

N.M. Oil Cons. DIV-Dist. 2
1301 W. Grand Avenue
Alameda NM 88210

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OCT 04 2005

OOD-ARTEZIA

Form 3160-3
(September 2001)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

FORM APPROVED
OMB No. 1004-0136
Expires January 31, 2004

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 checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name
2. Name of Operator Jalapeno Corporation 26307		7. If Unit or CA Agreement, Name and No. 15779
3a. Address P.O. Box 1608		8. Lease Name and Well No. Duncan Federal #9
3b. Phone No. (include area code) 505-242-2050 65075		9. API Well No. 30-005- 63776
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 2145' FNL & 660' FWL At proposed prod. zone		10. Field and Pool, or Exploratory Wolf Lake, San Andres, Sou
14. Distance in miles and direction from nearest town or post office* 24 miles E of Roswell, New Mexico		11. Sec., T., R., M., or Blk. and Survey or Area S. 18, T. 9-S, R. 28-E
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) Approx. 660 ft.	16. No. of Acres in lease 1074.24	12. County or Parish Chaves
17. Spacing Unit dedicated to this well 39.64	18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. Approx. 1760 ft.	13. State NM
19. Proposed Depth 2400 ft.	20. BLM/BIA Bond No. on file 58-73-30	
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3872	22. Approximate date work will start* 9/1/05	23. Estimated duration 90 days

24. Attachments

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

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

25. Signature <i>[Signature]</i>	Name (Printed/Typed) Harvey E. Yates, Jr.	Date 7/19/05
-------------------------------------	--	-----------------

Approved by (Signature) /S/LARRY D. BRAY	Name (Printed/Typed) /S/LARRY D. BRAY	Date OCT 03 2005
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Title Assistant Field Manager, Lands And Minerals	Office ROSWELL FIELD OFFICE	APPROVED FOR 1 YEAR
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Application approval does not warrant or certify 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.

*(Instructions on reverse)

S. R.
D. C.

CEMENT TO COVER ALL OIL,
GAS AND WATER BEARING
ZONES i.e. Gleriera
OCD

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS ATTACHE

Jalapeño Corporation
Duncan Federal #10
330' FNL & 2310 FWL, Sec. 18, T. 9-s, R. 28-E
Chaves, County, NM
Application for Permit to Drill

1. PLAT

Attached are 5 original Plats, signed for Jalapeno Corporation by Harvey E. Yates, Jr., President and by Ronald Eidson of John West Surveying Company

2. DRILLING PLAN

We propose to drill this well using a Rotary Rig to 2200 feet then to switch to a Cable Tool rig in order to drill the pay. The estimated TD would be 2400 feet. The cable tool would drill the bottom 200 ft. We would test the P1 and P2 zones of the San Andres, Formation. If the well is productive, we will complete it by running and cementing 5-1/2" 17# casing. If it is not productive, we will plug it following required plugging procedures.

3. SURFACE USE PLAN (Attached separately – Exhibit "A")

4. BOND

Jalapeno Corporation's Bond is with Gulf Insurance Company #58-73-30.

5. OPERATING CERTIFICATION

(See Exhibit "D")

