

HOBBS OCD

Form 3160-5

(March 2012)

APR 05 2013

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

OCD Hobbs

FORM APPROVED
OMB No. 1004-0137
Expires: October 31, 2014

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

5. Lease Serial No.
NMLC 054667

6. If Indian, Allottee or Tribe Name

SUBMIT IN TRIPLICATE – Other instructions on page 2.

1. Type of Well

☒ Oil Well

☐ Gas Well

☐ Other

2. Name of Operator
DC Energy LLC

3a. Address
105 Oscar Lane Dallas Georgia 30132

3b. Phone No. (include area code)
770-757-3715

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

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

8. Well Name and No.
See Attached

9. API Well No.
See Attached

10. Field and Pool or Exploratory Area

11. County or Parish, State
Lea

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

TYPE OF SUBMISSION	TYPE OF ACTION			
<input 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 checked="" type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Fracture Treat	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other <u>Change Of Operator</u>
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

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

This is notification of Change of Operator on the Attached List of Wells

DC Energy LLC as new operator accepts all applicable terms, conditions, stipulations and restrictions concerning operations on this lease or portion of lease decrbed.

Bond Coverage: BLM Bond File No: NMB000739

Former Operator: Xeric Oil and Gas Corporation

Change of operator Effective 07/13/2009

**SEE ATTACHED FOR
CONDITIONS OF APPROVAL**

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

Title Managing Member

Signature

Date 03/05/2013

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by

/s/ Jerry Blakley

Title

Office

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.

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 any false or fraudulent statements or representations as to any matter within its jurisdiction.

(Instructions on page 2)

**SUBJECT TO LIKE
APPROVAL BY STATE**

268370 DC ENERGY LLC

Well Name	Lease Type	ULSTR	OCD UL	API	Well Type	Pool
<u>0 Logged</u> CROSBY DEEP #003	E	I-33-25S-37E	J	30-025-11870	O	13450 CROSBY; FUSSLEMAN
GREGORY A #005	F	I-33-25S-37E	I	30-025-11884 ✓	S	96117 SWD; QUEEN
GREGORY A #007	F	N-33-25S-37E	N	30-025-11867 ✓	O	37240 LANGLIE MATTIX; 7 RVRS-Q-GRAYBURG
GREGORY A #008	F	I-33-25S-37E	I	30-025-29539 ✓	G	37240 LANGLIE MATTIX; 7 RVRS-Q-GRAYBURG
<u>0 Logged</u> GREGORY C #001	F	C-33-25S-37E	C	30-025-11885	O	33820 JALMAT; TAN-YATES 7 RVRS
GREGORY SEPMO FEDERAL #001	F	O-33-25S-37E	O	30-025-20491 ✓	G	75480 CROSBY; DEVONIAN
GREGORY SEPMO FEDERAL #004	F	K-33-25S-37E	K	30-025-11871 ✓	S	96121 SWD CROSBY; SAN ANDRES

CROSBY DEEP F C-33-25S-37E C 30-025-29539 O ✓ CROSBY; FUSSLEMAN # 4

SEE ATTACHED Pg For Corrected Information

District I
1625 N. French Dr., Hobbs, NM 88240
Phone: (505) 595-6161 Fax: (505) 595-0720

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

Form C-145
Permit 102507

Change of Operator

Previous Operator Information

OGRID: 25482
Name: XERIC OIL & GAS CORP
Address: 14781 MEMORIAL DRIVE
Address: STE. 1754
City, State, Zip: HOUSTONE, TX 77079

New Operator Information

Effective Date: Effective on the date of approval by the OCD

OGRID: 268370
Name: DC ENERGY LLC
Address: 105 OSCAR LANE
Address:
City, State, Zip: DALLAS, GA 30132

I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information on this form and the certified list of wells is true to the best of my knowledge and belief.

Previous Operator

Signature: [Signature]
Printed Name: Ronald St. John
Title: President
Date: 9/21/09 Phone: 367-660-6464

New Operator

Signature: [Signature]
Printed Name: Dan Johnson
Title: Managing Partner
Date: 9/21/09 Phone: 770-757-3715

API	Well Name	Well Number	Type	Field/Pool & Formation	Lease	Status	Unit Letter 1/4 1/4	Section	Township	Range
30-025-25985	CROSBY DEEP	#4	Oil	Crosby;Fussleman	Federal	OSI	C ; NENW	33	25S	37E
30-025-11884	GREGORY A	#5	WIW	Langlie Mattix SWD; Queen	Federal	WIWSI	I ; NESE	33	25S	37E
30-025-11867	GREGORY A	#7	Oil	Langlie Mattix; 7 RVRS-Q-Grayburg	Federal	OSI	N ; SESW	33	25S	37E
30-025-29539	GREGORY A	#8	Gas	Langlie; Queen	Federal	GSI	I ; NESE	33	25S	37E
30-025-20491	GREGORY FEDERAL	#1	Gas	Crosby; Devonian	Federal	GSI	O ; SWSE	33	25S	37E
30-025-11871	GREGORY FEDERAL	#4	SWD	Crosby;San Andres	Federal	SWD	K ; NESW	33	25S	37E

