

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 Rd, Aztec, NM 87410
Phone (505) 334-6178 Fax (505) 334-6170

District IV

1220 S St Francis Dr, Santa Fe, NM 87505
Phone (505) 476-3470 Fax (505) 476-3462

State of New Mexico
Energy, Minerals and Natural
Resources

Oil Conservation Division

1220 S. St. Francis Dr.
Santa Fe, NM 87505

Form C-145

August 1, 2011

Permit 141921

HOBBS OCD**JAN 06 2012****RECEIVED****Change of Operator****Previous Operator Information**

OGRID: 246211
Name: FIREWATER, INC
Address: c/o OIL REPORTS & GAS SERVICES
1008 W BROADWAY
City, State, Zip: HOBBS, NM 88240

New Operator Information

Effective Date: Effective on the date of approval by the OCD
OGRID: 20989
Name: SMITH & MARRS INC
Address: P O BOX 863
City, State, Zip: KERMIT, TX 79745

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.

Additionally, by signing below, SMITH & MARRS INC certifies that it has read and understands the following synopsis of applicable rules.

PREVIOUS OPERATOR certifies that all below-grade tanks constructed and installed prior to June 16, 2008 associated with the selected wells being transferred are either (1) in compliance with 19.15.17 NMAC, (2) have been closed pursuant to 19.15.17 13 NMAC or (3) have been retrofitted to comply with Paragraphs 1 through 4 of 19.15.17.11(I) NMAC

SMITH & MARRS INC understands that the OCD's approval of this operator change:

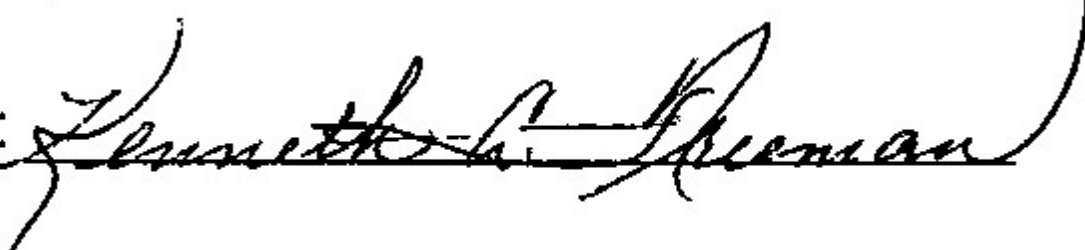
1. constitutes approval of the transfer of the permit for any permitted pit, below-grade tank or closed-loop system associated with the selected wells, and
2. constitutes approval of the transfer of any below-grade tanks constructed and installed prior to June 16, 2008 associated with the selected wells, regardless of whether the transferor has disclosed the existence of those below-grade tanks to the transferee or to the OCD, and regardless of whether the below-grade tanks are in compliance with 19.15 17 NMAC.

As the operator of record of wells in New Mexico, SMITH & MARRS INC agrees to the following statements.

