

State of New Mexico  
Energy, Minerals and Natural Resources Department

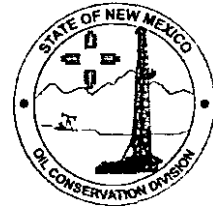
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**Susana Martinez**  
Governor

**David Martin**  
Cabinet Secretary

**Tony Delfin**  
Deputy Cabinet Secretary

**David R. Catanach, Division Director**  
Oil Conservation Division



July 15, 2016

Cobalt Operating, LLC (OGRID 286255)  
C/o James D Thompson  
3001 N. BIG SPRING  
SUITE 207  
Midland, TX 79705

**RE: Disposal Permit SWD-1438**

Consolidated State Well No. 003, API No. 30-025-29711  
C(C), Sec 9, T17S, R37E, NMPM, Lea County, New Mexico  
Last Month of Use for Disposal: ~~July 2016~~  
Date this disposal permit expired: 9/23/2015

Dear Sir or Madam,

The above information is according to Oil Conservation Division (OCD) records.

Pursuant to 19.15.26.12.C NMAC, explained below, this OCD disposal permit has expired. Any further use of this well for disposal will be in violation of OCD rules, the United States Safe Drinking Water Act and the Environmental Protection Agency's Underground Injection Control Program.

Division Rule 19.15.26.12.C NMAC states the following:

*Whenever there is a continuous one year period of non-injection into all wells in an injection or storage project or into a salt water disposal well or special purpose injection well, the division shall consider the project or well abandoned, and the authority for injection shall automatically terminate ipso facto.*

Non-reporting of disposal to the Division is considered as "non-injection" for purposes of triggering automatic termination of the authority to use the well for disposal. Pursuant to Division Rule 19.15.7.24 NMAC, disposal volumes must be reported on or before the 15th day of the second month following the month of disposal on OCD Form C-115 (Monthly Production Reports). Failure to report disposal to the OCD 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.

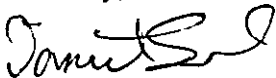
The operator of this well must immediately ensure the well is shut-in and disconnected from incoming sources of disposal.

If you wish to again use this well for disposal, you must apply for a new disposal permit pursuant to Division Rule 19.15.26.8 NMAC after proper notice using form C-108 either through the administrative process or an examiner hearing. The well must not again be used for disposal until such permit has been approved, all conditions of approval completed, the well passes a new Mechanical Integrity Test, and the District office of the Division has approved a new form C-104.

Please also be aware that pursuant to Division Rule 19:15.25.8 NMAC, or any applicable Agreed Compliance Order, this well has a limited time in which it must be returned to service, temporarily abandoned, or plugged and abandoned. For deadlines, please refer to said rule or agreement.

If you have any questions regarding the procedure to obtain a new disposal permit for this well, please contact William Jones at (505) 476-3477 or Phillip Goetze at (505) 476-3466. If you have questions as to C-115 reporting, inactive well status, or other compliance issues, contact Mr. Daniel Sanchez at (505) 476-3493.

Sincerely,



Daniel Sanchez,  
Compliance Manager of the Oil Conservation Division

CC: SWD-1438 / RBDMS Records / API No. 30-025-29711  
Oil Conservation Division - Hobbs District Office District  
Keith Herrmann, Esq., EMNRD Assistant General Counsel