IN THE MATTER OF APPLICATION TO:
EXCEPTION TO SPACING RULE, FILED BY:

ARIZONA ENERGY PARTNERS, LLC

ON SECTION 2, TOWNSHIP 12 NORTH
RANGE 24 EAST, G&SRM,

FOR THE PREVIOUSLY PERMITTED WELL
AEP 2-1 MS (PERMIT 1216)

ARIZONA ENERGY PARTNERS, LLC., having filed application and notice of intention to drill, and having received approval on April 26, 2017 to drill the AEP 2-1 MS for oil on Section 2, Township 12 North, Range 24 East, on the Gila and Salt River Base and Meridian, the location being in Apache County, Arizona, and having requested in an application dated June 21, 2018 that an exception be made to Arizona Administrative Code R12-7-107(B) relative to the spacing of gas wells,

IT IS HEREBY ORDERED, under the provisions of Arizona Administrative Code R12-7-107(E) that a public hearing be held at the office of the Arizona Department of Environmental Quality, 1110 West Washington Street, Phoenix Arizona on the 13th July 2018, Room 145 at the hour of 10:30 a.m. at which time and place any and all interested parties may produce evidence as to why said application should or should not be granted.

GIVEN under my hand and the seal of seal of the State of Arizona this 29th day of June, 2018.

Frank Thorwald /s/
Chairman, Oil Gas Conservation Commission
AGENDA FOR PUBLIC HEARING FOR ARIZONA ENERGY PARTNERS, LLC.
July 13, 2018
10:30 a.m., Room 145
Arizona Department of Environmental Quality

- Presentation by Arizona Energy Partners, LLC. (AEP): Justification for well spacing exception for AEP 2-1, including all relevant subsurface data.
- The Commission shall discuss, consider and vote to grant or deny the well spacing exception.

**NOTE:** THE START TIME OF THIS HEARING IS APPROXIMATE AND WILL IMMEDIATELY FOLLOW THE CONCLUSION OF THE RANGER HEARING.

IMMEDIATELY FOLLOWING THE CONCLUSION OF THIS HEARING, THE COMMISSION WILL RECONVENE FOR A REGULAR PUBLIC MEETING. SEE SEPARATE AGENDA.
Public Hearing of the Arizona Oil & Gas Conservation Commission

