

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

N.M. OIL CONSERVATION DIVISION

811 S. FIRST STREET

ARTESIA, NM 88201

FORM APPROVED
OMB No. 1004-0137
Expires: July 31, 2010

SUNDRY NOTICES AND REPORTS ON WELLS
Do not use this form for proposals to drill or to re-enter an abandoned well. Use Form 3160-3 (APD) for such proposals.

5. Lease Serial No.
88201M36648

6. If Indian, Allottee or Tribe Name

SUBMIT IN TRIPLICATE - Other instructions on page 2.

7. If Unit of CA/Agreement, Name and/or No.

1. Type of Well

☐ Oil Well ☒ Gas Well ☐ Other

8. Well Name and No.
China Federal #11

2. Name of Operator
LRE Operating, LLC

9. API Well No.
30-005-61658

3a. Address
1111 Bagby Street, Suite 4600
Houston, TX 77002

3b. Phone No. (include area code)
575-623-8424

10. Field and Pool or Exploratory Area
Pecos Slope; ABO West (Gas)

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)

660' FNL 2310' FEL Unit B Sec 20 T07S R23E

11. Country or Parish, State
Chaves County, New Mexico

12. CHECK THE APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT OR OTHER DATA

| TYPE OF SUBMISSION | TYPE OF ACTION | | | |
|--|---|---|---|---|
| <input checked="" type="checkbox"/> Notice of Intent | <input type="checkbox"/> Acidize | <input type="checkbox"/> Deepen | <input checked="" type="checkbox"/> Production (Start/Resume) | <input type="checkbox"/> Water Shut-Off |
| <input type="checkbox"/> Subsequent Report | <input type="checkbox"/> Alter Casing | <input type="checkbox"/> Fracture Treat | <input type="checkbox"/> Reclamation | <input type="checkbox"/> Well Integrity |
| <input type="checkbox"/> Final Abandonment Notice | <input type="checkbox"/> Casing Repair | <input type="checkbox"/> New Construction | <input type="checkbox"/> Recomplete | <input type="checkbox"/> Other _____ |
| | <input type="checkbox"/> Change Plans | <input type="checkbox"/> Plug and Abandon | <input type="checkbox"/> Temporarily Abandon | |
| | <input type="checkbox"/> Convert to Injection | <input type="checkbox"/> Plug Back | <input type="checkbox"/> Water Disposal | |

13. Describe Proposed or Completed Operation: Clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recompleat horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports must be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 must be filed once testing has been completed. Final Abandonment Notices must be filed only after all requirements, including reclamation, have been completed and the operator has determined that the site is ready for final inspection.)

All wells on the lease referenced in the attached written order are capable of producing in paying quantities.

They are shut in due to Agave's (Gas Purchaser) inability to sale the gas due to high nitrogen content.

Agave is in the process of installing a nitrogen rejection unit which will enable Lime Rock Resources/LRE Operating, LLC and other companies to return their wells to production.

The estimated time for the plant to be in operation is in the late 4th Quarter of this year (2014).

Please see attached letter from Agave Energy.

Accepted for record
NMOCD 109
7-30-14
NM OIL CONSERVATION
ARTESIA DISTRICT
JUL 28 2014
RECEIVED

APPROVED FOR 6 MONTH PERIOD
ENDING FEB 01 2015

14. I hereby certify that the foregoing is true and correct.

Name (Printed/Typed)

Michael Barrett

Title Production Supervisor

Signature

Michael Barrett

Date 07/21/2014

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by

151 Angel Mayes

Assistant Field Manager,
Lands And Minerals

Date

7-23-14

Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Office

Roswell Field Office

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

(Instructions on page 2)

OPERATIONS COPY

Number **14OT40WO**
Page **1** of **2**

☒ Certified Mail - Return
Receipt Requested
70103090000044926250

**UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
NOTICE OF WRITTEN ORDER**

| | |
|----------------|-----------|
| IDENTIFICATION | |
| III.D. | |
| Lease | NMNM36648 |
| CA | |
| Unit | |
| PA | |

| | | | | | | | |
|---|-------------------|-----------------|-----------|---|------------|---------------|-----------|
| Bureau of Land Management Office ROSWELL FIELD OFFICE | | | | Operator LRE OPERATING, LLC | | | |
| Address 2909 W. SECOND ST. ROSWELL NM 88201 | | | | Address 1111 BAGBY, SUITE 4600 HOUSTON TX 77002 | | | |
| Telephone 575.627.0272 | | | | Attention | | | |
| Inspector OTORRES | | | | Attn Addr | | | |
| Site Name | Well/Facility/FMP | 1/4 1/4 Section | Township | Range | Meridian | County | State |
| CHINA FEDERAL | 1 | NWNE 18 | 7S | 23E | NMP | CHAVES | NM |
| Site Name | Well/Facility/FMP | 1/4 1/4 Section | Township | Range | Meridian | County | State |
| CHINA FEDERAL | 11 | NWNE 20 | 7S | 23E | NMP | CHAVES | NM |
| Site Name | Well/Facility/FMP | 1/4 1/4 Section | Township | Range | Meridian | County | State |
| (SEE ATTACHED) | | | | | | | |

