

TES
8-15-2014

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

N.M. OIL CONSERVATION DIVISION
811 S. FIRST STREET
ARTESIA, NM 88210

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NM - 12557
1b. Type of Well: <input checked="" type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name N/A
2. Name of Operator JALAPENO CORPORATION		7. If Unit or CA Agreement, Name and No. N/A
3a. Address PO BOX 1608 ALBUQUERQUE, NM 87103		8. Lease Name and Well No. DUNCAN FEDERAL #11
3b. Phone No. (include area code) 505-242-2050		9. API Well No. 30-005-64211
4. Location of Well (Report location clearly and in accordance with any State requirements *) At surface 660' FSL & 990' FWL At proposed prod. zone		10. Field and Pool, or Exploratory Wolfe Lake, San Andres, South
14. Distance in miles and direction from nearest town or post office* 24 miles NE of Roswell, New Mexico		11. Sec., T. R. M. or Blk. and Survey or Area Sec. 7, T-9S, R-28E
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 660'	16. No. of acres in lease 1074.24	17. Spacing Unit dedicated to this well M
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 330'	19. Proposed Depth 2300'	20. BLM/BIA Bond No. on file NMB000378
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3886' GL	22. Approximate date work will start*	23. Estimated duration 90 days

24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No.1, must be attached to this form:

1. Well plat certified by a registered surveyor.
2. A Drilling Plan.
3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO must be filed with the appropriate Forest Service Office).
4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
5. Operator certification
6. Such other site specific information and/or plans as may be required by the BLM.

25. Signature 	Name (Printed/Typed) H. EMMONS YATES, III	Date 3/27/14
Title VICE PRESIDENT		
Approved by (Signature) 	Name (Printed/Typed) Angel Mayes	Date 8-13-14
Title Assistant Field Manager, Lands And Minerals		

Application approval 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.
Conditions of approval, if any, are attached.

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.

(Continued on page 2)

*(Instructions on page 2)

ROSWELL CONTROLLED WATER BASIN

NM OIL CONSERVATION
ARTESIA DISTRICT

AUG 15 2014

25% SURFACE
CIRCULED

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS ATTACHED

RECEIVED

WITNESS

Jalapeno Corporation

DUNCAN FEDERAL #11

660 FSL & 990 FWL

SECTION 7, T. 9-S, R. 28-E

CHAVES COUNTY, NEW MEXICO

13. OPERATOR'S REPRESENTATIVE

Representative responsible for assuring compliance with the approved surface use plan is:

Address:

H. Emmons Yates, III, Vice President
Jalapeno Corporation
P.O. Box 1668
Albuquerque, NM 87103

Contact Information:

Albuquerque Office Phone: (505) 242-2050

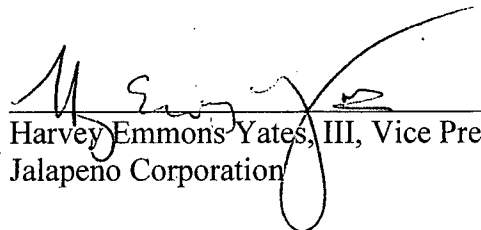
Emmons Yates, Vice President
Cell Phone: (505) 980-0703

Harvey E. Yates, Jr., President
Cell Phone: (505) 980-7761

OPERATING CERTIFICATION

I hereby certify that I, or someone under my direct supervision, have inspected the drill site and access route proposed herein; that I am familiar with the conditions which currently exist; that I have full knowledge of state and Federal laws applicable to this operation; that the statements made in this APD package are, to the best of my knowledge, true and correct; and that the work associated with the operations proposed herein will be performed in conformity with this APD package and the terms and conditions under which it is approved. I also certify that I, or the company I represent, am responsible for the operations conducted under this application. These statements are subject to the provisions of 18 U.S.C. 1001 for the filing of false statements.

Executed this 10th day of April, 2014.


Harvey Emmons Yates, III, Vice President
Jalapeno Corporation

DISTRICT I
1625 N. French Dr., Hobbs, NM 88240
Phone: (575) 393-6161 Fax: (575) 393-0720

DISTRICT II
811 S. First St., Artesia, NM 88210
Phone: (575) 748-1283 Fax: (575) 748-9720

DISTRICT III
1000 Rio Brazos Road, Aztec, NM 87410
Phone: (505) 334-6178 Fax: (505) 334-6170

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505
Phone: (505) 476-3460 Fax: (505) 476-3462

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

Form C-102
Revised August 1, 2011
Submit one copy to appropriate
District Office

□ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-005-64211	Pool Code 65075	Pool Name Wolf Lake, San Andres, South
Property Code 15779	Property Name DUNCAN FEDERAL	Well Number 11
OGRID No. 26307	Operator Name JALAPENO CORPORATION	Elevation 3886'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	7	9-S	28-E		660	SOUTH	990	WEST	CHAVES

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres 40	Joint or Infill	Consolidation Code	Order No.						

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p>GEODETIC COORDINATES NAD 27 NME</p> <p>SURFACE LOCATION Y=924741.2 N X=560673.7 E</p> <p>LAT.=33.541928° N LONG.=104.134205° W</p>			
	<p>GEODETIC COORDINATES NAD 83 NME</p> <p>SURFACE LOCATION Y=924805.9 N X=601851.5 E</p> <p>LAT.=33.542025° N LONG.=104.134724° W</p>			
<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p><i>H. Emmons Yates III</i> 3/25/14 Signature Date</p> <p>H. Emmons Yates III Printed Name</p> <p>eyates@jalapenocorp.com E-mail Address</p>				
<p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>NOVEMBER 14, 2013</p> <p>Date of Survey</p> <p>Signature & Seal of Professional Surveyor:</p> <p> GARY G. EIDSON Certificate Number 12641</p> <p>DSR Rel. W.O. #13, 114, 220 WSC W.O.: 14.13.0324</p>				

Jalapeño Corporation

DUNCAN FEDERAL #11

660 FSL & 990 FWL

SECTION 7, T. 9-S, R. 28-E

CHAVES COUNTY, NEW MEXICO

Revised
4/14/14

APPLICATION FOR PERMIT TO DRILL

1. PLATS

Attached is an original Plat signed by H. Eminons Yates III, Vice President of Jalapeno Corporation and by Donald Eidson of John West Surveying Company.

2. SURFACE USE PLAN OF OPERATIONS

(See pages 2-7)

3. OPERATING CERTIFICATION

(See page 8)

4. DRILLING PLAN

(See page 9)

5. DRILLING AND OPERATIONS PROGRAM

(See pages 9-11)

6. BOND

Jalapeno Corporation's Bond is NMB000378.

7. HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

(See page 11)

8. EXHIBITS

Exhibit #1 – Hydraulic BOP Diagram

Exhibit #2 – Well Site Diagram

Exhibit #3 – Vicinity Map

Exhibit #4 – Directions to Location Map

Exhibit #5 – Location Verification Map

Exhibit #6 – Reclamation Diagram

Exhibit #7 – 1 Mile Radius Map of Location of Existing Wells

Exhibit #8 – Production Diagram

Exhibit #9 – Rig Inventory

Exhibit #10A – Sundry Notices and Reports on Wells Form 3160-5 Duncan #2 & #3

Exhibit #10B – Sundry Notices and Reports on Wells Form 3160-5 Duncan #5

Jalapeño Corporation

DUNCAN FEDERAL #11

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SECTION 7, T. 9-S, R. 28-E

CHAVES COUNTY, NEW MEXICO

SURFACE USE PLAN OF OPERATIONS

This plan is submitted with the Application for Permit to drill the above-described well. The purpose of the Plan is to describe the location of the proposed well, the proposed construction activities and operation plan, the magnitude of necessary surface disturbance involved, and the procedures to be followed in rehabilitating the surface after completion of the operation so that a complete appraisal can be made of the environmental effects associated with the operation.

1. EXISTING ROADS:

- A. Exhibit #3 and #5 are maps which show the location of proposed well.
- B. Direction to Location:
From the intersection of State Highway #380 and County Road #51 (Ponderosa Road) go north on County Rd. #51 approximately 11.2 miles. Turn right and go southeast approximately 4.45 miles. Turn right and go south approximately 0.1 miles; road bends right and go southwest approximately 0.75 miles. Road bends left and goes south approximately 0.25 miles to a P&A location. Turn left and go east approximately 0.4 miles to a proposed access road. Follow staked road northeast 281 to the southwest pad corner.

2. PLANNED ACCESS ROAD

- A. Surfacing Material: Caliche will be obtained from a pit which Jalapeno leases from the State of New Mexico in Lot 1 of Section 3, Township 9 South and Range 27 East in the Chaves County. (Only as and where necessary.)
- B. Improvement and/or maintenance of existing road: We will improve or maintain existing roads in a condition the same as or better than before operations begin. We will repair pot holes, clear ditches, repair the crown, etc. All existing structures on the entire access route such as cattle guards, other range improvement projects, culverts, etc. will be properly repaired or replaced if they are damaged or have deteriorated beyond practical use. We will prevent and abate fugitive dust as needed, whether created by vehicular traffic, equipment operations, or wind events. Before application of surfactants, binding agents, or other dust suppression chemicals on roadways we will obtain BLM written approval.
- C. Proposed Access Road/Road Width: The road will be approximately 12 feet wide and 281 feet in length. (See Exhibit #5)
- D. Maximum Grade: 1 percent.
- E. Crown Design: The road crown shall have a grade of approximately 2%
- F. Turnouts: It is not anticipated that turnouts will be needed.

Jalapeño Corporation

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CHAVES COUNTY, NEW MEXICO

- G. Culverts: No Culverts are anticipated.
- H. Drainage/Ditch Design: The ditch grade will be no less than 0.5 percent to provide positive drainage and to avoid siltation.
- I. Erosion Control: None required.
- J. Cuts & Fills: No Cuts or Fills are anticipated.
- K. Gates and Cattle Guards: If the well is successfully completed as a producer, the well pad will be fenced and a cattle guard will be installed at the road entrance to the well pad and at its NE & SW exits (see Exhibits #2.) We will use 14 gauge high tensile steel cattle guard that is 7'5" x 8". The fences will be 4 wire fences with metal "T" posts spaced 15 feet apart with metal brace posts composed of 2 3/8 tubing.
- L. Right of Way: No additional off-lease right-of-way will be necessary.

3. LOCATION OF EXISTING WELLS

A. There are 23 wells within a mile radius of the proposed site (see Exhibit #7).

1. The following 15 wells operated by Jalapeno Corporation:

Duncan Federal #2 (producing)	Aciete Negra #4 (to be re-entered)
Duncan Federal #3 (producing)	Duncan Federal #5 (to be P & A)
Emmons State #1 (producing)	Duncan Federal #10 (P & A)
Emmons State #2 (producing)	Louise Yates State #1 (P & A)
Paisano Federal #1 (producing)	Louise Yates State #2 (P & A)
Scrounger State #1 (producing)	Louise Yates State #3 (P & A)
Louise Yates State #4 (SWD)	Louise Yates State #5 (P & A)
	Scrounger State #2 (P & A)

2. The following 6 wells operated by Cibola Energy Corporation:

Agua Negra #4 (P & A)	Duncan Federal #4 (P & A)
Aciete Negra #3 (P & A)	Duncan Federal #4Y (P & A)
Cibola 16-J (P & A)	Sardine Can #1 (P & A)

3. The following 2 wells operated by Yates Petroleum Corporation:

Joya AYJ State Com #1 (P & A)	Lobo AXU Federal #1Q (P & A)
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B. If the well is a producer, a pump jack and a flow line will be located on the well pad and no additional surface damage will be necessary.

Jalapeño Corporation

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SECTION 7, T. 9-S, R. 28-E

CHAVES COUNTY, NEW MEXICO

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

- A. The drilling facility would be located on the Duncan #11 well pad (see Exhibit#2). If the well is successful, we will pipe the oil and water through a flow line to the Duncan #2-#3 tank battery (see Exhibit#6, #8 & #11).
- B. For a description of drilling equipment, see Exhibit #9.
- C. We will be drilling the Duncan Federal #11 using a cable tool rig.
- D. We will be drilling with a 12 ¼" tool bit for surface and then with a 7 ⅞" bit for production.
- E. We are drilling a San Andres oil test to an approximate depth of 2300 feet using a cable tool rig and little if any gas is expected to be encountered. This method of drilling does not involve a mud, water, and gas or air circulation system. We simply drill using a steel drill bit and after we have drilled for awhile, we run in the borehole with a bailer to bail out the drill cuttings. We then place the bailer into a very small collection tank on the rig floor that has a drill cutting flow line that feeds into the pit. The Duncan Federal #11 is itself an infill well that is located on a Federal lease that contains three other San Andres oil wells. Two of these three San Andres oil wells, Duncan Federal #3 and #5, were drilled with a cable tool rig without a flair system. We have never needed a flair system because we have never encountered any gas of magnitude at these shallow depths which would make a flair system necessary. Having a line extending out 100 or 150 feet toward the pit would create a scenario where we would have to build a larger location and disturb more of the environment than we feel is necessary.
- F. The rig will be equipped with gas sensing equipment and an alarm to detect any escaping gas. A 210 bbl tank full of water will be on location and if gas becomes a problem, the hole will be flooded with water.
- G. The drilling rig will run on diesel fuel and if the well is successful, we will move a pump jack on location with a motor. The motor will run on either casing head gas or propane.
- H. For type of pit see C-144 form enclosed.

5. LOCATION AND TYPE OF WATER SUPPLY

- A. We plan to drill the proposed well with a cable tool rig.
- B. We are going to use a 210 bbls steel water tank on location. The water will be obtained from Roswell city water and will be hauled by Standard Energy Service.

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6. CONSTRUCTION MATERIALS

- A. Caliche will be obtained and from a pit which Jalapeno leases from the State of New Mexico in Lot 1 of Section 3, Township 9 South and Range 27 East in the Chaves County.

7. METHODS OF HANDLING WASTE MATERIALS:

- A. All trash, junk and other material shall be contained in trash cages or trash bins to prevent scattering. When job is completed, all contents shall be removed and disposed of in an approved landfill.
- B. Current laws and regulation pertaining to the disposal of human waste will be complied with.
- C. Remaining drilling fluids shall be hauled off by transports to a state approved disposal site. Water produced during completion shall be put in storage tanks and disposed of in a state approved disposal (see below). Oil and condensate produced shall be put in a storage tank and sold.