Arizona Energy Partners Well Spacing Exception

10:30 a.m., July 13, 2018, ADEQ Conference Room 145, Phoenix, Arizona

<table>
<thead>
<tr>
<th>Name / Organization – please print</th>
<th>email</th>
<th>phone</th>
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</thead>
<tbody>
<tr>
<td>FRANK THORWALD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DENNIS TURNER</td>
<td></td>
<td></td>
</tr>
<tr>
<td>James H. Ballard</td>
<td><a href="mailto:jballardxid@gmail.com">jballardxid@gmail.com</a></td>
<td></td>
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<tr>
<td>Bill Feyerabend</td>
<td></td>
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<tr>
<td>Stephen R. Cooper</td>
<td></td>
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<tr>
<td>Michel Van Quashen</td>
<td><a href="mailto:mvq@mvqlaw.com">mvq@mvqlaw.com</a></td>
<td>602-357-7586</td>
</tr>
<tr>
<td>Tony Hines</td>
<td><a href="mailto:tony@toneyhines.com">tony@toneyhines.com</a></td>
<td>214-449-9104</td>
</tr>
<tr>
<td>Aaron Losgren</td>
<td><a href="mailto:alosgren@yahoo.com">alosgren@yahoo.com</a></td>
<td>808-7567433</td>
</tr>
<tr>
<td>Cynthia Caldwell</td>
<td><a href="mailto:calbigpants@yahoo.com">calbigpants@yahoo.com</a></td>
<td>917-413-6119</td>
</tr>
<tr>
<td>Jamie Hogue</td>
<td><a href="mailto:jhogue.az@gmail.com">jhogue.az@gmail.com</a></td>
<td>402-793-9481</td>
</tr>
<tr>
<td>DESIZA FISH</td>
<td><a href="mailto:desizafish@gmail.com">desizafish@gmail.com</a></td>
<td>623-205-8244</td>
</tr>
<tr>
<td>Name / Organization – please print</td>
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<td>phone</td>
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<tr>
<td>Veenan Murray, ASLD</td>
<td></td>
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<tr>
<td>Joe Dixon, AZ State Land</td>
<td></td>
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</tr>
<tr>
<td>Scott Bower</td>
<td><a href="mailto:scowes@theconservationcenter.com">scowes@theconservationcenter.com</a></td>
<td>480. 663. 5275</td>
</tr>
<tr>
<td>Todd Clement</td>
<td><a href="mailto:tklement@triangleenergy.com">tklement@triangleenergy.com</a></td>
<td>303. 212. 5908</td>
</tr>
<tr>
<td>Rick Zeise, AGD</td>
<td><a href="mailto:rick.zeise@agcgov.com">rick.zeise@agcgov.com</a></td>
<td>(602) 542-8513</td>
</tr>
<tr>
<td>Dr. Dale Nations</td>
<td></td>
<td>Via phone</td>
</tr>
<tr>
<td>Age</td>
<td>Formation Name</td>
<td>Thickness and Description</td>
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<tr>
<td>--------------</td>
<td>---------------------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Triassic</td>
<td>Moenkopi</td>
<td>0-420' of shale, some sandstone</td>
</tr>
<tr>
<td>Permian</td>
<td>Kaibab Limestone</td>
<td>0-75' of limestone, some dolomite and sandstone</td>
</tr>
<tr>
<td>Permian</td>
<td>Coconino Sandstone</td>
<td>350-400' of light-colored sandstone, to tan and red in lower part, w/ quartz overgrowths on grains</td>
</tr>
<tr>
<td>Permian</td>
<td>Supai Group</td>
<td>200-750' of dark mudstone and siltstone at base, overlain by 600-900' of red siltstone and sandstone with some interbedded carbonates and evaporites, overlain by 0-80' of the Fort Apache Member (limestone and/or dolomite, porous, some shale and evaporites); overlain by 450-1300' of evaporites (halite &amp; gypsum), some carbonates and redsillilicates.</td>
</tr>
<tr>
<td>Pennsylvanian</td>
<td>Naco</td>
<td>790-1100', more carbonate to the south, more shale to the north. Consists of alternating gray limestones, reddish-brown calcitic shale some dolomitic limestone, generally non-porous, equivalent to Molas formation in Utah, Colorado, New Mexico</td>
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<tr>
<td>Pennsylvanian</td>
<td>Hermosa</td>
<td>0-250' of interbedded shale and lesser limestone</td>
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<tr>
<td>Pennsylvanian</td>
<td>Molas</td>
<td>karst breccia and red shale</td>
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<tr>
<td>Mississippian</td>
<td>Redwall</td>
<td>0-100' of fossiliferous limestone, some dolomite</td>
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<tr>
<td>Devonian</td>
<td>Martin</td>
<td>0-130' of porous dolomite, some interbedded limestone, sandstone and shale</td>
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<tr>
<td>Cambrian</td>
<td>Tapeats/McCracken Formation</td>
<td>0-90' of sandstone</td>
</tr>
<tr>
<td>PreCambrian</td>
<td>Basement</td>
<td>granite and local metamorphics</td>
</tr>
</tbody>
</table>
Simplified Stratigraphic Section
Holbrook Basin
Target: Regional Anticlinal Feature

Manuel Seep
Regional Drainage
June 7, 2018

Dennis L. Turner, R.G.
Oil & Gas Program Administrator
Arizona Oil & Gas Conservation Commission
c/o Arizona Department of Environmental Quality
1110 W. Washington Street
Phoenix, AZ 85007

Dear Mr. Turner,

Pursuant to Section R12-7-107 of the Arizona Administrative Code, all adjoining lessees have been notified of Arizona Energy Partner LLC’s well spacing exception request for the AEP 2-1 MS (Permit 1216) located in Section 2, Township 12 North, Range 24 East.

The following parties have been sent notification along with a copy of the approved Application to Drill (Form 3) and well spacing exception request.

USPS Certified # 70172400 0000 39411302
Arizona State Land Department
1616 W. Adams Street
Phoenix, AZ 85007

USPS Certified # 70172400 0000 394113916
HNZ Holdings, LLC
1900 N. Akard Street
Dallas, TX 75201

Please contact me directly should you have any questions or concerns.