The following condition(s) were found by Bureau of Land Management Inspectors on the date and at the site(s) listed above.

| Date | Time (24-hour clock) | Corrective Action to be Completed by | Date Corrected | Authority Reference |
|------------|-------------------------|---|-------------------|---------------------|
| 06/30/2014 | 13:30 | 08/08/2014 | | 43 CFR 3162.1(a) |

Remarks:

NOTICE OF ORDERS OF THE BLM AUTHORIZED OFFICER

An inspection was performed by BLM representative Oscar Torres, Petroleum Engineering Technician on wells committed to the following Lease NMNM 36648:

China Federal; #4, #3, #7, #1, #5, #2, #8, #14, #15, #12, #11, #13, #9

THE ABOVE REFERENCED WELLS ARE SHUTIN WITHOUT PRIOR APPROVAL
(Remarks continued on following page(s).)

When the Written Order is complied with, sign this notice and return to above address.

Company Representative Title Production Supervisor Signature [Signature] Date 7-16-14
Company Comments A 3160-5 is attached detailing plans to return wells to production upon completion of Agaves H2 plant

Warning

The Authorized Officer has authority to issue a Written Order in accordance with 43 CFR 3161.2. Written Order correction and reporting time frames begin upon receipt of this Notice or 7 business days after the date it is mailed, whichever is earlier. Each stipulation must be corrected within the prescribed time from receipt of this Notice and reported to the Bureau of Land Management Office at the address shown above. If you do not comply as noted above under "Corrective Action to be Completed By", you shall be issued an Incident of Noncompliance (INC) in accordance with 43 CFR 3163.1(a). Failure to comply with the INC may result in assessments as outlined in 43 CFR 3163.1 and may also incur civil penalties (43 CFR 3163.2). All self-certified corrections must be postmarked no later than the next business day after the prescribed time frame for correction.

Section 109(d)(1) of the Federal Oil and Gas Royalty Management Act of 1982, as implemented by the applicable provisions of the operating regulations at Title 43 CFR 3163.2(f)(1), provides that any person who "knowingly or willfully" prepares, maintains, or submits false, inaccurate, or misleading reports, notices, affidavits, records, data, or other written information required by this part shall be liable for a civil penalty of up to \$25,000 per violation for each day such violation continues, not to exceed a maximum of 20 days.

Review and Appeal Rights

A person contesting a decision shall request a State Director review of the Written Order. This request must be filed within 20 working days of receipt of the Notice with the appropriate State Director (see 43 CFR 3165.3). The State Director review decision may be appealed to the Interior Board of Land Appeals, 801 North Quincy Street, Suite 300, Arlington, VA 22203 (see 43 CFR 3165.4). Contact the above listed Bureau of Land Management office for further information.

| | | |
|---|---------------------------|------|
| Signature of Bureau of Land Management Authorized Officer <u>[Signature]</u> | Date <u>06/30/2014</u> | Time |
|---|---------------------------|------|

FOR OFFICE USE ONLY

| | | |
|---------------------|------|---------------------------------|
| Number 51 | Date | Type of Inspection PI |
|---------------------|------|---------------------------------|

Wells and/or Facilities and/or FMPs, continued

| Site Name | Well/Facility/FMP | 1/4 1/4 Sec | Township | Range | Meridian | County | State |
|---------------|-------------------|-------------|----------|-------|----------|--------|-------|
| CHINA FEDERAL | 12 | SWNW 19 | 7S | 23E | NMP | CHAVES | NM |
| CHINA FEDERAL | 13 | NWSW 20 | 7S | 23E | NMP | CHAVES | NM |
| CHINA FEDERAL | 14 | NESE 19 | 7S | 23E | NMP | CHAVES | NM |
| CHINA FEDERAL | 15 | NESW 19 | 7S | 23E | NMP | CHAVES | NM |
| CHINA FEDERAL | 2 | SWNW 18 | 7S | 23E | NMP | CHAVES | NM |
| CHINA FEDERAL | 3 | SWNW 17 | 7S | 23E | NMP | CHAVES | NM |
| CHINA FEDERAL | 4 | NESW 17 | 7S | 23E | NMP | CHAVES | NM |
| CHINA FEDERAL | 5 | NWSE 18 | 7S | 23E | NMP | CHAVES | NM |
| CHINA FEDERAL | 7 | NESW 18 | 7S | 23E | NMP | CHAVES | NM |
| CHINA FEDERAL | 8 | NENE 19 | 7S | 23E | NMP | CHAVES | NM |
| CHINA FEDERAL | 9 | SWNW 20 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | A | NESW 17 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | B | SWNW 17 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | C | NESW 18 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | D | NWSE 18 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | E | SWNW 18 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | F | NWNE 18 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | G | NENE 19 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | H | NESW 19 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | I | NESE 19 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | J | SWNW 19 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | K | SWNW 20 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | L | NWSW 20 | 7S | 23E | NMP | CHAVES | NM |
| (FACILITY) | M | NWNE 20 | 7S | 23E | NMP | CHAVES | NM |