BUREAU OF LAND MANAGEMENT
Carlsbad Field Office
620 East Greene Street
Carlsbad, New Mexico 88220
575-234-5972

Conditions of Approval
Change of Operator

DC Energy LLC Lease #NMLC054667 Crosby Deep #4, Gregory A #5,7,8, Gregory Federal #1

Submit plans for approval of well operations within 30 days of this approval to change operator. These conditions of approval do not relieve an operator from the obligation of complying with the applicable rules and regulations of any State or Federal Agencies or conditions of any prior agreement.

The Bureau of Land Management (BLM) and Office of Natural Resources Revenue (ONRR) definition of a Shut-in (SI) or Temporarily Abandoned (TA) are as follows. Shut-in well is a completion that is physically and mechanically capable of production in paying quantities or capable of service use. The definition of a temporarily abandoned well is a completion that is not capable of production in paying quantities but which may have value as a service completion.

43 CFR 3162.3-4 (C) requires that wells incapable of production in paying quantities be promptly plugged and abandoned and requires approval for any well temporarily abandoned for more than 30 days. Therefore an Operator must submit a Sundry Notices as a Notice of Intent prior to beginning any operation. You need to submit a plan for the well within 30 days stating your intent for the well.

Therefore you are to do the Following:

1. Submit a plan of action with time frames included that will outline procedures to place each and every well on this lease back into proper status, IE... producing , injecting with successful MIT as necessary, or a Notice of Intent to plug and abandon wells as necessary. This plan of action will be subject to approval by our Engineers. Time frames shall be kept to a minimum.
2. A. If you decide to plug and abandon the well, submit a sundry notice (form 3160-5, original and 3 copies) by 5/1/2013 and describe the proposed plugging program.
B. If you decide to return the well to production, submit a sundry notice of intent (form 3160-5, original and 3 copies) by 5/1/2013. Include the date you anticipated the well being tested prior to being placed back in service. **This must be completed prior to the end of this time frame (5/1/2013) and must show paying commercial quantities.**
3. Injection into any wellbore of which has failed a CIT or MIT must cease immediately upon failure and shall not be put back on line until repaired and a witnessed MIT is performed. Witnessing shall be done either by the NMOCD or BLM.
4. Per the agreement dated 8/25/2011 time frame for compliance with this prior agreement is 6/29/2013. All conditions must be met by this date (see attached).
5. Corrective action to be completed by the following time frames: 5/1/2013 for these COAs
6. 43 CFR 3162.4-1(c) also requires you to notify the authorized officer, not later than the fifth business day after production is resumed for any well which has been off production for more than 90 days from the date on which such production was resumed. Notification may be by letter or sundry notice, or orally followed by letter or sundry notice.
7. All electrical lines going to well must be buried or placed on power poles as per electrical code.
8. Test all production flow lines for leaks prior to placing well on production.
9. Tank battery must be bermed/diked (must be able to contain 1 1/2 times the volume of the largest tank) and must be lined with a 20 mil. liner placed under tanks to contain spills.
10. Submit for approval of water disposal method.
11. The following test must be performed on all wells prior to being placed on production or injection.

Description of the CIT/MIT test requirements

- a. A bridge plug or packer must be installed as close to 50 feet above any open perforations or open hole as possible.
- b. The wellbore must be filled with corrosion inhibited fluid and pressure tested to 500 psi. The casing shall be capable of holding this pressure for at least 30 minutes.
- c. All downhole production/injection equipment (tubing, rods, etc.) shall be removed from the casing if they are not isolated by a packer.
- d. A bradenhead test must be conducted. If the test indicates a problem exists, a remedial plan and time frame for remediation shall be submitted within ninety (30) days of the test.
- e. Contact the appropriate BLM office at least 24 hours prior to the scheduled CIT/MIT test. For wells in

Lea County, 575-393-3612

12. All injection wells will require prior approval from BLM and NMOCD prior to placing back on injection.
13. This agency shall be notified of any spill or discharge as required by NTL-3A.

