Grand Mesa Operating Company

Economic Study for Flaring Natural Gas

Sections 7, 9, 18, 30 5S-53W; 25 & 35 5S-54W Washington County, CO

Section 2 6S-54W Lincoln County, CO

Date Prepared: February 10, 2020

Subject Well: THE UNDEFEATED #1-7

Current Producing Leases:

1) McLintock #1-9 SW/SW 9-5S-53W
2) Big Jake #1-18 NE/SW 18-5S-53W
3) Rio Lobo #1-30 SW/NE 30 5S-53W
4) Cowboys #1-25 NW/NE 25 5S-54W
5) Searchers #1-25 & #2-25 S2/NE 25 5S-54W
6) Salen #14-35 SE/SW 35 5S-54W
7) Easy Come #1 & #2 N2/NE 2 6S-54W Lincoln County, CO

Leases being Completed:

1) The Undefeated #1-7 7-5S-53W

Costs:

Natural Gas Sales:

Nearest pipeline for natural gas sales is southwest of Limon, CO owned by Colorado Interstate Gas a Kinder Morgan Company. This is about 30+ miles away from our northern most well, McLinctock #1-9 and 26+ miles from our southern most well, the Easy Come lease.

1) Estimated connection cost for pipeline from our wells to connection is about $3.5 - 4,000,000. Route assumes a straight line from well to connection terminal. Additional costs could be incurred for having to use road ditches for portions or all of the pipeline.
2) Connection fee to pipe line is $1.0 – 1,500,000 and takes 7-8 months for CIG to complete.
3) Processing equipment and other equipment $1.0 – 2,000,000.
4) Unknown costs for right of ways
5) Need to buy or lease land for CIG to put equipment at their site for connection
6) Total known costs $5.5-7.5 MM

NGL Separation:

GMOC is having difficulty locating proper onsite NGL separating equipment at this time but has learned the following:

1) Need 150 and preferable 200+ mcfpd
2) Need to lease for at least 12 months
   a. If lease falls under sales quota then operator owes for difference
3) To purchase would be $750,000 to $1.5M
4) Another $75-100,000 for construction of pipelines between leases, meters for each lease, labor, and other miscellaneous costs.

Current and forecast production:

*All wells use lease gas to operating engine for pumping unit and the heater treater. The gas metered here is what is going to the combustor or flare.

1) McLintock #1-9: 0 mcfpd
2) Big Jake #1-18: 0 mcfpd
3) Cowboys #1-25: 0 mcfpd
4) Searchers Lease: 0 mcfpd
5) Rio Lobo #1-30: 0 mcfpd
6) Salen #14-35: 0 mcfpd
7) Easy Come Lease: 0 mcfpd
8) The Undefeated #1-7: projected 20 mcfpd @ IP and <5 mcfpd after first year

Conclusions:

With Natural Gas prices about $2.00/mcf then taking transportation and area discounts into account prices will be under $1.75 /mcf. With at least $5.5MM and most likely well over $6MM to connect to CIG and production of estimated less than 20 mcfpd and under 2 mcfpd after one year of Undefeated production this project is not economical in the opinion of Grand Mesa Operating Company. The alternative is to extract the NGLs from the gas and from the guidance and current information we do not meet the minimum criteria now and will not after a twelve-month period; for these reasons this project is not feasible in the opinion of Grand Mesa Operating Company.