Disposal Facility Name: Gandy Marley Landfarm

Disposal Facility Permit Number: NM 711-01-0019

9. WELLSITE LAYOUT

- A. Exhibit #2 shows relative locations and dimensions of the well pad layout are 200 feet by 200 feet. We will have a perimeter fence surrounding the well pad if we have a successful producer.

10. PLANS FOR RECLAMATION OF THE SURFACE

- A. After completion of drilling and/or completion of operations, all equipment and other materials not needed for further operations will be removed and surface reclamation will be done in accordance with BLM's rules and regulations
- B. If the well is found non-commercial, the caliche shall be removed from the pad and transported to the original caliche pit or used for other drilling locations or roads.
- C. We try to leave as small a footprint as possible that is why our well pads are small to begin with. We will reclaim the pit area but the rest of the location is needed to operate the well safely. Top Soil will be stockpiled on the eastern side of the well pad. If the hole is dry or after production ceases the original topsoil will be returned to the pad and contoured, as close as possible, to the original topography and the site will be seeded with the seed mixture required by the BLM. See Exhibit #6.

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- D. The only interim reclamation we plan to do is to reclaim the pit in accordance with OCD Form C144 (see 10.E below and the attached NMOCD Form C144). We will not perform any further interim reclamation because our well pads are very small to begin with and if we made them any smaller it would endanger our ability to safely operate the well as an oil producer. Once the well is no longer economic or is plugged we would spread the stockpiled material on the east side of the well and spread the required seed content that is given to us by the BLM.

E. Reclamation Plan for Pit

1. Once we have closed a pit we shall reclaim the pit location and all areas associated with the pit to a safe and stable condition that blends with the surrounding undisturbed area. We shall substantially restore the impacted surface area to the condition that existed prior to oil operations by placement of the soil cover as provided in soil cover designs below, recontour the location and associated areas to a contour that approximates the original contour and blends with the surrounding topography and re-vegetate according to re-vegetation below.
2. Areas reasonably needed for production operations or for subsequent drilling operations shall be compacted, covered, paved, or otherwise stabilized and maintained in such a way as to minimize dust and erosion to the extent practicable.
3. All other areas disturbed by the closure of pits shall be reclaimed as early and as nearly as practicable to their original condition or their final land use and shall be maintained to control dust and minimize erosion to the extent practicable.
4. The soil cover for burial in-place pit will consist of a minimum of four feet of non-waste containing uncontaminated earthen material with chloride concentrations less than 600 mg/kg as analyzed by EPA Method 300.0. The soil cover shall include either the background thickness of topsoil or one foot of suitable material to establish vegetation at the site, whichever is greater. The operator shall construct the soil cover to the site's existing grade and prevent pooling of water and erosion of the cover material.
5. Topsoil's and subsoil's will be replaced to their original relative positions and contoured so as to achieve erosion control, long-term stability and preservation of surface water flow patterns.
6. The disturbed area then shall be reseeded in the first favorable growing season following closure of a pit.

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7. We will accomplish seeding by drilling on the contour whenever practical or by other division-approved methods. We shall obtain a uniform vegetative that reflects a life-form ratio of plus or minus fifty percent (50%) of pre-disturbance levels and a total percent plant cover of at least seventy percent (70%) of pre-disturbance levels, excluding noxious weeds and maintain that cover through two successive growing seasons. During the two growing seasons that prove viability, there shall be no artificial irrigation of the vegetation.
8. We shall notify the division when location has been seeded or planted and when this area has successfully achieved re-vegetation. We shall repeat seeding or planting until it successfully achieves the required vegetative cover.
11. **SURFACE OWNERSHIP:**
 - A. The surface owner is the Bureau of Land Management (BLM).
12. **OTHER INFORMATION**
 - A. Topography: The land surface is level except for some sand dunes.
 - B. Soil: Soil is mostly sandy with some calcareous lime and gravel.
 - C. Flora and Fauna: Vegetative cover consists of small mesquite and grease wood and some grass. Wildlife in the general area is that typical of semi-arid desert land and includes coyotes, rabbits, rodents, reptiles, dove and quail.
 - D. Ponds & Streams: There are no ponds or streams within a mile radius of the well site.
 - E. Residences and other Structures: There are no residences or other structure within the immediate area.
 - F. Land Use: The immediate pad location is unused at this time but the 40 acre block that the location sits upon is currently being used by Jalapeno Corporation for the production for two existing San Andres oil wells, as well as, a Federal Caliche pit to the north of the proposed location.

Jalapeno Corporation

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CHAVES COUNTY, NEW MEXICO

DRILLING PLAN

This well will be drilled with a Cable Tool Rig to a depth of approximately 2300 feet. 8 5/8" surface casing will be run to approximately 400 feet and will be set using the rig (see casing information below). If the well is completed, 5 1/2" inch casing will be run and cemented.

We anticipate encountering a fresh water bearing sand somewhere between 308 feet and encountering the top of the Yates at approximately 495 feet and encountering the top of the San Andres at approximately 1600 ft. We anticipate possible oil shows in the San Andres. If we encounter hydrocarbons in sufficient quantity, we will run 5 1/2" casing and cement it to 500 feet above the estimated top perforation. Treatment of the producing zone(s) will be determined after samples and logs are examined, but likely the zones will be given an acid wash treatment.

DRILLING AND OPERATIONS PROGRAM

In conjunction with Form 3160-3, Application for Permit to Drill subject well, Jalapeno Corporation submits the following ten items of pertinent information in accordance with U.S. Minerals Management Service requirements.

1. GEOLOGICAL NAME OF THE SURFACE FORMATION:

Quaternary fill

2. ESTIMATED TOPS OF GEOLOGIC MARKERS:

Yates	495'
Queen	1140'
Grayburg	1238'
San Andres	1600'
Slaughter	2191'

3. ESTIMATED DEPTH AT WHICH WATER, OIL OR GAS ARE EXPECTED:

Water	308' approx.
Oil & Gas-Yates	495'
Queen	1140'
San Andres	2275' (P1 zone of Slaughter)

4. PROPOSED CASING & CEMENT PROGRAMS:

This well will be drilled using a Cable Tool Rig. The production casing will be cemented from TD to only 400 or 500 feet above the top of the P1. The reason is that production likely will come from fractures. Our experience is that if the cement is run to surface its weight pushes the cement into the productive fractures greatly diminishing the likelihood of a successful well.

(See information related to production casing and it's cementing below).

Jalapeño Corporation

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SECTION 7, T. 9-S, R. 28-E

CHAVES COUNTY, NEW MEXICO

Proposed Casing and Cement Program

	Hole Size	Casing Size	Casing weight/foot	Setting Depth	Grade	Sacks of Cement	Estimated TOC
Surface →	12 1/4	8 5/8	24#	400'	J-55	250 SX	Surface
Production →	7 7/8	5 1/2	15.5#	2,400'	J-55	275 SX	1,900'

5. **TYPES AND CHARACTERISTICS OF THE PROPOSED MUD SYSTEM:**

During the surface drilling, the hole will be drilled with fresh water and drilling mud. If the hole starts sluffing, approximately one gallon of Polymer will be added. Loss circulation material and starch will be on location in case we encounter a loss circulation zone. Fresh water for drilling and completion will be hauled to location over road shown from a private commercial source.

6. **MINIMUM SPECIFICATIONS FOR PRESSURE CONTROL:**

All BOP and related equipment will comply with well control requirements as described in Onshore Order No. 2. Minimum working pressure of the blowout preventer and related equipment (BOPE) will be 2000 psi. The BOP will be installed and operational before drilling below the 8 5/8" surface casing and will be tested as described in Onshore Order No. 2. (See Exhibit #1).

The results of the test will be reported to the appropriate BLM office. Testing fluid will be water. No drilling mud will be used in testing. Testing will be done in a safe workman like manner and hard line connections will be required. If this BOP fails to test satisfactorily, it will be repaired or replaced.

7. **AUXILIARY FACILITIES:**

None Required.

8. **TESTING, LOGGING AND CORING PROGRAM:**

The electric logging program will consist of Gamma Ray, CNL Densilog, and Dual Later log. Gamma Ray will be run from TD to the surface casing. Other logs will be run from TD to the top of the fluid in the hole.

We plan no DST's.

9. **ABNORMAL CONDITIONS, PRESSURES, TEMPERATURES AND POTENTIAL HAZARDS:**

No abnormal pressures are anticipated.

Jalapeño Corporation

DUNCAN FEDERAL #11

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SECTION 7, T. 9-S, R. 28-E

CHAVES COUNTY, NEW MEXICO

10. ANTICIPATED STARTING DATE:

We anticipate starting drilling as soon as we obtain approval of the Application to Drill by the BLM & OCD, subject also to rig availability. It is anticipated that dirt work on the road and location would start within 2 weeks after APD approval.

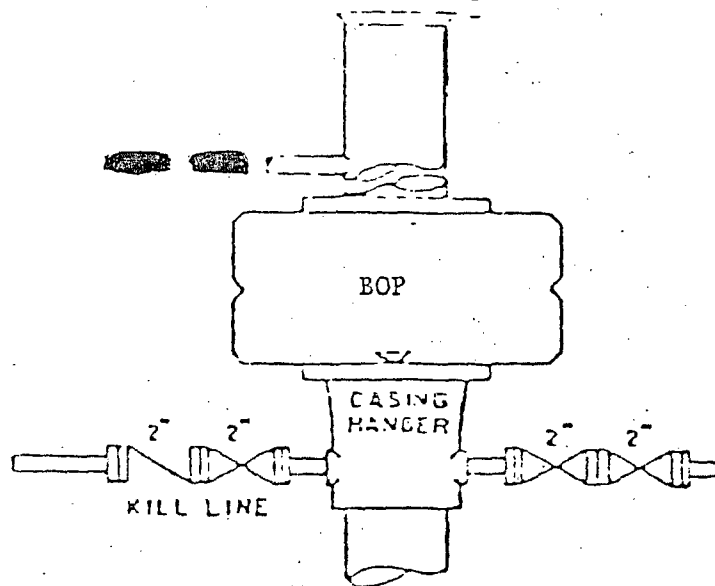
HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

In accordance with the rules and procedures detailed in OCD Rule 118, it has been determined that the H₂S level present at the above-mentioned location likely will not exceed 100 ppm, nor do we expect it to exceed that level on the location during drilling operations. However, during drilling the following protective measures shall be implemented by the operator to address this issue:

- The drill crew and pumper shall be issued gas masks which are appropriate for escape in the event of discharge.
- The rig utilized in this operation shall be oriented so the prevailing wind would carry away from the rig floor any discharge, and when practical, location of tank batteries will also be so situated.
- Signage shall be placed onsite which alerts the public to the possible presence of Hydrogen Sulfide gas.
- A directional wind indicator shall be placed on site.
- The drill site shall have a gas detection device, Industrial Scientific Model iTX Monitor Model LEL, placed near the pit downwind from the borehole. The detector will have an alarm sufficient in sound level to alert the crew to the presence of gas.
- The drill crew will have a cell phone.
- We will have a 100 ft flare line in case we need to direct any H₂S gas we encounter.

The following site conditions have been noted which affect the application of hazard mitigation in this circumstance:

- The site is not proximate to any public road. The closest public road is approximately 4 miles west (Ponderosa Road) of the location.



ANNULAR BOP STACK

PRESSURE 2000#

BOP ARRANGEMENT

District I
1625 N. French Dr., Hobbs, NM 88240
District II
811 S. First St., Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy Minerals and Natural Resources
Department
Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-144
Revised June 6, 2013

For temporary pits, below-grade tanks, and multi-well fluid management pits, submit to the appropriate NMOCD District Office.
For permanent pits submit to the Santa Fe Environmental Bureau office and provide a copy to the appropriate NMOCD District Office.

**Pit, Below-Grade Tank, or
Proposed Alternative Method Permit or Closure Plan Application**

- Type of action: ☐ Below grade tank registration
☒ Permit of a pit or proposed alternative method
☐ Closure of a pit, below-grade tank, or proposed alternative method
☐ Modification to an existing permit/or registration
☐ Closure plan only submitted for an existing permitted or non-permitted pit, below-grade tank, or proposed alternative method

Instructions: Please submit one application (Form C-144) per individual pit, below-grade tank or alternative request

Please be advised that approval of this request does not relieve the operator of liability should operations result in pollution of surface water, ground water or the environment. Nor does approval relieve the operator of its responsibility to comply with any other applicable governmental authority's rules, regulations or ordinances.

1. Operator: JALAPENO CORPORATION OGRID #: 26307
Address: PO BOX 1608 ALBUQUERQUE, NM 87103
Facility or well name: Duncan Federal #11
API Number: _____ OCD Permit Number: _____
U/L or Qtr/Qtr M Section 7 Township 9S Range 28E County: CHAVES
Center of Proposed Design: Latitude 33.541928° N Longitude 104.134205° W NAD: ☒ 1927 ☐ 1983
Surface Owner: ☒ Federal ☐ State ☐ Private ☐ Tribal Trust or Indian Allotment

2. ☒ Pit: Subsection F, G or J of 19.15.17.11 NMAC
Temporary: ☒ Drilling ☐ Workover
☐ Permanent ☐ Emergency ☐ Cavitation ☐ P&A ☐ Multi-Well Fluid Management Low Chloride Drilling Fluid ☒ yes ☐ no
☒ Lined ☐ Unlined Liner type: Thickness 20 mil ☒ LLDPE ☐ HDPE ☐ PVC ☐ Other _____
☐ String-Reinforced
Liner Seams: ☒ Welded ☒ Factory ☐ Other _____ Volume: _____ bbl Dimensions: L 60 x W 15 x D 10

3. ☐ Below-grade tank: Subsection I of 19.15.17.11 NMAC
Volume: _____ bbl Type of fluid: _____
Tank Construction material: _____
☐ Secondary containment with leak detection ☐ Visible sidewalls, liner, 6-inch lift and automatic overflow shut-off
☐ Visible sidewalls and liner ☐ Visible sidewalls only ☐ Other _____
Liner type: Thickness _____ mil ☐ HDPE ☐ PVC ☐ Other _____

4. ☐ Alternative Method:
Submittal of an exception request is required. Exceptions must be submitted to the Santa Fe Environmental Bureau office for consideration of approval.