State of New Mexico

DISTRICT I

1625 N. FRENCH DR., HOBBES, NM 88240

Energy, Minerals and Natural Resources Department

Form C-102

Revised JUNE 10, 2003

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

DISTRICT II

1301 W. GRAND AVENUE, ARTESIA, NM 88210

OIL CONSERVATION DIVISION

1220 SOUTH ST. FRANCIS DR.

Santa Fe, New Mexico 87505

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number 30-005-	Pool Code 65075	Pool Name Wolf Lake, San Andres, South
Property Code 1577	Property Name DUNCAN FEDERAL	Well Number 10
OGRID No. 026307	Operator Name JALAPENO CORPORATION	Elevation 3884'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
C	18	9-S	28-E		330	NORTH	2310	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 39.68	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>LOT 1</p> <p>2310'</p> <p>39.60 AC</p> <p>LOT 2</p> <p>39.64 AC</p> <p>LOT 3</p> <p>39.63 AC</p> <p>LOT 4</p> <p>39.65 AC</p> <p>DETAIL</p> <p>3886.8'</p> <p>3889.5'</p> <p>3882.0'</p> <p>3885.9'</p> <p>600'</p> <p>600'</p> <p>SEE DETAIL</p> <p>330'</p> <p>GEODETIC COORDINATES NAD 27 NME</p> <p>Y=923744.5 N X=561988.7 E</p> <p>LAT.=33°32'21.05" N LONG.=104°07'47.62" W</p>	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p>Jalapeno Corporation</p> <p>Signature <i>Harvey E. Yates, Jr.</i></p> <p>Printed Name Harvey E. Yates, Jr.</p> <p>Title President</p> <p>Date 7/19/05</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>JUNE 6, 2005</p> <p>Date Surveyed _____ JR</p> <p>Signature & Seal of Professional Surveyor <i>GARY E. JOHNSON</i></p> <p>NEW MEXICO GARY E. JOHNSON 05.11.0857 12641</p> <p>Certificate No. GARY JOHNSON 12641</p>
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District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, 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

Form C-144
June 1, 2004

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

For drilling and production facilities, submit to appropriate NMOCD District Office.
For downstream facilities, submit to Santa Fe office

Pit or Below-Grade Tank Registration or Closure

Is pit or below-grade tank covered by a "general plan"? Yes ☐ No ☒

Type of action: Registration of a pit or below-grade tank ☒ Closure of a pit or below-grade tank ☐

Operator: Jalapeno Corporation Telephone: 505-242-2050 e-mail address: personnel3@msn.com
Address: P.O. Box 1608, Albuquerque, NM 87103
Facility or well name: Duncan Federal # 9 API #: 30-005- U/L or Qtr/Qtr 2 Sec 18 T 9-S R 28-E
County: Chaves Latitude 33° 32' 03.22" N Longitude 104° 08' 07.25" W NAD: 1927 ☐ 1983 ☐
Surface Owner: Federal ☒ State ☐ Private ☐ Indian ☐

Pit

Type: Drilling ☒ Production ☐ Disposal ☐
Workover ☐ Emergency ☐
Lined ☒ Unlined ☐
Liner type: Synthetic ☒ Thickness 12 mil Clay ☐
Pit Volume 5600 bbl

Below-grade tank

Volume: bbl Type of fluid:
Construction material:
Double-walled, with leak detection? Yes ☐ If not, explain why not.

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ODD-ARTESIA

Depth to ground water (vertical distance from bottom of pit to seasonal high water elevation of ground water.) approx. 175-200 ft.	Less than 50 feet	(20 points)	
	50 feet or more, but less than 100 feet	(10 points)	
	100 feet or more XX	(0 points)	0
Wellhead protection area: (Less than 200 feet from a private domestic water source, or less than 1000 feet from all other water sources.)	Yes	(20 points)	
	No XX	(0 points)	0
Distance to surface water: (horizontal distance to all wetlands, playas, irrigation canals, ditches, and perennial and ephemeral watercourses.) Pecos River 10 plus miles to the west.	Less than 200 feet	(20 points)	
	200 feet or more, but less than 1000 feet	(10 points)	
	1000 feet or more XX	(0 points)	0
Ranking Score (Total Points)			0

If this is a pit closure: (1) Attach a diagram of the facility showing the pit's relationship to other equipment and tanks. (2) Indicate disposal location: (check the onsite box if you are burying in place) onsite ☐ offsite ☐ If offsite, name of facility . (3) Attach a general description of remedial action taken including remediation start date and end date. (4) Groundwater encountered: No ☐ Yes ☐ If yes, show depth below ground surface ft. and attach sample results. (5) Attach soil sample results and a diagram of sample locations and excavations.