For monitoring and tracking purposes, please submit appropriate paperwork to this office attention: Jerry Blakley

If you have further questions please contact:

Jerry D. Blakley
Petroleum Engineering Technician
Bureau of Land Management
620 East Greene Street
Carlsbad, NM 88220
Office: (575) 234-5994



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
Carlsbad Field Office
620 E. Greene St.
Carlsbad, NM 88220-6292



August 25, 2011

Dan and Colleen Johnson
DC Energy, LLC
105 Oscar Lane
Dallas, Georgia 30132

Dear Mr. and Ms. Johnson,

This letter is to confirm our Agreement regarding bond amounts and operations on Federal Oil and Gas leases NMLC 054667, NMLC 034117A and NM LC 034117B. Upon your execution of this Agreement the Hobbs Inspection Office, Notice of Written Order, No. ASC-004-11 dated, July 8, 2011, will be vacated.

The Agreement is a revision to Option 1 set out in the BLM letter dated August 12, 2011. This alternative permits DC Energy to continue operating the Gregory El Paso Federal No. 4 (Gregory Federal 4) API #30-025-11871 well bore as a Salt Water Disposal ("SWD") pursuant to applicable federal and state law, subject to the General Requirements No. 4 to 6 listed below. Upon submission of the appropriate federal documents by DC Energy, BLM will consider DC Energy's request to convert the Crosby Deep No. 3 API # 30-025-11870 to use as a SWD well as set out below in General Requirement No. 4 and the Specific Requirements. The BLM is aware that this well bore has been the subject of previous application for operation as a SWD and agrees to review the request in accordance with applicable federal law. The Gregory C No. 1 API # 30-025-11865 will be plugged and abandoned in accordance with the Specific Requirements set out below.

The operations on the three foregoing well bores are to be bonded by DC Energy with the BLM in the amount of \$175,000. The bond shall be posted with the BLM State Office no later than *September 7, 2011*. BLM does not guarantee that any Sundry Notice or other proposed activity by DC Energy will be approved or that the bond amount will be reduced during a requested bond review.

With respect to the other five well bores located on federal lease NMLC 054667 (*i.e.*, Crosby Deep #4, Gregory A #5, Gregory A #7, Gregory A #8, Gregory Federal #1, the BLM has agreed to allow DC Energy to keep the five federal well bores in "suspension" status for a limited period of time so that appropriate bonds may be posted and the development or plugging of those well bores may proceed in a phased manner. DC Energy has agreed to address each of the five well bores held in suspension status individually with the BLM and seek BLM approval

to become the operator on the well bore in order to either: (1) return to production, (2) convert the well bore to use as SWD, or (3) plug and abandon the well bore. Barring unforeseen emergency circumstances requiring more rapid action, all five well bores will be considered in this fashion and action completed on all of them within 18 months of Gregory C #1 being plugged and abandoned as described above.

General Requirements

1. DC Energy shall submit all required documents for transfer of operating rights and/or record title as per 43 CFR 3106.4-1 to the BLM's New Mexico State office for federal leases NMLC 054667 and NMLC 034117A which DC Energy purchased, as reflected in the Bill of Sale, no later than *September 15, 2011*.

If DC Energy does not want to retain the operating rights to Lease NMLC 034117A, instead of filing a transfer of operating rights, DC Energy may file a full relinquishment of all of its interests in that lease. The relinquishment must include a statement that it will not seek to convert any well on that lease to a SWD well in the future. If a relinquishment is not filed a lease bond in the minimum amount of \$10,000 must be posted for this lease no later than *September 15, 2011*.

For Lease NMLC 034117B, DC Energy shall post a lease bond in the minimum amount of \$10,000 no later than *September 15, 2011*.

2. Change of Operator Sundry Notice, form 3160-5, shall be filed with the Carlsbad Field Office, BLM for the Gregory El Federal No. 4 API #30-025-11871, the Crosby Deep No. 3 API #30-025-11870, and the Gregory C No. 1 API #30-025-11865 wells no later than *October 1, 2011*. Change of Operator Sundry Notice must be filed as per 43 CFR 3162.3 (a) and in accordance with 43 CFR 3104, 43 CFR 3106.6 and NTL 89-1. Change of operator for these 3 wells can be submitted on the same Sundry Notice.
3. DC Energy shall submit Sundry Notices, Subsequent Reports, Form 3160-5, with well bore schematics no later than *October 1, 2011*, on all wells, detailing what work has been done since the purchase of the wells listed in the Bill of Sale, as per 43 CFR 3162.3-2 and 43 CFR 3160.0-9(c)(1). Well bore schematics shall include all casing strings, cement behind pipe, perfs with status, down hole tools and/or tubing which is presently in the well bore, and any other well bore issues.
4. As per 43 CFR 3162.3-2 (a) A proposal for further well operations shall be submitted by the operator on Form 3160-5 for approval by the authorized officer prior to commencing operations to redrill, deepen, perform casing repairs, plug-back, alter casing, perform non-routine fracturing jobs, recomplete in a different interval, perform water shut off, commingling production between intervals and /or conversion to injection. If there is additional surface disturbance, the proposal shall include a surface use plan of operations. A subsequent report on these operations also will be filed on form 3160-5. (As per 43 CFR 3160.0-9 (c)(1) Form 3160-5 Sundry Notice and reports on wells are due 30 days

after operations are completed.) The required BLM approval shall take place prior to any approval by the NMOCD for an injection/disposal permit. The BLM reserves the right to review and approve any proposal to convert a federal well bore to an injection/disposal well and may participate in the NMOCD permitting process in order to protect federal resources.