5. **Fencing:** Subsection D of 19.15.17.11 NMAC (Applies to permanent pits, temporary pits, and below-grade tanks)
☐ Chain link, six feet in height, two strands of barbed wire at top (Required if located within 1000 feet of a permanent residence, school, hospital, institution or church)
☒ Four foot height, four strands of barbed wire evenly spaced between one and four feet
☐ Alternate. Please specify _____

6. **Netting:** Subsection E of 19.15.17.11 NMAC (*Applies to permanent pits and permanent open top tanks*)

- ☐ Screen ☐ Netting ☐ Other _____
- ☐ Monthly inspections (If netting or screening is not physically feasible)

7. **Signs:** Subsection C of 19.15.17.11 NMAC

- ☐ 12"x 24", 2" lettering, providing Operator's name, site location, and emergency telephone numbers
- ☒ Signed in compliance with 19.15.16.8 NMAC

8. **Variations and Exceptions:**

Justifications and/or demonstrations of equivalency are required. Please refer to 19.15.17 NMAC for guidance.

Please check a box if one or more of the following is requested, if not leave blank:

- ☐ Variance(s): Requests must be submitted to the appropriate division district for consideration of approval.
- ☐ Exception(s): Requests must be submitted to the Santa Fe Environmental Bureau office for consideration of approval.

9. **Siting Criteria (regarding permitting):** 19.15.17.10 NMAC

Instructions: The applicant must demonstrate compliance for each siting criteria below in the application. Recommendations of acceptable source are provided below. Siting criteria does not apply to drying pads or above-grade tanks.

General siting

Ground water is less than 25 feet below the bottom of a low chloride temporary pit or below-grade tank.

- ☐ NM Office of the State Engineer - iWATERS database search; ☐ USGS; ☐ Data obtained from nearby wells

☐ Yes ☒ No
☐ NA

Ground water is less than 50 feet below the bottom of a Temporary pit, permanent pit, or Multi-Well Fluid Management pit.
NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells

☐ Yes ☒ No
☐ NA

Within incorporated municipal boundaries or within a defined municipal fresh water well field covered under a municipal ordinance adopted pursuant to NMSA 1978, Section 3-27-3, as amended. (Does not apply to below grade tanks)

- Written confirmation or verification from the municipality; Written approval obtained from the municipality

☐ Yes ☒ No

Within the area overlying a subsurface mine. (Does not apply to below grade tanks)

- Written confirmation or verification or map from the NM EMNRD-Mining and Mineral Division

☐ Yes ☒ No

Within an unstable area. (Does not apply to below grade tanks)

- Engineering measures incorporated into the design; NM Bureau of Geology & Mineral Resources; USGS; NM Geological Society; Topographic map

☐ Yes ☒ No

Within a 100-year floodplain. (Does not apply to below grade tanks)

- FEMA map

☐ Yes ☒ No

Below Grade Tanks

Within 100 feet of a continuously flowing watercourse, significant watercourse, lake bed, sinkhole, wetland or playa lake (measured from the ordinary high-water mark).

- Topographic map; Visual inspection (certification) of the proposed site

☐ Yes ☐ No

Within 200 horizontal feet of a spring or a fresh water well used for public or livestock consumption.

- NM Office of the State Engineer - iWATERS database search; Visual inspection (certification) of the proposed site

☐ Yes ☐ No

Temporary Pit using Low Chloride Drilling Fluid (maximum chloride content 15,000 mg/liter)

Within 100 feet of a continuously flowing watercourse, or any other significant watercourse or within 200 feet of any lakebed, sinkhole, or playa lake (measured from the ordinary high-water mark). (Applies to low chloride temporary pits.)

- Topographic map; Visual inspection (certification) of the proposed site

☐ Yes ☒ No

Within 300 feet from a occupied permanent residence, school, hospital, institution, or church in existence at the time of initial application.

- Visual inspection (certification) of the proposed site; Aerial photo; Satellite image

☐ Yes ☒ No

Within 200 horizontal feet of a spring or a private, domestic fresh water well used by less than five households for domestic or stock watering purposes, or 300feet of any other fresh water well or spring, in existence at the time of the initial application.

NM Office of the State Engineer - iWATERS database search; Visual inspection (certification) of the proposed site

☐ Yes ☒ No

Within 100 feet of a wetland.

- US Fish and Wildlife Wetland Identification map; Topographic map; Visual inspection (certification) of the proposed site

☐ Yes ☒ No

Temporary Pit Non-low chloride drilling fluid

Within 300 feet of a continuously flowing watercourse, or any other significant watercourse, or within 200 feet of any lakebed, sinkhole, or playa lake (measured from the ordinary high-water mark).

- Topographic map; Visual inspection (certification) of the proposed site

☐ Yes ☐ No

Within 300 feet from a permanent residence, school, hospital, institution, or church in existence at the time of initial application.

- Visual inspection (certification) of the proposed site; Aerial photo; Satellite image

☐ Yes ☐ No

Within 500 horizontal feet of a spring or a private, domestic fresh water well used by less than five households for domestic or stock watering purposes, or 1000 feet of any other fresh water well or spring, in the existence at the time of the initial application;

- NM Office of the State Engineer - iWATERS database search; Visual inspection (certification) of the proposed site

☐ Yes ☐ No

Within 300 feet of a wetland.

- US Fish and Wildlife Wetland Identification map; Topographic map; Visual inspection (certification) of the proposed site

☐ Yes ☐ No

Permanent Pit or Multi-Well Fluid Management Pit

Within 300 feet of a continuously flowing watercourse, or 200 feet of any other significant watercourse, or lakebed, sinkhole, or playa lake (measured from the ordinary high-water mark).

- Topographic map; Visual inspection (certification) of the proposed site

☐ Yes ☐ No

Within 1000 feet from a permanent residence, school, hospital, institution, or church in existence at the time of initial application.

- Visual inspection (certification) of the proposed site; Aerial photo; Satellite image

☐ Yes ☐ No

Within 500 horizontal feet of a spring or a fresh water well used for domestic or stock watering purposes, in existence at the time of initial application.

- NM Office of the State Engineer - iWATERS database search; Visual inspection (certification) of the proposed site

☐ Yes ☐ No

Within 500 feet of a wetland.

- US Fish and Wildlife Wetland Identification map; Topographic map; Visual inspection (certification) of the proposed site

☐ Yes ☐ No

10.

Temporary Pits, Emergency Pits, and Below-grade Tanks Permit Application Attachment Checklist: Subsection B of 19.15.17.9 NMAC

Instructions: Each of the following items must be attached to the application. Please indicate, by a check mark in the box, that the documents are attached.

- ☐ Hydrogeologic Report (Below-grade Tanks) - based upon the requirements of Paragraph (4) of Subsection B of 19.15.17.9 NMAC
- ☒ Hydrogeologic Data (Temporary and Emergency Pits) - based upon the requirements of Paragraph (2) of Subsection B of 19.15.17.9 NMAC
- ☒ Siting Criteria Compliance Demonstrations - based upon the appropriate requirements of 19.15.17.10 NMAC
- ☒ Design Plan - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☒ Operating and Maintenance Plan - based upon the appropriate requirements of 19.15.17.12 NMAC
- ☒ Closure Plan (Please complete Boxes 14 through 18, if applicable) - based upon the appropriate requirements of Subsection C of 19.15.17.9 NMAC and 19.15.17.13 NMAC

☐ Previously Approved Design (attach copy of design) API Number: _____ or Permit Number: _____

11.

Multi-Well Fluid Management Pit Checklist: Subsection B of 19.15.17.9 NMAC

Instructions: Each of the following items must be attached to the application. Please indicate, by a check mark in the box, that the documents are attached.

- ☐ Design Plan - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☐ Operating and Maintenance Plan - based upon the appropriate requirements of 19.15.17.12 NMAC
- ☐ A List of wells with approved application for permit to drill associated with the pit.
- ☐ Closure Plan (Please complete Boxes 14 through 18, if applicable) - based upon the appropriate requirements of Subsection C of 19.15.17.9 NMAC and 19.15.17.13 NMAC
- ☐ Hydrogeologic Data - based upon the requirements of Paragraph (4) of Subsection B of 19.15.17.9 NMAC
- ☐ Siting Criteria Compliance Demonstrations - based upon the appropriate requirements of 19.15.17.10 NMAC

☐ Previously Approved Design (attach copy of design) API Number: _____ or Permit Number: _____

12. **Permanent Pits Permit Application Checklist:** Subsection B of 19.15.17.9 NMAC

Instructions: Each of the following items must be attached to the application. Please indicate, by a check mark in the box, that the documents are attached.

- ☐ Hydrogeologic Report - based upon the requirements of Paragraph (1) of Subsection B of 19.15.17.9 NMAC
- ☐ Siting Criteria Compliance Demonstrations - based upon the appropriate requirements of 19.15.17.10 NMAC
- ☐ Climatological Factors Assessment
- ☐ Certified Engineering Design Plans - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☐ Dike Protection and Structural Integrity Design - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☐ Leak Detection Design - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☐ Liner Specifications and Compatibility Assessment - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☐ Quality Control/Quality Assurance Construction and Installation Plan
- ☐ Operating and Maintenance Plan - based upon the appropriate requirements of 19.15.17.12 NMAC
- ☐ Freeboard and Overtopping Prevention Plan - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☐ Nuisance or Hazardous Odors, including H₂S, Prevention Plan
- ☐ Emergency Response Plan
- ☐ Oil Field Waste Stream Characterization
- ☐ Monitoring and Inspection Plan
- ☐ Erosion Control Plan
- ☐ Closure Plan - based upon the appropriate requirements of Subsection C of 19.15.17.9 NMAC and 19.15.17.13 NMAC

13. **Proposed Closure:** 19.15.17.13 NMAC

Instructions: Please complete the applicable boxes, Boxes 14 through 18, in regards to the proposed closure plan.

Type: ☒ Drilling ☐ Workover ☐ Emergency ☐ Cavitation ☐ P&A ☐ Permanent Pit ☐ Below-grade Tank ☐ Multi-well Fluid Management Pit
☐ Alternative

Proposed Closure Method: ☐ Waste Excavation and Removal
☐ Waste Removal (Closed-loop systems only)
☒ On-site Closure Method (Only for temporary pits and closed-loop systems)
☒ In-place Burial ☐ On-site Trench Burial
☐ Alternative Closure Method

14. **Waste Excavation and Removal Closure Plan Checklist:** (19.15.17.13 NMAC) **Instructions:** Each of the following items must be attached to the closure plan. Please indicate, by a check mark in the box, that the documents are attached.

- ☐ Protocols and Procedures - based upon the appropriate requirements of 19.15.17.13 NMAC
- ☐ Confirmation Sampling Plan (if applicable) - based upon the appropriate requirements of Subsection C of 19.15.17.13 NMAC
- ☐ Disposal Facility Name and Permit Number (for liquids, drilling fluids and drill cuttings)
- ☐ Soil Backfill and Cover Design Specifications - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
- ☐ Re-vegetation Plan - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
- ☐ Site Reclamation Plan - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC

15. **Siting Criteria (regarding on-site closure methods only):** 19.15.17.10 NMAC

Instructions: Each siting criteria requires a demonstration of compliance in the closure plan. Recommendations of acceptable source material are provided below. Requests regarding changes to certain siting criteria require justifications and/or demonstrations of equivalency. Please refer to 19.15.17.10 NMAC for guidance.

Ground water is less than 25 feet below the bottom of the buried waste. - NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA
Ground water is between 25-50 feet below the bottom of the buried waste - NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA
Ground water is more than 100 feet below the bottom of the buried waste. - NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Within 100 feet of a continuously flowing watercourse, or 200 feet of any other significant watercourse, lakebed, sinkhole, or playa lake (measured from the ordinary high-water mark). - Topographic map; Visual inspection (certification) of the proposed site	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Within 300 feet from a permanent residence, school, hospital, institution, or church in existence at the time of initial application. - Visual inspection (certification) of the proposed site; Aerial photo; Satellite image	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Within 300 horizontal feet of a private, domestic fresh water well or spring used for domestic or stock watering purposes, in existence at the time of initial application. - NM Office of the State Engineer - iWATERS database; Visual inspection (certification) of the proposed site	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Written confirmation or verification from the municipality; Written approval obtained from the municipality	<input type="checkbox"/> Yes <input type="checkbox"/> No NA
Within 300 feet of a wetland. US Fish and Wildlife Wetland Identification map; Topographic map; Visual inspection (certification) of the proposed site	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Within incorporated municipal boundaries or within a defined municipal fresh water well field covered under a municipal ordinance	

adopted pursuant to NMSA 1978, Section 3-27-3, as amended.

- Written confirmation or verification from the municipality; Written approval obtained from the municipality

☐ Yes ☐ No
NA

Within the area overlying a subsurface mine.

- Written confirmation or verification or map from the NM EMNRD-Mining and Mineral Division

☐ Yes ☒ No

Within an unstable area.

- Engineering measures incorporated into the design; NM Bureau of Geology & Mineral Resources; USGS; NM Geological Society; Topographic map

☐ Yes ☒ No

Within a 100-year floodplain.

- FEMA map

☐ Yes ☒ No

16.
On-Site Closure Plan Checklist: (19.15.17.13 NMAC) *Instructions: Each of the following items must be attached to the closure plan. Please indicate, by a check mark in the box, that the documents are attached.*

- ☒ Siting Criteria Compliance Demonstrations - based upon the appropriate requirements of 19.15.17.10 NMAC
☒ Proof of Surface Owner Notice - based upon the appropriate requirements of Subsection E of 19.15.17.13 NMAC
☐ Construction/Design Plan of Burial Trench (if applicable) based upon the appropriate requirements of Subsection K of 19.15.17.11 NMAC
☒ Construction/Design Plan of Temporary Pit (for in-place burial of a drying pad) - based upon the appropriate requirements of 19.15.17.11 NMAC
☐ Protocols and Procedures - based upon the appropriate requirements of 19.15.17.13 NMAC
☐ Confirmation Sampling Plan (if applicable) - based upon the appropriate requirements of 19.15.17.13 NMAC
☒ Waste Material Sampling Plan - based upon the appropriate requirements of 19.15.17.13 NMAC
☒ Disposal Facility Name and Permit Number (for liquids, drilling fluids and drill cuttings or in case on-site closure standards cannot be achieved)
☒ Soil Cover Design - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
☒ Re-vegetation Plan - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
☒ Site Reclamation Plan - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC

17.
Operator Application Certification:

I hereby certify that the information submitted with this application is true, accurate and complete to the best of my knowledge and belief.