1. I am responsible for ensuring that the wells and related facilities comply with applicable statutes and rules, and am responsible for all regulatory filings with the OCD. I am responsible for knowing all applicable statutes and rules, not just the rules referenced in this list. I understand that the OCD's rules are available on the OCD website under "Rules," and that the Water Quality Control Commission rules are available on the OCD website on the "Publications" page.
2. I understand that if I acquire wells from another operator, the OCD must approve the operator change before I begin operating those wells. See 19.15.9.9.B NMAC. I understand that if I acquire wells or facilities subject to a compliance order addressing inactive wells or environmental cleanup, before the OCD will approve the operator change it may require me to enter into an enforceable agreement to return those wells to compliance. See 19.15.9.9.C(2) NMAC
3. I must file a monthly C-115 report showing production for each non-plugged well completion for which the OCD has approved an allowable and authorization to transport, and injection for each injection well. See 19.15.7.24 NMAC. I understand that the OCD may cancel my authority to transport from or inject into all the wells I operate if I fail to file C-115 reports. See 19.15.7.24.C NMAC.
4. I understand that New Mexico requires wells that have been inactive for certain time periods to be plugged or placed on approved temporary abandonment. See 19.15.25.8 NMAC. I understand the requirements for plugging and approved temporary abandonment in 19.15.25 NMAC. I understand that I can check my compliance with the basic requirements of 19 15 25 8 NMAC by using the "Inactive Well List" on OCD's website.
5. I must keep current with financial assurances for well plugging. I understand that New Mexico requires each state or fee well that has been inactive for more than two years and has not been plugged and released to be covered by a single-well financial assurance, even if the well is also covered by a blanket financial assurance and even if the well is on approved temporary abandonment status. See 19 15 8 9 C NMAC. I understand that I can check my compliance with the single-well financial assurance requirement by using the "Inactive Well Additional Financial Assurance Report" on the OCD's website.
6. I am responsible for reporting releases as defined by 19.15.29 NMAC. I understand the OCD will look to me as the operator of record to take corrective action for releases at my wells and related facilities, including releases that occurred before I became operator of record
7. I have read 19.15.5.9 NMAC, commonly known as "Part 5.9," and understand that to be in compliance with its requirements I must have the appropriate financial assurances in place, comply with orders requiring corrective action, pay penalties assessed by the courts or agreed to by me in a settlement agreement, and not have too many wells out of compliance with the inactive well rule (19 15 25 8 NMAC) If I am in violation of Part 5.9, I may not be allowed to drill, acquire or produce any additional wells, and will not be able to obtain any new injection permits. See 19 15 16 19 NMAC, 19 15 26 8 NMAC, 19 15 9 9 NMAC and 19 15 14 10 NMAC. If I am in violation of Part 5.9 the OCD may, after notice and hearing, revoke my existing injection permits. See 19 15 26 8 NMAC.
8. For injection wells, I understand that I must report injection on my monthly C-115 report and must operate my wells in compliance with 19.15.26 NMAC and the terms of my injection permit. I understand that I must conduct mechanical integrity tests on my injection wells at least once every five years. See 19.15.26.11 NMAC. I understand that when there is a continuous one-year period of non-injection into all wells in an injection or storage project or into a saltwater disposal well or special purpose injection well, authority for that injection automatically terminates. See 19.15.26.12 NMAC. I understand that if I transfer operation of an injection well to another operator, the OCD must approve the transfer of authority to inject, and the OCD may require me to demonstrate the well's mechanical integrity prior to approving that transfer. See 19.15.26.15 NMAC.
9. I am responsible for providing the OCD with my current address of record and emergency contact information, and I am responsible for updating that information when it changes. See 19.15.9.8 C NMAC. I understand that I can update that information on the OCD's website under "Electronic

Permitting."

10. If I transfer well operations to another operator, the OCD must approve the change before the new operator can begin operations. See 19.15.9.9.B NMAC. I remain responsible for the wells and related facilities and all related regulatory filings until the OCD approves the operator change. I understand that the transfer will not relieve me of responsibility or liability for any act or omission which occurred while I operated the wells and related facilities

Previous OperatorSignature: Printed
NameKenneth A. Freeman

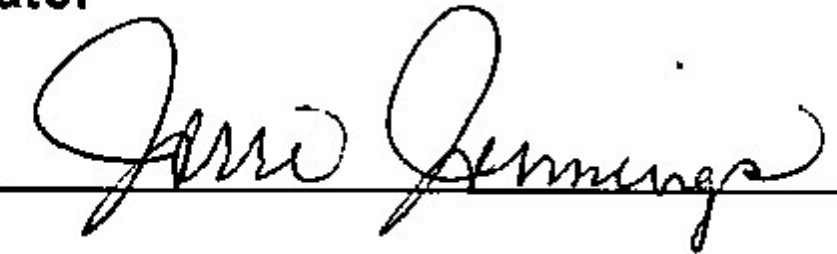
Title:

Previous Operator

Date

12/30/11

Phone:

940-704-6153**New Operator**Signature: Printed
Name:Terri Jennings

Title:

Office Manager

Date:

12/30/11

Phone:

32-586-2844**NMOCD Approval**Electronic Signature: Paul Kautz, District 1Date: January 10, 2012