Regards,

Gordon LeBlanc, Jr.
President
Arizona Energy Partners LLC
CERTIFIED MAIL
RETURN RECEIPT REQUESTED

June 7, 2018

HNZ Holdings, LLC
1900 N. Akard Street
Dallas, TX 75201

To Whom It May Concern:

You are receiving this letter on behalf of Arizona Energy Partners LLC, the operator of the AEP 2-1 MS well, in order to notify you of an Application to Drill that has been filed with the Arizona Oil & Gas Conservation Commission ("AOGCC"). The Application to Drill is attached. Pursuant to Arizona oil & gas regulations, the operator is required to notify all adjoining lessees of Applications to Drill that require a spacing exception.

All well permit applications are subject to AOGCC approval and in cases where a spacing exception is requested, AOGCC sets a mandatory public hearing to review the requested exception, field public opinion, concerns and/or questions regarding the drilling permit application.

AOGCC public hearings are posted on their website at www.azogcc.az.gov and www.azdeq.gov. Furthermore, if you have any specific questions or would like to contact the AOGCC, please email ogcc@azdeq.gov.

Regards,

Gordon LeBlanc, Jr.
President
Arizona Energy Partners LLC
Arizona State Land Department
1616 West Adams Street
Phoenix, AZ 85007

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Regards,

[Signature]

Gordon LeBlanc, Jr.
President
Arizona Energy Partners LLC
AEP 2-1 MS (Permit 1216) - Justification for Well Spacing Exception

Selecting a drilling location is part science and part circumstance. The ability to structurally map a geologic target is the easy part; the difficulty usually arises when you get out into the field and see the local topography. This is usually the case in most places in the Holbrook Basin because of its many washes, ridges and unpredictable weather.

The proposed location for the AEP 2-1 MS well is 1,128 feet from the South line and 2,376 feet from the East line of Section 2, Township 12 North, Range 24 East. There are no producing oil or natural gas wells in this part of Arizona; the closest oil & natural gas production is in the Four Corners area and carbon dioxide has been discovered southeast of St Johns more than 25 miles away. Prior wells drilled in the area of the AEP 2-1 MS include the Sumatra Energy 1-17 Santa Fe (drilled in 1983 and converted to water well), the Pan American Pet. NMAL-A (drilled and plugged in 1959) and the Pan American Pet. NMAL-B #1 (drilled and plugged in 1959).

The AEP 2-1 MS well is located on a State of Arizona oil & gas lease held by PetroSun E&P Incorporated/Arizona Energy Partners LLC and any commercial production of resource will result in either a 12.5% royalty paid to the State or production allocation to the State.

The AEP 2-1 MS will be drilled as a wildcat (i.e. exploratory) well to investigate any quantity of commercially viable deposits. Arizona Oil & Gas Conservation Commission Administrative Rule (R12-7-107) establishes a 1,660-foot setback for gas wells. This rule reduces the available surface area in a 640-acre section to about 90 acres centered on the section. Arizona Energy Partners LLC is requesting an exception to this rule for its AEP 2-1 MS wildcat well. Should commercial quantities of gas (as defined by state law) be discovered, Arizona Energy Partners LLC will progress into commercial production.

It should be noted that while Arizona Administrative Rule requires a 1,660-foot setback for gas wells, contiguous states have adopted far less stringent gas well setback requirements: Colorado maintains a setback requirement of 600 feet, New Mexico 660 feet and Utah 200 feet.

Below is an explanation both geologically and topographically for the location selected for the AEP 2-1 MS well.

Geological Justification
The AEP 2-1 MS is a prime location based on its geologic structure and stratigraphic trap potential. The AEP 2-1 MS is located on a target secondary anticlinal feature (Figure 1).
The targeted secondary anticlinal feature does not extend into the area of Section 2 that would meet the standard gas well location requirement (Figure 2) and thus Arizona Energy Partners LLC requests an exception to the standard gas well setback requirement.
Topographical Justification
The topography in the area of the AEP 2-1 MS consists of a mostly flat regional wash surrounded by ridges to both the northeast and southwest. The ridges to the south of the AEP 2-1 MS are topographically higher and all of the local drainage funnels into the wash area (Figure 2). The tendency for localized flooding in this area is a concern when selecting an appropriate location.

In addition, the close proximity of the well location to Molyneaux Road will limit the environmental impact by minimizing the length of the access road to the AEP 2-1 MS well pad.