Name (Print): H. Emmons Yates, III

Title: Vice President

Signature: [Signature]

Date: March 20, 2014

e-mail address: eyates@jalapenocorp.com

Telephone: 505-242-2050

18.
OCD Approval: ☐ Permit Application (including closure plan) ☐ Closure Plan (only) ☐ OCD Conditions (see attachment)

OCD Representative Signature: _____ Approval Date: _____

Title: _____ OCD Permit Number: _____

19.
Closure Report (required within 60 days of closure completion): 19.15.17.13 NMAC

Instructions: Operators are required to obtain an approved closure plan prior to implementing any closure activities and submitting the closure report. The closure report is required to be submitted to the division within 60 days of the completion of the closure activities. Please do not complete this section of the form until an approved closure plan has been obtained and the closure activities have been completed.

☐ Closure Completion Date: _____

20.
Closure Method:

- ☐ Waste Excavation and Removal ☐ On-Site Closure Method ☐ Alternative Closure Method ☐ Waste Removal (Closed-loop systems only)
☐ If different from approved plan, please explain.

21.
Closure Report Attachment Checklist: *Instructions: Each of the following items must be attached to the closure report. Please indicate, by a check mark in the box, that the documents are attached.*

- ☐ Proof of Closure Notice (surface owner and division)
☐ Proof of Deed Notice (required for on-site closure for private land only)
☐ Plot Plan (for on-site closures and temporary pits)
☐ Confirmation Sampling Analytical Results (if applicable)
☐ Waste Material Sampling Analytical Results (required for on-site closure)
☐ Disposal Facility Name and Permit Number
☐ Soil Backfilling and Cover Installation
☐ Re-vegetation Application Rates and Seeding Technique
☐ Site Reclamation (Photo Documentation)

On-site Closure Location: Latitude _____ Longitude _____

NAD: ☐ 1927 ☐ 1983

22.

Operator Closure Certification:

I hereby certify that the information and attachments submitted with this closure report is true, accurate and complete to the best of my knowledge and belief. I also certify that the closure complies with all applicable closure requirements and conditions specified in the approved closure plan.

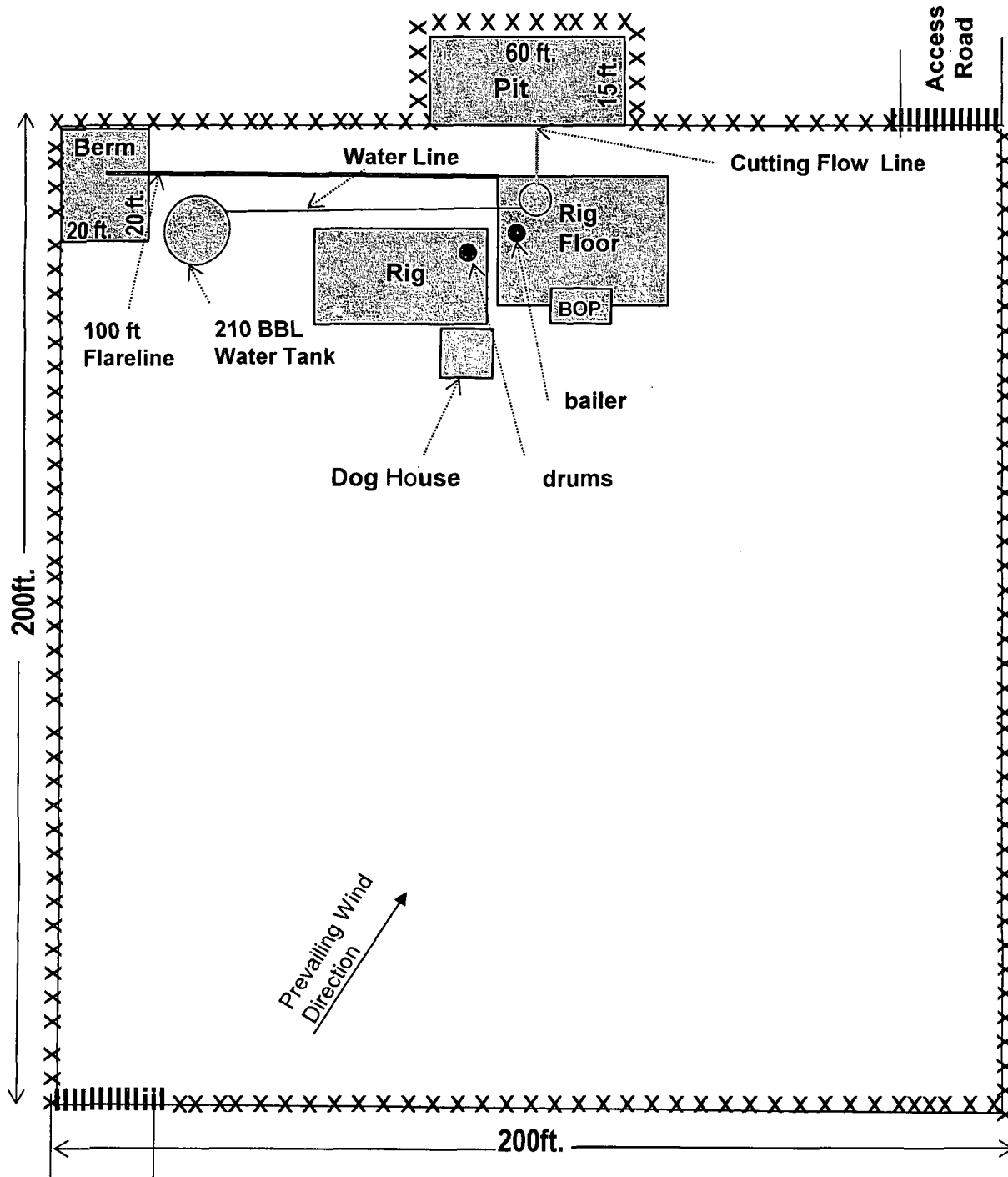
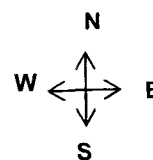
Name (Print): _____ Title: _____

Signature: _____ Date: _____

e-mail address: _____ Telephone: _____

Exhibit #2

JALAPENO CORPORATION DUNCAN FEDERAL #11



***NOT TO SCALE**

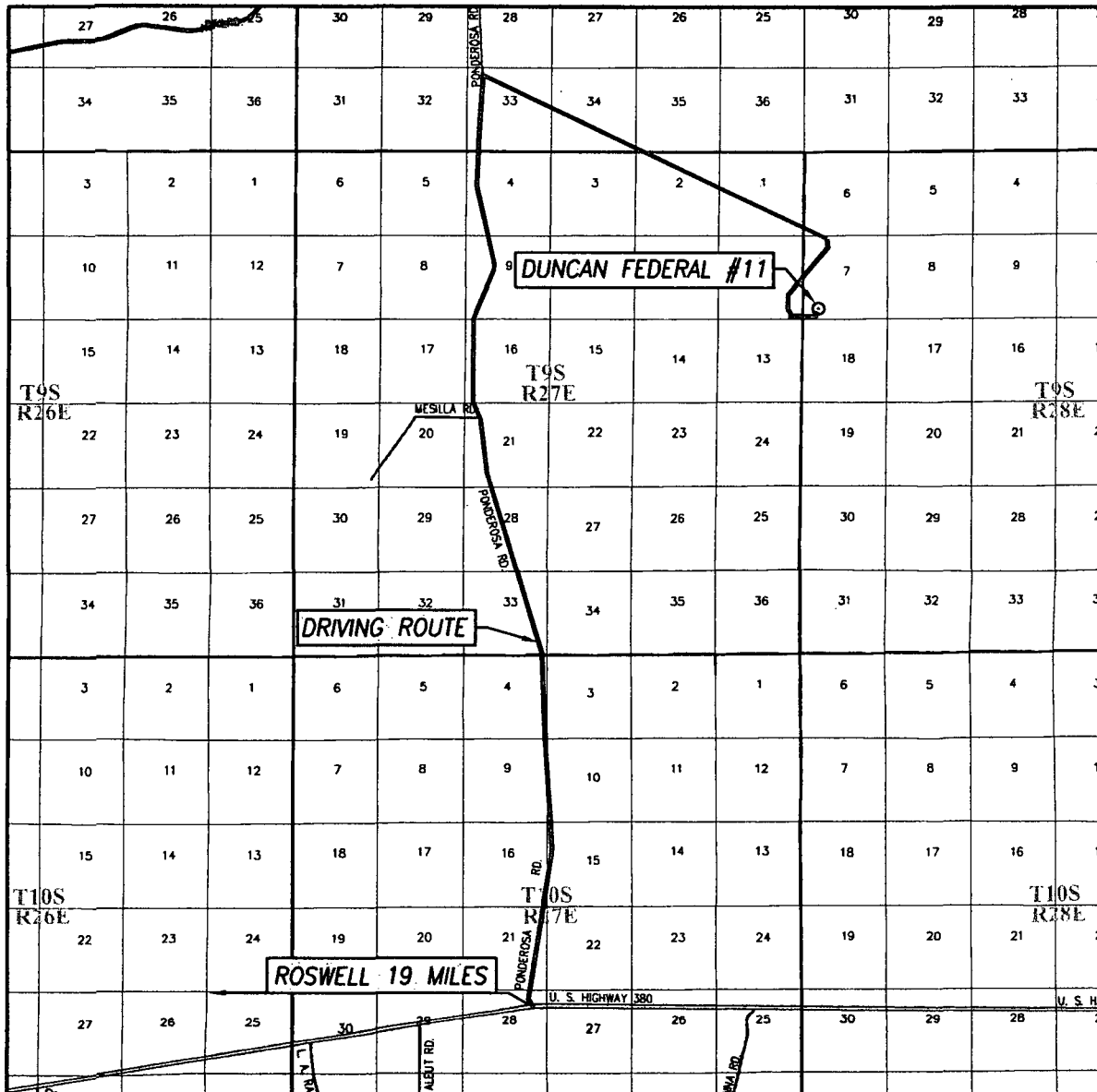
LEGEND

- XXX--- Fence
- Cattle guard

SEC. 7 TWP. 09S RGE. 28E
COUNTY CHAVES STATE NEW MEXICO
DESCRIPTION 660 FSL & 990 FWL

Exhibit #3

VICINITY MAP



SCALE: 1" = 2 MILES
DRIVING ROUTE: SEE LOCATION MAP

SEC. 7 TWP. 9-S RGE. 28-E
 SURVEY N.M.P.M.
 COUNTY CHAVES STATE NEW MEXICO
 DESCRIPTION 660' FSL & 990' FWL
 ELEVATION 3886'
 OPERATOR JALAPENO CORPORATION
 LEASE DUNCAN FEDERAL

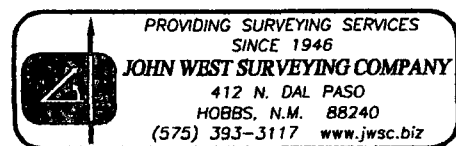
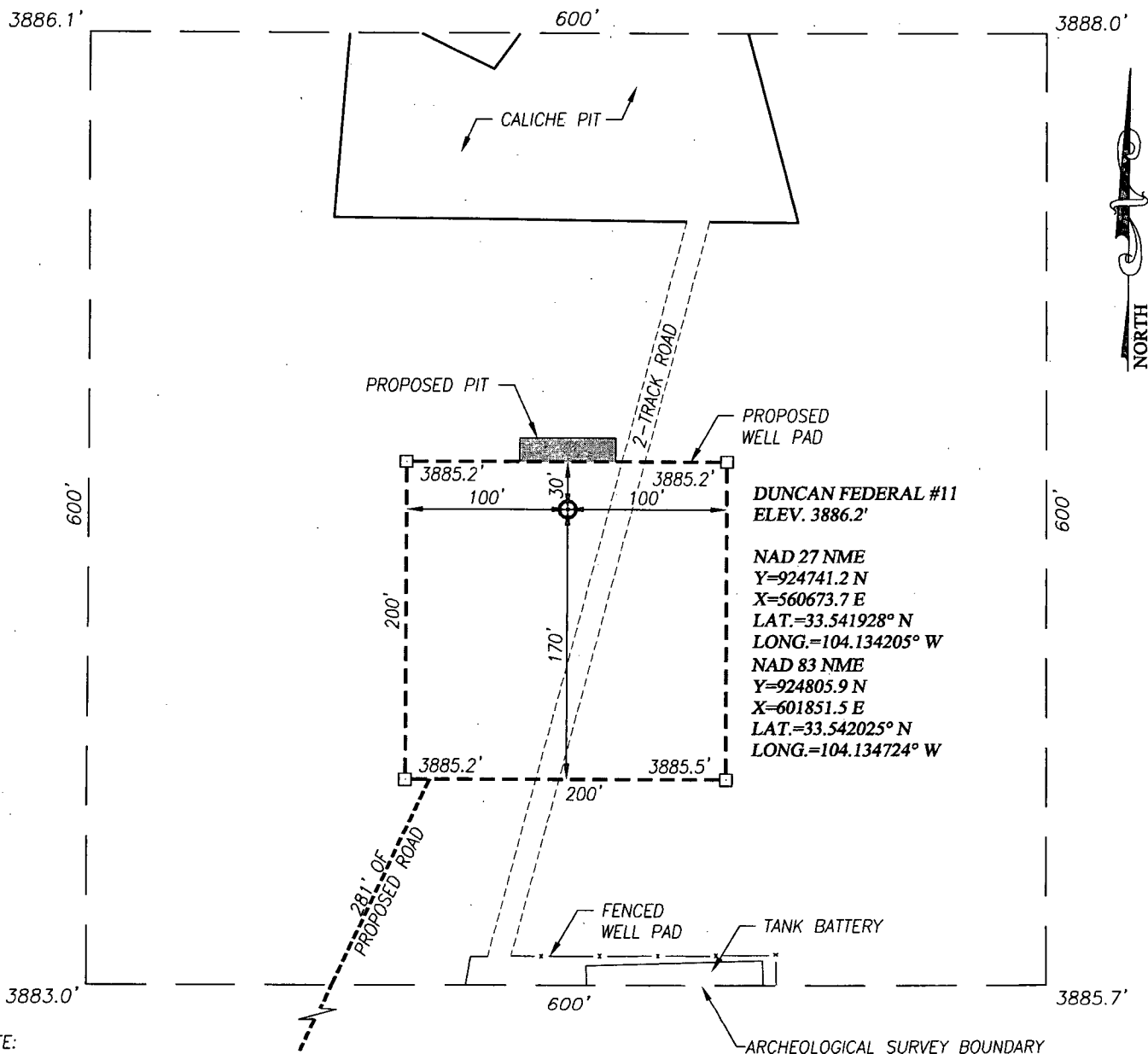