Additional Comments:

I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that the above-described pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines ☒, a general permit ☐, or an (attached) alternative OCD-approved plan ☐.

Date: 10/13/05

Printed Name/Title: Jennifer Morris/ Operations Assistant Signature: Jalapeno Corporation by: Jennifer Morris

Your certification and NMOCD approval of this application/closure does not relieve the operator of liability should the contents of the pit or tank contaminate ground water or otherwise endanger public health or the environment. Nor does it relieve the operator of its responsibility for compliance with any other federal, state, or local laws and/or regulations.

Approval: Field Supervisor

Printed Name/Title Signature

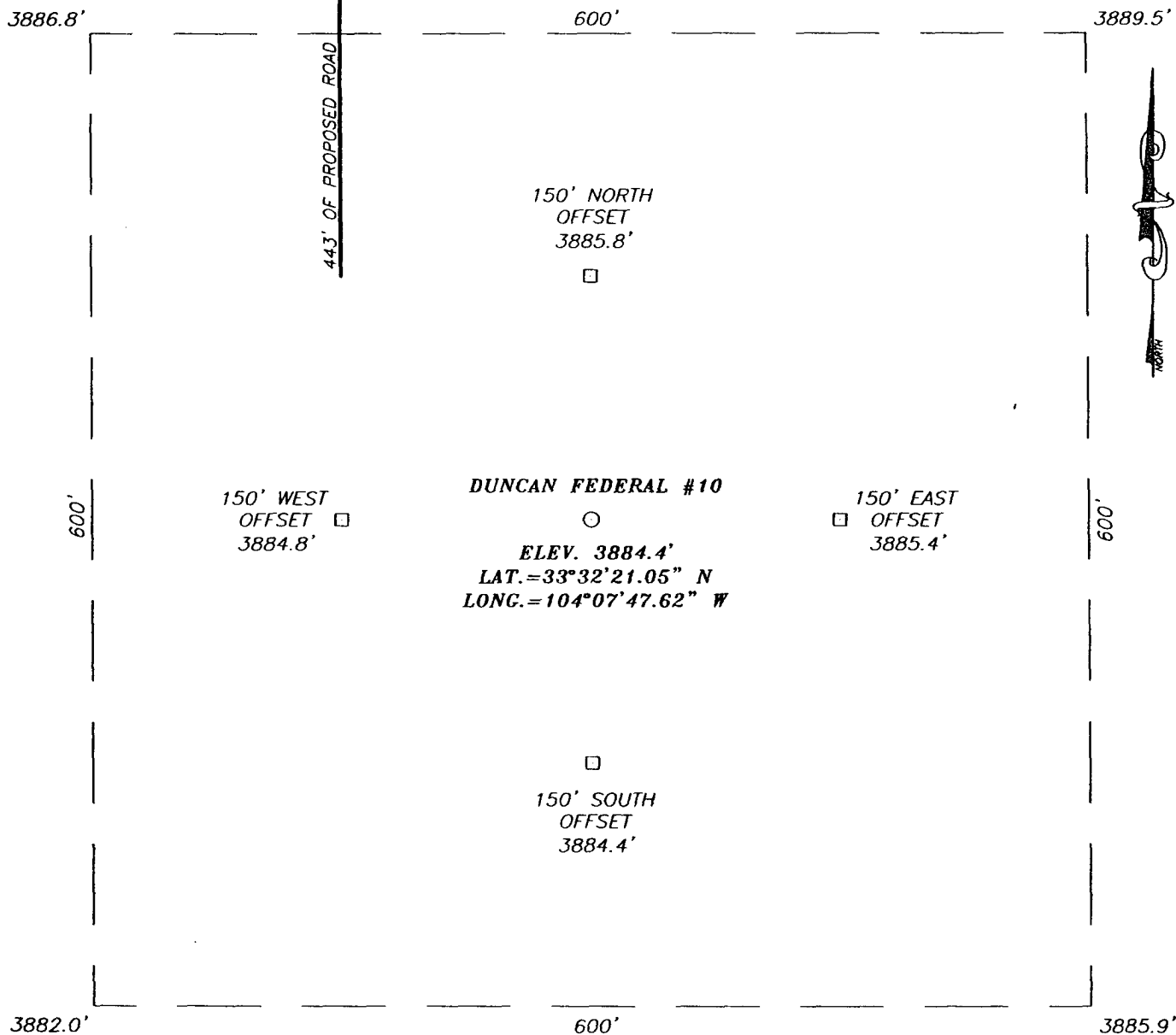
OCT 19 2005

Date:

SECTION 18, TOWNSHIP 9 SOUTH, RANGE 28 EAST, N.M.P.M.,

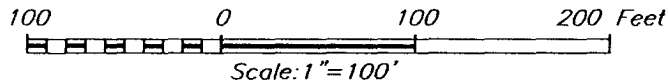
CHAVES COUNTY, EXIST ROAD

NEW MEXICO



DIRECTIONS TO LOCATION

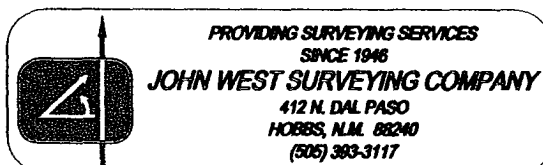
FROM THE INTERSECTION OF ST. HWY. #380 AND PONDEROSA RD., GO NORTH ON PONDEROSA RD. FOR APPROX. 11.3 MILES TO AN EL PASO PIPELINE ROAD. TURN RIGHT (SE) AND GO APPROX. 4.6 MILES. TURN RIGHT (SOUTH) AND GO APPROX. 1.1 MILES. TURN LEFT (EAST) AND GO APPROX. 0.6 MILES TO A PROPOSED ROAD SURVEY. FOLLOW PROPOSED ROAD SURVEY SOUTH FOR APPROX. 443' TO THIS LOCATION.