Conclusion
Based on the geological target and the surrounding topographical challenges, Arizona Energy Partners LLC respectfully requests an exception to the gas well setback requirement of 1,660 feet for the AEP 2-1 MS well.
Regional Contour Map
April 26, 2017

Mr. Gordon M. LeBlanc, Jr.
Manager
Arizona Energy Partners, LLC
2999 N. 44th Street, Suite 620
Phoenix, AZ 85018

RE: Application to Drill approved: AEP 2-1 (MS) Manuel Seep (State 13-115935) and AEP 2-1 Navajo Anticline (NA) (State 13-117068)

Dear Mr. LeBlanc:

Enclosed are the approved Applications to Drill for the subject wells:

<table>
<thead>
<tr>
<th>Well No.</th>
<th>Permit No.</th>
<th>LTF No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEP 2-1 MS</td>
<td>1216</td>
<td>65842</td>
</tr>
<tr>
<td>AEP 2-1 NA</td>
<td>1217</td>
<td>65852</td>
</tr>
</tbody>
</table>

Your existing $25,000 blanket performance bond covers 10 or fewer wells pursuant to A.A.C. R12-7-103(B)(2)(a). With these approvals, Arizona Energy Partners, LLC (AEP) has four wells covered by the bond.

The referenced applications are approved on the condition that: AEP conducts its operations in compliance with all applicable statutes and rules of the State of Arizona; conducts drilling and completion activities by employing safe drilling practices and in accordance with standard industry practices; and that AEP, or its designated representative, notifies me at least 48 hours before:

- Moving in drilling equipment, commencing operations;
- Running and cementing surface casing; and
- Testing the BOPE.

AEP or its designated representative shall:

- Post a sign at the well site in compliance with the requirements of A.A.C. R12-7-106;
- Submit well data pursuant to A.A.C. R12-7-121; and
- Submit Sundry Notices summarizing daily progress and activity on at least a weekly basis through the completion of operations of each well.
In accordance with complying with all applicable statutes and rules of the State of Arizona, AEP is advised that the drilling activity may require coverage by a stormwater Construction General Permit (CGP) under the Arizona Pollutant Discharge Elimination System (AZPDES). Basically, if drilling activity, including construction (i.e., clearing, grading, and excavating) of drill pads and access roads will disturb one or more acres of land, coverage under the CGP may be required. However, the site may qualify for a waiver of coverage as a small construction activity (see 40 CFR §122.26(b)(15)). Go to http://legacy.azdeq.gov/environ/water/permits/cgp.html for more information, or you may contact Christopher Henninger, ADEQ Stormwater Supervisor, at 602/771 – 4501.

Furthermore, if AEP determines it necessary to artificially stimulate this well after the well is completed, that activity will require a permit under the aquifer protection program (APP), before any stimulation activity begins. For more information, go to http://legacy.azdeq.gov/environ/water/permits/app.html or you may call the APP permit hotline, at 602/771 – 4999. AEP is advised to carefully anticipate whether well stimulation will be necessary, in order to allow ample time to navigate the APP application process, public comment period and issuance of the permit.

For well stimulations, obtaining an APP permit would be an additional requirement before drilling begins, besides compliance with the Oil and Gas Conservation Commission requirements of A.A.C. R12-7-117.

The Arizona Department of Environmental Quality administers both the AZPDES and APP programs.

Feel free to contact me at ogcc@azdeq.gov or (602) 771 – 4501, if you have any questions.

Sincerely,

Dennis L. Turner
Oil & Gas Program Administrator

Enclosures

cc: Frank Thorwald, Chairman, Arizona Oil and Gas Conservation Commission (via email only)
      Joe Dixon, Manager, Minerals Section, Arizona State Land Dept. (via email only)
CERTIFICATE for PERMIT to DRILL an
OIL, GAS, INJECTION or GEOTHERMAL WELL

PERMIT / LTF NUMBER  1216/ LTF 65842

Has been issued to  Arizona Energy Partners, LLC (AEP)
to drill a well known as  AEP 2-1 Manuel Seep (State 13-115935)
located  1128 FSL  2376 FEL
located in Section 2 Township 12N Range 24E, Apache County, Arizona

The entirety of Sec 2, T12N, R24E (583.90 acres) of said Section, Township and Range is dedicated to
this well.

Said well shall be drilled substantially as described in the Application and as approved
by the OGCC’s letter dated April 26, 2017. Arizona Energy Partners, L.L.C. is subject to
terms and conditions of the permit to drill and all applicable Arizona Revised Statutes
(A.R.S.) Title 27, Chap. 4, Art. 1 and 4, and the Arizona Administrative Code (A.A.C.)
R12-7-104, R12-7-106 to 107 and R12-7-175 to 176.

