
Cleburne County, Arkansas

INTEGRATION OF A DRILLING UNIT

After due notice and public hearing in Hot Springs, Arkansas, on February 22, 2017, the Arkansas Oil and Gas Commission, in order to prevent waste, carry out an orderly program of development and protect the correlative rights of each owner in the common source(s) of supply in this drilling unit, has found the following facts and issued the following Order.

STATEMENT OF THE CASE

SWN Production (Arkansas), LLC (the “Applicant”) filed its application for an Order pooling and integrating the unleased mineral interest(s) and/or uncommitted leasehold working interest(s) of certain parties named therein who have failed to voluntarily integrate their interest(s) for the development of the unit comprising of Section 25, Township 9 North, Range 11 West, Cleburne County, Arkansas. Interests in this unit were integrated in Order No. 358-2010-05; however, this request is for additional interests who are not subject to said orders or to existing leases as the leases for these interests expired as to depths below the base of the Fayetteville Shale Formation.

The Applicant presented proof that they had attempted unsuccessfully to acquire voluntary leases and/or other agreements for consideration or on terms equal to that otherwise offered and paid for similar leases or leasehold interest(s) in this drilling unit.

At the request of the Applicant, the following parties were dismissed by the Commission, regardless of whether the party or parties are listed as unleased mineral interest(s) or uncommitted leasehold working interest(s) to be integrated:

   Brian Hawkes; Debra Zimmerman; Garrett R. Hanson; Karen Kreutzcampf; LMR Royalties, LLC;
   Michael Ellis;

FINDINGS OF FACT

From the evidence introduced at said hearing, the Commission finds:

1. That the Applicant has proposed to drill a well within a drilling unit (Unit) that the Commission has previously established, consisting of Section 25, Township 9 North, Range 11 West, Cleburne County, Arkansas containing 640.00 acres, more or less.

2. The Applicant plans to drill such well (the “initial well”) to test the Moorefield Shale Formation and any intervening formations for the production of hydrocarbons.

3. The requested Model Form Joint Operating Agreement employed by the Applicant and proposed to the owners set out in Finding Nos. 5 and 6 (if any) below, is in the form of A.A.P.L. Form 610-1982 Model Form Operating Agreement (JOA), amended, and modified as adopted by the Commission on October 28, 2008.

4. The requested one-year term oil and gas lease (Lease) employed by the Applicant is in the form of Exhibit "B" of the JOA.

5. The unleased mineral interest(s) to be integrated are:

   AHL, LLC; BGW I, LLC; BOCHAP, LLC; Brian E. Quarles; Brian Hawkes; Chase Properties, LLC;
   Christine Isom; Cross Creek Resources, LLC; Debra Zimmerman; Dianne Tatro; Garrett R. Hanson;
   Goldfinger, LLC; Handwerker Clean Energy, LLC; Harry H. Lott, JR and Renelda E. Lott; HETI, LLC;
   Hogeye Investments, LLC; HETI, LLC; Holt Oil & Gas, LLC; Hummer Investments, LLC; James J.
   Rester; Karen Kreutzcampf; LMR Royalties, LLC; M.B. White, Inc.; Melton Oil & Gas, LLC; Michael
   Ellis; Robert Wade Steinriede, JR and Mary Walcott Steinriede; SE Royalties Acquisitions, LLC; Spawn
and any unknown spouse, heir, devisee, personal representative, successor or assigns of said owners of unleased interests.

6. The uncommitted leasehold working interest(s) to be integrated are:

None.

7. The Applicant requests that any parties listed in Findings Nos. 5 and/or 6 (unless dismissed at the request of the Applicant in the Statement of the Case above) be integrated.