JALAPENO CORPORATION

DUNCAN FEDERAL #10 WELL
LOCATED 330 FEET FROM THE NORTH LINE
AND 2310 FEET FROM THE WEST LINE OF SECTION 18,
TOWNSHIP 9 SOUTH, RANGE 28 EAST, N.M.P.M.,
CHAVES COUNTY, NEW MEXICO.

Survey Date: 06/06/05	Sheet 1 of 1 Sheets		
W.O. Number: 05.11.0857	Dr By: J.R.	Rev 1:N/A	
Date: 06/08/05	Disk: CD#5	05110857	Scale: 1"=100'



Jalapeño Corporation
Duncan Federal #10
330' FNL & 2310 FWL, Sec. 18, T. 9-s, R. 28-E
Chaves, County, NM
Application for Permit to Drill

EXHIBIT "A"

3. SURFACE USE PLAN

MULTI-POINT SURFACE USE AND OPERATIONS PLAN

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 "B" is a section map showing the location of proposed well. From Roswell, go north east on US 70 approximately 21 miles. Go south on Ponderosa Road through a cattle guard near the microwave tower. Follow Ponderosa Road in a southward direction approximately 5 miles; then travel east along the El Paso Natural Gas Pipeline through 2 cattle guards approximately 4 miles. Turn right at a dirt stock tank and travel approximately 1 mile. Turn left at dry hole marker (Aciete Negra #4) (east) and travel about 6/10 of a mile. Turn right (south) and travel 443 feet to the location.
- B. Exhibit "B" also shows existing roads and windmills within a mile of the proposed location.