EXHIBIT #4



JALAPENO CORPORATION

DUNCAN FEDERAL #11 WELL
LOCATED 660 FEET FROM THE SOUTH LINE
AND 990 FEET FROM THE WEST LINE OF SECTION 7,
TOWNSHIP 9 SOUTH, RANGE 28 EAST, N.M.P.M.,
CHAVES COUNTY, NEW MEXICO

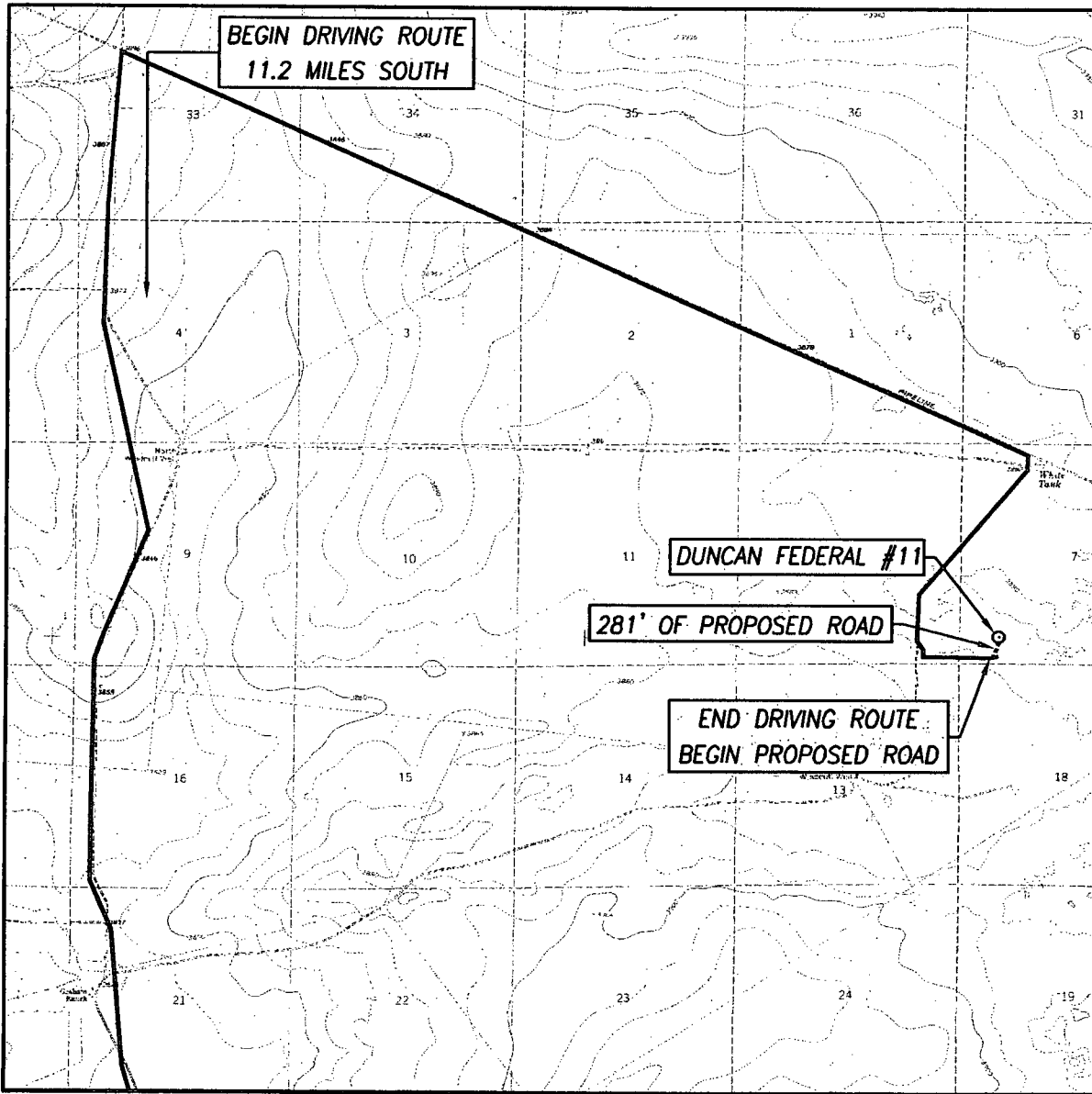
Survey Date: 11/14/13	CAD Date: 11/19/13	Drawn By: DSR
W.O. No.: 14130324	Rev: 03/28/14	Rel. W.O.: 14.11.0007
		Sheet 1 of 1



PROVIDING SURVEYING SERVICES
SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO
HOBBS, N.M. 88240
(575) 393-3117 www.jwsc.biz

EXHIBIT #5

LOCATION VERIFICATION MAP



SCALE: 1" = 4000'

SEC. 7 TWP. 9-S RGE. 28-E

SURVEY N.M.P.M.

COUNTY CHAVES STATE NEW MEXICO

DESCRIPTION 660' FSL & 990' FWL

ELEVATION 3886'

OPERATOR JALAPENO CORPORATION

LEASE DUNCAN FEDERAL

U.S.G.S. TOPOGRAPHIC MAP
CAMPBELL, N.M.

DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF ST. HIGHWAY #380 AND COUNTY ROAD #51 (PONDEROSA RD.) GO NORTH ON CO. RD. #51 APPROX 11.2 MILES; TURN RIGHT AND GO SOUTHEAST APPROX. 4.45 MILES; TURN RIGHT AND GO SOUTH APPROX 0.1 MILES; ROAD BENDS RIGHT AND GOES SOUTHWEST APPROX 0.75 MILES; ROAD BENDS LEFT AND GOES SOUTH APPROX. 0.25 MILES TO A P & A LOCATION; TURN LEFT AND GO EAST APPROX. 0.3 MILES TO A PROPOSED ACCESS ROAD. FOLLOW STAKED ROAD NORTHEAST 281 TO THE SOUTHWEST PAD CORNER, THIS WELL LOCATION IS NORTHEAST APPROX. 190 FEET.

CONTOUR INTERVAL:

CAMPBELL, N.M. - 10'



PROVIDING SURVEYING SERVICES
SINCE 1946

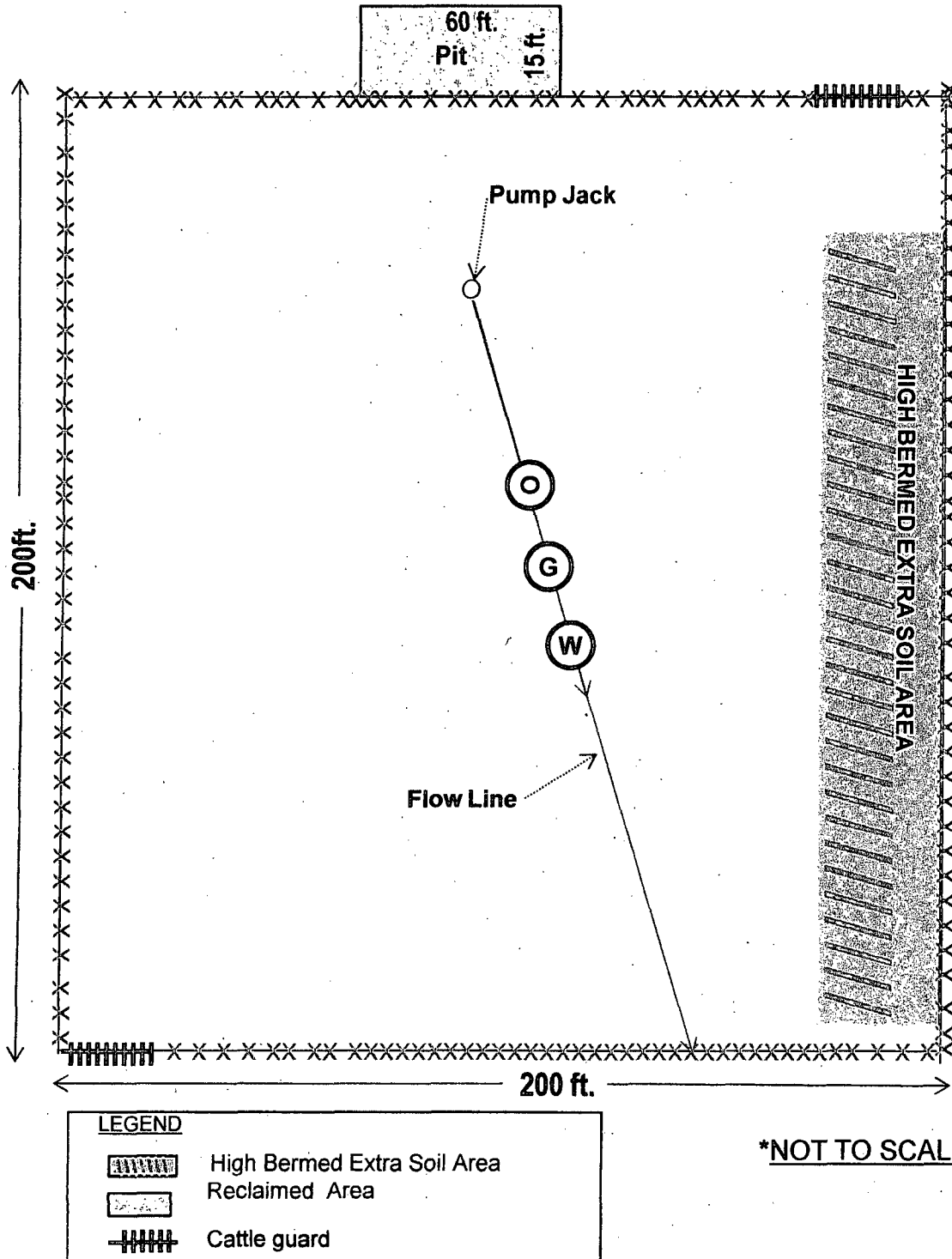
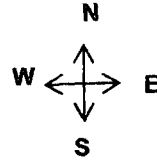
JOHN WEST SURVEYING COMPANY

412 N. DAL PASO
HOBBS, N.M. 88240

(575) 393-3117 www.jwsc.biz

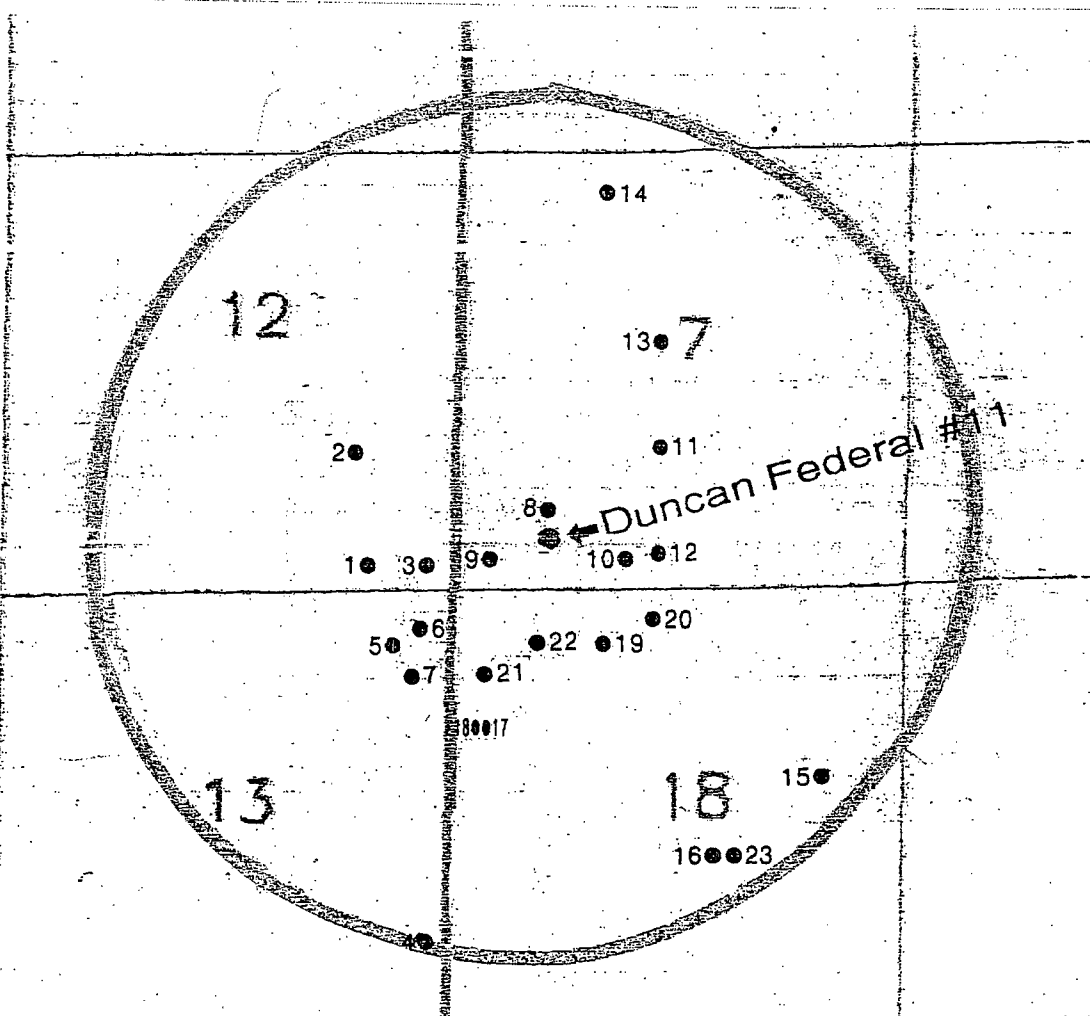
Exhibit #6

JALAPENO CORPORATION DUNCAN FEDERAL #11



*We try to leave as small a footprint as possible that is why our well pads are small to begin with. The only interim reclamation we will do is to reclaim the pit. We cannot reclaim any of the well pad because we would not be able to operate the well (have trucks or pulling units on location) safely.