8. The alternatives for integrated parties are:

A. Unleased Mineral Interest(s) Alternatives:

1. **Lease**

   Execute a lease covering the unleased mineral interest(s) with any party upon mutually agreed terms, provided that Applicant receives notice prior to the close of the “Election Period” provided in Paragraph No. 4 of the Order below (lessee would then be bound by the terms of this order as an uncommitted working interest owner, regardless of whether such owner is listed in Finding No. 6 above); or execute and deliver to the Applicant a Lease as identified in Finding No. 4 covering their unleased mineral interest(s) in the aforementioned Unit, for a cash bonus of $100.00 per net mineral acre as fair and reasonable compensation in lieu of the election to participate with a working interest in said Unit and that said Lease(s) provide for a $1/8 royalty, provided that any such owner should have the further option of a bonus of $.00 per net mineral acre and retaining a $1/7 royalty in said Lease, and that each such owner thereafter be bound by the terms of such Lease, including for purposes of subsequent operations, (whether or not such owner actually executes such Lease) for so long as there is production of hydrocarbons from within the Unit. Applicant must tender said lease bonus, subject to any applicable federal or state income tax “backup withholding” provisions, within thirty (30) days of the date an election is made; if such payment cannot be made due to issues regarding marketability of title, unknown addresses, or unknown successors in interests, then the Applicant shall pay said bonus into one or more identifiable trust accounts (which shall be accounts in a bank, savings bank, trust company, savings and loan association, credit union, or federally regulated investment company, and the institution shall be insured by an agency of the federal government); or if payment cannot be made for any other reason, then the Applicant may appear before the Commission to request an extension of time and the Commission may condition the granting of such extension upon payment of a reasonable sum which shall be paid as an additional bonus to the unleased mineral owner.

2. **Participate in the initial well**

   Participate by paying their proportionate share in the costs of drilling, completing, equipping and operating the initial well, subject to the terms of the JOA, and that each such owner thereafter be bound by the terms of such JOA (whether or not such owner actually executes such agreement), including for purposes of subsequent operations, for so long as there is production of hydrocarbons from within the Unit; or

3. **Elect “Non-Consent”**

   Neither execute a lease nor participate in said costs and become a “Non-Consenting Party” under the JOA with respect to the initial well, and be subject to all of the non-consent provisions thereunder, until the proceeds realized from the sale of such owner’s share of production from the initial well, except 1/8th thereof, shall equal the total recoupment amount described in subparagraphs (a) and (b) of Article VI.B.2 of the JOA, with the non-consent penalty under Article VI.B.2(b) being 400% for the initial well and/or 400% for each subsequent well drilled on the Unit. Each such owner shall be bound by the terms of the JOA both before and after recovery of such recoupment amount and also for purposes of proposals for
and the conduct of any and all subsequent operations within the Unit, for so long as there is hydrocarbon production from within the Unit. One-eighth (1/8) of the revenue realized from the sale of such owner’s share of production from the initial well, and any subsequent well proposed under the terms of the JOA in which such owner elects not to participate, shall be paid to such mineral interest owner from the date of first production at the times and in the manner prescribed by law for the payment of royalty; or

4. Failure to Make an Election.

*Unleased mineral owners who fail to affirmatively elect one of the options listed in 8A above, shall be deemed to have elected Alternative (A3) above.*

B. Uncommitted Leasehold Working Interest(s) Alternatives:

1. Participate in the well

Participate by paying their proportionate share in the costs of drilling, completing, equipping and operating the initial well, subject to the terms of the JOA, and that each such owner thereafter be bound by the terms of such JOA (whether or not such owner actually executes such agreement), including for purposes of subsequent operations, for so long as there is production of hydrocarbons from within the Unit; or

2. Elect “Non-Consent”

Not participate and become a “Non-Consenting Party” under the JOA with respect to the initial well, and be subject to all of the non-consent provisions thereunder, until the proceeds realized from the sale of hydrocarbons allocable to the mineral interest subject to said parties’ leasehold interest(s) in the initial well, exclusive of reasonable leasehold royalty, shall equal the total recoupment amount described in subparagraphs (a) and (b) of Article VI.B.2 of the JOA, with the non-consent penalty under Article VI.B.2(b) being 400% for the initial well, and/or 400% for each subsequent well drilled on the Unit; or

3. Failure to Make an Election

Uncommitted leasehold working interest(s) owners who fail to timely elect either alternative shall be deemed to have elected Alternative (B2), above.