2. PLANNED ACCESS ROAD

- A. Surfacing Material: Caliche will be obtained and hauled from a caliche pit in the SE/3 SE/3 of Section 3 T.-9S, R.-28E. (Only as and where necessary.)
- B. Maximum Grade: 1 percent.
- C. Turnouts: None will be built.
- D. Culverts: None
- E. Drainage Design: None

Jalapeño Corporation
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330' FNL & 2310 FWL, Sec. 18, T. 9-s, R. 28-E
Chaves, County, NM
Application for Permit to Drill

- F. Cuts & Fills: None
- G. Gates and Cattle Guards: There are four existing cattle guards on the way to the proposed location. 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.
- H. Right of Way: No additional off-lease right-of-way will be necessary.

3. **LOCATION OF EXISTING WELLS**

There are eight existing wells within a half (1/2) mile of the proposed site:

The following operated by Jalapeno Corporation

- a) Duncan Federal #2
- b) Duncan Federal #3
- c) Duncan Federal #5
- d) Emmons State #1
- e) Louise Yates State #1 (plugged)

The following operated by Cibola Energy Corporation

- f) Aceite Negra #2 (plugged)
- g) Aceite Negra #4 (plugged)

The following operated by Yates Petroleum

- h) Wolf AHF State #1 (plugged)

4. **LOCATION OF EXISTING AND/OR PROPOSED FACILITES**

A. This lease has five other wells on it:

- 1. The Duncan Federal #1, a plugged well located approximately 2 ½ miles north of the proposed location in Section 31 of T. 8S., R. 28 E.;
- 2. The Duncan Federal #2, a producing well located approximately 1,456 feet to the north west in Unit M of Section 7 of T. 9 S., R.28 E.;
- 3. The Duncan Federal #3, a producing well located approximately 2,090 feet to the west, north west located in Unit M of Section 7 of T. 9 S., R. 28 E.;

Jalapeño Corporation
Duncan Federal #10
330' FNL & 2310 FWL, Sec. 18, T. 9-s, R. 28-E
Chaves, County, NM
Application for Permit to Drill

4. The Duncan Federal #4Y, a plugged dry-hole drilled approximately 2,000 feet to the west of the present proposed location. The 4Y is in Unit E of Section 18 of T.9S., R. 28 E; and
5. The Duncan Federal #5, a producing well located approximately 750 feet to the west, south west in Unit C of Section 18 of T.9S., R. 28 E.

- B. If the well is a producer, the tank battery and flow line will be located on the well pad and no additional surface damage will be necessary.

5. LOCATION AND TYPE WATER SUPPLY

Water will be hauled to location over road shown from a private commercial source.

6. LOCATION OF CONSTRUCTION MATERIALS

Caliche will be obtained at a pit Jalapeno leases from the State of New Mexico in SE/3 SE/3 of Section 3 T.-9S, R.-28E.