EXHIBIT #7



WELLS WITH IN A ONE MILE RADIUS OF DUNCAN FEDERAL #11

Sec. 12, T-9S, R-27E

- 1 Aciete Negra #4
- 2 Lobo AXU Federal #1Q
- 3 Paisano Federal #1

Sec. 13 T-9S, R-27E

- 4 Aciete Negra #3
- 5 Joya AYJ State Com #1
- 6 Scrounger #1
- 7 Scrounger #2

Sec. 7, T-9S, R-28E

- 8 Duncan Federal #2
- 9 Duncan Federal #3
- 10 Louise Yates State #1
- 11 Louise Yates State #2
- 12 Louise Yates State #3
- 13 Louise Yates State #4
- 14 Louise Yates State #5

Sec. 18, T-9S, R-28E

- 15 Agua Negra
- 16 Cibola 16-J
- 17 Duncan Federal #4
- 18 Duncan Federal #4Y
- 19 Duncan Federal #5
- 20 Duncan Federal #10
- 21 Emmons State #1
- 22 Emmons State #2
- 23 Sardine Can #1

Exhibit #8

ALREADY IN PLACE AND APPROVED

Duncan Federal #2 & 3 Tank Battery

Lease No.: NM 12557

330' FSL & 990' FWL; Sec. 7, T9S, R28E

Chaves, New Mexico

API: 30-005-62235

North →

Duncan Federal #11

Sec. 7, T9S, R28E

660' FSL & 990' FEL

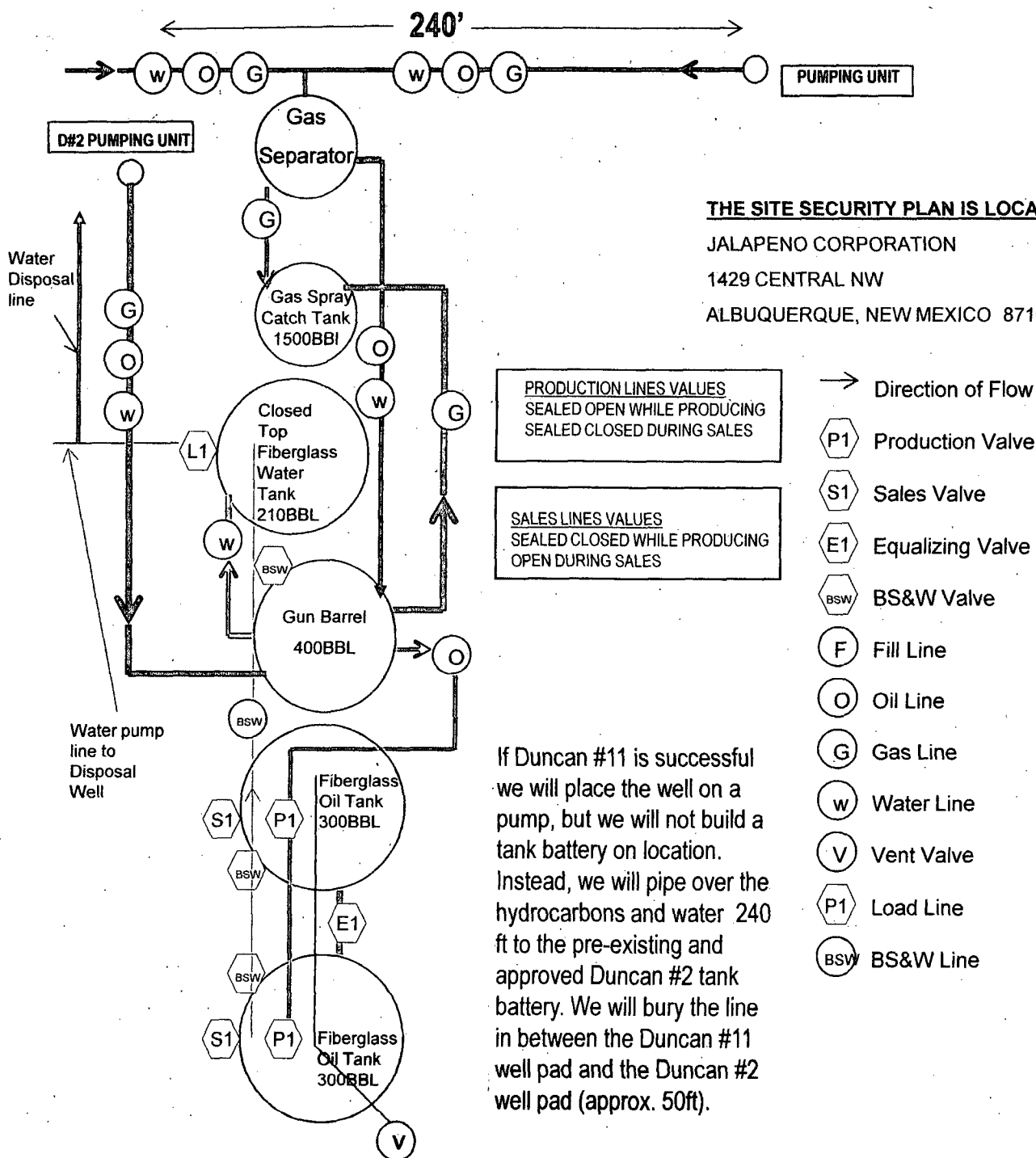


EXHIBIT #9

DUNCAN FEDERAL #11

Jalapeno Corporation - Inventory for Cable Tool Drilling

Depth Rating – 7200'

Drawworks: Cable Tool Rig – 235 Waukesha Engine

Derrick: 66' – 110,000#

Cable: 7,000 feet of 7/8" cable 6' x 19'

Water Tank: 1 – 210 Barrel

Drill Stem: Set – manual Bit

BOP: 2,000 psi Pressure System Schematic

Sub: cable 6' x 19'

Light Plant: Gas - Lincoln Welder Generator

Related Equipment: 1 – Sand Drum
1 – Drilling Drum
1 – Casing Block Drum
1 – Bailer for bailing cuttings

EXHIBIT 10A

Form 3160-5
(April 2004)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB No. 1004-0137
Expires: March 31, 2007

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.

SUBMIT IN TRIPLICATE- Other instructions on reverse side.

1. Type of Well
☐ Oil Well ☐ Gas Well ☐ Other

2. Name of Operator **JALAPENO CORPORATION**

3a. Address
P.O. Box 1608, Albuquerque, NM 87103

3b. Phone No. (include area code)
505-242-2050

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

**TANK BATTERY IS ON THE DUNCAN FEDERAL #2 LOCATION.
330' FSL & 990' FWL S.7, T.9-S, R. 28-E**

5. Lease Serial No.
NM 12557

6. If Indian, Allottee or Tribe Name

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

8. Well Name and No.
DUNCAN FED. #2 & 3 BATTERY

9. API Well No.
#2 3000562235 & #3 3000563564

10. Field and Pool, or Exploratory Area
WOLFE LAKE SAN ANDRES

11. County or Parish, State

CHAVES COUNTY, NM

12. CHECK 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 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 checked="" type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other USE OF
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	FIBERGLASS
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	SALES TANKS

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 shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompleat in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

WE REQUEST AUTHORITY TO USE FIBERGLASS PRODUCTION AND SALES TANKS ON THIS BATTERY.

A. THE CRUDE OIL ON THIS LEASE IS CORROSIVE, AND USE OF FIBERGLASS TANKS GREATLY REDUCES THE POSSIBILITY THAT AN OIL SPILL FROM ONE OF THE SALES TANKS WILL OCCUR BECAUSE OF THAT CORROSION.

B. THE TANKS ARE MANUFACTURED BY PALMER OF TEXAS AND GAUGE TABLES FOR THE TANKS ARE BASED ON THE SIZE OF THE MANDREL OR MOLD ON WHICH THE TANK INTERIOR DIMINSIONS WERE FORMED.

C. EACH OF PALMER'S TANKS OF THE SAME SIZE HOLDS THE SAME FLUID VOLUME AT A GIVEN GAUGE HEIGHT BECAUSE EACH IS FORMED ON A MANDREL OF THE SAME SIZE.

14. I hereby certify that the foregoing is true and correct
Name (Printed/Typed)

HARVEY E. YATES, JR.

Title **PRESIDENT**

Signature

Harvey Yates, Jr.

Date

5/10/07

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by

Larry D. Bray

**Assistant Field Manager,
Lands And Minerals**

Date

MAY 15 2007

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)

EXHIBIT 10B

Form 3160-5
(April 2004)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

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3b. Phone No. (include area code)
505-242-2050

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)
660' FNL & 1650' FWL S.18, T.9-S, R. 28-E

5. Lease Serial No.
NM 12557

6. If Indian, Allottee or Tribe Name

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

8. Well Name and No.
DUNCAN FED. 5

9. API Well No.
30-005-62901

10. Field and Pool, or Exploratory Area
WOLFE LAKE SAN ANDRES

11. County or Parish, State
CHAVES COUNTY, NM

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

TYPE OF SUBMISSION	TYPE OF ACTION			
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A. THE CRUDE OIL ON THIS LEASE IS CORROSIVE, AND USE OF FIBERGLASS TANKS GREATLY REDUCES THE POSSIBILITY THAT AN OIL SPILL FROM ONE OF THE SALES TANKS WILL OCCUR BECAUSE OF THAT CORROSION.

B. THE TANKS ARE MANUFACTURED BY BELCO MANUFACTURING COMPANY AND THE GAUGE TABLES FOR THE TANKS ARE BASED ON THE SIZE OF THE MANDREL OR MOLD ON WHICH THE TANK INTERIOR DIMINSIONS WERE FORMED.

C. EACH OF BELCO'S TANKS OF THE SAME SIZE HOLDS THE SAME FLUID VOLUME AT A GIVEN GAUGE HEIGHT BECAUSE EACH IS FORMED ON A MANDREL OF THE SAME SIZE.

14. I hereby certify that the foregoing is true and correct
Name (Printed/Typed)

HARVEY E. YATES, JR.

Title **PRESIDENT**

Date **5/10/07**

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by

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**Assistant Field Manager,
Lands And Minerals**

Date

MAY 15 2007

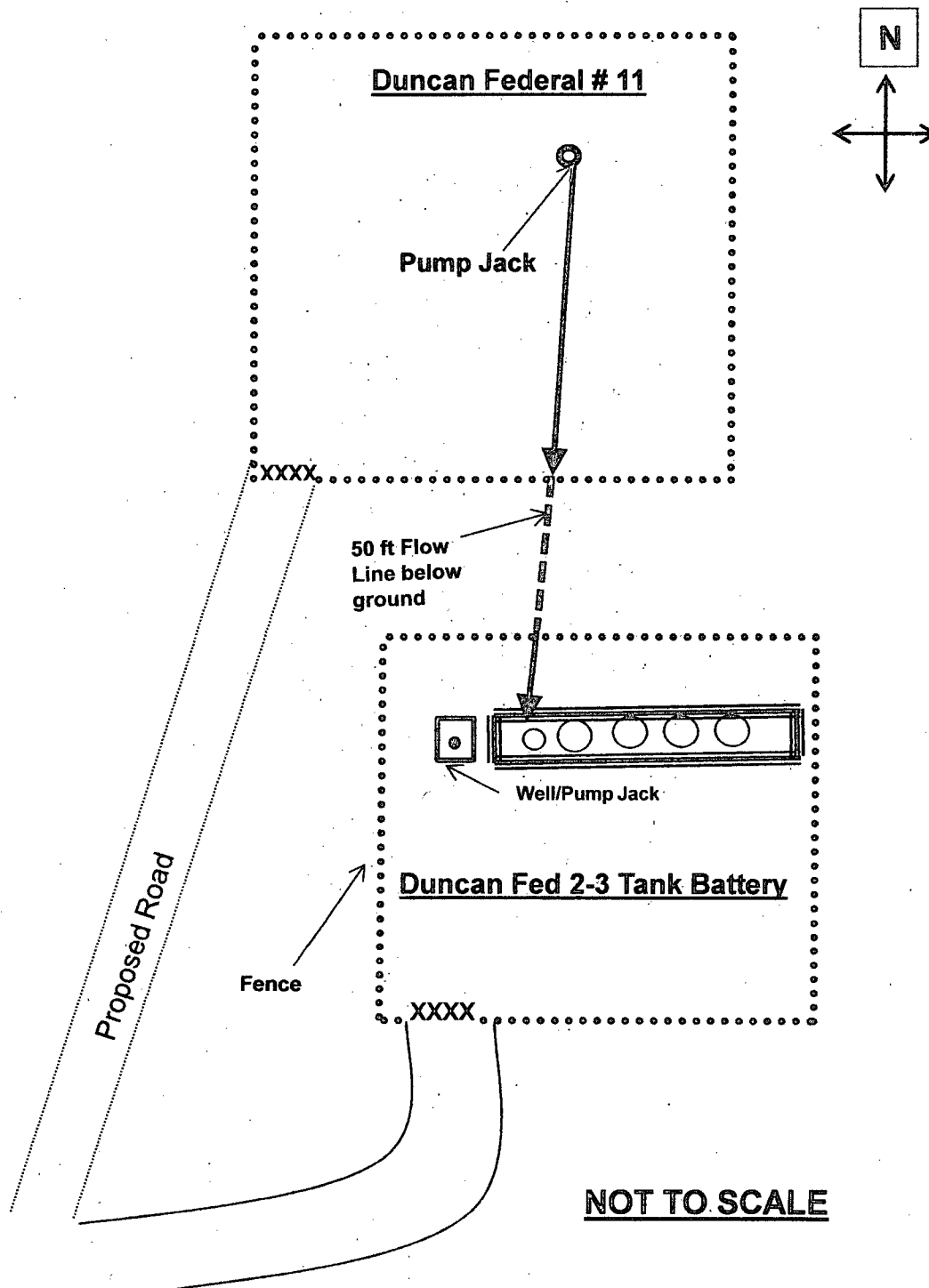
Office

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)

Exhibit #11



In response to the BLM's deficiency notice #8 not allowing Jalapeno Corporation to build a tank battery using fiberglass tanks, Jalapeno Corporation now plans to pipe whatever oil and water we encounter in the production of the Duncan #11 into the existing and already approved Duncan Federal #2 tank battery located approximately 240 feet to the South. We will do this because the Duncan Federal #2 is producing from the same geological zone, the San Andres Slaughter Zone, and is located on the same 40 acre block within the same Federal lease.