9. Applicant requests that all parties listed in Finding Nos. 5 and/or 6 (unless dismissed at the request of the Applicant in the Statement of the Case above) be required to elect within fifteen (15) days after the effective date of the Order, unless, for cause shown, a shorter or longer period is approved. *ALL INTEGRATED PARTIES SHALL NOTIFY SWN Production (Arkansas), LLC, 10000 ENERGY DRIVE, SPRING, TX, 77389 IN WRITING, OF THE ALTERNATIVE ELECTED.*

10. That the Applicant should be designated to be the operator of the Unit described above.

11. That no objections were filed.

CONCLUSIONS OF LAW

1. That due notice of public hearing was given as required by law and that this Commission has jurisdiction over said parties and the matter herein considered.

2. That the land described in Finding No. 1 has been previously established as a drilling unit.

3. That this Commission has authority to grant said application and force pool and integrate the unleased mineral interest(s) and uncommitted leasehold working interest(s) of said parties under the provisions of Act No. 105 of 1939, as amended.
ORDER

Now, therefore, it is Ordered that:

1. INTEGRATION

All of the unleased mineral interest(s) and/or uncommitted leasehold working interest(s) described in Finding Nos. 5 and/or 6 (unless dismissed at the request of the Applicant in the Statement of the Case above) within the Unit described in Finding No. 1 be and are hereby integrated into one unit for drilling and production purposes.

2. ALLOCATION OF PRODUCTION

The hydrocarbons that are produced and saved from the well or wells assigned to the above described Unit shall be allocated to each separately owned tract embraced therein in the proportion that the acreage of such tract bears to the total acreage in the Unit and shall be considered as if produced from each such tract.

3. OPERATOR TO CHARGE COSTS

The designated operator of the Unit shall have the right to charge to each participating party its proportionate share of the actual expenditures required for the costs of developing and operating the well in the manner set forth in Exhibit “C” of the JOA.

4. ELECTION OF ALTERNATIVES

The owners of the unleased mineral and/or uncommitted leasehold working interests designated in Finding Nos. 5 and/or 6 above (unless dismissed at the request of the Applicant in the Statement of the Case above), in the aforementioned Unit shall have fifteen (15) days from the effective date of this order (the “Election Period”) to elect one of the alternatives as described in Finding No. 8 above. If no such election is made within the applicable Election Period, the owners of unleased mineral interest(s) shall be deemed to have elected under Alternative A4 and uncommitted leasehold working interest(s) owners shall be deemed to have elected under Alternative B3, as described in Finding No. 8. Any party choosing to participate or go non-consent or, who by the terms of this Order are deemed non-consent, shall be subject to the election period set forth in the JOA with respect to all subsequent wells drilled on the Unit.

5. RECEIPT OF VALUE OF PRODUCTION

A. Unleased Mineral Interest Owner(s)

In the event the owners of the unleased mineral interest(s) elect Alternative No. A3 (Non-Consent) described in Finding No. 8 above, or are deemed to make an election under Alternative No. A4 described in Finding No. 8 above, then the value of the production proceeds attributable to such unleased mineral interest shall be subdivided and paid in accordance with the provisions of Order No. 6 as hereinafter set forth. The value of hydrocarbons produced shall be equal to the proceeds realized from the sale thereof at the well. Upon recoupment by the “Consenting Parties” (as defined in the JOA) of the total recoupment amount described in Finding No. 8A3 above, the production due the interest(s) of said parties shall be paid to them, their heirs, successors or assigns.

B. Uncommitted Leasehold Working Interest Owner(s)

In the event an uncommitted leasehold working interest owner under one or more valid lease(s) elects Alternative No. B2 (Non-Consent) described in Finding No. 8 above, the Consenting Parties shall have the right to receive the hydrocarbon production which would otherwise be delivered or paid to such uncommitted leasehold working interest owner under such lease(s) until such time as the proceeds realized from the sale of such production equals the total recoupment amount described in Finding No. 8B2 above.