5. The BLM reserves the right to be actively involved in all wells which have been drilled through or completed in federal minerals or converted to injection/disposal. The BLM has been and will continue to be actively involved with the permitting of federal wells with the NMOCD. The BLM will be part of the approval process during any and all drilling, plug back or plugging operations as stated in item No. 4.
6. The BLM shall also have the right to witness and inspect any work performed on any of the three federal leases.
7. In response to Item 11 of the DC Energy's draft development plan, the BLM has not and will not interfere with any sale of federal wells or leases. However, The Freedom of Information Act (FOIA), 5 U.S.C. § 552, gives citizens the right to request access to federal agency records and information. The BLM must provide access to anyone who makes a proper request to see public records or speak to federal officials. Any confidential information received from an applicant must be so marked and will be protected to the extent permitted under FOIA.
8. A more formal Agreed Compliance Order ("ACO") shall be developed in conjunction with this Agreement. The ACO must be approved by the BLM and NMOCD to bring all wells into compliance. This ACO must be submitted for review by *October 1, 2011*.

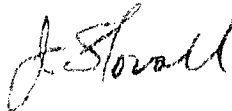
Specific Requirements

1. As a result, DC Energy shall post a \$175,000 bond to Lease NMLC 054667 no later than *September 7, 2011*. Since DC Energy presently has a \$10,000 bond on Lease NMLC 054667 as noted in your letter of August 18, 2011, the additional amount that shall be submitted for this Lease shall be \$165,000. DC Energy shall submit Change of Operator Sundry Notice, NOI, for the Gregory El Paso Federal 4 (Gregory Federal 4), the Gregory C-1, and the Crosby Deep 3 by *October 1, 2011*. Upon receipt of the bond and approval of the Sundry Notice, NOI, DC Energy will become the operator of these three wells. DC Energy will not be the designated operator or perform any work on any other well(s) on the leases until such time as DC Energy posts additional bond or has sufficiently reduced its liability to permit addition of DC Energy as operator of another well bore.
2. DC Energy shall submit a Sundry Notice, NOI, to plug and abandon the Gregory C-1 within 30 days of approval as operator as per 43 CFR 3162.3-4 (a). DC Energy shall have the well plugged within 90 days of approval of the Sundry to plug and abandon the well. If the well is not plugged within the 90 days allotted, a demand will be placed against the bond. This places the bond in default, as per 43 CFR 3104.7, until the work

can be completed by the BLM or its authorized representatives and the bond reestablished to the amount previously established or larger, as per 43 CFR 3104.7(b). If a demand is placed on the bond, all operations in this option will be suspended until the bond is reestablished.

3. DC Energy shall submit all necessary Sundry Notices, NOI, and other government agency documents to request approval as per 43 CFR 3162.3-2(a) for the Crosby Deep 3 to be converted to a salt water injection well within 60 days of approval as operator. Included in the NOI for the Crosby Deep 3 should be the completed State C-108 package. If approved, DC Energy shall monitor the progress of the work on the Crosby Deep 3 closely to ensure the work is completed within six months of the BLM approval of the Sundry Notice. If the work is not completed, a Notice of Incidence of Noncompliance will be issued followed by assessment and notice of proposed Civil Penalties as necessary. If compliance is not achieved, a demand will be placed on the bond. This places the bond in default, as per 43 CFR 3104.7, until the work can be completed by the BLM or its authorized representatives and the bond reestablished to the amount previously established or larger, as per 43 CFR 3104.7(b). If a demand is placed on the bond, all operations in this option will be suspended until the bond is reestablished.
4. DC Energy shall file all subsequent reports as per 43 CFR 3160.0-9(c)(1) and 43 CFR 3162.3-2(a). Bond review may be requested annually, which may result in an increase or decrease depending on DC Energy's compliance record, actions and/or area operational economics. No additional wells can be substituted or applied to this bond.

Sincerely



Jim Stovall
Field Manager

Accepted: 8-25-11 (date)



Dan Johnson
Managing Member
DC Energy, LLC

cc:

Office of the Solicitor, Southwest Regional Office, 505 Marquette Avenue NW, Suite 1800,
Albuquerque, New Mexico 87102