Exhibit C
PECOS DISTRICT
Roswell Field Office
2909 West Second
Roswell, NM 88201
CONDITIONS OF APPROVAL
August 2014

OPERATORS NAME: Jalapeno Corporation
WELL NAME & NO: Duncan Federal No. 11
LEASE NO.: NM-12557
SURFACE HOLE FOOTAGE: 660' FSL & 990' FWL
LOCATION: Section 7, T. 9 S., R. 28 E., NMPM
COUNTY: Chaves County, New Mexico

A. GENERAL PROVISIONS

The approval of the Application For Permit To Drill (APD) is in compliance with all applicable laws and regulations: 43 Code of Federal Regulations 3160, the lease terms, Onshore Oil and Gas Orders, Notices To Lessees, New Mexico Oil Conservation Division (NMOCD) Rules, National Historical Preservation Act As Amended, and instructions and orders of the Authorized Officer. Approval of the APD does not warrant that any party holds equitable or legal title. Any request for a variance shall be submitted to the Authorized Officer on Form 3160-5, Sundry Notices and Report on Wells.

The Operator shall submit a Sundry Notice (Form 3160-5) to the Bureau of Land Management, Roswell Field Office (address above) for approval prior to beginning any new surface-disturbing activities or operations that are not specifically addressed and approved by this APD.

A site facility diagram (Onshore Order 3, Section III, I. and 43 CFR 3162.7-5(d)) for the purpose of a site security plan (Onshore Order 3, Section III. H and 43 CFR 3162.7-5 c shall be filed no later than 60 calendar days following first production.

B. PERMIT EXPIRATION

If the permit terminates prior to drilling and drilling cannot be commenced within 60 days after expiration, an operator is required to submit Form 3160-5, Sundry Notices and Reports on Wells, requesting surface reclamation requirements for any surface disturbance. However, if the operator will be able to initiate drilling within 60 days after the expiration of the permit, the operator must have set the conductor pipe in order to allow for an extension of 60 days beyond the expiration date of the APD (Filing of a Sundry Notice is required for this 60 day extension).

C. ARCHAEOLOGICAL, PALEONTOLOGY & HISTORICAL SITES

Any cultural and/or paleontological resource discovered by the operator or by any person working on the operator's behalf shall immediately report such findings to the Authorized Officer. The operator is fully accountable for the actions of their contractors and subcontractors. The operator shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery shall be made by the Authorized officer to determine the appropriate actions that shall be required to prevent the loss of significant cultural or scientific values. The operator shall be held responsible for the cost of mitigation measures that the Authorized Officer assesses after consultation with the operator on the evaluation and decisions of the discovery. Any unauthorized collection or disturbance of cultural or paleontological resources may result in a shutdown order by the Authorized Officer.

D. NOXIOUS WEEDS

The operator shall be held responsible if noxious weeds become established within the areas of operations (access road and/or well pad). Weed control shall be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipeline corridor, and adjacent land affected by the establishment of weeds due to this action. The operator shall consult with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policies.

E. CONSTRUCTION

NOTIFICATION: The BLM shall administer compliance and monitor construction of the access road and well pad. Notify the Roswell Field Office at (505) 627-0272 at least three (3) working days prior to commencing construction of the access road and/or well pad.

When construction operations are being conducted on this well, the operator shall have the approved Application for Permit to Drill and Conditions of Approval on the well site and they shall be made available upon request by the Authorized Officer.

Construction over and/or immediately adjacent to existing pipelines shall be coordinated, and in accordance with, the relevant pipeline companies' policy.

Any trench left open for eight (8) hours or less is not required to have escape ramps; however, before the trench is backfilled, an agency approved monitor shall walk the entire length of the open trench and remove all trapped fauna. The bottom surface of the trench will be disturbed a minimum of 2 inches in order to arouse any buried fauna. All fauna will be released a minimum of 100 yards from the trench.

For trenches left open for eight (8) hours or more, earthen escape ramps (built at not more than a 30 degree slope and spaced no more than 500 feet apart) shall be placed in the trench. Structures will also be authorized within the trench. Metal structures will not be authorized. Structures used as escape ramps will be placed at no more than a 30 degree slope and spaced no more than 500 feet apart.

F. TOPSOIL:

The topsoil will be stripped within the area designated for construction of the well pad. The operator shall stockpile the stripped topsoil in shallow rows adjacent to the constructed well pad. The topsoil will be used for interim and final reclamation of the surface disturbance created by the construction of the well pad. The topsoil will not be used to construct the containment structures.

The topsoil shall not be used to backfill the reserve pit.

G. TEMPORARY PIT USING LOW CHLORIDE DRILLING FLUID:

Approval must be obtained through NMOCD using form C-144. The design, operation, maintenance, and closure plans of the pit will follow the protocols and procedures submitted with the APD.

The reserve pit shall be constructed, maintained, and closed in accordance with the NMOCD rules.

Net wire will be used around the perimeter of the pit fence to prevent wildlife from accessing the pit. A netting material will be used to cover the top of the pit.

BLM will be notified at least 3 days prior to pit closure, but no more than one week to observe pit closure. Contact the Roswell Field Office at 575-627-0270.

H. FEDERAL MINERAL MATERIALS PIT:

If additional material is needed payment shall be made to the BLM prior to removal of any federal mineral materials from any site other than the reserve pit. Call the Roswell Field Office (575) 627-0270.

I. WELL PAD SURFACING:

Surfacing of the well pad is not required.

If the operator elects to surface the well pad, the surfacing material will be required to be removed at the time of reclamation.

The well pad shall be constructed in a manner which creates the smallest possible surface disturbance, consistent with safety and operational need.

J. ON LEASE ACCESS ROADS:

Road Egress and Ingress

The access roads are constructed on the corners of the well pad.

Road Width

The access road shall have a driving surface that creates the smallest possible surface disturbance and does not exceed fourteen (14) feet in width. The maximum width of surface disturbance, when constructing the access road, shall not exceed thirty (30) feet.

Surfacing

Surfacing material is not required on the new access road driving surface. If the operator elects to surface the new access road or pad, the surfacing material will be required to be removed at the time of reclamation.

Where possible, no improvements should be made on the unsurfaced access road other than to remove vegetation as necessary, road irregularities, safety issues, or to fill low areas that may sustain standing water.

The Authorized Officer reserves the right to require surfacing of any portion of the access road at any time deemed necessary. Surfacing may be required in the event the road deteriorates, erodes, road traffic increases, or it is determined to be beneficial for future field development. The surfacing depth and type of material will be determined at the time of notification.

Crowning

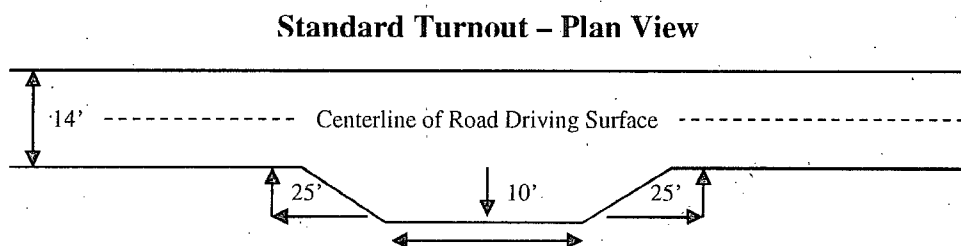
Crowning shall be done on the access road driving surface. The road crown shall have a grade of approximately 2% (i.e., a 1" crown on a 14' wide road). The road shall conform to Figure 1; cross section and plans for typical road construction.

Ditching

Ditching shall be required on both sides of the road.

Turnouts

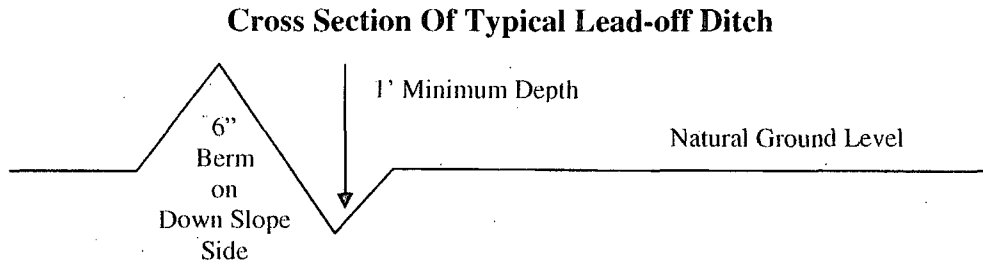
Vehicle turnouts shall be constructed on the road. Turnouts shall be intervisible with interval spacing distance less than 1000 feet. Turnouts shall be constructed on all blind curves. Turnouts shall conform to the following diagram:



Drainage

Drainage control systems shall be constructed on the entire length of road (e.g. ditches, sidehill outsloping and insloping, lead-off ditches, culvert installation, and low water crossings).

A typical lead-off ditch has a minimum depth of 1 foot below and a berm of 6 inches above natural ground level. The berm shall be on the down-slope side of the lead-off ditch.



All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval are variable for lead-off ditches and shall be determined according to the formula for spacing intervals of lead-off ditches, but may be amended depending upon existing soil types and centerline road slope (in %);

Formula for Spacing Interval Of Lead-off Ditches

Example - On a 4% road slope that is 400 feet long, the water flow shall drain water into a lead-off ditch. Spacing interval shall be determined by the following formula:

$$400 \text{ foot road with } 4\% \text{ road slope: } \frac{400'}{4} + 100' = 200' \text{ lead-off ditch interval}$$

Culvert Installations

Appropriately sized culvert(s) shall be installed at any deep waterway channel flow crossing per the Gold Book standards.

Cattleguards

An appropriately sized cattleguard(s) sufficient to carry out the project shall be installed and maintained at fence crossing(s).

Any existing cattle guard(s) on the access road shall be repaired or replaced if they are damaged or have deteriorated beyond practical use. The operator shall be responsible for the condition of the existing cattle guard(s) that are in place and are utilized during lease operations. Gates or

cattle guards on public lands will not be locked or closed to public use unless closure is specifically determined to be necessary and is authorized in writing by the authorized officer.

A gate shall be constructed and fastened securely to H-braces.

Fence Requirement

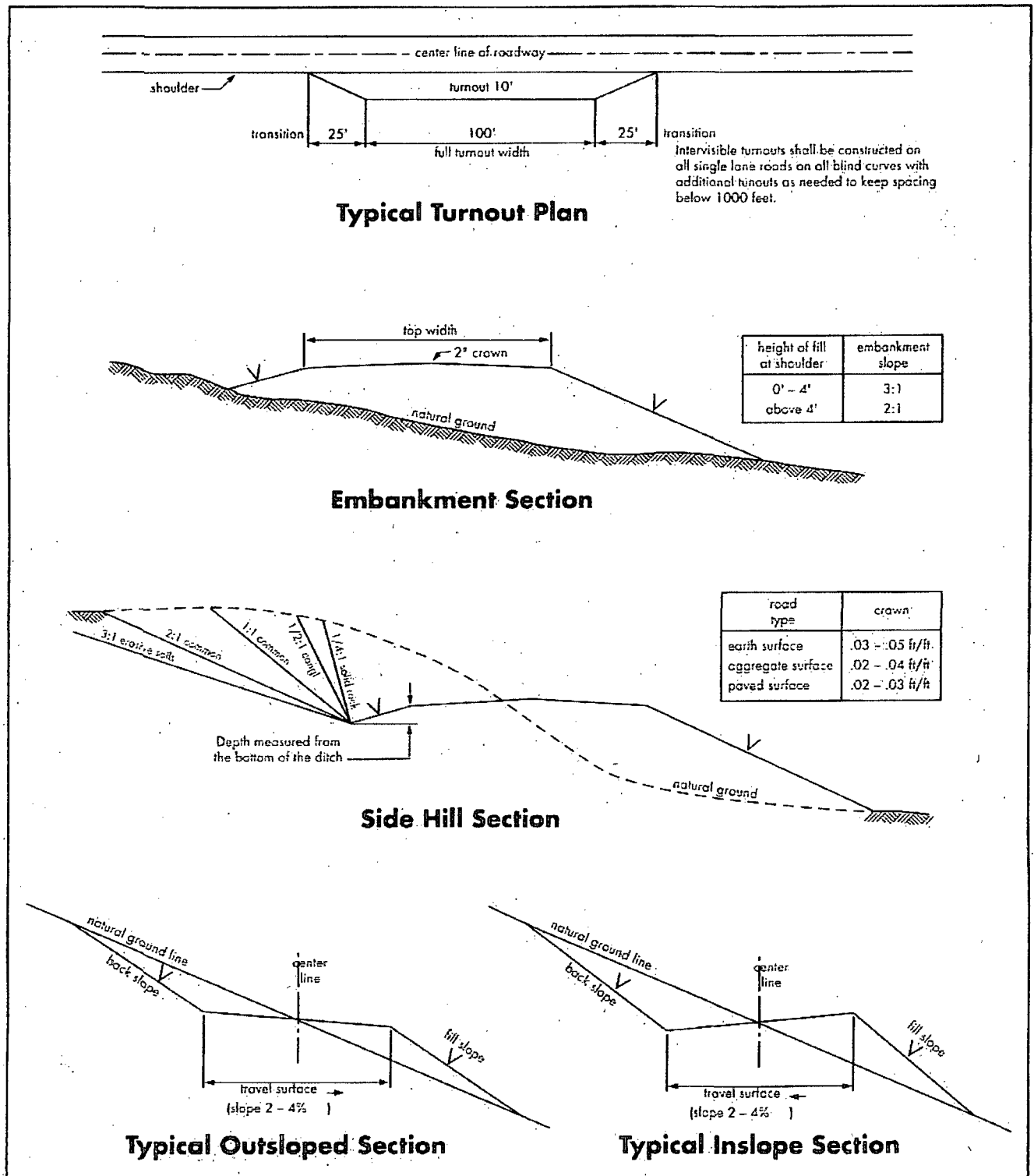
Where entry is required across a fence line, the fence shall be braced and tied off on both sides of the passageway prior to cutting.

The operator shall notify the private surface landowner or the grazing allotment holder prior to crossing any fence(s).

Public Access

Public access along this road will not be restricted by the holder without specific written approval being granted by the authorized officer. Gates or cattle guards on public lands will not be locked or closed to public use unless closure is specifically determined to be necessary and is authorized in writing by the authorized officer.