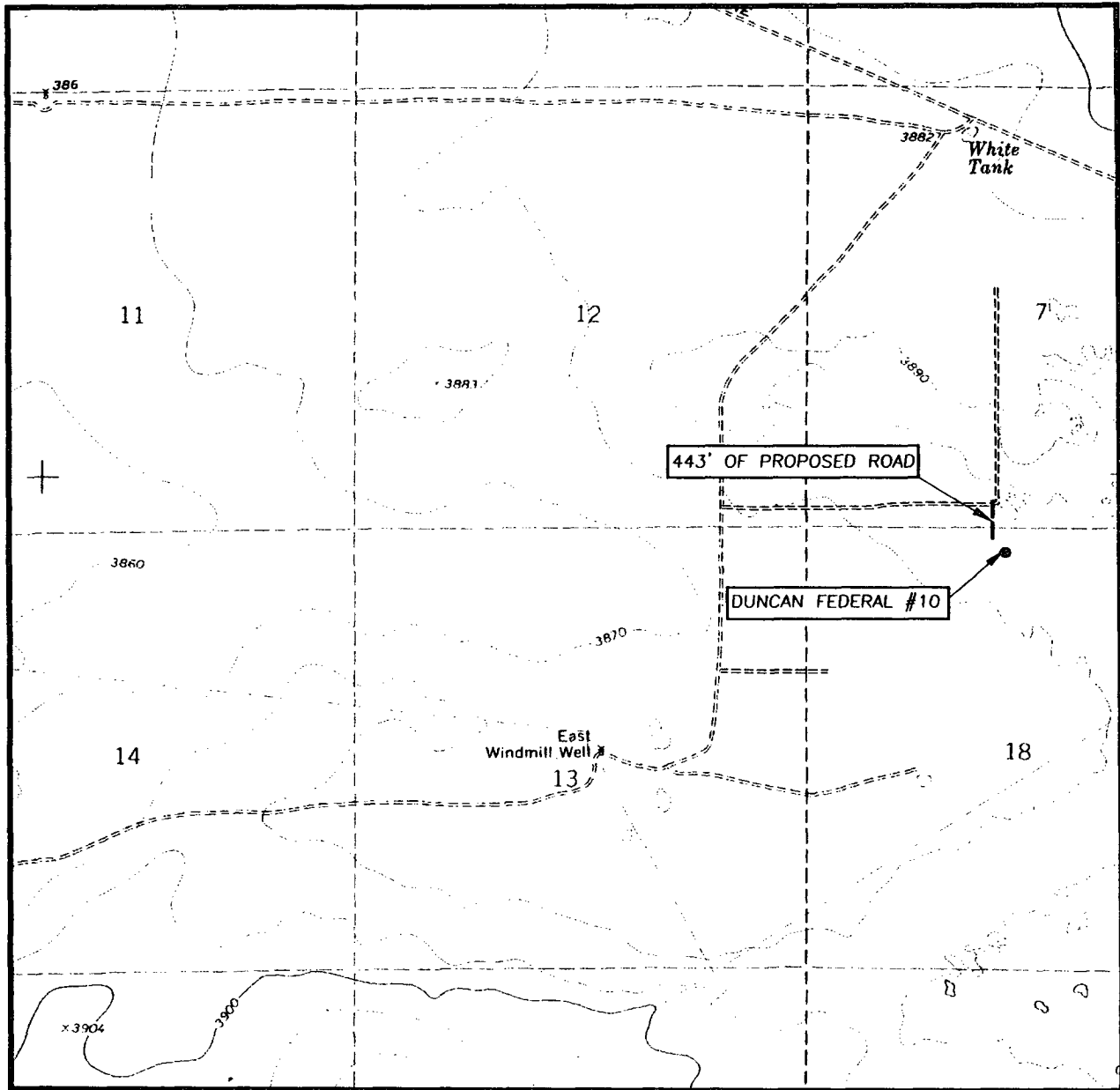
7. METHODS OF HANDLING WATER DISPOSAL

- A. Drill cuttings will be disposed of in the earthen pit, constructed and lined to comply with new OCD rules.
- B. Water produced while drilling will be disposed of in the earthen pit.
- C. Current laws and regulation pertaining to the disposal of human waste will be complied with.
- D. Trash, waste paper, garbage, and junk will be hauled away from location. During drilling all waste material will be contained to prevent scattering by the wind.

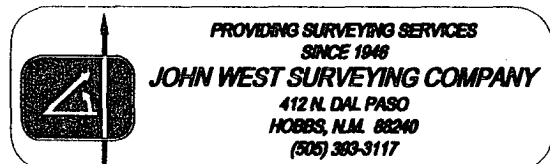
8. ANCILLARY FACILITIES

None required.

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
CAMPBELL, N.M. - 10'SEC. 18 TWP. 9-S RGE. 28-ESURVEY N.M.P.M.COUNTY CHAVESDESCRIPTION 330' FNL & 2310' FWLELEVATION 3884'OPERATOR JALAPENO CORPORATIONLEASE DUNCAN FEDERALU.S.G.S. TOPOGRAPHIC MAP
CAMPBELL, N.M.

Jalapeño Corporation
Duncan Federal #10
330' FNL & 2310 FWL, Sec. 18, T. 9-S, R. 28-E
Chaves, County, NM
Supplemental Drilling Program Information

Please consider this as part of the "Drilling Program" part of our application.