The leasehold royalty payable during the recoupment period shall be calculated on the basis of the rate or rates provided in each of the leases creating the rights temporarily transferred pending recoupment.
6. **SUBDIVISION OF TRACT ALLOCATION**

The revenue realized by the Consenting Parties from the sale of hydrocarbons shall be allocated among the separately owned tracts within the integrated unit and, pending recoupment of the costs and additional sum described at Paragraph No. 5 of this Order, shall be paid to the integrated parties as follows:

A. **Unleased Mineral Interest Owner(s)**

   *Unleased mineral interest owners, who have elected under Alternative No. A3 (Non-Consent) described in Finding No. 8 above, or who are deemed to make an election under Alternative No. A4 described in Finding No. 8 above, shall have the total allocation given to the tract subdivided into the working interest and royalty interest portions on the basis of seven-eighths (7/8th) of the total allocation being assigned to the working interest portion and one-eighth (1/8th) of the total allocation being assigned to the royalty interest portion.*

B. **Uncommitted Leasehold Working Interest Owner(s)**

   Leasehold royalty shall be paid according to the provisions of the valid lease(s) existing for each separately owned tract, except where the Commission finds that such lease(s) provide for an excessive, unreasonably high, rate of royalty, as compared with the royalty determined by the Commission to be reasonable and consistent with the royalty negotiated for lease(s) made at arm's length in the general area where the Unit is located, in which case the royalty stipulated in the second paragraph of Paragraph 5B of this Order shall be payable with respect to such lease(s).

7. **RECORDS OF UNIT OPERATION**

The designated Operator shall, upon request and at least monthly, furnish to the other parties any and all information pertaining to wells drilled, production secured and hydrocarbons marketed from the Unit. The books, records and vouchers relating to the operation of the Unit shall be kept open to the non-operators for inspection at reasonable times.

8. **PAYMENT FOR PRODUCTION**

During the period of recoupment, the revenue allocable to those owners of the integrated unleased mineral interest(s) who elect Alternative No. A3 (Non-Consent) and to the mineral interest(s) subject to and covered by the integrated uncommitted leasehold working interest(s) whose owners elect or shall be deemed to have elected Alternative No. B2 (Non-Consent), both described in Finding No. 8 above (collectively, the “non-consent interests”), shall be paid to those Consenting Parties that elect to acquire their proportionate share of such non-consent interests pursuant to Paragraph 9 of this Order.

9. **SHARING OF NON-CONSENT INTERESTS**

The designated Operator shall offer each Consenting Party in the initial well who executes the JOA, or who elects to participate under this Order, prior to the expiration of the Election Period an opportunity to acquire its proportionate share of all non-consent interests in the initial well pursuant to the terms of Article VI.B.2. of the JOA.

10. **UNIT OPERATION**

The Unit described above shall be operated in accordance with the terms of the JOA and existing rules and regulations and any amendments thereto, of the Arkansas Oil and Gas Commission.

11. **DESIGNATED OPERATOR**

The Applicant is hereby designated as operator of and authorized to operate the Unit described above.

12. **SIGNED JOA**

The Applicant shall provide all parties, except those parties who elect to lease under Alternative A1 or who are deemed to have elected under Alternative A4, both described in Finding No. 8 above, with signed copies of the
JOA as adopted by the Commission which shall include an Exhibit "A" showing a before payout and after payout decimal interest for the effected parties, within 30 days from the end of the election period.

This Order shall be effective from and after March 06, 2017; and the Commission shall have continuing jurisdiction for the purposes of enforcement, and/or modifications or amendments to the provisions of this Order. This Order will automatically terminate under any of the following conditions: well drilling operations have not been commenced within one year after the effective date; or one year following cessation of drilling operations if no production is established; or, within one year from the cessation of production from the unit.

ARKANSAS OIL AND GAS COMMISSION

[Signature]

Lawrence E. Bengal
Director