Figure 1 – Cross Sections and Plans For Typical Road Sections



K. DRILLING:

DRILLING OPERATIONS REQUIREMENTS:

1. Call the Roswell Field Office, 2909 West Second St., Roswell, NM 88201. During or after office hours call (575) 627-0205. Engineer on call during office hours call (575) 627-0275 or after office hours call (575) 626-5749.
2. The BLM is to be notified a minimum of 24 hours in advance for a representative to witness:
 - a. Spudding well
 - b. Setting and/or Cementing of all casing strings
 - c. The BOPE Tests.
3. A Hydrogen Sulfide (H₂S) Drilling Operation Contingency Plan shall be activated prior to drilling into the **Queen** formation. A copy of the plan shall be posted at the drilling site.
4. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.
5. Include the API Number assigned to well by NMOCD on the subsequent report of setting the first casing string.
6. The operator will accurately measure the drilling rate in feet/min to set the base of the usable water protection casing string(s) opposite competent rock. The record of the drilling rate along with the caliper-gamma ray-neutron well log run to surface will be submitted to this office as well as all other logs run on the borehole 30 days from completion
7. Air, air-mist or fresh water and nontoxic drilling mud shall be used to drill to the base of the usable water protection casing string(s). Any polymers used will be water based and non-toxic.

CASING:

1. The **8-5/8** inch usable water protection casing string(s) shall be set at an approximate depth of 400 feet.
 - a. If cement does not circulate to the surface, the Roswell Field Office shall be notified and a temperature survey utilizing an electronic type temperature survey with a surface log readout will be used or a cement bond log shall be run to verify the top of the cement.
 - b. Wait on cement (WOC) time for a primary cement job will be a minimum 18 hours for a water basin or 500 pounds compression strength, whichever is greater. (This is to include the lead cement).
 - c. Wait on cement (WOC) time for a remedial job will be a minimum of 4 hours after bringing cement to surface or 500 pounds compression strength, whichever is greater.
 - d. If cement falls back, remedial action will be done prior to drilling out that string.
2. The minimum required fill of cement behind the **5-1/2** inch production casing is **sufficient to tie back 200 feet above the uppermost perforation in the pay zone.** If cement does not circulate, a temperature survey utilizing an electronic type temperature survey with a surface log readout will be used or a cement bond log shall be run to verify the top of the cement.
3. If hardband drill pipe is rotated inside casing, returns will be monitored for metal. If metal is found in samples, drill pipe will be pulled and rubber protectors which have a larger diameter than the tool joints of the drill pipe will be installed prior to continuing drilling operations.
4. All casing shall be new or reconditioned and tested casing and meet API standards for new casing. The use of reconditioned and tested casing shall be subject to approval by the authorized officer. Approval will be contingent upon the wall thickness of any casing being verified to be at least 87-1/2 per cent of the nominal wall thickness of new casing.

PRESSURE CONTROL:

1. Before drilling below the **8-5/8** inch surface casing shoe, the blowout preventer assembly shall consist of a minimum of One Annular Preventer or Two Ram-Type Preventers and a Kelly Cock/Stabbing Valve.
2. Before drilling below the **8-5/8** inch surface casing shoe, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be **2000** psi. If operator chooses to use a control device greater than the minimum stand they will have to follow all guidelines as stated within Bureau of Land Management 43 CFR part 3160 and Onshore Oil and Gas Order No. 2 Drilling Operations.

3. The BOPE shall be installed before drilling below the 8-5/8 inch surface casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

a. The BLM Roswell Field office shall be notified a minimum of 24 hours in advance for a representative to witness the tests.

b. The BOP/BOPE test shall include a low pressure test from 250 to 300 psi. The test will be held for a minimum of 10 minutes if test is done with a test plug and 30 minutes without a test plug.

c. All tests are required to be recorded on a calibrated test chart. A copy of the BOP/BOPE test will be submitted to the BLM Roswell Field Office at 2909 West Second Street, Roswell, New Mexico 88201.

d. Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.

e. Testing must be done in a safe workman like manner. Hard line connections shall be required.

MUD PROGRAM REQUIREMENTS:

1. The drilling operations of this well will be conducted in accordance with the Onshore Oil and Gas Order No. 2 as provided in 43 CFR 3164.1. This includes well control equipment and its testing, mud system and associated equipment, and the casing and cementing.

a. Sufficient quantities of mud materials shall be maintained at the well site, at all times, for the purpose of assuring well control.

b. A mud test shall be performed at least every 24 hours after mudding up to determine, as applicable density, viscosity, gel strength, filtration, and PH.

L. PRODUCTION

Placement of Production Facilities

Production facilities should be placed on the well pad to allow for maximum interim re-contouring and re-vegetation of the well location. Existing facilities should be utilized when practical to reduce surface disturbance and the number of facilities on the lease.

Containment Structures

The containment structure shall be constructed to hold 110% of the capacity of the entire contents of the largest tank, plus 24 hour production, unless more stringent protective requirements are deemed necessary by the Authorized Officer.

Painting Requirement

All above-ground structures including meter housing that are not subject to safety requirements shall be painted a flat non-reflective paint color, Oil Green (Standard Environmental Color Chart June 2008).

Netting

Netting storage tanks and installation of cones on separator stacks is required and will alleviate losses of wildlife species.

Completion Report

In accordance with 43 CFR 3160, Form 3160-4 (Well Completion or Re-completion Report and Log) must be submitted to the Bureau of Land Management, Roswell Field Office within 30 days after completion of the well or producer. Copies of all open hole and cased hole logs, core descriptions, core analyses, well test data, geologic summaries, sample descriptions, formation test reports, stimulation reports, directional survey (if applicable), and all other surveys or data obtained and compiled during the drilling, completion, and/or work over operations, shall be included with Form 3160-4.

M. Facility Requirement

None, pre-existing storage facility located on the Duncan Fed #2 will be used. If any other facility is to be used, the BLM shall be notified using Sundry Notice, form 3160-5, for approval prior to any action.

N. INTERIM RECLAMATION

Reclamation earthwork for interim and/or final reclamation shall be completed within 6 months of well completion or well plugging (weather permitting), and shall consist of: 1) backfilling pits, 2) re-contouring and stabilizing the well site, access road, cut/fill slopes, drainage channels, utility and pipeline corridors, and all other disturbed areas, to approximately the original contour, shape, function, and configuration that existed before construction (any compacted backfilling activities shall ensure proper spoils placement, settling, and stabilization), 3) surface ripping, prior to topsoil placement, to a depth of 18-24 inches deep on 18-24 inch centers to reduce compaction, 4) final grading and replacement of all topsoil so that no topsoil remains in the stockpile, 5) seeding in accordance with reclamation portions of the APD and these COA's.

Any subsequent re-disturbance of interim reclamation shall be reclaimed within six (6) months by the same means described herein.

Prior to conducting interim reclamation, the operator is required to:

- Submit a Sundry Notices and Reports on Wells (Notice of Intent), Form 3160-5, prior to conducting interim reclamation.

- Contact BLM at least three (3) working days prior to conducting any interim reclamation activities, and prior to seeding.

During reclamation, the removal of caliche is important to increasing the success of revegetating the site. Removed caliche may be used in road repairs, fire walls or for building other roads and locations. In addition, in order to operate the well or complete workover operations, it may be necessary to drive, park and operate on restored interim vegetation within the previously disturbed area. Disturbing revegetated areas for production or workover operations will be allowed. If there is significant disturbance and loss of vegetation, the area will need to be revegetated. Communicate with the appropriate BLM office for any exceptions/exemptions if needed.

Disturbing re-vegetated areas for production or work over operations will be allowed. If there is significant disturbance and loss of vegetation, the area will need to be re-vegetated. Communicate with the appropriate BLM office for any exceptions/exemptions if needed.

Use a certified noxious weed-free seed mixture. Use seed tested for viability and purity in accordance with State law(s) within nine months prior to purchase. Use a commercial seed mixture certified or registered and tagged in accordance with State law(s). **Make the seed mixture labels available for BLM inspection.**

The following Soils or Soil associations may represent these ecological sites:
 Alama-Poquita, Alama-Reeves, Anthony sandy loam, Berino, Blakeney-Ima, Cacique, Dona Ana,
 Glendale-Harkey, Harkey sandy loam, Karro loam, Kermit-Berino fine sands, Mobeetie fine sandy
 Pajarito-Bluepoint, Poquita, Potter-Simona complex, Sharvana-Redona, Simona, Simona-Bippus c
 Sotim-Berino, Sotim-Simona association, moderately undulating, Tonuco loamy sands, Vinton

Ecological Site: Shallow Sand SD-3

Ecological Site: Sandy SD-3

April 4, 2006

<u>Common Name and Preferred Variety</u>	<u>Scientific Name</u>	<u>Pounds of Pure Live Seed Per Acre</u>
Black grama or Blue grama,	(<i>Bouteloua eriopoda</i>) (<i>Bouteloua gracilis</i>)	3.0
Sideoats grama	(<i>Bouteloua curtipendula</i>)	2.0
Sand dropseed or Mesa dropseed or Spike dropseed	(<i>Sporobolus cryptandrus</i>) (<i>S. flexuosus</i>) (<i>S. contractus</i>)	1.5
Desert or Scarlet Globemallow	(<i>Sphaeralcea ambigua</i>) or (<i>S. coccinea</i>)	1.0
Croton	(<i>Croton</i> spp.)	1.0
TOTAL POUNDS PURE LIVE SEED (pls) PER ACRE Certified Weed Free Seed		8.5

IF ONE SPECIES IS NOT AVAILABLE,
 INCREASE ALL OTHERS PROPORTIONATELY

Use no less than 4 species, including 1 forb.

No less than 8.5 pounds pls per acre shall be applied

APPROVED: /s/ Douglas J. Burger
 District Manager- Pecos District

O. FINAL ABANDONMENT

1. Upon abandonment of the well a Notice of Intent for Plug and Abandonment describing plugging procedures. Followed within 30 days you shall file with this office, a Subsequent Report of Abandonment (Form 3160-5). To be included with this report is where the plugs were placed; volumes of cement used and well bore schematic as plugged.
2. If on private surface/federal mineral estate land the reclamation procedures on the road and well pad shall be accomplished in accordance with the Private Surface Land Owner agreements and a copy of the release is to be submitted upon abandonment.
3. Upon abandonment of the well, all casing shall be cut-off at the base of the cellar or 3-feet below final restored ground level (whichever is deeper). The well bore shall then be covered with a metal plate at least ¼ inch thick and welded in place. The following information shall be permanently inscribed on the dry hole marker: Well name and number, the name of the operator, the lease serial number, API number, the surveyed location (the quarter-quarter section, section, township and range or other authorized survey designation acceptable to the authorized officer; such as metes and bounds).
4. **The Operator shall promptly plug and abandoned each newly completed, re-completed or producing well which is not capable of producing in paying quantities.** No well may be temporarily abandoned for more than 30 days without prior approval from this office. When justified by the Operator, BLM may authorize additional delays, no one of which may exceed an additional 12 months. Upon removal of drilling or producing equipment from the site of a well which is to be permanently abandoned, the surface of the lands disturbed shall be reclaimed in accordance with an approved Notice of Intent for reclamation.

P. SURFACE USE PLAN OF OPERATIONS

1. Surface Reclamation must be completed within 6 months of well plugging. The Operator shall submit to this office a Notice of Intent for Reclamation with described procedures, Form 3160-5.

Q. PIPELINE PROTECTION REQUIREMENT

Precautionary measures shall be taken by the operator during construction of the access road to protect existing pipelines that the access road will cross over. An earthen berm; 2 feet high by 3 feet wide and 14 feet across the access road travelway (2' X 3' X 14'), shall be constructed over existing pipelines. The operator shall be held responsible for any damage to existing pipelines. If the pipeline is ruptured and/or damaged the operator shall immediately cease construction operations and repair the pipeline. The operator shall be held liable for any unsafe construction operations that threaten human life and/or cause the destruction of equipment.

R. RANGE REQUIREMENT

The Operator shall keep traffic to a minimum, with the speed limit less than 35 MPH. When conflicts with livestock do arise as a result of the access road and well pad construction, in consultation with the allottee, measures will be taken to resolve the conflicts.

S. SPECIAL STIPULATION:

If frac ponds are necessary submit for approval a right-of-way application or sundry notice (Form 3160-5) to the BLM, Roswell Field Office 2902 West Second Roswell, NM 88201. If frac pond is located on private/State surface and support the enhanced production of federal minerals BLM approval is necessary.

The frac pond will only be authorized to contain freshwater and testing of water quality is required. Additives are not allowed without consent of the authorized officer. If at any time the water in the frac pond becomes polluted with salts or other contaminants, use of the frac pond will cease and desist, and all liquids will be removed from the frac pond and disposed of properly. Mineral materials extracted during construction of the frac pond will be stored on-location and/or used for constructing the frac pond.

The holder shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the holder shall comply with the Toxic Substances Control Act of 1976, as amended (15 U.S.C. 2601, *et. seq.*) with regard to any toxic substances that are used, generated by or stored on the route or on facilities authorized. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193.) Additionally, any release of toxic substances (leaks, spills, *etc.*) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation and Liability Act, Section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the Authorized Officer concurrent with the filing of the reports to the involved Federal agency or State government.

The holder agrees to indemnify the United States against any liability arising from the release of any hazardous substance or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, *et. seq.* or the Resource Conservation and Recovery Act, 42 U.S.C. 6901, *et. seq.*) on this proposed project (unless the release or threatened release is wholly unrelated to the holder's activity on the proposed project). This agreement applies without regard to whether a release is caused by the holder, its agent, or unrelated third parties.

If, during any phase of the construction, operation, maintenance, or termination of the authorization, any oil or other pollutant should be discharged, impacting Federal lands, the control and total removal, disposal, and cleaning up of such oil or other pollutant, wherever found, shall be the responsibility of the holder, regardless of fault. Upon failure of the holder to control, dispose of, or clean up such discharge on or affecting Federal lands, or to repair all damages to Federal lands resulting therefrom, the Authorized Officer may take such measures as deemed necessary to control and cleanup the discharge and restore the area, including, where

appropriate, the aquatic environment and fish and wildlife habitats, at the full expense of the holder. Such action by the Authorized Officer shall not relieve the holder of any liability or responsibility

The holder shall be responsible for maintaining the site in a sanitary condition at all times; waste materials at those sites shall be disposed of promptly at an appropriate waste disposal site.

"Waste" means all discarded matter including, but not limited to, human waste, trash, garbage, refuse, oil drums, petroleum products, ashes, and equipment.