This well will be drilled w/ a Rotary Air Rig to a depth of approximately 2200'. Thus the surface casing at 475' will be set using the Rotary rig. (See casing information below) The well will be finished to approximately 2400' using a Cable Tool Rig. Thus, the production casing will be set using the Cable Tool Rig. (See information related to production casing and it's cementing below).

Proposed Casing and Cement Program

	Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
Surface→	12 1/4	8 5/8	23#	475'	Circulate to top (estimate 80 SX)	Surface
Production→	7 7/8	5 1/2"	17#	2400	200 SX	1800'

DRILLING PROGRAM:

We anticipate the following in regard to formation:

Encountering a fresh water bearing sand somewhere between 160 – 200 feet in depth; encountering the top of the San Andres at approximately 1600 feet, and encountering the top of the Slaughter Zone of the San Andres at approximately 2250 feet.

The Logging Program for this well includes the following:

- CNL, Gamma Ray, and Dual Lateral Log, run from TD to the bottom of the surface casing.

Jalapeño Corporation
Duncan Federal #10
330' FNL & 2310 FWL, Sec. 18, T. 9-s, R. 28-E
Chaves, County, NM
Application for Permit to Drill

EXHIBIT "E"

OTHER SITE-SPECIFIC INFORMATION AND/OR PLANS

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

A. The geologic surface is Quaternary fill

Estimated tops of Geologic Markers

	DEPTH
Yates	519'
San Andres	1646'
Slaughter	2210'

B. The estimated depth at which water, oil or gas are expected:

Water	170' to 230'
Oil & Gas –	2250' to 2350'

C. Proposed casing program – See #2 Drilling Plan

D. Pressure control equipment: Phase 1: Annular BOP Stack Pressure 2000# (see attached design Exhibit "F" attached.)
Phase 2: Henderliter Control Head 1500 psi

E. We will be drilling with a Rotary Drill during Phase One and a Cable Tool Rig during Phase 2. During Rotary Drilling (Phase 1) soap will be used to help recover cuttings. During Cable Tool Drilling (Phase 2) an estimated 5 sacks of mud will be used to suspend cuttings for bailing.

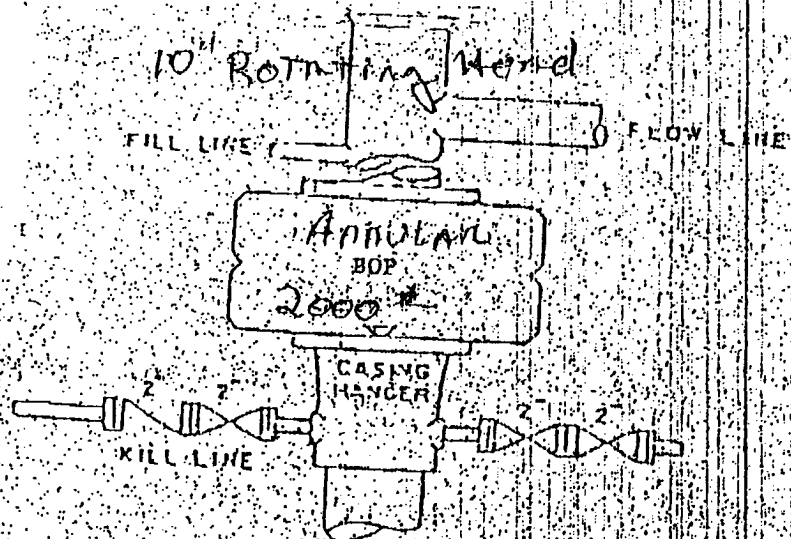
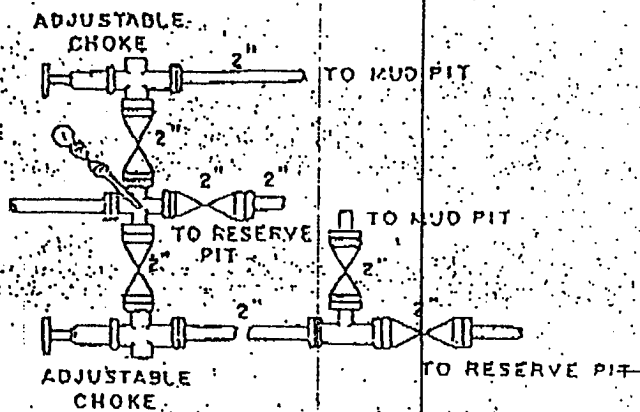
F. Auxiliary Equipment – None