BLM Remarks, continued

43 CFR 3162.3-4 (c) REQUIRES THAT WELL(S) INCAPABLE OF PRODUCTION IN PAYING QUANTITIES BE PROMPTLY PLUGGED AND ABANDONED AND REQUIRES APPROVAL FOR ANY WELL TEMPORARILY ABANDONED FOR MORE THAN 30 DAYS. THEREFORE YOU ARE ORDERED TO DO ONE OF THE FOLLOWING:

1. IF YOU DECIDE TO RETURN THE WELL TO PRODUCTION, SUBMIT A SUNDRY NOTICE (FORM 3160-5, ORIGINAL AND 3 COPIES) OF INTENT WITHIN 30 DAYS OF RECEIPT OF THIS LETTER INCLUDE THE DATE YOU ANTICIPATE THE WELL BEING PLACED BACK IN SERVICE. 43 CFR 3162.4-1(c) ALSO REQUIRES YOU TO NOTIFY THE AUTHORIZED OFFICER, NOT LATER THAN THE FIFTH BUSINESS DAY AFTER PRODUCTION IS RESUMED FOR ANY WELL WHICH HAS BEEN OFF PRODUCTION FOR MORE THAN 90 DAYS, THE DATE ON WHICH SUCH PRODUCTION WAS RESUMED. NOTIFICATION MAY BE BY LETTER OR SUNDRY NOTICE, OR ORALLY FOLLOWED BY LETTER OR SUNDRY NOTICE.

2. IF THE WELL IS TO BE USED FOR BENEFICIAL PURPOSES, SUBMIT A SUNDRY NOTICE (FORM 3160-5, ORIGINAL AND 3 COPIES) WITHIN 30 DAYS OF RECEIPT OF THIS LETTER AND INCLUDE INFORMATION CONCERNING FUTURE USE. A BRIEF DESCRIPTION OF YOUR PROPOSED PLANS AND ECONOMIC FEASIBILITY AND AN ANTICIPATED DATE FOR PLACING THE WELL IN BENEFICIAL USE WILL SUFFICE.

3. IF YOU DECIDE TO PLUG AND ABANDON THE WELL, SUBMIT A SUNDRY NOTICE FORM 3160-5, ORIGINAL AND 3 COPIES) WITHIN 30 DAYS OF RECEIPT OF THIS LETTER AND DESCRIBE THE PROPOSED PLUGGING PROGRAM.

FOR MONITORING AND TRACKING PURPOSES;
SUBMIT APPROPRIATE PAPERWORK TO THIS OFFICE
ATTENTION: ROBERT E. HOSKINSON Sr.
IF YOU HAVE ANY QUESTIONS, CONTACT:

Oscar Torres
Petroleum Engineering Technician
2909 West Second Street
Roswell, NM 88201
Office: (575) 627-0249
Cell: (575) 208-8701

AGAVE ENERGY COMPANY

105 South Fourth Street

Artesia, New Mexico 88210

(575) 748-4555

Fax (575) 748-4275

July 22, 2014

VIA EMAIL: Mbarrett@limerockresources.com

Mr. Mike Barrett

Lime Rock Resources

RE: Transwestern Pipeline Gas Quality Issue Posting

Dear Mr. Barrett,

As per your request, please find attached the Gas Quality Issue Posting dated April 21, 2011 by Transwestern Pipeline. This notice effectively forced Agave to curtail gas receipts on our gathering systems in the Bitter Lakes and Red Bluff areas in Chaves County, New Mexico.

Agave has executed a new Gas Purchase agreement with Lime Rock Resources dated January 1 2013. The new Nitrogen treating/blending facility has an expected operational date of November 1st 2014. The major delay in the start-up of this facility is due to BLM rights of way re-routes associated with the electrical service provider Central Valley Electric.

Best Regards,



J.B. Smith

President

Agave Energy Company

CC: Tim Miller – Lime Rock Resources

Melanie Brantley-Agave Energy Company

From: Hearn, Steven <Steven.Hearn@energytransfer.com>
To: J.B. Smith
Sent: Fri Sep 14 12:35:25 2012
Subject: TW Gas Quality Posting

JB,

See Below This was the posting for the Gas Quality issue

Notice Text: April 21, 2011

To: All Transwestern Pipeline Customers

Reason: Panhandle Lateral Receipt Locations Gas Quality

Sections 2.1 and 2.3 of the General Terms and Conditions of the tariff set forth the gas quality standards and provide that Transwestern can accept gas that deviates from the specifications to the extent that the gas can be blended and does not prevent delivery to downstream locations.

Based on current gas flows and gas quality readings, Transwestern is taking the following additional steps to maintain a blended gas stream on the Panhandle Lateral in line with the tariff standards.

Effective as soon as possible, but not later than Tuesday April 26, 2011, operators should limit Nitrogen content to no greater than 5.0% at any individual receipt point into the Panhandle lateral. Transwestern believes that, given current conditions, this action will result in a blended gas stream in line with tariff standards.

If Transwestern determines that the circumstances or operational conditions have changed or are not being met, then Transwestern may take such action as it deems appropriate, in its sole discretion, to remedy the situation. This may include acting without further notice to shut-in the relevant receipt point(s).