

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary

Tony Delfin
Deputy Cabinet Secretary
June 16, 2016

David R. Catanach, Division Director
Oil Conservation Division



Kersey and Company
808 W Grand
Artesia, NM 88210

Notice of Violation

Dear Kersey and Company,

The Oil Conservation Division ('OCD') now reviews all operators out of compliance with the OCD's financial assurance requirements. Pursuant to 19 15 8 9 NMAC, an operator is required to furnish financial assurance acceptable to the OCD in the form of an irrevocable letter of credit, plugging insurance policy, or cash or surety bond running to the state of New Mexico conditioned that the well be plugged and abandoned and the location restored and remediated in compliance with division rules. According to OCD records, Kersey and Company is the operator of record of the attached list of wells that require additional financial assurance.

Failure to provide the OCD with acceptable financial assurance is a violation of OCD rules and the Oil and Gas Act, NMSA 1978 § 70-2 *et seq*, and could be punishable by a fine of not more than one thousand dollars (\$1 000) per day for each violation. NMSA 1978, § 70 2-31

Please review 19 15 8 NMAC to determine the types and amounts of financial assurance that the OCD accepts. Immediate action is now required. If no response is received within 30 days, the OCD will take further compliance action against Kersey and Company, including but not limited to, seeking a formal order to require Kersey and Company to provide acceptable financial assurance for the its wells at an OCD hearing and pursuing other legal available remedies to obtain compliance.

If you have any questions regarding the contents of this letter, please contact the OCD Bond Administrator Denise Gallegos at (505) 476-3453 to schedule a compliance conference to discuss the outstanding compliance issues.

Sincerely,

A handwritten signature in black ink that reads "Daniel Sanchez".

Daniel Sanchez
OCD Compliance and Enforcement Manager, UIC Program Director
Daniel.Sanchez@state.nm.us

EC Keith Herrmann, ENMRD Assistant General Counsel
Encl Additional Financial Assurance Report

Inactive Well Additional Financial Assurance Report

12576 KERSEY & COMPANY

Total Well Count: 15

Printed On: Friday, June 03 2016

| Property | Well Name | Lease Type | ULSTR | OCD Unit Letter | API | Well Type | Last Prod/ry | Inactive Additional Bond Due | Measured Depth | Required Bond Amount | Bond Required Now | Covered By Statel TA Bond | Bond In Place | In Violation |
|----------|------------------------------|------------|--------------|-----------------|--------------|-----------|--------------|------------------------------|----------------|----------------------|-------------------|---------------------------|---------------|--------------|
| 5574 | A S U #001 | F | A-10-17S-28E | A | 30-015-01337 | G | 01/2015 | | Unknown | | | | 0 | |
| 5576 | BOLING #001 | S | G-31-17S-28E | G | 30-015-01652 | O | 04/2016 | 05/01/2018 | 1938 | 6938 | | | 0 | |
| 5578 | DUNN #001 | F | F-12-18S-28E | F | 30-015-01829 | O | 04/2016 | | Unknown | | | | 0 | |
| | DUNN #002 | F | L-12-18S-28E | L | 30-015-02652 | O | 04/2016 | | Unknown | | | | 0 | |
| | DUNN #003 | F | K-12-18S-28E | K | 30-015-20170 | O | 04/2016 | | Unknown | | | | 0 | |
| 27075 | FEDERAL 632 #001 | F | C-04-18S-29E | C | 30-015-22336 | O | 04/2016 | | Unknown | | | | 0 | |
| | FEDERAL 632 #002 | F | F-04-18S-29E | F | 30-015-23912 | O | 04/2016 | | Unknown | | | | 0 | |
| 5581 | MACY #001 | S | N-16-17S-31E | N | 30-015-05167 | O | 04/2016 | 05/01/2018 | Unknown | Unknown | | | 0 | |
| | MACY #002 | S | N-16-17S-31E | N | 30-015-05165 | O | 04/2016 | 05/01/2018 | Unknown | Unknown | | | 0 | |
| 22971 | NEW MEXICO CK STATE NCT #001 | S | E-36-18S-31E | E | 30-015-05709 | O | 03/2016 | 04/01/2018 | Unknown | Unknown | | | 0 | |
| 5584 | PARRY #001 | F | J-28-18S-29E | J | 30-015-03468 | O | 04/2016 | | Unknown | | | | 0 | |
| 301178 | SHUGART C #004Y | F | J-30-18S-31E | J | 30-015-05644 | O | 04/2016 | | Unknown | | | | 0 | |
| | SHUGART C #007 | F | P-30-18S-31E | P | 30-015-30241 | O | 04/2016 | | 3950 | | | | 0 | |
| 5600 | STATE W K #001 | S | G-16-17S-31E | G | 30-015-05177 | O | 03/2016 | 04/01/2018 | Unknown | Unknown | | | 0 | |
| 5601 | TEXACO STATE #002 | S | J-07-18S-28E | J | 30-015-02633 | O | 06/2006 | 07/01/2008 | 2362 | 7362 | Y | | 0 | Y |

WHERE Ogrid.12576

Exhibit 2: Notice of Violation

OCD Case # 15649

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