API No.:  02-001-20506
Check No.  1068
Issued:  April 26, 2017
Expires*:  October 23, 2017

*The permit to drill expires if operations are not commenced within
180 days from date of this certificate (see A.A.C R12-7-104(D))

Dennis L. Turner, Oil & Gas Program Administrator
(602)771-4501

OPERATOR SHALL DISPLAY THIS CERTIFICATE
IN A CONSPICUOUS PLACE ON-SITE
APPLICATION FOR PERMIT TO DRILL OR RE-ENTER

APPLICATION TO DRILL [X]    RE-ENTER OLD WELL [ ]

NAME OF COMPANY OR OPERATOR

ARIZONA ENERGY PARTNERS, LLC

Address City State Phone Number

2999 North 44th Street, Suite 620 Phoenix AZ 85018

Drilling Contractor

AEP DRILLING, LLC

Address City State Phone Number

2999 North 44th Street, Suite 620 Phoenix AZ 85018

DESCRIPTION OF WELL AND LEASE

Federal, State or Indian Lease Number, or if fee lease, name of lessor

ASLD 13-115935

Well number

2-1 MANUEL SEEP

Elevation (ground)

5898'

Nearest distance from proposed location to property or lease line:

1128 feet

Distance from proposed location to nearest drilling, completed or applied-for well on the same lease:

NONE

Number of acres in lease

583.90

Number of wells on lease, including this well, completed in or drilling to this reservoir:

If lease purchased with one or more wells drilled, from whom purchased:

N/A

Well location (give footage from section lines)

1128'E1/2S, FSL & 2316' FEL

Section - Township - Range or Block and Survey

S2 - T12N - R24E G + 5KM

Field and reservoir (if wildcat, so state)

WILD CAT

County

APACHE

Distance in miles and direction from nearest town or post office

FROM CONCHO, AZ 5831.80' W 0.4 MILES

Proposed depth:

1,000'

Rotary or cable tools

ROTRAY

Organization Report

On file

On file

Or attached

Filing Fee of $25.00

Remarks

API # 02-001-20506

AEP CUSTOMER 89542 PLACE ID 15085X

CERTIFICATE: I, the undersigned, under the penalty of perjury, state that I am the: MANAGER/PRESIDENT of the ARIZONA ENERGY PARTNERS, LLC (company), and that I am authorized by said company to make this report; and that this report was prepared under my supervision and direction and that the facts stated therein are true, correct and complete to the best of my knowledge.

Signature

APRIL 14, 2017

Date

STATE OF ARIZONA

OIL & GAS CONSERVATION COMMISSION

Application to Drill or Re-enter

File two copies: one by mail, one electronically

Form No. 3

(Complete Reverse Side)
1. Operator shall outline on the plat the acreage dedicated to the well in compliance with A.A.C. R12-7-107.

2. A registered surveyor shall show on the plat the location of the well and certify this information in the space provided.

3. ALL DISTANCES SHOWN ON THE PLAT MUST BE FROM THE OUTER BOUNDARIES OF THE SECTION.

4. Is the operator the only owner in the dedicated acreage outlined on the plat below?  YES  X  NO  

5. If the answer to question four is no, have the interests of all owners been consolidated by communitization agreement or otherwise?  YES  NO  If answer is yes, give type of consolidation

6. If the answer to question four is no, list all the owners and their respective interests below:

Owner: ARIZONA ENERGY PARTNERS, LLC  
Land Description: NW1/4 SE1/4 S. 02 T12N R24E G&SRM APACHE CO.

CERTIFICATION

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

Name: GORDON LEBLANC, JR.
Position: MANAGER/PRESIDENT
Company: ARIZONA ENERGY PARTNERS, LLC
Date: APRIL 14, 2017

I hereby certify that the outline shown on the plat is the true and correct outline of the actual surface location of the well and is consolidated by the landowner(s) and certified.

Date Surveyed: 02/16/2017
Registered Land Surveyor: Daniel R. Muth PLS
Certificate No. Az RLS No. 31028

PROPOSED CASING PROGRAM

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<tr>
<th>Size of Casing</th>
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<th>Grade &amp; Type</th>
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<th>Bottom</th>
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