G. Testing and logging program – GR, CNL Densilog, Dual Laterolog.

H. No DST's will be run.

I. No abnormal pressures or temperatures are expected.

EXHIBIT "F"



ANNULAR BOP STACK

PRESSURE 2000#

WELL DRILLING REQUIREMENTS

3 of 5 pages

III. DRILLING OPERATION REQUIREMENTS:

A. GENERAL DRILLING REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Roswell Field Office, 2909 West Second St., Roswell NM 88201, (505) 627-0272 in sufficient time for a representative to witness:

A. Spudding

B. Cementing casing: 8 $\frac{5}{8}$ inch 5 $\frac{1}{2}$ inch

2. 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.

3. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15 day time frame.

4. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

C. CASING:

1. The 8 $\frac{5}{8}$ inch surface casing shall be set at 475 feet and cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. The minimum required fill of cement behind the 5 $\frac{1}{2}$ inch intermediate casing is cement shall extend upward a minimum of 500 feet above the uppermost perforation.

D. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 8 $\frac{5}{8}$ inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 2000 psi.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.

A. The results of the test shall be reported to the appropriate BLM office.

B. 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.

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

JALAPEÑO CORPORATION

PO BOX 1608

ALBUQUERQUE, NEW MEXICO 87103

PHONE: 505-242-2050 FAX: 505-242-8501

FACSIMILE TRANSMITTAL SHEET

TO:	Bryan Arrant	FROM:	Jennifer
TIME:	3:33:08 PM	DATE:	OCTOBER 12, 2005
FAX NUMBER:	(505) 748-9720	TOTAL NO. OF PAGES INCLUDING COVER:	3
		SENDER'S REFERENCE NUMBER:	
RE:	Duncan Federal # 9 & 10	YOUR REFERENCE NUMBER:	

☐ URGENT ☒ FOR REVIEW ☒ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:

Bryan,

Following are the Hydrogen Sulfide Contingency statements per Rule 118.

Should you have any questions or require any further information, please feel free to contact our office.

Thank You

Jennifer

Jalapeño Corporation

***Duncan Federal #10
330' FNL & 2310 FWL, Sec. 18, T. 9-s, R. 28-E
Chaves, County, NM***

Hydrogen Sulfide Contingency Per Rule 118

In accordance with the rules and procedures detailed in Rule 118, it has been determined that the H₂S level present at the above-mentioned site does not exceed 100 ppm at this time, 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 pumper and drill crew shall be issued gas masks which are appropriate for escape in the event of discharge.
- The Rotary Tool Rig and subsequently the Cable Tool 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 borehold. 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.

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 site is generally flat, with no areas in which gas is likely to settle.

Jalapeño Corporation

***Duncan Federal #9
2145' FNL & 660 FWL, Sec. 18, T. 9-s, R. 28-E
Chaves, County, NM***

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In accordance with the rules and procedures detailed in Rule 118, it has been determined that the H₂S level present at the above-mentioned site does not exceed 100 ppm at this time, 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 pumper and drill crew shall be issued gas masks which are appropriate for escape in the event of discharge.
- The Rotary Tool Rig and subsequently the Cable Tool 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 borehold. 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.

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 site is generally flat, with no areas in which gas is likely to settle.